Animal Health
Combined Annual Financial Statements
for the year ended 30 June 2020, 30 June 2019 and 30 June 2018

Index

The reports and statements set out below comprise the combined annual financial statements presented to the shareholder:

Statement of Financial Position as at 30 June 2020

	Notes	2020 R	2019 R	2018 R
Assets				
Non-Current Assets				
Plant and equipment	4	5 815 387	6 802 788	7 290 550
Right-of-use assets	5	14 970 480	-	-
Intangible assets and goodwill	6	529 016 919	549 535 993	739 372 886
		549 802 786	**556 338 781**	**746 663 436**
Current Assets				
Inventories	8	111 110 040	94 989 517	96 197 874
Loans to related parties	9	204 941 509	210 056 261	156 115 768
Trade and other receivables	10	70 925 583	61 384 030	70 279 310
Derivative financial instruments	11	251 575	211 243	-
Cash and cash equivalents	12	3 370 220	1 630 185	30 016 963
		390 598 927	**368 271 236**	**352 609 915**
Total Assets		**940 401 713**	**924 610 017**	**1 099 273 351**
Equity and Liabilities				
Equity				
Common control reserve		540 969 057	540 969 057	837 985 822
(Accumulated losses) / Retained earnings		(1 555 767 469)	(682 837 747)	32 061 053
		(1 014 798 412)	**(141 868 690)**	**870 046 875**
Liabilities				
Non-Current Liabilities				
Lease liabilities	5	12 702 279	-	-
Deferred tax	7	48 163 064	60 829 700	73 349 238
		60 865 343	**60 829 700**	**73 349 238**
Current Liabilities				
Trade and other payables	13	84 683 210	49 273 056	78 045 367
Loans from related parties	14	392 722 387	372 566 572	66 937 927
Lease liabilities	5	3 694 389	-	-
Current tax payable	24	6 230 827	9 446 830	3 774 377
Provisions	15	4 574 037	4 315 676	7 119 567
Financial guarantee liability	16	1 402 429 932	570 046 873	-
		1 894 334 782	**1 005 649 007**	**155 877 238**
Total Liabilities		**1 955 200 125**	**1 066 478 707**	**229 226 476**
Total Equity and Liabilities		**940 401 713**	**924 610 017**	**1 099 273 351**

The notes on page 6 - 69 form an integral part of the combined annual financial statements.

Animal Health

Combined Annual Financial Statements for the year ended 30 June 2020, 30 June 2019 and 30 June 2018

Statement of Profit or Loss and Other Comprehensive Income

	Notes	2020 R	2019 R	2018 R
Revenue	17	489 870 646	473 807 039	365 004 249
Cost of sales	18	(244 890 606)	(225 197 590)	(182 659 584)
Gross profit		**244 980 040**	**248 609 449**	**182 344 665**
Other income	19	110 251	135 662	220 173
Selling and distribution costs	18	(35 667 773)	(39 498 488)	(31 549 774)
Impairment of goodwill	18	-	(171 017 503)	-
Administrative costs	18	(113 376 695)	(114 771 561)	(88 098 039)
Expected credit loss allowance on financial guarantee liability	18	(832 383 059)	(570 046 873)	-
Net Impairment losses on financial assets	18	(56 857 896)	(19 726 882)	(720 033)
Other operating expenses	18	(41 531 112)	(34 727 491)	(23 192 884)
Operating (loss) / profit		**(834 726 244)**	**(701 043 687)**	**39 004 108**
Finance income	20	49 386	1 195 079	931 506
Finance costs	21	(37 029 464)	(2 518 350)	(472 051)
(Loss) / profit before taxation		**(871 706 322)**	**(702 366 958)**	**39 463 563**
Taxation	22	(1 223 400)	(9 129 923)	(8 679 814)
Total comprehensive (loss) / profit for the year		**(872 929 722)**	**(711 496 881)**	**30 783 749**

The notes on page 6 - 69 form an integral part of the combined annual financial statements.

Statement of Changes in Equity

	Common control reserve	(Accumulated losses) / Retained earnings	Total equity
	R	R	R
Balance at 01 July 2017	**457 179 149**	**1 277 649**	**458 456 798**
Profit for the year	-	30 783 404	30 783 404
Contribution from parent	380 806 673	-	380 806 673
Balance at 01 July 2018	**837 985 822**	**32 061 053**	**870 046 875**
Loss for the year	-	(711 496 881)	(711 496 881)
Total comprehensive loss for the year	**-**	**(711 496 881)**	**(711 496 881)**
Contribution to parent	(297 016 765)	-	(297 016 765)
Total adjustments	**(297 016 765)**	**-**	**(297 016 765)**
Balance at 01 July 2019 as previously reported	**-**	**(678 935 828)**	**(678 935 828)**
Changes in accounting policies			
IFRS 9 adjustment	-	(3 252 101)	(3 252 101)
IFRS 15 adjustment	-	(149 818)	(149 818)
Balance at 01 July 2019 as restated	**540 969 057**	**(682 837 747)**	**(141 868 690)**
Loss for the year	-	(872 929 722)	(872 929 722)
Total comprehensive loss for the year	**-**	**(872 929 722)**	**(872 929 722)**
Balance at 30 June 2020	**540 969 057**	**(1 555 767 469)**	**(1 014 798 412)**

*The contribution from parent relates to the acquisition of Kyron by the holding company, Ascendis Health.

Statement of Cash Flows

	Notes	2020 R	2019 R	2018 R
Cash flows from operating activities				
Cash generated from operations	23	94 563 732	65 399 786	85 912 624
Interest received	20	49 386	355 349	931 505
Interest paid		(2 498 246)	(1 985 136)	(472 052)
Tax paid	24	(17 106 042)	(14 636 664)	(20 691 085)
Net cash from operating activities		**75 008 830**	**49 133 335**	**65 680 992**
Cash flows from investing activities				
Purchase of plant and equipment	4	(1 045 661)	(2 203 571)	(3 470 802)
Proceeds on sale of plant and equipment		72 182	10 617	-
Purchase of intangible assets	6	(3 620 600)	(5 305 778)	(2 259 930)
Acquired cash	30	-	-	60 631 243
Loans advanced to related parties		(220 597 461)	(369 602 223)	(163 492 846)
Repayments of loans advanced to related parties		100 379 544	291 502 177	-
Dividends paid		-	-	(70 000 000)
Net cash used in investing activities		**(124 811 996)**	**(85 598 778)**	**(178 592 335)**
Cash flows from financing activities				
Loans received from related parties		54 687 033	35 585 130	66 937 927
Repayments of loans received from related parties		-	(27 506 465)	-
Payment of lease liabilities	5	(3 143 832)	-	-
Net cash from financing activities		**51 543 201**	**8 078 665**	**66 937 927**
Total cash and cash equivalents movement for the year		**1 740 035**	**(28 386 778)**	**(45 973 416)**
Cash and cash equivalents at the beginning of the year		1 630 185	30 016 963	75 990 379
Total cash and cash equivalents at end of the year	12	**3 370 220**	**1 630 185**	**30 016 963**

The notes on page 6 - 69 form an integral part of the combined annual financial statements.

Accounting Policies

1. Significant accounting policies

The principal accounting policies applied in the preparation of these combined annual financial statements are set out below.

1.1 Basis of preparation

Description of business

On 19 July 2021, Ascendis Health Limited (“Ascendis”) announced its intention to dispose of its operations related to the manufacture and distribution of animal health products to Acorn Agri & Food Limited ("AAF"), through its nominee, Sun Valley Estates Proprietary Limited (the "Purchaser") and AAF Invest Proprietary Limited, a wholly-owned subsidiary of AAF (the "Guarantor"). In terms of the proposed transaction, Ascendis group will dispose of its entire shareholding in the following entities:

- Ascendis Animal Health Proprietary Limited;
- Ascendis Vet Proprietary Limited;
- Kyron Laboratories Proprietary Limited;
- Kyron Prescriptions Proprietary Limited;

(collectively, referred to as “Animal Health”).

The reporting entity’s operations related to animal health products were historically conducted through the separate legal entities set out above; the combination of these operations is referred to as Animal Health.

Although the animal health operations is a separate operating segment of the Ascendis group, the entities that form Animal Health for the purposes of the combined carve-out historical financial information historically did not exist as a reporting group and no separate consolidated financial statements were prepared for Animal Health. For the purpose of presenting the historical performance of Animal Health for the proposed disposal by Ascendis, combined carve-out historical financial information has been prepared.

International Financial Reporting Standards (“IFRS”) compliance

The combined carve-out historical financial information of the Animal Health is prepared in compliance with International Financial Reporting Standards (“IFRS”) and interpretations of those standards as issued by the International Accounting Standards Board (“IASB”), the South African Institute of Chartered Accountants (“SAICA”) Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council and the JSE Limited (“JSE”) Listings Requirements.

Basis of preparation

The combined carve-out historical financial information of Animal Health was derived from the consolidated financial statements of Ascendis for the three years ended 30 June 2020, 30 June 2019 and 30 June 2018, which were prepared in accordance with IFRS. The combined carve-out historical financial information has been prepared for the purpose of presenting the financial position, results of operations, and cash flows of Animal Health on a stand-alone basis.

As IFRS does not provide specific guidance for the preparation of combined carve-out historical financial information, principles outlined in IAS 8 were used in the preparation of the combined carve-out historical financial information for inclusion in circulars. IAS 8 requires consideration of the most recent pronouncements of other standard-setting bodies, other financial reporting requirements and recognised industry practices. The combined carve-out historical financial information has consequently been prepared as a combination of the historical financial information recognised in the Ascendis consolidated financial statements related to Animal Health (i.e. predecessor accounting). The assets of Animal Health recognised in the combined carve-out historical financial information include goodwill and intangible assets recognised in the Ascendis consolidated financial statements that relate to the Animal Health.

The accounting policies utilised in the combined carve-out historical financial information are consistent with those applied by Ascendis in its consolidated financial statements. The combined carve-out historical financial information is:

- Presented in South African Rand (ZAR).
- Prepared using the historic cost convention except for certain financial instruments including derivative instruments, which are stated at fair value.

Accounting Policies

1.1 Basis of preparation (continued)

- Prepared on the going concern basis. As at 30 June 2018 the current assets of Animal Health exceed its current liabilities. As at 30 June 2019 and 30 June 2020 the current liabilities exceed the current assets due to the recognition of a financial guarantee liability in respect of the Ascendis group's senior debt. Animal Health will be released from its financial guarantee obligation related to Ascendis group's senior debt on disposal from Ascendis which will restore Animal Health to a solvent position with current assets exceeding current liabilities. Management therefore has a reasonable expectation that Animal Health's operations have adequate resources to continue in operational existence for the foreseeable future.

The following principles and assumptions have been applied in the preparation of the combined carve-out historical financial information:

Equity:

- Share capital and earnings per share - As Animal Health did not historically constitute a combined legal group there is no issued share capital. The information on earnings per share for Animal Health pursuant to IAS 33 has not been presented, as no capital structure has been presented in the combined carve-out historical financial information.
- Contribution from parent - As a result of applying predecessor accounting, the contribution from Ascendis is recognised at the carrying value of the net assets contributed to Animal Health at the earliest comparative period presented. This contribution represents the aggregated combined share capital and retained earnings of the entities included in the combined carve-out historical financial information of Animal Health at the earliest comparative period presented. The opening balance and movements in aggregated combined share capital and retained earnings of the entities included in the combined carve-out historical financial information of Animal Health has been described as 'Contribution from parent' in the combined carve-out statement of changes in equity of Animal Health.
- Other reserves: no other reserves have been presented as there are no categories in equity that will be recycled to profit or loss in the future.

Goodwill and intangible assets:
Goodwill and intangible assets that arose on the acquisition of the entities comprising Animal Health by the Ascendis group, such as customer relationships, contracts and drug master files, have been recognised in the combined carve-out historical financial information. During the reporting periods presented, goodwill was tested for impairment at a Cash-generating unit ("CGU") level, being the CGUs used at that time by Ascendis to monitor goodwill. This was determined to also be the appropriate level for testing of goodwill impairment for Animal Health.

- Allocation of central costs - Management and similar functions for the South African operations of Ascendis group were primarily performed at an Ascendis Management Services Proprietary Limited ("Ascendis Management Services") level (a subsidiary of Ascendis); these functions include payroll, accounting, centralised purchasing, marketing, executive management, rent, advertising, legal, insurance, IT, company secretarial and other administrative functions. Any central management fees and similar costs that were incurred by Ascendis Management Services on behalf of Animal Health were historically recharged to the entities comprising Animal Health. For 2018 – 2020 financial years, central costs were allocated on EBITDA basis, this was because majority of entities in the group to which corporate services were provided were making profits. Allocating these costs on EBITDA basis provided a reasonable allocation based on extent to which services were consumed. However due to financial difficulties within the group, a number of entities have been making losses. As a result, the basis of allocation was changed in 2021 financial year to revenue so that entities that consumed corporate services were allocated an appropriate portion of the central costs. As such, no additional central costs were required to be allocated to Animal Health.
- Taxation: The entities that comprise Animal Health have historically filed separate tax returns in South Africa. All entities will continue to file separate tax returns. The income taxes have been accounted for using the separate tax return method by aggregating the tax positions of the individual entities of Animal Health.
- Intercompany: Transactions and balances with the Ascendis group of companies have been disclosed as related party transactions and balances in the combined carve-out historical financial information. All intergroup transactions and balances between the entities comprising Animal Health are eliminated. Directors' remuneration has been excluded due to Animal Health not constituting a combined legal group for the historical reporting periods and not having a separate board of directors.
- Interest: The interest charge reflected in the combined carve-out historical financial information is based on the interest charge historically incurred by the entities within Animal Health on specific external borrowings or related party financing provided by Ascendis group companies.

Accounting Policies

1.1 Basis of preparation (continued)

Accounting policies

The accounting policies applied in the preparation of the combined carve-out historical financial information as of 30 June 2020 are consistent with those applied for the years ended 30 June 2019 and 2018, except for the adoption of IFRS 16 'Leases', IFRS 9 'Financial Instruments', and IFRS 15 'Revenue from Contracts with Customers'. IFRS 16 and the Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosure' were adopted on 1 July 2019 and IFRS 9 and IFRS 15 took effect on 1 July 2018. IFRS 9, IFRS 15 and IFRS 16 were adopted using the modified retrospective approach, where the comparative financial information is not restated as permitted by the standard.

Limitations inherent to carve-out

As the combined carve-out historical financial information of Animal Health has been prepared on a combined basis (i.e. did not comprise a single reporting entity historically), this combined carve-out historical financial information may not be indicative of Animal Health's future performance and what its combined results of operations, financial position and cash flows would have been, had Animal Health operated as a separate reporting entity for the periods presented.

Subsequent events

The combined carve-out historical financial information of Animal Health was authorised for issue by the board of directors of Ascendis on__________________2021. Subsequent events have been considered from 30 June 2020 up to the date that the combined carve-out historical financial information was authorised for issuance. Refer to note 32.

1.2 Significant judgements and sources of estimation uncertainty

The preparation of combined annual financial statements in conformity with IFRS requires management, from time to time, to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Critical judgements

The critical judgements made by management in applying accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognised in the financial statements, are outlined as follows:

Going concern

Management applies judgement in assessing the going concern ability of the reporting entity. Refer to Note 31 for the detailed going concern disclosures.

Critical judgments in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option: or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Lease term

The reporting entity determines the lease term as the non-cancellable term of the lease together with any periods covered by an option to extend or terminate the lease. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise an termination option.

The following factors are the most relevant:

- The period which the reporting entity has leased the asset;
- Management's future plans in terms of leasing the item;
- The significance of leasehold improvements, if any;

1.2 Significant judgements and sources of estimation uncertainty (continued)

- The costs and disruption to business if the leased asset is to replaced.

Most extension options have been included in the lease liability because of the factors listed above, where applicable, it was assessed that it is reasonably certain that the reporting entity will exercise the extension option.

Accounting estimates

Provision for obsolescence stock

Inventory provisions include obsolescence and write downs which take into consideration historical information related to the following:

- Sales trends
- Ageing profiles
- Market factors
- Stock counts

The provision is related to finished goods which are close to expiry date. All stock that will expire within 6 months is assessed on whether they will be sold before expiry. The provision is determined by determining the average run rate per month.

Impairment of non-financial assets

Refer to note 6 Intangible assets and goodwill on assumptions related to the impairment of non-financial assets.

Residual values and useful lives of assets

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

Provisions

Provisions are inherently based on assumptions and estimates using the best information available. Additional disclosure of these estimates of provisions are included in note 15.

Deferred tax assets

The reporting entity uses budgets and financial forecasts for the foreseeable future to estimate whether deferred tax assets are recoverable or not. Management has reviewed the three-year budget and financial plan for the reporting entity and based on the profitability projected consider it probable that future taxable profits will be available against which the tax losses may be used and the related deferred tax assets realised. The company takes into account future taxable profits and this might not be equal to accounting loss or profit presented in the statement of profit or loss and other comprehensive income.

Allowances for expected credit losses (ECL) on financial assets (applicable from 1 July 2018)

The reporting entity recognises a credit loss allowance on a forward-looking basis. The measurement of ECL requires the use of complex models and significant assumptions about the future economic conditions and credit behaviour.

ECL on trade and other receivables

The ECL allowance is based on assumptions about the risk of default and expected loss rates. The company uses judgements in making these assumptions and selecting the inputs to the ECL calculation which are related to the following:

- History sales trends and write offs
- Existing market conditions
- Forward looking estimates that are linked to micro and macro-economic environment, for example, gross domestic product, inflation, etc.

IAS 39 Provision for doubtful debts (applicable before 1 July 2018)

The company assesses its trade receivables, loans and receivables for impairment at the end of each reporting period.

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

The impairment for trade receivables, loans and receivables is determined if there is objective evidence that the amount has been impaired. This is assessed based in payment history, credit terms of the customer and financial difficulties by the specific customer.

1.3 Plant and equipment

Plant and equipment are tangible assets which the reporting entity holds for its own use or for rental to others and which are expected to be used for more than one year.

An item of plant and equipment is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the reporting entity, and the cost of the item can be measured reliably.

Plant and equipment is initially measured at cost. Cost includes all of the expenditure which is directly attributable to the acquisition or construction of the asset.

Plant and equipment is subsequently stated at cost less accumulated depreciation and any accumulated impairment losses.

The cost of major refurbishment is capitalised as property, plant and equipment to the extent that it can be recovered from future use of the assets. The capitalised amounts are depreciated over the relevant useful lives. All other repairs and maintenance are charged to the statement of profit or loss during the period in which these are incurred.

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the reporting entity. Leased assets are depreciated in a consistent manner over the shorter of their expected useful lives and the lease term. Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised.

Plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of plant and equipment have been assessed as follows:

Item	Average useful life
Computer equipment	3 years
Furniture and fixtures	10 years
Plant and machinery	5 years
Motor vehicles	5 years
Office equipment	10 years
Leasehold improvements	5 - 10 years
Burglar alarms	3 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.

Each part of an item of plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

Impairment tests are performed on plant and equipment when there is an indicator that they may be impaired. When the carrying amount of an item of plant and equipment is assessed to be higher than the estimated recoverable amount, an impairment loss is recognised immediately in profit or loss to bring the carrying amount in line with the recoverable amount.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of plant and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in profit or loss when the item is derecognised.

1.4 Intangible assets and goodwill

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end. Amortisation for the period is included as part of the other operating expenses.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Average useful life
Brands and trademarks	10 years
Computer software	3 - 4 years
Contracts	5 - 25 years
Drug master files	15 - 20 years
Client relationships	10 - 30 years

Research and development costs

Research and development expenditures that do not meet the requirements in terms of IAS 38 Intangible Assets are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in the subsequent period.

Development costs directly attributable to the production of new or substantially improved products, processes or computer software controlled by the reporting entity are recognised when the following criteria are met:

- it is technically feasible to complete the asset so that it will be available for use;
- management intends to complete the asset and use or sell it;
- there is an ability to use or sell the asset;
- it can be demonstrated how the asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the asset are available; and
- the expenditure attributable to the asset during its development can be reliably measured.

Capitalised development costs are in terms of existing dossiers which have passed proof of concept for which further research and development is performed to enhance the product. The reporting entity is further incentivised through government funding and tax incentives to enhance product development.

Directly attributable costs that are capitalised as part of the intangible asset include the employee costs and an appropriate portion of overheads. Capitalised development costs are recorded as an intangible assets and amortised from the point at which the asset is ready for use.

Development costs are capitalised until the date of commercial production and are amortised from the commencement of commercial sale of the product to which they relate, being the date at which all regulatory requirements necessary to commercialise the product have been met.

All the remaining development costs that do not meet the recognition criteria are recognised as an expense (other operating expenses) as incurred.

Intangible assets within the reporting entity includes the following:

(a) Brands and trademarks

The reporting entity capitalises marketing-related brands and trademarks acquired through business combinations. Brands and trademarks are words, names or symbols used in trade to indicate the source of a product and to distinguish it from the service or products of other entities. Trade names are capitalised at the date of acquisition at the fair value determined by an independent valuer. The fair values are determined by a relief- from-royalty method which entails quantifying royalty payments, which would be required if the trade name were owned by a third party and licensed to the reporting entity.

Accounting Policies

1.4 Intangible assets and goodwill (continued)

(b) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with maintaining computer software programs are recognised as an expense as incurred.

Costs that are directly associated with the production of identifiable and unique software products controlled by the reporting entity, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets if they meet the recognition criteria.

(c) Drug master files

The reporting entity capitalises technical know-how relating to the drug master files acquired as part of a business combination. The assets generate the right to use the drug master file by customers while the reporting entity retains the assets.

(d) Client relationships

The reporting entity capitalises customer lists acquired as part of business combinations.

(e) Goodwill

Goodwill arises on the acquisition of businesses and represents the excess of the consideration transferred over the reporting entity's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

Goodwill is measured at cost less accumulated impairment losses and is not amortised but tested for impairment annually or more frequent if events and changes in circumstances indicate a potential impairment. Impairment losses are recognised immediately as an expense in the statement of profit or loss.

Goodwill is allocated to each of the Cash Generating Units ("CGU"), or groups of CGUs expected to benefit from the business combination in which goodwill arose. Each CGU or group of CGUs to which goodwill is allocated represents the lowest level within the entity at which goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Determining whether goodwill is impaired requires an estimation of the value in use of each CGU to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value of these cash flows.

1.5 Financial Instruments

IFRS 9: Financial Instruments (applicable from 1 July 2018)

Accounting for Financial Instruments

Financial instruments comprise other financial assets, trade and other receivables (excluding prepayments), cash and cash equivalents, loans to and from related parties, other non-current liabilities (excluding provisions), derivatives and trade and other payables.

Recognition and classification

Financial assets and liabilities are recognised in the reporting entity's statement of financial position when the reporting entity becomes party to the contractual provisions of the instruments. Financial assets are classified as current if expected to be realised or settled within 12 months from the reporting date; if not, they are classified as non-current. Financial liabilities are classified as non-current if the reporting entity has an unconditional right to defer payment for more than 12 months from the reporting date.

The reporting entity classifies financial assets on initial recognition as measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit and loss (FVTPL) based on the reporting entity's business model for managing the financial asset and the cash flow characteristics of the financial asset. Financial assets are not reclassified unless the reporting entity changes its business model. In rare circumstances where the reporting entity does change its business model, reclassifications are done prospectively from the date that the reporting entity changes its business model. Financial liabilities are classified as measured at amortised cost except for those derivative liabilities that are measured at FVTPL.

Measurement at initial recognition

At initial recognition, financial assets are measured at fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss. Trade receivables without a significant financing component are initially recognised at the transaction price. All financial liabilities, excluding derivative liabilities, are subsequently measured at amortised cost using the effective interest method. Derivative liabilities are subsequently measured at fair value with changes therein recognised in profit or loss.

Subsequent measurement

Financial assets

The classification and subsequent measurement of financial assets depend on the reporting entity's business model for managing the financial assets and the contractual terms of the cash flows.

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

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

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

Financial assets that are not measured at amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Financial liabilities

All financial liabilities, excluding derivative liabilities are subsequently measures at amortised cost using the effective interest method. Derivative financial liabilities are subsequently measures at fair value with changes being recognised in profit or loss.

Accounting Policies

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the reporting entity has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligations specified in the contracts are discharged, cancelled or expire. On derecognition of a financial asset/liability, any difference between the carrying amount extinguished and the consideration paid is recognised in profit or loss.

Offsetting financial instruments

Offsetting of financial assets and liabilities is applied when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The net amount is reported in the statement of financial position. No offsetting of financial instruments was done for all the periods presented.

Impairment

Expected credit losses associated with debt instruments carried at amortised cost and FVOCI are assessed on a forward-looking basis. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The reporting entity calculates its allowance for credit losses (ECLs) for financial assets that are measured at amortised cost. ECLs are a probability weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls i.e. the difference between the cash flows due to the company in accordance with the contract and the cash flows that the company expects to receive. ECLs are discounted at the original effective interest rate (EIR) of the financial asset.

The reporting entity applies the simplified approach to determine the ECL for trade receivables. This results in calculating lifetime expected credit losses for trade receivables.

For purposes of determining the credit loss allowances on loans to related parties, management applies the 3-stage general impairment model to determine the impairment stage that the loans to related parties sit within. At initial recognition, the loans to related parties are generally performing which requires a 12 month ECL to be calculated for each outstanding balance. The model requires the monitoring of the credit risk associated with the loan to consider if there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk (the loans to related parties are doubtful or in default (credit impaired)), a lifetime ECL is recognised.

The table below sets out the general impairment model which is applied by management for loans to related parties.

Internal credit grade	Description	Basis for recognising expected credit losses
Stage 1 - performing	Low risk of default and no amounts are past due	12-month ECL
Stage 2 - doubtful	Either 30 days past due or there has been a significant increase in credit risk since initial recognition. The assessment is based on the whether there will be a risk of default over the expected life of the financial asset.	Lifetime ECL
Stage 3 - in default*	Either 90 days past due or there is evidence that the asset is credit impaired	Lifetime ECL
Write-off#	There is evidence indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery.	Amount is written off

*The reporting entity defines a financial instrument as in default when the counterparty fails to make contractual payments within 90 days of when they fall due. This is fully aligned with the definition of credit-impaired assets.
#The reporting entity writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery.

Accounting Policies

Financial guarantee contracts

The reporting entity is required to recognise a financial guarantee liability in relation to financial guarantee contracts where the reporting entity is the guarantor of a debt. Financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of the debt instrument.

Financial guarantee contract issued by the company is initially measured and recognised at fair value and is subsequently measured at the higher of:

- the expected credit loss in accordance with IFRS 9; or
- the amount initially recognised less, where appropriate, cumulative amortisation recognized in accordance with IFRS 15.

The ECLS are a probability weighted estimate of credit loss (the cash shortfalls) over the expected life of the guarantee. Accordingly, the cash shortfalls are the expected payments to reimburse the holder for a credit loss that is incurred less any amounts that the company expects to receive from me from the holder, debtor or any other party.

The following formula was used to determine the ECL: Exposure at Default (EAD) x Probability of Default (PD) and Loss Given Default (LGD). The PD has been determined using Moody's CreditEdge model. The model is an adapted Merton type model which takes market data into account. An implied rating of Caa3 which was measured by CreditEdge was used. LGD was measured using Moody's RiskCalc LGD module assuming a default with a post default recovery methodology. The ECL% is calculated at 10.8% in 2020 and 10.7% in 2019.

IAS 39: Financial Instruments – Measurement and Recognition (applicable before 1 July 2018)

Classification

The reporting entity classifies financial assets and financial liabilities into the following categories:

- Loans and receivables
- Financial liabilities measured at amortised cost.

Financial instruments are recognised initially when the company becomes a party to the contractual provisions of the instruments. The reporting entity classifies financial instruments, or their components parts, on initial recognition as a financial asset, financial liability, or equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available for sale financial assets. For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument.

Subsequently financial instruments at fair value through profit or loss are subsequently measured at fair value with gains and losses arising from changes in fair value being included in the statement of profit or loss and other comprehensive income for the period. Financial instruments at amortised cost are subsequent measurement amortised cost using the effective interest method less any accumulated impairment losses.

Impairment of financial assets

At each reporting date the reporting entity assesses all financial assets other than those at fair value through profit or loss, to determine whether there is objective evidence that a financial asset or group of financial assets have been impaired.

Impairment losses are recognised in the statement of profit or loss and other comprehensive income.

Impairment losses are reversed when an increase in the financial assets' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in the statement of profit or loss and other comprehensive income.

Derecognition

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income of finance costs.

Finance assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the reporting entity has transferred substantially all the risks and rewards of ownership.

Loans to (from) group companies

These include loans to and from holding companies, fellow subsidiaries or subsidiaries, and are recognised initially at fair value plus direct transaction costs.

Loans to group companies are classified as loans and receivables.

Loans from group companies are classified as financial liabilities measured at amortised cost using effective interest method.

Trade and other receivables

Trade receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of profit or loss and other comprehensive income when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization and default or delinquency on payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, when a receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the statement of profit or loss and other comprehensive income.

Trade and other receivables are classified as financial assets held at amortised cost.

Trade and other payables

Trade and other payables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

Trade payables are obligations on the basis of the normal credit terms and no not bear interest. Trade payables denominated in foreign currency are translated into Rands using the exchange rates at the reporting date. Foreign exchange gains and losses are included in the other income or other expenses.

Trade and other payables are classified as financial liabilities held at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Cash and cash equivalents are classified as financial assets held at amortised cost.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Financial guarantee contracts issued by the company are initially measured at their fair values and are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- The amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

Accounting Policies

1.6 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The reporting entity measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

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

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to other comprehensive income, or
- a business combination.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

1.7 Leases

IAS 17: Leases applicable in 2019 & 2018

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. The reporting entity does not have any finance leases for all the periods presented.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. This asset or liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

1.8 Inventories

Inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The carrying values of finished goods and work-in-progress include raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but exclude borrowing costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

When inventories are sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.9 Provisions

A provision is recognised when there is a present legal or constructive obligation as a result of a past event for which it is more likely than not that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the amount required to settle the present obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligations. The increase of the provision due to the passage of time is recognised as a finance cost.

1.10 Impairment of non-financial assets

The reporting entity assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the reporting entity estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

1.10 Impairment of non-financial assets (continued)

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation is recognised immediately in profit or loss.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation is recognised immediately in profit or loss.

1.11 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

1.12 Revenue from contracts with customers

The reporting entity recognises revenue from the sale of health products for animals.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The reporting entity recognises revenue when it transfers control of a product or service to a customer.

Revenue is recognised at a point in time when control of the products has transferred, being when the products are delivered to the customer. Delivery occurs when the products have been shipped to the customer,the risks of obsolescence and loss have been transferred to the customer and the customer has accepted the products in accordance with the sale agreement.

Revenue from these sales is recognised based on the price listing effective on the day the order is made by the customer. No element of financing is deemed present as the sales are made with a credit term of 30 days, which is consistent with market practice. The reporting entity sells goods with a right of return in terms of the reporting entity's accounting policy and the relevant consumer legislation. Such sales are cancelled where the right of return is exercised. A refund liability for the expected refunds to customers is recognised as an adjustment to revenue in trade and other payables. The corresponding refund asset is recognised as an adjustment to cost of sales in trade and other receivables. Past experience of the reporting entity's return has been used to estimate the right of return at the time of sale.

A receivable is recognised when the goods or services are delivered to the customer as this is the main point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

1.13 Cost of sales

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The related cost of providing services recognised as revenue in the current period is included in cost of sales.

Accounting Policies

1.14 Translation of foreign currencies

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Rands, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous combined annual financial statements are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised to other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised to other comprehensive income and accumulated in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cash flows arising from transactions in a foreign currency are recorded in Rands by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

Functional and presentation currency

Items included in the annual financial statements are measured using the currency of the primary economic environment in which the reporting entity operates ('the functional currency'). The annual financial statements are presented in Rands, which is the reporting entity's functional and presentation currency.

1.15 Business combinations

Subsidiaries are all entities (including structured entities) over which the reporting entity has control. The reporting entity controls an entity when the reporting entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the reporting entity. They are deconsolidated from the date that control ceases.

The reporting entity applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the reporting entity. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The reporting entity recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest’s proportionate share of the recognised amounts of acquiree’s identifiable net assets. Goodwill which arises on business combinations is mainly attributable to synergies, economies of scale and the ability to breach new markets as a result of the geographical location of the business acquired.

When the reporting entity incurs acquisition related costs, these are expensed as incurred.

Any contingent consideration to be transferred by the reporting entity is recognised at fair value at the acquisition date.

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 identifiable net assets acquired is recorded as goodwill.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform to the reporting entity’s accounting policies.

Accounting Policies

1.15 Business combinations (continued)

Management's main assumptions in evaluating whether an acquisition is that of a business and not an asset reporting entity, were made on the basis that a business consists of inputs and processes applied to those inputs, that have the ability to create outputs.

(a) The inputs acquired include:

- Tangible items: Equipment, infrastructure and working capital necessary for trade within the business acquired;
- Intangible items: Computer software, software licenses, and trademarks;
- Other items not necessarily included in the financial statements: A management team, the process and know-how of the business, studies and test results, market knowledge, relationships with the licensing body and management knowledge of the industry.

(b) The processes acquired include: management processes, corporate governance, organisational structures, strategic goal-setting, operational processes and human and financial resource management.
(c) The outputs acquired include: access to research results, access to management's strategic plans, revenue from customers, access to new markets, increased efficiency, synergies, customer satisfaction and reputation.

Notes to the Combined Annual Financial Statements

2. Changes in accounting policies

Change in accounting policies from 1 July 2019

The reporting entity has adopted IFRS 16 Leases (IFRS 16) and IFRIC 23 Uncertainty over Income Tax Treatments (IFRIC 23) as issued by the International Accounting Standard Board (IASB), which were effective for the reporting entity from 1 July 2019.

IFRS 16

IFRS 16 introduced a single, on balance sheet accounting model for lessees. As a result, the reporting entity, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. After the adoption of IFRS 16, the reporting entity recognised a depreciation expense on the right-of-use assets and an interest expense accruing on the lease liabilities and no longer recognised an operating lease expense for these leases. Cash generated from operations increased as lease costs are no longer in this category. Interest paid increased, as it includes the interest portion of the lease liability payments and capital portion of lease liability repayments is included in financing activities.

The reporting entity adopted IFRS 16 retrospectively from 1 July 2019 but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard.

The reporting entity's leasing activities and significant accounting policies:

The reporting entity leases buildings. Rental contracts are typically made for fixed periods varying between two to fifty-five years but may have renewal periods as described below.

As a lessee, the reporting entity previously classified leases as operating, or financing leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Payments made under operating leases (net of any incentives from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, the reporting entity recognised right-of-use assets and lease liabilities at the lease commencement date for most leases. However, the reporting entity has elected not to recognise right-of-use assets and leases for some leases of low value assets and for short term leases, i.e. leases that at commencement date have lease terms of 12 months or less, where applicable. The reporting entity defines low-value leases as leases of assets for which the value of the underlying asset when it is new is R50 000 or less and is dependent on the nature of the asset. The reporting entity recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The recognised right-of-use asset relate to the following types of assets:	**1 July 2019***
	R
Buildings	16 904 054

* The right-of-use asset recognised relates to leases that were previously recorded as operating leases in terms of IAS 17.

The lease liability is initially measured at the present value of the following lease payments, where applicable:

- Fixed payments (including in-substance fixed payments), less any incentives receivable.
- Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the reporting entity's incremental borrowing rate is used being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the leased asset in a similar economic environment with similar terms and conditions. The reporting entity used its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. Interest costs are charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability each period. It is remeasured when there is a change in future lease payments arising from a change in index or rate, a change in the estimate of the amount payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

2. Changes in accounting policies (continued)

The right-of-use assets are initially measured at cost comprising the following:
- The amount of the initial measurement of the lease liability.
- Any lease payments made at or before the commencement date less any lease incentives received.
- Any initial direct costs.
- Decommissioning costs.

The right-of-use assets are subsequently measured at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability. The right-of-use assets are depreciated over the shorter of the assets' useful lives and the lease terms on a straight-line basis.

Renewal and termination options

A number of lease contracts include the option to renew the lease for a further period or terminate the lease earlier. The majority of extension and termination options held are exercisable only by the reporting entity and not by the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option or not exercise a termination option. Extension options (or period after the termination options) are only included in the lease if it is reasonably certain that the lease will be extended (or not terminated). The reporting entity applies judgement in assessing whether it is reasonably certain (likely) that the options will be exercised. Factors considered include how far in the future an option occurs, the reporting entity's business planning cycle and past history of terminating/not renewing leases.

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

A number of leases entitle both the reporting entity and the lessor to terminate the lease without a termination penalty. In determining whether the reporting entity has an economic incentive to not exercise the termination option, the reporting entity considers the broader economics of the contracts and not only contractual termination payments.

Lease and non-lease components

In the event that the lease contract includes both lease and non-lease components, the reporting entity allocated the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone selling prices. The stand-alone selling prices of each component are based on available market prices. Non-lease components are accounted for as operating expenses and are recognised in profit or loss as they are incurred.

Transition

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the reporting entity's incremental borrowing rate, for the remaining lease terms, as at 1 July 2019. Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The reporting entity used the following practical expedients as permitted by the standard, when applying IFRS 16 to leases previously classified as operating leases under IAS 17:
- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Accounted for leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases.
- Accounted for low value leases as leases of assets for which the value of the underlying asset when it is new is R50 000 or less and is not considered fundamental to the reporting entity's operations.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Reliance on a previous assessment of onerous leases as an alternative to performing an impairment review.
- Not to reassess whether a contract is, or contains a lease at the date of initial application. For all contracts entered into before the transition date, the reporting entity relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement Contains a Lease (IFRIC 4).

Impact on financial statements

Impacts on transition.

On transition to IFRS 16, the reporting entity recognised right-of-use assets and lease liabilities. The impact on transition is summarised below:

Notes to the Combined Annual Financial Statements

2. Changes in accounting policies (continued)

	1 July 2019 R
Right-of-use asset	16 904 054
Total assets	**16 904 054**
Lease liabilities	16 904 054
Total liabilities	**16 904 054**

When measuring lease liabilities for leases that were classified as operating leases, the reporting entity discounted lease payments using its incremental borrowing rate at 1 July 2019. The average incremental borrowing rate is 9.33%. A reconciliation of the operating lease commitments disclosed as at 30 June 2019 discounted using the incremental borrowing rate at 1 July 2019 to the lease liability recognised on 1 July 2019 is disclosed below:

	1 July 2019 R
Operating lease commitments as at 30 June 2019	8 460 118
Lease commitments discounted using incremental borrowing rate as of 1 July 2019	8 431 381
Extension options reasonably certain to be exercised (discounted using the incremental borrowing rate)	245 706
Short term leases	(233 151)
Lease liabilities recognised as at 1 July 2019	**16 904 054**
Of which are	
Current lease liabilities	4 733 540
Non-current lease liabilities	12 170 514
	16 904 054

IFRIC 23 and related IFRIC agenda decision

IFRIC 23 and the IFRIC agenda decision in relation to the presentation of liabilities or assets related to uncertain tax treatments in September 2019 respectively clarifies the application of the recognition and measurement requirements in IAS 12 Income Taxes and the presentation requirements in IAS 1 Presentation of Financial Statements when there is uncertainty over income tax treatments. This did not have an impact on the reporting entity because all uncertain tax treatments are recognised as current tax liabilities.

Change in accounting policies from 1 July 2018

The reporting entity has adopted the following new accounting pronouncements as issued by the International Accounting Standard Board (IASB), which were effective for the reporting entity from 1 July 2018:

- IFRS 15 Revenue from Contracts with Customers; and
- IFRS 9 Financial Instruments.

The reporting entity applied the modified retrospective approach in transitioning to IFRS 9 and IFRS 15.

2. Changes in accounting policies (continued)

The table below shows the adjustments recorded in each line item. Line items that were not affected by the changes have not been included:

Current assets	**30 June 2018 As originally reported**	**IFRS 9**	**IFRS 15**	**1 July 2018 Restated**
	R	**R**	**R**	**R**
Loans to related parties	156 115 768	(4 070 009)	-	152 045 759
Trade and other receivables	66 764 187	(446 797)	267 835	66 585 225
Cash and cash equivalents	29 031 718	-	-	29 031 718
	251 911 673	**(4 516 806)**	**267 835**	**247 662 702**
Non current liabilities				
Deferred tax liability	73 349 238	(1 264 706)	(58 263)	72 026 269
Current liabilities				
Loans from related parties	66 937 927	-	-	66 937 927
Trade and other payables	82 036 533	-	475 915	82 512 448
	148 974 460	**-**	**475 915**	**149 450 375**

IFRS 15: Revenue from contracts with customers

Revenue recognition policy under IAS 18 (applicable before 1 January 2018)

Sale of goods are recognised when a reporting entity entity has delivered products to the wholesaler, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the reporting entity has objective evidence that all criteria for acceptance have been satisfied.

Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts and returns at the time of sale. No element of financing is deemed present as the sales are made with a credit term, which is consistent with the market practice.

Revenue is presented net of indirect taxes, estimated returns and trade discounts and rebates.

Adoption of IFRS 15 Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15 revenue is recognised at an amount that reflects the consideration an entity expects to receive for transferring goods or services to a customer.

The core principle of IFRS 15 is that any entity should recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The standard requires the apportionment of revenue earned from contracts to identified performance obligations in the contracts on a relative stand-alone selling price basis based on a five-step model. The standard also requires the capitalisation of costs incremental to obtaining the contract and recognition of these costs as an expense over the term of the contracts.

The reporting entity principally generates revenue from manufacturing and distribution of pharmaceutical products. Revenue is measured based on the consideration agreed with the customer excluding indirect taxes, estimated returns and trade discounts and rebates. Refer to accounting policies in note 1 for the detailed accounting policy.

The nature of the change is as follows:

Sale of goods – right of return

The reporting entity sells goods with a right of return in line with the consumer legislation and the reporting entity policy.

2. Changes in accounting policies (continued)

The reporting entity previously accounted for any customer refunds or replacements in relation to customer returns when the customer returns goods and a credit note is issued.

In terms of IFRS 15, right of return represents variable consideration. Sales made to customers who have a right of return are adjusted for the amount of revenue the reporting entity is entitled to i.e. net of expected returns. Therefore, a refund liability is created for the reduction in revenue and a refund asset for the reduction in cost of sales.

This resulted in the reduction of revenue and cost of sales and an increase in other payables (refund liability) and other receivables (refund asset).

The impact on financial information is as follows:

	1 July 2018 R
Gross amount	(208 080)
Increase in other receivables	267 835
Increase in other payables	(475 915)
Attributable deferred tax	58 262
Impact on retained earnings	**(149 818)**

Adoption of IFRS 9 Financial Instruments

The adoption of IFRS 9 had the following impact on the reporting entity:

- Change from IAS 39 incurred loss model to the ECL model to calculate impairments of financial instrument;
- Change in the classification of the measurement categories for financial instrument.

Initial classification and measurement

IFRS 9 changed the measurement categories for financial assets. The classification has changed from loans and receivables to amortised cost based on the reporting entity's business model and solely payments of principal and interest (SPPI). The reporting entity has assessed which business models apply to the financial assets held at the date of initial application of IFRS 9 and has classified its financial instruments into appropriate IFRS 9 categories. It was determined that all the financial asset which were classified as loans and receivables under IAS 39, satisfy the conditions for classification at amortised cost under IFRS 9. Therefore, there is no change in the measurement of these assets.

There has been no change to the classification of the reporting entity's financial liabilities as they continue to be classified and measured at amortised cost.

The table below indicates the classification changes from IAS 39 to IFRS 9:

Financial assets	**Original classification under IAS 39**	**New classification under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
Loans to related parties	Loans and receivables	Amortised cost	156 115 768	152 045 759
Trade and other receivables	Loans and receivables	Amortised cost	66 764 187	66 317 390
Cash and cash equivalents	Loans and receivables	Amortised cost	29 031 718	29 031 718
Financial liabilitiies				
Loans from related parties	Amortised cost	Amortised cost	66 937 927	66 937 927
Trade and other payables	Amortised cost	Amortised cost	82 036 533	82 036 533

Impairment

Before the adoption of IFRS 9, the reporting entity calculated the allowance for credit loss using the incurred loss model. Under this model, the reporting entity assessed whether there was any objective evidence of impairment at the end of each reporting period. The allowance for credit losses was calculated on an individual basis based on payment history, adjusted for national and industry-specific economic conditions and other indicators such as the credit terms of the customer, financial difficulties that correlate with the defaults of the individual receivable.

2. Changes in accounting policies (continued)

IFRS 9 requires the reporting entity to record expected credit losses on all of its receivables and other financial assets, either on 12- month or lifetime basis. The expected credit losses (ECLs) are a probability weighted estimate of credit losses.

The reporting entity applies the simplified approach to determine the ECL for trade receivables. This results in calculating lifetime expected credit losses for these trade receivables. ECL for trade receivables without significant financing component is calculated using a provision matrix.

The reporting entity applies the general impairment model in determining the ECL on loans to related parties. This results in calculating the lifetimes expected loss or 12-month expected losses depending on the significance of credit risk.

All other financial assets measured at amortised cost are also subject to the impairment requirements of IFRS 9, the impairment losses were identified as immaterial.

Significant judgement

In applying the requirements of IFRS when determining the ECL for trade receivables, analysis of empirical evidence of historical defaults and losses was done. Significant judgement is applied and generally includes the specific country's benchmark data. Material and concentrated exposures were assessed separately. The measurement of risk is projected forward based on macroeconomic forecasts. Macro-economic forecast, includes the South Africa gross domestic product and inflation rates, is applied with a probability average of the forecasts and scenarios. For customers that were identified as individually significant, a specific risk was applied by applying the published credit ratings.

Estimation was applied in determining the correlation of macro-economic variables to defaults. The basis of the correlations applied was based on the Moody's Analytics Impairment Calculation.

Impairment

IFRS 9 requires the reporting entity to record expected credit losses on all of its receivables and other financial assets, either on 12-month or lifetime basis. The expected credit losses (ECLs) are a probability weighted estimate of credit losses. The reporting entity applies the simplified approach to determine the ECL for trade receivables. This results in calculating lifetime expected credit losses for these trade receivables. ECL for trade receivables without a significant financing component is calculated using a provision matrix.

General Impairment model

The reporting entity applies the general impairment model to loans receivable from related parties which uses a PD*LGD*EAD over the longest contractual period that the reporting entity is exposed to credit risk.

- the PD (probability of default) - that is, the likelihood that the counterparty would not be able to repay.
- the LGD (loss given default) - that is, the loss that the occurs if the counter party is unable to pay.
- the EAD (exposure at default) - that is the outstanding balance at reporting date.

Expected credit loss are measured at a probability weighted amount that reflects the possibility that a credit loss occurs. The assessment of the PD is based on whether the counterparty has sufficient assets to repay the loan when its due and the assessment of LGD is based on whether there has been a significant increase in credit risk since the initial recognition of the loans. For the loans that are performing, a 12 months ECL is applied and for the loans that are doubtful and in default, a lifetime ECL is applied. The ECLs are adjusted for forward looking information such as the relevant country's GDP, sovereign rates, the expectation that the loan will be repaid by the counterparty and expected period of repayment.

The loans from related parties are valued based on the risk of the counterparty on the comprehensive method. PD and LGD was measured using Moody's Analytics RiskCalc's respective PD and LGD modules (RiskCalc South Africa version 3,2 and LossCalc version 4,0) Moody's RiskCalc solution compares company financial information to an extensive database of company financial and default information. The inputs to this calculation are historical audited financial statements of the related counterparties. The output was the historic PD and LGD.

This is then converted from 'Through The Cycle' (TTC) to 'Point in Time' (PIT) measures using Moody's Analytics Impairment Cal product. The measures are conditioned on the database based on the historic South African macro-economic data and then calculated a forward looking ECL using macroeconomic forecasts with a probability weighted average of Moody's Analytics' economic forecasts and scenarios.

Notes to the Combined Annual Financial Statements

2. Changes in accounting policies (continued)

Provision matrix

ECLs are calculated by applying a loss ratio to the aged balance of trade receivables at each reporting date. The loss ratio is calculated according to the ageing/payment profile of sales by applying historic/proxy write-offs to the payment profile of the sales population. In instances where there was no evidence of historical write-offs, management used a proxy write-off based on the previous provision for bad debts that was raised. Trade receivable balances have been grouped so that the ECL calculation is performed on groups of receivables with similar risk characteristics and ability to pay. Similarly, the sales population selected to determine the ageing/payment profile of the sales is representative of the entire population and in line with future payment expectations. The historic loss ratio is then adjusted for forward looking information such as the GDP, sovereign rates, etc to determine the ECL for the portfolio of trade receivables at the reporting period to the extent that there is a strong correlation between the forward looking information and the ECL.

Estimation was applied in determining the correlation of macro-economic variables to defaults. The basis of the correlations applied was based on the Moody’s Analytics Impairment Calculation.

Significant increase in credit risk

In assessing whether the credit risk on a loan has increased significantly since initial recognition, the reporting entity compares the risk of a default occurring on the loan as at the reporting date with the risk of a default occurring as at the date of initial recognition. The reporting entity considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information. By contrast, if a loan is assessed to have a low credit risk at the reporting date, then it is assumed that the credit risk on the loan has not increased significantly since initial recognition. The reporting entity regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increases in credit risk before the amount becomes past due.

Qualitative criteria

Irrespective of the outcome of the above assessment, the credit risk on a loan is always presumed to have increased significantly since initial recognition if the contractual payments are more than 30 days past due, unless the reporting entity has reasonable and supportable information that demonstrates otherwise.

Qualitative indicators

The reporting entity considers available reasonable forward-looking information and the following indicators are incorporated:
- Changes in macro-economic environment, for example gross domestic product;
- Expected delay in payment;
- Actual or expected significant adverse changes in business impacting the ability of the customer to pay;
- Internal and external credit ratings.

The adjustment to opening retained earnings for the transition to the expected credit loss model (impairment of trade receivables) as at 1 July 2018 is as follows:

Increase in provision for trade receivables	(446 797)
Expected credit loss allowance for loans receivables from related parties	(4 070 009)
Attributable deferred tax	1 264 706
Impact on retained earnings	**(3 252 100)**

Notes to the Combined Annual Financial Statements

3. New Standards and Interpretations

3.1 Standards and interpretations effective and adopted in the current year

In the current year, the reporting entity has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Amendments to IFRS 3 Business Combinations: Annual Improvements to IFRS 2015 - 2017 cycle

The amendment clarifies that when a party to a joint arrangement obtains control of a business that is a joint operation, and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is a business combination achieved in stages. The acquirer shall therefore apply the requirements for a business combination achieved in stages.

The effective date of the amendment is for years beginning on or after 01 January 2019.

The reporting entity has adopted the amendment for the first time in the 2020 combined annual financial statements

The impact of the interpretation is not material.

Amendments to IAS 12 Income Taxes: Annual Improvements to IFRS 2015 - 2017 cycle

The amendment specifies that the income tax consequences on dividends are recognised in profit or loss, other comprehensive income or equity according to where the entity originally recognised the events or transactions which generated the distributable reserves.

The effective date of the amendment is for years beginning on or after 01 January 2019.

The reporting entity has adopted the amendment for the first time in the 2020 combined annual financial statements

The impact of the interpretation is not material.

IFRIC 23 Uncertainty over Income Tax Treatment

The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. Specifically, if it is probable that the tax authorities will accept the uncertain tax treatment, then all tax related items are measured according to the planned tax treatment. If it is not probable that the tax authorities will accept the uncertain tax treatment, then the tax related items are measured on the basis of probabilities to reflect the uncertainty. Changes in facts and circumstances are required to be treated as changes in estimates and applied prospectively.

The effective date of the interpretation is for years beginning on or after 01 January 2019.

The reporting entity has adopted the interpretation for the first time in the 2020 combined annual financial statements

The impact of the interpretation is not material.

3.2 Standards and interpretations not yet effective

The reporting entity has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the reporting entity’s accounting periods beginning on or after 01 July 2020 or later periods:

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

If a parent loses control of a subsidiary which does not contain a business, as a result of a transaction with an associate or joint venture, then the gain or loss on the loss of control is recognised in the parents' profit or loss only to the extent of the unrelated investors' interest in the associate or joint venture. The remaining gain or loss is eliminated against the carrying amount of the investment in the associate or joint venture. The same treatment is followed for the measurement to fair value of any remaining investment which is itself an associate or joint venture. If the remaining investment is accounted for in terms of IFRS 9, then the measurement to fair value of that interest is recognised in full in the parents' profit or loss.

The effective date of the amendment is to be determined by the IASB.

It is unlikely that the amendment will have a material impact on the combined annual financial statements.

3. New Standards and Interpretations (continued)

Classification of Liabilities as Current or Non-Current - Amendment to IAS 1

The amendment changes the requirements to classify a liability as current or non-current. If an entity has the right at the end of the reporting period, to defer settlement of a liability for at least twelve months after the reporting period, then the liability is classified as non-current.

If this right is subject to conditions imposed on the entity, then the right only exists, if, at the end of the reporting period, the entity has complied with those conditions.

In addition, the classification is not affected by the likelihood that the entity will exercise its right to defer settlement. Therefore, if the right exists, the liability is classified as non-current even if management intends or expects to settle the liability within twelve months of the reporting period. Additional disclosures would be required in such circumstances.

The effective date of the amendment is for years beginning on or after 01 January 2023.

The reporting entity expects to adopt the amendment for the first time in the 2024 combined annual financial statements.

It is unlikely that the amendment will have a material impact on the reporting entity's combined annual financial statements.

Property, Plant and Equipment: Proceeds before Intended Use: Amendments to IAS 16

The amendment relates to examples of items which are included in the cost of an item of property, plant and equipment. Prior to the amendment, the costs of testing whether the asset is functioning properly were included in the cost of the asset after deducting the net proceeds of selling any items which were produced during the test phase. The amendment now requires that any such proceeds and the cost of those items must be included in profit or loss in accordance with the related standards. Disclosure of such amounts in now specifically required.

The effective date of the reporting entity is for years beginning on or after 01 January 2022.

The reporting entity expects to adopt the amendment for the first time in the 2023 combined annual financial statements.

It is unlikely that the amendment will have a material impact on the combined annual financial statements.

Onerous Contracts - Cost of Fulfilling a Contract: Amendments to IAS 37

The amendment defined the costs that are included in the cost of fulfilling a contract when determining the amount recognised as an onerous contract. It specifies that the cost of fulfilling a contract comprises the costs that relate directly to the contract. These are both the incremental costs of fulfilling the contract as well as an allocation of other costs that relate directly to fulfilling contracts (for example depreciation allocation).

The effective date of the reporting entity is for years beginning on or after 01 January 2022.

The reporting entity expects to adopt the amendment for the first time in the 2023 combined annual financial statements.

It is unlikely that the amendment will have a material impact on the combined annual financial statements.

Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 9

When there is a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform then the entity is required to apply paragraph B5.4.5 as a practical expedient. This expedient is only available for such changes in basis of determining contractual cash flows.

Additional temporary exemptions from applying specific hedge accounting requirements as well as additional rules for accounting for qualifying hedging relationships and the designation of risk components have been added to hedge relationships specifically impacted by interest rate benchmark reform.

The effective date of the reporting entity is for years beginning on or after 01 January 2021.

The reporting entity expects to adopt the amendment for the first time in the 2022 combined annual financial statements.

It is unlikely that the amendment will have a material impact on the combined annual financial statements.

3. New Standards and Interpretations (continued)

Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 16

If there is a lease modification as a result of the interest rate benchmark reform, then as a practical expedient the lessee is required to apply paragraph 42 of IFRS 16 to account for the changes by remeasuring the lease liability to reflect the revised lease payment. The amendment only applies to modifications as a result of the interest rate benchmark reform.

The effective date of the reporting entity is for years beginning on or after 01 January 2021.

The reporting entity expects to adopt the amendment for the first time in the 2022 combined annual financial statements.

It is unlikely that the amendment will have a material impact on the combined annual financial statements.

COVID-19 - Related Rent Concessions - Amendment to IFRS 16

The COVID-19 pandemic has resulted in an amendment to IFRS 16 Leases. Lessees may elect not to assess whether a rent concession that meets the conditions in paragraph 46B is a lease modification. If this election is applied, then any change in lease payments must be accounted for in the same way as a change would be accounted for if it were not a lease modification. This practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payment affects only payments originally due on or before 30 June 2021 and
- there is no substantive change to other terms and conditions of the lease.

The effective date of the amendment is for years beginning on or after 01 June 2020.

The reporting entity expects to adopt the amendment for the first time in the 2021 combined annual financial statements.

It is unlikely that the amendment will have a material impact on the combined annual financial statements.

Amendment to IAS 1 - ‘Presentation of financial statements’ and IAS 8 - ‘Accounting policies, changes in accounting estimates and errors’

The amendment clarifies and aligns the definition of ‘material’ and provides guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

The effective date of the amendment is for years beginning on or after 01 January 2020.

The reporting entity expects to adopt the amendment for the first time in the 2021 combined annual financial statements.

It is unlikely that the amendment will have a material impact on the combined annual financial statements.

Notes to the Combined Annual Financial Statements

4. Plant and equipment

	2020			2019			2018		
	Cost	Accumulated depreciation / impairment	Carrying value	Cost	Accumulated depreciation / impairment	Carrying value	Cost	Accumulated depreciation	Carrying value
	R	R	R	R	R	R	R	R	R
Computer equipment	2 120 926	(1 801 002)	319 924	2 237 952	(1 753 426)	484 526	2 090 656	(1 453 563)	637 093
Furniture and fixtures	4 983 733	(2 473 525)	2 510 208	4 675 130	(2 040 159)	2 634 971	3 310 438	(1 015 135)	2 295 303
Leasehold improvements	236 225	(104 369)	131 856	236 225	(48 013)	188 212	236 225	(36 202)	200 023
Motor vehicles	2 266 576	(1 876 418)	390 158	2 631 484	(2 046 557)	584 927	3 402 658	(2 632 949)	769 709
Office equipment	610 452	(416 194)	194 258	579 829	(375 449)	204 380	557 182	(332 979)	224 203
Plant and machinery	10 095 425	(7 889 847)	2 205 578	9 592 449	(6 991 073)	2 601 376	9 040 257	(5 881 354)	3 158 903
Burglar alarms	240 488	(177 083)	63 405	240 488	(136 092)	104 396	131 188	(125 872)	5 316
Total	**20 553 825**	**(14 738 438)**	**5 815 387**	**20 193 557**	**(13 390 769)**	**6 802 788**	**18 768 604**	**(11 478 054)**	**7 290 550**

Reconciliation of plant and equipment - 2020

	Opening balance	Additions	Disposals	Depreciation	Closing balance
	R	R	R	R	R
Computer equipment	484 526	203 460	(29 465)	(338 597)	319 924
Furniture and fixtures	2 634 971	308 602	(2 123)	(431 242)	2 510 208
Leasehold improvements	188 212	-	-	(56 356)	131 856
Motor vehicles	584 927	-	(13 664)	(181 105)	390 158
Office equipment	204 380	30 623	-	(40 745)	194 258
Plant and machinery	2 601 376	502 976	-	(898 774)	2 205 578
Burglar alarms	104 396	-	-	(40 991)	63 405
	6 802 788	**1 045 661**	**(45 252)**	**(1 987 810)**	**5 815 387**

4. Plant and equipment (continued)

Reconciliation of plant and equipment - 2019

	Opening balance	Additions	Disposals	Depreciation	Closing balance
	R	R	R	R	R
Computer equipment	637 093	147 298	-	(299 865)	484 526
Furniture and fixtures	2 295 303	1 372 134	(2 372)	(1 030 094)	2 634 971
Leasehold improvements	200 023	-	-	(11 811)	188 212
Motor vehicles	769 709	-	-	(184 782)	584 927
Office equipment	224 203	22 646	-	(42 469)	204 380
Plant and machinery	3 158 903	552 193	-	(1 109 720)	2 601 376
Burglar alarms	5 316	109 300	-	(10 220)	104 396
	7 290 550	**2 203 571**	**(2 372)**	**(2 688 961)**	**6 802 788**

Reconciliation of plant and equipment - 2018

	Opening balance	Additions	Additions through business combinations	Disposals	Depreciation	Closing balance
	R	R	R	R	R	R
Computer equipment	325 082	360 486	194 047	-	(242 522)	637 093
Furniture and fixtures	213 777	2 066 549	267 841	-	(252 864)	2 295 303
Motor vehicles	171	342 479	486 764	(2)	(59 703)	769 709
Office equipment	-	-	238 192	-	(13 989)	224 203
Plant and machinery	362 995	465 063	2 709 947	-	(379 102)	3 158 903
Leasehold improvements	-	236 225	-	-	(36 202)	200 023
Burglar alarms	18 642	-	-	-	(13 326)	5 316
	920 667	**3 470 802**	**3 896 791**	**(2)**	**(997 708)**	**7 290 550**

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011 is available for inspection at the registered office of the company.

5. Right-of-use assets

Details pertaining to leasing arrangements, where the reporting entity is a lessee are presented below:

The reporting entity adopted IFRS 16 for the first time in the 2020 financial period. Comparative figures have been accounted for in accordance with IAS 17 and accordingly, any assets recognised under finance leases in accordance with IAS 17 for the comparative have been recognised as part of plant and equipment. The information presented in this note for right-of-use assets therefore only includes the current period.

Net carrying amounts of right-of-use assets

The statement of financial position shows the following amounts recognised as right-of-use assets with regards to leases:

	30 June 2020	1 July 2019
	R	R
Buildings	14 970 480	16 904 054

Additions to the right-of-use asset in the current year amounts to R 2 477 291.

5. Right-of-use assets (continued)

The following amounts are recorded in the income statement in terms of the lease for the 2020 financial year:

	30 June 2020 R
Depreciation	4 410 866
Interest expense	1 819 945
	6 230 811

The following amounts are recorded in the cash flows:

	30 June 2020 R
Interest paid	1 819 945
Payments of lease liabilities	3 143 832
	4 963 777

Lease liabilities

Lease liabilities have been included on the statement of financial position.

During the 2020 financial year, the reporting entity recognised R 233 151 short term leases directly in the income statement disclosed as part of other operating expenses. There were no low value asset leases recognised.

The maturity analysis of lease liabilities is as follows:

Within one year	5 306 102	-	-
Two to five years	14 438 139	-	-
More than five years	767 037	-	-
	20 511 278	**-**	**-**
Non-current liabilities	12 702 279	-	-
Current liabilities	3 694 389	-	-
	16 396 668	**-**	**-**
Reconciliation of lease liability			
Adoption of IFRS 16	19 540 499	-	-
Repayments for the year	(3 143 831)	-	-
	16 396 668	**-**	**-**

Exposure to liquidity risk

Refer to note 28 Financial instruments and risk management for the details of liquidity risk exposure and management for lease liabilities.

Exposure to interest rate risk

Refer to note 28 Financial instruments and risk management for the details of interest rate risk exposure and management for lease liabilities.

Notes to the Combined Annual Financial Statements

6. Intangible assets and goodwill

	2020			2019			2018		
	Cost R	Accumulated amortisation / impairment R	Carrying value R	Cost R	Accumulated amortisation / impairment R	Carrying value R	Cost R	Accumulated amortisation / impairment R	Carrying value R
Drug master files	9 710 404	(3 430 515)	6 279 889	7 771 453	(3 188 705)	4 582 748	5 855 227	(2 993 674)	2 861 553
Brands and trademarks	68 854 606	(23 474 251)	45 380 355	67 172 957	(17 133 703)	50 039 254	63 794 814	(10 744 245)	53 050 569
Computer software	15 531	(14 480)	1 051	15 531	(8 204)	7 327	4 121	(2 404)	1 717
Contracts	121 817 244	(19 598 892)	102 218 352	121 817 244	(11 477 743)	110 339 501	121 817 244	(1 657 136)	120 160 108
Client relationships	102 142 554	(24 638 807)	77 503 747	102 142 554	(15 208 916)	86 933 638	102 142 554	(7 494 643)	94 647 911
Goodwill	468 651 028	(171 017 503)	297 633 525	468 651 028	(171 017 503)	297 633 525	468 651 028	-	468 651 028
Total	**771 191 367**	**(242 174 448)**	**529 016 919**	**767 570 767**	**(218 034 774)**	**549 535 993**	**762 264 988**	**(22 892 102)**	**739 372 886**

Reconciliation of intangible assets and goodwill - 2020

	Opening balance R	Additions R	Amortisation R	Closing balance R
Drug master files	4 582 748	1 938 952	(241 811)	6 279 889
Brands and trademarks	50 039 254	1 681 649	(6 340 548)	45 380 355
Computer software	7 327	-	(6 276)	1 051
Contracts	110 339 501	-	(8 121 149)	102 218 352
Client relationships	86 933 638	-	(9 429 891)	77 503 747
Goodwill	297 633 525	-	-	297 633 525
	549 535 993	**3 620 601**	**(24 139 675)**	**529 016 919**

Notes to the Combined Annual Financial Statements

6. Intangible assets and goodwill (continued)

Reconciliation of intangible assets and goodwill - 2019

	Opening balance R	Additions R	Amortisation R	Impairment R	Closing balance R
Drug master files	2 861 553	1 916 226	(195 031)	-	4 582 748
Brands and trademarks	53 050 569	3 378 142	(6 389 457)	-	50 039 254
Computer software	1 717	11 410	(5 800)	-	7 327
Contracts	120 160 108	-	(9 820 607)	-	110 339 501
Client relationships	94 647 911	-	(7 714 273)	-	86 933 638
Goodwill	468 651 028	-	-	(171 017 503)	297 633 525
	739 372 886	**5 305 778**	**(24 125 168)**	**(171 017 503)**	**549 535 993**

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011 is available for inspection at the registered office of the company.

Reconciliation of intangible assets and goodwill - 2018

	Opening balance R	Additions R	Additions through business combinations R	Amortisation R	Closing balance R
Drug master files	3 306 937	-	-	(445 384)	2 861 553
Brand and trademarks	35 339 067	2 259 930	18 685 887	(3 234 315)	53 050 569
Computer software	-	4 121	-	(2 404)	1 717
Contracts	47 246 108	-	74 571 136	(1 657 136)	120 160 108
Client relationships	42 605 566	-	59 536 988	(7 494 643)	94 647 911
Goodwill	218 615 596	-	250 035 432	-	468 651 028
	347 113 274	**2 264 051**	**402 829 443**	**(12 833 882)**	**739 372 886**

Refer to note 18 for the research and development costs that have been expensed.

6. Intangible assets and goodwill (continued)

Impairment tests

Impairment tests are conducted annually and are based on the projected sustainable cash flow methodology. Using a time horizon of five years, board approved CGU budgets for the following financial year form the base of this calculation. The cash flows from the approved budgets are extrapolated to the following four years. A long-term growth rate is applied to the final forecast year's cash flows to determine cash flows into perpetuity. The present value of these cash flows is calculated by applying an appropriate discount factor, determined after consideration of both systematic and unsystematic risks for each CGU.

These tests were performed on CGUs and this resulted in no impairment in 2020 and goodwill impairment of R171 million in 2019 recorded in the statement of profit or loss.

The table below illustrates the total impairment of goodwill per each CGU in 2019. There were no impairment recorded for 2020 and 2018. In 2018, there was no impairment assessment done because the acquisitions of the companies within this group were still in the measurement period in terms of the requirement of IFRS 3.

	Carrying value	Impairment amount	Recoverable amount
	R	R	R
Ascendis Vet Proprietary Limited	77 660 156	(38 126 725)	39 533 431
Ascendis Animal Health Proprietary Limited	117 309 826	(41 562 551)	75 747 275
Kyron Laboratories Proprietary Limited	274 524 068	(91 328 227)	183 195 841
	469 494 050	**(171 017 503)**	**298 476 547**

Significance estimate: Key assumptions used for value in use calculations

The reporting entity tests goodwill for impairment on an annual basis. The recoverable based on value-in-use calculations which require the use of assumptions. The amount of each CGU was determined calculations use cash flow projections based on financial budgets approved by management with a further four years of cash flows projected using a combination of forecast GDP growth and expected inflation rates, tailored for management's specific expectations. A long-term growth rate is applied to the cash flows arising in the fifth year in order to estimate a terminal value for the CGU.

Assumptions have been applied for the analysis of each CGU within the operating segment. All assets and liabilities for each CGU have been considered when determining impairment. Ascendis has a robust budgeting process and the revenue growth rates have been assessed on a prudent basis with a key focus on cash generation. The impact of Covid-19 and economic restrictions were considered in determining the budgeted cash flows for the 2021 financial year. Cash flows in the budget and forecast years have been adjusted in 2020 assessment for the reversal of lease payments in terms of IFRS16 Leases in the underlying budgets and notional capital expenditures estimated using the depreciation associated with the right-of-use assets have been included in the cash flows to accommodate either the renewal of the leases or the acquisition of the underlying assets.

Management applies judgement in determining a discount rate for each geography using published risk-free rates, a peer company systemic risk factor (beta) and a range of equity market risk premiums. Small stock premiums are applied to individual CGUs on an iterative basis. The Ascendis group's cost of debt is an important element in determining the discount rate used. The peer companies' five-year average capital structure is applied to the individual elements of the discount rate. For CGUs impacted by IFRS16 Leases in 2020 assessment, an adjustment is made to the discount rate to accommodate the incremental borrowing rate.

Management exercises judgement in respect of the allocation of impairments amongst classes of intangible assets other than goodwill, where necessary.

Assumptions
1. Sales growth - this is the expected average annual growth rate used in the determination of the five year sales forecast. It is CGU specific and based on current industry trends, including inflation forecasts for the different geographies in which business is conducted.

2. Other operating costs growth - these costs are those that do not vary significantly with sales volumes or prices and are based on current structures and ignore future unplanned restructurings or cost-saving measures. Their growth rate is based on current industry trends, including inflation forecasts for the different geographies in which business is conducted.

Notes to the Combined Annual Financial Statements

6. Intangible assets and goodwill (continued)

3. Annual capital and research and development expenditure - these are based on a short/medium term expenditure plan and the cash flows are included in the CGUs forecasts. In accordance with the value-in-use model, it is assumed these expenditures will not generate additional revenue, or result in additional costs.

4. Long-term growth rate - this is the expected growth rate used to determine cash flows beyond the budget and forecast period, which is used to and reflect the weighted annual growth rate.

5. Discount rates - these are CGU specific and reflect the specific risks relating to the relevant segments and the geographies in which they operate.

The following table details the main assumptions underlying forecasts from 2021 to 2025. Gross profit margins are not provided for commercial considerations. Budget and forecast CGU gross profit margins are closely correlated with those achieved in the 2020 financial year unless there is clear evidence from management to support changes.

2020	**Sales volume & growth %**	**Other operating costs growth %**	**Annual capex & research and development (% of sales)**	**Long-term growth rate %**	**Pre-tax discount rate %**
Ascendis Vet Proprietary Limited	5.3 %	8.2 %	1.0 %	5.0 %	21.1 %
Ascendis Animal Health Proprietary Limited	4.1 %	14.7 %	0.2 %	5.0 %	20.9 %
Kyron Laboratories Proprietary Limited	5.9 %	7.1 %	0.5 %	5.0 %	21.1 %
2019					
Ascendis Vet Proprietary Limited	6.4 %	1.4 %	3.6 %	5.0 %	20.8 %
Ascendis Animal Health Proprietary Limited	5.1 %	2.5 %	2.2 %	5.0 %	21.3 %
Kyron Laboratories Proprietary Limited	6.1 %	1.9 %	1.1 %	5.0 %	21.2 %

Sensitivities

The following tables illustrates the change in the key assumptions for the carrying amount of the CGU to be equal to the recoverable amount. The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated:

2020	**Sales volume & growth %**	**Other operating costs growth %**	**Annual capex & research and development (% of sales)**	**Long-term growth rate %**	**Pre-tax discount rate %**
Ascendis Vet Proprietary Limited	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Ascendis Animal Health Proprietary Limited	(0.8)%	2.7 %	2.1 %	(2.4)%	1.9 %
Kyron Laboratories Proprietary Limited	(0.6)%	1.3 %	1.4 %	(1.1)%	0.9 %

2019	**Sales volume & growth %**	**Other operating costs growth %**	**Annual capex & research and development (% of sales)**	**Long-term growth rate %**	**Pre-tax discount rate %**
Ascendis Vet Proprietary Limited	0.0 %	(3.3)%	0.0 %	0.0 %	5.9 %
Ascendis Animal Health Proprietary Limited	17.6 %	(238.5)%	(22.9)%	34.4 %	5.9 %
Kyron Laboratories Proprietary Limited	6.5 %	(101.8)%	(26.6)%	1.9 %	6.3 %

Notes to the Combined Annual Financial Statements

	2020 R	2019 R	2018 R

7. Deferred tax

Deferred tax asset

	2020 R	2019 R	2018 R
Expected credit loss on intercompany loans	22 285 216	6 775 195	-
Other	-	383 113	867 350
Provisions	461 101	4 817 814	6 697 188
Lease liabilities	4 591 066	-	-
Total deferred tax asset	**27 337 383**	**11 976 122**	**7 564 538**

Deferred tax liability

	2020 R	2019 R	2018 R
Plant and equipment	(80 858)	(116 733)	(242 728)
Intangible assets	(70 836 614)	(72 558 406)	(79 911 512)
Prepayments	(29 689)	(130 683)	(759 536)
Right-of-use assets	(4 191 735)	-	-
Other	(361 551)	-	-
Total deferred tax liability	**(75 500 447)**	**(72 805 822)**	**(80 913 776)**

The deferred tax asset and the deferred tax liability relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the statement of financial position as follows:

	2020 R	2019 R	2018 R
Deferred tax asset	27 337 383	11 976 122	7 564 538
Deferred tax liability	(75 500 447)	(72 805 822)	(80 913 776)
Total net deferred tax liability	**(48 163 064)**	**(60 829 700)**	**(73 349 238)**

Reconciliation of net deferred tax liabilities

	2020 R	2019 R	2018 R
At beginning of year	(60 829 700)	(73 349 238)	(39 758 217)
Amounts restated through opening retained earnings on adoption of IFRS 9 and IFRS 15	-	1 322 969	-
Acquisition of business	-	-	(42 600 765)
Charge to the income statement:			
- Property, plant and equipment	35 875	125 995	(655 348)
- Intangible assets	7 142 197	7 353 106	7 049 924
- Expected credit loss on intercompany loans	15 510 021	5 635 592	-
- Lease liability	4 591 066	-	-
- Right-of-use asset	(4 191 735)	-	-
- Provisions	(9 403 405)	(2 897 554)	2 506 939
- Other	(1 118 377)	350 577	867 765
- Prepayments	100 994	628 853	(759 536)
At end of year	**(48 163 064)**	**(60 829 700)**	**(73 349 238)**

Deferred tax asset is recognised because the reporting entity expects to make future taxable profits in excess of profits arising from reversal of existing taxable temporary differences and as such have recognised the deferred tax assets. The deferred tax asset recoverability assessment considers the probability of forecasted future taxable income.

Notes to the Combined Annual Financial Statements

	2020 R	2019 R	2018 R

8. Inventories

	2020 R	2019 R	2018 R
Raw materials	52 679 270	41 102 515	41 928 160
Finished goods - at cost	54 623 210	54 741 739	55 732 832
Goods in transit	4 230 659	-	-
Work in progress	2 754 393	2 163 054	316 835
	114 287 532	98 007 308	97 977 827
Provision for obsolete stock	(3 177 492)	(3 017 791)	(1 779 953)
	111 110 040	**94 989 517**	**96 197 874**

The cost of inventories recognised as an expense and included in cost of sales amounted to R 263 580 902 (2019: R 243 836 945; 2018: R 182 659 584).

Amount of write-down of inventory recognised as an expense amounted to R 1 797 342 (2019: R 4 782 634; 2018: R 2 430 734). No inventories are carried at fair value less costs to sell for all the periods presented.

9. Loans to related parties

	2020 R	2019 R	2018 R
Ascendis Health Limited	12 307 630	12 307 630	12 307 630
Ascendis Biosciences Proprietary Limited	58 940 773	64 656 933	67 156 600
Ascendis Financial Services Proprietary Limited*	171 002 245	80 153 271	7 256 680
Klub M5 Proprietary Limited	42 280 918	42 280 918	42 280 918
Efekto Care Proprietary Limited	-	6 863 391	-
Afrikelp Proprietary Limited	-	27 113 940	27 113 940
	284 531 566	**233 376 083**	**156 115 768**

*This loan is unsecured, bears no interest and has no fixed repayment terms (2019 and 2018: 11%).
All other loans are unsecured, bear no interest and have no fixed terms of repayment.

Exposure to credit risk

Loans to related parties inherently expose the reporting entity to credit risk, being the risk that the reporting entity will incur financial loss if counterparties fail to make payments as they fall due.

Loans to related parties are subject to the impairment provisions of IFRS 9 Financial Instruments, which requires a loss allowance to be recognised for all exposures to credit risk. The loss allowance for loans to related parties is calculated based on twelve month expected losses if the credit risk has not increased significantly since initial recognition. In cases where the credit risk has increased significantly since initial recognition, the loss allowance is calculated based on lifetime expected credit losses. The loss allowance is updated to either twelve month or lifetime expected credit losses at each reporting date based on changes in the credit risk since initial recognition. If a loan is considered to have a low credit risk at the reporting date, then it is assumed that the credit risk has not increased significantly since initial recognition.

In determining the amount of expected credit losses, the reporting entity has taken into account any historic default experience, the financial positions of the counterparties as well as the future outlook on the economic environment in which the counterparties operate in. Refer to Note 2: Change in accounting policies for the detailed inputs and key assumptions.

In 2020, the probability of default has been increased for the estimated deteriorated gross domestic product growth in South Africa. In 2018, the reporting entity was applying IAS 39 and no provisions or write offs were recognised as there was no objective evidence of impairment.

The maximum exposure to credit risk is the gross carrying amount of the loans as presented below. The reporting entity does not hold collateral or other credit enhancements against loans to related parties.

9. Loans to related parties (continued)

Credit loss allowances

The following tables set out the carrying amount, loss allowance and measurement basis of expected credit losses for loans to related parties by basis of loss allowance.

2020

	Basis of loss allowance	Gross Carrying amount	Loss allowance	Amortised cost
Ascendis Biosciences Proprietary Limited	12m ECL	58 940 773	(26 682 488)	32 258 285
Ascendis Financial Services Limited	12m ECL	171 002 245	(42 083 654)	128 918 591
Ascendis Health Limited	12m ECL	12 307 630	-	12 307 630
Klub M5 Proprietary Limited	12m ECL	42 280 918	(10 823 915)	31 457 003
		284 531 566	**(79 590 057)**	**204 941 509**

2019

	Basis of loss allowance	Gross carrying amount	Loss allowance	Amortised cost
Ascendis Biosciences Proprietary Limited	12m ECL	64 656 933	(5 879 253)	58 777 680
Ascendis Financial Services Limited	12m ECL	80 153 271	(5 942 404)	74 210 867
Ascendis Health Limited	12m ECL	12 307 630	-	12 307 630
Klub M5 Proprietary Limited	12m ECL	42 280 918	(9 951 994)	32 328 924
Efekto Care Proprietary Limited	12m ECL	6 863 391	(259 028)	6 604 363
Afrikelp Proprietary Limited	12m ECL	27 113 940	(1 287 143)	25 826 797
		233 376 083	**(23 319 822)**	**210 056 261**

1 July 2018

	Basis of loss allowance	Gross Carrying amount	Loss allowance	Amortised cost
Ascendis Biosciences Proprietary Limited	12m ECL	67 156 600	(3 219 496)	63 937 104
Ascendis Financial Services Limited	12m ECL	7 256 680	(1 924)	7 254 756
Ascendis Health Limited	12m ECL	12 307 630	-	12 307 630
Klub M5 Proprietary Limited	12m ECL	42 280 918	(848 589)	41 432 329
Afrikelp Proprietary Limited	12m ECL	27 113 940	-	27 113 940
		156 115 768	**(4 070 009)**	**152 045 759**

Notes to the Combined Annual Financial Statements

	2020 R	2019 R	2018 R

9. Loans to related parties (continued)

30 June 2018

Counterparties	Gross Carrying amount
Ascendis Biosciences Proprietary Limited	67 156 600
Ascendis Financial Services Limited	7 256 680
Ascendis Health Limited	12 307 630
Klub M5 Proprietary Limited	42 280 918
Afrikelp Proprietary Limited	27 113 940
	156 115 768

Reconciliation of loss allowances

The following table shows the movement in the loss allowance (lifetime expected credit losses) for loans to related parties:

	2020 R	2019 R	2018 R
Opening balance in accordance with IAS 39 Financial Instruments: Recognition and Measurement	-	-	-
Adjustments upon application of IFRS 9	-	(4 070 009)	-
Opening balance in accordance with IFRS 9 (2018: IAS 39)	**(23 319 822)**	**(4 070 009)**	**-**
New loans	(22 357 932)	(2 215 463)	-
Loans repaid	4 133 877	98 801	-
Change in risk parameters *	(38 046 178)	(17 133 151)	-
Closing balance	**(79 590 055)**	**(23 319 822)**	**-**

* The increase in the loss allowance is due to an increase in the probability of default (PD).

The charge to the income statement is as follows, 2020: R 56 270 233; 2019: R 19 249 813.

10. Trade and other receivables

	2020 R	2019 R	2018 R
Financial instruments:			
Trade receivables	60 734 835	57 634 954	60 861 331
Loss allowance	(2 660 130)	(2 072 468)	(1 236 295)
Trade receivables at amortised cost	58 074 705	55 562 486	59 625 036
Deposits*	302 514	416 973	320 094
Staff loans*	35 000	43 500	32 500
Other receivables*	2 485 060	2 932 776	2 046 183
Non-financial instruments:			
Value added taxation	6 218 404	1 011 084	5 295 481
Prepayments	3 809 900	1 417 211	2 960 016
Total trade and other receivables	**70 925 583**	**61 384 030**	**70 279 310**

* These financial assets do not have external credit ratings and they are assessed internally as performing. For the purpose of impairment assessment, other receivables are considered to have low credit risk as the probability of default is very low and ECL is considered immaterial. The loss allowance is measured at an amount equal to 12- month expected credit losses.

Notes to the Combined Annual Financial Statements

	2020 R	2019 R	2018 R

10. Trade and other receivables (continued)

Categorisation of trade and other receivables

Trade and other receivables are categorised as follows in accordance with IFRS 9: Financial Instruments (2018: IAS 39):

	2020 R	2019 R	2018 R
At amortised cost	60 897 279	58 955 735	62 023 813
Non-financial instruments	10 028 304	2 428 295	8 255 497
	70 925 583	**61 384 030**	**70 279 310**

Exposure to credit risk

Trade and other receivables inherently expose the reporting entity to credit risk, being the risk that the reporting entity will incur financial loss if customers fail to make payments as they fall due.

In order to mitigate the risk of financial loss from defaults, the reporting entity only deals with reputable customers with consistent payment histories. Each customer is analysed individually for creditworthiness before terms and conditions are offered. Statistical credit scoring models are used to analyse customers. These models make use of information submitted by the customers as well as external bureau data (where available). Customer credit limits are in place and are reviewed and approved by credit management committees. The exposure to credit risk and the creditworthiness of customers, is continuously monitored.

There have been no significant changes in the credit risk management policies and processes on all periods reported.

The average credit period on trade receivables is 30 days (2019: 30 days; 2018: 30 days). No interest is charged on outstanding trade receivables.

Provision for bad debts applicable up to 30 June 2018

Individual receivables which are known to be uncollectible are written off by reducing the carrying amount directly. The other receivables are assessed collectively to determine whether there is objective evidence that an impairment has been incurred but not yet been identified. For these receivables the estimated impairment losses are recognised in a separate provision for impairment.

The reporting entity considers that there is evidence of impairment if any of the following indicators are present:
- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or delinquency in payments (overdue for more than the agreed term).

Receivables for which an impairment provision was recognised are written off against the provision when there is no expectation of recovering additional cash. Impairment losses are recognised in profit or loss within other expenses.

Expected credit loss allowance applicable from 1 July 2018

A loss allowance is recognised for all trade receivables, in accordance with IFRS 9 Financial Instruments, and is monitored at the end of each reporting period. In addition to the loss allowance, trade receivables are written off when there is no reasonable expectation of recovery, for example, when a debtor has been placed under liquidation. Trade receivables which have been written off are not subject to enforcement activities.

The reporting entity measures the loss allowance for trade receivables by applying the simplified approach which is prescribed by IFRS 9. In accordance with this approach, the loss allowance on trade receivables is determined as the lifetime expected credit losses on trade receivables. These lifetime expected credit losses are estimated using a provision matrix, which is presented below. The provision matrix has been developed by making use of past default experience of debtors but also incorporates forward looking information such as GDP and inflation rates and general economic conditions of the industry as at the reporting date.

There has been no change in the estimation techniques or significant assumptions made during the reporting periods presented.

	2020 R	2019 R	2018 R

10. Trade and other receivables (continued)

Counterparties without external credit rating (*)			
Group A	-	14 548 615	50 999 314
Group B	27 483 041	14 533 147	-
Group C	33 251 794	28 553 192	-
Group D	-	-	9 862 017
	60 734 835	**57 634 954**	**60 861 331**

Group A - new customer (less 6 months) or related parties.
Group B - existing customer (more than 6 months) with no defaults in the past.
Group C - existing customer (more than 6 months) with some defaults in the past. All defaults were fully recovered.
Group D - existing customers (more than six months) with some defaults in the past. All defaults were not fully recovered.

*The calculation for expected credit loss allowance is not performed based on the above categories

The reporting entity's historical credit loss experience does not show significantly different loss patterns for different customer segments. The provision for credit losses is therefore based on past due status without disaggregating into further risk profiles. The loss allowance provision is determined as follows:

2020	**Gross carrying amount R**	**Loss allowance R**	**Average ECL/impairment ratio**
Current	40 404 232	(568 781)	1.41 %
Up to 30 days aged	12 352 604	(534 369)	4.33 %
Up to 60 days aged	2 260 933	(159 433)	7.05 %
Up to 90 days aged	5 717 066	(1 397 547)	24.45 %
	60 734 835	**(2 660 130)**	**4.38 %**

2019	**Gross carrying amount R**	**Loss allowance R**	**Average ECL/impairment ratio**
Current	36 814 250	(207 089)	0.56 %
Up to 30 days aged	12 465 676	(141 967)	1.14 %
Up to 60 days aged	2 387 239	(81 014)	3.39 %
Up to 90 days aged	5 967 789	(1 642 398)	27.52 %
	57 634 954	**(2 072 468)**	**3.60 %**

1 July 2018*	**Gross carrying amount R**	**Loss allowance R**	**Average ECL/impairment ratio**
Current	32 386 965	(202 470)	0.63 %
Up to 30 days aged	18 927 428	(272 885)	1.44 %
Up to 60 days aged	4 638 669	(312 278)	6.73 %
Up to 90 days aged	4 908 269	(807 784)	16.46 %
	60 861 331	**(1 595 417)**	**2.62 %**

* This relates to the opening balance adjustments as a result of IFRS 9 implementation on 1 July 2018.

Notes to the Combined Annual Financial Statements

	2020 R	2019 R	2018 R

10. Trade and other receivables (continued)

30 June 2018

The age analysis of trade receivables is as follows:

Current	32 386 965
Up to 30 days aged	18 927 428
Up to 60 days aged	4 638 669
Up to 90 days aged	4 456 149
	60 409 211

As at 30 June 2018, trade receivables of R1 236 295 were provided for. The ageing of these trade receivables is as follows:

Up to 30 days aged	80 000
Up to 60 days aged	40 000
Up to 90 days aged	1 116 295
	1 236 295

Refer to the table below for the reconciliation of the provision amounts.

Reconciliation of loss allowances

The following table shows the movement in the loss allowance (lifetime expected credit losses) for trade receivables:

	2020 R	2019 R	2018 R
Opening balance in accordance with IAS 39 Financial Instruments:	-	(1 236 295)	(519 753)
Adjustments upon application of IFRS 9	-	(359 121)	-
Opening balance in accordance with IFRS 9 (2018: IAS 39)	**(2 072 468)**	**(1 595 416)**	**(519 753)**
Increase in loss allowance (2018: provision)	(587 662)	(932 664)	(723 628)
Unused amounts reversed	-	455 612	7 086
Closing balance	**(2 660 130)**	**(2 072 468)**	**(1 236 295)**

Exposure to currency risk

Refer to note 28 Financial instruments and risk management for details of currency risk management for trade and other receivables.

11. Derivative financial instruments

	2020 R	2019 R	2018 R
Foreign exchange contract	251 575	211 243	-

The reporting entity uses derivative financial instruments such as forward exchange contracts to hedge foreign exchange exposure.

Refer to note 29 Fair value information for details of valuation policies and processes.

Refer to note 28 Financial instruments and risk management further details.

Exposure to credit risk

Refer to note 28 Financial instruments and risk management for details of credit risk exposure and management for derivative financial assets.

Notes to the Combined Annual Financial Statements

	2020 R	2019 R	2018 R

12. Cash and cash equivalents

Cash and cash equivalents consist of:

	2020 R	2019 R	2018 R
Cash on hand	970	10 000	28 483
Bank balances	2 781 914	1 055 716	29 439 944
Other cash and cash equivalents	587 336	564 469	548 536
	3 370 220	**1 630 185**	**30 016 963**

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Credit rating	2020 R	2019 R	2018 R
Standard Bank Limited Ba1 (2019: Baa1; 2018: Baa1)	2 599 232	858 540	16 151 640
Nedbank Ba1 (2019: Baa1; 2018: Baa1)	770 018	761 645	13 836 840
	3 369 250	**1 620 185**	**29 988 480**

The ratings above were obtained from Moody's Investment Services.

Securities and facilities

The reporting entity has access to the following securities and facilities:

Security type	Face value R	Surety name	Expiry date
Guarantee by bank	2 000	Customs and Excise	2030/01/01
Guarantee by bank	10 000	Department of Finance: Customs and Excise	2030/01/311
Guarantee by bank	12 000	Guarantee	2020/09/20
Card	600 000	Card	2020/09/20

Exposure to currency risk

Refer to note 28 Financial instruments and risk management for details of currency risk management for cash and cash equivalents.

Exposure to interest rate risk

Refer to note 28 Financial instruments and risk management for details of interest rate risk management for cash and cash equivalents.

Exposure to credit risk

Refer to note 28 Financial instruments and risk management for details of credit risk exposure and management for cash and cash equivalents.

Notes to the Combined Annual Financial Statements

13. Trade and other payables

	2020 R	2019 R	2018 R
Financial instruments:			
Trade payables	61 931 957	18 991 325	48 874 966
Trade payables - related parties	4 099 380	10 471 482	13 632 750
Refund liability for product returns	661 255	1 039 410	-
Accrued expenses*	6 840 025	10 000 213	4 102 214
Other payables	2 649 830	966 444	3 897 857
Non-financial instruments:			
Value added taxation	-	504 388	1 864 588
Accrued payroll expenses	8 500 763	7 299 794	5 672 992
	84 683 210	**49 273 056**	**78 045 367**

* In 2019, accrued expenses include supplier rebates and expenses accrued related to other operating expenses.

Categorisation of trade and other payables

Trade and other payables are categorised as follows in accordance with IFRS 9: Financial Instruments:

	2020 R	2019 R	2018 R
At amortised cost	76 182 447	41 468 874	70 507 787
Non-financial instruments	8 500 763	7 804 182	7 537 580
	84 683 210	**49 273 056**	**78 045 367**

Exposure to currency risk

Refer to note 28 Financial instruments and risk management for details of currency risk exposure and management for trade and other payables.

Exposure to liquidity risk

Refer to note 28 Financial instruments and risk management for details of liquidity risk exposure and management for trade and other payables.

14. Loans from related parties

	2020 R	2019 R	2018 R
Ascendis Health Limited****	60 000 000	60 000 000	60 000 000
Kyron Animal Health Proprietary Limited*	-	300 270	76 628
Ascendis Biosciences Proprietary Limited**	641 189	-	-
Ascendis Financial Services Proprietary Limited***	332 081 198	312 266 302	6 861 299
	392 722 387	**372 566 572**	**66 937 927**

*This loan was unsecured, interest free and was repaid in the current year.
**This loan is unsecured, interest free and has no fixed terms of repayment.
***The above loan is unsecured, has no fixed repayment terms and bears interest at 11% (2019: 11%; 2018: Nil%).
****The above loan is unsecured, has no fixed repayment terms and bears no interest. Ascendis Health Limited has issued a letter of support to the companies within the reporting entity and undertakes to continue to provide adequate financial support to the reporting entity by providing or procuring funding to the extent that the reporting entity is unable to meet its debts and obligations in full.

Split between non-current and current portions

	2020 R	2019 R	2018 R
Current liabilities	392 722 387	372 566 572	66 937 927

Exposure to liquidity risk

Refer to note 28 Financial instruments and risk management for details of liquidity risk exposure and management for loans from related parties.

14. Loans from related parties (continued)

Exposure to interest rate risk

Refer to note 28 Financial instruments and risk management for details of interest rate risk management for loans from related parties.

15. Provisions

Reconciliation of provisions - 2020

	Opening balance	Additions	Unused provision reversed	Utilised during the year	Closing balance
	R	R	R	R	R
Legal provisions	2 019 700	120 000	(26 813)	(112 887)	2 000 000
Leave pay provision	2 295 976	1 192 397	-	(914 336)	2 574 037
	4 315 676	**1 312 397**	**(26 813)**	**(1 027 223)**	**4 574 037**

Reconciliation of provisions - 2019

	Opening balance	Additions	Unused provision reversed	Utilised during the year	Closing balance
	R	R	R	R	R
Legal provisions*	4 920 476	150 000	98	(3 050 874)	2 019 700
Leave pay provision	2 199 091	339 938	-	(243 053)	2 295 976
	7 119 567	**489 938**	**98**	**(3 293 927)**	**4 315 676**

* The reporting entity settled a number of its legal claims.

Reconciliation of provisions - 2018

	Opening balance	Additions	Utilised during the year	Closing balance
	R	R	R	R
Legal provisions	741 000	4 920 574	(741 098)	4 920 476
Leave pay provision	1 276 591	922 500	-	2 199 091
	2 017 591	**5 843 074**	**(741 098)**	**7 119 567**

The nature of provisions is as follows:

Leave pay provisions
Leave pay provision is recognised for all amount related to leave not taken by employee during the financial period. The provision is measured based on the amount that would be payable to all employees who have outstanding leave as at reporting date.

Legal provisions

The provision for legal fees and related costs includes a provision of R 2 million related to Merial Limited case which occurred and was settled pre-acquisition of Cipla Vet by the Ascendis Health Group in 2018. The remaining amount relates to various claims which were recognised in 2018 and settled in 2019. The provision is recognised based on estimates and the probability of outflow of economic events. The reporting entity is expecting to settle these claims. The provision is recognised based in estimates and the probability of outflow of economic events.

	2020 R	2019 R	2018 R

16. Financial guarantee liability

The reporting entity is required to recognise financial guarantee contracts where the company is a guarantor. A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of the debt instrument.

The financial guarantee had a negligible fair value on initial recognition when the reporting entity entered into the guarantee arrangement under the requirements of IAS 39. On transition to IFRS 9, the expected credit losses on the financial guarantee were also assessed as negligible. As a result of the financial performance of the Ascendis Group deteriorating as well as the increase in the levels of debt in the Ascendis Group during the 2019 financial year an expected credit loss allowance was recognised.

Refer to Note 1.5 for details regarding subsequent measurement of financial guarantee liability in terms of IAS 39.

In terms of IFRS 9, financial guarantee contracts issued by the reporting entity are initially measured at their fair value and are subsequently measured at the higher of:

- The expected credit loss (ECL) in accordance with IFRS 9; or
- The amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with IFRS 15.

The ECLs are a probability weighted estimate of credit losses (the cash shortfalls) over 12 months or the expected life of the guarantee. Accordingly, the cash shortfalls are the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the company expects to receive from the holder, debtor or any other party.

The following formula was used to determine the ECL: Exposure at Default x Probability of Default (PD) and Loss Given Default (LGD). The PD has been determined using Moody's CreditEdge model. The model is an adapted Merton type model which takes market data into account. An implied rating of Caa3 which was measured by CreditEdge was used. LGD was measured LGD using Moody's RiskCalc LGD module assuming a default with a post default recovery methodology. The ECL% is calculated at 10.8% (2019: 10.7%).

The reporting entity along with other subsidiaries has jointly and severally guaranteed the Ascendis group borrowing facilities recorded in Ascendis Financial Services Proprietary Limited, Ascendis Health International Holdings Limited, Scitec kft, Remedica Limited and Ascendis Financial Services International SARL. Under the terms of the guarantee, the company will make payments to reimburse the lenders upon failure of the guaranteed entity to make payments when due. Refer to note 3 of the group financial statements for further details with regards to the borrowing facilities with face values disclosed below:

	2020 R	2019 R	2018 R
Face Value			
Term loan - European debt	3 402 133 000	2 583 017 000	2 809 065 000
Term loan - South African debt	1 534 832 000	1 311 937 000	1 431 627 000
Revolving credit facility	1 373 676 000	759 299 000	783 253 000
Short-term loans with financial institutions	-	360 397 000	-
	6 310 641 000	**5 014 650 000**	**5 023 945 000**

The reporting entity's financial liability relating to financial guarantee contracts amounts to:

	2020 R	2019 R	2018 R
Financial guarantee liability*	1 402 429 932	570 046 873	-

*A change in the implied rating to Caa3 resulted in an increase of financial guarantee liability to R1.4 billion.

	2020 R	2019 R	2018 R
Financial guarantee movement:			
Opening balance	570 046 873	-	-
ECL raised	832 383 059	570 046 873	-
Closing balance	**1 402 429 932**	**570 046 873**	**-**

17. Revenue

	2020 R	2019 R	2018 R
Revenue from contracts with customers			
Sale of goods	489 870 646	473 807 039	365 004 249

Notes to the Combined Annual Financial Statements

	2020 R	2019 R	2018 R

17. Revenue (continued)

Disaggregation of revenue from contracts with customers

	2020 R	2019 R	2018 R
The reporting entity disaggregates revenue from customers as follows:			
Sale of goods - local sales	466 745 482	411 112 640	326 128 495
Sale of goods - international sales	23 125 164	62 694 399	38 875 754
	489 870 646	**473 807 039**	**365 004 249**

Timing of revenue recognition

	2020 R	2019 R	2018 R
At a point in time			
Sale of goods	489 870 646	473 807 039	-

There are no performance obligations that are unsatisfied or partially unsatisfied at the reporting date.

18. Expenses by nature

	2020 R	2019 R	2018 R
Administration costs	16 425 885	16 795 665	10 489 147
Advertising and promotions	4 179 807	10 164 545	10 965 733
Depreciation and amortisation	30 538 351	26 813 945	13 829 881
Distribution costs	15 323 579	14 974 673	11 218 136
Employee benefit expenses	65 840 066	68 512 269	53 788 386
Foreign exchange loss	312 902	1 514 693	2 714 623
Expected credit loss allowance (2019: Fair value)	832 383 059	570 046 873	-
Impairment of goodwill, intangible assets and property, plant and equipment	-	171 017 503	-
Loss on disposal of assets	9 759	52 372	49 500
Management fees	32 326 343	31 508 207	25 231 244
Net impairment loss on financial assets	56 857 896	19 726 882	720 033
Loan write off	6 563 120	-	-
General expenses	5 637 131	4 302 494	4 051 952
Research and development	27 502	212 597	740 567
Selling costs	12 308 878	12 120 747	8 374 862
Travelling costs	1 082 257	2 025 333	1 386 666
	1 079 816 535	**949 788 798**	**143 560 730**
Change in inventories	(18 464 244)	285 105	1 087 473
Purchases	263 354 850	224 912 485	181 572 111
Cost of sales	**244 890 606**	**225 197 590**	**182 659 584**

19. Other income

	2020 R	2019 R	2018 R
Bad debts recovered	55 242	46 744	42 494
Profit on sale of plant and equipment	36 691	60 436	99 998
Other income	18 318	28 482	77 681
	110 251	**135 662**	**220 173**

20. Finance income

	2020 R	2019 R	2018 R
Intercompany	-	839 731	192 596
South African Revenue Services	11 200	220 217	-
Bank	38 186	130 708	734 115
Other	-	4 423	4 795
	49 386	**1 195 079**	**931 506**

Notes to the Combined Annual Financial Statements

	2020 R	2019 R	2018 R

21. Finance costs

	2020 R	2019 R	2018 R
Lease liabilities	1 819 945	-	-
Bank	4 616	6 106	25 248
Intercompany interest*	34 531 218	533 215	-
South African Revenue Service	673 542	1 978 799	-
Other	143	230	446 803
	37 029 464	**2 518 350**	**472 051**

*Interest expense increased in 2020 significantly as the interest was incurred for a part of the year in 2019 and for the full year in 2020.

22. Taxation

Major components of the tax expense

	2020 R	2019 R	2018 R
Current			
Local income tax - current period	14 040 661	22 450 810	17 679 791
Local income tax - recognised in current tax for prior periods	(150 622)	(2 141 693)	9 766
	13 890 039	**20 309 117**	**17 689 557**
Deferred			
Originating and reversing temporary differences	(12 666 639)	(11 179 194)	(9 009 743)
	1 223 400	**9 129 923**	**8 679 814**

Reconciliation of the tax income

Reconciliation between applicable tax rate and average effective tax rate.

	2020	2019	2018
Applicable tax rate	28.00 %	28.00 %	28.00 %
Learnership Allowances (-) S12H	0.23 %	0.35 %	(1.55)%
Research & Development - Additional 50%	- %	- %	(0.02)%
Non-deductible expenses	(0.04)%	(0.10)%	0.38 %
Amortisation and Impairment	(0.10)%	(7.06)%	- %
Impairment loss on loan write off	(0.22)%	- %	- %
Intercompany loss allowances	(0.86)%	- %	- %
S23N limitation of interest deduction	(0.16)%	- %	- %
Expected credit loss allowance of financial guarantee liability non-deductible	(26.74)%	(22.69)%	- %
Under / (Over) provision - previous years	(0.25)%	0.25 %	(4.92)%
	(0.14)%	**(1.25)%**	**21.89 %**

Notes to the Combined Annual Financial Statements

	2020 R	2019 R	2018 R

23. Cash utilised in operations

	2020 R	2019 R	2018 R
(Loss) / profit before taxation	(871 706 322)	(702 366 958)	39 463 563
Adjustments for:			
Depreciation and amortisation	30 538 352	26 813 945	13 829 881
Profit on sale of plant and equipment	(26 932)	(8 063)	-
Net impairment on financial assets	56 857 896	19 726 882	720 033
Impairment of goodwill and intangible assets	-	171 017 503	-
Finance costs	37 029 464	2 518 350	472 052
Finance income	(49 386)	(1 195 079)	(931 506)
ECL on financial guarantee liability	832 383 059	570 046 873	-
Net foreign exchange losses	118 828	345 892	2 714 623
Movement in provisions	258 361	(2 803 891)	5 527 174
Obsolete stock allowance	2 343 721	923 253	716 955
Changes in working capital:			
Inventories	(18 464 244)	285 105	1 087 473
Trade and other receivables	(10 129 216)	9 207 778	(13 943 943)
Trade and other payables	35 410 151	(29 111 804)	36 256 319
	94 563 732	**65 399 786**	**85 912 624**

24. Tax paid

	2020 R	2019 R	2018 R
Balance at beginning of the year	(9 446 830)	(3 774 377)	(6 775 905)
Current tax for the year recognised in profit or loss	(13 890 039)	(20 309 117)	(17 689 557)
Balance at end of the year	6 230 827	9 446 830	3 774 377
Tax paid	**(17 106 042)**	**(14 636 664)**	**(20 691 085)**

25. Commitments

Operating leases – as lessee (expense) (IAS 17 comparatives)

	2020 R	2019 R	2018 R
Minimum lease payments due			
- within one year	-	5 025 675	2 715 780
- in second to fifth year inclusive	-	3 434 443	1 136 838
	-	**8 460 118**	**3 852 618**

Operating lease payments represented rentals payable by the reporting entity for certain of its office properties and manufacturing sites. Leases were negotiated for an average term of 1 year and rentals were fixed for an average of 1 year. No contingent rent was payable.

From 1 July 2019 the reporting entity has recognised right-of-use assets for these leases, except for short-term and low-value leases. Refer to note 2.

	2020 R	2019 R	2018 R

26. Net debt reconciliation

	2020 R	2019 R	2018 R
Cash and cash equivalents	3 370 220	1 630 185	30 016 963
Debt repayable within one year including bank overdrafts	(396 416 776)	(372 566 572)	(66 937 927)
Debt repayable after one year	(12 702 279)	-	-
	(405 748 835)	**(370 936 387)**	**(36 920 964)**

	2020 R	2019 R	2018 R
Cash and cash equivalents	3 370 220	1 630 185	30 016 963
Gross debt - fixed interest rate	(409 119 055)	(372 566 572)	(66 937 927)
	(405 748 835)	**(370 936 387)**	**(36 920 964)**

	Net cash and cash equivalents R	Less than 1 year-Lease liabilities R	Loans from related parties R	More than 1 year-Lease liabilities R	Total R
Net debt as at 30 June 2017	75 990 379	-	-	-	75 990 379
Cashflows - principal / capital portion	(45 973 416)	-	(66 937 927)	-	(112 911 343)
Net debt as at 30 June 2018	**30 016 963**	**-**	**(66 937 927)**	**-**	**(36 920 964)**
Cashflows - principal / capital portion	(28 386 778)	-	(8 078 665)	-	(36 465 443)
Interest	-	-	(533 215)	-	(533 215)
Non-cash adjustment	-	-	(297 016 765)	-	(297 016 765)
Net debt as at 30 June 2019	**1 630 185**	**-**	**(372 566 572)**	**-**	**(370 936 387)**
Cashflows - principal / capital portion	1 740 035	4 963 776	(54 687 033)	-	(47 983 222)
Additions - non cash	-	(6 838 221)	-	(12 705 280)	(19 543 501)
Interest	-	(1 819 944)	34 531 218	3 001	32 714 275
Net debt as at 30 June 2020	**3 370 220**	**(3 694 389)**	**(392 722 387)**	**(12 702 279)**	**(405 748 835)**

	2020 R	2019 R	2018 R

27. Related parties

Relationships

Ultimate holding company	Ascendis Health Limited
Holding company	Kyron Laboratories Proprietary Limited
Subsidiary	Kyron Animal Health Proprietary Limited (The entity is not part of the reporting entity)
Fellow subsidiaries	Ascendis Financial Services Proprietary Limited Efekto Care Proprietary Limited Afrikelp Proprietary Limited Klub M5 Proprietary Limited Ascendis Biosciences Proprietary Limited Marltons Pets and Products Proprietary Limited Ascendis Pharma Proprietary Limited Ascendis Management Services Proprietary Limited

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

Related party balances

	2020 R	2019 R	2018 R
Loans to related parties			
Ascendis Health Limited	12 307 630	12 307 630	12 307 630
Ascendis Financial Services Proprietary Limited	171 002 244	80 153 271	7 256 680
Ascendis Biosciences Proprietary Limited	58 940 773	64 656 933	67 156 600
Klub M5 Proprietary Limited	42 280 918	42 280 918	42 280 918
Efekto Care Proprietary Limited	-	6 863 391	-
Afrikelp Proprietary Limited	-	27 113 940	27 113 940
	284 531 565	**233 376 083**	**156 115 768**
Loans from related parties			
Ascendis Health Limited	60 000 000	60 000 000	60 000 000
Ascendis Biosciences Proprietary Limited	641 189	-	-
Ascendis Financial Services Proprietary Limited	332 081 198	312 266 302	6 861 299
Kyron Animal Health Proprietary Limited	-	300 270	76 628
	392 722 387	**372 566 572**	**66 937 927**
Amounts included in trade receivables regarding related parties			
Marltons Pets and Products Proprietary Limited	-	6 073 316	-
Amounts included in trade payables regarding related parties			
Ascendis Pharma Proprietary Limited	4 099 380	4 099 380	4 099 380
Ascendis Management Services Proprietary Limited	-	2 018 487	4 975 450
Ascendis Biosciences Proprietary Limited	-	4 353 419	4 557 920
Efekto Care Proprietary Limited	-	197	-
	4 099 380	**10 471 483**	**13 632 750**

Notes to the Combined Annual Financial Statements

	2020 R	2019 R	2018 R

27. Related parties (continued)

Related party transactions

	2020 R	2019 R	2018 R
Sales to related parties			
Avima Proprietary Limited	-	1 568 640	-
Marltons Pets and Products Proprietary Limited	897 336	5 281 145	-
	897 336	**6 849 785**	**-**
Management fees paid to related parties			
Ascendis Management Services Proprietary Limited	32 326 342	22 765 132	9 423 129
Ascendis Biosciences Proprietary Limited	-	8 743 074	9 343 503
Efekto Care Proprietary Limited	-	-	1 931 353
Ascendis Pharma Proprietary Limited	-	-	3 564 678
Marltons Pets and Products Proprietary Limited	-	-	968 581
	32 326 342	**31 508 206**	**25 231 244**
Rent paid to related parties			
Ascendis Management Services Proprietary Limited	3 100 785	-	-
Interest received from related parties			
Ascendis Financial Services Proprietary Limited	-	839 732	192 596
Interest paid to related parties			
Ascendis Financial Services Proprietary Limited	34 531 218	533 215	-

28. Financial instruments and risk management

Categories of financial instruments

Categories of financial assets

2020

	Notes	Fair value through profit or loss R	Amortised cost R	Total R
Loans to related parties	9	-	204 941 509	204 941 509
Derivative financial instruments	11	251 575	-	251 575
Trade and other receivables	10	-	60 897 279	60 897 279
Cash and cash equivalents	12	-	3 370 220	3 370 220
		251 575	**269 209 008**	**269 460 583**

28. Financial instruments and risk management (continued)

2019

	Notes	Fair value through profit or loss R	Amortised cost R	Total R
Loans to related parties	9	-	210 056 261	210 056 261
Derivative financial instruments	11	211 243	-	211 243
Trade and other receivables	10	-	58 955 735	58 955 735
Cash and cash equivalents	12	-	1 630 185	1 630 185
		211 243	**270 642 181**	**270 853 424**

2018

	Notes	Amortised cost R	Total R
Loans to related parties	9	156 115 768	156 115 768
Trade and other receivables	10	62 023 813	62 023 813
Cash and cash equivalents	12	30 016 963	30 016 963
		248 156 544	**248 156 544**

Categories of financial liabilities

2020

	Notes	Amortised cost R	Financial guarantee contracts R	Total R
Trade and other payables	13	76 182 447	-	76 182 447
Loans from related parties	14	392 722 387	-	392 722 387
Financial guarantee liability	16	-	1 402 429 932	1 402 429 932
		468 904 834	**1 402 429 932**	**1 871 334 766**

2019

	Notes	Amortised cost R	Financial guarantee contracts R	Total R
Trade and other payables	13	41 468 874	-	41 468 874
Loans from related parties	14	372 566 572	-	372 566 572
Financial guarantee liability	16	-	570 046 873	570 046 873
		414 035 446	**570 046 873**	**984 082 319**

Notes to the Combined Annual Financial Statements

28. Financial instruments and risk management (continued)

2018

	Notes	Amortised cost R	Total R
Trade and other payables	13	70 507 787	70 507 787
Loans from related parties	14	66 937 927	66 937 927
		137 445 714	**137 445 714**

Pre tax gains and losses on financial instruments

Gains and losses on financial assets

2020

	Note	Amortised cost R	Total R
Recognised in profit or loss:			
Finance income	20	49 386	49 386

2019

	Note	Amortised cost R	Total R
Recognised in profit or loss:			
Finance income	20	1 195 079	1 195 079

2018

	Notes	Amortised cost R	Total R
Recognised in profit or loss:			
Finance income	20	931 506	931 506

28. Financial instruments and risk management (continued)

Gains and losses on financial liabilities

2020

	Note	Amortised cost R	Leases R	Total R
Recognised in profit or loss:				
Finance costs	21	(35 209 519)	(1 819 945)	(37 029 464)

2019

	Note	Amortised cost R	Total R
Recognised in profit or loss:			
Finance costs	21	(2 518 350)	(2 518 350)

2018

	Notes	Amortised cost R	Total R
Recognised in profit or loss:			
Finance costs	21	(472 051)	(472 051)

Capital risk management

The reporting entity's objective when managing capital (which includes borrowings, working capital and cash and cash equivalents) is to maintain a flexible capital structure that reduces the cost of capital to an acceptable level of risk and to safeguard the reporting entity's ability to continue as a going concern while taking advantage of strategic opportunities in order to maximise stakeholder returns sustainably.

The capital structure of the reporting entity consists of debt, which includes loans from related parties disclosed in note 14, lease liabilities disclosed in note 5, cash and cash equivalents disclosed in note 12 and equity as disclosed in the statement of financial position.

In order to maintain or adjust the capital structure, the reporting entity may adjust the amount of dividends paid to shareholder, return capital to shareholder, issue new shares or sell assets to reduce debt.

The reporting entity benefits from a central treasury function of the Ascendis Health Limited Group it forms part of. Therefore, since the capital structure is managed centrally, the respective managing and finance heads of the group components (companies) convene weekly in what is referred to as a collective as the “Cash Steerco.” The reporting entity is then required to present at minimum a 13-week forward cash forecast which is dissected by the Cash Steerco, lead by the reporting entity CFO and the decision on funding advanced is determined considering the holistic working capital management of the reporting entity and cash resources available to for the specific reporting entity’s capital requirements. This spending application is closely monitored and reported back to the lender consortium to the reporting entity’s debt capital component thus monitoring that spending has been applied as intended and proposed. Effectively the debt element of the capital structure of the reporting entity comprises of the intercompany loan composition held with and managed by central group treasury and consistent with the balance sheet structure of the reporting entity that is not holding any third party facilities directly.

Consistent with others in the industry, the reporting entity monitors capital using a gearing ratio. The Ascendis group sets an internal gearing ratio of 50%.

Notes to the Combined Annual Financial Statements

		2020 R	2019 R	2018 R

28. Financial instruments and risk management (continued)

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

The capital structure and gearing ratio of the reporting entity at the reporting date was as follows:

	Note	2020 R	2019 R	2018 R
Loans from related parties	14	392 722 387	372 566 572	66 937 927
Lease liabilities	5	16 396 668	-	-
Total borrowings		**409 119 055**	**372 566 572**	**66 937 927**
Cash and cash equivalents	12	(3 370 220)	(1 630 185)	(30 016 963)
Net borrowings		**405 748 835**	**370 936 387**	**36 920 964**
Equity		(1 014 798 412)	(141 868 690)	870 046 875
Total capital		**(609 049 577)**	**229 067 697**	**906 967 839**
Gearing ratio		(67)%	162 %	4 %

Financial risk management

Overview

The reporting entity is exposed to the following risks from its use of financial instruments:
- Credit risk;
- Liquidity risk; and
- Market risk (currency risk and interest rate risk).

The reporting entity's risk management policies are established to identify and analyse the risks faced by the reporting entity, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the reporting entity's activities.

Credit risk

Credit risk is the risk of financial loss to the reporting entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The reporting entity is exposed to credit risk on the loans to related parties, trade and other receivables, cash and cash equivalents and financial guarantee liability.

The reporting entity only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty.

Credit risk for exposures other than those arising on cash and cash equivalents, are managed by making use of credit approvals, limits and monitoring. The reporting entity only deals with reputable counterparties with consistent payment histories. Each counterparty is analysed individually for creditworthiness before terms and conditions are offered. The analysis involves making use of information submitted by the counterparties as well as external bureau data (where available). Counterparty credit limits are in place and are reviewed and approved by credit management committees. The exposure to credit risk and the creditworthiness of counterparties is continuously monitored.

Financial guarantee contacts

Refer to note 16 Financial guarantee contract for the disclosures relating to credit risk.

Loans to related parties

Refer to note 9 Loans to related parties for the disclosures relating to credit risk.

28. Financial instruments and risk management (continued)

Trade and other receivables

The reporting entity has policies in place to ensure that sales of products are made to customers with a solid credit history. Trade receivables consist primarily of a large, widespread customer base. The granting of credit is controlled by application and account limits. Trade and other receivables are carefully monitored for impairment. None of the debtors balances in June 2020 or June 2019 constitutes a significant concentration of credit risk. There are no other single customers representing more than 10% of total gross trade receivables for the years presented.

In 2018, the reporting entity made a provision for specific debtors where there was clear objective evidence that the repayment has been impaired as a result of the customers being in financial difficulty.

Impairment losses are recorded in the allowance account (ECL (2019 and 2020) and provision for bad debts (2018) until the reporting entity is satisfied that no recovery of the amount owing is possible, at which point the amount is considered irrecoverable and is written off against the financial asset. Refer to note 10 Trade and other receivables for the disclosures relating to credit risk.

Cash and cash equivalents

The reporting entity determines appropriate internal credit limits for each counterparty. In determining these limits, the reporting entity considers the counterparty's credit rating established by accredited ratings agency. The reporting entity manages its exposure to a single counterparty by spreading transactions among approved financial institutions.

Cash credit risk is the risk of the institutions with which cash resources are held are unable to meet their obligations and unable to return the cash assets held with them. The credit risk is assessed as low hence the expected credit loss is deemed insignificant.

Liquidity risk

The reporting entity is exposed to liquidity risk, which is the risk that the reporting entity will encounter difficulties in meeting its obligations as they become due.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

Cash flow forecasting is performed in the operating entities of the reporting entity in and aggregated by reporting entity finance. Reporting entity finance monitors rolling forecasts of the reporting entity's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the reporting entity does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the reporting entity's debt financing plans, covenant compliance, compliance with internal statement of financial position ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions.

There has been no change in the estimation techniques or significant assumptions made during the 2020, 2019 and 2018 reporting periods.

The maturity profile of contractual cash flows of non-derivative financial liabilities, and financial assets held to mitigate the risk, are presented in the following table. The cash flows are undiscounted contractual amounts.

Notes to the Combined Annual Financial Statements

28. Financial instruments and risk management (continued)

2020

		0 to 1 year R	2 to 5 years R	Over 5 years R	Total R
Non-current liabilities					
Lease liabilities	5	-	14 438 139	767 037	15 205 176
Current liabilities					
Trade and other payables	13	76 182 447	-	-	76 182 447
Loans from related parties	14	392 722 387	-	-	392 722 387
Lease liabilities	5	5 306 102	-	-	5 306 102
Financial guarantee liability	16	6 761 440 000	-	-	6 761 440 000
		7 235 650 936	**14 438 139**	**767 037**	**7 250 856 112**

2019

		0 to 1 year R	Total R
Current liabilities			
Trade and other payables	13	41 468 874	41 468 874
Loans from related parties	14	372 566 572	372 566 572
Financial guarantee liability	16	5 753 008 000	5 753 008 000
		6 167 043 446	**6 167 043 446**

2018

		0 to 1 year R	Total R
Current liabilities			
Trade and other payables	13	70 507 787	70 507 787
Loans from related parties	14	66 937 927	66 937 927
Financial guarantee liability	16	5 023 945 000	5 023 945 000
		5 161 390 714	**5 161 390 714**

Foreign currency risk

The reporting entity is exposed to foreign currency risk as a result of certain transactions and borrowings which are denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters utilising foreign forward exchange contracts where necessary. The foreign currencies in which the reporting entity deals primarily are US Dollars, Pounds and Euros.

There has been no change in the estimation techniques or significant assumptions made during the 2020, 2019 and 2018 reporting periods.

Management has set up a policy to manage their foreign exchange risk against their functional currency. To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the reporting entity may use forward contracts and monitors the need to do so by analysing the exchange rate activity on foreign currency anticipated transactions are denominated in and the use thereof is identified as more necessary following the weakening of the Rand in months subsequent to year end. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

		2020 R	2019 R	2018 R

28. Financial instruments and risk management (continued)

Exposure in Rand

The net carrying amounts, in Rand, of the various exposures, are denominated in the following currencies. The amounts have been presented in Rand by converting the foreign currency amounts at the closing rate at the reporting date:

US Dollar exposure:		2020 R	2019 R	2018 R
Current assets:				
Cash and cash equivalents, USD 7 168 (2019: USD 4 155)	12	124 221	58 797	-
Current liabilities:				
Trade and other payables, USD 2 302 165 (2019: USD 414 275; 2018: USD 1 837 749)	13	(39 896 523)	(5 861 571)	(25 202 887)
Net US Dollar exposure		**(39 772 302)**	**(5 802 774)**	**(25 202 887)**
Euro exposure:				
Current assets:				
Trade and other receivables, Euro 71	10	-	1 149	-
Cash and cash equivalents, Euro 3 038 (2019: Euro 4 396)	12	59 098	70 824	-
Current liabilities:				
Trade and other payables, Euro 81 077 (2019: Euro 70 011)	13	(1 577 110)	(1 127 735)	-
Net Euro exposure		**(1 518 012)**	**(1 055 762)**	**-**
GBP exposure:				
Current assets:				
Trade and other receivables, GBP 865	10	18 410	-	-
Cash and cash equivalents, GBP 12 109 (2019: GBP 855)	12	257 799	15 334	-
Net GBP exposure		**276 209**	**15 334**	**-**
Indian Rupee exposure:				
Current liabilities:				
Trade and other payables INR 495 344	13	-	(100 708)	-
Net exposure to foreign currency in Rand		**(41 014 105)**	**(6 943 910)**	**(25 202 887)**

Exchange rates

The following closing exchange rates were applied at reporting date:

	2020	2019	2018
Rand per unit of foreign currency:			
US Dollar	17.330	14.149	13.714
Euro	19.452	16.108	-
GBP	21.290	17.932	-
Indian Rupee	-	0.200	-

28. Financial instruments and risk management (continued)

Foreign currency sensitivity analysis

The following information presents the sensitivity of the reporting entity to an increase or decrease in the respective currencies it is exposed to. The sensitivity rate is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated amounts and adjusts their translation at the reporting date. No changes were made to the methods and assumptions used in the preparation of the sensitivity analysis compared to the previous reporting period.

	2020	2020	2019	2019	2018	2018
Increase or decrease in rate	**Increase**	**Decrease**	**Increase**	**Decrease**	**Increase**	**Decrease**
	R	**R**	**R**	**R**	**R**	**R**
Impact on profit or loss:						
US Dollar 1% (2019: 1%; 2018:1%)	(397 723)	397 723	(58 028)	58 028	(252 029)	252 029
Euro 1% (2019: 1%; 2018:1%)	(15 180)	15 180	(10 558)	10 558	-	-
GBP 1% (2019: 1%; 2018:1%)	2 762	(2 762)	153	(153)	-	-
Indian Rupee 1% (2019: 1%; 2018:1%)	-	-	(1 007)	1 007	-	-
	(410 141)	**410 141**	**(69 440)**	**69 440**	**(252 029)**	**252 029**

Interest rate risk

Interest rate risk is the risk that arises on an interest-bearing asset or liability, due to variability of interest rates.

The reporting entity is exposed to cash and cash equivalents that are subject to variable interest rates.

There has been no change in the estimation techniques or significant assumptions made during the 2020, 2019 and 2018 reporting periods.

The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings.

Interest rate profile

The interest rate profile of interest bearing financial instruments at the end of the reporting period was as follows:

	Notes	Carrying amount		
		2020 R	**2019 R**	**2018 R**
Variable rate instruments:				
Assets				
Cash and cash equivalents	12	3 369 250	1 620 185	29 988 480
Fixed rate instruments:				
Assets				
Loans to related parties	9	-	80 153 271	7 256 680
Liabilities				
Loans from related parties	14	(332 081 198)	(312 266 302)	-
Lease liabilities	5	(16 396 668)	-	-
		(348 477 866)	**(312 266 302)**	**-**
Net fixed rate financial instruments		**(348 477 866)**	**(232 113 031)**	**7 256 680**

28. Financial instruments and risk management (continued)

Interest rate sensitivity analysis

The following sensitivity analysis has been prepared using a sensitivity rate which is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. All other variables remain constant. The sensitivity analysis includes only financial instruments exposed to interest rate risk which were recognised at the reporting date. No changes were made to the methods and assumptions used in the preparation of the sensitivity analysis compared to the previous reporting period.

	2020	2020	2019	2019	2018	2018
Increase or decrease in rate	**Increase**	**Decrease**	**Increase**	**Decrease**	**Increase**	**Decrease**
	R	R	R	R	R	R
Impact on profit or loss:						
Cash and cash equivalents 1% (2019: 1%; 2018: 1%)	33 693	(33 693)	16 202	(16 202)	299 885	(299 885)

29. Fair value estimation

The carrying value less impairment provision of trade and other receivables, cash and cash equivalents and trade and other payables are assumed to approximate their fair values due to the short term nature of trade and other receivables, cash and cash equivalents and trade and other payables. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the reporting entity for similar financial instruments.

Fair value is a market-based measurement and is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

A financial instrument's categorisation within a three-level valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels are defined as follows:

Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the instrument.

Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Notes to the Combined Annual Financial Statements

29. Fair value estimation (continued)

Recurring fair value measurements at 30 June:

2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Measured at fair value on a recurring basis	**R**	**R**	**R**	**R**
Financial assets at fair value through profit and loss				
Derivative financial instruments	-	251 575	-	251 575

2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Measured at fair value on a recurring basis	**R**	**R**	**R**	**R**
Financial assets at fair value through profit and loss				
Derivative financial instruments	-	211 243	-	211 243

2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Measured at fair value on a recurring basis	**R**	**R**	**R**	**R**
Financial assets at fair value through profit and loss				
Derivative financial instruments	-	403 041	-	403 041

The following methods and assumptions were used to estimate the respective fair values:

Derivative financial instruments

The reporting entity enters into derivative financial instruments with various financial institutions. Derivative financial instruments are valued using valuation techniques which employ the use of observable inputs. The future cash flows on forward exchange contracts and interest rate swaps are estimated based on the forward exchange rates at the end of the period discounted at a rate that reflects the credit risk of various counterparties.

30. Business combinations

On 1 March 2018, the reporting entity acquired 100% of Kyron which comprises of Kyron Laboratories Proprietary Limited, Kyron Animal Health Proprietary Limited and Kyron Prescriptions Proprietary Limited which specialises in Animal Health.

This was part of the Ascendis group's strategy to acquire companies that can be “bolted-on” to the platform in a way that leverages the existing strength of either the bolt-on or the platform in a synergistic manner, with the result that the two businesses together share the benefits of combined (or even enhanced) revenue and a lower cost base. Examples include businesses which, after acquisition, share production facilities, or sales teams, or accounting or administrative functions.

Management’s main assumptions in evaluating whether an acquisition is that of a business and not an asset group, were made on the basis that a business consists of inputs and processes applied to those inputs, that have the ability to create outputs.

a) The inputs acquired include:
   - Tangible items: Equipment, infrastructure and working capital necessary for trade within the business acquired;
   - Intangible items: Computer software, software licenses, and trademarks;
   - Other items not necessarily included in the financial statements: A management team, the process and know-how of the business, studies and test results, market knowledge, relationships with the licensing body and management knowledge of the industry.

b) The processes acquired include: management processes, corporate governance, organisational structures, strategic goal-setting, operational processes and human and financial resource management.

c) The outputs acquired include: access to research results, access to management’s strategic plans, revenue from customers, access to new markets, increased efficiency, synergies, customer satisfaction and reputation.

A purchase price allocation has been performed on the acquisition.

Notes to the Combined Annual Financial Statements

30. Business combinations (continued)

The following table illustrates the consideration paid and net assets for each material subsidiary acquired during the 2018 financial year. All assets and liabilities are measured at fair value on the date of acquisition. No goodwill amount recognised is deductible for tax purposes.

	2020 R	2019 R	2018 R
Cash	-	-	154 941 389
Loan	-	-	225 865 283
Common control reserve	-	-	**380 806 672**
Cash and cash equivalents	-	-	60 631 243
Property, plant and equipment	-	-	3 896 788
Intangible assets	-	-	152 794 011
Inventories	-	-	27 698 203
Trade and other receivables	-	-	16 332 988
Provisions	-	-	(1 592 393)
Trade and other payables	-	-	(8 316 387)
Loans	-	-	(3 312 000)
Current tax (payable)/receivable	-	-	(4 760 448)
Dividend payable	-	-	(70 000 000)
Deferred tax liabilities	-	-	(42 600 765)
Total identifiable net assets	-	-	**130 771 240**
Non-controlling interest	-	-	**-**
Resultant goodwill	**-**	**-**	**250 035 432**

31. Going concern

We draw attention to the fact that as at 30 June 2020 and 30 June 2019 the company's total liabilities exceeded its assets by R1 396 million and R684 million, respectively. As a result, it is technically insolvent. The net liability position is mainly driven by the recognition of the financial guarantee of R1 402 million and R570 million in 2020 and 2019 respectively. Included in Animal Health are 2 entities that are guarantors of the Ascendis group's debt facilities.

In considering whether the technical insolvency results in a going concern problem, management considered whether the financial guarantee liability is expected to result in a cash outflow. The significant value of the financial guarantee liability is as a result of the financial difficulty being experienced by Ascendis Health Group ("group") as a whole and thereby resulting in a material uncertainty relating to the going concern of the company. As such, the reporting entity's going concern assessment and the management's plans in relation to the repayment of the reporting entity's debt is relevant to Animal Health's assessment of going concern.

Material Uncertainty of the Ascendis Health Group:

In determining the appropriate basis of preparation of the group annual financial statements, the directors are required to consider whether the group and company can continue in operational existence for the foreseeable future, being at least the 12 months following 30 June 2020.

The restructuring of Ascendis' debt facilities and the advance of new facilities by the lenders in June 2020 created additional liquidity, while introducing obligations on the directors to achieve specified divestment milestones and financial covenants. In arriving at their conclusion regarding the appropriateness of the going concern basis for the preparation of the company annual financial statements, the directors considered the group's forecast liquidity position and associated cash management plan for the forecast period.

The group's results for the 2020 financial year reflect a significant improvement over the prior year despite the Covid-19 pandemic and the reduced economic activity resulting from government-imposed lockdowns. Improved performances were reported from across the group.

31. Going concern (continued)

Liquidity and performance in the 2020 financial year

Liquidity remained constrained for most of the year primarily because of the group’s inability to conclude the planned disposals, however still remaining cash positive. With the ongoing support and commitment of the group’s lender consortium, the group continued to operate, although cash management has required constant attention and capital expenditure has sometimes been postponed or cancelled.

For most of year the group’s lenders and Ascendis had an interim stability agreement in place to allow for any debt capital payments needing to be made and this agreement also provided a waiver of all covenant breaches while proceeding with concluding the abovementioned disposals.

Furthermore, the lenders consented to R360 million of the R473 million proceeds from the concluded disposal of the Biosciences business unit. A bridge loan of R 360 million was made on 2 May 2019 and repaid on 31 July 2019 when the sale of the aforementioned business was made.

On 5 June 2020, the group concluded an amend and extend agreement with its lender consortium to restructure its existing debt facilities and provide the advance of new debt facilities. In this Debt Refinance agreement, Ascendis and its lenders agreed to extend the repayment obligations on its debt facility to December 2021, with no payments required in advance of that date, other than any excess cash, beyond the group’s cash requirement, being swept to the lenders. This extension provided, and will continue to provide, the group with the flexibility to continue its operations while maximising the value of the businesses it seeks to monetise according to its divestment programme. Successful completion of this programme will see the group return to much more manageable levels of gearing while continuing to create value for its broad company of stakeholders.

The Debt Refinance agreement includes the advance of additional facilities including a super-senior facility of €6.9 million and R217 million. This super-senior facility will finance the group's general liquidity needs and finance the payment of certain outstanding deferred vendor liabilities.

Divestment programme

The company remains committed to its short-term priority to complete the balance sheet restructure. The restructure is through specified divestment milestones formalised with the group's lender consortium. The sale of non-core assets is being accelerated and the group is committed to maximising value from the sale of businesses.

The group’s executive committee is responsible for the realisation of the divestment milestones and monitor these on a weekly basis. Verbal feedback to the lender consortium is provided fortnightly.

Liquidity and capital management

To address the risk of short-term cash pressure, management prepares annual budgets for each business unit. It regularly updates its robust liquidity model which includes cash flow forecasts covering a period of 18 months from 30 June 2020. This model is used as the basis of monthly reporting to the lender consortium. The group continues to maintain an acceptable liquidity position through cash flow generated by the business, cash on the balance sheet and access to long term committed facilities. This group liquidity model is a bi-weekly consolidation of the group's individual divisions' cash flow forecasts, which are based on estimated free cash from operations. Cash flow forecasts are prepared weekly and reviewed by management. Actual cash flows are evaluated against forecast expectations and variances monitored. Progress made on liquidity improvement projects and cash forecasts and any variances are presented to the board on a monthly basis.

Solvency and Liquidity position at 30 June 2020

Besides the cash sweeps by the company treasury, the company achieved a liquidity ratio of 3.4x which is considered favourable. The company is currently in a net liability position due to the reasons mentioned in the first paragraph.

Notes to the Combined Annual Financial Statements

31. Going concern (continued)

Group performance to date since reporting date

Subsequent to year end the Ascendis group has experienced relatively pleasing performance with growth experienced in operating activity up to the date of this report. The wave eventually made its way to South Africa in December 2020. As result thereof, the group has experienced increases in operating results relative to budget for the FY2021 year to date 31 December 2020 and in the same respect has improved operating results when compared to same six months year to date period of the 2020 financial year.

One of the contributors to this improved performance is the second wave of the Covid-19 pandemic that began to resurface globally from October 2020, becoming evident in South Africa in December 2020. This second wave resulted in increased demand opportunities for the Group to supply essential equipment and consumables in the medical care field. This demand could create opportunities for the group to further improve operating results for the remainder of the financial year. Responding to these opportunities has resulted in group seeking short-term funding to accommodate the initial funding outlay.

Management have assessed the remaining period of the 2021 financial year relative to macro-economic and political developments and are confident that the group performance budget will be achieved.

Management have maintained their rigour in monitoring cashflow using the groups robust liquidity model. To date, the group cashflow management and levels have been in line with forecast and instances of improved levels relative to forecast were experienced during December 2020, which was attributable to strong collection of debtors, providing for a higher than anticipated headroom margin.

The group's senior debt matures for settlement on 31 December 2021 and supported by the divestment programme stipulated in the underlying refinancing agreement and with which, the group has been in compliance with to date and management committed to the conditions thereof. The relationship with the lenders has received management's utmost attention with the appointment of particular personnel to manage these interactions and expectations as well as communicate well in-advance any and all pre-approvals required in respect of contractual obligations.

Management have in addition been actively working on various alternative debt management strategies with a focus on outcomes that are in the best interest for the lender consortium and the group going forward. As of May 2021, agreement was reached with the lender consortium and formalised in a Restructuring Support Agreement ("RSA") to effectively recapitalise the business, reducing the leveraged position and meeting the group's senior debt obligations.

The going concern of the Ascendis group is subject to the recapitalisation. The planned recapitalisation of Ascendis Health announced in January 2021 and confirmed in May 2021 is aimed at reducing the group's high levels of gearing and short-term maturity obligations as well as addressing the need for near-term funding. Importantly, the recapitalisation will enable Ascendis to create a sustainable capital structure. The Ascendis board and management entered into consensual negotiations with Blantyre and L 1 Health on recapitalising the group. The transaction proposed is effectively a debt for equity swap for some of the group's assets as a means of settlement of the outstanding debt obligation in conjunction with proceeds on disposals of certain businesses continuing. The nature of the transaction requires shareholder approval anticipated to be voted upon in August 2021, failing which a business rescue process would be entered into, for which the group has made appropriate preparations.

The transaction demonstrates the likely alternative, offering the greatest preservation of value compared to the business rescue alternative, thus management have remained committed to the agreement and conveying its particulars to the voting shareholders.

Covid-19

On 11 March 2020, Covid-19 was declared a pandemic by the World Health Organisation. The pandemic caused high levels of anxiety and uncertainty for all our stakeholders as the world faced a significant humanitarian crisis, with the virus continuing to spread across the globe and in South Africa. Government-imposed lockdowns were introduced in all countries in which Ascendis operates, resulting in recessionary economic environments in these countries. South Africa has been subject to government-imposed lockdown restrictions for more than 200 days, with Covid-19 related deaths surpassing 19 000.

Notes to the Combined Annual Financial Statements

31. Going concern (continued)

At the time of considering the appropriateness of the going concern basis, it appears that most of the world has successfully responded to the initial surge of the virus and is now managing to control and restrict further outbreaks of the virus. Hard lockdowns have been lifted in most countries in which they were implemented with regional lockdowns imposed where infection rates show an increase above certain levels as well as re-entry to hard lockdowns as preventative measures in some regions of the globe. The lockdowns allowed the medical sector to reserve and/or build additional capacity to deal with Covid-19 cases and the treatment of infected persons now has increased survival rates. These responses have had considerable negative impacts on the global and local economy. Central banks have responded to the economic risks by lowing interest rates and increased money supply.

Conclusion

The directors have considered the continued support of its lenders, investors and customers and the progress on plans for the disposal of several of the group's operating units, with executive management committed to achieving these disposals within the time frames set by the lenders.

Management believe that the group will be able to meet its obligations in terms of the Debt Refinance agreement and replacing Restructuring Support Agreement to settle all senior debt in the time frames as required. They also considered the financial plans and forecasts, the actions taken by the group, and based on the information available to them, are therefore of the opinion that the going concern assumption is appropriate in the preparation of the group annual financial statements. The possibility of the financial guarantee being called upon by the lender consortium is also not probable.

Although the events, conditions and judgements described above give rise to a degree of uncertainty, the directors are of the opinion that the group has the ability to continue as a going concern. The annual financial statements have therefore been prepared based on accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business and the company can continue in operational existence for the foreseeable future, which is 12 months following 30 June 2020.

In conclusion, the reporting entity has the ability to continue as a going concern and the financial statements are prepared on a going concern basis.

32. Events after the reporting period

The businesses within the Animal Health reporting entity were identified as non-core assets as per the Ascendis group’s long-term strategy. Therefore, the businesses are being divested. The businesses were classified as held for sale and discontinued operations in Ascendis group financial statement effective from 1 September 2020.

For the purposes of Animal Health reporting entity, this is a non-adjusting event.