

Group Annual Financial Statements 2019



Group annual financial statements

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Directors' responsibility for and approval of the financial statements

The Board of directors (Board) of the Company are required by the Companies Act, 2008 to prepare annual financial statements that fairly present the state of affairs and business of the Company and of the Group at the end of the financial year and the profit for the year then ended. The annual financial statements are prepared in terms of International Financial Reporting Standards (IFRS) and include disclosures as required by the Companies Act. Suitable accounting policies have been used and applied consistently and reasonable and prudent estimates and judgements have been made.

The Board is responsible for the maintenance and integrity of the annual financial statements of the Company and consolidated subsidiaries, joint ventures and special purpose entities, and the objectivity of other information presented in the integrated report. The fulfilment of this responsibility is discharged through the establishment and maintenance of sound management and accounting systems, the maintenance of an organisational structure which provides for the delegation of authority and clear established responsibility, together with the constant communication and review of operational performance measured against approved plans and budgets.

The directors acknowledge that they are ultimately responsible for the system of internal financial control and regard a strong control environment important. Management and employees also operate in terms of a code of ethics approved by the Board. The code requires compliance with all applicable laws and maintenance of the highest levels of integrity in the conduct of all aspects of the business.

The Board has considered the status of the Company and Group, including the sustainability of the business models, available financial resources at 30 June 2019, the budget and cash flow forecast up to September 2020, the current regulatory environment and potential changes thereto. The Board is satisfied that the Group will be able to continue as a going concern in the foreseeable future and has therefore continued to adopt the going-concern basis in preparing the annual financial statements.

Ms Dorette Neethling (CA(SA)), Chief Financial Officer, is responsible for this set of financial results and has supervised the preparation thereof.

Each of the Directors, confirm that to the best of their knowledge, the Company and Group annual financial statements for the year ended 30 June 2019, which were prepared in accordance with IFRS, give a true and fair view of the financial position and performance of the Company and Group.

The Company and Group annual financial statements, were approved by the Board of directors on 27 August 2019 and signed on its behalf by:

AG Hall
Chief Executive Officer

27 August 2019

Dorette Neethling
Chief Financial Officer

Certificate by Company Secretary

I, the undersigned, Ntando Simelane, in my capacity as Company Secretary, certify that the Company has lodged with the Companies and Intellectual Property Commission all such returns as are required to be lodged by a public company in terms of the Companies Act, and that all such returns are, to the best of my knowledge and belief, true, correct and up to date.

NE Simelane
Company Secretary

27 August 2019

Independent auditor's report

TO THE SHAREHOLDERS OF ADCOCK INGRAM HOLDINGS LIMITED

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the consolidated and separate annual financial statements of Adcock Ingram Holdings Limited and its subsidiaries ('the group') and company set out on pages 11 to 102, which comprise the consolidated and separate statements of financial position as at 30 June 2019, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group and company as at 30 June 2019, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for opinion

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

Key audit matters

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

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

Key audit matter	How the matter was addressed in the audit
<p>Valuation of intangible assets</p> <p>(Consolidated financial statements only)</p> <p>At year-end, the value of goodwill and other intangibles amounted to R609.4 million representing 10% of total assets and 14% of total equity. Intangible assets arise from the acquisition of standalone businesses and/or individual brands and trademarks.</p> <p>As described in note 11 of the financial statements, the recoverable amount of the goodwill and indefinite life intangible assets has been determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management.</p> <p>Key judgements that affected management's annual impairment test were:</p> <ul style="list-style-type: none"> ▶ impairment model used by management; ▶ discount rate applied; ▶ inputs to the cash flow forecasts such as growth and terminal value rates; ▶ risk premiums added onto the discount rate by management; and ▶ assumptions regarding inflation; volume growth and margin management. <p>In performing the annual assessment of impairment in respect of the Adcock Virtual Logistics (AVL) subsidiary it was noted that the Goodwill recognised on acquisition, was impaired at year-end. This followed the loss of a significant external customer which resulted in a change in strategy with regard to the 'last mile' distribution. This goodwill represented 1% of the total goodwill and other intangibles balances.</p> <p>Goodwill and other intangibles are considered a key audit matter due to the size of the balance and due to the complexity and judgement involved in the calculation of the recoverable amounts, which are inherently uncertain and could change over time.</p> <p>Refer to note 11 Intangible Assets</p>	<p>To assess the recoverable amounts of the goodwill and other intangible assets, we focused on the key assumptions made by management in their impairment tests and our procedures included, amongst others:</p> <ul style="list-style-type: none"> ▶ we evaluated the model used by management in determining the value-in-use of the identified goodwill or intangible asset through comparison with prior years for consistency and our knowledge of industry practice; ▶ we involved our valuation specialists, who evaluated the reasonableness of the discount rates in light of our knowledge of the industry; ▶ we evaluated the accuracy of the inputs to the cash flow forecasts used in the impairment models by agreeing them the budgets approved by senior management and other relevant market and economic information; ▶ we assessed the completeness of the specific risk premiums added to the discount rate used to discount the cash flows by identifying the different risk dependent cash flows used in the valuation models; ▶ we independently calculated a range of possible impairments by performing a sensitivity analysis around the key assumptions of volume growth, margins and the discount rate used in the models; ▶ we recalculated the arithmetical accuracy of management's computations; and ▶ we assessed the completeness and accuracy of the disclosures relating to goodwill and intangible assets to assess compliance with disclosure requirements of IAS 38.
<p>Inventory valuation including obsolescence</p> <p>(Consolidated financial statements only)</p> <p>At year-end the value of inventories amounted to R1.313 billion, after the allowance for inventory obsolescence.</p> <p>As described in note 15 of the financial statements, inventories are carried at the lower of cost and net realisable value.</p> <p>In order to carry inventory at the lower of cost and net realisable value, management has to make judgements and estimates concerning the appropriate level of the allowance for slow moving and/or obsolete inventory. Such judgements and estimates include:</p> <ul style="list-style-type: none"> ▶ management's expectations of forecast inventory demand; ▶ product expiry dates; ▶ inventory held in quality control; and ▶ plans to dispose of inventories that may be near to expiry. <p>Inventories are considered a key audit matter due to the size of the balance and due to the judgement involved in the calculation of the allowance for slow moving and obsolete inventories.</p>	<p>Our audit procedures for the allowance for slow moving and/or obsolete inventory, amongst others, included:</p> <ul style="list-style-type: none"> ▶ we considered management's budgets and forecasts to gain an understanding of the forecast inventory demand, product expiry dates and inventories disposal plans for near expiry items; ▶ we assessed the reasonableness of the allowance policy based on historical sales performance by product using our suite of inventory analytic tools; ▶ we considered the expiry date inventory report to identify slow moving or obsolete inventories to what was included in the allowance; ▶ we inspected the condition of inventory when observing the physical inventory counts at a sample of locations; ▶ we assessed the cost basis and net realisable value of inventory using our suite of inventory analytic tools; and ▶ we assessed the completeness and accuracy of the disclosures relating to inventories to assess compliance with disclosure requirements included in International Financial Reporting Standards.

Independent auditor's report continued

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the document titled "Group Annual Financial Statements 2019", which includes 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 our auditor's report, and the Integrated Report which is expected to be made available to us after the date of our auditor's report. The other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

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 the work we have performed, on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group and company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going-concern basis of accounting unless the directors either intend to liquidate the group and company 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 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 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 and company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- ▶ Conclude on the appropriateness of the directors' use of the going-concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group and company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and/or the company to cease to continue as a going concern.

- ▶ Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that EY has been the auditor of Adcock Ingram Holdings Limited for eleven years.

Ernst & Young Inc.

ERNST & YOUNG INC.

Director: **Warren Kinnear**

Registered Auditor

Chartered Accountant CA(SA)

27 August 2019

102 Rivonia Road
Sandton
Johannesburg

Audit Committee report

This report is presented by the Audit Committee (Committee), appointed by the Board of Directors and endorsed by shareholders in respect of the year ended 30 June 2019. The report is prepared in accordance with the requirements of the Companies Act and the recommendations of King IV and describes, how the Committee discharged its obligations in terms thereof, including the fulfilment of those duties assigned to the Committee by the Board during the reporting period.

COMMITTEE COMPOSITION AND MEETING ATTENDANCE

The Committee complies with King IV, which provides that all members should be independent non-executive directors, all of whom are suitably skilled and experienced. The Committee's composition, qualifications and meeting attendance during the year under review were as follows:

Committee members	Qualifications	Meeting attendance ¹
Chairperson		
J John ²	CA(SA), CD (SA), CIA, QIAL	3/3
Members		
L Boyce	CA(SA), MCom (Fin Mgt)	3/3
M Haus	MB ChB, MD, DCH, FCFP, FFPM	3/3
RI Stewart ³	MB ChB, PhD	3/3

Members of executive management and representatives from internal audit and the external auditors are invited to attend all meetings:

Invitees	Meeting attendance
AG Hall (CEO)	3/3
D Neethling (CFO)	3/3
Warren Kinnear (EY)	2/2
D Cathrall (EY)	1/1
I Bassa (EY)	3/3
S Pietropaolo (Head of Internal Audit)	3/3
R Essa (Group Finance)	3/3

¹ The attendance reflects the number of scheduled meetings. No additional meetings were held during the financial year. One regular scheduled meeting was held after the year end and before publication of the report.

² Resigned subsequent to year-end.

³ Retired 30 June 2019.

ROLE AND FUNCTION OF THE COMMITTEE

The role and responsibilities of the Committee are governed by a formal charter which is annually reviewed and approved by the Board. A formal evaluation of the Committee is also carried out annually and the Board is satisfied that the Committee has fulfilled all its statutory duties, including those duties assigned to the Committee by the Board during the year under review, the relevant information in each case, detailed below.

EXECUTION OF FUNCTIONS DURING THE YEAR

INTERNAL AUDIT

The Committee has reviewed and approved the internal audit charter and the annual internal audit plan, including compliance therewith, and concluded that the planning, processes and application of internal audit, including the quality of their reporting on internal audit outcomes and related matters was inclusive and comprehensive. Having regard to the reports and assessments presented by internal audit, the Committee is satisfied that the internal financial controls are effective and that there were no material breakdowns in the Group's systems and internal controls. The Committee is similarly satisfied that the Head of Internal Audit possesses the appropriate expertise and experience to meet the responsibilities of his position and that the internal audit department is effectual and adequately resourced with technically competent personnel.

EXTERNAL AUDIT

At the AGM for 2018, shareholders confirmed the re-appointment of Ernst and Young Inc. (EY), as independent external auditor until the 2019 AGM, the Committee and the Board approving and endorsing their terms of engagement and their fee structures. EY has been the external auditor since the Group's listing in 2008. The designated registered audit partner presently responsible for and who undertook

the Group's audit is Mr Warren Kinnear. The Committee was satisfied with the quality of the external audit process and the team assigned to the audit. No matters of concern were noted by the Committee regarding the performance of the external auditors.

The overall audit process includes a private open dialogue between the external auditor and the Committee. Matters typically discussed, include the external auditor's assessment of their audit interactions with management, whether any limitations were placed by management on the scope and execution of the audit, including any special matters that need to be brought to the Committee's attention. The Committee can report that its working relationship with the EY designated partner is professional and functional.

The Committee determined the fees to be paid to the external auditor and agreed to the terms of their engagement and audit plan in consultation with executive management. The audit fee for the year ended 30 June 2019 has been fully disclosed in note 6.1 of the annual financial statements. The Committee is also responsible for determining the nature and extent of non-audit services that the external auditor may provide and, in such circumstances, the Committee approves or in limited circumstances pre-approves proposals for such non-audit services.

The Committee assessed the quality and effectiveness of the external auditor by reviewing the audit plan, changes thereto as well as the robustness with which they handle key accounting issues and audit judgements. The Committee received the detailed external audit report for the year ended 30 June 2019 and were satisfied with their conclusions that both the consolidated and separate annual financial statements were fairly presented in all material respects and no material issues were raised.

As a result of the implementation of the mandatory audit firm rotation process, and taking into account that Ernst and Young Incorporated has been the Group's external auditor for more than 10 years, the Company initiated a change in auditor.

The Committee has nominated PWC as the independent external auditor of the Company for the year to June 2020. The Committee is satisfied that PWC can be regarded as independent and are thereby able to conduct their audit functions without any conflict or influence. In arriving at the conclusion of independence, the Committee considered multiple factors, good governance and quality control processes currently applied to PWC, including the reviews conducted by IRBA on the external audit firm.

The Committee remains cognisant of the developments in the Audit profession. The external auditors continue to have unrestricted access to the Audit Committee and its Chairperson.

REPORTING

The Committee:

- ▶ considered and concurred with the adoption of the going-concern premise in the preparation of the financial statements;
- ▶ reviewed the appropriateness of the financial statements, other reports to shareholders and other financial announcements made public;
- ▶ considered whether the annual financial statements fairly present the financial position of the Company and of the Group as at 30 June 2019 and the results of operations and cash flows for the financial year then ended;
- ▶ considered the solvency and liquidity of the Company and considered and made recommendations to the Board on the dividend declarations;
- ▶ considered accounting treatments, the appropriateness of accounting policies adopted and the effectiveness of the Group's disclosure controls and procedures;
- ▶ considered whether any concerns were identified regarding significant legal, tax and other matters that could have a material impact on the financial statements;
- ▶ reviewed the external auditor's audit report;
- ▶ considered and noted the key audit matters as determined by the external auditor;
- ▶ reviewed the representation letter, signed by management;
- ▶ confirmed that it has considered the findings contained in the 2019 proactive monitoring report, when the annual financial statements for 30 June 2019 were drafted; and
- ▶ reviewed the quality and integrity of the integrated report and the sustainability information before publication.

INTERNAL FINANCIAL AND ACCOUNTING CONTROLS

The Committee is responsible for reporting on the Group's systems of internal, financial and accounting controls. The Committee has accordingly considered the reports from both internal and external audit on such matters and is satisfied that both reports confirm the adequacy and effectiveness of the Group's systems of internal control and that there were no material breakdowns in the internal control during the financial year.

Audit Committee report continued

The Committee confirms that it did not receive any concerns or complaints relating to the accounting practices and the internal audit of the Company, the content or auditing of the Company's financial statements, the internal financial controls of the Company or any other related matter during the year under review.

EXPERTISE AND EXPERIENCE OF FINANCIAL DIRECTOR AND THE FINANCE FUNCTION

The Committee, after a formal review remains satisfied that the Chief Financial Officer is suitably experienced, diligent and has the qualifications and expertise to meet the responsibilities of her position. The Committee also concluded that the finance function is effectual and appropriately resourced with competent personnel.

TECHNOLOGY AND INFORMATION GOVERNANCE

The Committee and the Board recognise the advances and economic value of technology and that failure to maintain the Group's accounting and administrative IT applications, is potentially disruptive and a significant operational risk. Accordingly, technology and information systems form an essential part of the Group's strategic and business processes and are intentionally managed by an Information Technology Executive team.

A key focus during the current reporting period included continuous enhancements to the IT applications and cyber security environment, upgrading of the Oracle e-Business suite application, integrating the IT operations and applications of Genop Healthcare Proprietary Limited and upgrading the technical infrastructure where required. The committee is also mindful of King IV's emphasis on IT matters, with nominative reference to periodic assessments, independent assurances and cybersecurity.

COMBINED ASSURANCE

The Committee, in conjunction with the Board Risk and Sustainability Committee, have formulated a broad risk matrix for appropriate risk assessment and deduction. All risks are ranked and rated by category and importance. Internal Audit substantially coordinates this discipline in parallel with its internal audit function, the assessment and management of the more material risks being reported on where relevant and appropriate in each case. The aim is to provide management, the Committee and the Board with a clear understanding of all business risks, how each are managed, controlled and/or mitigated and the consequences and cogency of such actions. The Committee can confirm that it has satisfied itself that the combined assurance model is effective and sufficiently robust for the Board to be able to place reliance on it.

COMPLIANCE

The Committee is obliged to report any material breach of a relevant legal and/or regulatory requirement in the conduct of the Group enterprise. No evidence or indication of any such breach or material non-compliance has been brought to the attention of the Committee by either the internal or external auditors or any other party.

CONCLUSION

The Committee is satisfied that it has complied with all its legal, regulatory and other responsibilities for the year under review.

Following our review of the annual financial statements for the year ended 30 June 2019, we are of the opinion that, in all material respects, they comply with the relevant provisions of the Companies Act and International Financial Reporting Standards, and present fairly the results of operations, cash flows and the financial position of the Company and the Group. The Committee therefore recommended the consolidated and separate annual financial statements of Adcock Ingram Holdings Limited for approval to the Board of directors. At the forthcoming Annual General Meeting the annual financial statements will be presented to shareholders.

On behalf of the Committee

L Boyce

Chairperson (Acting)

27 August 2019

The directors have pleasure in submitting their report to shareholders, together with the audited annual financial statements for the year ended 30 June 2019 which are set out from page 11.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

Adcock Ingram is a leading South African healthcare group, operating in three geographical areas, namely Southern Africa, Rest of Africa and India. The southern African business consists of four principal divisions:

- ▶ a Consumer division selling a range of products mainly through FMCG retailers;
- ▶ an Over the Counter (OTC) division selling a range of OTC products that can be purchased without a prescription mainly through pharmacies;
- ▶ a Prescription division selling a range of branded and generic prescription products including specialised instrument and surgical products; and
- ▶ a Hospital products and services division.

BUSINESS COMBINATIONS

ACQUISITIONS

No material acquisitions were concluded in the current year under review.

During the 2018 financial year, the Group acquired Genop Holdings Proprietary Limited, a highly specialised instrument, surgical and pharmaceutical products company focused on the ophthalmic, optometry, skincare, aesthetic and plastic surgery segments in southern Africa (note 1).

SHARE CAPITAL

Details of the authorised and issued share capital are set out in note 18 to the annual financial statements and in the statement of changes in equity.

Details of ordinary treasury shares held by Group entities are as follows:

	30 June 2019	30 June 2018
Adcock Ingram Limited	4 285 163	4 285 163
Mpho ea Bophelo Trust*	5 168 592	5 168 592
Adcock Ingram Holdings Limited Employee Share Trust (2008)	39 031	6 740

*Held indirectly.

DIVIDENDS TO SHAREHOLDERS

POLICY

The Board intends to declare a distribution on at least an annual basis, which it currently envisages will be covered between two to three times by headline earnings.

INTERIM AND FINAL

2019

An interim dividend of 100 cents per share was declared and paid in relation to the six-month period ended 31 December 2018. A final dividend of 100 cents per share was declared following the results of the year ended 30 June 2019.

2018

An interim dividend of 86 cents per share was declared and paid in relation to the six-month period ended 31 December 2017. A final dividend of 86 cents per share was declared following the results of the year ended 30 June 2018.

SHAREHOLDERS

Please refer to the shareholder analysis section.

EVENTS AFTER 30 JUNE 2019

Refer to note 29 for any events which occurred subsequent to year-end

Directors' report continued

SUBSIDIARIES AND JOINT VENTURES

Information concerning the names and holdings of subsidiaries and joint ventures of Adcock Ingram Holdings Limited is set out in Annexure H to the annual financial statements.

Details regarding the financial performance of joint ventures are given in Annexure F.

DIRECTORS

The names of the directors who presently hold office are set out on the Company's website. Changes to the composition and directors' responsibilities are detailed in the Integrated Report.

No director (or his/her associates) holds 1% or more of the ordinary shares of the Company. There has been no change in the holdings since the end of the financial year and up to the date of approval of the annual financial statements. Details of the directors' shareholdings are reflected below.

Director	Number of shares	Number of shares
	2019	2018
A Hall (directly held)	21 433	8 462
A Mokgokong (note 1) (indirectly held)	3 445 642	3 445 642

Note 1: Dr Mokgokong holds a 50% share in CIH Projects Proprietary Limited which in turn holds a 26.67% share in Ad-izinyosi (the BEE shareholder of the Group), within the BEE scheme described in Annexure B, section C.

RETIREMENT FUNDS

Details in respect of the retirement funds of the Group are set out in Annexure C.

DIRECTORS' AND KEY MANAGEMENT REMUNERATION

Full details regarding non-executive and executive directors' and key management remuneration are set out in the Remuneration implementation report.

CHANGES TO DIRECTORS' RESPONSIBILITIES AND STATUS

The following changes to the Board were effected during the year under review:

Effective date	Nature of the change
21 November 2018	Mr Mpho Makwana tendered his resignation as a Director and the Chairman of the Social, Ethics and Transformation (SET) Committee and HR, Remuneration and Nominations Committee (REM) at Adcock Ingram.
22 November 2018	Dr Tlalane Lesoli retired from the Board and did not offer herself for re-election.
20 February 2019	Dr Anna Mokgokong was appointed to chair the SET Committee. Dr Claudia Manning was appointed as a member of the SET Committee and REM Committee. She relinquished her position as a member of the Risk and Sustainability Committee. Mr Andrew Hall resigned as a member of the SET Committee but remained as a permanent invitee thereto.
30 June 2019	Mr Clifford Raphiri retired as Chairman of the Board and Nominations Committee as well as a member of the REM Committee. Dr Roger Stewart retired from the Board and as a member of the Audit Committee as well as the Chairman of the Risk and Sustainability Committee.
1 July 2019	Mr Lindsay Ralphs was appointed as Chairman of the Board. Prof Matthias ("Matt") Haus was appointed as the Lead Independent Director.
31 July 2019	Ms Jenitha John has resigned as a non-executive director.
14 August 2019	Ms Debbie Ransby and Dr Sibongile Gumbi have been appointed as independent non-executive directors.

The newly appointed directors have confirmed that they have sufficient time available to fulfil their responsibilities as members of the Board and relevant sub-committees.

Consolidated statements of comprehensive income

	Notes	2019 R'000	2018 R'000
Continuing operations			
Revenue	3	7 089 058	6 405 316
Contracts with customers	3	7 078 438	6 382 706
Cost of sales		(4 289 332)	(3 871 397)
Gross profit		2 789 106	2 511 309
Selling, distribution and marketing expenses		(1 318 830)	(1 166 443)
Fixed and administrative expenses		(514 855)	(494 922)
Trading profit	6	955 421	849 944
Non-trading expenses	4	(71 884)	(46 895)
Operating profit		883 537	803 049
Finance income	5.1	6 756	18 270
Finance costs	5.2	(18 404)	(25 401)
Dividend income	3	3 864	4 340
Equity-accounted earnings		90 714	79 252
Profit before taxation		966 467	879 510
Taxation	7	(269 435)	(246 145)
Profit for the year from continuing operations		697 032	633 365
(Loss)/Profit after taxation for the period/year from discontinued operation	2.1	(1 609)	10 708
Profit for the year		695 423	644 073
Other comprehensive income which will subsequently be recycled to profit or loss			
Exchange differences on translation of foreign operations:			
– Continuing operations		279	1 126
– Joint venture and associate		4 342	(1 914)
– Discontinued operation		2 770	2 588
Movement in cash flow hedge accounting reserve, net of tax	20	(23 612)	4 582
Other comprehensive income transferred to profit or loss			
– Associate	4	1 607	
– Discontinuing operation	2.2	(18 960)	
Other comprehensive income which will not be recycled to profit or loss			
Fair value of investment		27	24
Actuarial profit on post-retirement medical liability, net of tax		706	634
Total comprehensive income for the year, net of tax		662 582	651 113

Consolidated statements of comprehensive income continued

	Notes	2019 R'000	2018 R'000
Profit attributable to:			
Owners of the parent		687 986	637 943
Non-controlling interests		7 437	6 130
		695 423	644 073
Total comprehensive income attributable to:			
Owners of the parent		655 145	644 983
Non-controlling interests		7 437	6 130
		662 582	651 113
Continuing operations:			
Basic earnings per ordinary share (cents)	8.1	414.8	377.2
Diluted basic earnings per ordinary share (cents)	8.1	414.8	377.2
Headline earnings per ordinary share (cents)	8.1	421.7	381.3
Diluted headline earnings per ordinary share (cents)	8.1	421.6	381.3
Discontinued operations:			
Basic (loss)/earnings per ordinary share (cents)	8.2	(1.0)	6.4
Diluted (loss)/earnings per ordinary share (cents)	8.2	(1.0)	6.4
Headline earnings per ordinary share (cents)	8.2	1.2	6.4
Diluted headline earnings per ordinary share (cents)	8.2	1.2	6.4
Total operations:			
Basic earnings per ordinary share (cents)	8.3	413.8	383.6
Diluted basic earnings per ordinary share (cents)	8.3	413.8	383.6
Headline earnings per ordinary share (cents)	8.3	422.8	387.7
Diluted headline earnings per ordinary share (cents)	8.3	422.8	387.7

Consolidated statement of changes in equity

	Attributable to holders of the parent							Total R'000
	Non-distributable reserves			Retained income R'000	Total attributable to ordinary shareholders R'000	Non-controlling interests R'000	Total R'000	
	Issued share capital R'000	Share premium R'000	Continuing operations R'000					
Notes			Discontinued operation R'000					
As at 1 July 2017	17 147	666 873	200 372	2 603 090	3 487 482	7 522	3 495 004	
Movement in treasury shares	(1)	(517)			(518)		(518)	
Movement in share-based payment reserve			16 463		16 463		16 463	
Total comprehensive income			7 040	637 943	644 983	6 130	651 113	
Profit for the year				637 943	637 943	6 130	644 073	
Other comprehensive income			7 040		7 040		7 040	
Dividends				(235 904)	(235 904)	(11 239)	(247 143)	
Balance at 30 June 2018	17 146	666 356	223 875	3 005 129	3 912 506	2 413	3 914 919	
IFRS 9 adjustment, net of tax				(4 386)	(4 386)		(4 386)	
Restated balance at 1 July 2018	17 146	666 356	223 875	3 000 743	3 908 120	2 413	3 910 533	
Movement in treasury shares	(4)	(2 342)			(2 346)		(2 346)	
Movement in share-based payment reserve			5 314		5 314		5 314	
Transfer to discontinued operation			(16 190)					
Total comprehensive income			(16 651)	687 986	655 145	7 437	662 582	
Profit for the year				687 986	687 986	7 437	695 423	
Other comprehensive income			(16 651)	(16 190)	(32 841)		(32 841)	
Dividends				(270 801)	(270 801)	(7 088)	(277 889)	
Balance at 30 June 2019	17 142	664 014	196 348	3 417 928	4 295 432	2 762	4 298 194	

Consolidated statements of financial position

	Notes	2019 R'000	2018 R'000
ASSETS			
Property, plant and equipment	10	1 538 198	1 521 255
Intangible assets	11	609 444	626 242
Deferred tax	12	8 671	18 120
Other financial assets	13	29 627	34 010
Investment in joint ventures	14.1	506 236	445 150
Investment in associate	14.2	–	8 014
Non-current assets		2 692 176	2 652 791
Inventories	15	1 312 551	1 565 949
Trade and other receivables	16	1 787 025	1 641 295
Cash and cash equivalents	17	448 252	404 629
Taxation receivable	25.4	10 789	6 061
Current assets		3 558 617	3 617 934
Total assets		6 250 793	6 270 725
EQUITY AND LIABILITIES			
Capital and reserves			
Issued share capital	18.2	17 142	17 146
Share premium	19	664 014	666 356
Non-distributable reserves	20	196 348	223 875
Retained income		3 417 928	3 005 129
Total shareholders' funds		4 295 432	3 912 506
Non-controlling interests		2 762	2 413
Total equity		4 298 194	3 914 919
Post-retirement medical liability	21	15 637	16 340
Deferred tax	12	102 333	118 914
Non-current liabilities		117 970	135 254
Trade and other payables	22	1 683 923	1 838 930
Bank overdraft	17	–	248 877
Cash-settled options	23	18 699	2 413
Provisions	24	132 007	130 332
Current liabilities		1 834 629	2 220 552
Total equity and liabilities		6 250 793	6 270 725

Consolidated statements of cash flows

	Notes	2019 R'000	2018 R'000
Cash flows from operating activities			
Operating profit before working capital changes	25.1	1 237 405	1 204 128
Working capital changes	25.2	(208 600)	(342 968)
Cash generated from operations			
Finance income received	25.6	7 350	17 363
Finance costs paid	25.7	(20 109)	(25 605)
Dividend income received	25.8	41 953	30 100
Dividends paid	25.3	(277 889)	(247 143)
Taxation paid	25.4	(274 147)	(246 663)
Net cash inflow from operating activities			
Cash flows from investing activities			
Decrease in other financial assets	25.11	2 655	5 232
Acquisition of business	25.5	–	(327 623)
Disposal of business	2.3	15 940	–
Purchase of property, plant and equipment: – Expansion		(92 626)	(84 684)
– Replacement		(122 858)	(134 564)
Purchase of intangible assets		–	(4 450)
Proceeds on disposal of investment in associate	14.2	2 156	–
Proceeds on disposal of property, plant and equipment		1 288	6 911
Net cash outflow from investing activities			
Cash flows from financing activities			
Treasury shares for equity option scheme	25.10	(21 818)	(6 804)
Repayment of borrowings	25.9	–	(276 177)
Net cash outflow from financing activities			
Net increase/(decrease) in cash and cash equivalents			
Net foreign exchange difference on cash and cash equivalents			
Cash and cash equivalents at beginning of year			
Cash and cash equivalents at end of year	17	448 252	155 752

Accounting policy elections

CORPORATE INFORMATION

The consolidated financial statements of Adcock Ingram Holdings Limited (the "Company") and Adcock Ingram Holdings Limited and its subsidiaries, joint ventures and structured entities (the "Group") for the year ended 30 June 2019 were authorised for issue in accordance with a resolution of the directors on 27 August 2019. Adcock Ingram Holdings Limited is incorporated and domiciled in South Africa, where its ordinary shares are publicly traded on the Securities Exchange of the JSE Limited.

BASIS OF PREPARATION

The consolidated and separate annual financial statements (annual financial statements) are presented in South African Rands and all values are rounded to the nearest thousand (R'000), except where otherwise indicated.

The annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), its interpretations adopted by the Accounting Standards Board (IASB), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, and the Companies Act. The annual financial statements have been prepared on the historical cost basis, except for the following items in the statements of financial position:

- ▶ financial assets and liabilities at fair value through profit or loss or at fair value through other comprehensive income, and liabilities for cash-settled share-based payments that are measured at fair value; and
- ▶ post-employment benefit obligations are measured in terms of the projected unit credit method.

THE GROUP⁽¹⁾ HAS MADE THE FOLLOWING ACCOUNTING POLICY ELECTION IN TERMS OF IFRS:

- ▶ Cumulative gains and losses recognised in other comprehensive income (OCI) in terms of a cash flow hedge relationship are transferred from OCI and included in the initial measurement of the non-financial asset or liability.

⁽¹⁾ All references to Group hereafter include the separate annual financial statements, where applicable.

CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year, except where the Group has adopted IFRS and IFRIC interpretations and amendments that became effective during the year.

IFRS 9: FINANCIAL INSTRUMENTS – RECOGNITION AND MEASUREMENT

IFRS 9 is the new financial instrument accounting standard and includes the requirements for classification and measurement of financial assets and liabilities, the impairment and derecognition of financial assets, as well as general hedge accounting. IFRS 9 has no impact on financial liabilities.

The classification and measurement of the Group's financial assets are substantially the same as under IAS 39, except for:

- ▶ the reclassification of the long-term receivable from the Black Managers Share Trust, from amortised cost to fair value through profit or loss – refer note 13.1; and
- ▶ the measurement of the expected credit loss for trade receivables – refer note 16.

In measuring the provision for trade receivables, the Group has applied the new rules using the modified retrospective approach, whereby the financial statements are retrospectively adjusted and the cumulative impact (a reduction of R4.4 million after tax) was recorded on 1 July 2018, the initial date of implementing the standard, by recognising an adjustment to opening retained earnings. A simplified impairment approach was used, whereby the lifetime expected losses on trade receivables are recorded immediately.

The Group has chosen to continue to apply the hedge accounting requirements of IAS 39, instead of the requirements of IFRS 9, to all of its hedging relationships.

IFRS 15: REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 establishes a five-step model for entities to use in accounting for revenue arising from contracts with customers. The new standard is based on the principle that revenue is recognised at an amount that reflects the consideration to which the entity expects to transferring goods or services to a customer. The new standard supersedes all current revenue recognition requirements under IFRS.

The Group adopted IFRS 15 using the modified retrospective approach, where comparatives have not been restated, with the following impact on the Group's financial statements:

- ▶ disaggregated revenue disclosure – refer note 3; and
- ▶ refund liabilities for the non-performance on customer contracts will be recognised against revenue. This was not material to the Group and there was no impact on opening Retained Income.

IFRIC 22: FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATION – INTERPRETATION

The interpretation clarifies the accounting for those foreign currency transactions when an entity recognises a non-monetary asset or a non-monetary liability following the payment or receipt of an advance consideration before the entity recognises the related asset, expense or income. The date of the transaction, for the purpose of determining the exchange rate, is the date on which an entity initially recognises the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of the transaction is established for each payment or receipt.

This interpretation had no impact on the Group's reported results or disclosures.

IFRS 2: CLASSIFICATION AND MEASUREMENT OF SHARE-BASED PAYMENT TRANSACTIONS – AMENDMENTS

The amendments address three main areas:

- ▶ The effects of vesting conditions on a cash-settled share-based payment transaction;
- ▶ The classification of a share-based payment transaction with net settlement features for withholding tax obligations; and
- ▶ 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.

This standard had no impact on the Group's reported results or disclosures.

Notes to the Group annual financial statements

1. ACQUISITION OF BUSINESS

GENOP HOLDINGS PROPRIETARY LIMITED (GENOP)

On 1 January 2018, Adcock Ingram Healthcare Proprietary Limited acquired 100% of Genop, a highly specialised instrument, surgical and pharmaceutical products company focused on the ophthalmic, optometry, skincare, aesthetic and plastic surgery segments in Southern Africa. Genop owns and markets the well-known Epi-max branded range of consumer products.

The fair value of the identifiable assets as at the date of acquisition was:

	2018 R'000
Assets	
Inventories	87 003
Trade and other receivables	89 383
Property, plant and equipment	18 291
Marketing-related intangible assets	121 385
Cash and cash equivalents	9 082
Taxation receivable	1 579
	<u>326 723</u>
Liabilities	
Trade and other payables	99 602
Short-term borrowings	24 297
Deferred tax	27 622
Provisions	2 255
	<u>153 776</u>
Total identifiable net assets at fair value	<u>172 947</u>
Goodwill arising on acquisition	163 758
Purchase consideration	<u>336 705</u>
Net cash acquired with the business	(9 082)
Net cash consideration	<u>327 623</u>

The fair value of the trade receivables equaled the net amount of trade receivables and amounted to R74.3 million.

Marketing-related intangible assets relate to the Epi-Max brand. Epi-Max was fair valued, at acquisition, from R11.7 million to R120 million which gave rise to a deferred tax liability of R30.3 million. The royalty relief methodology was used to determine the valuation, by applying a 9% royalty rate and a market related discount rate.

Goodwill represented the difference between the purchase consideration and the fair value of the net assets acquired as there were no further separately identifiable intangible assets. The significant factors that contributed to the recognition of goodwill include, but were not limited to the acquisition of a specialised and quality pharmaceutical business with a management team with proven experience, knowledge, skills and track record in their field.

1. ACQUISITION OF BUSINESS (CONTINUED)

GENOP HOLDINGS PROPRIETARY LIMITED (GENOP) (CONTINUED)

During the previous financial year, Genop contributed R223.8 million towards revenue and reported a profit before income tax of R6.2 million.

If the Genop acquisition took place at the start of the previous financial year, the revenue would have been R452.3 million and profit before income tax would have been R24.5 million.

Transaction costs of R5.7 million were expensed and were included in non-trading expenses.

	2018 R'000
Analysis of cash flows on acquisition	
Transaction costs of the acquisition (included in cash flows from operating activities)	(5 662)
Net cash acquired with the business (included in cash flows from investing activities)	9 082

2. DISCONTINUED OPERATION

The Group disposed of its interest in Pharmed Labs (Jersey) Limited, the owner of Datlabs Proprietary Limited (Datlabs) in Zimbabwe. The results of Datlabs are presented below.

2.1. STATEMENT OF COMPREHENSIVE INCOME

	Notes	2019 6 months R'000	2018 12 months R'000
Revenue		86 261	157 549
Contracts with customers		86 261	157 549
Cost of sales		(61 165)	(102 838)
Gross profit		25 096	54 711
Selling, distribution and marketing expenses		(11 374)	(21 799)
Fixed and administrative expenses		(8 803)	(16 479)
Trading profit	a)	4 919	16 433
Non-trading expenses	b)	(1 821)	–
Operating profit		3 098	16 433
Finance costs		–	(786)
Profit before taxation		3 098	15 647
Taxation		(1 115)	(4 939)
Profit for the period/year from discontinued operation		1 983	10 708
Loss on disposal of the discontinued operation	2.2	(3 592)	–
(Loss)/Profit after taxation attributable to owners of the parent for the period/year from discontinued operation		(1 609)	10 708

Notes to the Group annual financial statements continued

2. DISCONTINUED OPERATION (CONTINUED)

2.1 STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

	2019 6 months R'000	2018 12 months R'000
a) Trading profit has been arrived at after charging the following expenses:		
External auditor's remuneration		
– Audit fees current year	–	434
– Internal auditor's remuneration	–	246
Depreciation		
– Freehold land and buildings	299	649
– Plant, equipment and vehicles	1 410	7 413
– Computers	21	118
– Furniture and fittings	104	677
Inventories written off	290	3 388
Royalties paid	1 189	3 413
Total staff cost	23 888	45 011
Included in cost of sales	14 419	25 948
Included in operating expenses	9 469	19 063
b) Non-trading expenses		
Transaction costs	1 821	–
2.2 RECONCILIATION OF NET ASSETS AT DISPOSAL DATE		
Property, plant and equipment	45 764	
Inventories	25 968	
Trade and other receivables	54 166	
Taxation receivable	1 038	
Cash and cash equivalents	20 245	
Deferred tax	497	
Trade and other payables	(85 890)	
Provisions	(3 051)	
Net assets	58 737	
Consideration received	(36 185)	
Other comprehensive income recycled to profit or loss	(18 960)	
Loss on disposal of the discontinued operation	3 592	

	2019 6 months R'000	2018 12 months R'000		
2. DISCONTINUED OPERATION (CONTINUED)				
2.3 CASH INFLOW ON DISPOSAL				
Consideration received	36 185			
Net cash disposed of with the discontinued operation	(20 245)			
Net cash inflow	15 940			
2.4 CASH FLOW STATEMENT				
Included in the Group's consolidated statement of cash flows are cash flows from the Zimbabwean discontinued operation. These cash flows are included as follows:				
Cash (outflow)/inflow from operating activities	(3 631)	40 165		
Cash outflow from investing activities	(7 264)	(7 964)		
Cash outflow from financing activities	–	(1 881)		
Net cash (outflow)/inflow	(10 895)	30 320		
	2019 R'000	2018 R'000		
3. REVENUE				
Contracts with customers	7 078 438	6 382 706		
Finance income	6 756	18 270		
Dividend income – Black Managers Share Trust	3 864	4 340		
	7 089 058	6 405 316		
Contracts with customers by channel	Private	Public	Export and foreign	Total
30 June 2019				
<i>Continuing operations:</i>				
Southern Africa	5 969 909	863 346	196 779	7 030 034
OTC	1 820 678	117 176	45 032	1 982 886
Prescription	2 355 191	319 832	64 626	2 739 649
Hospital	990 241	426 334	38 029	1 454 604
Consumer	737 800	4	49 092	786 896
Other – shared services	65 999	–	–	65 999
Rest of Africa	–	–	68 524	68 524
Research and development services in India	–	–	21 114	21 114
Less: Inter-company sales	–	–	(41 234)	(41 234)
	5 969 909	863 346	245 183	7 078 438

Most of the Group's revenue from contracts with customers is recognised at a point in time.

Notes to the Group annual financial statements continued

	2019 R'000	2018 R'000
4. NON-TRADING EXPENSES		
Impairments (Refer Annexure G)	8 568	5 235
Intangible assets	5 595	2 700
Investment in associate	2 973	–
Long-term receivable	–	2 535
Fair value adjustment of long-term receivable	1 763	–
Transaction costs	5 843	7 315
Retrenchment costs	12 347	–
Share-based payment expenses (Refer Annexure B)	41 756	34 345
Cash-settled	16 970	4 656
Equity-settled	21 037	22 426
Black Managers Share Trust – equity-settled	3 749	323
Black Managers Share Trust – cash-settled	–	6 940
Release of foreign currency translation reserve on disposal of investment in associate	1 607	–
	71 884	46 895
5. FINANCE INCOME AND FINANCE COSTS		
5.1. FINANCE INCOME		
Bank	6 194	18 225
Receiver of revenue	562	45
	6 756	18 270
5.2. FINANCE COSTS		
Bank	17 694	7 177
Borrowings	–	15 561
Commitment fees	687	2 632
Receiver of revenue	5	–
Creditors	18	31
	18 404	25 401

	2019 R'000	2018 R'000
6. TRADING PROFIT		
6.1. TRADING PROFIT HAS BEEN ARRIVED AT AFTER CHARGING/ (CREDITING) THE FOLLOWING EXPENSES/(INCOME):		
External auditor's remuneration		
– Audit fees current year	10 502	9 521
– Audit fees underprovision prior year	777	472
– Taxation services	685	295
– Other services	184	122
Depreciation		
– Freehold land and buildings	18 968	18 603
– Leasehold improvements	7 057	9 969
– Plant, equipment and vehicles	92 112	82 635
– Computer equipment	29 764	33 723
– Furniture and fittings	3 324	4 599
Amortisation of intangible assets	11 203	10 647
Inventories written off	99 944	91 466
Royalties paid	38 342	33 733
Movement in allowance for doubtful debts	(7 859)	8 276
Operating lease charges		
– Equipment	5 200	2 923
– Property	43 454	43 143
Foreign exchange (profit)/loss	(1 060)	4 850
Fees paid to related parties (refer to note 28)	74 302	56 747
Bad debts written off	5 167	–
Loss/(Profit) on disposal of property, plant and equipment	677	(1 968)

Notes to the Group annual financial statements continued

	2019 R'000	2018 R'000
6. TRADING PROFIT (CONTINUED)		
6.2. TOTAL STAFF COST*	1 365 298	1 210 411
<i>Included in cost of sales</i>	592 091	554 875
Salaries and wages	529 522	493 478
Employers' contribution to:	62 569	61 397
Medical	15 505	14 631
Retirement	47 064	46 766
<i>Included in operating expenses</i>	773 207	655 536
Salaries and wages	676 284	568 161
Employers' contribution to:	96 923	87 375
Medical	19 086	16 289
Retirement	77 837	71 086
<i>* Total staff costs include costs for executive directors and key management.</i>		
6.3. DIRECTORS' EMOLUMENTS		
Executive directors	19 961	19 497
Non-executive directors	5 560	6 728
Total	25 521	26 225
For more details, refer to Annexure J.		
6.4. KEY MANAGEMENT		
Salaries and bonuses	29 602	27 119
Retirement, medical and other benefits	3 427	3 040
Total	33 029	30 159

Key management comprises the Group Executive Committee, other than the executive directors. For more details, refer to Annexure J.

	2019 R'000	2018 R'000
7. TAXATION		
SOUTH AFRICAN TAXATION		
Current income tax		
– current year	263 304	244 282
– prior year overprovision	(1 491)	(1 396)
Deferred tax		
– current year	3 352	(6 597)
– prior year overprovision	(109)	(167)
– utilisation of tax loss	–	6 760
	265 056	242 882
FOREIGN TAXATION		
Current income tax		
– current year	3 833	4 601
– prior year underprovision	(122)	–
Deferred tax		
– current year	(268)	(1 175)
– prior year under/overprovision	936	(163)
	4 379	3 263
Total tax charge	269 435	246 145
In addition to the above, deferred tax amounting to R8.9 million has been released to other comprehensive income (2018: R1.8 million charge). Refer note 20.		
	%	%
Reconciliation of the taxation rate:		
Effective rate	27.9	28.0
Adjusted for:		
Exempt income (dividend income)	0.3	0.1
Non-deductible expenses*	(3.4)	(2.8)
Prior year underprovision**	0.3	0.2
Equity accounted earnings	2.6	2.5
Utilisation of tax loss	(0.1)	–
Loss on discontinued operation	0.5	–
Capital gains tax	(0.1)	–
South African normal tax rate	28.0	28.0
	2019 R'000	2018 R'000
The Group has tax losses of R0.8 million (2018: R3.8 million) for offsetting against future taxable profits of the company in which the loss arose. All unutilised assessed losses from continuing operations were recognised as a deferred tax asset in the current year and the prior year.		
South Africa (indefinite expiry)	772	3 871

* Includes amortisation/impairment of intangibles, share-based payment expenses, professional fees, impairment of investments amongst others.

** Current tax and deferred tax.

Notes to the Group annual financial statements continued

	2019 R'000	2018 R'000
8. EARNINGS PER SHARE		
Headline earnings is determined as follows:		
Continuing operations		
Earnings attributable to owners of Adcock Ingram from total operations	687 986	637 943
Adjusted for:		
Loss/(Profit) attributable to Adcock Ingram from discontinued operation (note 2.1)	1 609	(10 708)
Earnings attributable to owners of Adcock Ingram from continuing operation	689 595	627 235
Adjusted for:		
Impairment of intangible assets	5 595	2 700
Impairment of investment in associate	2 973	–
Release of foreign currency translation reserve on disposal of investment in associate	1 607	–
Loss/(Profit) on disposal/scrapping of property, plant and equipment	677	(1 968)
Tax effect on loss/(profit) on disposal of property, plant and equipment	(257)	(42)
Adjustments relating to equity accounted joint ventures and associate		
Impairment of goodwill	–	5 312
Loss on disposal of long-term receivables	–	828
Loss/(Profit) on disposal of property, plant and equipment	1 290	(24)
Tax effect on loss on disposal of property, plant and equipment	(445)	–
Headline earnings from continuing operations	701 035	634 041
Discontinued operation		
(Loss)/Profit attributable to owners of Adcock Ingram from discontinued operation	(1 609)	10 708
Adjusted for:		
Loss on sale of discontinued operation (note 2.2)	3 592	–
Headline earnings from discontinued operation	1 983	10 708
	Number of shares	
Reconciliation of diluted weighted average number of shares:		
Weighted average number of ordinary shares in issue:		
– Issued shares at the beginning of the year	175 748 048	175 748 048
– Effect of ordinary treasury shares held within the Group	(9 488 292)	(9 455 491)
Shares entitled to dividend	(4 319 700)	(4 286 899)
Shares not entitled to dividend	(5 168 592)	(5 168 592)
Weighted average number of ordinary shares outstanding	166 259 756	166 292 557
Potential dilutive effect of outstanding share options	2 014	2 681
Diluted weighted average number of shares outstanding	166 261 770	166 295 238

Basic earnings per share is derived by dividing earnings attributable from continuing operations to owners of Adcock Ingram for the year by the weighted average number of shares in issue.

Diluted earnings per share is derived by dividing earnings attributable from continuing operations to owners of Adcock Ingram for the year by the diluted weighted average number of shares in issue. Diluted earnings per share reflect the potential dilution that could occur after taking into account all of the Group's outstanding options which are potentially exercisable.

Headline earnings per share is derived by dividing earnings attributable from continuing operations to owners of Adcock Ingram for the year, after appropriate adjustments are made, by the weighted average number of shares in issue.

	2019 Cents	2018 Cents
8. EARNINGS PER SHARE (CONTINUED)		
8.1. CONTINUING OPERATIONS		
Earnings		
Basic earnings per share	414.8	377.2
Diluted basic earnings per share	414.8	377.2
Headline earnings		
Headline earnings per share	421.7	381.3
Diluted headline earnings per share	421.6	381.3
8.2. DISCONTINUED OPERATIONS		
Earnings		
Basic earnings per share	(1.0)	6.4
Diluted basic earnings per share	(1.0)	6.4
Headline earnings		
Headline earnings per share	1.2	6.4
Diluted headline earnings per share	1.2	6.4
8.3. TOTAL OPERATIONS		
Earnings		
Basic earnings per share	413.8	383.6
Diluted basic earnings per share	413.8	383.6
Headline earnings		
Headline earnings per share	422.8	387.7
Diluted headline earnings per share	422.8	387.7
8.4. DISTRIBUTION PER SHARE		
Interim	100.0	86.0
Final ⁽¹⁾	100.0	86.0
<i>⁽¹⁾ Declared subsequent to 30 June and has been presented for information purposes only. No liability regarding the final distribution has thus been recognised at 30 June.</i>		
	R'000	R'000
9. DISTRIBUTIONS PAID AND PROPOSED		
9.1. DECLARED AND PAID DURING THE YEAR		
Distribution on ordinary shares		
Final dividend for 2018: 86 cents (2017: 76 cents)	125 220	110 671
Interim dividend for 2019: 100 cents (2018: 86 cents)	145 581	125 233
Total paid to equity holders of parent company	270 801	235 904
Dividends paid to non-controlling shareholders	7 088	11 239
Total dividend declared and paid to the public	277 889	247 143
9.2. PROPOSED SUBSEQUENT TO 30 JUNE 2019		
Final dividend for 2019: 100 cents per share	171 432	

Notes to the Group annual financial statements continued

	Freehold land and buildings R'000	Leasehold improvements R'000	Plant, equipment and vehicles R'000	Computer equipment R'000	Furniture and fittings R'000	Work in progress R'000	Total R'000
10. PROPERTY, PLANT AND EQUIPMENT							
2019							
Carrying value at beginning of year							
Cost	902 408	101 076	945 604	181 690	35 134	199 095	2 365 007
Accumulated depreciation	(151 550)	(74 752)	(460 539)	(131 989)	(24 922)	-	(843 752)
Net book value at beginning of year	750 858	26 324	485 065	49 701	10 212	199 095	1 521 255
Current year movements – cost							
Additions	12 086	281	18 201	3 622	82	181 212	215 484
Transfer	43 424	5 338	91 821	17 968	2 421	(160 972)	-
Exchange rate adjustments	1 750	29	2 566	149	176	2	4 672
Disposal of business (note 2.2)	(31 546)	-	(43 878)	(1 428)	(2 586)	-	(79 438)
Disposals	-	(19)	(65 388)	(87 051)	(1 702)	-	(154 160)
Cost movement for current year	25 714	5 629	3 322	(66 740)	(1 609)	20 242	(13 442)
Current year movements – accumulated depreciation							
Depreciation*	(19 267)	(7 057)	(93 522)	(29 785)	(3 428)	-	(153 059)
Exchange rate adjustments	(374)	(8)	(1 774)	(136)	(133)	-	(2 425)
Disposal of business (note 2.2)	5 030	-	25 251	1 380	2 013	-	33 674
Disposals	-	3	63 646	86 878	1 668	-	152 195
Accumulated depreciation movement for current year	(14 611)	(7 062)	(6 399)	58 337	120	-	30 385
Carrying value at end of year							
Cost	928 122	106 705	948 926	114 950	33 525	219 337	2 351 565
Accumulated depreciation	(166 161)	(81 814)	(466 938)	(73 652)	(24 802)	-	(813 367)
Net book value at end of year	761 961	24 891	481 988	41 298	8 723	219 337	1 538 198
* Depreciation split as follows:							
Continuing operations	18 968	7 057	92 112	29 764	3 324	-	151 225
Discontinued operation	299	-	1 410	21	104	-	1 834

10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

2018

Carrying value at beginning of the year

	Freehold land and buildings R'000	Leasehold improvements R'000	Plant, equipment and vehicles R'000	Computer equipment R'000	Furniture and fittings R'000	Work in progress R'000	Total R'000
Cost	896 952	99 291	950 004	164 213	45 526	105 275	2 261 261
Accumulated depreciation	(133 027)	(65 688)	(461 828)	(122 720)	(32 903)	–	(816 166)
Net book value at beginning of the year	763 925	33 603	488 176	41 493	12 623	105 275	1 445 095
Current year movements – cost							
Additions	–	391	28 106	4 656	475	185 620	219 248
Transfer	4 948	2 481	51 637	31 417	1 317	(91 800)	–
Exchange rate adjustments	1 576	(12)	2 529	149	135	–	4 377
Additions through business combination (note 1.1)	–	100	10 932	6 050	1 209	–	18 291
Disposals	(1 068)	(1 175)	(97 604)	(24 795)	(13 528)	–	(138 170)
Cost movement for current year	5 456	1 785	(4 400)	17 477	(10 392)	93 820	103 746
Current year movements – accumulated depreciation							
Depreciation*	(19 252)	(9 969)	(90 048)	(33 841)	(5 276)	–	(158 386)
Exchange rate adjustments	(339)	(1)	(1 820)	(144)	(123)	–	(2 427)
Disposals	1 068	906	93 157	24 716	13 380	–	133 227
Accumulated depreciation movement for current year	(18 523)	(9 064)	1 289	(9 269)	7 981	–	(27 586)
Carrying value at end of year							
Cost	902 408	101 076	945 604	181 690	35 134	199 095	2 365 007
Accumulated depreciation	(151 550)	(74 752)	(460 539)	(131 989)	(24 922)	–	(843 752)
Net book value at end of year	750 858	26 324	485 065	49 701	10 212	199 095	1 521 255
*Depreciation split as follows:							
Continuing operations	18 603	9 969	82 635	33 723	4 599	–	149 529
Discontinued operation	649	–	7 413	118	677	–	8 857

Notes to the Group annual financial statements continued

	Goodwill R'000	Trademarks and market-related intangibles R'000	Customer- related intangibles and licence agreements R'000	Total R'000
11. INTANGIBLE ASSETS				
2019				
Carrying value at beginning of year				
Cost	181 933	435 937	112 784	730 654
Accumulated amortisation	–	(94 705)	(9 707)	(104 412)
Net balance at beginning of year	181 933	341 232	103 077	626 242
Cost movement for the year	–	–	–	–
Current year movements – accumulated amortisation				
Charge for the year	–	(10 123)	(1 080)	(11 203)
Impairment ⁽¹⁾	(5 595)	–	–	(5 595)
Accumulated amortisation movement for the year	(5 595)	(10 123)	(1 080)	(16 798)
Carrying value at end of year				
Cost	181 933	435 937	112 784	730 654
Accumulated amortisation	(5 595)	(104 828)	(10 787)	(121 210)
Net balance at end of year	176 338	331 109	101 997	609 444

⁽¹⁾ Refer to Annexure G on impairments.

	Goodwill R'000	Trademarks and market-related intangibles R'000	Customer- related intangibles and licence agreements R'000	Total R'000
11. INTANGIBLE ASSETS (CONTINUED)				
2018				
Carrying value at beginning of year				
Cost	18 175	310 100	112 784	441 059
Accumulated amortisation		(82 435)	(8 627)	(91 062)
Net balance at beginning of year	18 175	227 665	104 157	349 997
Current year movements - cost				
Additions	–	4 450	–	4 450
Additions through business combination (note 1.1)	163 758	121 385	–	285 143
Exchange rate adjustments	–	2	–	2
Cost movement for the year	163 758	125 837	–	289 595
Current year movements – accumulated amortisation				
Charge for the year	–	(9 567)	(1 080)	(10 647)
Impairment ⁽¹⁾	–	(2 700)	–	(2 700)
Exchange rate adjustments	–	(3)	–	(3)
Accumulated amortisation movement for the year	–	(12 270)	(1 080)	(13 350)
Carrying value at end of year				
Cost	181 933	435 937	112 784	730 654
Accumulated amortisation	–	(94 705)	(9 707)	(104 412)
Net balance at end of year	181 933	341 232	103 077	626 242

⁽¹⁾ Refer to Annexure G on impairments.

Amortisation is included in fixed and administrative expenses and impairments in non-trading expenses in the statement of comprehensive income.

Notes to the Group annual financial statements continued

11. INTANGIBLE ASSETS (CONTINUED)

Goodwill acquired through business combinations and other intangible assets have been allocated to the following individual reportable segments for impairment testing. These segments represent the lowest level within the entity at which intangible assets are monitored for internal management purposes.

	OTC R'000	Consumer R'000	Prescription R'000	Hospital R'000	Other – Shared Services R'000	Southern Africa R'000	India and Rest of Africa R'000	Total R'000
2019								
Carrying amount of goodwill			163 758	12 580	-	176 338	-	176 338
Carrying amount of other intangibles	128 037	88 008	210 884	3 783	-	430 712	2 394	433 106
Indefinite useful lives	123 434	27 700	210 592	-	-	361 726	2 347	364 073
Finite useful lives	4 603	60 308	292	3 783	-	68 986	47	69 033
Total	128 037	88 008	374 642	16 363	-	607 050	2 394	609 444
2018								
Carrying amount of goodwill			163 758	12 580	5 595	181 933	-	181 933
Carrying amount of other intangibles	128 662	96 326	211 598	4 228	1 080	441 894	2 415	444 309
Indefinite useful lives	123 434	27 700	210 592			361 726	2 347	364 073
Finite useful lives	5 228	68 626	1 006	4 228	1 080	80 168	68	80 236
Total	128 662	96 326	375 356	16 808	6 675	623 827	2 415	626 242

11. INTANGIBLE ASSETS (CONTINUED)

IMPAIRMENT TESTING OF INTANGIBLE ASSETS

The average remaining useful life for intangible assets with finite useful lives ranges between two to seven years.

The recoverable amount of the indefinite life intangible assets has been determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a 10-year period when management believes that products have a value-in-use of 10 years or more and that these projections, based on past experience, are reliable.

The discount rate applied to cash flow projections is 14.01% (2018: 12.25%) for the intangible assets. The cash flows beyond the 10-year period are discounted at 14.01% (2018:12.25%) and applying a 0.5% long-term growth rate (2018: 0.5%).

Key assumptions used in value-in-use calculations

The calculation of value-in-use for all segments is sensitive to the following assumptions:

- * Gross margin;
- * Discount rates;
- * Raw materials price inflation;
- * Market share assumptions; and
- * Growth rate estimates

Gross margin

Gross margins are based on average values of between 27% to 50% margin in the three years preceding the start of the budget period. These are changed over the budget period for estimated changes to cost of production and raw materials, and selling prices.

Discount rates

Discount rates reflect management's estimate of the risks. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. The discount rate is derived from the Group's weighted average cost of capital (WACC). The WACC takes into account both the cost of debt and of equity. The cost of equity is derived from the expected return on investment by the Group.

Raw materials price inflation

Estimates are obtained from published indices for the countries from which materials are sourced, as well as data relating to specific commodities. Forecast figures are used if data is publicly available, otherwise past actual raw materials price movements of 5% have been used as an indicator of the future price movements.

Market share assumptions

These assumptions are important because, as well as using industry data for growth rates, management assesses how the Group's position, relative to its competitors, might change over the budget period. Market share is considered separately for each asset to determine the impact on the future cash flows.

Growth rate estimates

The growth rate used beyond the next 10-year period is management's best estimate taking market conditions into account.

Sensitivity to change in assumptions

The implications of the key assumptions for the recoverable amount are discussed below:

Gross margin

A decreased demand and cost input inflation in excess of selling price increases can lead to a decline in the gross margin which could result in an impairment of intangibles.

Discount rates

A material increase in excess of 4% in the discount rate would result in impairment.

Raw materials price inflation

Management has considered the possibility of greater than forecast increases in raw material price inflation. If prices of raw materials increase greater than the forecast price inflation and the Group is unable to pass on, or absorb these increases through efficiency improvements, then the Group will have an impairment.

Market share assumptions

Although management expects the Group's market share to be stable over the forecast period, a material decline in the market share would result in an impairment.

Growth rate estimates

Management acknowledges that new entrants into the market could have a significant impact on growth rate assumptions. This is not expected to have a material adverse impact on forecasts, but could yield a reasonably possible alternative to the estimated long-term growth rate which could result in impairment.

Notes to the Group annual financial statements continued

	2019 R'000	2018 R'000
12. DEFERRED TAX		
Balance at beginning of year	(100 794)	(71 550)
Acquisition of business (refer note 1)	–	(27 622)
Disposal of business (refer note 2.2)	(497)	–
Movement through profit or loss – continuing operations	(3 911)	1 342
– discontinued operation	1 650	(787)
Exchange rate adjustments	(754)	(388)
Revaluations of foreign currency contracts (cash flow hedges) to fair value	9 182	(1 782)
Fair value through OCI	(244)	(7)
IFRS 9 adjustment	1 706	–
Balance at end of year	(93 662)	(100 794)
Analysis of deferred tax		
This balance comprises the following temporary differences:		
Trademarks	(48 406)	(50 909)
Property, plant and equipment	(146 280)	(137 402)
Pre-payments	(4 239)	(5 189)
Income received in advance	12 700	15 468
Provisions	85 677	79 762
Revaluations of foreign currency contracts (cash flow hedges) to fair value	5 179	(4 003)
Tax loss available for future use	216	1 083
Other	1 491	396
	(93 662)	(100 794)
Disclosed as follows:		
Deferred tax asset	8 671	18 120
Deferred tax liability	(102 333)	(118 914)
13. OTHER FINANCIAL ASSETS		
13.1. LONG-TERM RECEIVABLE		
<i>Black Managers Share Trust (BMT)</i>		
Balance at beginning of year	32 073	39 840
Proceeds from sale	(2 332)	(5 232)
Fair value adjustment	(1 763)	–
Impairment (Refer Annexure G)	–	(2 535)
	27 978	32 073

The maturity of the receivable from the BMT depends on how beneficiaries exercise their options until 30 September 2024 when the scheme is due to end or when a beneficiary dies. The proceeds on sale during the year is as a result of the capital contribution payments upon units being exercised after the lock-in period of R2.3 million (2018: R5.2 million). The fair value adjustment (2018: impairment charge) was as a result of the cost of the capital contribution exceeding the terminal amount (original capital contribution, increased by a notional return on the capital contribution and reduced by dividends distributed to the beneficiaries). Refer to Annexure B for further details.

	2019 R'000	2018 R'000
13. OTHER FINANCIAL ASSETS (CONTINUED)		
13.2. INVESTMENTS		
<i>Group Risk Holdings Proprietary Limited</i>		
Balance at beginning of year	1 937	1 906
Disposal of shares	(323)	–
Revaluation of investment through other comprehensive income	35	31
	1 649	1 937
Total other financial assets	29 627	34 010
14. INVESTMENT IN JOINT VENTURES AND ASSOCIATE		
14.1. INVESTMENT IN JOINT VENTURES		
The Group has a 49.9% share in Adcock Ingram Limited (India) and a 50% share in National Renal Care Proprietary Limited. The Group's interests in Adcock Ingram Limited (India) and National Renal Care Proprietary Limited are accounted for using the equity method in the consolidated financial statements. The carrying value of the investments are set out below.		
Adcock Ingram Limited (India)	274 752	251 155
National Renal Care Proprietary Limited	231 484	193 995
	506 236	445 150
14.2. INVESTMENT IN ASSOCIATE		
The Group disposed of its 25.1% share in Ayrton Drug Manufacturing Limited (Ghana) on 2 May 2019. This investment was previously accounted for using the equity method in the consolidated financial statements. The carrying value of the investment is set out below:		
Cost of investment	5 133	5 133
Share of post-acquisition profit	1 603	3 969
Exchange rate adjustments	(1 607)	(1 088)
Impairment	(2 973)	–
	2 156	8 014
<i>Less: Proceeds on disposal</i>	(2 156)	–
	–	8 014
Refer to Annexure F for more details on these investments		

Notes to the Group annual financial statements continued

	2019 R'000	2018 R'000
15. INVENTORIES		
Raw materials	375 198	422 294
Work-in-progress	34 250	31 556
Finished goods	903 103	1 112 099
Inventory value, net of provisions	1 312 551	1 565 949
Inventories written down and recognised as an expense in cost of sales in profit or loss:		
Continuing operations	99 944	91 466
Discontinued operation (note 2.1)	290	3 388
	100 234	94 854
Inventories are written off if aged, damaged, stolen or the likelihood of being sold is remote. Inventories are written down to the lower of cost and net realisable value.		
16. TRADE AND OTHER RECEIVABLES		
Trade receivables	1 681 140	1 552 765
Less: Expected allowance for credit losses/Provision for impairment	(32 257)	(40 143)
	1 648 883	1 512 622
Less: Provision for credit notes	(45 095)	(38 316)
	1 603 788	1 474 306
Derivative asset at fair value	–	21 838
Other receivables	76 000	61 970
Bank interest receivable	313	907
Sundry receivables ⁽¹⁾	75 687	61 063
The maximum exposure to credit risk in relation to trade and other receivables	1 679 788	1 558 114
Pre-payments	85 935	75 405
VAT recoverable ⁽²⁾	21 302	7 776
	1 787 025	1 641 295

⁽¹⁾ Includes income receivable from multinational partners.

⁽²⁾ VAT recoverable will be received within one month.

61% (2018: 62%) of pre-payments will be recycled to other assets in the statement of financial position and the balance to profit or loss over the next 12 months.

16. TRADE AND OTHER RECEIVABLES (CONTINUED)

Movements in the expected allowance for credit losses and provision for credit notes were as follows:

	Expected credit loss R'000	Credit notes R'000	Total R'000
At 1 July 2017	(28 370)	(40 047)	(68 417)
Charge for the year	(8 276)	(4 504)	(12 780)
Utilised during the year	–	1 233	1 233
Exchange rate adjustments	(472)	–	(472)
Acquisition of business	(3 025)	–	(3 025)
Unused amounts reversed	–	5 002	5 002
At 30 June 2018	(40 143)	(38 316)	(78 459)
IFRS 9 adjustment	(6 092)	–	(6 092)
At 1 July 2018 – Restated	(46 235)	(38 316)	(84 551)
Release/(Charge) for the year	7 859	(11 407)	(3 548)
Utilised during the year	5 167	4 628	9 795
Exchange rate adjustments	(121)	–	(121)
Disposal of business	1 073	–	1 073
At 30 June 2019	(32 257)	(45 095)	(77 352)

During the current year, receivables with a value of R5.2 million were written off (2018: nil).

	PROVISION MATRIX AS AT 30 JUNE 2019 (IFRS 9)			
	Gross trade receivables R'000	Expected credit loss ratio %	Expected credit loss R'000	Estimated net carrying amount R'000
TRADE RECEIVABLES				
Days outstanding				
<30 days	946 206	–	–	946 206
31 – 60 days	517 245	0.3%	1 526	515 719
61 – 90 days	123 618	0.5%	642	122 976
91 – 180 days (past due)	94 071	32.0%	30 089	63 982
Total	1 681 140	1.9%	32 257	1 648 883

	2018 R'000
THE MATURITY ANALYSIS AS AT 30 JUNE 2018 (IAS 39)	
Neither past due nor impaired	
<30 days	900 537
31 – 60 days	471 922
61 – 90 days	54 394
Past due after impairments	
91 – 180 days	52 268
>180 days	33 501
Total	1 512 622

Notes to the Group annual financial statements continued

16. TRADE AND OTHER RECEIVABLES (CONTINUED)

	2019 R'000	2018 R'000
Sundry receivables		
Neither past due nor impaired		
<30 days	25 138	26 402
31 – 60 days	18 673	5 250
61 – 90 days	5 824	6 745
>90 days	26 052	22 666
Total	75 687	61 063

Details in respect of the Group's credit risk management policies are set out in Annexure E. The directors consider that the carrying amount of the trade and other receivables approximates their fair value due to the short period to maturity.

17. CASH AND CASH EQUIVALENTS/OVERDRAFT

Cash at banks	448 252	404 629
Bank overdraft	–	(248 877)
	448 252	155 752

Cash at banks earns interest at floating rates based on daily bank deposit rates. Overdraft balances in South Africa incurred interest at 8.3% during the previous financial year.

The fair value of the net cash approximates R448.3 million (2018: R155.8 million).

There are no restrictions over the cash balances and all balances are available for use.

Refer to note 26.

18. SHARE CAPITAL

18.1. AUTHORISED

Ordinary Share Capital

250 000 000 ordinary shares of 10 cents each	25 000	25 000
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18.2. ISSUED

Ordinary Share Capital

Opening balance of 171 456 145 ordinary shares of 10 cents each	17 146	17 147
Movement of treasury shares	(4)	(1)
Closing balance of 171 423 855 ordinary shares of 10 cents each	17 142	17 146

	Number of shares	
	2019	2018
18. SHARE CAPITAL (CONTINUED)		
18.3. TREASURY SHARES		
Shares held by Group company – number of ordinary shares	4 324 193	4 291 903
Shares bought back and held by a Group company are regarded as treasury shares.		
	Number of shares	
	2019	2018
18.4. RECONCILIATION OF ISSUED SHARES		
Number of shares in issue	175 748 048	175 748 048
Number of ordinary shares held by Group companies*	(4 324 193)	(4 291 903)
Net shares in issue	171 423 855	171 456 145
<i>* Entitled to dividends</i>		
Unissued shares		
In terms of the Companies Act, the unissued shares are under the control of the directors. Accordingly, the directors are authorised to allot and issue them on such terms and conditions and at such times as they deem fit but subject to the provisions of the Companies Act.		
The Group has a share incentive trust in terms of which shares were issued and share options were granted. Refer to Annexure B. As required by IFRS and the JSE Limited, the share incentive trust is consolidated into the Group's annual financial statements.		
	2019	2018
	R'000	R'000
19. SHARE PREMIUM		
Balance at the beginning of the year	666 356	666 873
Movement in treasury shares	(2 342)	(517)
	664 014	666 356

Notes to the Group annual financial statements continued

20. NON-DISTRIBUTABLE RESERVES

	Share-based payment reserve	Cash flow hedge accounting reserve	Capital redemption reserve	Foreign currency translation reserve	Legal reserves and other	Total
	R'000	R'000	R'000	R'000	R'000	R'000
Balance at 1 July 2017	125 357	5 712	3 919	38 257	27 127	200 372
Movement during the year, net of tax	16 463	4 582		1 800	658	23 503
BMT	323					323
Equity settled	22 426					22 426
Equity options exercised	(6 286)					(6 286)
Hedging reserve movement		6 364				6 364
Actuarial profit on post-retirement medical liability					634	634
Other movement for the year				1 800	31	1 831
Tax effect on movement		(1 782)			(7)	(1 789)
Balance at 30 June 2018	141 820	10 294	3 919	40 057	27 785	223 875
Movement during the year, net of tax	5 314	(23 612)		(9 962)	733	(27 527)
BMT	3 749					3 749
Equity settled	21 037					21 037
Equity options exercised	(19 472)					(19 472)
Hedging reserve movement		(32 794)				(32 794)
Other comprehensive income recycled to profit or loss				(17 353)		(17 353)
Actuarial profit on post-retirement medical liability					942	942
Other movement for the year				7 391	35	7 426
Tax effect on movement		9 182			(244)	8 938
Balance at 30 June 2019	147 134	(13 318)	3 919	30 095	28 518	196 348

20. NON-DISTRIBUTABLE RESERVES (CONTINUED)**SHARE-BASED PAYMENT RESERVE**

The share-based payment reserve represents the accumulated charge for share options in terms of IFRS 2. The share option plans are equity-settled and include an ordinary equity scheme and the BEE scheme. Refer Annexure B.

CASH FLOW HEDGE ACCOUNTING RESERVE

The cash flow hedge accounting reserve comprises the portion of the cumulative net change in the fair value of derivatives designated as effective cash flow hedging relationships where the hedged item has not yet affected inventory and ultimately cost of sales in the statement of comprehensive income. Refer Annexure E.

CAPITAL REDEMPTION RESERVE

The capital redemption reserve was created as a result of revaluation of shares in subsidiaries.

FOREIGN CURRENCY TRANSLATION RESERVE

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

LEGAL RESERVES AND OTHER

This represents:

- an unutilised merger reserve when Premier Pharmaceuticals and Adcock Ingram merged;
- actuarial losses on the Group's post-retirement medical liability; and
- a fair value adjustment on the Group's investment in Group Risk Holdings Proprietary Limited (refer to note 13.2).

	2019 R'000	2018 R'000
21. POST-RETIREMENT MEDICAL LIABILITY		
Balance at beginning of the year	16 340	16 793
Charged to operating profit	36	39
Benefits paid	(1 277)	(1 368)
Actuarial profit on post-employment medical liability released to other comprehensive income	(942)	(634)
Interest cost on benefit obligation	1 480	1 510
Balance at the end of the year	15 637	16 340

Refer to Annexure D.

Notes to the Group annual financial statements continued

	2019 R'000	2018 R'000
22. TRADE AND OTHER PAYABLES		
Trade accounts payable	775 421	1 008 439
Derivative liability at fair value ⁽¹⁾	16 799	–
Other payables	830 154	822 213
Accrued expenses	655 374	619 993
Black Managers Share Trust cash-settled options	36 362	36 363
Sundry payables	138 418	165 857
VAT payable ⁽²⁾	61 549	6 573
Interest accrued	–	1 705
	1 683 923	1 838 930
<i>⁽¹⁾ It is expected that the derivative liability will be settled within the next 90 days.</i>		
<i>⁽²⁾ VAT payable will be paid within one month.</i>		
The maturity analysis of trade and other payables is as follows:		
Trade payables		
<30 days	499 171	676 865
31– 60 days	146 947	191 657
61– 90 days	67 332	73 157
>90 days	61 971	66 760
Total	775 421	1 008 439
Other payables		
<30 days	272 397	236 308
31– 60 days	82 933	64 011
61– 90 days	239 139	251 388
>90 days	235 685	270 506
Total	830 154	822 213
23. CASH-SETTLED OPTIONS		
Opening balance	2 413	7 384
Charged to operating profit	16 970	4 656
Payments made	(684)	(9 627)
	18 699	2 413

Refer to Annexure B

	2019 R'000	2018 R'000
24. PROVISIONS		
Leave pay	54 149	52 816
Bonus and incentive scheme	31 430	31 088
Other	46 428	46 428
	132 007	130 332
Made up as follows:		
Leave pay		
Balance at beginning of year	52 816	44 373
Arising during the year	76 116	72 710
Utilised during the year	(67 434)	(60 533)
Unused amounts reversed	(4 459)	(6 198)
Disposal of business (note 2.2)	(3 051)	–
Acquisition of business	–	2 255
Exchange rate adjustments	161	209
Balance at end of year	54 149	52 816
Bonus and incentive scheme		
Balance at beginning of year	31 088	31 557
Arising during the year	31 430	31 196
Utilised during the year	(29 868)	(31 665)
Unused amounts reversed	(1 220)	–
Balance at end of year	31 430	31 088

LEAVE PAY PROVISION

In excess of 97% of the balance represents the liability for employees in South Africa. In terms of the Group policy, employees in South Africa are entitled to accumulate leave benefits not taken within a leave cycle, up to a maximum of three times the employee's annual leave allocation, limited to a maximum of 30 days. The obligation is reviewed annually.

BONUS AND INCENTIVE PROVISION

Certain employees participate in a performance-based incentive scheme and provision is made for the estimated liability in terms of set performance criteria. These incentives are expected to be paid in September 2019.

OTHER

Other provision includes a liability as a result of an initial contract with a customer which provides for the Group to sign an obligation agreement which should be discharged over a period of seven years.

Notes to the Group annual financial statements continued

	2019 R'000	2018 R'000
25. NOTES TO THE STATEMENTS OF CASH FLOWS		
25.1. OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES		
Profit before taxation from continuing operations	966 467	879 510
Profit before taxation from discontinued operation	3 098	15 647
Profit before taxation	969 565	895 157
Adjusted for:		
– amortisation of intangibles	11 203	10 647
– depreciation	153 059	158 386
– loss/(profit) on disposal/scraping of property, plant and equipment	677	(1 968)
– dividend income	(3 864)	(4 340)
– finance income	(6 756)	(18 270)
– finance costs	18 404	26 187
– loss on sale of investment in associate	1 607	–
– impairment of investment in associate	2 973	–
– equity accounted earnings	(90 714)	(79 252)
– share-based payment expenses	41 756	34 345
– provision for accounts receivable impairment and credit notes	3 548	7 778
– increase in provisions and post-retirement medical liability	4 804	52 120
– straight-lining of leases	(3 622)	(907)
– impairment of intangible asset	5 595	2 700
– impairment of long-term receivable	–	2 535
– fair value adjustment of long-term receivable	1 763	–
– inventories written off	100 234	94 854
– increase in inventory provisions	28 233	19 306
– foreign exchange (profit)/loss	(1 060)	4 850
	1 237 405	1 204 128
25.2. WORKING CAPITAL CHANGES		
Decrease/(Increase) in inventories	99 084	(438 199)
(Increase)/Decrease in trade and other receivables	(207 882)	11 695
(Decrease)/Increase in trade and other payables*	(99 802)	83 536
	(208 600)	(342 968)
25.3. DIVIDENDS PAID		
Dividends paid to equity holders of the parent	(270 801)	(235 904)
Dividends paid to non-controlling shareholders	(7 088)	(11 239)
	(277 889)	(247 143)

* Includes cash settled options.

	2019 R'000	2018 R'000
25. NOTES TO THE STATEMENTS OF CASH FLOWS (CONTINUED)		
25.4. TAXATION PAID		
Amounts overpaid at beginning of year	6 061	9 642
Amounts charged to profit or loss	(270 550)	(251 084)
Continuing operations	(269 435)	(246 145)
Discontinued operations	(1 115)	(4 939)
Movement in deferred tax	2 261	(555)
Acquisition of business	–	1 579
Exchange rate adjustments	(92)	(184)
Disposal of business	(1 038)	–
Amounts overpaid at end of year	(10 789)	(6 061)
	(274 147)	(246 663)
25.5. NET CASH FLOW ON AQUISION OF BUSINESSES		
Cash outflow on business combination (refer note 1)	–	327 623
25.6. FINANCE INCOME RECEIVED		
Finance income	6 756	18 270
Movement in receivable	594	(907)
	7 350	17 363
25.7. FINANCE COSTS PAID		
Finance costs – continuing operations	(18 404)	(25 401)
– discontinued operation	–	(786)
	(18 404)	(26 187)
Movement in accrual	(1 705)	582
	(20 109)	(25 605)
25.8. DIVIDEND INCOME RECEIVED		
Dividend income (note 3)	3 864	4 340
Dividend received from joint ventures	38 089	25 760
	41 953	30 100
25.9. MOVEMENT IN BORROWINGS		
Balance at beginning of year	–	251 908
Non-cash items: Acquisition of business (refer note 1)	–	24 297
Exchange rate adjustments	–	(28)
Balance at end of year	–	–
Cash movement in borrowings/Repayment of borrowings	–	276 177

Notes to the Group annual financial statements continued

	2019 R'000	2018 R'000
25. NOTES TO THE STATEMENTS OF CASH FLOWS (CONTINUED)		
25.10. TREASURY SHARES (FOR EQUITY OPTION SCHEME)		
Purchase of treasury shares	(21 445)	(6 691)
Disposal of treasury shares	19 099	6 173
Net movement in treasury shares (note 18.2, 19)	(2 346)	(518)
Equity options settlement	(19 472)	(6 286)
	(21 818)	(6 804)
Refer Annexure B		
25.11. DECREASE IN OTHER FINANCIAL ASSETS		
Proceeds from sale of interest in Group Risk Holdings Proprietary Limited	323	–
Decrease in Black Managers Share Trust	2 332	5 232
	2 655	5 232

26. CONTINGENT LIABILITIES

The wholly-owned South African companies in the Group provide cross-sureties for the overdraft facilities (refer note 17) in South Africa.

27. COMMITMENTS AND CONTINGENCIES

27.1. OPERATING LEASE COMMITMENTS

The Group has entered into the following material lease agreements in South Africa for premises used as offices and distribution centres for pharmaceutical products. These leases represent more than 95% of the lease commitments of the Group.

	Lease 1 New Road	Lease 2 Durban	Lease 3 Cape Town	Lease 4 Port Elizabeth	Lease 5 Bloemfontein
Initial lease period (years)	10	12	10	5	5
Ending	30 November 2021	31 October 2022	31 August 2022	31 July 2022	30 June 2024
Renewal option period (years)	10	10	5	5	5
Ending	30 June 2031	31 October 2032	31 August 2027	31 July 2027	30 June 2029
Escalation %	7.3%	8.5%	8.5%	7.0%	7.0%

	2019 R'000	2018 R'000
27. COMMITMENTS AND CONTINGENCIES (CONTINUED)		
27.1. OPERATING LEASE COMMITMENTS (CONTINUED)		
Future minimum rentals payable under all non-cancellable operating leases are as follows:		
Within one year	45 868	50 388
After one year but not more than five years	171 343	150 485
More than five years	287 482	1 455
	504 693	202 328
27.2. CAPITAL COMMITMENTS		
Commitments contracted for		
Within one year	21 772	32 932
Approved but not contracted for	90 100	63 258
Within one year	90 100	60 230
Between one and two years	–	3 028
	111 872	96 190
These commitments relate to property, plant and equipment.		
27.3. GUARANTEES		
The Group has provided guarantees to the amount of R3.1 million at 30 June 2019 (June 2018: R3.3 million)		
28. RELATED PARTIES		
Related party transactions exist between the Company, subsidiaries, joint ventures, and key management. All purchasing and selling transactions with related parties are concluded at arm's length and are eliminated for Group purposes, where applicable.		
The following entities are considered to be related parties in the current and prior year due to their individual shareholding exceeding 20% and they have representation on the Adcock Ingram Holdings Limited Board of Directors, and therefore are considered to have significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the Group.		
<i>The Bidvest Group Limited</i>		
Purchase of services	74 302	56 747
Balance owing at reporting date	13 899	13 093

The payable balance is unsecured and will be repaid under normal terms applicable to trade creditors.

Payments to directors and key management are disclosed in notes 6.3 and 6.4.

Notes to the Group annual financial statements continued

29. SUBSEQUENT EVENTS

29.1. ADCOCK INGRAM BROAD-BASED BLACK EMPOWERMENT SCHEME

Securities holders of AdBEE (RF) Limited (AdBEE) were notified on 31 May 2019 that AdBEE would not initiate the process of extending the Adcock Ingram Broad-Based Black Empowerment Scheme (Scheme) and accordingly the Scheme came to an end on 29 July 2019.

The value of a Scheme share did not exceed the maximum price (being R72.00) and therefore, on 1 August 2019, the Scheme transaction, in its entirety, was *ipso facto* cancelled *ab initio*.

The cancellation *ab initio* of the Scheme transaction had the effect that the Scheme shares held by Ad-izinyosi Proprietary Limited (Ad-izinyosi) ceased to be subject to a pledge and were returned by Ad-izinyosi to AdBEE securities holders.

The Mpho ea Bophelo Trust indirectly held 20% (5 168 592) of the Ad-izinyosi shareholding in Adcock Ingram Holdings Limited of 25 842 959 shares, which were treated as treasury shares for the purposes of calculating earnings per share (EPS) and headline earnings per share (HEPS). Following the cancellation of the Scheme, these shares will no longer be regarded as treasury shares.

Company statements of comprehensive income

	Notes	2019 R'000	2018 R'000
REVENUE	A	64 439	39 924
Operating expenses		(369)	(743)
Finance income	B.1	26 350	24 165
Finance costs	B.2	(23 955)	(24 533)
Dividend income	A	38 089	15 759
Profit before taxation		40 115	14 648
Taxation	C	(567)	321
Profit for the year		39 548	14 969
Other comprehensive income which will not be subsequently be recycled to profit or loss	I	27	24
Fair value of investment		35	31
Tax effect of revaluation		(8)	(7)
Total comprehensive income for the year, net of tax		39 575	14 993

Company statement of changes in equity

		Issued share capital	Share premium	Non- distributable reserves	Retained income/ (Accumulated loss)	Total
	Notes	R'000	R'000	R'000	R'000	R'000
Balance at 1 July 2017		17 574	894 653	79 538	280 269	1 272 034
Total comprehensive income				24	14 969	14 993
Profit for the year					14 969	14 969
Other comprehensive income				24		24
Dividends	M.1				(242 846)	(242 846)
Balance at 30 June 2018		17 574	894 653	79 562	52 392	1 044 181
Total comprehensive income				27	39 548	39 575
Profit for the year					39 548	39 548
Other comprehensive income				27		27
Dividends	M.1				(278 823)	(278 823)
Balance at 30 June 2019		17 574	894 653	79 589	(186 883)	804 933

Company statements of financial position

	Notes	2019 R'000	2018 R'000
ASSETS			
Investments	D	3 368 535	3 368 823
Non-current assets		3 368 535	3 368 823
Cash and cash equivalents	E.1	31 926	30 809
Amounts owing by Group companies	F.1	247 154	265 154
Other receivables	K.2	351	93
Deferred tax	J	–	201
Taxation receivable	L.2	286	1 920
Current assets		279 717	298 177
Total assets		3 648 252	3 667 000
EQUITY AND LIABILITIES			
Capital and reserves			
Issued share capital	G.2	17 574	17 574
Share premium	H	894 653	894 653
Non-distributable reserves	I	79 589	79 562
(Accumulated loss)/Retained income		(186 883)	52 392
Total equity		804 933	1 044 181
Amounts owing to Group companies	F.2	2 154 068	2 155 994
Deferred tax	J	100	–
Non-current liabilities		2 154 168	2 155 994
Bank overdraft	E.2	–	250 000
Other payables	K.1	1 100	2 667
Amounts owing to Group companies	F.2	688 051	214 158
Current liabilities		689 151	466 825
Total equity and liabilities		3 648 252	3 667 000

Company statements of cash flows

	Notes	2019 R'000	2018 R'000
Cash flows from operating activities			
Operating loss before working capital changes	L.1	(369)	(743)
Cash utilised in operations			
Finance income, excluding accrual		26 092	24 072
Finance costs, excluding accrual		(25 660)	(22 828)
Dividend income	A	38 089	15 759
Dividends paid, excluding accrual		(278 685)	(242 726)
Taxation received/(paid)	L.2	1 360	(258)
Net cash outflow from operating activities			
		(239 173)	(226 724)
Cash flows from investing activities			
Decrease in investments	L.3	323	–
Net cash inflow from investing activities			
		323	–
Cash flows from financing activities			
Net increase/(decrease) in amounts owing to Group companies		489 967	(18 588)
Net cash inflow/(outflow) from financing activities			
		489 967	(18 588)
Net increase/(decrease) in cash and cash equivalents		251 117	(245 312)
Net cash and cash equivalents at beginning of year		(219 191)	26 121
Net cash and cash equivalents at end of year			
		31 926	(219 191)

Notes to the Company annual financial statements

	2019 R'000	2018 R'000
A. REVENUE		
Finance income	26 350	24 165
Dividend income	38 089	15 759
	64 439	39 924
B. FINANCE INCOME AND FINANCE COSTS		
B.1. FINANCE INCOME		
Bank	8 989	17 884
Inter-Group interest	17 361	6 281
	26 350	24 165
B.2. FINANCE COSTS		
Borrowings	23 955	14 837
Inter-Group interest	–	9 696
	23 955	24 533
C. TAXATION		
South African taxation		
Current income tax		
– current year	274	–
– prior year over provision	–	(10)
Deferred tax		
– current year	293	(311)
	567	(321)
Reconciliation of the taxation rate:	%	%
Effective rate	1.4	(2.2)
Adjusted for:		
Exempt income (dividend income)	26.6	30.1
Prior year over provision	–	0.1
South African normal tax rate	28.0	28.0

Notes to the Company annual financial statements continued

	2019 Effective holding %	2018	2019 R'000	2018 R'000
D. INVESTMENTS				
Adcock Ingram Limited	100	100	2 130 587	2 130 587
Adcock Ingram Healthcare Proprietary Limited	100	100	815 390	815 390
Adcock Ingram Intellectual Property Proprietary Limited	100	100	104 000	104 000
Adcock Ingram Critical Care Proprietary Limited	100	100	284 979	284 979
Adcock Ingram International Proprietary Limited	100	100	*	*
Tender Loving Care Hygienic, Cosmetic and Baby Products Proprietary Limited	100	100	*	*
Thembalami Pharmaceuticals Proprietary Limited	50	50	*	*
Adcock Ingram Limited India	49.9	49.9	31 930	31 930
Group Risk Holdings Proprietary Limited ⁽¹⁾	4.4	5.3	1 649	1 937
			3 368 535	3 368 823
* Less than R1 000.				
(1) Group Risk Holdings Proprietary Limited				
Balance at 1 July			1 937	1 906
Disposal of 0.9% interest			(323)	–
Revaluation of investment to fair value			35	31
Balance at 30 June			1 649	1 937

	2019 R'000	2018 R'000
E. NET CASH AND CASH EQUIVALENTS		
E.1. CASH AND CASH EQUIVALENTS		
Cash at banks	31 926	30 809
E.2. BANK OVERDRAFT	–	(250 000)
	31 926	(219 191)
Favourable balances attract interest at 6.00%. Overdraft balances incur interest at 8.35%.		
F. AMOUNTS OWING BY/TO GROUP COMPANIES		
F.1. AMOUNTS OWING BY GROUP COMPANIES		
Included in current assets		
Adcock Ingram International Proprietary Limited	167 154	167 154
Adcock Ingram Critical Care Proprietary Limited	80 000	98 000
	247 154	265 154
The loans are unsecured, interest free, and have no fixed terms of repayment.		
F.2. AMOUNTS OWING TO GROUP COMPANIES		
Included in non-current liabilities		
Adcock Ingram Limited	2 154 068	2 155 994
Included in current liabilities		
Adcock Ingram Healthcare Proprietary Limited	688 051	214 158
	2 842 119	2 370 152
The loans are unsecured, interest free, and have no fixed term of repayment. It is not expected that the subsidiaries would call for payment within the next 12 months.		
G. SHARE CAPITAL		
G.1. AUTHORISED		
Ordinary share capital		
250 000 000 ordinary shares of 10 cents each	25 000	25 000
G.2. ISSUED		
Ordinary share capital		
175 748 048 ordinary shares of 10 cents each	17 574	17 574
G.3. UNISSUED SHARES		
In terms of the Companies Act, the unissued shares are under the control of the directors. Accordingly, the directors are authorised to allot and issue them on such terms and conditions and at such times as they deem fit, but subject to the provisions of the Companies Act.		
H. SHARE PREMIUM		
Balance	894 653	894 653

Notes to the Company annual financial statements continued

	Share-based payment reserve R'000	Other reserves R'000	Total R'000
I. NON-DISTRIBUTABLE RESERVES			
Balance at 1 July 2017	20 821	58 717	79 538
Fair value of investment		31	31
Tax effect of revaluation		(7)	(7)
Balance at 30 June 2018	20 821	58 741	79 562
Fair value of investment		35	35
Tax effect of revaluation		(8)	(8)
Balance at 30 June 2019	20 821	58 768	79 589
Other reserves represents a fair value adjustment of the Company's investment in Group Risk Holdings Proprietary Limited and a reserve created on the repurchase and cancellation of the A and B shares in 2016.			
		2019	2018
		R'000	R'000
J. DEFERRED TAX			
Balance at beginning of year		201	(103)
Movement through profit or loss		(293)	311
Fair value of investment through other comprehensive income		(8)	(7)
Balance at end of year		(100)	201
This balance comprises the temporary difference relating to the fair value adjustment of the investment in Group Risk Holdings Proprietary Limited, a financial asset designated at fair value through other comprehensive income (OCI).			
K. OTHER PAYABLES AND RECEIVABLES			
K.1. OTHER PAYABLES			
Interest accrued		–	1 705
Shareholders for dividends		1 100	962
		1 100	2 667
K.2. OTHER RECEIVABLES			
Interest accrued		351	93

	2019 R'000	2018 R'000
L. NOTES TO THE STATEMENTS OF CASH FLOWS		
L.1. OPERATING LOSS BEFORE WORKING CAPITAL CHANGES		
Profit before taxation	40 115	14 648
Adjusted for:		
– dividend income	(38 089)	(15 759)
– finance income	(26 350)	(24 165)
– finance costs	23 955	24 533
	(369)	(743)
L.2. TAXATION RECEIVED/(PAID)		
Amounts overpaid at beginning of year	1 920	1 652
Amounts (charged)/released (to)/from profit or loss	(274)	10
Amount overpaid at end of year	(286)	(1 920)
	1 360	(258)
L.3. DECREASE IN INVESTMENTS		
Proceeds on sale of 0.9% interest in Group Risk Holdings Proprietary Limited	323	–
M. DISTRIBUTIONS		
M.1. DECLARED AND PAID DURING THE YEAR		
Final dividend for 2018: 86 cents per share (2017: 76 cents per share)	128 918	113 928
Interim dividend for 2019: 100 cents per share (2018: 86 cents per share)	149 905	128 918
Total declared and paid	278 823	242 846
M.2. DECLARED SUBSEQUENT TO THE REPORTING DATE		
Final dividend for 2019: 100 cents per share (2018: 86 cents per share)	175 756	128 918
N. RELATED PARTIES		
Related party transactions exist between the Company and other subsidiaries within the Adcock Ingram Group. All transactions with related parties are concluded at arm's length.		
The following related party transactions occurred:		
Interest received		
Adcock Ingram Healthcare Proprietary Limited	17 361	6 281
Dividends received		
Adcock Ingram Limited India	38 089	15 759
Dividends paid		
Adcock Ingram Limited	7 970	6 942

The related balances (where applicable) are shown in note F.
Refer to Annexure H for nature of the relationships of related parties.

Notes to the Company annual financial statements continued

O. FINANCIAL INSTRUMENTS

Fair value hierarchy

The classification of financial instruments and the fair value hierarchy are as follows:

Financial instruments	Classification per IFRS 9	Classification per IAS 39	2019 R'000	2018 R'000
Investment in Group Risk Holdings Proprietary Limited ⁽¹⁾	Fair value through OCI	Available-for-sale	1 649	1 937
Amounts owing by Group companies ⁽²⁾	At amortised cost	Loans and receivables	247 154	265 154
Amounts owing to Group companies ⁽²⁾	At amortised cost	Loans and borrowings	2 842 119	2370 152
Bank ⁽²⁾	At amortised cost	Loans and receivables	31 926	30 809
Bank overdraft ⁽²⁾	At amortised cost	Loans and borrowings	–	250 000

⁽¹⁾ Level 3 The value of the investment is based on Adcock Ingram's proportionate share of the net asset value of this company.

⁽²⁾ The carrying value approximates the fair value.

Financial risk management objectives and policies

The Company's principal financial liabilities comprise borrowings. The main purpose of these financial liabilities is to raise finance for the Group's operations.

The Company's financial assets comprise investments and receivables.

The main risks arising from the Company's financial instruments are interest rate, credit and liquidity. The Board of directors reviews and agrees policies for managing each of these risks, which are summarised in Annexure E.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax (through the impact on balances subject to floating rates):

	Change in rate %	Increase/(Decrease) in profit before tax	
		2019 R'000	2018 R'000
Cash and cash equivalents			
Cash at banks	+1	319	308
Bank overdraft	+1	–	(2 500)

Annexure A

Segment report

Geographical segments are reported as the Group operates in Southern Africa, Rest of Africa and India.

The Group's reportable segments in Southern Africa are as follows:

- ▶ Consumer – competes in the Fast Moving Consumer Goods (FMCG) space;
- ▶ Over the Counter (OTC) – focuses primarily on brands sold predominantly in the pharmacy market, where the pharmacist plays a role in the product choice;
- ▶ Prescription – markets products prescribed by medical practitioners and includes specialised instrument and surgical products;
- ▶ Hospital – supplier of hospital and critical care products, including intravenous solutions, blood collection products and renal dialysis systems; and
- ▶ Other – shared services – other support services, including cash and bank overdraft balances which are managed on a central basis in Southern Africa.

The financial information of the Group's reportable segments is reported to key management for purposes of making decisions about allocating resources to the segment and assessing its performance. Segment figures for management purposes equal the disclosures made in the segment report and agree with the IFRS amounts in the annual financial statements.

No operating segments have been aggregated to form the above reportable operating segments.

STATEMENT OF COMPREHENSIVE INCOME

	2019 R'000	2018 R'000
Revenue from contracts with customers		
<i>Continuing operations</i>		
Southern Africa	7 030 034	6 338 389
OTC	1 982 886	1 989 225
Prescription	2 739 649	2 237 620
Consumer	786 896	686 699
Hospital	1 454 604	1 347 698
Other – shared services	65 999	77 147
Rest of Africa	68 524	65 075
Research and development services in India	21 114	19 494
	7 119 672	6 422 958
<i>Less: Intercompany sales</i>	(41 234)	(40 252)
	7 078 438	6 382 706
<i>Discontinued operation</i>		
Rest of Africa	86 261	157 549
	7 164 699	6 540 255
The South African Government represents more than 10% of the Group's turnover, arising in the following segments:		
OTC	117 176	114 552
Prescription	319 832	272 234
Consumer	4	74
Hospital	426 334	413 953
	863 346	800 813

Annexure A

Segment report continued

STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

Trading and operating profit

	2019 R'000	2018 R'000
<i>Continuing operations</i>		
Southern Africa	944 752	845 540
OTC	388 361	399 640
Prescription	309 989	239 435
Consumer	134 177	112 181
Hospital	112 225	95 312
Other – shared services	–	(1 028)
Rest of Africa	8 609	1 897
Research and development services in India	2 060	2 507
Trading profit	955 421	849 944
Less: Non-trading expenses	(71 884)	(46 895)
Operating profit	883 537	803 049
<i>Discontinued operation – Rest of Africa</i>		
Trading profit	4 919	16 433
Less: Non-trading expenses	(1 821)	–
Operating profit	3 098	16 433

STATEMENT OF FINANCIAL POSITION

	2019 R'000	2018 R'000
Total assets		
Southern Africa	5 922 443	5 844 806
OTC	1 771 142	1 761 603
Prescription	2 020 144	1 987 006
Consumer	342 209	315 425
Hospital	1 189 750	1 236 482
Other – shared services	599 198	544 290
Rest of Africa	40 502	163 141
India	287 848	262 778
	6 250 793	6 270 725
Current liabilities		
Southern Africa	1 791 161	2 110 992
OTC	499 927	662 233
Prescription	564 611	565 876
Consumer	140 835	100 057
Hospital	388 949	378 041
Other – shared services	196 839	404 785
Rest of Africa	41 384	106 474
India	2 084	3 086
	1 834 629	2 220 552
Capital expenditure⁽¹⁾		
<i>Continuing operations</i>		
Southern Africa	207 856	210 933
OTC	102 025	98 446
Prescription	62 994	65 168
Consumer	80	–
Hospital	1 930	4 534
Other – shared services	40 827	42 785
Rest of Africa	67	321
India	297	30
	208 220	211 284
<i>Discontinued operation</i>		
Rest of Africa	7 264	7 964

⁽¹⁾ Capital expenditure consists of additions to property, plant and equipment, but excludes additions to intangible assets.

Annexure A

Segment report continued

STATEMENT OF FINANCIAL POSITION (CONTINUED)

OTHER

	2019 R'000	2018 R'000
Fair value adjustment of Long-term receivable	1 763	–
Hospital	451	–
Other – shared services	1 312	–
Impairments⁽¹⁾		
Southern Africa	5 595	5 235
Consumer	–	2 700
Hospital	–	403
Other – shared services	5 595	2 132
Rest of Africa	2 973	–
	8 568	5 235
Depreciation and amortisation		
Southern Africa	161 374	159 230
OTC	45 714	42 264
Prescription	29 776	20 773
Consumer	8 383	8 417
Hospital	24 118	28 168
Other – shared services	53 383	59 608
Rest of Africa	520	459
Research and development services in India	534	487
	162 428	160 176
<i>Discontinued operations</i>		
Rest of Africa	1 834	8 857

⁽¹⁾ Refer to Annexure G.

Annexure B

Share-based payment plans

A GENERAL EMPLOYEE SHARE OPTION PLAN

Certain senior employees are entitled to join the general employee share option plan, based on merit and options are generally issued annually by the Adcock Ingram Board of directors. The offer price is determined in accordance with the rules of the scheme, and options vest as follows:

- ▶ A third after three years;
- ▶ A third after four years; and
- ▶ A third after five years.

The equity-settled scheme which was initiated in June 2014 has been replaced with the cash-settled scheme from August 2018.

The following tables illustrate the number and weighted average offer prices (WAOP) of and movements in Adcock Ingram share options during the year:

EQUITY-SETTLED	2019		2018	
	Number	WAOP (Rand)	Number	WAOP (Rand)
Outstanding at the beginning of the year	5 685 001	48.62	4 860 000	44.97
Granted	–	–	1 945 000	57.73
Exercised	(805 328)	46.66	(346 999)	52.20
Forfeited	(633 668)	48.34	(773 000)	47.54
Outstanding at the end of the year	4 246 005	48.92	5 685 001	48.62
Vested and exercisable at the end of the year	432 666	51.36	49 000	52.20
			2019	2018
Weighted average share price of exercised options:			R70.84	R70.33
Weighted average remaining contractual life for the share options outstanding at reporting date:			6.79 years	7.80 years
Range of offer prices for options outstanding at the end of the year:			R41.94 – R52.20	R41.94 – R57.73
Average fair value of options granted during the year:			–	R24.23
Expense recognised for employee services received during the year (million):			R21.03	R22.43

Share options are fair valued using a Black-Scholes model. The expected dividend yield was estimated using a two-year moving average of the dividend yield at the grant date. An annualised standard deviation of the continuously compounded rates of return of the share was used to determine volatility. The risk-free rate was based on a zero-coupon government bond in South Africa with the same expected lifetime of the options.

Shares are bought in anticipation of employees taking possession of the vested shares, after settling the offer price or selling all their vested shares. When employees exercise their rights to the options, the employee may choose to have their shares sold on their behalf.

Annexure B

Share-based payment plans continued

A GENERAL EMPLOYEE SHARE OPTION PLAN (CONTINUED)

CASH-SETTLED	2019		2018	
	Number	WAOP (Rand)	Number	WAOP (Rand)
Outstanding at the beginning of the year	57 153	56.63	1 016 193	57.85
Granted	2 135 000	65.30	–	–
Forfeited	(200 000)	65.46	(757 269)	59.13
Exercised	(57 153)	56.63	(201 771)	55.89
Outstanding at the end of the year	1 935 000	65.29	57 153	56.63
Vested and exercisable at the end of the year	–	–	57 153	56.63
			2019	2018
Weighted average share price of exercised options:			R68.59	R68.24
Weighted average remaining contractual life for the share options outstanding at reporting date:			5.25 years	0.65 years
Range of offer prices for options outstanding at the end of the year:			R62.00 – R65.46	R53.52 – R60.55
Carrying amount of the liability relating to the cash-settled options at reporting date (million):			R18.70	R0.41
Expense recognised for employee services received during the year (million):			R16.97	R4.66

Share price volatility is based on the historical volatility of the Adcock Ingram share price matching the remaining life of each option. The valuation is measured at fair value (excluding any non-market vesting conditions) and is the sum of the intrinsic value plus optionality. The fair value of each option is estimated using an actuarial binomial option pricing model. All options are valued with a single exercise date at maturity.

B BLACK MANAGERS SHARE TRUST

In terms of the Tiger Brands Limited BEE transaction implemented on 17 October 2005, 4 381 831 Tiger Brands shares were acquired by the Tiger Brands Black Managers Share Trust. Allocation of vested rights to these shares was made to black managers. The allocation of vested rights entitles beneficiaries to receive Tiger Brands, Adcock Ingram and Oceana shares (after making capital contributions to the Black Managers Share Trust) at any time after the defined lock-in period, i.e. from 1 January 2015. These vested rights are non-transferable.

Number of shares	2019			2018	
	Adcock Ingram	Tiger Brands	Oceana	Adcock Ingram	Tiger Brands
Outstanding at the beginning of the year	382 754	342 452	–	460 575	395 385
Granted	–	–	82 227	–	–
Exercised	(11 729)	(26 295)	–	(77 821)	(52 933)
Outstanding at the end of the year ⁽¹⁾	371 025	316 157	82 227	382 754	342 452
Weighted average exercise price	R62.06	R276.19	–	R61.97	R392.38

⁽¹⁾ All options have vested and are exercisable at the end of each year.

	2019	2018
Weighted average remaining contractual life for the share options outstanding at reporting date:	8.25 years	9.25 years
Expense recognised for employee services received during the year (million):	R3.74	R7.26

Participation rights were valued using the Monte-Carlo simulation approach to estimate the average, optimal pay-off of the participation rights using 5 000 permutations. The pay-off of each random path was based on:

- ▶ the projected Tiger Brands/Adcock Ingram/Oceana Limited share price;
- ▶ outstanding debt projections; and
- ▶ optimal early exercise conditions.

C BLACK ECONOMIC EMPOWERMENT (BEE) TRANSACTION

A scheme with the intention to form meaningful participation for BEE participants and to provide Adcock Ingram with increased BEE ownership credentials, as part of its continued efforts to embrace broad-based equity participation, was implemented on 15 July 2015 when Adcock Ingram shareholders sold 25 842 960 or approximately 15% of their shares (scheme shares) in proportion to their shareholding, to Ad-izinyosi (RF) Proprietary Limited (Ad-i) in exchange for 25 842 960 securities in AdBEE (RF) Limited (AdBEE). Thus, for every one share contributed to the scheme, a shareholder received one security in AdBEE, entitling the holder to a pro rata portion of the Ad-i indebtedness (the obligation to pay the value of an Adcock Ingram share on the JSE calculated on a rolling 30-day traded VWAP immediately preceding the end of the transaction).

The Mpho ea Bophelo Trust (Bophelo Trust) and Blue Falcon Trading 69 Proprietary Limited (previous BEE participants) invested R5.4 million and R14.7 million respectively in the scheme.

BEE PARTICIPANTS

The shareholders of Ad-i, the entity which participates on behalf of strategic partners and holds the shares on behalf of the BEE beneficiaries, are as follows:

- ▶ CIH Projects Proprietary Limited (26.67%)
- ▶ Dzembe Investments Proprietary Limited (26.67%)
- ▶ BDH Group Proprietary Limited (26.67%)
- ▶ Bophelo Trust (20.00%)

Annexure B

Share-based payment plans continued

C BLACK ECONOMIC EMPOWERMENT (BEE) TRANSACTION (CONTINUED)

The following table illustrates the movement in units/shares issued to employees:

Equity-settled	2019 Number	2018 Number
Outstanding at the beginning of the year	4 212 870	4 094 880
Granted	216 600	233 700
Forfeited	(85 500)	(115 710)
Outstanding at the end of the year	4 343 970	4 212 870
Vested but not exercisable at the end of the year	3 152 100	2 081 070
Available for future distribution to qualifying employees	824 662	955 722

KEY TERMS AND CONTRACTUAL OBLIGATIONS

The key terms and contractual obligations of the scheme shares and securities are as follows:

- ▶ the scheme shares will not be entitled to participate in any normal dividend distributions during the transaction period, but are only entitled to special dividends;
- ▶ AdBEE securities are listed on the main board of the JSE in the "Specialist Securities – Other Securities" sector as an Asset Based Security under the share code "ADE";
- ▶ whatever Ad-i may be entitled to receive from Adcock Ingram (other than dividend distributions), as the holder of the scheme shares, is deemed to be renounced to AdBEE and onward renounced by AdBEE to the securities holders;
- ▶ Ad-i issued one A redeemable preference share and one B redeemable preference share with no par value respectively to Adcock Ingram Holdings Limited and AdBEE;
- ▶ preference shares are not entitled to vote unless a resolution is proposed for a distribution of any nature to Ad-i shareholders;
- ▶ if the Adcock Ingram share price is below R36.00 per share during the empowerment period of 4 years, the directors of AdBEE can convene a meeting of the AdBEE securities holders to decide whether they should waive the AdBEE resolute condition or not;
- ▶ if the Adcock Ingram share price is below R72.00 per share at the 4th anniversary, the Ad-i indebtedness to the holders of the securities will be calculated using the 30-day VWAP of the Adcock Ingram share price before this date, but not less than a minimum price of R52.00 per share and not more than R72.00 per share;
- ▶ if the Adcock Ingram share price is above R72.00 per share at the 4th anniversary, the Ad-i indebtedness shall be settled and the remaining Adcock Ingram shares in Ad-i released from the pledge;
- ▶ if the Adcock Ingram share price is below R52.00 per share at the 4th anniversary, the scheme will be cancelled and the shares in Ad-i released from the pledge; and
- ▶ AdBEE will assume the obligation of Ad-i to the securities holders to settle the scheme consideration.

SHARE CALL OPTIONS

- ▶ 8 000 000 share call options in Adcock Ingram Holdings Limited were allocated to shareholders in proportion to the scheme shares tendered, entitling the holders thereof to subscribe for Adcock Ingram shares;
- ▶ call options may be exercised at the strike price of R72.00 per Adcock Ingram share, at any time within the 30-day period prior to the transaction end date; and
- ▶ on inception of the scheme, R20.8 million was incurred as a one-off cost for the call options. The call options were fair valued using a Black-Scholes-Merton model taking into account the expected volatility, expected dividend yield, spot and strike price of the option, the exercise date and the risk-free interest rate of the call option.

SUBSEQUENT EVENTS

- ▶ refer to note 29 for events subsequent to the reporting date.

Annexure C

Defined contribution and defined benefit plan

DEFINED CONTRIBUTION PLAN

The Company and its subsidiaries contribute to a defined contribution plan for all employees in South Africa.

These contributions are expensed.

Contributions to the defined contribution plan expected in the following year are R121.0 million (2018: R119.5 million).

DEFINED BENEFIT PLAN

In addition, the Company and its subsidiaries contributed to a retirement benefit fund in respect of certain retirees. The assets of the funds are held in independent trustee administered funds, administered in terms of the Pension Funds Act No 24 of 1956, as amended. Funds must, in terms of the Pension Fund Act, be valued at least every three years. The latest full actuarial valuation was performed on 30 September 2016.

For purposes of production of these disclosures, and in order to comply with the requirements of IAS 19, valuations have been performed by independent actuaries, using the Projected Credit Unit method. Where valuations were not possible due to the limited availability of complete data, roll forward projections of prior completed actuarial valuations were used, taking account of actual subsequent experience. The timing of benefit payments are uncertain.

The disclosure of the funded status is for accounting purposes only, and does not necessarily indicate any assets available to the Group.

	2019 R'000	2018 R'000
Net benefit expense		
Interest cost on defined benefit obligation	137	131
Interest income on assets	(172)	(160)
Effect of paragraph 64	35	29
Net benefit expense	-	-
Benefit liability		
Defined benefit obligation	(1 320)	(1 550)
Fair value of plan assets	2 692	1 936
	1 372	386
Unrecognised due to Paragraph 64 limit	(1 372)	(386)
	-	-
Changes in the present value of the defined benefit obligation are as follows:		
Defined benefit obligation at 1 July	(1 550)	(1 495)
Interest cost	(137)	(131)
Benefits paid	51	42
Actuarial gain on obligation	316	34
Defined benefit obligation at 30 June	(1 320)	(1 550)
Changes in the fair value of the defined benefit plan assets are as follows:		
Fair value of plan assets at 1 July	1 936	1 820
Return	172	160
Benefits paid	(51)	(42)
Actuarial gain/(loss)	635	(2)
Fair value of plan assets at 30 June	2 692	1 936
Asset coverage over liabilities (times)	2,0	1,2

Annexure C

Defined contribution and defined benefit plan continued

DEFINED BENEFIT PLAN (CONTINUED)

Assumptions	2019 %	2018 %
The assumptions used in the valuations are as follows:		
Discount rate	9,3	9,0
Future pension increases	5,6	5,9
Estimated asset composition		
Cash	72,1	66,4
Bonds	27,9	33,6

Sensitivity analysis	Valuation R'000	+1% R'000	-1% R'000
The liability was recalculated to show the effect of:			
2019			
A one percentage point variance in the discount rate assumption	(1 320)	(1 268)	(1 378)
A one percentage point variance in the pension increase rate	(1 320)	(1 383)	(1 264)
2018			
A one percentage point variance in the discount rate assumption	(1 550)	(1 493)	(1 610)
A one percentage point variance in the pension increase rate	(1 550)	(1 612)	(1 491)

Annexure D

Post retirement medical liability

The Company and its subsidiaries operate a post-employment medical benefit scheme that covers certain retirees and one employee still in service. The liability is valued annually using the Projected Unit Credit method prescribed by IAS 19. The latest full actuarial valuation was performed on 30 June 2019.

The following table summarises the components of net benefit expense recognised in the statement of comprehensive income, the funded status and amounts recognised in the statement of financial position.

	2019 R'000	2018 R'000
Net benefit expense		
Current service cost	36	39
Interest cost on benefit obligation	1 480	1 510
	1 516	1 549
Expected contributions within the next 12 months	38	41
Defined benefit obligation at 1 July	(16 340)	(16 793)
Interest cost	(1 480)	(1 510)
Current service cost	(36)	(39)
Benefits paid	1 277	1 368
Actuarial gains on obligation	942	634
Defined benefit obligation at 30 June	(15 637)	(16 340)
Assumptions	%	%
The assumptions used in the valuations are as follows:		
Discount rate	9,7	9,4
CPI increase	5,8	6,2
Healthcare cost inflation	7,8	8,2
Expected retirement age	63	63
Post-retirement mortality table	PA(90) ultimate table	PA(90) ultimate table

Sensitivity analysis	Value R'000	+1%/year R'000	-1%/year R'000
The liability was recalculated to show the effect of:			
2019			
A one percentage point variance in the assumed rate of healthcare costs inflation	(15 637)	(17 279)	(14 247)
A one percentage point variance in the discount rate	(15 637)	(14 285)	(17 259)
A one year variance in the expected retirement age	(15 637)	(15 560)	(15 719)
2018			
A one percentage point variance in the assumed rate of healthcare costs inflation	(16 340)	(18 025)	(14 897)
A one percentage point variance in the discount rate	(16 340)	(14 951)	(17 987)
A one year variance in the expected retirement age	(16 340)	(16 250)	(16 435)

Annexure E

Financial instruments

FAIR VALUE HIERARCHY

The Group classifies all financial instruments and its fair value hierarchy as follows:

Financial instruments	Classification per IFRS 9	Classification per IAS 39	Statement of financial position line item	Year end balance		Net gains
				2019 R'000	2018 R'000	2019 R'000
Investment ⁽¹⁾	Fair value through OCI	Available-for-sale	Other financial assets	1 649	1 937	Refer to note 13.2
Black Managers Share Trust ⁽¹⁾	Fair value through profit and loss	Loans and receivables	Other financial assets	27 978	32 073	Refer to note 13.1
Trade and sundry receivables ⁽³⁾	At amortised cost	Loans and receivables	Trade and other receivables	1 679 475	1 535 369	–
Foreign exchange contracts – derivative asset ⁽²⁾	Fair value through OCI	Cash flow hedge	Trade and other receivables	–	21 838	–
Cash and cash equivalents ⁽³⁾	At amortised cost	Loans and receivables	Cash and cash equivalents	448 252	404 629	–
Trade and other payables ⁽³⁾	At amortised cost	Loans and borrowings	Trade and other payables	1 605 575	1 830 652	–
Foreign exchange contracts – derivative liability ⁽²⁾	Fair value through OCI	Cash flow hedge	Trade and other payables	16 799	–	(5 026)
Bank overdraft ⁽³⁾	At amortised cost	Loans and borrowings	Bank overdraft	–	248 877	–

Valuation techniques

⁽¹⁾ Level 3. The value of the investment in Group Risk Holdings Proprietary Limited is based on Adcock Ingram's proportionate share of the net asset value of the Company. The value of the investment in the Black Managers Share Trust is based on the expected capital contribution to be received from the scheme beneficiaries.

⁽²⁾ Level 2. Fair value based on the ruling market rate at year-end. The fair value of the forward exchange contract is calculated as the difference in the forward exchange rate as per the contract and the forward exchange rate of a similar contract with similar terms and maturities concluded as at the valuation date multiplied by the foreign currency monetary units as per the FEC contract.

⁽³⁾ The carrying value approximates fair value.

Financial Risk Management Objectives and Policies

The Group's principal financial liabilities comprise borrowings and trade payables. The main purpose of these financial liabilities is to raise finance for the Group's operations.

The Group has various financial assets such as trade and other receivables and cash which arise directly from its operations.

The Group also enters into derivative transactions via forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations.

It is, and has been throughout 2019, the Group's policy that no trading in derivatives shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate, credit, liquidity and foreign currency. The Board of directors reviews and agrees policies for managing each of these risks which are summarised as follows:

CREDIT RISK

Financial assets of the Group which are subject to credit risk consist mainly of cash resources, loans receivables and trade receivables. The maximum exposure to credit risk is set out in the respective cash, loans receivable and trade receivable notes. The Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Cash resources are placed with various approved financial institutions subject to approved limits. All these institutions are credit worthy.

The Group trades only with recognised, credit worthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Individual credit limits are defined in accordance with an independent assessment. In addition, 69% (2018:71%) of all debtors balances are covered by credit insurance, decreasing the risk of loss due to non-payment. Receivable balances are monitored on an on-going basis with the result that the Group's historical exposure to bad debts is not significant. For transactions that do not occur in the country of the relevant operating unit, the Group does not offer credit terms without the approval of the Corporate office.

Substantially all debtors are non-interest bearing and repayable within 30 to 90 days.

Debtors are disclosed net of a provision for an expected credit loss and a provision for credit notes.

A fair value analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 16.

Apart from the South African Government, which comprises 13.7% (2018: 14.1%) or R220.0 million (2018: R207.4 million) of trade receivables, there are no significant concentrations of credit risk within the Group arising from the financial assets of the Group.

The introduction of IFRS 9 and application of the Expected Credit Loss ('ECL') model in the current year resulted in an adjustment to the opening balance of retained earnings of R4.4 million after tax and an adjustment to trade receivables' doubtful debt provision of R6.1 million (refer Note 16).

MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risk: interest rate risk and currency risk. Financial instruments affected by market risk include loans and borrowings, deposits, debt and equity investments and derivative financial instruments.

Interest rate risk

the Group is exposed to interest rate risk as the following assets and liabilities carry interest at rates that vary in response to the lending rates in the operations in the specific country.

- ▶ Cash balances which are subject to movements in the bank deposit rates; and
- ▶ Short-term debt obligations with floating interest rates linked to the Johannesburg Interbank Agreed Rate and the South African prime rate.

The Group's policy is to manage its interest rate risk through both fixed and variable, long-term and short-term instruments at various approved financial institutions.

No financial instruments are entered into to mitigate the risk of interest rates.

Annexure E

Financial instruments continued

Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on balances subject to floating rates) in its continuing and discontinued operations:

	Change in rate	Increase/(Decrease) in profit before tax	
		2019 R'000	2018 R'000
	%		
Cash balances			
Cash and cash equivalents	+1	4 483	4 046
Bank overdraft	+1	-	(2 489)

Foreign currency risk

As the Group operates in various countries and undertakes transactions denominated in foreign currencies, exposures to foreign currency fluctuations arise. Exchange rate exposures on transactions are managed within approved policy parameters utilising forward exchange contracts in conjunction with external consultants who provide financial services to Group companies as well as contributing to the management of the financial risks relating to the Group's operations.

Foreign operations

In translating the foreign operations, the following exchange rates were used:

	2019 Income/Expenses Average Rand	2019 Assets/Liabilities Spot Rand	2018 Income/Expenses Average Rand	2018 Assets/Liabilities Spot Rand
Ghanaian Cedi	2.8073	2.5927	2.8410	2.8662
Indian Rupee	0.2014	0.2043	0.1977	0.2005
Kenyan Shilling	0.1399	0.1376	0.1250	0.1360
United States Dollar	14.2019	14.0808	12.8635	13.7275

Foreign assets/liabilities

In converting foreign denominated assets and liabilities, the following exchange rates were used:

	Assets Rand	Liabilities Rand
2019		
Euro	16.00	16.02
US Dollar	14.07	14.09
2018		
Euro	15.99	16.00
US Dollar	13.72	13.73

Foreign currency risk (continued)

the following table demonstrates the sensitivity to change in foreign currencies, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to changes in the fair value of open forward exchange contracts and net investment hedges):

	Change foreign currency exchange rate %	(Decrease)/Increase in profit before tax R'000	Increase/(Decrease) in other comprehensive income R'000
2019			
Euro	+10	(6 220)	21 496
	-10	6 220	(21 496)
US dollar	+10	(9 371)	22 333
	-10	9 371	(22 333)
2018			
Euro	+10	(8 108)	19 965
	-10	8 108	(19 965)
US dollar	+10	(9 476)	19 308
	-10	9 476	(19 308)

LIQUIDITY RISK

The Group manages its risk to a shortage of funds using planning mechanisms. This considers the maturity of both its financial liabilities and financial assets and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. The facilities in place in South Africa are R850 million for working capital purposes.

COLLATERAL PLEDGED

The Group has provided guarantees to various regulatory authorities to the amount of R3.1 million at 30 June 2019 (2018: R3.3 million).

HEDGING STRATEGY

The Group's current policy for the management of foreign exchange is to cover 100% of foreign currency commitments with forward exchange contracts when a firm commitment for any order is in place. As a result, all material foreign liabilities were covered by forward exchange contracts at year-end. The forward currency contracts must be in the same currency as the hedged item. It is the Group's policy to fix the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness. The fair value is determined using the applicable foreign exchange spot rates at reporting dates.

At 30 June 2019, the Group held no foreign exchange contracts designated as hedges of expected future sales to customers outside South Africa for which the Group has firm commitments.

The Group had foreign exchange contracts outstanding at 30 June 2019 designated as hedges of expected future purchases from suppliers outside South Africa for which the Group has firm commitments. All foreign exchange contracts will mature within 12 months. The cash flow hedges of expected future purchases were assessed to be effective.

The effective portion of the gains and losses on the hedging instruments that is included in the initial cost of inventory and subsequently part of cost of sales is R5.0 million (2018: R27.7 million). The ineffective portion that was taken to fixed operating cost was a profit of R2.5 million (2018: loss of R5.6 million).

Annexure E

Financial instruments continued

HEDGING STRATEGY (CONTINUED)

A summary of the material contracts, comprising at least 98% of the total contracts outstanding at:

	Foreign currency '000	Average forward rate	R'000
2019			
Euro	18 376	16.68	306 596
US Dollar	21 919	14.53	318 483
2018			
Euro	17 131	15.67	268 483
US Dollar	19 444	13.15	255 637

The maturity analysis for the material outstanding contracts at:

	Euro '000	Rands '000	US Dollar '000	Rands '000
2019				
Within 30 days	3 397	56 203	8 465	122 260
31 to 60 days	6 061	100 017	9 142	132 791
61 to 90 days	1 753	29 231	2 861	41 797
> 90 days	7 165	121 145	1 451	21 635
	18 376	306 596	21 919	318 483
2018				
Within 30 days	6 666	103 160	10 268	133 442
31 to 60 days	4 014	62 172	2 856	38 235
61 to 90 days	3 490	56 466	4 061	53 957
> 90 days	2 961	46 685	2 259	30 003
	17 131	268 483	19 444	255 637

A summary of the material contracts settled during the year:

	Foreign currency '000	Average forward rate	R'000
2019			
Euro	39 208	16.29	638 803
US Dollar	64 784	14.00	906 825
2018			
Euro	35 321	15.30	540 533
US Dollar	51 345	13.30	682 957

CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios, in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors its capital using gearing and interest cover ratios. The primary methods of measurement used are interest-bearing debt to total equity and interest cover.

Given the current borrowings situation, the gearing ratio is not applicable in both years.

Annexure F

Interest in joint ventures and associate

The Group has a 49.9% share in Adcock Ingram Limited (India) and a 50% share in National Renal Care Proprietary Limited. The 25.1% minority share in Ayrton Manufacturing Limited (Ghana), was disposed of on 2 May 2019. The Group's interest in these entities is accounted for in the consolidated financial statements using the equity method. Summarised financial information of these joint ventures and associate, based on IFRS and the reconciliation with the carrying amount of the investments in the Group are set out below:

	2019 R'000	2018 R'000
1. ADCOCK INGRAM LIMITED (INDIA)		
Statement of financial position		
Property, plant and equipment	195 218	153 577
Other financial assets	–	148 590
Non-current assets	195 218	302 167
Inventories	110 356	39 539
Trade and other receivables	208 634	511 651
Cash and cash equivalents	136 818	52 950
Current assets	455 808	604 140
Total assets	651 026	906 307
Post-retirement medical liability	5 925	4 718
Deferred tax	19 051	20 207
Non-current liabilities	24 976	24 925
Trade and other payables	55 761	42 328
Short-term borrowings	498	–
Provisions	1 526	1 420
Taxation payable	17 660	334 317
Current liabilities	75 445	378 065
Total liabilities	100 421	402 990
Equity	550 605	503 317
Proportion of Group's ownership	49,9%	49,9%
Carrying amount of the investment	274 752	251 155
Statement of comprehensive income		
Turnover	520 764	505 146
Cost of sales	(383 314)	(395 407)
Gross profit	137 450	109 739
Selling, distribution and marketing expenses	(76)	(101)
Fixed and administrative income	26 816	14 520
Operating profit	164 190	124 158
Finance income	327	69
Finance costs	(325)	(652)
Dividend income	8 270	4 917
Profit before taxation	172 462	128 492
Taxation	(58 585)	(83 739)
Profit for the year	113 877	44 753
Group's share of profit for the year	56 825	22 332
Unearned income on inventory	(1 233)	(3 502)
Group's share of profit for the year	55 592	18 830

	2019 R'000	2018 R'000
2. NATIONAL RENAL CARE PROPRIETARY LIMITED		
Statement of financial position		
Property, plant and equipment	199 964	167 897
Intangible assets	106 040	106 040
Loans receivable	35 336	34 988
Deferred tax	27 815	24 880
Non-current assets	369 155	333 805
Inventories	21 728	24 396
Trade and other receivables	113 194	103 532
Cash and cash equivalents	207 174	155 980
Current assets	342 096	283 908
Total assets	711 251	617 713
Long-term borrowings	–	3 510
Non-current liabilities	–	3 510
Trade and other payables	121 504	111 127
Short-term borrowings	–	255
Provisions	17 853	16 165
Taxation payable	14 941	8 166
Current liabilities	154 298	135 713
Total liabilities	154 298	139 223
Non-controlling interests	93 985	90 500
Equity	462 968	387 990
Proportion of Group's ownership	50,0%	50,0%
Carrying amount of the investment	231 484	193 995
Statement of comprehensive income		
Turnover	1 105 903	1 037 440
Cost of sales	(830 302)	(776 342)
Gross profit	275 601	261 098
Selling, distribution and marketing expenses	(152 220)	(124 403)
Fixed and administrative expenses	(9 031)	(2 984)
Trading profit	114 350	133 711
Non-trading (expenses)/income	(2 605)	25 480
Fair value gain on revaluation of investment in associate	–	37 760
Impairment of goodwill	–	(10 625)
Impairment of loans receivable	(2 605)	(1 655)
Operating profit	111 745	159 191
Finance income	15 026	9 040
Equity accounted earnings	–	830
Profit before taxation	126 771	169 061
Taxation	(47 274)	(39 471)
Profit for the year	79 497	129 590
Less:		
Non-controlling interests	(4 521)	(13 587)
Profit attributable to owners of the parent	74 976	116 003
Group's share of profit for the year	37 488	58 001

Annexure F

Interest in joint ventures and associate continued

2018

R'000

3. AYRTON DRUG MANUFACTURING LIMITED (GHANA)

Statement of financial position

Property, plant and equipment	21 253
Deferred tax	604
Non-current assets	21 857
Inventories	29 102
Trade and other receivables	46 842
Current assets	75 944
Total assets	97 801
Trade and other payables	17 070
Provisions	993
Bank overdraft	13 766
Taxation payable	2 325
Current liabilities	34 154
Total liabilities	34 154
Equity	63 647
Proportion of Group's ownership	25,1%
Group's share of net assets	15 975
Fair value adjustment	(7 961)
Carrying amount of the investment	8 014

	2019 10 months R'000	2018 12 months R'000
Statement of comprehensive income		
Turnover	62 508	102 895
Cost of sales	(40 356)	(44 268)
Gross profit	22 152	58 627
Selling, distribution and marketing expenses	(5 980)	(12 479)
Fixed and administrative expenses	(23 593)	(27 618)
Operating (loss)/profit	(7 421)	18 530
Finance income	426	–
Finance costs	(3 496)	(5 452)
(Loss)/profit before taxation	(10 491)	13 078
Taxation	1 063	(3 433)
(Loss)/profit for the year	(9 428)	9 645
Group's share of (loss)/profit for the year	(2 366)	2 421

Annexure H

Interest in subsidiary companies and joint ventures

Subsidiaries	Shareholding	
	2019 %	2018 %
Subsidiaries		
Adcock Ingram Critical Care Proprietary Limited	100	100
Adcock Ingram Healthcare Proprietary Limited	100	100
Adcock Ingram Intellectual Property Proprietary Limited	100	100
Adcock Ingram International Proprietary Limited	100	100
Adcock Ingram Limited	100	100
Tender Loving Care – Hygienic, Cosmetic and Baby Products Proprietary Limited*	100	100
Joint ventures		
Adcock Ingram Limited (India)	49.9	49.9
Thembalami Pharmaceuticals Proprietary Limited*	50	50
Indirect holdings		
Adcock Ingram East Africa Limited (Kenya)	100	100
Adcock Ingram Intellectual Property No 1 Proprietary Limited*	100	100
Adcock Ingram Pharmaceuticals Proprietary Limited*	100	100
Addclin Research Proprietary Limited*	100	100
Ayrton Drug Manufacturing Limited (Ghana)	–	25.1
Datlabs (Private) Limited (Zimbabwe)	–	100
Dilwed Investments Proprietary Limited	100	100
Genop Holdings Proprietary Limited	100	100
Genop Healthcare Proprietary Limited	100	100
Menarini SA Proprietary Limited**	49	49
Metamorphosa Proprietary Limited*	50	50
National Renal Care Proprietary Limited	50	50
Novartis Ophthalmics Proprietary Limited**	49	49
Pharmalabs (Jersey) Limited	–	100
Premier Pharmaceutical Company Proprietary Limited*	100	100
Relicare Tech Services Private Limited (India)	100	100
Virtual Logistics Proprietary Limited	100	100
Trusts and structured entities		
AdBEE (RF) Limited***		
Adcock Ingram Holdings Limited Employee Share Trust (2008)		
Ad-Izinyosi (RF) Proprietary Limited***		
Mpho ea Bophelo Trust		
39 Owner-driver companies (2018: 39 companies)		

* Dormant entities.

** Regarded as subsidiaries and consolidated.

*** Not consolidated

Annexure I

Accounting policies

The principal accounting policies applied in the preparation and presentation of the annual financial statements are set out below:

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries, joint ventures and structured entities deemed to be controlled by the Group.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement in the entity and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an entity if and only if the Group has:

- ▶ power over the investee (i.e. current existing rights that give it the 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.

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 over the subsidiary.

The financial results of the subsidiaries, including those with a different reporting period, are prepared for the same reporting period as the Group, using consistent accounting policies.

Investments in subsidiaries in the Company's financial statements are accounted for at cost less any impairment.

The results of subsidiaries acquired are included in the consolidated financial statements from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date such control ceases.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests represent the equity in a subsidiary not attributable, directly or indirectly, to the parent. These interests are presented separately in the consolidated statement of comprehensive income, and in the consolidated statement of financial position, separately from own shareholders' equity.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to any relevant non-controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it:

- ▶ derecognises the assets (including goodwill) and liabilities of the subsidiary;
- ▶ derecognises the carrying amount of any non-controlling interest;
- ▶ derecognises the cumulative translation differences recorded in equity;
- ▶ recognises the fair value of the consideration received;
- ▶ recognises the fair value of any investment retained;
- ▶ recognises any surplus or deficit in profit or loss; and
- ▶ reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss, or retained earnings, as appropriate.

In the consolidated statement of comprehensive income of the reporting period, and of the comparable period, income and expenses from discontinued operations are reported separately from the income and expenses from continuing activities, down to the level of profit after taxes, even when the parent retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in profit or loss and other comprehensive income.

Annexure I

Accounting policies continued

UNDERLYING CONCEPTS

The financial statements are prepared on the going-concern basis, which assumes that the Group will continue in operation for the foreseeable future.

The financial statements are prepared using the accrual basis of accounting whereby the effects of transactions and other events are recognised when they occur, rather than when the cash is received or paid.

Assets and liabilities and income and expenses are not offset unless specifically permitted by an accounting standard. Financial assets and financial liabilities are only offset when there is a legally enforceable right to offset, and the intention is either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Accounting policies are the specific principles, bases, conventions, rules and practices applied in preparing and presenting financial statements.

Changes in accounting policies are accounted for in accordance with the transitional provisions in the standard. If no such guidance is given, they are applied retrospectively. If after making every reasonable effort to do so, it is impracticable to apply the change retrospectively, it is applied prospectively from the beginning of the earliest period practicable.

FOREIGN CURRENCIES

The consolidated financial statements are presented in South African Rands (Rands), which is the Group's presentational currency and the Company's functional currency.

Each foreign entity in the Group determines its own functional currency.

FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are recorded at the rates of exchange ruling at the transaction date.

FOREIGN CURRENCY BALANCES

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the reporting date. Exchange differences are taken to profit or loss.

If non-monetary items measured in a foreign currency are carried at historical cost, the exchange rate used is the rate applicable at the initial transaction date. If they are carried at fair value, the rate used is the rate at the date when the fair value was determined.

The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

FOREIGN OPERATIONS

At the reporting date, the assets and liabilities of the foreign operations are translated into the presentation currency of the Group (Rands) at the exchange rate ruling at the reporting date. Items of profit or loss are translated at the weighted average exchange rate for the year. Exchange differences are taken directly to a separate component of other comprehensive income: "Exchange differences on translation of foreign operations". On disposal of a foreign operation, the deferred cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Goodwill and fair value adjustments relating to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of that foreign operation, and are translated at the closing rate.

The functional currencies of the foreign operations are as follows:

- ▶ joint venture, Adcock Ingram Limited in India, the Indian Rupee;
- ▶ subsidiary, Relicare Tech Services Private Limited in India, the Indian Rupee; and
- ▶ subsidiary, Adcock Ingram East Africa Limited in Kenya, the Kenyan Shilling.

INTEREST IN GROUP COMPANIES

BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at fair value on the acquisition date, and the amount of any non-controlling interest in the acquiree.

For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in non-trading 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 of the acquiree.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the acquirer's share of the acquiree's identifiable net assets is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. In instances where the contingent consideration does not fall within the scope of IFRS9, it is measured in accordance with the appropriate IFRS.

Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognised in accordance with IFRS9 either in profit or loss or as a charge to other comprehensive income, as appropriate. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

EQUITY-ACCOUNTED INVESTMENTS

The equity-accounted investments are the Group's investments in joint ventures.

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement. The Group has the following joint ventures:

- ▶ Adcock Ingram Holdings Limited has a 49.9% interest in Adcock Ingram Limited, a company incorporated in India, which is involved in the manufacturing of pharmaceutical products; and
- ▶ Adcock Ingram Critical Care Proprietary Limited has a 50% indirect interest in National Renal Care Proprietary Limited, a company incorporated in South Africa, which provides renal healthcare services.

Adcock Ingram International had a 25.1% shareholding in Ayrton Drug Manufacturing Limited, a company incorporated in Ghana. As the Group had significant influence over this entity, it was accounted for as an associate up until it was disposed of during the year.

Under the equity method, investments are carried in the statement of financial position at cost, plus post-acquisition changes in the Group's share of the profit or loss of these investments. Goodwill relating to equity-accounted investments is included in the carrying amount of the investment and is not tested separately for impairment.

Joint ventures and associates are accounted for from the date that joint control or significant influence is obtained, to the date that the Group ceases to have joint control or significant influence.

The statement of comprehensive income reflects the Group's share of these investments' profit or loss. However, losses in excess of the Group's interest are not recognised. Additional losses are provided for and a liability is recognised, only to the extent that a legal or constructive obligation exists. Where a joint venture or associate recognises an entry directly in other comprehensive income, the Group in turn recognises its share as other comprehensive income in the consolidated statement of comprehensive income. Profits and losses resulting from transactions between the Group and equity-accounted investments are eliminated to the extent of the interest in the underlying investment.

After application of the equity method, each investment is assessed for indicators of impairment. If applicable, the impairment is calculated as the difference between the carrying value and the higher of its value-in-use or fair value less costs to dispose. Impairment losses are recognised in profit or loss, as part of equity accounted earnings.

In the Company financial statements, joint ventures and associates are initially accounted for at cost when joint control or significant influence is obtained and subsequently at cost less accumulated impairment losses.

Annexure I

Accounting policies continued

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Where an equity accounted investment's reporting date differs from the Group's, the joint venture prepares financial results for the same financial period as the Group. Where the equity accounted investment's accounting policies differ from those of the Group, appropriate adjustments are made to conform to the accounting policies of the Group.

The year-end of the joint venture, Adcock Ingram Limited (India) is March, whilst the year-end of National Renal Care Proprietary Limited is September.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses.

Where an item of property, plant and equipment comprises major components with different useful lives, the components are accounted for as separate assets. Expenditure incurred on major inspection and overhaul, or to replace an item is also accounted for separately if the recognition criteria are met. All other repairs and maintenance expenditures are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated on a straight-line basis, on the difference between the cost and residual value of an asset, over its useful life. Depreciation starts when the asset is available for use. An asset's residual value, useful life and depreciation method are reviewed at least at each financial year-end.

Any adjustments to residual value, useful life or depreciation method applied, are changes in the accounting estimate and accounted for prospectively.

The following useful lives have been estimated:

Freehold land	Not depreciated
Freehold buildings –general purpose	40 years
–specialised	20 – 50 years
Leasehold improvements	The shorter of the lease term or the useful life
Plant, equipment and vehicles	3 – 15 years
Furniture and fittings	3 – 15 years
Computer equipment	3 years

Assets in the course of construction are carried at cost, including professional fees, less any impairment loss. When these assets are ready for its intended use, it is transferred into the appropriate category at which point depreciation commences on the same basis as on other property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

GOODWILL AND INTANGIBLE ASSETS

GOOD WILL

Goodwill is initially measured at cost, being the excess of the consideration transferred, the amount of any non-controlling interest and in a business combination achieved in stages, the acquisition date fair value of any previously held equity interest in the acquiree, over the fair value of the acquiree's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. Goodwill relating to subsidiaries is recognised as an asset and is subsequently measured at cost less accumulated impairment losses.

A cash-generating unit (CGU) is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

INTANGIBLE ASSETS

Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is the fair value at the date of acquisition. Subsequently, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, are not capitalised and expenditure is charged to profit or loss in the year in which the expense is incurred.

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

Intangible assets with finite lives are amortised over their useful life and assessed for impairment when there is an indication that the asset may be impaired due to a change in circumstances. The amortisation period and the amortisation method are reviewed at each year-end.

The following useful lives have been estimated:

Trademarks	15 years or indefinite
Customer, supplier and licence- related intangibles	1 – 15 years

Amortisation is recognised in profit or loss in fixed and administrative expenses. Intangible assets with indefinite useful lives are not amortised but are tested bi-annually for impairment and the useful lives are also reviewed to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment to a finite life is accounted for prospectively.

Certain trademarks have been assessed to have indefinite useful lives, as presently there is no foreseeable limit to the period over which the assets can be expected to generate cash flows for the Group.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal.

Gains or losses arising from the 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.

RESEARCH AND DEVELOPMENT COSTS

Research costs, being costs from the investigation undertaken with the prospect of gaining new knowledge and understanding, are recognised in profit or loss as they are incurred.

IMPAIRMENT OF NON-FINANCIAL ASSETS

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If such an indication exists, or when impairment testing is required, as is the case with goodwill and intangible assets with indefinite useful lives, the Group estimates the recoverable amount. An asset's recoverable amount is the higher of the fair value less costs of disposal and its value in use. The recoverable amount is determined for individual assets, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When the carrying value exceeds the recoverable amount, the asset is considered impaired and is written down to the recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a 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.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGU's to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of ten years. Ten years are used in instances where the Group believes that assets have a value in use of ten or more years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the tenth year.

The following assets have specific characteristics for impairment testing:

GOODWILL

Goodwill is tested for impairment:

- ▶ annually at the reporting date; and
- ▶ when circumstances indicate that the carrying value may be impaired.

Annexure I

Accounting policies continued

INTANGIBLE ASSETS

Intangible assets with indefinite useful lives are tested for impairment:

- ▶ bi-annually as at 31 December and 30 June; and
- ▶ when circumstances indicate that the carrying value may be impaired on an individual basis or at the CGU level.

Impairment losses relating to goodwill and intangible assets cannot be reversed in future periods.

FINANCIAL ASSETS IN ACCORDANCE WITH IFRS 9 (applicable in the current financial year)

INITIAL RECOGNITION AND MEASUREMENT

Financial assets are classified and measured at initial recognition at:

- ▶ amortised cost;
- ▶ fair value through other comprehensive income (OCI); or
- ▶ fair value through profit or loss;

based on the financial asset's contractual cash flow characteristics and the Group's business model for managing the financial assets.

Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price (refer to accounting policy "Revenue").

All other financial assets should be measured at its fair value, plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

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

SUBSEQUENT MEASUREMENT

For purposes of subsequent measurement, financial assets are classified in three categories:

- ▶ Financial assets at amortised cost (debt instruments);
- ▶ Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments); or
- ▶ Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

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

These financial assets are subsequently measured using the effective interest (EI) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade receivables and other receivables.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to irrevocably classify its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss.

Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI.

Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to irrevocably classify its non-listed equity investments under this category.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near-term.

Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

DERECOGNITION

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised or removed from the Group's consolidated statement of financial position when:

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

IMPAIRMENT OF FINANCIAL ASSETS

Further disclosures relating to significant assumptions are presented in Annexure E. Disclosures relating to the impairment of financial assets are also provided in the following notes:

- ▶ Trade receivables, Annexure E and Note 16.

For trade receivables, the Group applies a simplified approach in calculating expected credit losses. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime expected credit losses at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are past due for more than a year and not subject to enforcement activity. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full, before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Annexure I

Accounting policies continued

FINANCIAL LIABILITIES IN ACCORDANCE WITH IFRS 9 (applicable in the current financial year)

INITIAL RECOGNITION AND MEASUREMENT

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss or amortised cost. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

SUBSEQUENT MEASUREMENT

All financial liabilities are subsequently measurement at amortised cost except for, financial liabilities at fair value through profit or loss that are held for trading and those designated at initial recognition as at fair value through profit or loss.

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 effective interest (EI) rate method. The EI amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings and trade and other payables.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

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

DERECOGNITION

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

OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position 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.

Comparatives: IAS 39 was applicable to the comparative year for the treatment of financial assets and financial liabilities.

FAIR VALUE OF FINANCIAL INSTRUMENTS

To measure fair value, the Group uses valuation techniques that 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.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments measured at fair value by valuation technique:

- ▶ Level 1 – quoted (unadjusted) prices in active markets;
- ▶ Level 2 – other valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- ▶ Level 3 – valuation techniques which use inputs which have a significant effect on the recorded fair value that are based on unobservable market data.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics, risks and the fair value hierarchy.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and at banks, and short-term deposits with an original maturity of three months or less.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as detailed above, net of outstanding bank overdrafts.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Derivatives are financial instruments whose value changes in response to an underlying factor, require no initial or little net investment and are settled at a future date. Derivatives, other than those arising on designated hedges, are measured at fair value with changes in fair value being recognised in profit or loss.

HEDGE ACCOUNTING

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

CASH FLOW HEDGES

Cash flow hedges cover the exposure to variability in cash flows that are attributable to a particular risk associated with:

- ▶ a recognised asset or liability; or
- ▶ a highly probable forecast transaction; or
- ▶ the foreign currency risk in an unrecognised firm commitment.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income, while any ineffective portion is recognised in profit or loss.

Amounts taken to other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged income or financial asset or liability is recognised or when the forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amount deferred in other comprehensive income is transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in other comprehensive income are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials	Purchase cost on a first-in, first-out basis
Finished goods and work in progress	Cost of direct material and labour and a proportion of manufacturing overheads based on normal operating capacity.

Consumables are written down with regard to their age, condition and utility.

Costs of inventories include the transfer from other comprehensive income of gains and losses on qualifying cash flow hedges in respect of the purchases of inventories.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated completion and selling costs.

Annexure I

Accounting policies continued

PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the expected reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The charge relating to any provision is presented in profit or loss net of any reimbursement.

LEASES

At inception date an arrangement is assessed to determine whether it is, or contains, a lease. An arrangement is accounted for as a lease where it is dependent on the use of a specific asset and it conveys the right to use that asset.

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred from the lessor to the Group as lessee.

Operating leases are those leases which do not fall within the scope of the finance leases.

Operating lease rentals are charged against profit or loss on a straight-line basis over the lease term.

REVENUE

Revenue comprises revenue from contracts with customers (turnover), dividend income and finance income.

REVENUE FROM CONTRACTS WITH CUSTOMERS (TURNOVER)

Turnover is measured based on the consideration specified in a contract with a customer and excludes amounts to be collected on behalf of third parties. The Group recognises revenue when it transfers control over a product to a customer. Variable consideration, in the form of rebates, discounts and fees is estimated at the most likely amount payable in terms of contracts with customers and netted off revenue at the time of recognition.

The Group recognises turnover, net of sales taxes and estimated sales returns, at the time it sells inventory to the customer, which is generally when delivery has taken place. Most turnover is recognised at a point in time and determined by the relevant shipping terms associated with the transaction. The Group disaggregates turnover into the following identified channels: private, public and export (foreign) sales.

Estimated sales returns are calculated using historical experience of actual returns as a percentage of sales, calculated at the end of each reporting period using the expected value method. A refund liability as applied to Revenue is recognised in provisions.

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

Finance income is accrued on a time basis recognising the effective rate applicable on the underlying assets.

BORROWING COSTS

All borrowing costs are expensed in the period they occur, as none of the borrowing costs were directly attributable to the acquisition, construction or production of an asset which qualify for capitalisation. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

TAXES

CURRENT INCOME TAX

Current income tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible.

Current tax relating to items recognised outside profit or loss is recognised in other comprehensive income. Current tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The Group's liability or receivable for current tax is calculated using tax rates that have been enacted or substantively enacted at the reporting date in the countries where the Group operates.

DEFERRED TAX

Deferred tax is provided using the liability method on all temporary differences at the reporting date. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base.

Deferred tax liabilities are recognised for taxable temporary differences, except:

- ▶ where the liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- ▶ in respect of taxable temporary differences associated with investments in subsidiaries and interests in associates and 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, where it is probable that the asset will be utilised in the foreseeable future, except:

- ▶ where the asset 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 profit nor taxable profit or loss; and
- ▶ in respect of deductible temporary differences associated with investments in subsidiaries and interests in associates and joint ventures, only to the extent that it is probable that the differences will reverse in the foreseeable future, and taxable profit will be available against which these differences can be utilised.

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 profits will be available to allow all or part of the asset to be recovered. Unrecognised deferred tax assets are re-assessed at each reporting date and recognised to the extent it has become probable that future taxable profit will allow the asset to be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is charged to profit or loss, except to the extent that it relates to a transaction that is recognised outside profit or loss or a business combination that results from an acquisition. In that case, the deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset and they relate to income taxes levied by the same taxation authority.

DIVIDENDS TAX

A dividends tax of 20% on dividend distributions is withheld from shareholders and paid to the South African Revenue Service, where applicable.

VALUE-ADDED TAX (VAT)

Revenues, expenses and assets are recognised net of the amount of VAT, except:

- ▶ where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, 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 are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

EMPLOYEE BENEFITS

SHORT-TERM EMPLOYEE BENEFITS

All short-term benefits, including leave pay, are fully provided in the period in which the related service is rendered by the employees.

A liability is recognised when an employee has rendered services for benefits to be paid in the future, and an expense when the entity utilises the economic benefit arising from the service provided by the employee.

DEFINED CONTRIBUTION PLANS

In respect of defined contribution plans, the contribution paid by the Group is recognised as an expense. If the employee has rendered the service, but the contribution has not yet been paid, the amount payable is recognised as a liability.

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Accounting policies continued

POST-RETIREMENT MEDICAL OBLIGATIONS

The Group provides post-retirement healthcare benefits to certain of its retirees and one employee still in service. The expected costs of these benefits are accrued over the period of employment, using the projected unit credit method. Valuations are based on assumptions which include employee turnover, mortality rates, a discount rate based on current bond yields of appropriate terms and healthcare inflation costs. Valuations of these obligations are carried out by independent qualified actuaries.

Actuarial gains or losses are recognised in other comprehensive income in the period it occurs.

SHARE-BASED PAYMENTS

Certain employees of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions") or share appreciation rights ("cash-settled transactions").

EQUITY-SETTLED TRANSACTIONS

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external appraiser using a modified version of the Black-Scholes model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting date). The cumulative expense recognised reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge in profit or loss for a period represents the movement in the cumulative expense between the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The dilutive effect of outstanding equity-settled options is reflected as additional share dilution in the computation of diluted earnings and diluted headline earnings per share.

CASH-SETTLED TRANSACTIONS

The cost of cash-settled transactions is measured initially at fair value at the grant date using a modified version of the Black-Scholes model, taking into account the terms and conditions upon which the instruments were granted. Service vesting conditions are not included in the fair value but used to determine the number of instruments that will ultimately vest. This fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is remeasured to its fair value at each reporting date up to and including the settlement date with changes in fair value recognised in profit or loss.

ACCOUNTING FOR BEE TRANSACTIONS

Where equity instruments are issued to a Black Economic Empowerment (BEE) party at less than fair value, the instruments are accounted for as share-based payments in terms of the stated accounting policy.

Any difference between the fair value of the equity instrument issued and the consideration received is accounted for as an expense in profit or loss.

A restriction on the BEE party to transfer the equity instrument subsequent to its vesting is not treated as a vesting condition, but is factored into the fair value determination of the instrument.

BEE transactions are accounted for as equity-settled share-based payments and are treated the same as equity-settled transactions.

TREASURY SHARES

Shares in Adcock Ingram Holdings Limited held by the Group, including shares held by structured entities deemed to be controlled by the Group, are classified within total equity as treasury shares. Treasury shares are treated as a deduction from the issued and weighted average number of shares for earnings per share and headline earnings per share purposes and the cost price of the shares is reflected as a reduction in capital and reserves in the statement of financial position. Dividends received on treasury shares are eliminated on consolidation. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of treasury shares. The consideration paid or received with regard to treasury shares is recognised in equity.

CONTINGENT LIABILITIES

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Alternatively, it may be a present obligation that arises from past events but is not recognised because an outflow of economic benefits to settle the obligation is not probable, or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised as liabilities unless they are acquired as part of a business combination.

Recognised amounts in the financial statements are adjusted to reflect significant events arising after the date of the statement of financial position, but before the financial statements are authorised for issue, provided there is evidence of the conditions existing at the reporting date. Events after the reporting date that are indicative of conditions that arose after this date are dealt with by way of a note.

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, management has made certain judgements, estimates and assumptions, apart from those involving estimations, which have a significant effect on the amounts recognised in the financial statements.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

JOINT VENTURE VERSUS JOINT OPERATION

Adcock Ingram Limited in India and National Renal Care in South Africa have been assessed as joint ventures and not joint operations after considering the following:

- ▶ the legal form of the separate vehicles does confer separation between the parties;
- ▶ the contractual terms and conditions provide the parties with rights to the net assets rather than rights to the assets and obligations for the liabilities; and
- ▶ other facts and circumstances.

CARRYING VALUE OF GOODWILL, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Indefinite life intangible assets are tested for impairment bi-annually, while property, plant and equipment, goodwill and finite life intangible assets are tested at least annually or when there is an indicator of impairment. The calculation of the recoverable amount requires the use of estimates and assumptions concerning the future cash flows which are inherently uncertain and could change over time. In addition, changes in economic factors such as discount rates could also impact this calculation.

RESIDUAL VALUES AND USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Residual values and useful lives of property, plant and equipment, and intangible assets are assessed on an annual basis. Estimates and judgements in this regard are based on historical experience and expectations of the manner in which assets are to be used, together with expected proceeds likely to be realised when assets are disposed of at the end of their useful lives. Such expectations could change over time and therefore impact both depreciation and amortisation charges and carrying values of property, plant and equipment, and intangible assets in the future.

SHARE-BASED PAYMENTS

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them.

Cash-settled share options granted to employees for services rendered or to be rendered are raised as a liability and recognised in profit or loss over the vesting period. The liability is remeasured to its fair value annually until settled and any changes in value are recognised in profit or loss. Fair value is estimated using a Black-Scholes option pricing model, as the employee share options are not traded on an active market, and the inputs used for the option pricing model require significant judgement and estimation.

PROVISIONS

The establishment and review of provisions requires significant judgement by management as to whether or not a reliable estimate can be made of the amount of the obligation. Best estimates, being the amount that the Group would rationally pay to settle the obligation, are recognised as provisions at the reporting date.

INVENTORY

To value inventory at the lower of cost and net realisable value, management is required to make certain judgements and estimates regarding the allowance for obsolescence. These include:

- ▶ expectations of forecast inventory demand;

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Accounting policies continued

- ▶ product expiry dates;
- ▶ inventory held in quality control; and
- ▶ plans to dispose of inventories that may be near to expiry.

STRUCTURED ENTITIES

Owner-driver companies

Various owner-driver companies exist in the Group. These entities were incorporated to support the distribution network of the Group and are consolidated into the Group in accordance IFRS 10.

Based on the contractual terms, the activities of these entities are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from these entities' operations. In addition, it was assessed that the Group controls each of these entities as there are insufficient assets within these entities to allow each entity to finance its own activities without the support of the Group.

Ad-Izinyosi (RF) Proprietary Limited and AdBEE (RF) Limited

The Group restructured their BEE vehicle, which was performed in line with the circular dated 28 May 2015. This has led to the formation of Ad-Izinyosi (RF) Proprietary Limited and AdBEE (RF) Limited, a company with instruments listed on the JSE.

Adcock Ingram considered the relevant activities of both entities, the Company's involvement in facilitating the restructuring, the Company's protective rights in respect of the companies acting in accordance with their Memorandum of Incorporation; and the Company's lack of future financial exposure to the overall scheme. The conclusions were that in the Company's judgement the Group does not have power over the relevant activities of these two entities, nor benefits from the variable returns that would emanate from such entities. These entities are therefore not consolidated into the Group.

Mpho ea Bophelo Trust

The Mpho ea Bophelo Trust is an entity incorporated for the purpose of representing Adcock Ingram employees in the Group's BEE transaction and is consolidated in accordance with IFRS 10. The activities of this entity are conducted in accordance with the Group's specific business needs in that the Group obtains benefits from this operation. The Group retains the majority of the residual or ownership risks and rewards related to this entity or its assets and it was therefore considered that the Group controls this entity.

Consolidation of entities in which the Group holds less than the majority of voting rights

The Group considers that it controls Menarini SA Proprietary Limited and Novartis Ophthalmics Proprietary Limited even though it owns less than 50% of the voting rights as it controls the daily management and decision-making of these entities.

STANDARDS AND INTERPRETATIONS ISSUED THAT ARE NOT YET EFFECTIVE

A number of new standards, amendments to standards and interpretations that are applicable to the Group with an effective date after the date of these financial statements, have not been applied in preparing these consolidated financial statements. The Group intends to adopt these standards when they become effective.

IFRS 16: LEASES

IFRS 16: Leases sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor"). *IFRS 16* replaces the previous leases standard, *IAS 17*, and related interpretations. *IFRS 16* has one model for lessees which will result in leases previously classified as operating leases and recorded off-balance sheet being capitalised on the balance sheet, requiring a lessee to recognise a right-of-use asset and a concomitant lease liability.

Transition

The standard will be effective for the Group from 1 July 2019. The Group is planning to apply the standard retrospectively recognising the cumulative effect of initially applying the standard in retained earnings at the date of initial application (modified retrospective approach).

As part of the modified retrospective transition approach, the Group has elected to apply the practical expedient which allows single discount rates to be applied to portfolios of leases with reasonably similar characteristics, as well as for the recognition of the "right of use" asset at transition. The "right of use" asset initially equals the lease liability at the adoption date, adjusted primarily for the derecognition of the lease straight lining liability.

As an accounting policy election, the Group will apply the following recognition exemptions which allow for certain lease payments to be expensed over the lease term as opposed to be recognised as a "right of use: asset and related lease liability on the lease commencement date:

- ▶ Short-term leases: these are leases with a lease term of 12 months or less; and
- ▶ Leases of low value assets: these are leases where the underlying asset is of a low value. The threshold has been assessed at approximately R100 000.

Impact

The Group has performed a detailed impact assessment with the change from IAS 17 to IFRS 16.

General

The total charge to the income statement (excluding impairments) over the lease term before and after IFRS 16 is the same.

Impact on the statement of financial position as at 1 July 2019:

All leases will now be recognised in the statement of financial position:

- a) A lease liability is initially raised at the adoption date, at the net present value of future lease payments; where the lease terms includes the non-cancellable lease commitments as well as the option to extend if it is reasonably certain.
- b) A "right of use" (ROU) asset is initially raised at a value equal to the lease liability adjusted by payments made to the lessor before the lease commencement date/the balance of straight-lining for leases as recorded at 30 June 2019;
- c) The lease liability and ROU asset differ in value over the lease term due to:
 - i) The lease liability will decrease by the lease payments, net of the finance costs incurred; whilst
 - ii) The ROU asset decreases through depreciation evenly over the lease term.

Impact on the income statement in the 2020 financial year:

- a) The smoothed operating lease expense is now replaced by straight-lined depreciation and diminishing finance costs over the lease term.
- b) The impact of profit before tax and headline earnings per share depends on the maturity of the lease portfolio as the charge to the income statement is front loaded due to the finance costs. Therefore, the cost to the income statement will be higher on a new lease compared to an older lease.

Impact on the cash flow statement in the 2020 financial year

- a) There will be no impact on net cash and cash equivalents.
- b) The lease payment (principal and finance costs) will be classified as financing activities. This will result in an increase in cash flows from financing activities and an increase in the net cash flows from operating activities.

Impact on Adcock Ingram:

In summary, the impact of adopting IFRS 16 is expected to be, as follows:

Impact on the statement of financial position as at 1 July 2019:

- a) An increase in Property, Plant and Equipment of R308.3 million to account for the "right of use" assets.
- b) An increase in Lease Liabilities of R336.8 million which represent the present value of future lease payments, discounting the minimum lease payments over the term of the lease. This will be disclosed as under long-term liabilities R285.1 million and short-term liabilities of R51.7 million.
- c) A decrease in "other liabilities" of R28.5 million with the release of the straight-lining of leases balance, which is allocated against the ROU asset on adoption.

Impact on the income statement in the 2020 financial year:

- a) The previously recognised operating lease charge is no longer recognised on the income statement, resulting in a decrease of R68.8 million* in operating expenses.
- * The Midrand lease has been renewed, effective 1 July 2019. For the 2019 financial year, an operating lease charge of R21.3 million was incurred, under IAS 17. If this was lease was accounted in the 2020 financial year in terms of IAS 17, the operating lease charge would have been R35.1 million. Under IFRS 16, a total cost of R40.6 million (Depreciation of R22.3 million and finance costs of R18.3 million) would be recorded in 2020.
- b) Depreciation to increase by R41.5 million due to the increased asset portfolio.
- c) Operating profit to increase by R27.3 million
- d) Finance costs to increase by R32.1 million due to the recognition of the lease liability, which will now be recognised to the income statement over the lease term.

Annexure I

Accounting policies continued

- e) A credit to Taxation of R1.3 million, impacted by the temporary differences which relate to the IFRS16 entries which are backed out of accounting profit.
- f) Profit after tax to decrease by R3.5 million, driven by the maturity status of the current lease portfolio.

Impact on key financial metrics

Balance sheet (at adoption date)	Before	Change	After
	R'm	R'm	R'm
Property, plant and equipment	1 538.2	308.3	1 846.5
Total liabilities	1 952.6	308.3	2 260.9
Net cash/(debt)	0.4	(336.8)	(336.4)
Right of use asset as % of total assets	0%		5%

IAS 19: PLAN AMENDMENT, CURTAILMENT OR SETTLEMENT – AMENDMENTS

The amendments to *IAS 19 Employee Benefits* address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendment, effective from 1 July 2019, is not expected to have a significant impact on the Group's disclosure.

IAS 1 AND IAS 8: DEFINITION OF MATERIAL – AMENDMENTS

In October 2018, the IASB issued amendments to *IAS 1 Presentation of Financial Statements* and *IAS 8* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments explain that information is obscured if it is communicated in a way that would have a similar effect as omitting or misstating the information. Material information may, for instance, be obscured if information regarding a material item, transaction or other event is scattered throughout the financial statements, or disclosed using a language that is vague or unclear. Material information can also be obscured if dissimilar items, transactions or other events are inappropriately aggregated, or conversely, if similar items are inappropriately disaggregated.

THE CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

A revised Conceptual Framework for Financial Reporting (the Conceptual Framework) is not a standard, and none of the concepts override those in any standard or any requirements in a standard. The purpose of the Conceptual Framework is to assist the Board in developing standards, to help preparers develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The IASB issued the Conceptual Framework in March 2018. It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows:

- ▶ Chapter 1 – The objective of financial reporting;
- ▶ Chapter 2 – Qualitative characteristics of useful financial information;
- ▶ Chapter 3 – Financial statements and the reporting entity;
- ▶ Chapter 4 – The elements of financial statements;
- ▶ Chapter 5 – Recognition and derecognition;
- ▶ Chapter 6 – Measurement;
- ▶ Chapter 7 – Presentation and disclosure; and
- ▶ Chapter 8 – Concepts of capital and capital maintenance.

The new framework is effective for the Group from 1 July 2020.

Annexure J

Remuneration Implementation Report

SENIOR MANAGEMENT

Senior management comprises the executive committee of the Group, excluding the executive directors. As the executive directors' details are disclosed separately, these are excluded from the figures below. During the year there were changes in the composition of senior management. The details show the apportioned annual remuneration of senior management, for the period the incumbents held the position during the year.

Remuneration

	2019 R'000	2018 R'000
Salary	22 114	19 916
Contributions to defined contribution plan	3 427	3 040
Gross remuneration	25 541	22 956

Short-term incentives

Based on the current year's performance, senior management qualifies for short-term incentives in the amount of R6 605 000. Full provision has been made for this amount in the current year although payment will only be effected in September 2019. An incentive of R7 203 333 was paid in September 2018, relating to the prior year's performance, which was fully provided for at 30 June 2018.

Long-term incentives

Details of share options in Adcock Ingram granted to key management are as follows:

	Offer date	Offer price R	Balance at the beginning of the year	Forfeited during the year	Exercised during the year	Balance at the end of the year
Equity	17/06/2014	52.20	280 000	(28 000)	(140 000)	112 000
	26/08/2015	41.94	441 000	(60 000)	(147 000)	234 000
	26/08/2016	42.30	441 000	(90 000)	-	351 000
	24/08/2017	57.73	491 000	(90 000)	-	401 000
			1 653 000	(268 000)	(287 000)	1 098 000

	Offer date	Offer price R	Balance at the beginning of the year	Issued during the year	Forfeited during the year	Exercised during the year	Balance at the end of the year
Phantom	01/10/2012	59.56	8 890			(8 890)	-
	02/05/2013	60.55	17 617			(17 617)	-
	28/08/2018	65.46		585 000	(90 000)		495 000
	08/03/2019	64.50		130 000			130 000
			26 507	715 000	(90 000)	(26 507)	625 000

Annexure J

Remuneration Implementation Report continued

Details of options exercised by senior management are as follows:

	Offer date	Offer price R	Weighted Average Exercise price R	Number of options	Gain realised on exercising of options R ⁽¹⁾
2019 Equity	17/06/2014	52.20	71.30	140 000	2 674 000
	26/08/2015	41.94	71.30	147 000	4 315 920
				287 000	6 989 920
Phantom	01/10/2012	59.56	71.30	8 890	104 369
	02/05/2013	60.55	71.30	17 617	189 383
				26 507	293 751
2018 Equity	17/06/2014	52.20	70.42	129 000	2 356 920
Phantom	03/01/2012	60.15	64.74	40 275	182 615
	01/05/2012	60.70	70.90	14 827	151 235
	01/10/2012	59.56	69.84	17 776	182 737
	02/01/2013	53.52	67.49	152 133	2 159 597
	02/05/2013	60.55	71.00	35 232	368 174
				260 243	3 044 358

⁽¹⁾ Amounts shown before taxation.

The following charges were expensed in the statement of comprehensive income during the year under review, in terms of IFRS 2⁽²⁾:

	2019 R'000	2018 R'000
Total	6 395	7 022

⁽²⁾ The value of options granted is the annual expense in accordance with IFRS 2, and is presented for information purposes only, as it is not regarded as constituting remuneration, given that the value is neither received by nor accrued to the employee.

EXECUTIVE DIRECTORS

The executive directors are currently regarded as the only prescribed officers of the Group. No fees for services as director, consulting or other fees were paid in the current or prior year and no profit-sharing agreements are in place.

Service contracts for executive directors

The Company policy is to employ each executive director under a permanent employment contract which is subject to a three-month notice period.

Shareholding

AG Hall held 21 433 shares (2018: 8 462) in the Company, consequent to the exercise of certain equity options.

Remuneration

	Salary R'000	Contributions to defined contribution plan R'000	Gross remuneration R'000
2019			
AG Hall	5 017	350	5 367
D Neethling	3 242	350	3 592
B Letsoalo	2 813	439	3 252
	11 072	1 139	12 211
2018			
AG Hall	4 767	350	5 117
D Neethling	3 035	350	3 385
B Letsoalo	2 653	414	3 067
	10 455	1 114	11 569

Other

During 2018, the executive directors received the following long service awards which are excluded from the table above:

AG Hall	78 125
D Neethling	50 781
B Letsoalo	49 228

Short-term incentives

	2019 R'000	2018 R'000
AG Hall	4 450	3 500
D Neethling	2 261	2 500
B Letsoalo	1 535	1 750
	8 246	7 750

Based on the current year's performance, the executive directors individually qualify for incentives, following the achievement of the set targets for trading profit, ROFE, HEPS and Transformation. These incentives are fully provided for in the current year although payment will only be made in September 2019. The prior year incentives which were paid in September 2018, relating to the prior year's performance, were fully provided for at 30 June 2018.

Annexure J

Remuneration Implementation Report continued

Long-term incentives

Details of share options granted in Adcock Ingram are as follows:

		Offer date	Offer price R	Balance at the beginning of the year	Issued during the year	Exercised during the year	Balance at the end of the year
AG Hall							
Equity		17/06/2014	52.20	116 667		(58 333)	58 334
		26/08/2015	41.94	175 000		(58 333)	116 667
		26/08/2016	42.30	200 000		–	200 000
		24/08/2017	57.73	200 000		–	200 000
				691 667		(116 666)	575 001
Phantom		28/08/2018	65.46	–	200 000	–	200 000
D Neethling							
Equity		17/06/2014	52.20	40 000		(20 000)	20 000
		26/08/2015	41.94	90 000		(30 000)	60 000
		26/08/2016	42.30	150 000		–	150 000
		24/08/2017	57.73	150 000		–	150 000
				430 000		(50 000)	380 000
Phantom		28/08/2018	65.46	–	150 000	–	150 000
B Letsoalo							
Equity		17/06/2014	52.20	30 000		(15 000)	15 000
		26/08/2015	41.94	45 000		(15 000)	30 000
		26/08/2016	42.30	45 000		–	45 000
		25/11/2016	42.08	75 000		–	75 000
		24/08/2017	57.73	120 000		–	120 000
				315 000	–	(30 000)	285 000
Phantom		28/08/2018	65.46	–	120 000	–	120 000
BMT	TBL	31/01/2008	62.05	3 500	–	–	3 500
	AIP	31/01/2008	17.97	13 742	–	–	13 742
	TBL	01/07/2012	62.05	7 734	–	–	7 734
	AIP	01/07/2012	16.42	4 534	–	–	4 534
	OCE	31/01/2008	18.15	905	–	–	905
	OCE	01/07/2012	18.15	2 001	–	–	2 001
				32 416	–	–	32 416

TBL – Tiger Brands Limited

AIP – Adcock Ingram Holdings Limited

OCE – Oceana Group Limited

Details of options exercised are as follows:

	Offer date	Offer price R	Exercise price R	Number of options	Gain realised on exercising of options ⁽¹⁾	
2019 – Equity						
AG Hall	17/06/2014	52.20	71.30	58 333	1 114 160	
	26/08/2015	41.94	71.30	58 333	1 712 657	
				116 666	2 826 817	
D Neethling	17/06/2014	52.20	71.30	20 000	382 000	
	26/08/2015	41.94	71.30	30 000	880 800	
				50 000	1 262 800	
B Letsoalo	17/06/2014	52.20	71.30	15 000	286 500	
	26/08/2015	41.94	71.30	15 000	440 400	
				30 000	726 900	
2018						
AG Hall	Equity	17/06/2014	52.20	70.90	58 333	1 090 827
	Phantom	01/05/2012	60.70	70.90	26 262	267 872
		02/01/2013	53.52	70.90	32 019	556 490
				58 281	824 363	
D Neethling	Equity	17/06/2014	52.20	70.90	20 000	374 000
	Phantom	02/01/2013	53.52	70.90	31 177	541 856
B Letsoalo	Equity	17/06/2014	52.20	70.90	15 000	280 500
	Phantom	02/01/2013	53.52	70.90	26 248	456 190
The following charges were expensed in the statement of comprehensive income during the year under review, in terms IFRS 2 ⁽²⁾ :						
				2019	2018	
				R'000	R'000	
AG Hall				3 124	3 154	
D Neethling				2 229	2 038	
B Letsoalo				1 687	1 454	
				7 040	6 646	

⁽¹⁾ Amounts are shown before taxation.

⁽²⁾ The value of options granted is the annual expense in accordance with IFRS 2, and is presented for information purposes only, as it is not regarded as constituting remuneration, given that the value is neither received by nor accrued to the director.

Annexure J

Remuneration Implementation Report continued

NON-EXECUTIVE DIRECTORS

Current annual fees

The following fixed fees are in place since 1 December 2018.

	Chairman R	Member R
Committee		
Board	1 189 163	284 769
Audit	249 500	124 740
Risk and Sustainability	235 370	117 680
Human Resources, Remuneration and Nominations	180 000	82 700
Social, Ethics and Transformation	165 900	75 500
Acquisitions	249 500	124 740

A fee of R13 000 is paid for special meetings exceeding three hours in duration.

Remuneration paid

Non-executive directors receive no other benefits, do not participate in the short-term or long-term incentive schemes and do not receive any performance related pay from the Group. The following fees, excluding value added tax (VAT) where applicable, were paid to non-executive directors:

	2019 R'000	2018 R'000
Boyce	564	452
Joffe	–	83
John	643	538
Haus	518	496
Lesoli ⁽¹⁾	139	323
Madisa ⁽²⁾	469	226
Makwana ⁽¹⁾	229	557
Manning ⁽¹⁾	407	374
Mokgokong ⁽¹⁾	380	323
Ralphs ⁽²⁾	400	329
Raphiri	1 172	1 122
Sacks	–	415
Stewart	639	614
	5 560	5 852

⁽¹⁾ See changes to the Board and Board responsibilities.

⁽²⁾ Paid to Bidvest Corporate Services Proprietary Limited.

Shareholdings

The following non-executive directors held shares in the Company, as at 30 June:

	2019	2018
Total direct and indirect shareholding		
Mokgokong ⁽³⁾	3 445 642	3 445 642

⁽³⁾ Dr. Mokgokong holds a 50% share in CIH Projects (Pty) Ltd, which in turn holds a 26.67% share in Ad-Izinyosi (the BEE shareholder of the Group), within the revised BEE scheme described in Annexure B, section D, of the annual financial statements.

REGISTERED SHAREHOLDER SPREAD

In accordance with the JSE Listings Requirements, the following table confirms the spread of registered shareholders as detailed in the Integrated Report and Annual Financial Statements dated 30 June 2019:

Shareholder type	Number of holders	% of total shareholders	Number of shares	% of issued capital
1 – 1 000 shares	4 181	72.8	1 189 082	0.7
1 001 – 10 000 shares	1 297	22.6	3 791 621	2.1
10 001 – 100 000 shares	190	3.3	5 767 196	3.3
100 001 – 1 000 000 shares	62	1.1	18 458 731	10.5
1 000 001 shares and above	11	0.2	146 541 418	83.4
Total	5 741	100	175 748 048	100.0

PUBLIC AND NON-PUBLIC SHAREHOLDINGS

Within the shareholder base, we are able to confirm the split between public shareholdings and directors/Company related schemes as being:

Shareholder type	Number of holders	% of total shareholders	Number of shares	% of issued capital
Non-public shareholders*	4	0.07	30 188 586	17.2
Adcock Ingram Limited	1	0.02	4 285 163	2.4
Adcock Ingram Holdings Limited Employee Share Trust (2008)	1	0.02	39 031	0.0
Ad-Izinyosi (RF) Limited	1	0.02	25 842 959	14.8
Director	1	0.01	21 433	0.0
Public shareholders	5 737	99.93	145 559 462	82.8
Total	5 741	100.00	175 748 048	100.0

* Associates of directors do not hold any shares.

SUBSTANTIAL INVESTMENT MANAGEMENT EQUAL TO OR IN EXCESS OF 5%

Through regular analysis of STRATE registered holdings, and pursuant to the provisions of section 56(b) of the Companies Act, the following shareholders held, directly and indirectly, equal to or in excess of 5% of the issued share capital as at 30 June 2019:

Investment manager	Total shareholding	%
BB Investment Company Proprietary Limited	76 713 289	43.6
Public Investment Corporation of South Africa	28 765 986	16.4
Ad-Izinyosi (RF) Limited*	25 842 959	14.7
Total	131 322 234	74.7

* Refer to note 29 – Post Balance Sheet Events

Shareholder analysis continued

GEOGRAPHICAL SPLIT OF BENEFICIAL SHAREHOLDERS

Country	Total shareholding	% of issued share capital
South Africa	163 072 067	92.79
United States of America and Canada	6 213 909	3.54
United Kingdom	5 715 915	3.25
Rest of Europe	533 759	0.30
Other ¹	212 398	0.12
Total	175 748 048	100.0

¹Represents all shareholdings except those in the above regions

Beneficial interest and beneficial shareholder categories are not shown in this report, as agreed with JSE.

MONTHLY TRADING HISTORY

The high, low and closing price of ordinary shares on the JSE and the aggregated monthly value during the year are set out below:

Month	Total volume	Total value (R'm)	High (R)	Low (R)	Closing price (R)
2018 – July	1 699 062	107	65.50	59.03	64.25
2018 – August	4 560 045	307	71.98	61.80	71.26
2018 – September	3 638 547	242	71.50	59.12	62.86
2018 – October	3 628 096	223	68.50	56.00	57.36
2018 – November	2 576 300	152	66.50	56.63	58.00
2018 – December	1 348 142	81	62.59	57.88	62.40
2019 – January	1 241 476	76	66.00	58.78	63.49
2019 – February	3 663 728	239	69.12	59.04	65.00
2019 – March	2 431 392	151	66.50	57.51	61.50
2019 – April	1 333 168	84	68.84	60.17	65.84
2019 – May	4 116 824	254	66.29	60.00	60.20
2019 – June	7 837 680	482	67.96	59.05	59.60

ADCOCK INGRAM HOLDINGS LIMITED

(Incorporated in the Republic of South Africa)
(Registration number 2007/016236/06)
Income tax number 9528/919/15/3
Share code: AIP ISIN: ZAE000123436
("Adcock Ingram" or "the Company" or "the Group")

DIRECTORS

Ms L Boyce (Independent Non-executive Director)
Dr S Gumbi (Non-executive Director)
Mr A Hall (Chief Executive Officer)
Prof M Haus (Independent Non-executive Director)
Ms B Letsoalo (Executive Director)
Ms N Madisa (Non-executive Director)
Dr C Manning (Non-executive Director)
Dr A Mokgokong (Non-executive Director)
Ms D Neethling (Chief Financial Officer)
Mr L Ralphs (Non-executive Director)
Ms D Ransby (Non-executive Director)

COMPANY SECRETARY

Mr NE Simelane

REGISTERED OFFICE

1 New Road, Midrand, 1682

POSTAL ADDRESS

Private Bag X69, Bryanston, 2021

TRANSFER SECRETARIES

Computershare Investor Services Proprietary Limited
Rosebank Towers, 15 Biermann Avenue, Rosebank
Johannesburg, 2196
PO Box 61051
Marshalltown, 2107

AUDITORS

Ernst & Young Inc.
102 Rivonia Road, Sandton, 2146

SPONSOR

Rand Merchant Bank (A division of FirstRand Bank Limited)
1 Merchant Place, corner Fredman Drive and Rivonia Road
Sandton, 2196

BANKERS

Nedbank Limited
135 Rivonia Road, Sandown
Sandton, 2146

Rand Merchant Bank
1 Merchant Place, corner Fredman Drive and Rivonia Road
Sandton, 2196

FORWARD-LOOKING STATEMENTS

Adcock Ingram may, in this document, make certain statements that are not historical facts and relate to analyses and other information which are based on forecasts of future results and estimates of amounts not yet determinable. These statements may also relate to our future prospects, developments and business strategies. Examples of such forward-looking statements include, but are not limited to, statements regarding exchange rate fluctuations, volume growth, increases in market share, total shareholder return and cost reductions. Words such as "believe", "anticipate", "expect", "intend", "seek", "will", "plan", "could", "may", "endeavour" and "project" and similar expressions are intended to identify such forward-looking statements, but are not the exclusive means of identifying such statements. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and there are risks that the predictions, forecasts, projections and other forward-looking statements will not be achieved. If one or more of these risks materialise, or should underlying assumptions prove incorrect, our actual results may differ materially from those anticipated. Forward-looking statements apply only as of the date on which they are made, and we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

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