SPAR

THE SPAR GROUP LIMITED

AUDITED RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2005

- TURNOVER +15.2%
- HEADLINE EARNINGS PER SHARE +26.3%
- OPERATING PROFIT +30.1%
- FINAL DIVIDEND 64.5 CENTS PER SHARE

INCOME STATEMENTS

R'000	year ended 30 September 2005	2004	Change
REVENUE	13 737 483	12 104 563	13.5%
Turnover	13 598 961	11 985 151	13.5%
Continuing operations	13 598 961	11 803 014	15.2%
Discontinued operations	–	182 137	
Cost of sales	12 398 996	10 886 466	
Gross profit	1 199 965	1 098 685	
Other income	138 522	119 412	
Trading expenses	(823 928)	(822 590)	
Warehousing and distribution expenses	(443 926)	(396 731)	
Marketing and selling expenses	(206 897)	(221 427)	
Administration and information technology expenses	(173 105)	(204 432)	
OPERATING PROFIT	514 559	395 507	30.1%
Interest received	5 637	12 205	
Interest paid	(5 457)	(3 315)	
Profit on disposal of discontinued operations	–	20 502	
Net profit before taxation	514 739	424 899	
Taxation	(157 111)	(132 925)	
NET PROFIT FOR THE YEAR	357 628	291 974	22.5%
HEADLINE EARNINGS RECONCILIATION			
Net profit for the year	357 628	291 974	
Adjusted for:			
Loss/(profit) on sale of property, plant and equipment and retail stores, net of impairments and net of taxation	1 813	(20 177)	
Amortisation of goodwill	–	12 338	
HEADLINE EARNINGS	359 441	284 135	26.5%
EARNINGS PER SHARE (CENTS)			
Headline earnings per share	212.7	168.4	26.3%
Fully diluted headline earnings per share	208.0	168.4	
Earnings per share	211.6	173.0	22.3%
Fully diluted earnings per share	206.9	173.0	
SALIENT STATISTICS			
Net asset value per share (cents)	442.8	259.1	
Net margin – continuing operations (%)	3.8	3.3	
Debt: Equity ratio (%)	14.5	81.8	
Return on average equity (%)	60.3	60.5	

STATEMENTS OF CHANGES IN EQUITY

R'000	Share capital and premium	Non-distributable reserves	Accumulated profit	Total
Balance at 30 September 2003	96	511	527 836	528 443
Share capital issued	5	–	–	5
Net profit for the year	–	–	291 974	291 974
Dividends declared	–	–	(383 200)	(383 200)
Release of the revaluation reserve	–	(566)	566	–
Foreign exchange translation	–	39	–	39
Balance at 30 September 2004	101	(16)	437 176	437 261
Share capital and premium issued	5 279	–	–	5 279
Net profit for the year	–	–	357 628	357 628
Dividends declared	–	–	(50 727)	(50 727)
Foreign exchange translation	–	(6)	–	(6)
Balance at 30 September 2005	5 380	(22)	744 077	749 435

DECLARATION OF ORDINARY DIVIDEND

Notice is hereby given that a final dividend of 64.5 cents per share was declared on 14 November 2005, payable on 12 December 2005.

The salient dates for the payment of the final dividend are detailed below:

Last day to trade cum-dividend	Friday, 2 December 2005
Shares to commence trading ex-dividend	Monday, 5 December 2005
Record date	Friday, 9 December 2005
Payment of dividend	Monday,12 December 2005

Shareholders will not be permitted to dematerialise or rematerialise their share certificates between Monday, 5 December 2005 and Friday, 9 December 2005, both days inclusive.

By order of the board

RC Fenner
Secretary

Pinetown
14 November 2005

DIRECTORATE AND ADMINISTRATION

DIRECTORS: MJ Hankinson* (Chairman), PK Hughes (Chief Executive), RW Coe, DB Gibbon*, RJ Hutchison*, MP Madi*, HK Mehta* *Non-executive

COMPANY SECRETARY: RC Fenner

REGISTERED OFFICE: 22 Chancery Lane, PO Box 1589, Pinetown, 3600

ISIN: ZAE000058517 JSE code: SPP

TRANSFER SECRETARIES: Ultra Registrars (Pty) Limited, PO Box 4844, Johannesburg, 2000

AUDITORS: Deloitte & Touche PO Box 243, Durban, 4000

SPONSOR: Rand Merchant Bank PO Box 786273, Sandton, 2146

BANKERS: First National Bank PO Box 4130, Umhlanga Rocks, 4320

WEBSITE: www.spar.co.za

BALANCE SHEETS

R'000	at 30 September 2005	2004
ASSETS		
NON-CURRENT ASSETS	639 805	573 591
Property, plant and equipment	370 225	295 466
Goodwill	245 568	246 808
Loans	17 560	24 625
Deferred taxation asset	6 452	6 692
CURRENT ASSETS	2 056 454	1 683 056
Inventories	384 857	335 253
Trade and other receivables	1 570 213	1 292 909
Prepayments	32 642	6 348
Bank balances – Guilds	68 742	48 546
TOTAL ASSETS	2 696 259	2 256 647
EQUITY AND LIABILITIES		
CAPITAL AND RESERVES	749 435	437 261
Share capital and premium	5 380	101
Non-distributable reserves	(22)	(16)
Accumulated profit	744 077	437 176
NON-CURRENT LIABILITIES	41 791	38 736
Deferred taxation liability	25	110
Post retirement medical aid provision	40 772	36 872
Long-term borrowings	994	1 754
CURRENT LIABILITIES	1 905 033	1 780 650
Trade payables and accruals	1 741 162	1 378 279
Bank overdrafts – SPAR	68 536	355 308
Current portion of long-term borrowings	39 094	832
Provisions	49 980	41 065
Taxation	6 261	5 166
TOTAL EQUITY AND LIABILITIES	2 696 259	2 256 647

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The consolidated financial statements are prepared in accordance with the South African Statements of Generally Accepted Accounting Practice. The accounting policies used in the preparation of the financial statements are consistent with those applied in the annual financial statements of the prior year, except for the adoption of AC140 "Business Combinations". With effect from 1 October 2004, the group no longer amortises goodwill. Except for the aforementioned, the following principal accounting policies have been consistently applied in all material respects.

2. COST OF SALES

Cost of sales represents the net cost of purchases from suppliers, after rebates and incentive allowances. The 2004 comparative figures have been restated to exclude distribution expenses, which expenses have now been included under the heading "warehousing and distribution expenses". The restatement amounted to R144.1 million.

3. DEPRECIATION

During the current financial year, the group reassessed the estimates of the useful lives of certain assets, principally within the vehicle, plant and machinery and computer equipment categories, in order to more accurately reflect the specific employment of these assets by the group. This change resulted in a reduction in the depreciation charge for the year of R10.2 million.

4. SHARE CAPITAL AND PREMIUM

	2005 R'000	2004 R'000
Authorised		
250 000 000 (2004: 250 000 000) ordinary shares of 0.06 cents (2004: 0.06 cents) each	150	150
Issued		
169 260 035 (2004: 168 763 670) ordinary shares of 0.06 cents (2004: 0.06 cents) each	102	101
Share premium account		
Balance at beginning of year	–	–
Shares issued	5 278	–
Total share capital and premium	5 380	101

Pursuant to the exercising of options an additional 496 365 ordinary shares of 0.06 cents each were issued, thereby increasing the issued share capital to R101 556 consisting of 169 260 035 shares of 0.06 cents each.

The weighted average number of shares used in the calculation of earnings per share and headline earnings per share was 169 010 748 (2004: 168 763 670). Fully diluted earnings and headline earnings per share was based on a weighted average number of 172 822 332 ordinary shares.

5. CONTINGENT LIABILITIES

	2005 R'000	2004 R'000
The company has guaranteed the finance obligations of certain SPAR retailer members to the amount of:	179 272	178 297

6. OPERATING LEASES

Operating lease income and expenditure is recognised in the income statement on a straight line basis over the lease term.

	2005 R'000	2004 R'000
Operating lease charges reported in operating profit		
Immovable property	3 088	6 223
– lease rentals	86 944	76 038
– sub-lease recoveries	(83 856)	(69 815)
Plant, equipment and vehicles	5 064	1 861
Operating lease commitments		
Future minimum lease payments under non-cancellable operating leases are as follows:	1 084 224	918 941
– land and buildings	1 082 034	914 520
– other	2 190	4 421
The future minimum sub-lease recoveries under non-cancellable property leases are:	(1 061 527)	(807 727)
	22 697	111 214

7. CAPITAL COMMITMENTS

	2005	2004
Contracted	48 454	4 228
Approved but not contracted	25 924	1 089
	74 378	5 317

8. POST BALANCE SHEET EVENTS

The directors are not aware of any material events that have occurred subsequent to 30 September 2005 which may have an impact on the group's reported financial position at this date.

CASH FLOW STATEMENTS

R'000	year ended 30 September 2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES	370 475	(29 817)
Cash generated from operations	572 961	526 211
Interest received	5 270	12 205
Interest paid	(1 179)	(3 315)
Taxation paid	(155 850)	(181 718)
Dividends paid	(50 727)	(383 200)
CASH FLOWS FROM INVESTING ACTIVITIES	(61 203)	(307 747)
Investment to maintain operations	(24 678)	(11 929)
Replacement of property, plant and equipment	(29 293)	(21 019)
Proceeds on disposal of property, plant and equipment	4 615	9 090
Investment to expand operations	(44 888)	(30 655)
Acquisition of subsidiaries	–	(291 863)
Disposal of retail division	–	17 092
Disposal of subsidiaries	–	(993)
Acquisition of minority shareholding	–	(1)
Net movement on loans, investments and goodwill	8 363	10 602
CASH FLOWS FROM FINANCING ACTIVITIES	(2 304)	(5 792)
Proceeds from issue of share capital and premium	5 279	5
Repayment of long-term borrowings	(7 583)	(5 797)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	306 968	(343 356)
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER 2004	(306 762)	36 594
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER 2005	206	(306 762)
Analysed:		
Bank overdrafts – SPAR	(68 536)	(355 308)
Bank balances – Guilds	68 742	48 546

NATURE OF BUSINESS

The group owns and operates six distribution centres that supply and service independently owned SPAR food stores, TOPS liquor outlets and Build it building materials outlets, situated in South Africa and neighbouring countries. The group has core competencies in distribution and the managing of voluntary trading organisations. The group provides the control and leadership for SPAR, TOPS and Build it in Southern Africa.

REVIEW OF TRADING RESULTS

Against a background of continuing low levels of inflation (2% – 3%) the group achieved a turnover increase of 15.2%. Although the gross margin declined slightly, improvements in operating efficiencies and tight cost controls resulted in an improved net margin. Operationally all distribution centres performed well resulting in operating profit on a like for like basis increasing by 22%.

Savings arising from a lower depreciation charge (the result of a revision to the estimated lives of operating assets), the cessation of the payment of the administration fee to the group's former holding company, and the benefit of not having to write off goodwill, boosted operating profit growth to 30.1% on prior year.

Headline earnings of R359 million (2004: R284 million) up 26.5%, translated into headline earnings per share of 212.7 cents, a 26.3% increase on 2004 headline earnings per share.

The group remained a substantial generator of cash, and this enabled the group to significantly reduce its overdraft to R69 million at year end (2004: R355 million).

OPERATIONS

During the year, a net 110 new SPAR, Build it and TOPS at SPAR stores were opened. SPAR stores now total 783 in number, with Build it at 178 stores and TOPS 172 stores. SPAR retail store sales once again grew ahead of the growth of the overall market enabling SPAR to grow its market share. Retail store selling space increased 3.3% to 687 335 m^2.

Good sales growth in all retail store formats has driven growth through the group's distribution centres. Continued progress has been made growing liquor sales, via TOPS outlets, and building materials, through Build it.

Marketing spend increased, resulting in greater exposure on television and in the national press. Private label products sold through the group's three store formats, SPAR, Build it and TOPS, received increased focus. New private label branded products were launched and improved packaging and advertising introduced. The group continued to sponsor women in sport.

DISTRIBUTION FACILITIES

A 6 700 m^2 extension to the KwaZulu-Natal distribution centre was completed and brought into use. This additional capacity will enable the distribution centre to handle increased dry goods volumes.

Plans are in place to commence the construction of a 5 700 m^2 dry goods and perishable facility expansion at the Eastern Cape distribution centre. This additional facility, which is budgeted to cost R22 million, will come on stream in July 2006.

The group's major productivity initiative, the implementation of radio frequency for inbound and outbound processes, was successfully piloted at the KwaZulu-Natal distribution centre. By end 2006 radio frequency based inbound and outbound processes will be fully operational at the South Rand distribution centre and outbound processes will have been introduced at the North Rand distribution centre. This technology will have a positive impact on productivity and accuracy within operations. Capex for radio frequency installations is forecast at R11 million for 2006 with a further R20 million to be spent in 2007.

Group capex for 2006 is budgeted at R157 million.

DIVIDEND

In line with the group's current dividend cover policy of 2.25 times, a final dividend of 64.5 cents per share has been declared, bringing the full year dividend to 94.5 cents.

LOOKING FORWARD 2006

We are confident that the group will again show good revenue growth in 2006 with positive leverage being achieved in terms of growth of operating profit.

Earnings growth will be adversely affected by a substantial increase in the STC charge. This increased charge will arise due to the levying during 2006 of STC on the 2005 final dividend and the 2006 interim dividend. During 2005 the group only paid an interim dividend.

We anticipate the group continuing to generate substantial cash flows during 2006 which will result in a considerable increase in interest receivable.

In the event of the forecast cash flows materialising, consideration will be given to reducing the dividend cover.

AUDITED RESULTS

These results have been audited by Deloitte & Touche, the group's auditors, and their unqualified opinion is available for inspection at SPAR's registered office.

ANNUAL REPORT

The group's annual report and notice of annual general meeting will be mailed to shareholders during December 2005.

IFRS

The group's 2006 financial statements will be prepared in accordance with IFRS reporting standards. Other than for the effect of IFRS 2, accounting for share based payments, it is not anticipated that IFRS reporting standards will have a material effect on the group's results.

MJ Hankinson
Chairman

PK Hughes
Chief Executive