



THE SPAR GROUP LTD

UNAUDITED INTERIM RESULTS
FOR THE SIX MONTHS
ENDED 31 MARCH

2019



DIRECTORATE AND ADMINISTRATION

DIRECTORS

MJ Hankinson* (*Chairman*), GO O'Connor (*Chief Executive Officer*), MW Godfrey, WA Hook, LM Koyana*, M Mashologu*, HK Mehta*, P Mnganga*, R Venter, AG Waller*, CF Wells*

* *Non-executive*

COMPANY SECRETARY

MJ Hogan

THE SPAR GROUP LTD

(SPAR) or (the company) or (the group)
Registration number: 1967/001572/06
ISIN: ZAE 000058517
JSE share code: SPP

REGISTERED OFFICE

22 Chancery Lane
PO Box 1589
Pinetown
3600

TRANSFER SECRETARIES

Link Market Services South Africa (Pty) Ltd
PO Box 4844
Johannesburg
2000

AUDITORS

PricewaterhouseCoopers
PO Box 1274
Umhlanga Rocks
4320

SPONSOR

One Capital
PO Box 784573
Sandton
2146

BANKERS

Rand Merchant Bank
a division of FirstRand Bank Ltd
PO Box 4130
The Square
Umhlanga Rocks
4021

ATTORNEYS

Garlicke & Bousfield
PO Box 1219
Umhlanga Rocks
4320

WEBSITE

www.spar.co.za

CHANGES TO THE BOARD OF DIRECTORS

Prof. Phinda Madi retired as an independent non-executive director with effect from 12 February 2019.

Mr Lwazi Koyana has been appointed as an independent non-executive director with effect from 14 May 2019.

SALIENT FEATURES

Group turnover[^]

+8.6%

Southern Africa
turnover[^]

+7.7%

Operating profit

+5.1%

Normalised
diluted HEPS[#]

+7.4%

Interim dividend
per share

+5.2%

Net asset
value per share

+10.1%

[^] Turnover represents revenue from the sale of merchandise

[#] Headline earnings adjusted for fair value adjustments to, and foreign exchange effects on financial liabilities, and business acquisition costs

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CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Rmillion	Change %	UNAUDITED SIX MONTHS ENDED MARCH 2019	RESTATED* UNAUDITED SIX MONTHS ENDED MARCH 2018	RESTATED* AUDITED YEAR ENDED SEPTEMBER 2018
Revenue – sale of merchandise	8.6	54 273.2	49 981.5	101 018.0
Cost of sales		(48 622.5)	(44 736.6)	(90 225.0)
Gross profit		5 650.7	5 244.9	10 793.0
Revenue – other		975.5	921.2	2 037.5
Other income		73.1	65.6	119.4
Net operating expenses	8.1	(5 316.8)	(4 916.8)	(10 170.6)
Operating profit	5.1	1 382.5	1 314.9	2 779.3
Other non-operating items		(3.5)	(3.8)	(144.2)
Interest income		90.1	77.4	169.3
Interest expense		(105.5)	(98.9)	(192.9)
Finance costs including foreign exchange gains and losses		(65.8)	63.4	(136.5)
Share of equity-accounted associate losses		(3.5)	(4.7)	(10.9)
Profit before taxation	(4.0)	1 294.3	1 348.3	2 464.1
Income tax expense		(293.1)	(318.9)	(636.9)
Profit for the period attributable to ordinary shareholders	(2.7)	1 001.2	1 029.4	1 827.2
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of post-retirement medical aid				(0.3)
Deferred tax relating to remeasurement of post-retirement medical aid				0.1
Remeasurement of retirement funds		(162.4)	93.5	157.9
Deferred tax relating to remeasurement of retirement funds		27.6	(16.9)	(26.8)
Items that may be reclassified subsequently to profit or loss:				
(Loss)/gain on cash flow hedge		(0.1)	0.2	1.6
Tax relating to (loss)/gain on cash flow hedge				(0.2)
Exchange differences from translation of foreign operations		(3.6)	(283.8)	131.9
Total comprehensive income	4.9	862.7	822.4	2 091.4

* Refer to adoption of new standards and prior period restatements in note 7.

Rmillion		Change %	UNAUDITED SIX MONTHS ENDED MARCH 2019	RESTATED* UNAUDITED SIX MONTHS ENDED MARCH 2018	RESTATED* AUDITED YEAR ENDED SEPTEMBER 2018
EARNINGS PER SHARE					
Basic earnings per share	(cents)	(2.7)	520.0	534.6	948.9
Diluted earnings per share	(cents)	(2.9)	516.5	531.9	942.2
SALIENT STATISTICS					
Headline earnings per share	(cents)	(3.4)	523.6	542.1	965.7
Diluted headline earnings per share	(cents)	(3.6)	520.2	539.4	958.9
Normalised headline earnings per share	(cents)	7.5	525.9	489.1	1 063.2
Dividend per share	(cents)	5.2	284.0	270.0	729.0
Net asset value per share	(cents)	10.1	3 662.5	3 328.0	3 692.2
Operating profit margin	(%)		2.5	2.6	2.8
Return on equity	(%)		14.1	15.9	26.7
HEADLINE EARNINGS RECONCILIATION					
Profit for the period attributable to ordinary shareholders			1 001.2	1 029.4	1 827.2
Adjusted for:					
Loss on disposal of property, plant and equipment			4.6	7.7	34.2
– Gross			5.0	9.7	37.2
– Tax effect			(0.4)	(2.0)	(3.0)
Impairment of goodwill			2.5	4.5	12.3
Loss/(profit) on disposal of business				2.2	(9.7)
Profit on disposal of assets held for sale					(4.4)
Headline earnings		(3.4)	1 008.3	1 043.8	1 859.6

* Refer to adoption of new standards and prior period restatements in note 7.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Rmillion	UNAUDITED SIX MONTHS ENDED MARCH 2019	RESTATED* UNAUDITED SIX MONTHS ENDED MARCH 2018	AUDITED YEAR ENDED SEPTEMBER 2018
ASSETS			
Non-current assets	13 096.7	11 533.9	13 079.6
Property, plant and equipment	6 984.1	6 335.1	6 966.9
Goodwill and intangible assets	4 577.4	3 940.0	4 436.6
Investment in associates and joint ventures	160.0	128.6	156.7
Other investments	63.6	51.5	57.9
Operating lease receivables	231.2	178.5	208.3
Loans	565.6	453.3	696.4
Block discounting loan receivable	445.0	421.3	542.4
Deferred taxation asset	69.8	25.6	14.4
Current assets	18 498.2	16 621.9	18 166.3
Inventories	4 354.0	3 950.6	3 933.1
Trade and other receivables	12 383.0	10 978.9	12 134.4
Prepayments	134.8	107.5	109.8
Operating lease receivables	51.7	37.7	50.4
Loans	134.6	102.5	97.9
Current portion of block discounting loan receivable	262.6	290.0	225.8
Income tax recoverable	6.6	10.7	7.7
Other current financial assets			0.3
Cash and cash equivalents – SPAR	952.3	949.1	1 377.6
Cash and cash equivalents – guilds and trusts	218.6	194.9	229.3
Assets held for sale	9.5	114.1	9.6
Total assets	31 604.4	28 269.9	31 255.5

* Refer to adoption of new standards and prior period restatements in note 7.

Rmillion	UNAUDITED SIX MONTHS ENDED MARCH 2019	RESTATED* UNAUDITED SIX MONTHS ENDED MARCH 2018	AUDITED YEAR ENDED SEPTEMBER 2018
EQUITY AND LIABILITIES			
Capital and reserves	7 052.3	6 408.5	7 109.8
Stated capital	2 231.5	2 231.5	2 231.5
Treasury shares	(20.8)	(2.6)	(10.0)
Currency translation reserve	178.2	(233.9)	181.8
Share-based payment reserve	284.8	250.1	274.8
Equity reserve	(746.8)	(728.9)	(749.1)
Hedging reserve	(30.9)	(32.0)	(30.8)
Retained earnings	5 156.3	4 924.3	5 211.6
Non-current liabilities	8 156.1	6 970.5	8 037.3
Deferred taxation liability	374.1	338.4	413.1
Post-employment benefit obligations	951.7	762.8	787.6
Financial liabilities	2 099.0	1 627.8	2 042.9
Long-term borrowings	3 987.2	3 570.6	3 976.5
Block discounting loan payable	455.4	432.7	553.6
Operating lease payables	258.3	196.7	231.0
Other non-current financial liabilities	3.4	4.3	3.3
Long-term provisions	27.0	37.2	29.3
Current liabilities	16 396.0	14 890.9	16 108.4
Trade and other payables	14 775.3	12 113.8	15 236.0
Current portion of long-term borrowings	477.7	313.8	433.6
Current portion of block discounting loan payable	267.9	296.5	232.3
Operating lease payables	52.1	38.7	51.5
Provisions	41.5	40.0	43.2
Income tax liability	71.4	92.6	103.1
Other current financial liabilities		0.7	
Bank overdrafts – SPAR	710.1	1 994.8	8.7
Total equity and liabilities	31 604.4	28 269.9	31 255.5

* Refer to adoption of new standards and prior period restatements in note 7.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Rmillion	STATED CAPITAL	TREASURY SHARES	CURRENCY TRANSLATION RESERVE
Capital and reserves at 30 September 2017	2 231.5	(16.1)	49.9
Effect of restatement			
Restated capital and reserves at 30 September 2017*	2 231.5	(16.1)	49.9
Profit for the period attributable to ordinary shareholders			
Gain on cash flow hedge			
Remeasurement of retirement funds			
Recognition of share-based payments			
Take-up of share options		185.2	
Transfer arising from take-up of share options			
Settlement of share-based payments		59.7	
Share repurchases		(231.4)	
Dividends paid			
Non-controlling interest arising on business acquisition			
Purchase obligation of non-controlling interest			
Exchange rate translation			(283.8)
Capital and reserves at 31 March 2018	2 231.5	(2.6)	(233.9)
Profit for the year attributable to ordinary shareholders			
Gain on cash flow hedge			
Remeasurement of post-retirement medical aid			
Remeasurement of retirement funds			
Recognition of share-based payments			
Take-up of share options		42.3	
Transfer arising from take-up of share options			
Settlement of share-based payments			
Share repurchases		(49.7)	
Dividends paid			
Exchange rate translation			415.7
Capital and reserves at 30 September 2018	2 231.5	(10.0)	181.8
Prior year adjustment – IFRS 9 restatement			
Restated capital and reserves at 30 September 2018*	2 231.5	(10.0)	181.8
Profit for the year attributable to ordinary shareholders			
Loss on cash flow hedge			
Remeasurement of post-retirement medical aid			
Recognition of share-based payments			
Take-up of share options		39.5	
Transfer arising from take-up of share options			
Settlement of share-based payments		29.8	
Share repurchases		(80.1)	
Dividends paid			
Exchange rate translation			(3.6)
Capital and reserves at 31 March 2019	2 231.5	(20.8)	178.2

* Refer to adoption of new standards and prior period restatements in note 7.

SHARE-BASED PAYMENT RESERVE	RETAINED EARNINGS	EQUITY RESERVE	HEDGING RESERVE	NON- CONTROLLING INTEREST	ATTRIBUTABLE TO ORDINARY SHARE- HOLDERS
293.0	4 765.9 (14.6)	(717.0)	(32.2)	–	6 575.0 (14.6)
293.0	4 751.3 1 029.4	(717.0)	(32.2)		6 560.4 1 029.4
	76.6		0.2		0.2 76.6
16.8 (95.2)					16.8 90.0
95.2 (59.7)	(95.2)				– –
	(837.8)				(231.4) (837.8)
		(26.8)		27.6	27.6
		14.9		(27.6)	(54.4) (268.9)
250.1	4 924.3 797.8	(728.9)	(32.0)	–	6 408.5 797.8
	(0.2)		1.2		1.2 (0.2)
	54.5				54.5
7.1 (27.2)					7.1 15.1
27.2	(27.2)				–
17.6	(17.6)				–
	(520.0)				(49.7) (520.0)
		(20.2)			395.5
274.8	5 211.6 (18.2)	(749.1)	(30.8)	–	7 109.8 (18.2)
274.8	5 193.4 1 001.2	(749.1)	(30.8)	–	7 091.6 1 001.2
	(134.8)		(0.1)		(0.1) (134.8)
37.6 (17.4)					37.6 22.1
17.4 (27.6)	(17.4) (2.2)				– –
	(883.9)				(80.1) (883.9)
		2.3			(1.3)
284.8	5 156.3	(746.8)	(30.9)	–	7 052.3

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Rmillion	UNAUDITED SIX MONTHS ENDED MARCH 2019	RESTATED* UNAUDITED SIX MONTHS ENDED MARCH 2018	AUDITED YEAR ENDED SEPTEMBER 2018
CASH FLOWS FROM OPERATING ACTIVITIES	(540.2)	(1 160.5)	1 975.8
Operating profit before:	1 382.5	1 314.9	2 779.3
Non-cash items	412.8	347.6	738.9
Net loss on disposal of property, plant and equipment	5.0	9.7	37.2
Net working capital changes	(1 073.1)	(1 643.9)	416.3
– (Increase)/decrease in inventories	(385.8)	(250.9)	94.7
– Increase in trade and other receivables	(226.6)	(399.6)	(1 094.0)
– (Decrease)/increase in trade payables and provisions	(460.7)	(993.4)	1 415.6
Cash generated from operations	727.2	28.3	3 971.7
Interest received	49.5	34.8	94.0
Interest paid	(72.9)	(65.0)	(123.3)
Taxation paid	(360.1)	(320.8)	(608.8)
Dividends paid	(883.9)	(837.8)	(1 357.8)
CASH FLOWS FROM INVESTING ACTIVITIES	(608.3)	(730.5)	(1 453.3)
Investment to expand operations	(212.1)	(221.5)	(456.1)
Investment to maintain operations	(193.2)	(163.4)	(316.2)
– Replacement of property, plant and equipment	(215.5)	(185.1)	(352.9)
– Proceeds on disposal of property, plant and equipment	22.3	21.7	36.7
Acquisition of businesses/subsidiaries	(223.9)	(313.9)	(453.2)
Proceeds from disposal of businesses		15.1	47.7
Proceeds on disposal of assets held for sale		16.4	27.5
Net movement in loans and investments	20.9	(63.2)	(303.0)
CASH FLOWS FROM FINANCING ACTIVITIES	1.0	(358.2)	(428.0)
Proceeds from exercise of share options	22.1	90.0	105.1
Share repurchases	(80.1)	(231.4)	(281.1)
Net movement in borrowings	59.0	(216.8)	(252.0)
Net movement in cash and cash equivalents	(1 147.5)	(2 249.2)	94.5
Net cash balances at beginning of period	1 598.2	1 472.0	1 472.0
Exchange rate translation	10.1	(73.6)	31.7
Net cash balance/(overdrafts) at end of period	460.8	(850.8)	1 598.2

* Refer to adoption of new standards and prior period restatements in note 7.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL RESULTS

1. BASIS OF PRESENTATION AND COMPLIANCE WITH IFRS

The condensed consolidated interim financial statements have been prepared in accordance with the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and the information as required by IAS 34 Interim Financial Reporting, the JSE Ltd Listings Requirements and the requirements of the Companies Act of South Africa, 71 of 2008, as amended.

The accounting policies are in terms of International Financial Reporting Standards and are consistent with those applied in the financial statements for the year ended 30 September 2018, except for the adoption of new and amended standards as set out below.

A number of new or amended standards became applicable for the current reporting period and the group had to change its accounting policies and make necessary adjustments as a result of adopting the following standards:

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

The impact of the adoption of these standards and the new accounting policies are disclosed in note 7 below.

The following standard will be applicable for the next reporting period:

- IFRS 16 *Leases*

IFRS 16 replaces the previous leases standard, IAS 17, and will result in most leases being recognised in the statement of financial position, as the distinction between operating and finance leases has been removed. Under the new standard, an asset representing the right to use the leased item and a financial liability to pay rent will be recognised. The only exceptions are short-term and low-value leases.

The standard is mandatory for accounting periods beginning on or after 1 January 2019 and will be applicable for the group for the year ended 30 September 2020 with the date of initial application being 1 October 2019.

The group anticipates a significant impact resulting from the adoption of IFRS 16. As at the reporting date, the group has non-cancellable property operating lease commitments of R10.3 billion (refer to note 6) which comprise R5.7 billion of operating lease commitments in Southern Africa, R2.0 billion in Switzerland and R2.6 billion in Ireland, on an undiscounted basis.

1. BASIS OF PRESENTATION AND COMPLIANCE WITH IFRS (continued)

SPAR Southern Africa leases relate mostly to head lease arrangements on key strategic retail sites that are viewed as fundamental to the group's growth strategy. These include a back-to-back sublease agreement with our independent retailers. IFRS 16 requires the recognition of the obligation to pay rent under the head lease as a lease liability, with a corresponding asset representing the lease receivable. In most instances, the accounting for the head lease and the sublease under IFRS 16 will have an equal and opposite impact on the statement of comprehensive income. The head leases subject to non-cancellable back-to-back sublease agreements amounted to R4.9 billion as at the reporting date. This represents the approximate undiscounted value of the lease receivable under IFRS 16, without including any lease renewal periods.

To the extent of leased property that is not sublet, the group will recognise a right-of-use asset and a finance lease liability.

SPAR Ireland leases relate mostly to property leases which is franchised to retailers or operated by the group. There are also motor vehicles leases. For both the property leases and motor vehicle leases, a right-of-use asset and finance lease liability will be recognised as these do not include back-to-back sublease agreements.

SPAR Switzerland has property leases, leases for trucks and IT hardware leases. The property leases do not include back-to-back sublease agreements. For all lease agreements, a right-of-use asset and finance lease liability will be recognised.

The group will apply the standard retrospectively, recognising the cumulative effect of initially applying the standard in retained earnings at the date of initial application (modified retrospective approach). As prescribed by IFRS 16, lease liabilities will be measured at the present value of remaining lease payments discounted at the incremental borrowing rate at the date of initial application. The incremental borrowing rate that will be applied for South Africa will range from 10.0% to 12.0%, with the Irish operations using a range varying from 2.75% to 5.0% and the Swiss operations applying a rate ranging from 1.0% to 2.0%. Right-of-use assets will be measured as the amount of initial measurement of the lease liability and subsequently depreciated over the remaining lease term.

The group is in the concluding stages of system implementations to accommodate the requirements of IFRS 16 and continues to assess the impact on its annual financial statements in respect of the application of IFRS 16.

The information contained in the interim report has neither been audited nor reviewed by the group's external auditors. The condensed consolidated financial statements have been prepared under the supervision of Mr MW Godfrey CA(SA), Group Financial Director, on behalf of The SPAR Group Ltd.

2. SEGMENTAL REPORTING

Segment accounting policies are consistent with those adopted for the preparation of the condensed consolidated financial results.

The principal segments of the group have been identified on a primary basis by geographical segment which is representative of the internal reporting used for management purposes, as well as the source and nature of business risks and returns.

The Chief Executive Officer (the Chief Operating Decision Maker) is of the opinion that the operations of the individual distribution centres within Southern Africa are substantially similar to one another and that the risks and returns of these distribution centres are likewise similar. The risks and returns of the Ireland and Switzerland operations are not considered to be similar to those within Southern Africa or each other.

As a result, the geographical segments of the group have been identified as Southern Africa, Ireland and Switzerland. All segment revenue and expenses are directly attributable to the segments. Segment assets and liabilities include all operating assets and liabilities used by a segment, with the exception of intersegment assets and liabilities, and IFRS adjustments made by segments to their management report for the purposes of IFRS compliance. These assets and liabilities are all directly attributable to the segments.

2. SEGMENTAL REPORTING (continued)

Analysis per reportable segment:

Rmillion	SOUTHERN AFRICA	IRELAND	SWITZERLAND	CON-SOLIDATED TOTAL
Unaudited six months ended March 2019				
Revenue – sale of merchandise	37 315.7	11 855.1	5 102.4	54 273.2
Operating profit	1 094.9	270.3	17.3	1 382.5
Profit before tax	1 065.3	256.4	(27.4)	1 294.3
Other information				
Interest income	82.7	4.8	2.6	90.1
Interest expense	73.3	18.4	13.8	105.5
Depreciation	117.2	136.5	116.9	370.6
Statement of financial position				
Total assets	16 644.2	9 863.8	5 096.4	31 604.4
Total liabilities	13 050.8	7 159.0	4 342.3	24 552.1
Unaudited six months ended March 2018				
Revenue – sale of merchandise*	34 659.8	10 487.9	4 833.8	49 981.5
Operating profit*	1 043.4	225.3	46.2	1 314.9
Profit before tax*	1 098.1	202.5	47.7	1 348.3
Other information				
Interest income*	70.9	5.0	1.5	77.4
Interest expense*	61.2	24.7	13.0	98.9
Depreciation	104.9	113.0	117.8	335.7
Statement of financial position				
Total assets*	15 513.5	8 484.5	4 271.9	28 269.9
Total liabilities*	11 714.6	6 568.1	3 578.7	21 861.4
Audited year ended September 2018				
Revenue – sale of merchandise*	68 753.4	22 495.5	9 769.1	101 018.0
Operating profit	2 080.3	574.4	124.6	2 779.3
Profit before tax	1 841.6	537.9	84.6	2 464.1
Other information				
Interest income	155.1	11.0	3.2	169.3
Interest expense	124.0	42.9	26.0	192.9
Depreciation	216.8	236.3	245.0	698.1
Statement of financial position				
Total assets	16 436.1	9 777.5	5 041.9	31 255.5
Total liabilities	12 718.1	7 263.5	4 164.1	24 145.7

* Refer to adoption of new standards and prior period restatements in note 7.

2. SEGMENTAL REPORTING (continued)

Analysis per reportable segment (continued):

	UNAUDITED SIX MONTHS ENDED MARCH 2019 Rmillion	RESTATED* UNAUDITED SIX MONTHS ENDED MARCH 2018 Rmillion	RESTATED* AUDITED YEAR ENDED SEPTEMBER 2018 Rmillion
Disaggregated revenue			
Southern Africa			
Revenue – sale of merchandise	37 315.7	34 659.8	68 753.4
SPAR	28 838.4	27 193.0	53 741.3
TOPS at SPAR	4 014.9	3 366.7	6 504.3
Build It	3 966.9	3 661.7	7 577.5
S Buys – pharmaceutical wholesaler	495.5	438.4	930.3
Revenue – other	342.1	344.7	803.5
Revenue from contracts with customers	37 657.8	35 004.5	69 556.9
Ireland			
Revenue – sale of merchandise	11 855.1	10 487.9	22 495.5
BWG	10 527.8	9 255.1	19 760.5
Appleby Westward	1 327.3	1 232.8	2 735.0
Revenue – other	220.8	199.9	436.0
Revenue from contracts with customers	12 075.9	10 687.8	22 931.5
Switzerland			
Revenue – sale of merchandise	5 102.4	4 833.8	9 769.1
Wholesale	2 246.0	2 024.0	4 214.4
TopCC	2 042.8	1 936.9	3 859.7
Retail	813.6	872.9	1 695.0
Revenue – other	412.6	376.6	798.0
Revenue from contracts with customers	5 515.0	5 210.4	10 567.1
Total			
Total revenue – sale of merchandise	54 273.2	49 981.5	101 018.0
Total revenue – other	975.5	921.2	2 037.5
Total revenue from contracts with customers	55 248.7	50 902.7	103 055.5

* Refer to adoption of new standards and prior period restatements in note 7.

3. BUSINESS COMBINATIONS

3.1 Acquisition of Roadfield Holdings Ltd

The BWG Group has purchased the entire shareholding of Roadfield Holdings Ltd (trading as Corrib Food Products). Corrib Food Products is a wholesaler of predominantly chilled and frozen sectors in Ireland. The business operates from a major distribution centre based near Athenry, Co. Galway, and other distribution depots in Dublin. Approval for the transaction was received from the Competition and Consumer Protection Commission on 31 October 2018.

3.2 Retail stores acquired

During the course of the financial period, SPAR acquired the assets of two (2018: five) retail stores in South Africa and GCL 2016 Ltd (Gilletts), a subsidiary of The BWG Group, acquired the assets of two (2018: two) retail stores in the United Kingdom (UK). The principal activity of these acquisitions is that of retail trade and all its aspects. These stores were purchased in order to protect strategic sites, and the goodwill arising on the business combinations is indicative of future turnover expected to be made by the group as a result of these acquisitions. These acquisitions were funded from available cash resources.

3.3 Assets acquired and liabilities assumed at date of acquisition

Rmillion	UNAUDITED SIX MONTHS ENDED MARCH 2019			
	ROADFIELD HOLDINGS LTD	SA RETAIL STORES	UK RETAIL STORES	TOTAL
Assets	158.9	7.0	1.6	167.5
Liabilities	(72.9)	(4.8)		(77.7)
Total identifiable net assets at fair value	86.0	2.2	1.6	89.8
Goodwill arising from acquisition	178.2	17.0	8.3	203.5
Purchase consideration transferred	264.2	19.2	9.9	293.3
Cash and cash equivalents acquired	(54.5)	(2.0)		(56.5)
Contingent consideration	(24.2)			(24.2)
Net cash outflow on acquisition	185.5	17.2	9.9	212.6

Rmillion	UNAUDITED SIX MONTHS ENDED MARCH 2018				
	FIFTH SEASON INVEST- MENTS 126 (PTY) LTD	KNOWLES SHOPPING CENTRE INVEST- MENTS (PTY) LTD	SA RETAIL STORES	UK RETAIL STORES	TOTAL
Assets	196.8	165.0	27.2	2.7	391.7
Liabilities	(127.8)				(127.8)
Total identifiable net assets at fair value	69.0	165.0	27.2	2.7	263.9
Non-controlling interest	(27.6)				(27.6)
Goodwill arising from acquisition	33.5		33.9	6.9	74.3
Purchase consideration transferred	74.9	165.0	61.1	9.6	310.6
Cash and cash equivalents acquired	(0.5)				(0.5)
Business acquisition costs		0.7		3.1	3.8
Net cash outflow on acquisition	74.4	165.7	61.1	12.7	313.9

	AUDITED YEAR ENDED SEPTEMBER 2018					
	FIFTH SEASON INVEST- MENTS 126 (PTY) LTD	KNOWLES SHOPPING CENTRE INVEST- MENTS (PTY) LTD	4 ACES WHOLE- SALE	SA RETAIL STORES	UK RETAIL STORES	TOTAL
Rmillion						
Assets	196.8	165.0	234.7	32.7	58.5	687.7
Liabilities	(127.8)		(134.8)	(1.6)	(14.0)	(278.2)
Total identifiable net assets at fair value	69.0	165.0	99.9	31.1	44.5	409.5
Non-controlling interest	(27.6)					(27.6)
Goodwill arising from acquisition	33.5		81.5	52.4	7.1	174.5
Purchase consideration transferred	74.9	165.0	181.4	83.5	51.6	556.4
Cash and cash equivalents acquired	(0.5)		(60.4)	(0.1)	(17.1)	(78.1)
Business acquisition costs		0.7	1.1			1.8
Contingent consideration			(31.2)		(10.2)	(41.4)
Net cash outflow on acquisition	74.4	165.7	90.9	83.4	24.3	438.7

3. BUSINESS COMBINATIONS (continued)

3.4 Cash flow on acquisition of business/ subsidiaries

Rmillion	UNAUDITED SIX MONTHS ENDED MARCH 2019	UNAUDITED SIX MONTHS ENDED MARCH 2018	AUDITED YEAR ENDED SEPTEMBER 2018
Net cash outflow (note 3.3)	212.6	313.9	438.7
4 Aces measurement period adjustment cash outflow	8.7		
Costs on potential acquisitions	2.6		14.5
Total net cash outflow relating to acquisitions	223.9	313.9	453.2

The 4 Aces acquisition included provision for contingent consideration. The cash outflow was significantly less due to the release of contingent consideration not payable, due to targets not met and the reclamation of VAT on bad debts written off, offset by an *ex gratia* payment to the vendors. No further fair value adjustments have been made to the net identifiable assets acquired, the 12 month adjustment window for which expired on 11 May 2019.

3.5 Assets and liabilities at date of disposal

No businesses were sold in the six months ended March 2019 (2018: two SA retail stores were sold).

Rmillion	UNAUDITED SIX MONTHS ENDED MARCH 2019	UNAUDITED SIX MONTHS ENDED MARCH 2018	AUDITED YEAR ENDED SEPTEMBER 2018		
		SA retail stores	ADM Londis	SA retail stores	Total
Non-current assets	–	17.3	101.7	45.2	146.9
Property, plant and equipment		5.1		11.5	11.5
Non-current assets held for sale			101.7		101.7
Goodwill		12.2		33.7	33.7
Current liabilities	–	–	(108.9)	–	(108.9)
Trade and other payables			(7.4)		(7.4)
Deferred consideration payable for ADM Londis			(101.5)		(101.5)
(Loss)/profit on disposal of business		(2.2)	7.2	2.5	9.7
Proceeds	–	15.1	–	47.7	47.7

4. FINANCIAL RISK MANAGEMENT

Rmillion	UNAUDITED SIX MONTHS ENDED MARCH 2019	RESTATED* UNAUDITED SIX MONTHS ENDED MARCH 2018	AUDITED YEAR ENDED SEPTEMBER 2018
Financial instruments classification			
Net bank balances	460.8	(850.8)	1 598.2
Loans ⁽¹⁾	700.2	555.8	794.3
Block discounting loan receivable ⁽¹⁾	707.6	711.3	768.2
Block discounting loan payable ⁽²⁾	(723.3)	(729.2)	(785.9)
Other equity investments ⁽³⁾	63.6	51.5	57.9
Trade and other receivables ⁽¹⁾	12 383.0	10 978.9	12 134.4
Trade and other payables ⁽²⁾	(14 775.3)	(12 113.8)	(15 236.0)
FEC liability ⁽⁴⁾	(3.4)	(5.0)	(3.3)
FEC asset ⁽³⁾			0.3
Borrowings ⁽²⁾	(4 464.9)	(3 884.4)	(4 410.1)
Financial liabilities ⁽³⁾	(2 099.0)	(1 627.8)	(2 042.9)

* Refer to adoption of new standards and prior period restatements in note 7.

⁽¹⁾ Classified under IFRS 9 as financial assets at amortised cost. Previously classified under IAS 39 as loans and receivables.

⁽²⁾ Classified under IFRS 9 as financial liabilities at amortised cost. Previously classified under IAS 39 as financial liabilities measured at amortised cost.

⁽³⁾ Classified under IFRS 9 and previously under IAS 39 as financial assets or liabilities at fair value through profit or loss (FVPL).

⁽⁴⁾ Designated as a hedging instrument.

Fair value hierarchy

The group's financial instruments carried at fair value are classified into three categories defined as follows:

Level 1 financial instruments are those that are valued using unadjusted quoted prices in active markets for identical financial instruments. These instruments consist of the forward exchange contracts.

Level 2 financial instruments are those valued using techniques based primarily on observable market data. Instruments in this category are valued using quoted prices for similar instruments or identical instruments in markets which are not considered to be active; or valuation techniques where all the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data. Financial instruments classified as level 2 mainly comprise other equity investments.

Level 3 financial instruments are those valued using techniques that incorporate information other than observable market data.

Instruments in this category have been valued using a valuation technique where at least one input, which could have a significant effect on the instrument's valuation, is not based on observable market data.

4. FINANCIAL RISK MANAGEMENT (continued)

The following financial instruments on the statement of financial position are carried at fair value and are further categorised into the appropriate fair value hierarchy:

Rmillion	CARRYING VALUE	LEVEL 1	FAIR VALUE LEVEL 2	LEVEL 3
Financial instruments				
Unaudited six months ended March 2019				
Other equity investments	63.6		63.6	
FEC liability designated as a hedging instrument	(3.4)		(3.4)	
Financial liabilities	(2 099.0)			(2 099.0)
Total	(2 038.8)	–	60.2	(2 099.0)
Unaudited six months ended March 2018				
Other equity investments	51.5		51.5	
FEC liability designated as a hedging instrument	(5.0)		(5.0)	
Financial liabilities	(1 627.8)			(1 627.8)
Total	(1 581.3)	–	46.5	(1 627.8)
Audited year ended September 2018				
Other equity investments	56.9		56.9	
FEC liability designated as a hedging instrument	(3.3)		(3.3)	
FEC asset at fair value through profit and loss	0.3		0.3	
Financial liabilities	(2 042.9)			(2 042.9)
Total	(1 989.0)	–	53.9	(2 042.9)

Level 2 valuation methods and input

The level 2 financial instruments consist of the investment in Group Risk Holdings (Pty) Ltd (GRH) and the Hypo Vorarlberg bank security deposit. The value of the investment in GRH is based on the group's premium contributions relative to other shareholders in GRH. The Hypo Vorarlberg bank security deposit is a portfolio of listed shares and bonds, the value of which is observable in the market.

Level 3 sensitivity information

The fair value of the level 3 financial liabilities of R 2 099.0 million (2018: R1 627.8 million) was estimated by applying an income approach valuation method including a present value discount technique. The fair value measurement is based on significant inputs that are not observable in the market. Key inputs used in the valuation include the assumed future profit targets and the discount rates applied. The assumed profitability was based on historical performances but adjusted for expected growth. No adjustments were made to the estimated profitability in the six months ended March 2019 and March 2018. In September 2018, the estimated future profit target for TIL JV Ltd was adjusted upward by 12.4%, and the estimated future profit target for Fifth Season Investments 126 (Pty) Ltd was adjusted downward by 12.9%.

The following factors were applied in calculating the financial liabilities at 31 March 2019:

TIL JV Ltd

- Discount rate of 6.6% (2018: 7.2%)
- Closing rand/euro exchange rate of 16.25 (2018: 14.57)

SPAR Holding AG

- Discount rate of 1.3% (2018: 2.0%)
- Closing rand/Swiss franc exchange rate of 14.55 (2018: 12.38)

Fifth Season Investments 126 (Pty) Ltd

- Discount rate of 12.5% (2018: 12.5%)

The following tables show how the fair value of the level 3 financial liabilities would change in relation to the discount rate if the discount rate increased or decreased by 0.5%.

TIL JV Ltd	DISCOUNT RATE %	SENSITIVITY %	LIABILITY Rmillion
Unaudited six months ended March 2019			
Financial liability	6.6	0.5	(8.9)
Financial liability	6.6	(0.5)	9.1
Unaudited six months ended March 2018			
Financial liability	7.2	0.5	(3.0)
Financial liability	7.2	(0.5)	3.0
Audited year ended September 2018			
Financial liability	6.7	0.5	(11.7)
Financial liability	6.7	(0.5)	11.9

SPAR Holding AG	DISCOUNT RATE %	SENSITIVITY %	LIABILITY Rmillion
Unaudited six months ended March 2019			
Financial liability	1.3	0.5	(7.0)
Financial liability	1.3	(0.5)	7.0
Unaudited six months ended March 2018			
Financial liability	2.0	0.5	(10.6)
Financial liability	2.0	(0.5)	10.7
Audited year ended September 2018			
Financial liability	2.0	0.5	(8.8)
Financial liability	2.0	(0.5)	8.7

Fifth Season Investments 126 (Pty) Ltd	DISCOUNT RATE %	SENSITIVITY %	LIABILITY Rmillion
Unaudited six months ended March 2019			
Financial liability	12.5	0.5	(1.0)
Financial liability	12.5	(0.5)	1.0
Unaudited six months ended March 2018			
Financial liability	12.5	0.5	(1.3)
Financial liability	12.5	(0.5)	1.3
Audited year ended September 2018			
Financial liability	13.3	0.5	(1.0)
Financial liability	13.3	(0.5)	1.0

4. FINANCIAL RISK MANAGEMENT (continued)

The following tables show how the fair value of the level 3 financial liabilities would change in relation to change in the estimated future profit targets by 5.0%.

TIL JV Ltd	SENSITIVITY %	LIABILITY Rmillion
Unaudited six months ended March 2019		
Financial liability	5.0	62.2
Financial liability	(5.0)	(62.2)
Unaudited six months ended March 2018		
Financial liability	5.0	45.6
Financial liability	(5.0)	(45.7)
Audited year ended September 2018		
Financial liability	5.0	59.2
Financial liability	(5.0)	(59.1)

Fifth Season Investments 126 (Pty) Ltd	SENSITIVITY %	LIABILITY Rmillion
Unaudited six months ended March 2019		
Financial liability	5.0	2.7
Financial liability	(5.0)	(2.7)
Unaudited six months ended March 2018		
Financial liability	5.0	2.8
Financial liability	(5.0)	(2.8)
Audited year ended September 2018		
Financial liability	5.0	2.3
Financial liability	(5.0)	(2.3)

Movements in level 3 financial instruments carried at fair value

The following tables show a reconciliation of the opening and closing balances of level 3 financial instruments carried at fair value:

	UNAUDITED SIX MONTHS ENDED MARCH 2019 Rmillion	UNAUDITED SIX MONTHS ENDED MARCH 2018 Rmillion	AUDITED YEAR ENDED SEPTEMBER 2018 Rmillion
TIL JV Ltd			
Balance at beginning of period	1 216.2	963.8	963.8
Finance costs recognised in profit or loss	42.9	34.0	72.3
Net exchange differences arising during the period	(15.4)	(85.6)	40.6
Fair value adjustment			139.5
Balance at end of period	1 243.7	912.2	1 216.2
Undiscounted value of financial liability	1 371.2	1 090.2	1 389.2

	UNAUDITED SIX MONTHS ENDED MARCH 2019 Rmillion	UNAUDITED SIX MONTHS ENDED MARCH 2018 Rmillion	AUDITED YEAR ENDED SEPTEMBER 2018 Rmillion
SPAR Holding AG			
Balance at beginning of period	777.5	736.3	736.3
Finance costs recognised in profit or loss	17.2	7.0	14.3
Net exchange differences arising during the period	16.3	(20.1)	2.9
Foreign exchange translation	(9.7)	(63.3)	24.0
Balance at end of period	801.3	659.9	777.5
Undiscounted value of financial liability	819.6	751.4	813.2

	UNAUDITED SIX MONTHS ENDED MARCH 2019 Rmillion	UNAUDITED SIX MONTHS ENDED MARCH 2018 Rmillion	AUDITED YEAR ENDED SEPTEMBER 2018 Rmillion
Fifth Season Investments 126 (Pty) Ltd			
Balance at the beginning of the period	49.2	–	–
Initial recognition	–	54.4	54.4
Initial recognition reducing non-controlling interest balance		27.6	27.6
Initial recognition in equity reserve		26.8	26.8
Finance costs recognised in profit or loss	4.8	1.3	6.4
Fair value adjustment			(11.6)
Balance at end of period	54.0	55.7	49.2
Undiscounted value of financial liability	86.2	100.5	86.20
Total balance at end of period	2 099.0	1 627.8	2 042.9
Total undiscounted value of financial liabilities	2 277.0	1 942.1	2 288.6
The difference between the undiscounted value and the balance at end of period is as follows:	(178.0)	(314.3)	(245.7)

The undiscounted value of the financial liabilities represents the amount the group is contractually required to pay to the holder of the obligation at maturity.

The TIL JV Ltd financial liability is calculated as the present value of the non-controlling interests share of the expected redemption value and discounted from the expected exercise dates to the reporting date. As at 31 March 2019, the financial liability was valued at R1 243.7 million based on management's expectation of future profit performance. Repayments will commence in December 2019 and continue in 2020 and 2022.

The total obligation of the SPAR Holding AG financial liability of CHF56.3 million is calculated at the present value of the obligation, discounted from the expected settlement date to the reporting date. This financial liability will be repaid between December 2020 and February 2021.

The Fifth Season Investments 126 (Pty) Ltd is calculated at the present value of the obligation, discounted from the expected settlement date to the reporting date, based on management's expectation of future profit performance. This financial liability will be repaid between 30 September 2022 and 31 December 2022.

Interest is recorded in respect of these liabilities within finance costs using the effective interest rate method. Net exchange differences on these financial liabilities have also been presented in finance costs.

4. FINANCIAL RISK MANAGEMENT (continued)

Capital risk management

The group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders.

The group's overall capital management strategy remained unchanged for the period ended 31 March 2019. The strategy entails a philosophy of tight risk management and minimum use of derivative instruments.

The capital structure of the group consists of equity attributable to shareholders comprising issued capital, reserves and retained earnings and borrowings.

Treasury shares are held from time to time for the purpose of settling option holder obligations and these are only acquired on approval from shareholders and where the market presents value in their acquisition.

The strong cash inflow generated by group operations is utilised to fund distribution centre expansions and other capital expenditure, and to settle dividends declared, taxation and trade payable obligations.

5. FINANCIAL GUARANTEES

Financial guarantees may be provided by the group to subsidiaries and affiliates. These financial guarantees are accounted for under IFRS 4 and initially measured at cost and subsequently in terms of IAS 37 which requires the best estimate of the expenditure to settle the present obligation. Management has assessed that the amount that it would rationally pay to settle the obligation is nil.

Management's assessment is based on subsidiaries and affiliates having sufficient cash resources, in country, to service the underlying debt instrument's obligations as and when these become due.

The risk relating to financial guarantees is managed per geographical region through review of cash flow forecasts, budgets and monitoring of covenants.

The board has limited the guarantee facility to R190.0 million (2018: R190.0 million) relating to Numlite (Pty) Ltd. In 2009, the company sold its investment in retail computer equipment and ceded its right to receive payment of the existing and future rental streams to Numlite (Pty) Ltd, who in turn raises finance via a loan facility with an independent financial institution. The group has provided a limited guarantee relating to this loan facility, exposing the group to credit risk in the event that Numlite (Pty) Ltd defaults on their loan facility payments. At period end, 980 SPAR stores (2018: 965), 647 TOPS at SPAR stores (2018: 597), 69 Pharmacy at SPAR stores (2018: 70) and 33 Build it stores (2018:18) were participants in the IT retail scheme, with an average debt of R101 444 (2018: R104 204) per store.

The table below represents the full exposure of the group in relation to this financial guarantee.

Rmillion	UNAUDITED SIX MONTHS ENDED MARCH 2019	UNAUDITED SIX MONTHS ENDED MARCH 2018	AUDITED YEAR ENDED SEPTEMBER 2018
Guarantees issued in respect of the finance obligations			
– Guarantee of Numlite (Pty) Ltd finance obligations	175.4	171.9	169.7

6. COMMITMENTS

6.1 Operating lease commitments

Future minimum lease payments due under non-cancellable operating leases:

Rmillion	LAND AND BUILDINGS	OTHER
Unaudited six months ended March 2019		
Payable within one year	1 634.3	70.3
Payable later than one year but not later than five years	5 264.4	107.5
Payable later than five years	3 386.5	12.3
Total	10 285.2	190.1
Unaudited six months ended March 2018		
Payable within one year	1 835.8	68.1
Payable later than one year but not later than five years	5 424.2	120.9
Payable later than five years	3 992.5	10.2
Total	11 252.5	199.2
Audited year ended September 2018		
Payable within one year	1 623.6	78.2
Payable later than one year but not later than five years	5 434.0	124.8
Payable later than five years	4 023.9	13.9
Total	11 081.5	216.9

6.2 Operating lease receivables

Future minimum sublease receivables due under non-cancellable property leases:

Rmillion	UNAUDITED SIX MONTHS ENDED MARCH 2019	UNAUDITED SIX MONTHS ENDED MARCH 2018	AUDITED YEAR ENDED SEPTEMBER 2018
Receivable within one year	933.1	1 210.3	952.7
Receivable later than one year but not later than five years	2 871.2	3 268.7	3 132.3
Receivable later than five years	1 387.3	1 997.2	1 938.4
Total operating lease receivables	5 191.6	6 476.2	6 023.4
Contracted	219.5	230.8	200.5
Approved but not contracted	47.8	110.8	143.5
Total capital commitments	267.3	341.6	344.0

Capital commitments will be financed from group resources.

7. ADOPTION OF NEW ACCOUNTING STANDARDS AND PRIOR PERIOD RESTATEMENTS

7.1 Effect of adopting IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 October 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The group has elected not to restate its comparative information as permitted by IFRS 9. Therefore, the impact of IFRS 9 will be applied retrospectively with an adjustment to opening retained earnings. The comparative information in the 2018 annual financial statements will not be amended for the impact of IFRS 9.

The total impact on the group's retained earnings as at 1 October 2018 is as follows:

	Notes	Rmillion
Closing retained earnings at 30 September 2018 as previously reported		5 211.6
Adjustment to retained earnings from adoption of IFRS 9 on 1 October 2018		(18.2)
Increase in provision for trade receivables	7.1.2	(23.8)
Increase in provision for loans at amortised cost	7.1.2	(0.9)
Increase in net deferred tax assets relating to impairment provisions		6.5
Opening retained earnings at 1 October 2018		5 193.4

7.1.1 Classification and measurement of financial instruments

(a) Financial assets

IFRS 9 requires all financial assets to be classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The group has the following types of financial assets that are subject to IFRS 9:

- 1) Loans receivable
- 2) Block discounting loans receivable
- 3) Trade and other receivables
- 4) Cash and cash equivalents

On 1 October 2018 (the date of initial application of IFRS 9), management assessed which business models apply to the financial assets held by the group and has classified its financial instruments into the appropriate IFRS 9 categories.

Management is satisfied that these financial assets will be measured at amortised cost under IFRS 9 since the group has a business model to hold these financial assets to collect contractual cash flows and the characteristics of the contractual cash flows are that of solely payments of the principal amount and interest received.

Loan receivables, block discounting loan receivables, and trade and other receivables were classified under IAS 39 as loans and receivables. Under IFRS 9, these are classified as financial assets at amortised cost. This classification is a result of the assets contractual cash flows being solely principal and interest and the business model's objective is achieved by holding the assets to collect the contractual cash flows. There was no impact on the amounts recognised in relation to these assets as a result of the classification of these balances on adoption of IFRS 9.

(b) Other equity investments

Equity investments previously held as FVPL under IAS 39 are still required to be held as FVPL under IFRS 9, as the business model for these assets is neither held-to-collect nor held-to-collect and for sale, and the collection of contractual cash flows is incidental to the business model. There was no impact on the classification or amounts recognised in relation to these assets from the adoption of IFRS 9.

(c) Other current financial assets

FEC assets within other current financial assets previously held as FVPL under IAS 39 are still required to be held as FVPL under IFRS 9. There was no impact on the classification or amounts recognised in relation to these assets from the adoption of IFRS 9.

(d) Financial liabilities

Financial liabilities previously classified as FVPL under IAS 39 maintain this classification under IFRS 9. This reduces recognition and measurement inconsistencies that would arise if these were measured on different bases. The financial liabilities are managed and performance evaluated on a fair value basis based on information provided internally to key management personnel. There was no impact on the amounts recognised in relation to these liabilities as a result of the classification of these balances on adoption of IFRS 9.

The main effects resulting from this reclassification are as follows:

Rmillion	LOANS AND AMORTISED FVPL RECEIVABLES COST	
Closing balance at 30 September 2018 – IAS 39	58.2	13 696.9
Reclassify loans from loans and receivables to amortised cost		(794.3)
Reclassify block discounting loan receivable from loans and receivables to amortised cost		(768.2)
Reclassify trade and other receivables from loans and receivables to amortised cost		(12 134.4)
Opening balance at 1 October 2018 – IFRS 9	58.2	–
		13 696.9

7.1.2 Impairment of financial assets under the expected credit loss model

The group has three types of financial assets that are impacted by IFRS 9's new expected credit loss model:

- Trade receivables for sales of inventory
- Loans provided by The SPAR Group
- Block discounted loans

The group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the group's retained earnings and equity is disclosed in 7.1 above.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

The group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables. The group has adopted the general approach for loans receivable, which involves a three-stage approach to the recognition of credit losses and interest.

The group assesses exposure on specific customers taking into consideration the security held.

The group has established a provision matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to such trade and other receivables and the economic environment.

Trade receivables and loan receivables are written off when there is no reasonable expectation of recovery.

The allowance for doubtful debts represents management's estimate of the extent to which trade receivables at the reporting date will not be subsequently recovered. This estimate takes into consideration past trends and makes an assessment of additional risk factors which are likely to impact recoverability, such as significant actual or expected changes in the operating results or business conditions of the retailer. To the extent considered irrecoverable, debts are written off.

7. ADOPTION OF NEW ACCOUNTING STANDARDS AND PRIOR PERIOD RESTATEMENTS (continued)

7.2 Effect of adopting IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes the principles that an entity applies when reporting information about the nature, amount, timing and uncertainty of revenue and cash flows from a contract with a customer.

The core principle of IFRS 15 is that an entity recognises revenue from contracts with customers to depict the transfer of control of promised goods or services to customers for an amount that reflects the consideration to which an entity expects to be entitled to in exchange for those goods or services. The standard provides a principles-based five-step approach to account for revenue from contracts with customers, based on the principle that revenue is recognised either over time or at a point in time when the group satisfies performance obligations and transfers control of goods or services to its customers.

The adoption of IFRS 15 with effect from 1 October 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the group has adopted the new standard retrospectively and has restated comparatives for the 2018 financial year.

The group assessed all income streams in terms of IFRS 15 and this evaluation has resulted in the group classifying its income in terms of three categories:

- 1) **Revenue – sale of merchandise:** this represents revenue from the group's main trading activities being from the sale of goods which mainly comprises wholesale sales to independent retailers and, to a small degree, retail sale of stores owned by the group.
- 2) **Revenue – other:** this relates to ancillary sales and services which comprise of marketing and promotional activities provided by the group. The group is satisfied that these services are distinct within the context of the relevant contracts.
- 3) **Other income:** this represents income that is derived from activities that are incidental to the group's main trading activities and ancillary services offered.

Agent versus principal

The IFRS 15 principles dictate that revenue is recognised as and when the control over goods and services is transferred to customers. The group has assessed its dropshipment sales which is recorded on a gross basis in terms of principal accounting and has concluded that this will continue to be recognised on a gross basis having satisfied the requirements of principal accounting under IFRS 15.

The implementation of the new standard has not impacted the measurement and timing of revenue recognition, however, it had the following impact on the presentation of the statement of comprehensive income:

An amount of R924.8 million for the six months ended 31 March 2019 previously treated as other income and R50.7 million previously offset against operating expenses has been reclassified to revenue – other due to clarity provided by IFRS 15 regarding distinct goods and services being identifiable and separable not provided by IAS 18.

7.3 Correction of presentation and prior period restatement

In line with restatements made in the 2018 annual financial statements, the following restatements have been applied in the group's results for the 26 weeks ended 31 March 2018:

7.3.1 Correction of presentation

In the 2018 financial year, the group assessed all income streams from suppliers. This evaluation revealed that the group had erroneously accounted for certain rebates and income within other income and some instances recognised these in net operating expenses.

In performing this assessment, the following principles were considered:

- Agreements with suppliers whereby volume-related rebates, promotional and marketing allowances and various other fees and discounts received in connection with the purchase of goods are accounted for as a reduction to cost of sales.
- Income which is earned for a distinct service is recognised as other income.
- Income which is a genuine and specific recovery of a selling cost is recognised as a recovery of operating expenses.

7.3.2 Prior period restatement

SPAR gives out loans at the prime interest rate to retailers which are immediately sold at prime less 1% to an approved financial institution under a block discounting agreement with recourse. These loans were previously disclosed as contingent liabilities due to SPAR providing financial guarantees against these discounting agreements, which have effectively transferred the loan receivable to the financial institution.

As these loans have been discounted to the financial institution with full recourse resulting in SPAR still being exposed to the credit risk on this transaction, it has been concluded that these loans, which represent financial assets, do not meet the derecognition criteria in terms of IAS 39. This has resulted in the recognition of a financial asset held at amortised cost, which represents the amount owing by the retailer, and a financial liability held at amortised cost, which represents the amount owing to the financial institution.

The restatement was effective for the year ended 30 September 2018 and has been applied retrospectively. This has resulted in a restatement of the comparative March 2018 balances on the statement of financial position.

7.4 Impact on the consolidated financial statements

The following tables set out the impact of the changes in accounting policies and prior period restatements recognised for each individual line item affected in the consolidated financial statements.

IFRS 15 was adopted with the comparative information being restated and the impact is reflected in the restated comparatives.

IFRS 9 was adopted without restating comparative information and the impact is therefore not reflected in the restated comparatives, but recognised in the opening statement of financial position at 1 October 2018.

The aggregate effect of the changes in accounting policies and prior period restatements on the annual financial statements and interim results presented are as follows:

7. ADOPTION OF NEW ACCOUNTING STANDARDS AND PRIOR PERIOD RESTATEMENTS (continued)

7.4 Impact on the consolidated financial statements (continued)

7.4.1 Impact on the statement of profit or loss and other comprehensive income

Rmillion	RESTATED UNAUDITED 6 MONTHS ENDED MARCH 2018	IFRS 15 RESTATEMENT ADJUSTMENT
Revenue – sale of merchandise	49 981.5	
Cost of sales	(44 736.6)	
Gross profit	5 244.9	–
Revenue – other	921.2	921.2
Other income	65.6	(879.9)
Net operating expenses	(4 916.8)	(41.3)
Operating profit	1 314.9	–
Other non-operating items	(3.8)	
Interest income	77.4	
Interest expense	(98.9)	
Finance costs including foreign exchange gains and losses	63.4	
Share of equity-accounted associate losses	(4.7)	
Profit before taxation	1 348.3	–
Income tax expense	(318.9)	
Profit for the period attributable to ordinary shareholders	1 029.4	–
Basic earnings per share	534.6	
Diluted earnings per share	531.9	
Headline earnings per share	542.1	
Diluted headline earnings per share	539.4	

EFFECT OF RECLASSIFI- CATION	EFFECT OF RESTATEMENT	UNAUDITED 6 MONTHS ENDED MARCH 2018 PREVIOUSLY REPORTED	RESTATED AUDITED YEAR ENDED SEPTEMBER 2018	IFRS 15 RESTATEMENT ADJUSTMENT	AUDITED YEAR ENDED SEPTEMBER 2018 PREVIOUSLY REPORTED
(45.1)		50 026.6	101 018.0		101 018.0
321.8		(45 058.4)	(90 225.0)		(90 225.0)
276.7	–	4 968.2	10 793.0	–	10 793.0
			2 037.5	2 037.5	
32.5	(1.3)	914.3	119.4	(1 870.1)	1 989.5
(309.2)		(4 566.3)	(10 170.6)	(167.4)	(10 003.2)
–	(1.3)	1 316.2	2 779.3	–	2 779.3
		(3.8)	(144.2)		(144.2)
	34.0	43.4	169.3		169.3
	(30.3)	(68.6)	(192.9)		(192.9)
		63.4	(136.5)		(136.5)
		(4.7)	(10.9)		(10.9)
–	2.4	1 345.9	2 464.1	–	2 464.1
	(0.7)	(318.2)	(636.9)		(636.9)
–	1.7	1 027.7	1 827.2	–	1 827.2
	0.9	533.7	948.9		948.9
	0.9	531.0	942.2		942.2
	0.9	541.2	965.7		965.7
	0.9	538.5	958.9		958.9

7. ADOPTION OF NEW ACCOUNTING STANDARDS AND PRIOR PERIOD RESTATEMENTS (continued)

7.4 Impact on the consolidated financial statements (continued)

7.4.2 Impact on the statement of financial position

Rmillion	RESTATED UNAUDITED 6 MONTHS ENDED MARCH 2018	EFFECT OF RESTATEMENT	UNAUDITED 6 MONTHS ENDED MARCH 2018 PREVIOUSLY REPORTED
Block discounting loan receivable	421.3	421.3	
Deferred taxation asset	25.6	5.0	20.6
Current portion of block discounting loan receivable	290.0	290.0	
Retained earnings	4 924.3	(12.9)	4 937.2
Block discounting loan payable	432.7	432.7	
Current portion of block discounting loan payable	296.5	296.5	

7.4.3 Impact on the statement of cash flows

	RESTATED UNAUDITED 6 MONTHS ENDED MARCH 2018	EFFECT OF RESTATEMENT	UNAUDITED 6 MONTHS ENDED MARCH 2018 PREVIOUSLY REPORTED
Cash flows from operating activities	(1 160.5)		(1 160.5)
Operating profit before:	1 314.9	(1.3)	1 316.2
Non-cash items	347.6	1.3	346.3

8. EVENTS AFTER THE REPORTING DATE

Piotr i Paweł

The SPAR Group has been awarded the SPAR Licence to operate the brand in Poland. In addition, the group is in the final stages of negotiations to purchase a controlling interest in the Piotr i Paweł Group in Poland, subject to the approval of the Office of Competition and Consumer Protection (OCCP). Piotr i Paweł is a retail chain of 77 delicatessen and supermarket stores, together with a wholesale distribution network.

COMMENTARY

SALIENT FEATURES

Rmillion	UNAUDITED SIX MONTHS ENDED 31 MARCH 2019	UNAUDITED SIX MONTHS ENDED 31 MARCH 2018	CHANGE (%)
Turnover*	54 273.2	49 981.5*	8.6
Operating profit	1 382.5	1 314.9*	5.1
Earnings per share (cents)	520.0	534.6*	(2.7)
Headline earnings per share (cents)	523.6	542.1*	(3.4)
Normalised diluted headline earnings per share (cents)#	522.5	486.7*	7.4
Dividend per share (cents)	284.0	270.0	5.2
Net asset value per share (cents)	3 662.5	3 328.0*	10.1

* Restated prior year figures

Headline earnings adjusted for fair value adjustments to, and foreign exchange effects on financial liabilities, and business acquisition costs

^ Turnover represents revenue from the sale of merchandise

PERFORMANCE OVERVIEW

The SPAR Group delivered a strong performance for the six months to 31 March 2019. Total turnover grew 8.6% from R50.0 billion to R54.3 billion, in tough trading markets across all business geographies. Earnings were adversely impacted by the finance costs, which included significant foreign exchange effects on the translation of liabilities to acquire the minority interests in the Irish and Swiss businesses. After adjusting for these costs, normalised headline earnings per share increased by 7.5%, which is more reflective of the group's performance.

- SPAR Southern Africa contributed growth in wholesale turnover of 7.7% in a challenging environment. Turnover was adversely influenced by the later timing of the Easter holidays in the current financial period and consumers facing increasing living costs. During this period, internally measured food inflation has risen to 1.9%. The TOPS liquor brand again delivered excellent results with wholesale sales growth of 19.3%. The building materials business, Build it, delivered another exceptional performance in a weak sector with wholesale turnover up 8.3%. The SPAR Southern Africa store network grew to 2 308 stores (FY 2018: 2 236 stores), with new stores opened across all brands. The group completed 175 store upgrades, compared to 131 upgrades in the comparable period.
- The BWG Group (SPAR Ireland) delivered solid euro-denominated results, with all retail brands continuing to report good turnover growth. The overall performance was positively impacted by the acquisitions of the 4 Aces wholesale business and Corrib Foods during the previous year. These acquisitions highlight the ability of this team to identify and integrate acquisitions which deliver increased value. SPAR Ireland's retail network is now 1 381 stores (FY 2018 1 371 stores).
- Despite making real progress in addressing strategic issues, SPAR Switzerland's profitability for the first half fell short of expectations. While turnover performance has shown improvement in what remained a challenging trading environment, this result was attributable to an aggressive marketing campaign in the second half of the reporting period. Management is confident that this result will not be repeated in the second quarter. SPAR Switzerland's total store network has increased to 327 stores (FY 2018: 315 stores).

GROUP FINANCIAL REVIEW BY SEGMENT

Rmillion	SOUTHERN AFRICA	IRELAND	SWITZERLAND	THE SPAR GROUP LTD
Income statement				
Turnover	37 315.7	11 855.1	5 102.4	54 273.2
Gross profit	3 265.2	1 517.1	868.4	5 650.7
Operating profit	1 094.9	270.3	17.3	1 382.5
Profit before taxation	1 065.3	256.4	(27.4)	1 294.3
Financial position				
Total assets	16 644.2	9 863.8	5 096.4	31 604.4
Total liabilities	13 050.8	7 159.0	4 342.3	24 552.1

The turnover of The SPAR Group grew by 8.6% to R54.3 billion (2018: R50.0 billion), with 31.2% of total turnover generated in foreign currency. The comparable Southern African business (excluding the S Buys result) with reported turnover growth of 7.6%, continued to be impacted by a weak consumer environment. The turnover of the BWG Group increased by 8.0% in euro-currency terms. The depreciation of the rand against the euro over this period resulted in a 13.0% increase in reported turnover to R11.9 billion (2018: R10.5 billion). SPAR Switzerland contributed turnover of R5.1 billion (2018: R4.8 billion) with sales improving in rand terms but declining slightly by 1.8% in local currency. All regions were adversely impacted by the later timing of the Easter holidays compared to the prior period.

The group's gross margin declined slightly to 10.4% (2018: 10.5%). SPAR Southern Africa saw a decrease in its gross margin to 8.7% (2018: 8.9%), mostly impacted by the change in sales mix, due to the growth of liquor and building materials. The BWG Group reported a gross margin of 12.8% (2018: 12.4%). This business operates in the higher margin convenience sector and also saw margin gains from the Corrib Foods acquisition. The Swiss business reported a decline in gross margin to 17.0% from 18.0% in the previous period, attributed to an aggressive marketing campaign in the second half of the current period which failed to deliver the expected business growth.

Group operating expenses increased by 8.1%. This was significantly influenced by the increase in BWG Group's operating expenses of 15.0%. After excluding the effect of foreign exchange, the Irish operating expenses increased by 9.7%. The two recent business acquisitions (4 Aces Wholesale business and Corrib Foods) contributed 4.8% of this change, with increases in comparable business expenses attributed to rising depreciation charges, payroll costs related to turnover growth, and a strong investment in marketing and selling expenses. The Swiss business reported a decline in expenses measured in local currency by -2.1%. This was attributed to the disposal of certain corporate stores and general cost reductions. The Southern African business's expenses increased by 5.0%, despite pressure from employment costs, fuel and IT costs.

Profit before tax was down 4.0% to R1.3 billion (2018: R1.3 billion), and was fundamentally impacted by the finance costs, including substantial foreign exchange effects on the translation of the financial liabilities to purchase the minority interests. Due to lower effective tax rates in South Africa, and foreign businesses, profit after tax improved slightly to a decline of 2.7% to R1.0 billion (2018: R1.0 billion).

Headline earnings per share decreased by 3.4% to 523.6 (2018: 542.1) cents. The board approved an interim dividend of 284 cents.

Cash generated from operations totalled R727.2 million (2018: R28.3 million) and increased against the comparative period due to decreased working capital levels. This was largely attributed to the later timing of the Easter holiday. The SPAR Group's cash flow from investing activities showed a net outflow of R608.3 million (2018: R730.5 million), including total net capital expenditure of R405.3 million (2018: R384.9 million). Taking into account the impact of a net R59.0 million inflow to reduce borrowings, the group had a net overdraft position of R460.8 million (2018: overdraft of R850.8 million) at the reporting date.

The group's capital expenditure during the period included operational investments of R135.7 million in Southern Africa. These comprised primarily transport, logistics and equipment requirements. The BWG Group's capital expenditure amounted to R169.6 million, the majority of which was warehouse equipment. Capital expenditure in the Swiss operations of R100.0 million was incurred, including further store refurbishments and ongoing technology upgrades to enhance the retail offering. The Irish business made business acquisitions to the value of R204.1 million in Corrib Foods and two retail stores.

GEOGRAPHICAL REVIEW

SPAR SOUTHERN AFRICA

The turnover of SPAR Southern Africa increased 7.7% to R37.3 billion (2018: R34.7 billion). This includes the performance of the S Buys pharmaceutical business. Excluding S Buys, SPAR Southern Africa increased 7.6% to R36.8 billion (2018: R34.2 billion), reflecting the continued tough retail market, which remains impacted by weak consumer spend and low levels of inflation. This result was positively boosted by extremely strong liquor turnover growth of 19.3% and a very pleasing increase in the building materials business of 8.3%. The latter was contrary to a weak sector performance and reflected increased retailer loyalty and strong marketing investments. Combined food and liquor wholesale turnover growth was recorded at 7.5% and needs to be viewed against internally calculated food inflation of 1.9%. This inflation measure has increased from the 1.4% reported at the end of September 2018.

Case volumes handled through the seven distribution centres reflect a significant increase over those of the previous period and increased 5.2% to 121.4 million cases (2018: 115.4 million cases).

The retail turnover of **SPAR** stores increased 4.8% to R42.3 billion (2018: R40.4 billion) and recorded like-for-like growth of 3.8%. The combined food and liquor retail sales, which allow for a better industry comparison, increased by 6.0% and should be viewed against the relatively flat food inflation over the year. Wholesale turnover grew 6.1% to R28.8 billion, emphasising the independent retailers support of the group's voluntary trading model. The SPAR-branded private-label products continued to offer real consumer value and quality and remain a shopping differentiator for our retailers. Private-label turnover increased by an impressive 10.0% to R5.8 billion (2018: R5.3 billion).

The group maintained a strong organic growth focus to support the profitability of existing retailers. Total retail space recorded growth of 1.3% (2018: 2.7%), a decline year-on-year, given the number of large stores opened in the prior reporting period. In addition, 89 SPAR stores were refurbished during the period to ensure that they continued to provide retail offerings to exceed consumer demands. A net 15 stores were opened, bringing the total SPAR store numbers to 952 by 31 March 2019.

The retail turnover of **TOPS at SPAR** increased 14.0% to R6.6 billion (2018: R5.8 billion), as strong marketing initiatives and continued brand investment attracted consumer spend. Same store growth amounted to 9.2% for the period. Wholesale turnover growth outperformed the retail performance and grew by 19.3% to R4.0 billion (2018: R3.4 billion), reflecting strong loyalty gains in this category. During the period, the TOPS at SPAR store network increased by 25 stores on a net basis to 799 stores while 42 stores were revamped.

Build it's retail turnover growth increased to 7.0% for the period, higher than the building sector's calculated inflation of c.4.0%, and against the backdrop of a challenging trading environment. This performance was underpinned by further innovative marketing and a focus on retail execution to differentiate the brand. The group's buying teams continued to drive increased retailer loyalty through improved product pricing. The influence of cement, which is a significant component of Build it's overall sales, has largely stabilised and the industry has seen slight inflation in this commodity over the period. Wholesale turnover increased 8.3% to R4.0 billion (2018: R3.7 billion), boosted by Build it's house brand imports which delivered growth of 12.4% for the period. As at 31 March 2019, Build it's store network totalled 389 stores, having opened a net 13 stores in the period.

The pharmaceutical business, **S Buys**, reported turnover of R495.6 million (2018: R438.3 million) for the period. This amounted to an impressive growth of 13.0%, driven by increases of 21.2% in the Scriptwise business catering for high-value speciality scripts and 7.9% in wholesale sales to SPAR Pharmacy retailers. The profitability of the business was, however, impacted by increased costs of courier distribution and staff.

The **Pharmacy at SPAR** business added 13 net new stores during the period, increasing the total stores to 114 stores.

SPAR IRELAND

The BWG Group again delivered strong results for the six months and reported euro-denominated turnover growth of 8.0%. Recent deflation trends have slowed and reversed in certain retail categories. Latest measures indicate that food and non-alcoholic drinks declined 0.6%, while alcohol and tobacco increased by 3.1%.

The hospitality sector remained strong and again boosted the sales of the BWG Wines & Spirits and BWG Foodservice divisions. The acquisitions in the Cash & Carry business also boosted turnover growth. Excluding the effects of these new businesses, the group increased turnover by 2.5% in local currency. All retail formats reported positive growth for the period, with SPAR and MACE returning turnover growths of 3.8% and 3.7% respectively.

In South West England, the Gilletts corporate stores grew by 1.7% and further contributed to the increased group turnover. Appleby Westward, BWG Group's wholesale business, increased turnover despite extraordinary trading benefits in the previous year. The combined business reported an increase in turnover of 2.3% in sterling terms.

This business represents approximately 11.2% of the consolidated BWG Group.

The total number of stores across BWG Group's store formats as at 31 March 2019 increased by a net 10 stores to 1 381.

The group's management continued to apply strict cost management, which underpinned the double-digit growth in profit.

SPAR SWITZERLAND

The sales of SPAR Switzerland continued to be negatively impacted by low economic growth in the market. While slight inflationary trends have been noted, with prices of food and non-alcoholic beverage prices increasing by 1.0% and alcoholic beverages 1.0% higher, and a slight devaluation of the Swiss franc against the euro, these have failed to counter the impact of cross-border shopping. SPAR Switzerland reported a decline in local currency measured turnover of 1.8%. This result continued to be influenced by the strategic decision to exit from certain unprofitable corporate retail stores. Twelve new stores were opened and at the period end there were 327 SPAR and SPAR Express stores serviced.

The cash-and-carry business, trading as TopCC, reported a decline in turnover reflecting the continued adverse impact of the declining Swiss restaurant and hospitality sectors.

Warehouse turnover improved as SPAR retail activity responded positively to a number of strategic initiatives and marketing programmes. The decline in warehouse volumes has been halted and turnover reported for this period improved by 3.3% when measured against the comparative period.

Despite the increase in overall turnover in rand terms, the business lost margins on an aggressive marketing campaigns. The region reported turnover of R5.1 billion for the six months (2018: R4.8 billion). Profit before tax decreased to a loss of R27.4 million from a previous year profit of R47.7 million.

PROSPECTS

Expected consumer and business sentiments in Southern Africa are predicted to improve over the remainder of the year, but the trading environment is likely to remain extremely competitive in the medium term. Indications are that food prices will increase, while most measures continue to suggest that consumer spending will remain under pressure. Against this backdrop, we are confident that SPAR's distribution capability and market-leading brands are well positioned to support independent retailers to continue delivering exceptional value to price-sensitive consumers.

The threat of Brexit to the Irish economy has temporarily diminished, but the shadow of uncertainty still lingers. Management remains positively cautious in its outlook for the remainder of the year and believe that adequate plans are in place to respond to any market changes, thereby ensuring that SPAR Ireland will again deliver results in line with expectation. The recent wholesale acquisitions will further strengthen the Irish group's profit.

The management of the Swiss business will maintain its focus on implementing the identified strategic initiatives to further improve the overall performance. The immediate operational objectives are to drive sales volumes, while strictly managing margins. A far stronger second half result is expected from this business.

Mike Hankinson
Chairman

Graham O'Connor
Chief Executive Officer

DECLARATION OF ORDINARY DIVIDEND

Notice is hereby given that an interim gross cash dividend of 284 cents (2018: 270 cents) per share has been declared by the board in respect of the six months ended 31 March 2019. The dividend has been declared out of income reserves.

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

Last day to trade cum-dividend	Tuesday, 4 June 2019
Shares to commence trading ex-dividend	Wednesday, 5 June 2019
Record date	Friday, 7 June 2019
Payment of dividend	Monday, 10 June 2019

Shareholders will not be permitted to dematerialise or rematerialise their shares between Wednesday, 5 June 2019 and Friday, 7 June 2019, both days inclusive.

In terms of South African taxation legislation effective from 1 April 2012, the following additional information is disclosed:

- The South African local dividend tax rate is 20%;
- The net local dividend amount is 227.2 cents per share for shareholders liable to pay tax on dividends and 284 cents per share for shareholders exempt from such dividend tax;
- The issued share capital of The SPAR Group Limited is 192 602 355 ordinary shares; and
- The SPAR Group Limited's tax reference number is 9285/168/20/0.

By order of the board

MJ Hogan
Company Secretary

Pinetown
14 May 2019



www.spar.co.za