Respiratory Care Africa Reporting Entity

Carve-out Historical Financial Statements

for the years ended 30 June 2020, 30 June 2019, and 30 June 2018

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

Statement of Financial Position

	Notes	2020 R	2019 R	2018 R
Non-Current Assets				
Plant and equipment	4	14 207 887	17 116 304	6 693 104
Right-of-use assets	5	1 642 142	-	-
Intangible assets	6	708 949	974 788	-
Deferred income tax assets	7	10 482 469	13 191 149	1 517 656
		27 041 447	**31 282 241**	**8 210 760**
Current Assets				
Inventories	8	124 208 755	114 210 339	94 220 825
Loans to group companies	12	22 238 129	49 815 992	79 025 379
Trade and other receivables	9	174 234 292	74 738 586	102 178 882
Other financial assets	10	-	-	855 326
Current tax receivable	25	-	1 611 919	5 565 509
Cash and cash equivalents	11	6 704 952	894 031	5 306 295
		327 386 128	**241 270 867**	**287 152 216**
Total Assets		**354 427 575**	**272 553 108**	**295 362 976**
Equity and Liabilities				
Equity				
Share capital		800	800	800
(Accumulated losses) / Retained earnings		(1 683 122 096)	(814 960 371)	(216 997 146)
		(1 683 121 296)	**(814 959 571)**	**(216 996 346)**
Liabilities				
Non-Current Liabilities				
Lease liabilities	5	712 331	-	-
Contract liabilities*	14	8 826 142	5 642 138	8 457 012
		9 538 473	**5 642 138**	**8 457 012**
Current Liabilities				
Trade and other payables	15	87 327 815	54 524 900	41 788 603
Derivative financial instruments	28	409 714	23 237	-
Loans from group companies	13	520 550 535	447 235 375	451 285 893
Lease liabilities	5	1 158 780	-	46 542
Contract liabilities*	14	4 204 685	4 020 750	4 421 006
Financial guarantee liability	17	1 402 429 932	570 046 873	-
Provisions	16	10 777 752	6 019 406	6 360 266
Current tax payable	25	1 151 185	-	-
		2 028 010 398	**1 081 870 541**	**503 902 310**
Total Liabilities		**2 037 548 871**	**1 087 512 679**	**512 359 322**
Total Equity and Liabilities		**354 427 575**	**272 553 108**	**295 362 976**

*Contract liabilities used to be presented as deferred income before the adoption of IFRS 15 *Revenue from Contracts with Customers*

Statement of Profit or Loss and Other Comprehensive Income

	Notes	2020 R	2019 R	2018 R
Revenue	18	595 142 701	435 157 861	476 237 312
Cost of sales	19	(377 839 474)	(270 984 117)	(268 674 344)
Gross profit		**217 303 227**	**164 173 744**	**207 562 968**
Other income	20	202 134	503 183	1 040 637
Selling and distribution costs	19	(28 472 324)	(18 596 066)	(23 807 652)
Administrative costs	19	(119 608 487)	(115 855 531)	(100 028 973)
Impairment losses on financial assets	19	(14 894 357)	(5 588 305)	-
Other operating expenses	19	(32 398 919)	(9 780 618)	(4 909 056)
Expected credit loss on financial guarantee liability	17	(832 383 059)	(570 046 871)	-
Operating (loss) / profit		**(810 251 785)**	**(555 190 464)**	**79 857 924**
Finance income	21	20 795	5 014 733	1 100 788
Finance costs	22	(51 505 303)	(51 164 136)	(46 605 281)
(Loss) / profit before taxation		**(861 736 293)**	**(601 339 867)**	**34 353 431**
Taxation	23	(6 425 432)	5 338 009	(13 853 660)
Total comprehensive (loss) / profit for the year		**(868 161 725)**	**(596 001 858)**	**20 499 771**

Statement of Changes in Equity

	Share capital	Accumulated loss	Total Equity
	R	R	R
Balance at 01 July 2017	800	(237 496 917)	(237 496 117)
Profit for the year	-	20 499 771	20 499 771
Balance at 01 July 2018	**800**	**(216 997 146)**	**(216 996 346)**
Changes in accounting policies			
IFRS 9 adjustment	-	(2 851 198)	(2 851 198)
IFRS 15 adjustment	-	889 831	889 831
Loss for the year	-	(596 001 858)	(596 001 858)
Balance at 30 June 2019	**800**	**(814 960 371)**	**(814 959 571)**
Loss for the year		(868 161 725)	(868 161 725)
Balance at 30 June 2020	**800**	**(1 683 122 096)**	**(1 683 121 296)**

Respiratory Care Africa Reporting Entity

Carve-out Historical Financial Statements for the years ended 30 June 2020, 30 June 2019, and 30 June 2018

Statement of Cash Flows

	Notes	2020 R	2019 R	2018 R
Cash flows from operating activities				
Cash generated from operations	24	(27 214 966)	25 659 546	101 950 020
Interest received		20 795	5 014 733	452 151
Interest paid		(736 136)	(10 194)	(30 478)
Tax paid	25	(953 648)	(2 217 432)	(13 220 430)
Net cash (utilised in)/generated from operating activities		**(28 883 955)**	**28 446 653**	**89 151 263**
Cash flows from investing activities				
Purchase of plant and equipment	4	(1 627 368)	(1 194 592)	(1 057 048)
Proceeds on sale of plant and equipment	4	815 146	637 887	61 832
Purchase of intangible assets	6	-	(1 225 156)	-
Other financial assets advanced		-	-	(289 019)
Payments received from other financial assets		-	855 326	-
Loans advanced to group companies		(3 656 636)	(5 540 440)	(78 962 277)
Payments received for loans advanced to group companies		16 968 350	28 260 770	-
Net cash generated from/(utilised in) investing activities		**12 499 492**	**21 793 795**	**(80 246 512)**
Cash flows from financing activities				
Payment of loans received from group companies		-	(54 606 170)	(15 445 280)
Proceeds from loans from group companies		22 545 991	-	-
Payment of lease liabilities	5	(350 605)	(46 542)	(50 913)
Net cash generated from/(utilised in) financing activities		**22 195 384**	**(54 652 712)**	**(15 496 193)**
Total cash and cash equivalents movements for the year		5 810 921	(4 412 264)	(6 591 442)
Cash and cash equivalents at the beginning of the year		894 031	5 306 295	11 897 737
Total cash and cash equivalents at end of the year	11	**6 704 952**	**894 031**	**5 306 295**

Accounting Policies

1. Basis of preparation and Principal accounting policies

1.1 Basis of preparation

Ascendis Health Limited ("Ascendis") received an unsolicited management buy-out offer for Respiratory Care Africa (Pty) Ltd ("RCA"), a component of the Medical Devices business, in November 2020. Ascendis issued a formal expression of interest to the management buy-out consortium in February 2021. A sale of shares agreement ("SPA") has been concluded on 25 May 2021 between Surgical Innovations Proprietary Limited ("the Seller") (a wholly-owned subsidiary of Ascendis), RCA (a wholly-owned subsidiary of the Seller) and K2021519417 (South Africa) Proprietary Limited, indirectly owned by the Ata Fund III Partnership, an en commandite partnership managed by Ata Capital Proprietary Limited ("Ata") and the current management of RCA ("the Purchaser"), for the disposal of all the shares in RCA (the "Sale Shares") ("the Disposal").

Under the management buy-out offer, Ascendis will dispose of its entire shareholding in RCA to the management consortium. However, prior to the date of disposal, Ascendis will transfer the following assets that are currently part of the RCA legal entity out of RCA into another group entity:

- Investment in Lexshell 834 (Pty) Ltd
- Investment in Respiratory Care Africa (Botswana) (Pty) Ltd
- Investment in Ascendis Medical Supplies Namibia (Pty) Ltd

Although RCA has historically existed as a separate legal entity, and prepared separate financial statements, not all the assets that historically formed part of the RCA legal entity will form part of the subject matter of the disposal transaction. Therefore, for the purpose of presenting the historical performance of RCA for the proposed disposal by Ascendis, carve-out historical financial information has been prepared for RCA excluding the above assets (the "RCA Reporting Entity").

International Financial Reporting Standards ("IFRS") compliance

The carve-out historical financial information of the RCA Reporting Entity 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 carve-out historical financial information of the Respiratory Care Africa (Pty) Ltd ("RCA") Disposal Group was derived from the RCA statutory financial statements for the three years ended 30 June 2020, 30 June 2019 and 30 June 2018, which were prepared in accordance with IFRS. The carve-out historical financial information reflects the assets, liabilities, revenue and expenses directly attributable to the subject of the transaction as was recognised in the RCA statutory financial statements

As IFRS does not provide specific guidance for the preparation of carve-out historical financial information, principles outlined in IAS 8 were used in the preparation of the 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 carve-out historical financial information has consequently been prepared from the historical financial information recognised in the RCA statutory financial statements related to the RCA Reporting Entity; any assets (for example goodwill and intangible assets) recognised in the Ascendis consolidated financial statements that relate to the RCA Reporting Entity have not been included in the carve-out historical financial information.

The accounting policies utilised in the carve-out historical financial information are consistent with those applied by RCA and Ascendis in its consolidated financial statements. The 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.
- Prepared on the going concern basis. As at 30 June 2018 the current assets of the RCA Disposal Group 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 and intercompany payables. The financial guarantee will be cancelled and the intercompany loan payable will be settled or transferred upon disposal of the RCA Disposal Group and will restore the RCA Disposal Group to a solvent position with current assets exceeding current liabilities. Management therefore has a reasonable expectation that the RCA Disposal Group's operations have adequate resources to continue in operational existence for the foreseeable future.

1.1 Basis of preparation (continued)

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

Equity

- Share capital - as RCA has historically existed as a separate legal entity, the share capital presented in the carve-out historical financial information represents that of RCA.
- Contribution to parent - in preparing the carve-out historical financial information certain assets that were historically part of the RCA legal entity were removed as they will not transfer to the management consortium. These transactions are recognised in equity as a 'contribution to parent'.
- 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.

Allocation of central costs

- Management and similar functions for the South African operations of Ascendis group were primarily performed at an Ascendis Management Services (Pty) Ltd ("Ascendis Management Services") level (a subsidiary of Ascendis); these functions include payroll, accounting, marketing, executive management, 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 RCA were historically recharged to RCA. Depending on the nature of the cost these were historically recharged based on either specific identification or EBITDA of the entity relative to total South African EBITDA. Management believes the basis on which historic intra-group recharges were made is a reasonable reflection of the utilisation of the services provided by Ascendis Management Services and the historical cost of doing business by the RCA Reporting Entity. As such, no additional central costs were required to be allocated to the RCA Reporting Entity.

Taxation

- RCA has historically filed separate tax returns in South Africa where the legal entity is tax resident. RCA will continue to file tax returns. The income taxes in the carve-out historical financial information have been prepared using a separate tax return basis.

Intercompany

- Transactions with the Ascendis group of companies have been disclosed as related party transactions in the carve-out historical financial information. Intercompany loans that the RCA Reporting Entity had with Ascendis group of companies during the reporting periods are recognised as assets and liabilities in the carve-out historical financial information.

Interest

- The interest charge reflected in the carve-out historical financial information is based on the interest charge historically incurred by RCA on any external borrowings and intercompany loans.

Financial guarantee liability

- A financial guarantee liability ("FGL") has been recognised as a result of the the reporting entity acting as guarantor of the Ascendis Group's Senior Facilities Agreement (SFA). This financial guarantee will be cancelled upon the disposal of the RCA Disposal Group from Ascendis.

Accounting policies

The accounting policies applied in the preparation of the 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.

1.1 Basis of preparation (continued)

Limitations inherent to carve-out

As the carve-out historical financial information of the RCA Disposal Group has been prepared on a carve-out basis, this carve-out historical financial information may not be indicative of the RCA Disposal Group's future performance

Subsequent events

The carve-out historical financial statements of RCA were authorised for issue by the board of directors of Ascendis Health on xx 2021. Subsequent events have been considered from 30 June 2020 up to the date that the carve-out historical financial information was authorised for issuance. Refer to note 31.

1.2 Significant judgements and sources of estimation uncertainty

The preparation of carve-out historical 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:

Critical judgments in determining the lease term in terms of IFRS 16 *Leases*

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 management applies judgement in assessing whether it is reasonably certain that the options will be exercised. Factors considered include past history of terminating/renewing leases, management's forecasts and significance of the related leasehold improvements. Refer to Note 1.8 for the lease term applicable in the current period.

Going concern

Refer to note 29 on the detailed going concern disclosures.

Accounting estimates

Allowance for slow moving, damaged and obsolete inventory

An allowance is made for inventory to write inventory down to the lower of cost or net realisable value. Management estimates the net realisable value by taking the following into consideration:

- Change in technology.
- Sales trends.
- Stock nearing expiry dates; and
- Regulatory requirements.

All stock which is within the period of its expiry date which is within the next 6 months is provided for and the provision is calculated based on the average run rate. Consideration is also given to the method and period used to determine the percentages to apply to aged inventory as a result of changing trends.

1.2 Significant judgements and sources of estimation uncertainty (continued)

Impairment of non-financial assets

Determining whether non-financial assets are impaired requires an estimation of the recoverable amount of the CGU to which the assets, including goodwill, if applicable. RCA Reporting entity is a CGU as defined. The recoverable amount calculation requires the company to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. The recoverable amount is calculated as the higher of value-in-use or fair-value-less-cost-to-dispose. Historically, the group has principally applied the value-in-use approach. The following inputs are used in the calculation of the value-in-use:

- **Free cash flows -** In determining the free cash flow, the company uses the approved budget for the following financial year as the basis. The budget cycle is a robust process managed by the Ascendis group FP&A team using the group issued guidelines for inflation, administered prices and exchange rates. The forecast period is usually between 3 years and 5 years. The budget and the forecast income statement and balance sheets include the operating cash flows, working capital cash flows, capital expenditure and research and development cashflows and tax cash flows. These are adjusted for all CGU specific items.
- **Discount rate –** The company calculates a post-tax weighted average cost of capital (“WACC”) rate for each CGU (or group of CGUs) for which an impairment assessment is performed. A small stock premium is applied based on the estimated enterprise value.

1.2 Significant judgements and sources of estimation uncertainty (continued)

- **Growth rate applied –** In determining the growth rate, consideration is given to the growth potential of the CGU as well as management’s best estimate taking into account all the macro and micro economic factors. As part of this assessment, a prudent outlook is adopted which mirrors an inflationary increase in line with the consumer price index and real growth expected within the respective markets.

Residual values and useful lives of assets

Residual values, where applicable 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.

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

The company 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.

Refer to Note 2 Change in accounting policy for more information with regards to the assumptions.

1.2 Significant judgements and sources of estimation uncertainty (continued)

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.

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.

ECL on Financial guarantee liability and Loans to related parties

The ECL allowance is based on the assumptions about the probability of default by the counterparty. The company uses the following inputs to the ECL calculation:

- Latest management accounts of both parties
- Forward looking estimates that are linked to micro and macro-economic environment, for example, gross domestic product, inflation, etc.,

Deferred tax assets

The company 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 company 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.

1.3 Plant and equipment

Plant and equipment are tangible assets which the group 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 company, and the cost of the item can be measured reliably.

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

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

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	6 years
Motor vehicles	5 years
Demonstration equipment	7 years

1.3 Plant and equipment (continued)

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

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

Item	Average useful life
Computer software	2 - 5 years

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.

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 company’s statement of financial position when the company 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 company has an unconditional right to defer payment for more than 12 months from the reporting date.

1.5 Financial Instruments (continued)

The company 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 company's business model for managing the financial asset and the cash flow characteristics of the financial asset. Financial assets are not reclassified unless the company changes its business model. In rare circumstances where the company does change its business model, reclassifications are done prospectively from the date that the company 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

All financial assets (unless it is a trade receivable without a significant financing component) and liabilities are initially measured at fair value, including transaction costs, except for those classified as at FVTPL which are initially measured at fair value excluding transaction costs. 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.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the company 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.

1.5 Financial Instruments (continued)

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

The company 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 company applies the simplified approach to determine the ECL for trade receivables. This results in calculating lifetime expected credit losses for trade receivables. The company uses a mixture of the provision matrix and simplified parameter-based approach for the calculation of ECLs 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 ECL
Performing	Low risk of default and no amounts are past due	12-month ECL
Doubtful	Either 30 days past due or there has been a significant increase in credit risk since initial recognition	Lifetime ECL
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 company 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 company 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.

Refer to Note 2: Change in accounting policies for further details with regards to assessment of significant credit risk.

Impact of COVID-19

The Covid-19 pandemic has had a considerable pervasive impact to the global economic environment and inherently liquidity risk perceived. The company specialises in treatment products for respiratory diseases hence the pandemic has had a positive impact on the company’s operations.

1.5 Financial Instruments (continued)

Financial guarantee contracts

The company is required to recognise a financial guarantee liability in relation to financial guarantee contracts where the company 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 12 months or over the life of the guarantee depending on the significance of credit risk. 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 company classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through profit or loss – designated.
- 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 company 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 company 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.

1.5 Financial Instruments (continued)

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 company 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 allowanced 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.

1.5 Financial Instruments (continued)

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.

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. 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. 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

IFRS 16: Leases applicable in 2020

The company adopted IFRS 16 from the 2020 financial year, refer to the note 2 for further details with regards to the change in accounting policy.

Lease liability

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

- Fixed payments including non-recoverable payments that do not transfer a separate service, less any incentive receivable.
- Variable lease payments that are based on an index or rate, measured using the index or rate as at the lease commencement date.
- Amounts that are expected to be payable by the lessee under the residual value guarantees.
- The exercise price of a purchase option if the lease is reasonably certain to exercise that option.
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the company'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 in a similar economic environment with similar terms and conditions. The company uses its incremental borrowing rate as the discount rate. The company determines the incremental borrowing rate by obtaining the government bond rates matching the term of the lease and makes specific adjustments to the rate applicable to the lease. Adjustments to the rate applied entailed taking into consideration the terms of borrowing that would be likely to be afforded to the company if it were to acquire any debt finance to acquire the underlying asset. This includes taking into consideration a probability of default factor specific to the lease-holding entity, loss give of default percentage and transaction, or finance origination costs usually levied on such arrangements.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by the 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 for each period. It is remeasured when there is a change in future lease payments arising from a change in the 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.

Renewal and termination options

If a lease contract includes an option to renew for further periods or terminate the lease earlier, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option.

Extensions 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. Management applies judgement in assessing whether it is likely that options will be exercised. Factors considered include how far in the future an option occurs, significance of related leasehold improvements and past history of terminating/not renewing leases. The assessment is reviewed if a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Lease and non-lease components

If a lease contract includes both lease and non-lease components (e.g., maintenance), the company allocates the consideration in each contract to each lease and non-lease component based on their relative stand-alone selling prices, where applicable. The stand-alone selling prices of each component are based on available market prices.

The company has not elected the practical expedient to account for non-lease components as part of its lease liabilities and right-of-use assets. Therefore, non-lease components are accounted for as operating expenses and are recognised in profit or loss as they are incurred.

1.7 Leases (continued)

Right-of-use assets

The company leases warehouse building. Rental periods are typically fixed periods varying between one to ten years but may have renewal options that was taken into account when determining the total period of the lease.

From 1 July 2019, at inception of a contract the company assessed whether a contract is or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration.

The company recognises right-of-use assets and lease liabilities at the adoption date of IFRS 16. However, the company has elected not to recognise right-of-use assets and lease liabilities for the low value lease assets and short-term leases, i.e., leases that at adoption or lease commencement date have lease terms of 12 months or less. The company 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 not considered fundamental to the company's operations. The company recognises the lease payments associated with these leases as an expense directly in the income statement.

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 asset's useful lives and the lease terms on a straight-line basis. The useful lives of right-of-use asset in the current year is 4.75 years.

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.

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 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 Impairment of non-financial assets

The company 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 group 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. 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.

1.10 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 profit sharing and 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.

1.11 Revenue

IFRS 15: *Revenue from contract with customers applicable from 1 July 2018*

The company’s revenue is derived from contracts with customers. Revenue can be classified into the following categories:

- Sale of medical equipment and consumables
- Service income
- Warranty income

The company recognises revenue when a customer obtains control of the goods or services. Determining the timing of the transfer of control over time or at a point in time requires judgement and is determined as detailed below. Revenue is recorded based on the price specified in the contract. No element of financing is deemed present as the sales are usually made with a credit term of 30 days, which is consistent with market practice.

Sale of medical equipment and consumables

The company sells a range of medical devices and consumables. Sales are recognised when the control of the products has transferred, being when the products are delivered to the customer.

1.11 Revenue (continued)

The products are sold with early settlement discounts and revenue is recognised based on the price specified in the contract net of estimated discounts. The discounts are measured based on the expected value method using accumulated experience and revenue is recognised only to the extent that it is highly probable that a significant reversal will not occur.

The company recognises a receivable when the products are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Management has to apply judgements and estimates in the determination of discounts and return assets and liabilities. The items are estimated based on the historical experience and expected value method.

The company only offers the customer the right to return the consumables or capital equipment within the required timeframe.

IFRS 15 requires that a refund liability and asset be recognised for the expected related amount of any returns of products by customers. Right of returns generally result from the buyers' desire to mitigate the risk related to the products purchased and the seller's desire to promote goodwill with customers. The liability and the asset are only recognised for the products that the entity has concluded that it will be highly probable that there will be a significant risk of revenue reversal in the future periods.

Service Income

Included in the transaction price for the sale of medical equipment is an after-sales maintenance service. This service relates to maintenance work that may be required to be carried out on the equipment for a two-to-seven-year period after the initial sale. This period can then be extended if the customer requires additional years of maintenance services.

The maintenance service is considered to be a distinct service as it is both regularly supplied by the company to other customers on a stand-alone basis and is available for customers from other providers in the market. A portion of the transaction price is therefore allocated to the maintenance services based on the stand-alone selling price of those services. Discounts are not considered as they are only given in rare circumstances and are never material.

Revenue relating to the maintenance services is recognised over time. The transaction price allocated to these services is recognised as a contract liability at the time of the initial sales transaction and is recognised as revenue on a straight-line basis over a period of two to seven years.

Warranty Income

The company offers assurance type warranty for the maintenance of the purchased medical equipment. The assurance type warranty is for a two-to-five-year period after the initial sale.

The assurance type warranty service is considered to be a distinct service as it is both regularly supplied by the company to other customers on a stand-alone basis and is available for customers from other providers in the market. A portion of the transaction price is therefore allocated to the assurance type warranty based on the stand-alone selling price of those services.

Revenue relating to the assurance type warranty is recognised over time. The transaction price allocated to these services is recognised as a contract liability at the time of the initial sales transaction and is recognised as revenue on a straight-line basis over a period of two to five years. Contract liabilities are recognised for the services where the performance obligations have not been satisfied.

Management has to apply estimation in the determination of return assets and liabilities. The items are estimated based on the historical experience and expected value method. Management applies judgement and estimation in the determination of the transaction price. The amount of revenue recognised is based on the transaction price, which is the amount of consideration the group expects to be entitled to for supplying the product or service. Variable consideration is estimated based on the most likely amount to be received (or paid) and to the extent that it does not result in a significant reversal of revenue.

IAS 18: *Revenue applicable before 1 July 2018*

Revenue from sale of goods is recognised when all the following conditions have been satisfied:

- The company has transferred to the buyer the significant risks and rewards of ownership of the goods.
- The company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

1.11 Revenue (continued)

- The amount of revenue can be reliably measured.
- It is probable that the economic benefits associated with the transaction will flow to the company; and
- The costs incurred or to be incurred in respect of the transaction can be reliably measured.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods or services provided in the normal course of business, net of trade discounts and volume rebates, and value added tax.

1.12 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.

1.13 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:

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 annual financial statements are recognised in profit or loss in the period in which they arise.

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 carve-out historical financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The carve-out financial statements are presented in Rands, which is the entity's functional and presentation currency.

1.14 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 the expected outflow of resources required to settle the 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.

2. Change in accounting policy

IFRS 15: *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The company has adopted IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e., 1 July 2018). Accordingly, the information presented in the 30 June 2018 financial statements has not been restated – i.e., it is presented, as previously reported, under IAS 18 and related interpretations. The company has also applied the practical expedient where the standard is not applied to contracts that were completed on transition date. There was no material impact on the statement of comprehensive income.

The company has determined that the application of IFRS 15 requirements as at 1 July 2018 will result in an increase in retained earnings of R889 831. This was as a result of the recognition of contract liabilities related to warranty income in terms of the new standard:

Trade and other receivables	-
Contract liabilities	1 235 877
Deferred tax asset	(346 046)
Impact on retained earnings	**889 831**

IFRS 9: *Financial Instruments*

IFRS 9 sets out requirements for recognising and measuring financial assets and financial liabilities. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The company has applied IFRS 9 using the modified retrospective approach, with the initial application date of 1 July 2018.

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.

2. Change in accounting policy (continued)

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

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets				
Trade and other receivables	Loans and receivables	Amortised cost	101 006 940	98 344 836
Cash and cash equivalents	Loans and receivables	Amortised cost	5 306 295	5 306 295
Loans to group companies	Loans and receivables	Amortised cost	79 025 379	77 727 487
Other financial assets	Loans and receivables	Amortised cost	855 326	855 326
Financial liabilities				
Trade and other payables	Amortised cost	Amortised cost	36 113 671	36 113 671
Loans from group companies	Amortised cost	Amortised cost	451 285 893	451 285 893

The company has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the company's financial liabilities.

Impairment of financial assets

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.

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 combination of the simplified parameter-based approach and the provision matrix. For the intercompany receivables, the entity applies the general impairment model

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.

2. Change in accounting policy (continued)

The loans from related parties were valued based on the risk of the counterparty on the comprehensive method. PD and LGD was measured uding 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 ImpairmentCal 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 avarege of Moody's Analytics' economic forecasts and scenarios.

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.

Simplified parameter-based approach

ECL is calculated using a formula incorporating the following parameters: Exposure at Default (EAD), Probability of Default (PD) and Loss Given Default (LGD) i.e. (PD x LGD x EAD = ECL). The PD and LGD was measured using Moody’s Analytics RiskCals’s respective PD and LGD modules (RiskCalc South Africa Version 3.2 for PD and LossCalc version 4.0). Exposures are segmented by customer size relative to the amount of the total debtors’ book. Management applied judgement and assumption segmenting the customers. Individual customers making up at least 10% of the debtors’ book were excluded and the simplified parameter-based approach was applied. The customers include all government and public listed customers to the extent that the relevant information is available.

The company has determined that the application of IFRS 9’s impairment requirements at 1 July 2018 results in the recognition of an additional impairment on the company’s trade receivables and loans to group companies and a resultant decrease in retained earnings of R 2 851 198 as at 1 July 2018. Refer to the significant estimates disclosures on the inputs to the calculation.

	Allowance for impairment under IAS 39 as at 30 June 2018	**Remeasurement**	**ECL under IFRS 9 as at 1 July 2018**
Loans and receivables under IAS 39/ Financial assets at amortised cost under IFRS 9	-	3 959 996	3 959 996
The remeasurement comprises:			
Intercompany loan remeasurement	-	1 297 892	-
Trade receivables remeasurement	-	2 662 104	-
Deferred tax	-	(1 108 798)	-
Impact on retained earnings	**-**	**2 851 198**	**-**

2. Change in accounting policy (continued)

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 a 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.

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**.**

IFRS 16 *Leases*

In the current year, the company has adopted IFRS 16 Leases (as issued by the IASB in January 2016) with the date of initial application being 01 July 2019. IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC 27 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of- use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in the accounting policy for leases. The impact of the adoption of IFRS 16 on the annual financial statements is described below.

The company has applied the practical expedient available in IFRS 16 which provides that for contracts which exist at the initial application date, an entity is not required to reassess whether they contain a lease. This means that the practical expedient allows an entity to apply IFRS 16 to contracts identified by IAS 17 and IFRIC 4 as containing leases; and to not apply IFRS 16 to contracts that were not previously identified by IAS 17 and IFRIC 4 as containing leases.

IFRS 16 has been adopted by applying the modified retrospective approach, whereby the comparative figures are not restated.

2. Change in accounting policy (continued)

Leases where company is lessee

Leases previously classified as operating leases

The company undertook the following at the date of initial application for leases which were previously recognised as operating leases:

- recognised a lease liability, measured at the present value of the remaining lease payments, discounted at the company's incremental borrowing rate at the date of initial application.
- recognised right-of-use assets measured on a lease-by-lease basis, at either the carrying amount (as if IFRS 16 applied from commencement date but discounted at the incremental borrowing rate at the date of initial application) or at an amount equal to the lease liability adjusted for accruals or prepayments relating to that lease prior to the date of initial application.

The company applied IAS 36 to consider if these right-of-use assets are impaired as at the date of initial application.

As an exception to the above, no adjustments were made on initial application of IFRS 16 for leases previously classified as operating leases:

- for which the underlying asset is of low value. From the date of initial application, these leases are accounted for in accordance with paragraph 6 of IFRS 16 by recognising the lease payments on a straight-line basis or another systematic basis which is more representative of the pattern of benefits consumed.

The company applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases in terms of IAS 17. Where necessary, they have been applied on a lease-by-lease basis:

- when a portfolio of leases contained reasonably similar characteristics, the company applied a single discount rate to that portfolio.
- leases which were expiring within 12 months of 01 July 2019 were treated as short term leases, with remaining lease payments recognised as an expense on a straight-line basis or another systematic basis which is more representative of the pattern of benefits consumed.
- initial direct costs were excluded from the measurement of right-of-use assets at the date of initial application.
- hindsight was applied where appropriate. This was specifically the case for determining the lease term for leases which contained extension or termination options.

Impact on annual financial statements

On transition to IFRS 16, the company recognised an additional R2 221 718 of right-of-use assets and R2 221 718 of lease liabilities.

The recognised right-of-use asset relate to the following type of asset:

	1 July 2019
Buildings	2 221 718
Total right-of-use asset	**2 221 718**

When measuring lease liabilities, company discounted lease payments using its incremental borrowing rate at 01 July 2019. This rate is 12%.

Reconciliation of previous operating lease commitments to lease liabilities under IFRS 16

	1 July 2019
Operating lease commitments disclosed as at 30 June 2019	3 170 728
Discounting using the incremental borrowing rate at 1 July 2019	(949 010)
Lease liabilities recognised as at 1 July 2019	**2 221 718**
Of which are:	
Current	350 610
Non-current	1 871 108
	2 221 718

3. New Standards and Interpretations

3.1 Standards and interpretations effective and adopted in the current year

In addition to the standards included in Note 2, the company also adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

IFRIC 23 Uncertainty over Income Tax Treatments

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 from financial years beginning on or after 01 January 2019.

The company has adopted the interpretation for the first time in the 2020 annual financial statements.

The impact of the interpretation is not material.

3.2 Standards and interpretations not yet effective

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

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 company expects to adopt the amendment for the first time in the 2024 annual financial statements.

It is unlikely that the amendment will have a material impact on the company’s financial statements.

3. New Standards and Interpretations (continued)

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 amendment is from the financial years beginning on or after 01 January 2022.

The company expects to adopt the amendment for the first time in the 2023 annual financial statements.

It is unlikely that the amendment will have a material impact on the company 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 amendment is from the financial years beginning on or after 01 January 2022.

The company expects to adopt the amendment for the first time in the 2023 company annual financial statements.

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

Interest Rate Benchmark Reform - Phase 1: 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 amendment is from financial years beginning on or after 01 January 2021.

The reporting entity expects to adopt the amendment for the first time in the 2022 reporting entity annual financial statements. It is unlikely that the amendment will have a material impact on the reporting entity annual financial statements.

Interest Rate Benchmark Reform Phase 2: The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

Amendment requirements relating to changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities, hedge accounting and disclosures. The amendment to IFRS requires a company to make additional disclosures in its financial statements so that investors can better understand the effects of IBOR reform on that company.

The effective date of the amendment is from financial years beginning on or after 01 January 2021.

The reporting entity expects to adopt the amendment for the first time in the 2022 company annual financial statements. It is unlikely that the amendment will have a material impact on the reporting entity's annual financial statements

3. New Standards and Interpretations (continued)

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.

In March 2021, the amendment providing lessees with an exemption from assessing whether a COVID-19-related rent concession (a rent concession that reduces lease payments due on or before 30 June 2022) is a lease modification was extended.

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

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

It is unlikely that the amendment will have a material impact on the 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 from financial years beginning on or after 01 January 2020.

The reporting entity expects to adopt the amendment for the first time in the 2021 annual financial statements. It is unlikely that the amendment will have a material impact on the annual financial statements.

Notes to the Annual Financial Statements

4. Plant and equipment

	2020			2019			2018		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
	R	R	R	R	R	R	R	R	R
Demonstration equipment	18 147 024	(5 545 263)	12 601 761	18 208 037	(2 529 980)	15 678 057	7 008 947	(1 824 783)	5 184 625
Furniture and fixtures	2 259 391	(1 186 438)	1 072 953	3 436 703	(2 620 217)	816 486	3 144 262	(2 408 902)	735 360
Motor vehicles	2 549 642	(2 374 369)	175 273	2 549 642	(2 149 551)	400 091	2 549 642	(1 887 470)	662 172
Computer equipment	3 405 206	(3 047 306)	357 900	3 099 970	(2 878 300)	221 670	3 631 425	(3 520 478)	110 947
Total	**26 361 263**	**(12 153 376)**	**14 207 887**	**27 294 352**	**(10 178 048)**	**17 116 304**	**16 334 276**	**(9 641 633)**	**6 693 104**

Reconciliation of plant and equipment - 2020

	Opening balance	Additions	Disposals	Depreciation	Closing balance
	R	R	R	R	R
Demonstration Equipment	15 678 058	599 628	(397 265)	(3 278 660)	12 601 761
Furniture and fixtures	816 485	722 504	(215 747)	(250 289)	1 072 953
Motor vehicles	400 092	-	-	(224 819)	175 273
Computer equipment	221 669	305 236	-	(169 005)	357 900
	17 116 304	**1 627 368**	**(613 012)**	**(3 922 773)**	**14 207 887**

Notes to the Annual Financial Statements

4. Plant and equipment (continued)

Reconciliation of plant and equipment - 2019	Opening balance	Additions	Disposals	Inventory Transfer (1)	Depreciation	Closing balance
	R	R	R	R	R	R
Demonstration Equipment	5 184 625	706 803	(601 951)	11 695 988	(1 307 407)	15 678 058
Furniture and fixtures	735 360	292 441	-	-	(211 316)	816 485
Motor vehicles	662 172		-	-	(262 080)	400 092
Computer equipment	110 947	185 348	-	-	(74 626)	221 669
	6 693 104	**1 184 592**	**(601 951)**	**11 695 988**	**(1 855 429)**	**17 116 304**

Reconciliation of plant and equipment - 2018	Opening balance	Additions	Disposals	Inventory Transfer	Depreciation	Closing balance
	R	R	R	R	R	R
Demonstration Equipment	5 697 963	560 860	(82 646)	-	(991 552)	5 184 625
Furniture and fixtures	487 285	378 458	-	-	(130 383)	735 360
Motor vehicles	945 570	-	-	-	(283 398)	662 172
Computer equipment	54 108	117 730	-	-	(60 891)	110 947
	7 184 926	**1 057 048**	**(82 646)**	**-**	**(1 466 224)**	**6 693 104**

(1) This relates to inventory items that are being used as demo stock.

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 company is a lessee are presented below:

The company adopted IFRS 16 for the first time in 2020 financial year.
The company leases a building from a third party and the lease term as at 1 July 2019 was assessed to be 3years and 10 months. It was assessed that it is not reasonably certain that the company will exercise the extension option hence it was not incorporated into the lease term.
Comparative figures have been accounted for in accordance with IAS 17. The information presented in this note for right-of-use assets therefore only includes the current period.

	Opening balance	Adoption of IFRS 16	Depreciation	Total
Buildings	-	2 221 718	(579 576)	1 642 142

	2020 R
Other disclosures	
Interest expense on lease liabilities (recognised in the income statement)	354 661
Total lease capital payments	350 607
Total cash outflow from leases	**705 268**

At 30 June 2020, the company did not recorded any short-term or low value leases. There are no covenants or restrictions on leases.

Lease liabilities

Non-current liabilities	712 331
Current liabilities	1 158 780
	1 871 111

Exposure to liquidity risk

Refer to note 27 Financial instruments and risk management for the details of liquidity risk exposure and management for lease liabilities.

Notes to the Annual Financial Statements

	2020	2019	2018
	R	R	R

6. Intangible assets

	2020			2019			2018		
	Cost	Accumulated amortisation / impairment	Carrying value	Cost	Accumulated amortisation / impairment	Carrying value	Cost	Accumulated amortisation / impairment	Carrying value
	R	R	R	R	R	R	R	R	R
Computer software	1 225 156	(516 207)	708 949	1 225 156	(250 368)	974 788	-	-	-
Total	**1 225 156**	**(516 207)**	**708 949**	**1 225 156**	**(250 368)**	**974 788**	**-**	**-**	**-**

Reconciliation of intangible assets - 2020

	Opening balance	Additions	Amortisation	Closing balance
	R	R	R	R
Computer software	974 788		(265 839)	708 949
	974 788	**-**	**(265 839)**	**708 949**

6. Intangible assets (continued)

Reconciliation of intangible assets - 2019

	Opening balance R	Additions R	Amortisation R	Closing balance R
Computer software	-	1 225 156	(250 368)	974 788
	-	**1 225 156**	**(250 368)**	**974 788**

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.

	2020 R	2019 R	2018 R

7. Deferred tax

Deferred tax asset

	2020 R	2019 R	2018 R
Provisions	6 871 072	10 728 929	1 796 512
Lease liability	523 911	-	-
Contract liabilities	3 648 632	2 705 609	-
Total deferred tax asset	**11 043 615**	**13 434 538**	**1 796 512**

Deferred tax liability

	2020 R	2019 R	2018 R
Right-of-use asset	(459 800)	-	-
Prepayments	(101 346)	(243 389)	(278 856)
Total deferred tax liability	**(561 146)**	**(243 389)**	**(278 856)**

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 liability	(561 146)	(243 389)	(278 856)
Total net deferred tax asset (to be recovered within 12 months)	11 043 615	13 434 538	1 796 512
Total net deferred tax asset	**10 482 469**	**13 191 149**	**1 517 656**

Reconciliation of deferred tax liabilities

	2020 R	2019 R	2018 R
At the beginning of the year	13 191 149	1 517 656	3 078 420
Charge per statement of profit and loss at the end of the year	(2 708 680)	10 910 741	(1 560 764)
Change in accounting policy	-	762 752	-
At the end of the year	**10 482 469**	**13 191 149**	**1 517 656**

Deferred tax asset is recognised because the company 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.

8. Inventories

	2020 R	2019 R	2018 R
Finished goods	128 961 983	133 479 644	93 931 945
Goods in transit	21 740	475 676	288 880
	128 983 723	133 955 320	94 220 825
Provision for write-downs (1)	(4 774 968)	(19 744 981)	-
	124 208 755	**114 210 339**	**94 220 825**

(1) The company recognised a significant provision in the 2019 financial year because the company implemented a strict inventory management policy.

9. Trade and other receivables

	2020 R	2019 R	2018 R
Financial instruments:			
Trade receivables	121 011 824	76 253 068	100 740 351
Loss allowance	(2 564 906)	(3 059 242)	-
Trade receivables at amortised cost	**118 446 918**	**73 193 826**	**100 740 351**
Other receivables	963 410	502 130	266 589
Deposits	173 302	173 302	173 302
Non-financial instruments:			
Prepayments (2)	54 650 662	869 248	995 915
Value added taxation	-	80	2 725
Total trade and other receivables	**174 234 292**	**74 738 586**	**102 178 882**

(2) Prepayments have increased from 2019 to 2020 due to the increase in payments in advance related to purchases of inventory from foreign suppliers. The foreign suppliers require the company to pay in advance for the purchases of inventory.

Categorisation of trade and other receivables

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

	2020 R	2019 R	2018 R
At amortised cost	119 583 630	73 869 258	101 187 242
Non-financial instruments	54 650 662	869 328	998 640
	174 234 292	**74 738 586**	**102 178 882**

Exposure to credit risk

Trade and other receivables inherently expose the company to credit risk, being the risk that the company 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 company only deals with reputable customers with consistent payment histories. Sufficient collateral or guarantees are also obtained when appropriate. 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 during 2020, 2019, and 2018 reporting periods.

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

9. Trade and other receivables (continued)

IFRS 9 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 company 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 lifetimes expected credit losses are estimated using a provision matrix and the simplified parameter-based approach for material debtors. The provision matrix has been developed by making use of past default experience of debtors but also incorporates forward looking information and general economic conditions of the industry as at the reporting date. The simplified parameter-based approach is based on the credit ratings of the customers, and this has been adjusted using the effective interest rate. The effective interest rate represents a weighted average rate which is representative of the portfolio of customers and incorporates a risk- free plus a risk premium on initial recognition. In 2020, the probability of default has been increased for the estimated deteriorated gross domestic product growth in South Africa.

Categories			
Company A	-	-	-
Company B	-	-	-
Company C	121 011 824	76 253 068	101 006 940
Company D	-	-	-
	121 011 824	**76 253 068**	**101 006 940**

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

The company applies a combination of the provision matrix and the simplified parameter-based approach. The loss allowance provision as at 30 June is as follows:

2020

	Gross carrying amount	Impairment	Average ECL/impairment ratio
Provision matrix			
Current	19 905 172	(645 842)	-3,24%
Up to 30 days aged	704 317	(36 980)	-5,25%
Up to 60 days aged	1 161 519	(92 803)	-7,99%
Up to 90 days aged	4 273 943	(377 800)	-8,84%
Simplified parameter-based approach			
Government customers	64 180 599	(854 074)	-1,33%
Public listed customers	30 786 273	(557 407)	-1,81%
	121 011 824	**(2 564 906)**	**-2,12%**

9. Trade and other receivables (continued)

2019

	Gross carrying amount	Impairment	Average ECL/impairment ratio
Provision matrix			
Current	22 947 852	(478 039)	-2,08%
Up to 30 days aged	4 451 734	(198 053)	-4,45%
Up to 60 days aged	1 696 685	(191 043)	-11,26%
Up to 90 days aged	3 879 215	(2 155 950)	-55,58%
Simplified parameter-based approach			
Government customers	43 277 582	(36 157)	-0,08%
Public listed customers	-	-	0,00%
	76 253 068	**(3 059 242)**	**-4,01%**

1 July 2018

	Gross carrying amount	Impairment	Average ECL/impairme nt ratio
Provision matrix			
Current	20 613 396	(246 384)	-1,20%
Up to 30 days aged	4 636 637	(111 743)	-2,41%
Up to 60 days aged	442 330	(26 142)	-5,91%
Up to 90 days aged	4 000 427	(2 162 212)	-54,05%
Simplified parameter-based approach			
Government customers	71 047 561	(115 624)	-0,16%
Public listed customers	-	-	0,00%
	100 740 351	**(2 662 104)**	**-2,64%**

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:	-	-	
Recognition and Measurement	-	(2 662 104)	-
Adjustments upon application of IFRS 9			
Opening balance in accordance with IFRS 9	**(3 059 242)**	**(2 662 104)**	**-**
Provision raised on new trade receivables	(628 207)	(987 237)	-
Unused amounts reversed	1 122 543	590 099	-
Closing balance	**(2 564 906)**	**(3 059 242)**	**-**

Exposure to currency risk

Refer to note 27 Financial instruments and risk management for details of currency risk management for trade and other receivables.

10. Other financial assets

	2020 R	2019 R	2018 R
RespiratoryCareAfrica(Botswana)ProprietaryLimited	-	-	847 222
StaffLoans	-	-	8 104
	-	**-**	**855 326**

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

Refer to note 27 Financial instruments and risk management further details.

Exposure to credit risk

Refer to note 27 Financial instruments and risk management for details of credit risk exposure and management for derivative financial assets.

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	6 704 952	894 031	5 306 295
	6 704 952	**894 031**	**5 306 295**

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			
Baa3	6 704 952	894 031	5 306 295
	6 704 952	**894 031**	**5 306 295**

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

Securities and facilities

The company 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

11. Cash and cash equivalents (continued)

Exposure to credit risk

Refer to note 27 Financial instruments and risk management for details of currency risk management for cash and cash equivalents.

Exposure to interest rate risk

Refer to note 27 Financial instruments and risk management for details of interest rate risk management for cash and cash equivalents.

	2020 R	2019 R	2018 R
12. Loans to related parties			
Ascendis Medical Proprietary	-	63 102	63 102
The Scientific Company Proprietary Limited	2 682 079	2 752 754	-
Surgical Innovations Proprietary Limited	16 213 767	38 322 657	45 000 015
Ascendis Medical Proprietary Limited (Namibia)	3 342 283	6 208 419	4 795 654
Ascendis Financial Services Limited	-	2 469 060	29 166 608
	22 238 129	**49 815 992**	**79 025 379**

The loans are unsecured, bear no interest and have no fixed terms of repayment except for a portion of the loan from Ascendis Financial Services which incurred interest at 11% in 2019 financial year.

Exposure to credit risk

Loans to related parties inherently expose the company to credit risk, being the risk that the company 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 for 2020 and 2019, 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.

In determining the amount of expected credit losses, the company has taken into account any historic default experience, the financial positions of the counterparties as well as the future prospects in the industries in which the counterparties operate adjusted for forward looking information such as the gross domestic product, inflation, etc.

In 2020, the probability of default has been increased for the estimated deteriorated gross domestic product growth in South Afrca. In 2018, the company 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 company does not hold collateral or other credit enhancements against loans to related parties.

Notes to the Annual Financial Statements

12. 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 credit rating grade:

	Basis of loss allowance	Gross Carrying amount	Loss allowance	Amortised cost
2020				
The Scientific Company Proprietary Limited	Lifetime ECL (credit impaired)	3 690 765	(1 008 686)	2 682 079
Surgical Innovations Proprietary Limited	Lifetime ECL (credit impaired)	32 317 654	(16 103 887)	16 213 767
Ascendis Medical Proprietary Limited (Namibia)	Lifetime ECL (credit impaired)	6 984 916	(3 642 634)	3 342 283
		42 993 336	**(20 755 207)**	**22 238 129**
2019				
Ascendis Medical Proprietary	Lifetime ECL (not credit impaired)	63 102	-	63 102
The Scientific Company Proprietary Limited	Lifetime ECL (credit impaired)	3 084 896	(332 142)	2 752 754
Surgical Innovations Proprietary Limited	Lifetime ECL (credit impaired)	43 138 883	(4 816 225)	38 322 658
Ascendis Medical Proprietary Limited (Namibia)	Lifetime ECL (credit impaired)	7 251 198	(1 042 779)	6 208 419
Ascendis Financial Services Limited	Lifetime ECL (credit impaired)	2 766 971	(297 911)	2 469 060
		56 305 049	**(6 489 057)**	**49 815 992**
1 July 2018				
Ascendis Medical Proprietary	Lifetime ECL (not credit impaired)	63 102	-	63 102
Surgical Innovations Proprietary Limited	Lifetime ECL (credit impaired)	45 000 015	(769 500)	44 230 515
Ascendis Medical Proprietary Limited (Namibia)	Lifetime ECL (credit impaired)	4 795 654	(321 309)	4 474 345
Ascendis Financial Services Limited	Lifetime ECL (credit impaired)	29 166 608	(207 083)	28 959 525
		79 025 379	**(1 297 892)**	**77 727 487**

12. Loans to related parties (continued)

2018		Gross carrying amount	Loss allowance	Net carrying amount
Ascendis Medical Proprietary	Lifetime ECL (not credit impaired)	63 102	-	63 102
Surgical Innovations Proprietary Limited	Lifetime ECL (credit impaired)	45 000 015	-	45 000 015
Ascendis Medical Proprietary Limited (Namibia)	Lifetime ECL (credit impaired)	4 795 654	-	4 795 654
Ascendis Financial Services Limited	Lifetime ECL (credit impaired)	29 166 608	-	29 166 608
		79 025 379	**-**	**79 025 379**

Reconciliation of loss allowance

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

	2020	2019	2018
Opening balance in accordance with IAS 39:	**-**	**-**	**-**
Adjustment upon application of IFRS 9	-	(1 297 892)	-
Opening balance in accordance with IFRS 9 (2018: IAS 39)	**(6 489 057)**	**(1 297 892)**	**-**
New loans	(65 232)	(496 664)	-
Loans repaid	1 246 426	219 263	-
Change in risk parameters	(15 447 344)	(4 913 764)	-
Closing balance	**(20 755 207)**	**(6 489 057)**	**-**

13. Loans from related parties

Ascendis Financial Services (Pty) Ltd	510 784 972	437 469 812	441 120 330
Ascendis Health Limited	9 765 563	9 765 563	9 765 563
The Scientific Company Proprietary Limited	-	-	400 000
Current liabilities	**520 550 535**	**447 235 375**	**451 285 893**

The loan with Ascendis Financial Services (Pty) Ltd is unsecured and bears interest at 11% per annum. The other loans are unsecured, interest free and does not have any repayment terms.

Exposure to liquidity risk

Refer to note 26 Financial instruments and risk management for details of liquidity risk exposure and management for loans from related parties.

Exposure to interest rate risk

Refer to note 26 Financial instruments and risk management for details of interest rate risk management for loans from related parties.

14. Contract liabilities

Contract liabilities reconciliation			
Opening balance	9 662 888	12 878 018	9 125 823
IFRS 15 opening balance adjustment	-	(2 321 868)	-
Additions	7 342 407	2 789 672	5 314 249
Provision utilised (recognised as revenue)	(3 974 468)	(3 682 934)	(1 562 054)
Closing balance	**13 030 827**	**9 662 888**	**12 878 018**
Non-current	8 826 142	5 642 138	8 457 012
Current	4 204 685	4 020 750	4 421 006
	13 030 827	**9 662 888**	**12 878 018**

Contract liabilities consist of warranty provisions which are insurance-type liabilities recognised at the date of sale of the relevant goods. The non-current portion relates to warranties for maintenance service plans over a five-year duration.

15. Trade and other payables

Financial instruments:			
Trade payables	49 553 033	21 067 952	33 285 062
Other payables	26 986 603	23 473 565	517 381
Other accrued expenses	458 147	847 044	573 021
Non-financial instruments:			
Accrued bonus	2 465 108	3 388 756	1 728 209
Accrued payroll liabilities	2 397 842	2 128 496	3 619 190
Refund liabilities for product returns	1 529 805	859 890	-
Value-added taxation	3 937 277	2 759 198	2 065 739
Trade and other payables	**87 327 815**	**54 524 901**	**41 788 602**

Categorisation of trade and other payables

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

At amortised cost	76 997 783	45 388 561	34 375 464
Non-financial instruments	10 330 032	9 136 340	7 413 138
	87 327 815	**54 524 901**	**41 788 602**

Exposure to currency risk

Refer to note 26 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 26 Financial instruments and risk management for details of liquidity risk exposure and management for trade and other payables.

	2020	2019	2018
	R	R	R

16. Provisions

2020	Opening balance	Additions	Unused provision reversed	Utilised	Closing balance
Leave pay provision	5 543 012	1 908 152	(909 915)	(366 459)	6 174 790
Commission provision	-	5 097 562	-	(970 994)	4 126 568
Other provisions	476 394	-	-	-	476 394
	6 019 406	**7 005 714**	**(909 915)**	**(1 337 454)**	**10 777 752**
2019					
Leave pay provision	4 622 105	920 907	-	-	5 543 012
Other provisions	1 738 161	-	-	(1 261 767)	476 394
	6 360 266	**920 907**	**-**	**(1 261 767)**	**6 019 406**
2018					
Leave pay provision	-	4 622 105	-	-	4 622 105
Other provisions	-	1 738 161	-	-	1 738 161
	-	**6 360 266**	**-**	**-**	**6 360 266**

The nature of the provisions is as follows:

Other provision

Other provision relates to various matters within the company. These matters may not necessarily be resolved in a manner that is favorable to the company and the company has recognised a provision based on estimates and probability of outflow of economic benefits.

Commission provision

The commission provision is recognised for payments to sales representatives and divisional managers.

Leave pay

Lease pay provision is recognised for all amounts 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.

17. Financial guarantee liability

In terms of IFRS 9, the company 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.

17. Financial guarantee liability (continued)

Financial guarantee contracts issued by the company 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% in 2020 and 10.7% in 2019.

The company along with other subsidiaries jointly and severally guaranteed the Ascendis group senior borrowing facilities recorded in Ascendis Financial Services Proprietary Limited, Ascendis Health International Holdings Limited, Scitec kft, Remedica Limited and Ascendis Financial Services International SARL from 2017 financial year. 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 Ascendis company financial statements for further details with regards to the borrowing facilities with face values disclosed below:

	2020 R	2019 R	2018 R
Face value of the Ascendis group debt			
Term loan - European debt	3 402 133 000	2 610 319 000	2 809 065 000
Term loan - South African debt	1 534 832 000	1 346 571 000	1 432 627 000
Revolving credit facility	1 373 676 000	763 500 000	783 253 000
Short-term loans with financial institutions	-	360 397 000	-
	6 310 641 000	**5 080 787 000**	**5 023 945 000**
The company's financial liability relating to financial guarantee contracts amounts to:			
Financial guarantee liability	1 402 429 932	570 046 873	-
Financial guarantee movement:			
Opening balance	570 046 873	-	-
Expected credit loss allowance	832 383 059	570 046 873	-
Closing balance	**1 402 429 932**	**570 046 873**	**-**

Notes to the Annual Financial Statements

18. Revenue

	2020 R	2019 R	2018[1] R
Revenue from contracts with customers			
Sale of goods	522 886 527	364 564 147	415 696 437
Rendering of services	72 256 174	70 593 714	60 540 875
	595 142 701	**435 157 861**	**476 237 312**
Disaggregation of revenue from contracts with customers			
Sale of goods			
Local	577 386 014	424 002 778	463 982 214
International	17 756 687	11 155 083	12 255 098
	595 142 701	**435 157 861**	**476 237 312**
Timing of revenue recognition			
At a point in time			
Sale of medical equipment	289 573 974	207 860 252	251 985 098
Sale of consumables	233 312 552	156 703 895	163 711 339
Over time			
Services income	68 281 706	66 232 410	57 267 456
Warranty income	3 974 468	4 361 304	3 273 419
Total revenue	**595 142 701**	**435 157 861**	**476 237 312**

[1] Revenue in 2018 is accounted for in terms of IAS 18

19. Expense by nature

	2020	2019	2018
Administration and management fees	29 773 178	20 346 710	11 709 442
Auditors' remuneration	947 309	953 703	200 000
Bad debts written off	-	2 751 808	(308 218)
Bank charges	123 633	140 316	216 465
Cleaning	399 652	111 650	142 866
Commission paid	20 401 825	11 502 023	18 049 744
Computer expenses	1 855 492	1 329 480	1 280 606
Consulting and professional fees	2 333 871	1 357 531	1 398 173
Delivery expenses	6 637 253	5 228 435	4 143 823
Depreciation and amortisation	4 188 612	2 105 797	1 466 224
Depreciation on right of use assets	579 576	-	-
Employee costs	77 359 236	77 011 004	71 052 515
Financial guarantee - Expected credit loss	832 383 059	570 046 873	-
General expenses	259 383	567 154	602 955
Insurance	760 085	835 474	665 940
Lease rentals on operating lease	-	6 510 975	5 217 274
Legal fees	89 020	109 160	282 566
Loss on foreign exchange differences	16 008 647	1 808 434	-
Marketing and business development	1 433 247	1 865 607	1 614 085
Motor vehicle expenses	6 228 947	1 337 123	990 209
Printing and stationery	591 289	872 574	676 182
Provision for expected credit loss - intercompany loans	14 266 150	5 191 165	-
Rates and taxes	43 671	108 584	167 880
Repairs and maintenance	627 021	118 021	544 271
Research and development costs	193 788	20 000	520 109
Security	310 119	251 915	242 135
Short-term lease expense	1 028 702	-	-
Subscriptions	927 595	473 624	761 538
Telephone and fax	1 747 210	1 801 032	1 624 443
Travel - local	4 140 611	3 595 896	4 568 694
Travel - overseas	531 575	962 548	273 453
Utilities	781 747	552 778	642 307
Total operating expenses	**1 026 951 503**	**719 867 391**	**128 745 681**
Change in inventories	(9 998 416)	(19 989 514)	(7 706 719)
Purchases	387 837 890	290 973 631	276 381 063
Total cost of sales	**377 839 474**	**270 984 117**	**268 674 344**

Notes to the Annual Financial Statements

	2020 R	2019 R	2018 R

20. Other income

Profit on disposal of plant and equipment	202 134	35 936	-
Profit on exchange differences	-	-	1 040 637
Other income	-	467 247	-
	202 134	**503 183**	**1 040 637**

21. Finance income

Bank	20 795	46 230	452 151
Intercompany loans	-	4 968 503	-
Other	-	-	648 637
	20 795	**5 014 733**	**1 100 788**

22. Finance costs

Intercompany loans	50 769 169	50 555 652	46 574 803
Lease liabilities	354 661	10 194	
Bank	2 919	-	12 022
Borrowings	190 852	598 290	18 456
South African Revenue Service	187 702	-	-
	51 505 303	**51 164 136**	**46 605 281**

23. Taxation

Major components of the tax expense

Local income tax – current period	6 167 287	1 142 789	12 292 896
Local income tax – recognised in current tax for prior periods	(2 450 535)	4 429 943	-
	3 716 753	**5 572 732**	**12 292 896**
Deferred			
Originating and temporary differences	2 708 679	(10 910 741)	1 560 764
	6 425 432	**(5 338 009)**	**13 853 660**

Reconciliation of tax expense

Applicable tax rate	28%	28%	28%
Exempt income – employee tax incentive	0.01%	(0.74)%	0.02%
Financial guarantee liability – not deductible	(28.22)%	(26.54)%	-
Non-deductible – fines and penalties	(0.01)%	-	12.31%
Under provision – prior year	(0.53)%	0.17%	-
	(0.75)%	**0.89%**	**40.33%**

Notes to the Annual Financial Statements

24. Cash generated from operations

	2020 R	2019 R	2018 R
Loss before taxation	(861 736 293)	(601 339 867)	34 353 429
Adjustments for:			
Depreciation and amortisation	4 768 188	2 105 797	1 466 224
Profit on disposal of plant and equipment	(202 134)	(35 936)	20 817
Finance income	(20 795)	(5 014 733)	-
Finance costs	51 505 303	51 164 136	45 504 493
Movement in derivative financial instruments	386 477	23 237	(362 250)
Movements in provisions	-	(340 860)	-
Expected credit loss on financial guarantee liability	832 383 059	570 046 873	-
Movement in expected credit losses	14 266 150	5 588 303	
Changes in working capital:			
Inventories	(9 998 416)	(31 675 502)	(7 706 719)
Trade and other receivables	(99 560 493)	24 381 054	20 698 353
Trade and other payables	37 626 049	12 736 297	4 223 478
Contract liabilities	3 367 939	(1 979 253)	3 752 195
	(27 214 966)	**26 659 546**	**101 950 020**

25. Tax paid

Balance at beginning of the year	1 611 919	5 565 509	3 989 338
Current tax for the year recognised in profit or loss	(3 716 752)	(5 572 732)	(12 292 896)
Accrued interest	-	(598 290)	648 637
Balance at end of the year	1 151 185	(1 611 919)	(5 565 509)
	(953 648)	**(2 217 432)**	**(13 220 430)**

26. Net debt

	2020 R	2019 R	2018 R
Cash and cash equivalents	6 704 952	894 031	5 306 295
Debt repayable within one year	(521 709 315)	(447 235 375)	(451 332 435)
Debt repayable after one year	(712 331)	-	-
Net debt	**(515 716 694)**	**(446 341 344)**	**(446 026 140)**

Cash and cash equivalents	6 704 952	894 031	5 306 295
Gross debt - fixed interest rate	(522 421 646)	(447 235 375)	(451 332 435)
Net debt	**(515 716 694)**	**(446 341 344)**	**(446 026 140)**

26. Net debt (continued)

Net debt reconciliation

R	Cash and cash equivalents	Repayable within 1 year: Loans from group companies	Repayable within 1 year: Finance leases	Repayable after 1 year: Finance leases	Total
Net debt as at 30 June 2017	11 897 737	(420 156 370)	(97 455)	-	(408 356 088)
Principal cash flows	(6 591 442)	15 445 280	50 913	-	8 904 751
Interest	-	(46 574 803)	-	-	(46 574 803)
Net debt as at 30 June 2018	**5 306 295**	**(451 285 893)**	**(46 542)**	**-**	**(446 026 140)**
Principal cash flows	(4 412 264)	54 606 170	46 542	-	50 240 448
Interest	-	(50 555 652)	-	-	(50 555 653)
Net debt as at 30 June 2019	**894 031**	**(447 235 375)**	**-**	**-**	**(446 341 345)**
Principal cash flows	5 810 921	(22 545 991)	350 605	-	(16 384 465)
Interest	-	(50 769 169	354 667	-	(50 414 502)
Recognition of a lease	-	-	(1 864 052)	(712 331)	(2 576 383)
Net debt as at 30 June 2020	**6 704 952**	**(520 550 535)**	**(1 158 780)**	**(712 331)**	**(515 716 695)**

27. Related parties

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.

Relationships	
Ultimate holding company	Ascendis Health Limited
Holding Company	Surgical Innovations (Pty) Ltd
Fellow subsidiaries	Ascendis Financial Services (Pty) Ltd Ascendis Management Services (Pty) Ltd A-med (Pty) Ltd The Scientific Group (Pty) Ltd Ascendis Medical Namibia (Pty) Ltd
Subsidiaries (1)	Lexshell 843 Investments (Pty) Ltd Respiratory Care Africa (Botswana) (Pty) Ltd

(1) These entities are carved out from the historical financial information because the entities are not part of the disposal transaction.

27. Related parties (continued)

	2020 R	2019 R	2018 R
Related party balances and transactions			
Loans to and (from) related parties			
Ascendis Financial Services (Pty) Ltd	(510 784 973)	(435 000 752)	(411 953 722)
Ascendis Health Limited	(9 765 563)	(9 765 563)	(9 765 563)
A-med (Pty) Ltd	-	63 102	63 102
Respiratory Care Africa (Botswana) (Pty) Ltd	-	-	847 222
The Scientific Group (Pty) Ltd	3 690 765	2 752 754	(400 000)
Ascendis Medical Namibia (Pty) Ltd	6 984 916	6 208 419	4 795 654
Ascendis Management Services (Pty) Ltd	-	2 154 971	-
Surgical Innovations (Pty) Ltd	32 317 654	38 322 657	45 065 757
	(477 557 200)	**(395 264 412)**	**(371 347 550)**
Sales to related parties			
Surgical Innovations (Pty) Ltd	-	-	(14 980 593)
	-	**-**	**(14 980 593)**
Management fees			
Ascendis Management Services (Pty) Ltd	21 375 592	20 346 710	11 709 442
Surgical Innovations	7 115 609	-	-
	28 491 201	**20 346 710**	**11 709 442**
Interest expense			
Ascendis Financial Services (Pty) Ltd	50 769 169	50 555 652	46 574 803
	50 769 169	**50 555 652**	**46 574 803**
Interest income			
Ascendis Financial Services (Pty) Ltd	**-**	**4 968 503**	**-**
	-	**4 968 503**	**-**

Financial guarantee contracts

Details of financial guarantee contracts are disclosed in Note 17.

Expected credit loss allowances on loans to related parties

Details of expected credit loss allowances recognised on the loans to related parties are disclosed in Note 12.

28. Financial instruments and risk management

Categories of financial instruments

Categories of financial assets		2020 R	2019 R	2018 R
	Notes		**Amortised cost**	
Trade and other receivables	9	174 229 095	74 738 586	102 178 882
Loans to company companies	12	22 243 326	49 815 992	79 025 379
Other financial assets		-	-	855 326
Cash and cash equivalents	11	6 704 952	894 031	5 306 295
		203 177 373	**125 448 609**	**187 365 882**

Notes to the Annual Financial Statements

28. Financial instruments and risk management (continued)

Categories of financial liabilities

	Notes			
		Amortised cost		
Trade and other payables	15	76 997 783	45 388 561	34 375 464
Loans from related parties	13	520 550 535	447 235 375	451 285 893
		597 548 318	**492 623 936**	**485 661 357**
		Financial guarantee contracts		
Financial guarantee liability	17	1 402 429 932	570 046 873	-
		Fair value through profit or loss		
Derivative financial liability		**409 714**	**23 237**	**-**

Pretax gains and losses on financial instruments

Gains and losses on financial assets at amortised cost

Recognised in profit or loss:			
Finance income (as per note 21)	20 795	5 014 733	1 100 788

Gains and losses on financial liabilities

Recognised in profit or loss:			
Finance costs – at amortised cost (as per note 22)	(51 150 642)	(51 174 330)	(46 605 281)
Recognised in profit or loss:			
Finance costs – leases (as per note 22)	(354 661)	-	-
	(51 505 303)	**(51 174 330)**	**(46 605 281)**

Capital risk management

The reporting entity's objective when managing capital (which includes share capital, 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 16, lease liabilities disclosed in note 5, cash and cash equivalents disclosed in note 14 and equity as disclosed in the statement of financial position.

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, led by the group 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 Ascendis group’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.

Notes to the Annual Financial Statements

28. Financial instruments and risk management (continued)

Consistent with others in the industry, the reporting entity monitors capital using a gearing ratio. An internal gearing ratio has been set at 50%, the actual gearing ratio is presented below.

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:

Loans from related parties		849 400 668	936 714 221	904 817 567
Lease liabilities	5	1 871 111	-	-
Financial guarantee liability	17	1 402 429 932	570 046 873	-
Total borrowings		**2 268 227 268**	**1 506 761 094**	**904 817 567**
Cash and cash equivalents	11	(6 704 952)	(894 031)	(5 306 295)
Net borrowings		**2 261 522 316**	**1 505 867 063**	**899 511 272**
Equity		(1 396 431 074)	(683 972 476)	32 393 105
Total capital		**865 091 242**	**821 894 587**	**931 904 377**
Gearing ratio		261 %	183 %	97%

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

Trade receivables

Credit risk is managed on an entity basis, except for credit risk relating to accounts receivables balances. The management is responsible for managing and analysing the credit risk for each of their new customers before standard payment, delivery terms and conditions are offered.

Notes to the Annual Financial Statements

28. Financial instruments and risk management (continued)

The reporting entity uses a combination of the provision matrix and a simplified parameter-based approach. Refer to Note 9 for the detailed credit risk disclosures with regards to trade receivables.

Cash and cash equivalents
Cash credit risk is the risk of institutions with which cash resources are held are unable to meet their obligations and unable to return the cash assets held with them.

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.

Refer to Note 11 for the credit ratings of the financial institutions applicable to the reporting entity.

Loans to related parties
Credit risk is mitigated because the receivable is from related parties. Refer to Note 12 for detailed credit risk disclosures.

Financial guarantee contracts
Refer to Note 16 for the detailed credit risk disclosures.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk is managed through the group's centralised treasury who regularly review the maturity profile of its financial liabilities. Cash flow forecasting is performed by the reporting entity and aggregated with other entities within the group by the group treasury function to actively manage the group's projected cash flows and prevent any potential liquidity constraints in the reporting entity. The group treasury monitors rolling forecasts of the reporting entity's liquidity requirement to ensure that there is sufficient cash to meet the operational needs.

There have not been any significant changes in the liquidity risk management policies and processes on all the periods reported.

28. Financial instruments and risk management (continued)

The maturity profile of contractual cash flows of non-derivative financial liabilities are presented in the following table. The cash flows are undiscounted contractual amounts.

		0 to 1 year	2 to 5 years	Total
2020		**R**	**R**	**R**
Lease liabilities	5	775 799	1 622 820	2 398 619
Trade and other payables	15	87 327 815	-	87 327 815
Loans from related parties	13	520 550 535	-	520 550 535
Financial guarantee liability	16	6 761 440 000	-	6 761 440 000
		7 370 094 149	**1 622 820**	**7 371 716 969**
2019				
Trade and other payables	15	54 524 901	-	54 524 901
Loans from related parties	13	447 235 375	-	447 235 375
Financial guarantee liability	16	5 753 008 000	-	5 753 008 000
		6 254 768 376	**-**	**6 254 768 376**
2018				
Lease liabilities	5	46 542	-	46 542
Trade and other payables	15	41 788 602	-	41 788 602
Loans from related parties	13	5 023 945 000	-	5 023 945 000
		5 065 780 144	**-**	**5 065 780 144**

Foreign currency risk

The reporting entity is exposed to foreign currency risk as a result of certain transactions 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, Euros, Yen and Swiss Franc.

There have been no significant changes in the foreign currency risk management policies and processes on all periods presented.

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.

The exchange rates that were applied in the periods under review were as follows:

	2020		2019		2019	
Currency	**Closing rate**	**Average rate**	**Closing rate**	**Average rate**	**Closing rate**	**Average rate**
Euros	19,45	19,25	15,97	16,43	16	15,48
Swiss Franc	18,03	19,03	14,44	14,44	13,81	13,81
US Dollar	17,32	17,11	14,05	14,55	13,7	13,26
Yen	0,16	0,16	0,13	0,13	0,12	0,12

Notes to the Annual Financial Statements

28. Financial instruments and risk management (continued)

The change in exchange rate applied in the below mentioned sensitivity analysis is based on the actual movement on exchange rates in the periods under review.

	Balance	2020 Change in exchange rates	Impact on financial results
Trade receivables			
US Dollar	212 138	-23,33%	(49 492)
Trade payables			
Euros	(8 750 826)	-21,84%	1 911 180
Swiss Franc	(20 525)	-24,87%	5 104
US Dollar	(26 261 856)	-23,33%	6 126 891
Yen	(445 433)	-23,16%	103 162
Net impact	**(35 266 502)**		**8 096 846**

	Balance	2019 Change in exchange rates	Impact on financial results
Trade receivables			
Swiss Franc	221 289	-4,56%	(10 091)
US Dollar	61 456	-2,53%	(1 555)
Trade payables			
Euros	(26 880)	0,21%	(56)
Swiss Franc	(49 968)	-4,56%	2 279
US Dollar	(5 827 637)	-2,53%	147 439
Yen	(477 322)	-9,00%	42 959
Net impact	**(6 099 062)**		**180 975**

	Balance	2018 Change in exchange rates	Impact on financial results
Trade payables			
Euros	(30 015)	7,00%	(2 101)
Swiss Franc	(11 793)	1,00%	(118)
US Dollar	(15 141 345)	5,00%	(757 067)
Yen	(93 460)	8,00%	(7 477)
Net impact	**(15 276 613)**		**(766 763)**

Interest rate risk

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

The reporting entity's interest rate risk arises from cash and cash equivalents. The interest on cash and cash equivalents is insignificant hence the interest rate risk is assessed as low.

Notes to the Annual Financial Statements

29. Fair value estimation

The reporting entity uses valuation techniques that are appropriate in the circumstances and for which sufficient date is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

The classification of assets and liabilities into different levels is based on the extent that quoted prices are used in the calculation of fair value and the levels have been 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.

The carrying amount of cash and cash equivalents, bank overdrafts, trade receivables, trade payables, loans to and from related parties approximates the fair value due to their short term in nature. The fair value disclosure for these items is therefore not required.

The following table presents the fair value measurement hierarchy of the reporting entity's assets and liabilities that are materially different from the carrying amount:

	Total carrying amount	**Level 1**	**Level 2**	**Level 3**	**Total**
	R	**R**	**R**	**R**	**R**
2020					
Derivative financial liabilities	409 714	-	409 714	-	409 714
	409 714	**-**	**409 714**	**-**	**409 714**
2019					
Derivative financial liabilities	23 237	-	23 237	-	23 237
	23 237	**-**	**23 237**	**-**	**23 237**

There were no transfers between level 1, 2 or 3 for the reporting entity during the year.

Valuation techniques and assumptions

Derivative financial instruments
Derivative financial instruments are valued using the valuation techniques which employ the use of observable inputs. The future cash flows on forward exchange contract are estimated based on the forward exchange rates at the end of the period discounted using the appropriate country-specific curve.

Notes to the Annual Financial Statements

30. Going Concern

We draw attention to the fact that as at 30 June 2020, 30 June 2019, and 30 June 2018, the reporting entity's total liabilities exceeded its assets by R1 683 million, R815 million and R217 million, respectively. As a result, it is technically insolvent. The net liability position is mainly driven by the recognition of the financial guarantee liability and loans from related parties.

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 group's going concern assessment and the management's plans in relation to the repayment of the group's debt is relevant to RCA's assessment of going concern.

Ascendis Health Limited and Ascendis Financial Services (Pty) Ltd have subordinated its claim against RCA in favor of the company's other creditors until such time as the assets of the company, fairly valued, exceed the liabilities. Ascendis Health Limited also issued a letter of support in respect of RCA which remains in place until June 2021.

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.

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.

30. Going concern (continued)

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 and the financial guarantee liability, the reporting entity achieved a liquidity ratio of 1.7x which is considered favorable. The reporting entity is currently in a net liability position due to the reasons mentioned in the first paragraph.

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 has 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.

30. Going concern (continued)

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.

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.

Since the company focuses mainly on respiratory diseases, the company was allowed to operate during lockdown. As a result, the company reported an improvement in sales by 26% from 2019 financial year.

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.

Considering the plans mentioned above, the financial guarantee liability will be derecognised and the loans from related parties will be settled. This means that the reporting entity will be in a net asset position. Therefore, it has the ability to continue as a going concern. These historical financial statements have been prepared on a going concern basis.

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Notes to the Annual Financial Statements

31. Events after the reporting period

Ascendis company received a disposal offer from the company's management to buy out the company. The company accepted the offer, and a sale-purchase agreement was signed in May 2021. The transaction is expected to close by 30 September 2021