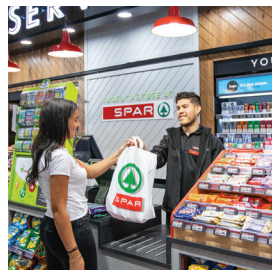




THE SPAR GROUP LTD

Unaudited interim results for the
six months ended 31 March 2020
and cash dividend declaration



CONTENTS

Condensed consolidated statement of profit or loss and other comprehensive income	2
Condensed consolidated statement of financial position	4
Condensed consolidated statement of changes in equity	6
Condensed consolidated statement of cash flows	8
Notes to the condensed consolidated financial results	9
Commentary	27
Declaration of ordinary dividend	33
Directorate and administration	34

SALIENT FEATURES

+10.1%

Group
turnover

-3.4%

Operating
profit

-13.4%

Normalised
diluted HEPS[^]

+8.5%

Normalised
diluted HEPS[^],
excluding Poland

**200
cents**

Interim dividend
per share

+322

Net new
stores

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Rmillion	Change %	UNAUDITED SIX MONTHS ENDED MARCH 2020	UNAUDITED SIX MONTHS ENDED MARCH 2019	AUDITED YEAR ENDED SEPTEMBER 2019
Revenue – sale of merchandise	10.1	59 749.4	54 273.2	109 477.1
Cost of sales		(53 020.9)	(48 622.5)	(97 817.2)
Gross profit		6 728.5	5 650.7	11 659.9
Revenue – other		1 084.0	975.5	2 106.6
Other income		71.8	73.1	151.8
Net operating expenses	23.2	(6 549.4)	(5 316.8)	(10 939.4)
Operating profit	(3.4)	1 334.9	1 382.5	2 978.9
Other non-operating items		(99.6)	(3.5)	(28.1)
Interest income		311.9	90.1	185.5
Interest expense		(455.9)	(105.5)	(201.6)
Finance costs on financial liabilities at amortised cost		(28.7)	(33.5)	(59.6)
Finance costs on financial liabilities at fair value through profit or loss		(17.1)	(32.3)	(82.7)
Share of equity-accounted associate losses		(14.3)	(3.5)	(10.6)
Profit before taxation	(20.3)	1 031.2	1 294.3	2 781.8
Income tax expense		(317.4)	(293.1)	(618.4)
Profit for the period	(28.7)	713.8	1 001.2	2 163.4
Profit for the period attributable to ordinary shareholders	(25.0)	750.4	1 001.2	2 163.4
Profit for the period attributable to non-controlling interests		(36.6)		
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of post-retirement medical aid				(2.6)
Deferred tax relating to remeasurement of post-retirement medical aid				0.7
Remeasurement of retirement funds		77.4	(162.4)	(440.9)
Deferred tax relating to remeasurement of retirement funds		(9.6)	27.6	45.6
Items that may be reclassified subsequently to profit or loss:				
Gain/(loss) on cash flow hedge		2.6	(0.1)	0.5
Tax relating to gain/(loss) on cash flow hedge		(0.3)		(0.1)
Exchange differences from translation of foreign operations		330.2	(3.6)	76.0
Total comprehensive income	29.1	1 114.1	862.7	1 842.6
Total comprehensive income attributable to ordinary shareholders		1 157.6	862.7	1 842.6
Total comprehensive income attributable to non-controlling interests		(43.5)		

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

Rmillion	Change %	UNAUDITED SIX MONTHS ENDED MARCH 2020	UNAUDITED SIX MONTHS ENDED MARCH 2019	AUDITED YEAR ENDED SEPTEMBER 2019
EARNINGS PER SHARE				
Basic earnings per share	(cents) (25.0)	390.0	520.0	1 124.1
Diluted earnings per share	(cents) (24.8)	388.5	516.5	1 118.6
SALIENT STATISTICS				
Headline earnings per share	(cents) (22.1)	408.0	523.6	1 129.1
Diluted headline earnings per share	(cents) (21.9)	406.5	520.2	1 123.6
Normalised headline earnings per share	(cents) (13.6)	454.4	525.9	1 166.3
Normalised diluted headline earnings per share	(cents) (13.4)	452.7	522.5	1 160.6
Dividend per share	(cents) (29.6)	200.0	284.0	800.0
Net asset value per share	(cents) (1.6)	3 602.7	3 662.5	3 879.9
Operating profit margin	(%)	2.2	2.5	2.7
Return on equity	(%)	10.4	14.1	29.7
HEADLINE EARNINGS RECONCILIATION				
Profit for the period attributable to ordinary shareholders		750.4	1 001.2	2 163.4
Adjusted for:				
Loss on disposal of property, plant and equipment		18.6	4.6	0.6
– Gross		20.1	5.0	1.4
– Tax effect		(1.5)	(0.4)	(0.8)
Impairment of goodwill		12.6	2.5	5.0
Loss on deemed disposal of an asset previously accounted for as an associate		6.7		
Loss on disposal of business				0.1
Profit on disposal of assets held for sale		(3.3)		
Fair value adjustment to assets held for sale				3.9
Headline earnings	(22.1)	785.0	1 008.3	2 173.0

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Rmillion	UNAUDITED SIX MONTHS ENDED MARCH 2020	RESTATED* UNAUDITED SIX MONTHS ENDED MARCH 2019	AUDITED YEAR ENDED SEPTEMBER 2019
ASSETS			
Non-current assets	28 020.4	13 096.7	14 212.4
Property, plant and equipment	8 806.5	6 664.3	7 184.2
Right-of-use assets	6 962.5		
Finance lease receivables	3 985.4		
Goodwill and intangible assets	6 824.2	4 897.2	5 064.0
Investment in associates and joint ventures	122.6	160.0	103.1
Other investments	28.6	63.6	19.8
Operating lease receivables	4.0	231.2	269.1
Loans and other receivables	756.7	565.6	1 131.8
Block discounting loan receivables	320.0	445.0	365.0
Deferred taxation asset	209.9	69.8	75.4
Current assets	23 599.2	18 498.2	19 766.9
Inventories	5 576.8	4 354.0	4 447.0
Trade and other receivables	15 294.7	12 383.0	13 122.7
Prepayments	377.9	134.8	256.8
Operating lease receivables	0.5	51.7	59.6
Loans	171.6	134.6	134.9
Current portion of block discounting loan receivables	175.0	262.6	258.1
Income tax recoverable	1.6	6.6	1.1
Other current financial assets	16.1		0.4
Current portion of finance lease receivables	1 029.0		
Cash and cash equivalents – SPAR	746.4	952.3	1 250.9
Cash and cash equivalents – guilds and trusts	209.6	218.6	235.4
Assets held for sale	96.0	9.5	73.6
Total assets	51 715.6	31 604.4	34 052.9

* Refer to note 6 for prior period restatement.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

Rmillion	UNAUDITED SIX MONTHS ENDED MARCH 2020	RESTATED* UNAUDITED SIX MONTHS ENDED MARCH 2019	AUDITED YEAR ENDED SEPTEMBER 2019
EQUITY AND LIABILITIES			
Capital and reserves	6 931.1	7 052.3	7 467.3
Stated capital	2 231.5	2 231.5	2 231.5
Treasury shares	(47.3)	(20.8)	(23.9)
Currency translation reserve	594.9	178.2	257.8
Share-based payment reserve	291.1	284.8	285.9
Equity reserve	(238.4)	(746.8)	(749.7)
Hedging reserve	(28.1)	(30.9)	(30.4)
Non-controlling interests	10.6		
Retained earnings	4 116.8	5 156.3	5 496.1
Non-current liabilities	19 400.3	8 156.1	8 405.1
Deferred taxation liability	290.4	374.1	297.3
Post-employment benefit obligations	1 419.1	951.7	1 268.3
Financial liabilities	43.7	2 099.0	1 521.1
Long-term borrowings	6 603.0	3 987.2	4 635.3
Block discounting loan payables	326.2	455.4	373.6
Finance lease liabilities	10 717.5		
Operating lease payables		258.3	298.4
Other non-current financial liabilities	0.4	3.4	2.8
Long-term provisions		27.0	8.3
Current liabilities	25 384.2	16 396.0	18 180.5
Trade and other payables	17 751.5	14 775.3	14 912.8
Current portion of financial liabilities	1 886.8		683.3
Current portion of long-term borrowings	400.2	477.7	529.5
Current portion of block discounting loan payables	179.9	267.9	263.6
Current portion of finance lease liabilities	2 166.9		
Operating lease payables		52.1	59.2
Provisions	19.2	41.5	35.1
Income tax liability	102.3	71.4	143.3
Short-term borrowings	10.2		
Bank overdrafts – SPAR	2 867.2	710.1	1 553.7
Total equity and liabilities	51 715.6	31 604.4	34 052.9

* Refer to note 6 for prior period restatement.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Rmillion	STATED CAPITAL	TREASURY SHARES	CURRENCY TRANSLATION RESERVE	SHARE- BASED PAYMENT RESERVE
Restated capital and reserves at 30 September 2018	2 231.5	(10.0)	181.8	274.8
Profit for the period				
Amounts recognised through other comprehensive income				
– Gain on cash flow hedge				
– Remeasurement of post-retirement medical aid				
Recognition of share-based payments				37.6
Take-up of share options		39.5		(17.4)
Transfer arising from take-up of share options				17.4
Settlement of share-based payments		29.8		(27.6)
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	284.8
Profit for the period				
Amounts recognised through other comprehensive income				
– Gain on cash flow hedge				
– Remeasurement of post-retirement medical aid				
– Remeasurement of retirement funds				
Recognition of share-based payments				1.1
Take-up of share options		26.9		(13.4)
Transfer arising from take-up of share options				13.4
Share repurchases		(30.0)		
Dividends paid				
Exchange rate translation			79.6	
Capital and reserves at 30 September 2019	2 231.5	(23.9)	257.8	285.9
Change in accounting policy*				
Restated capital and reserves at 1 October 2019	2 231.5	(23.9)	257.8	285.9
Profit for the period				
Amounts recognised through other comprehensive income				
– Gain on cash flow hedge				
– Remeasurement of post-retirement medical aid				
Recognition of share-based payments				15.0
Take-up of share options		59.8		(32.2)
Transfer arising from take-up of share options				32.2
Settlement of share-based payments		20.1		(9.8)
Share repurchases		(103.3)		
Dividends paid				
Non-controlling interest arising on business acquisition				
Equity reserve transferred to retained earnings				
Exchange rate translation			337.1	
Capital and reserves at 31 March 2020	2 231.5	(47.3)	594.9	291.1

* Change in accounting policy relates to the adoption of IFRS 16 (refer to note 6).

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Rmillion	RETAINED EARNINGS	EQUITY RESERVE	HEDGING RESERVE	NON-CONTROLLING INTEREST	ATTRIBUTABLE TO ORDINARY SHARE-HOLDERS
Restated capital and reserves at 30 September 2018	5 193.4	(749.1)	(30.8)	–	7 091.6
Profit for the period	1 001.2				1 001.2
Amounts recognised through other comprehensive income					
– Gain on cash flow hedge			(0.1)		(0.1)
– Remeasurement of post-retirement medical aid	(134.8)				(134.8)
Recognition of share-based payments					37.6
Take-up of share options					22.1
Transfer arising from take-up of share options	(17.4)				–
Settlement of share-based payments	(2.2)				–
Share repurchases					(80.1)
Dividends paid	(883.9)				(883.9)
Exchange rate translation		2.3			(1.3)
Capital and reserves at 31 March 2019	5 156.3	(746.8)	(30.9)	–	7 052.3
Profit for the period	1 162.2				1 162.2
Amounts recognised through other comprehensive income					
– Gain on cash flow hedge			0.5		0.5
– Remeasurement of post-retirement medical aid	(1.9)				(1.9)
– Remeasurement of retirement funds	(260.5)				(260.5)
Recognition of share-based payments					1.1
Take-up of share options					13.5
Transfer arising from take-up of share options	(13.4)				–
Share repurchases					(30.0)
Dividends paid	(546.6)				(546.6)
Exchange rate translation		(2.9)			76.7
Capital and reserves at 30 September 2019	5 496.1	(749.7)	(30.4)	–	7 467.3
Change in accounting policy*	(616.1)				(616.1)
Restated capital and reserves at 1 October 2019	4 880.0	(749.7)	(30.4)	–	6 851.2
Profit for the period	750.4			(36.6)	713.8
Amounts recognised through other comprehensive income					
– Gain on cash flow hedge			2.3		2.3
– Remeasurement of post-retirement medical aid	67.8				67.8
Recognition of share-based payments					15.0
Take-up of share options					27.6
Transfer arising from take-up of share options	(32.2)				–
Settlement of share-based payments	(10.3)				–
Share repurchases					(103.3)
Dividends paid	(993.2)				(993.2)
Non-controlling interest arising on business acquisition				54.1	54.1
Equity reserve transferred to retained earnings	(545.7)	545.7			–
Exchange rate translation		(34.4)		(6.9)	295.8
Capital and reserves at 31 March 2020	4 116.8	(238.4)	(28.1)	10.6	6 931.1

* Change in accounting policy relates to the adoption of IFRS 16 (refer to note 6).

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Rmillion	UNAUDITED SIX MONTHS ENDED MARCH 2020	RESTATED* UNAUDITED SIX MONTHS ENDED MARCH 2019	AUDITED YEAR ENDED SEPTEMBER 2019
CASH FLOWS FROM OPERATING ACTIVITIES	27.4	(540.2)	(303.8)
Operating profit before:	1 334.9	1 382.5	2 978.9
Non-cash items	939.2	410.3	872.4
Impairment of goodwill	12.6	2.5	5.1
Net loss on disposal of property, plant and equipment	20.1	5.0	1.4
Net working capital changes	(803.2)	(1 073.1)	(2 016.3)
– Increase in inventories	(343.3)	(385.8)	(425.5)
– Increase in trade and other receivables	(1 460.3)	(226.6)	(1 110.3)
– Increase/(decrease) in trade payables and provisions	1 000.4	(460.7)	(480.5)
Cash generated from operations	1 503.6	727.2	1 841.5
Interest received	92.7	49.5	110.6
Interest paid	(133.5)	(72.9)	(138.5)
Taxation paid	(442.2)	(360.1)	(686.9)
Dividends paid	(993.2)	(883.9)	(1 430.5)
CASH FLOWS FROM INVESTING ACTIVITIES	(758.2)	(608.3)	(1 943.2)
Investment to expand operations*	(303.5)	(166.4)	(580.8)
Investment to maintain operations	(217.0)	(193.2)	(374.0)
– Replacement of property, plant and equipment	(233.7)	(215.5)	(423.5)
– Proceeds on disposal of property, plant and equipment	16.7	22.3	49.5
Acquisition of intangibles*	(170.6)	(45.7)	(105.0)
Acquisition of businesses/subsidiaries	(528.4)	(223.9)	(487.4)
Proceeds from disposal of businesses			20.1
Proceeds on disposal of assets held for sale	9.2		
Cash inflows on finance lease receivables	503.3		
Cash inflows from loans and investments [#]	294.5	180.5	470.3
Cash outflows from loans and investments [#]	(345.7)	(159.6)	(886.4)
CASH FLOWS FROM FINANCING ACTIVITIES	(1 342.5)	1.0	557.6
Proceeds from exercise of share options	27.6	22.1	35.6
Share repurchases	(103.3)	(80.1)	(110.1)
Non-controlling interest share repurchases	(884.4)		
Cash outflows on finance lease liabilities	(1 065.9)		
Proceeds from borrowings [#]	843.5	63.9	748.9
Repayments of borrowings [#]	(160.0)	(4.9)	(116.8)
Net movement in cash and cash equivalents	(2 073.3)	(1 147.5)	(1 689.4)
Net (overdrafts)/cash balances at beginning of period	(67.4)	1 598.2	1 598.2
Exchange rate translation	229.5	10.1	23.8
Net (overdrafts)/cash balance at end of period	(1 911.2)	460.8	(67.4)

Restatement of presentation of investing and financing activities.

* The presentation of cash flows relating to investment to expand operations and intangibles have been re-presented in line with IAS 1. The restatement of the presentation did not result in a change to the net cash flows from investing activities. Refer to note 6 for prior period restatement.

[#] The presentation of cash flows relating to loans and investments and borrowings have been re-presented to reflect the gross movements in line with IAS 7 (para 21). The restatement of the presentation did not result in a change to the net cash flows from investing and financing activities respectively.

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 Limited Listings Requirements and the requirements of the Companies Act of South Africa, No. 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 2019, 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 standard:

- IFRS 16: Leases

The impact of the adoption of this standard and the new accounting policy is disclosed in note 6 below.

The information contained in this 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. These geographical segments also represent operating segments as they meet the quantitative thresholds.

The Chief Executive Officer (the Chief Operating Decision Maker (CODM)) 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, Switzerland and Poland 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, Switzerland and Poland. 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 inter-segment assets and liabilities. These assets and liabilities are all directly attributable to the segments.

The principal activities of the operating segments are the wholesale and distribution of goods and services to SPAR grocery stores and multiple other branded group retail outlets.

The group deals with a broad spread of customers, with no single customer exceeding 10% of the group's revenue.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL RESULTS (CONTINUED)

2. SEGMENTAL REPORTING (CONTINUED)

Analysis per reportable segment:

Rmillion	SOUTHERN AFRICA	IRELAND	SWITZERLAND	POLAND	CON-SOLIDATED TOTAL
Unaudited six months ended March 2020					
Revenue from contracts with customers	40 632.2	12 973.1	6 248.1	980.0	60 833.4
Operating profit	1 267.3	285.5	86.8	(304.7)	1 334.9
Profit before tax	1 053.8	264.9	37.4	(324.9)	1 031.2
Other information					
Interest income	278.3	7.9	3.0	22.7	311.9
Interest expense	333.4	58.6	23.7	40.2	455.9
Depreciation and amortisation	198.0	272.3	338.9	104.6	913.8
Statement of financial position					
Total assets	24 020.0	15 407.8	9 536.1	2 751.7	51 715.6
Total liabilities	19 248.6	13 818.7	8 672.0	3 045.2	44 784.5
Unaudited six months ended March 2019					
Revenue from contracts with customers	37 657.8	12 075.9	5 515.0		55 248.7
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 and amortisation	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
Audited year ended September 2019					
Revenue from contracts with customers	75 090.8	25 296.4	11 195.3	1.2	111 583.7
Operating profit	2 240.0	686.1	83.3	(30.5)	2 978.9
Profit before tax	2 151.3	657.2	2.8	(29.5)	2 781.8
Other information					
Interest income	167.1	10.0	5.3	3.1	185.5
Interest expense	137.6	35.7	26.2	2.1	201.6
Depreciation and amortisation	237.8	274.1	242.8		754.7
Statement of financial position					
Total assets	17 451.9	10 636.2	5 487.8	477.0	34 052.9
Total liabilities	13 686.8	7 645.4	4 749.0	504.4	26 585.6

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL RESULTS (CONTINUED)

2. SEGMENTAL REPORTING (CONTINUED)

Analysis per reportable segment (continued):

Rmillion	UNAUDITED SIX MONTHS ENDED MARCH 2020	UNAUDITED SIX MONTHS ENDED MARCH 2019	AUDITED YEAR ENDED SEPTEMBER 2019
Disaggregated Revenue			
Southern Africa			
Revenue – sale of merchandise	40 239.7	37 315.7	74 283.7
SPAR	31 648.5	28 838.4	57 566.2
TOPS at SPAR	4 169.4	4 014.8	7 646.9
Build it	3 871.7	3 966.9	8 035.1
S Buys	546.8	495.6	1 035.5
SPAR Encore	3.3		
Revenue – other	392.5	342.1	807.1
Revenue from contracts with customers	40 632.2	37 657.8	75 090.8
Ireland			
Revenue – sale of merchandise	12 736.7	11 855.1	24 835.2
BWG Group	11 240.3	10 527.8	22 044.0
Appleby Westward	1 496.4	1 327.3	2 791.2
Revenue – other	236.4	220.8	461.2
Revenue from contracts with customers	12 973.1	12 075.9	25 296.4
Switzerland			
Revenue – sale of merchandise	5 808.6	5 102.4	10 357.0
Wholesale	2 550.1	2 246.0	4 588.1
TopCC	2 354.1	2 042.8	4 109.4
Retail	904.4	813.6	1 659.5
Revenue – other	439.5	412.6	838.3
Revenue from contracts with customers	6 248.1	5 515.0	11 195.3
Poland			
Revenue – sale of merchandise	964.4	–	1.2
Wholesale	679.5		1.2
Retail	284.9		
Revenue – other	15.6		–
Revenue from contracts with customers	980.0	–	1.2
Total Revenue – sale of merchandise	59 749.4	54 273.2	109 477.1
Total Revenue – other	1 084.0	975.5	2 106.6
Total Revenue from contracts with customers	60 833.4	55 248.7	111 583.7

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL RESULTS (CONTINUED)

3. BUSINESS COMBINATIONS

3.1 Acquisition of Piotr i Paweł Group

On 1 October 2019, SPAR acquired an 80% stake in Piotr i Paweł Sp. z o.o. (PiP) for a consideration EUR 1. PiP is a retail chain of 77 delicatessen and supermarket stores, together with a wholesale distribution network. PiP is currently subject to a legally supervised debt restructuring process similar to South African business rescue. The acquisition date fair value of the right-of-use asset, deferred tax, trade and other payables and loans are still in the process of being finalised. The trade and other payables and loans are currently subject to sanitation proceedings, as a result the goodwill and non-controlling interest are provisional. The goodwill arising on the business combination represents expected future profit as a result of expansion of the group into the Polish market.

3.2 Acquisition of Monteagle Africa Ltd (SPAR Encore)

The SPAR Group Ltd purchased a 50% shareholding of Monteagle Africa Ltd. The approval of the Competition Commission was received on 6 March 2020. Monteagle Africa Ltd is a wholesaler in the food retail sector, operating in Southern Africa. Monteagle Africa Ltd is a supplier to SPAR for its private label products. The goodwill arising on the business combination represents the expected future economic benefits of the group resulting from the supply chain integration.

3.3 Acquisition of Heaney Meats Catering Co. Ltd

On 31 January 2020, the BWG group acquired the entire share capital of Heaney Meats Catering Co. Ltd (Heaney Meats). Heaney Meats is a Galway-based supplier of meat to the food sector in Ireland, specialising in the preparation and distribution of meat products to food service outlets. The goodwill arising on the business combination is an indication of future profit expected to be made by the group as a result.

3.4 Retail stores acquired

During the course of the financial period, SPAR acquired the assets of seven (2019: two) retail stores in South Africa and the BWG Group acquired the assets of 24 (2019: two) retail stores in the United Kingdom (UK) and a store in Ireland (IRE). 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 to expand the retail footprint of the group, and the goodwill arising on the business combinations is indicative of future turnover and profit expected to be made by the group as a result of these acquisitions. These acquisitions were funded from available cash resources.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL RESULTS (CONTINUED)

3. BUSINESS COMBINATIONS (CONTINUED)

3.5 Assets acquired and liabilities assumed at date of acquisition

Rmillion	UNAUDITED SIX MONTHS ENDED MARCH 2020					TOTAL
	PIOTR I PAWEŁ GROUP	MONTEAGLE AFRICA LTD	HEANEY MEATS CATERING CO. LTD	SA RETAIL STORES	UK AND IRISH RETAIL STORES	
Assets	1 898.5	934.8	219.8	36.6	263.0	3 352.7
Property, plant and equipment	349.3	50.9	79.4	28.6	51.2	559.4
Right-of-use assets	966.8		5.9		171.2	1 143.9
Finance lease receivables	214.6					214.6
Goodwill and intangibles	2.6	9.5	0.1			12.2
Investment in associates	34.2					34.2
Deferred taxation asset		10.0				10.0
Inventories	95.3	188.8	10.7		20.1	314.9
Loans	15.9					15.9
Trade and other receivables	198.1	638.9	52.5		7.3	896.8
Non-current assets held for sale				8.0		8.0
Income tax recoverable		0.1				0.1
Cash and cash equivalents	21.7	36.6	71.2		13.2	142.7
Liabilities	(2 146.7)	(708.6)	(82.6)	–	(266.4)	(3 204.3)
Trade and other payables	(704.8)	(685.8)	(74.4)		(95.2)	(1 560.2)
Income tax liability		(17.0)	(2.3)			(19.3)
Finance lease liabilities	(1 181.4)	(1.3)	(5.9)		(171.2)	(1 359.8)
Long-term borrowings	(88.1)	(4.5)				(92.6)
Short-term borrowings	(172.4)					(172.4)
Total identifiable net (liabilities)/assets at fair value	(248.2)	226.2	137.2	36.6	(3.4)	148.4
Fair value of previously held equity interest (Refer note 3.7)		26.2				26.2
Non-controlling interest	49.7	(103.8)				(54.1)
Goodwill arising from acquisition	198.5	60.0	262.4	47.9	143.5	712.3
Purchase consideration transferred	–	156.2	399.6	84.5	140.1	780.4
Cash and cash equivalents acquired	(21.7)	(36.6)	(71.2)		(13.2)	(142.7)
Business acquisition costs		0.5	6.6		4.6	11.7
Contingent consideration			(99.0)		(22.0)	(121.0)
Net cash (inflow)/outflow on acquisition	(21.7)	120.1	236.0	84.5	109.5	528.4

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL RESULTS (CONTINUED)

3. BUSINESS COMBINATIONS (CONTINUED)

3.5 Assets acquired and liabilities assumed at date of acquisition (continued)

Rmillion	UNAUDITED SIX MONTHS ENDED MARCH 2019			
	CORRIB FOOD PRODUCTS	SA RETAIL STORES	UK RETAIL STORES	TOTAL
Assets	158.9	7.0	1.6	167.5
Property, plant and equipment	9.4	2.3	0.4	12.1
Inventories	25.9	2.6	0.8	29.3
Trade and other receivables	69.1	0.1	0.4	69.6
Cash and cash equivalents	54.5	2.0		56.5
Liabilities	(72.9)	(4.8)	–	(77.7)
Trade and other payables	(66.1)	(4.8)		(70.9)
Loans	(6.8)			(6.8)
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	AUDITED YEAR ENDED SEPTEMBER 2019			
	CORRIB FOOD PRODUCTS	SA RETAIL STORES	UK RETAIL STORES	TOTAL
Assets	158.9	152.1	1.6	312.6
Property, plant and equipment	9.4	71.8	0.4	81.6
Inventories	25.9	2.6	0.8	29.3
Trade and other receivables	69.1	7.8	0.4	77.3
Non-current assets held for sale		67.9		67.9
Cash and cash equivalents	54.5	2.0		56.5
Liabilities	(72.9)	(4.8)	–	(77.7)
Trade and other payables	(66.1)	(4.8)		(70.9)
Loans	(6.8)			(6.8)
Total identifiable net assets at fair value	86.0	147.3	1.6	234.9
Goodwill arising from acquisition	178.2	125.3	8.3	311.8
Purchase consideration transferred	264.2	272.6	9.9	546.7
Cash and cash equivalents acquired	(54.5)	(2.0)		(56.5)
Business acquisition costs	4.9			4.9
Contingent consideration	(24.2)			(24.2)
Net cash outflow on acquisition	190.4	270.6	9.9	470.9

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL RESULTS (CONTINUED)

3. BUSINESS COMBINATIONS (CONTINUED)

3.6 Cash flow on acquisition of business/subsidiaries

Rmillion	UNAUDITED SIX MONTHS ENDED MARCH 2020	UNAUDITED SIX MONTHS ENDED MARCH 2019	AUDITED YEAR ENDED SEPTEMBER 2019
Net cash outflow (Note 3.5)	528.4	212.6	470.9
4 Aces contingent consideration cash outflow		8.7	8.7
Costs on potential acquisitions		2.6	7.8
Total net cash outflow relating to acquisitions	528.4	223.9	487.4

3.7 Fair value of previously held equity investment

SPAR held a 50% interest in Monteagle Merchandising Services (Pty) Ltd (MMS) as an investment in associate. Monteagle Africa Ltd held the remaining 50% interest in MMS. SPAR acquired control of Monteagle Africa Ltd on 6 March 2020, gaining control of MMS. MMS was an acquisition achieved in stages. The previously held investment in associate was fair valued and the resulting loss was recognised in the income statement.

Rmillion	UNAUDITED SIX MONTHS ENDED MARCH 2020
Investment in associate – 6 March 2020	32.9
Fair value adjustment	(6.7)
Fair value of previously held investment	26.2

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL RESULTS (CONTINUED)

4. FINANCIAL RISK MANAGEMENT

Rmillion	UNAUDITED SIX MONTHS ENDED MARCH 2020	UNAUDITED SIX MONTHS ENDED MARCH 2019	AUDITED YEAR ENDED SEPTEMBER 2019
Financial instruments classification			
Financial assets held at amortised cost ⁽¹⁾			
Net bank balances	(1 911.2)	460.8	(67.4)
Finance lease receivables	5 014.4		
Loans	928.3	700.2	1 266.7
Block discounting loan receivables	495.0	707.6	623.1
Trade and other receivables	15 294.7	12 383.0	13 122.7
Financial liabilities at amortised cost ⁽²⁾			
Block discounting loan payables	(506.1)	(723.3)	(637.2)
Finance lease liabilities	(12 884.4)		
Trade and other payables	(17 751.5)	(14 775.3)	(14 912.8)
Borrowings	(7 003.2)	(4 464.9)	(5 164.8)
Financial liabilities at amortised cost ⁽³⁾	(1 037.7)	(801.2)	(840.9)
Financial assets and liabilities at fair value through profit or loss ⁽³⁾			
Other equity investments	28.6	63.6	19.8
Foreign exchange contract asset	16.1		0.4
Financial liabilities at fair value through profit or loss ⁽³⁾	(892.8)	(1 297.8)	(1 363.5)
Designated hedging instrument ⁽⁴⁾			
Interest rate swap liability	(0.4)	(3.4)	(2.8)

⁽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.

⁽⁴⁾ Designated as a hedging instrument.

⁽⁵⁾ Change of classification on adoption of IFRS 9 relating to the fixed value financial liability obligation.

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 are mainly comprised of 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL RESULTS (CONTINUED)

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	FAIR VALUE		
		LEVEL 1	LEVEL 2	LEVEL 3
Financial instruments				
Unaudited six months ended March 2020				
Other equity investments	28.6		28.6	
Interest rate swap	(0.4)		(0.4)	
FEC asset at fair value through profit or loss	16.1		16.1	
Financial liabilities at fair value through profit or loss	(892.8)			(892.8)
Total	(848.5)	–	44.3	(892.8)
Unaudited six months ended March 2019				
Other equity investments	63.6		63.6	
Interest rate swap	(3.4)		(3.4)	
Financial liabilities at fair value through profit or loss	(1 297.8)			(1 297.8)
Total	(1 237.6)	–	60.2	(1 297.8)
Audited year ended September 2019				
Other equity investments	2.5		2.5	
Interest rate swap	(2.8)		(2.8)	
FEC asset at fair value through profit or loss	0.4		0.4	
Financial liabilities at fair value through profit or loss	(1 363.5)			(1 363.5)
Total	(1 363.4)	–	0.1	(1 363.5)

Level 3 sensitivity information

The fair value of the level 3 financial liabilities of R892.8 million (2019: R1 297.8 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. In March 2020, the estimated future payout for TIL JV Ltd was adjusted upward by 2.4% and no adjustments were made in March 2019. No adjustments were made to the estimated profitability of S Buys Holdings (Pty) Ltd in the 6 months ended March 2020 and March 2019. In September 2019, the estimated future payout for TIL JV Ltd was adjusted upward by 3.1%, and the estimated future profit target for S Buys Holdings (Pty) Ltd was adjusted downward by 35.9%.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL RESULTS (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	DISCOUNT RATE %	SENSITIVITY %	LIABILITY Rmillion
TIL JV Ltd			
Unaudited six months ended March 2020			
Financial liability	8.0	0.5	(3.2)
Financial liability	8.0	(0.5)	3.2
Unaudited six months ended March 2019			
Financial liability	6.6	0.5	(8.9)
Financial liability	6.6	(0.5)	9.1
Audited year ended September 2019			
Financial liability	8.0	0.5	(6.2)
Financial liability	8.0	(0.5)	6.3
S Buys Holdings (Pty) Ltd			
Unaudited six months ended March 2020			
Financial liability	8.9	0.5	(0.6)
Financial liability	8.9	(0.5)	0.6
Unaudited six months ended March 2019			
Financial liability	12.5	0.5	(1.0)
Financial liability	12.5	(0.5)	1.0
Audited year ended September 2019			
Financial liability	12.6	0.5	(0.6)
Financial liability	12.6	(0.5)	0.6

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL RESULTS (CONTINUED)

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%.

	SENSITIVITY %	LIABILITY Rmillion
TIL JV Ltd		
Unaudited six months ended March 2020		
Financial liability	5.0	40.3
Financial liability	(5.0)	(40.3)
Unaudited six months ended March 2019		
Financial liability	5.0	62.2
Financial liability	(5.0)	(62.2)
Audited year ended September 2019		
Financial liability	5.0	66.3
Financial liability	(5.0)	(66.3)
S Buys Holdings (Pty) Ltd		
Unaudited six months ended March 2020		
Financial liability	5.0	2.2
Financial liability	(5.0)	(2.2)
Unaudited six months ended March 2019		
Financial liability	5.0	2.7
Financial liability	(5.0)	(2.7)
Audited year ended September 2019		
Financial liability	5.0	1.9
Financial liability	(5.0)	(1.9)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL RESULTS (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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:

Rmillion	UNAUDITED SIX MONTHS ENDED MARCH 2020	UNAUDITED SIX MONTHS ENDED MARCH 2019	AUDITED YEAR ENDED SEPTEMBER 2019
TIL JV Ltd			
Balance at the beginning of the period	1 326.3	1 216.2	1 216.2
Finance costs recognised in profit or loss	44.1	42.9	69.1
Net exchange differences arising during the period	(33.5)	(15.4)	6.4
Fair value adjustment	87.9		34.6
Settlement	(884.4)		
Foreign exchange translation	308.7		
Balance at end of period	849.1	1 243.7	1 326.3
Undiscounted value of financial liability	901.4	1 371.2	1 434.3
S Buys Holdings (Pty) Ltd			
Balance at the beginning of the period	37.2	49.2	49.2
Finance costs recognised in profit or loss	6.5	4.8	7.2
Fair value adjustment			(19.2)
Balance at end of period	43.7	54.0	37.2
Undiscounted value of financial liability	55.9	86.2	55.9

Movements in financial liability held at amortised cost

Rmillion	UNAUDITED SIX MONTHS ENDED MARCH 2020	UNAUDITED SIX MONTHS ENDED MARCH 2019	AUDITED YEAR ENDED SEPTEMBER 2019
SPAR Holding AG			
Balance at the beginning of the period	840.9	777.5	777.5
Finance costs recognised in profit or loss	5.6	17.2	22.5
Net exchange differences arising during the period	23.1	16.3	37.1
Foreign exchange translation	168.1	(9.7)	3.8
Balance at end of period	1 037.7	801.3	840.9
Undiscounted value of financial liability	1 047.9	819.6	854.8
Total present value of financial liabilities at end of period	1 930.5	2 099.0	2 204.4
Total undiscounted value of financial liabilities	2 005.2	2 277.0	2 345.0
The difference between undiscounted and the carrying amount of the financial liabilities is as follows:	74.7	178.0	140.6

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL RESULTS (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

The estimated future purchase price is fair valued at each reporting date and any changes in the value of the liability as a result of changes in the assumptions used to estimate the future purchase price are recorded in profit or loss. The cumulative amount of these changes included in total financial liabilities is as follows:

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 2020, the financial liability was valued at R849.1 million based on management's expectation of future profit performance. Repayments commenced in December 2019 and were to continue in 2020 and 2022; however a deed of termination was signed in December 2019 effectively cancelling the initial shareholders agreement. This deed of termination results in the extinguishment of the financial liability in SPAR to repurchase the shares of the non-controlling interests. A new share redemption agreement was entered into by TIL JV Ltd, transferring the remaining purchase obligation from SPAR. The financial liability will be repaid on 6 January 2021 and the redemption price calculated in accordance with a formula based on a multiple of adjusted profit after tax.

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 S Buys Holdings (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.

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 2020. 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL RESULTS (CONTINUED)

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 have assessed that the amount that it would rationally pay to settle the obligation is nil.

Management's assessment is based on the ability of 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 table below represents the full exposure of the group in relation to these financial guarantees.

Rmillion	UNAUDITED SIX MONTHS ENDED MARCH 2020	UNAUDITED SIX MONTHS ENDED MARCH 2019	AUDITED YEAR ENDED SEPTEMBER 2019
Guarantees issued in respect of the finance obligations	397.7	175.4	373.5
– Guarantee of Wesbank loan agreements (Note a)	232.6		201.4
– Guarantee of Numlite (Pty) Ltd finance obligations (Note b)	165.1	175.4	172.1

(a) Loans extended to retailers by Wesbank are guaranteed by SPAR.

(b) The board has limited the guarantee facility to R190.0 million (2019: 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 year-end, 1 047 SPAR stores (2019: 980), 668 TOPS at SPAR stores (2019: 647), 66 Pharmacy at SPAR stores (2019: 69) and 56 Build it stores (2019: 33) were participants in the IT retail scheme, with an average debt of R89 889 (2019: R101 444) per store.

6. ADOPTION OF NEW ACCOUNTING STANDARDS AND PRIOR PERIOD RESTATEMENTS

6.1 Impact of adopting IFRS 16

The group has applied the standard using the modified retrospective approach, recognising the cumulative effect of initially applying the standard in retained earnings at the date of initial application. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 October 2019. As prescribed by IFRS 16, finance 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.

On adoption of IFRS 16, the group has recognised a right-of-use asset representing the underlying asset and a finance lease liability representing its obligation to make lease payments for all leases with a term of more than 12 months, unless the underlying asset is of low value. Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Low-value assets in terms of IFRS 16 comprise smaller items of equipment.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL RESULTS (CONTINUED)

6. ADOPTION OF NEW ACCOUNTING STANDARDS AND PRIOR PERIOD RESTATEMENTS (CONTINUED)

6.1 Impact of adopting IFRS 16 (continued)

Where the group holds a head lease and back-to-back sub-lease, a finance lease asset has been recognised rather than a right-of-use asset. Depreciation is recognised on the right-of-use asset and interest is recognised on the finance lease liability, replacing the straight-line operating lease expense. The right-of-use assets can be measured as the amount of initial measurement of the lease liability and subsequently depreciated over the remaining lease term. However, management has chosen, on a lease by lease basis, the option available in the standard to measure the right-of-use assets as if IFRS 16 had been applied since the inception of the lease, using the incremental borrowing rate on the date of initial application. This has resulted in an adjustment to retained earnings relating to depreciation, and in the instance of some property leases in Ireland, an impairment. Initial direct costs have not been included in the measurement of right-of-use assets. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

Lease arrangements by segment

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 finance lease liability, with a corresponding asset representing the lease receivable. For these back-to-back sublease agreements, the accounting for the interest income and interest expense relating to the head lease and the sublease under IFRS 16 has an equal and opposite impact on the statement of comprehensive income. To the extent of leased property that is not sublet, the group recognises a right-of-use asset and a finance lease liability.

SPAR Ireland leases relate mostly to property leases which are 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 are recognised. For the property leases where the group is a lessor, a finance lease asset is recognised.

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

SPAR Poland leases relate to property leases on retail sites and leases of other properties, which includes the warehouse. For these properties, a right-of-use asset and finance lease liability are recognised. Some retail properties are sublet, in these instances a finance lease receivable is recognised instead of the right-of-use asset.

Finance lease liabilities have been measured at the present value of remaining lease payments discounted at the incremental borrowing rate at the date of initial application. The group's segmental incremental borrowing rates applied to the finance lease liabilities on 1 October 2019 were in the following ranges:

South Africa	9.5% – 10.5%
Ireland	2.5% – 4.5%
Switzerland	0.5% – 1.5%
Poland	3.5% – 4.5%

For leases previously classified as finance leases, the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the finance lease liability at the date of initial application.

Practical expedients

The group has applied the following practical expedients available in the standard:

- The use of a single discount rate to each portfolio of leases that have reasonably similar terms, underlying assets and economic circumstances. The majority of property leases within each segment are on similar underlying assets (stores) within similar economic environments, and with the same lease terms. However, the Irish portfolio of leases is further split into leases based in Ireland and the UK.
- The group reversed onerous lease provisions, and accounted for the difference between cumulative unavoidable costs and expected economic benefits (if lower) as an IFRS 16 transitional adjustment through retained earnings.
- The accounting for operating leases with remaining lease terms of less than 12 months as at 1 October 2019 as short-term leases.
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.
- The use of hindsight in order to determine the lease term for contracts containing options to extend or terminate the lease.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL RESULTS (CONTINUED)

6. ADOPTION OF NEW ACCOUNTING STANDARDS AND PRIOR PERIOD RESTATEMENTS (CONTINUED)

6.1 Impact of adopting IFRS 16 (continued)

Renewal periods and termination options

Renewal clauses and termination options have been considered on a lease by lease basis where it is applicable and it is considered to be reasonably certain that the group will exercise the renewal options in order to retain control of the sites, or terminate the lease early in terms of the option. In determining the lease term, management consider all facts and circumstances that create an economic incentive to exercise a renewal or termination option. Periods after an optional termination date are considered part of the lease term if the group is reasonably certain that the lease will be extended (or not terminated after the initial lease term).

In South Africa, the majority of property leases are entered into for an initial period of 10 years, with renewal options of 5 years. It has been concluded that these renewal options will only be recognised when it is reasonably certain that they will be entered into which is generally within six months of the renewal coming into effect. In Ireland, no renewal assumptions/rights have been identified as likely to be exercised and incorporated into the lease terms. The periods after an optional termination date have been considered part of the lease term for two leases where it is was determined reasonably certain not to terminate early. In Switzerland, renewal clauses have been taken into account on a number of leases where it is considered to be reasonably certain that the group will exercise the renewal options in order to retain control of the sites. In Poland, the majority of leases are for stores, and are for a period of 10 years.

Variable lease payments

Variable payment terms are mainly used on the lease of a store, where a portion of the rental is based on turnover made by the store.

Variable payment terms also occur when utility costs related to a property are on-charged as part of the rental.

Variable lease payments described above are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

Rmillion	2020
Measurement of finance lease liabilities	
Operating lease commitments disclosed at 30 September 2019	13 364.5
Discounted using the lessee's incremental borrowing rate at the date of initial application	(3 653.4)
Add: Adjustments as a result of a different treatment of extension and termination options	443.8
Add: Finance lease liabilities recognised as at 30 September 2019	42.3
Less: Short-term leases not recognised as a liability	(8.3)
Less: Low value leases not recognised as a liability	(6.9)
Finance lease liability at 1 October 2019	10 182.0
of which are:	
Current finance lease liabilities	1 700.4
Non-current finance lease liabilities	8 481.6
	10 182.0

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL RESULTS (CONTINUED)

6. ADOPTION OF NEW ACCOUNTING STANDARDS AND PRIOR PERIOD RESTATEMENTS (CONTINUED)

6.1 Impact of adopting IFRS 16 (continued)

The adoption of the new standard affected the following items in the statement of financial position on 1 October 2019:

Rmillion		2020
Assets		9 155.5
Property, plant and equipment	decrease of	(31.5)
Right-of-use assets	increase of	5 191.0
Finance lease receivables	increase of	4 254.4
Deferred tax assets	increase of	124.5
Trade and other receivables	decrease of	(57.4)
Operating lease receivables	decrease of	(325.5)
Liabilities		(9 771.6)
Finance lease liabilities	increase of	(10 182.0)
Provisions	decrease of	52.8
Operating lease payables	decrease of	357.6
Equity		616.1
Retained earnings	decrease of	616.1

6.2 Prior period restatement

SPAR has identified that intangible assets relating to computer software was erroneously disclosed in the property, plant and equipment financial statement line item. SPAR in recent years has embarked on modernisation projects which required significant investment in SAP software. SPAR enhanced the disclosure surrounding the categories of property, plant and equipment in the prior year and through this process identified the software asset which is required to be disclosed as an intangible asset.

Prior period restatement impact on statement of financial position

Rmillion	31 MARCH 2019 ORIGINALLY PRESENTED	EFFECT OF RESTATEMENT	31 MARCH 2019 RESTATED
Property, plant and equipment	6 984.1	(319.8)	6 664.3
Goodwill and intangible assets	4 577.4	319.8	4 897.2

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL RESULTS (CONTINUED)

7. EVENTS AFTER THE REPORTING DATE

The global COVID-19 pandemic is an ongoing significant event and will continue to impact the group for the foreseeable future.

As a food retailer, the group finds itself in a defensive position to withstand the impact of COVID-19. The board is comfortable with the level of comfort gained from its assessment of the group's ability to continue as a going concern, having considered both its solvency and liquidity. Although COVID-19 lockdown measures were implemented towards the end of the reporting period, the extent and length of these measures will continue to impact all regions the group operates in for well after the reporting date. However, the significant assumptions made in the preparation of the group's interim results remain fundamentally unchanged.

The pandemic has created a real risk to retail sales, and consequently to our wholesale business. This situation will be further aggravated by expected economic slowdown, possible increases in unemployment and additional pressure on already financially-constrained consumers. The group is exposed to credit risk from its retailer customers, as well as a wide range of trade receivables from the hospitality industry and vendors. The group is in the process of assessing the potential impact on the forward looking adjustment to the historical loss rates in relation to IFRS 9's expected credit-loss model. No significant change in these measures have been noted, however, this continues to be monitored.

The trade receivables most heavily impacted in Southern Africa are the Build it and TOPS liquor retailers who were required to close in accordance with the lockdown measures. The Build it business has resumed trading from early May 2020 after having been closed for nearly five weeks. As at the results publication date, the liquor business remains closed. For the prior financial year, these combined businesses represented 21% of Southern Africa turnover. These retail customers have been offered financial assistance in the form of payment extensions to support them through this difficult time.

In Ireland, the value centres and foodservice business have been severely impacted by the temporary closure of the hospitality industry, which is expected to remain closed for some months. Financial arrangements are being made with these and the symbol retail customers to assist with settlement of trade accounts, as necessary.

The Swiss business has experienced increased business activity since their lockdown commenced as consumers changed shopping behaviour from large supermarkets to the convenient neighbourhood store. No real credit risks have been identified, but the closure of the hospitality sector is expected to have negative long-term consequences as many of these businesses may not resume.

The business in Poland, Piotr i Paweł, which was acquired during the period, is in the process of being restructured and is nearing completion of these proceedings. The lockdown measures suspended all court activity which has prevented the settlement of the matter. This has delayed the resumption of normal trading operations, with adverse effects on both retail and wholesale performances reported during and after the reporting date. At this stage it is uncertain when these proceedings will be resumed. Retail customers in this country have also been negatively impacted by the lockdown measures and repayment terms have been made with accounts receivable, where required.

While the group considers the overall credit risk to be heightened, no significant provisions or impairments have been identified and the situation will continue to be monitored closely.

Trading conditions are expected to remain extremely challenging for the remainder of the financial year across all the group's markets. At this stage it is not possible to estimate the full economic or business impact of the pandemic. Management will have greater visibility as the situation progresses and will continue to assess the consequences on an on-going basis.

COMMENTARY

SALIENT FEATURES

Rmillion	UNAUDITED SIX MONTHS ENDED 31 MARCH 2020	UNAUDITED SIX MONTHS ENDED 31 MARCH 2019	% CHANGE
Turnover ⁽¹⁾	59 749.4	54 273.2	10.1
Operating profit	1 334.9	1 382.5	(3.4)
Earnings per share (cents)	390.0	520.0	(25.0)
Headline earnings per share (cents)	408.0	523.6	(22.1)
Normalised diluted headline earnings per share ⁽²⁾ (cents)	452.7	522.5	(13.4)
Dividend per share (cents)	200.0	284.0	(29.6)
Net asset value per share (cents)	3 602.7	3 662.5	(1.6)

Impact of Polish losses on headline earnings

Rmillion	UNAUDITED SIX MONTHS ENDED 31 MARCH 2020	UNAUDITED SIX MONTHS ENDED 31 MARCH 2019	% CHANGE
Headline earnings	785.0	1 008.3	(22.1)
Adjusted for fair value adjustment to, and foreign exchange effects on financial liabilities, and business acquisition costs	89.3	4.4	
Normalised headline earnings ⁽²⁾	874.3	1 012.7	(13.7)
Adjusted for Polish reported headline loss for the period attributable to ordinary shareholders	221.0		
Normalised headline earnings excluding Polish result ⁽²⁾	1 095.3	1 012.7	8.2
Diluted weighted average number of ordinary shares (millions) net of treasury shares	193.1	193.8	
Normalised diluted headline earnings per share ⁽²⁾ (cents)	452.7	522.5	(13.4)
Normalised diluted headline earnings per share excluding Polish result ⁽²⁾ (cents)	567.1	522.5	8.5

⁽¹⁾ Turnover represents revenue from the sale of merchandise.

⁽²⁾ Headline earnings adjusted for fair value adjustments to, and foreign exchange effects on financial liabilities, and business acquisition costs.

This financial information is the responsibility of the directors and has been prepared for illustrative purposes only and because of its nature, it may not fairly present the group's financial position and results of operations. The table above has been provided to help shareholders understand the impact of the newly acquired Polish business on normalised earnings, for the six months ended 31 March 2020.

COMMENTARY (CONTINUED)

PERFORMANCE OVERVIEW

The SPAR Group delivered strong growth in turnover, increasing by 10.1% to R59.7 billion for the six months to 31 March 2020. Reported operating profit was down 3.4%, as a result of the Polish business which was acquired in this reporting period. As expected, the Polish business is currently loss making as it continues to be restructured and reorganised. The earnings were further impacted by the increased revaluation of the liabilities to purchase the Irish minorities. The combination of these two significant matters caused the substantial reduction in profits. Excluding the Polish result, normalised headline earnings increased 8.2%, reflecting the strong performance from the rest of the business.

- SPAR Southern Africa contributed growth in wholesale turnover of 7.8%, despite a challenging start to the reporting period and against internally measured food inflation of 4.1%. The TOPS liquor brand reported weak wholesale turnover growth of 3.9%, impacted by the move of certain products to direct sale and a loss of retail loyalty. Build it delivered a resilient performance in a weak sector, with wholesale turnover down 2.4%. The SPAR Southern Africa store network grew to 2 402 stores, with 53 net new stores opened across all formats. The group completed 163 store upgrades.
- The BWG Group (SPAR Ireland) again delivered solid euro-denominated results and all retail brands continued to report strong growth. The business did report stress in the cash and carry and liquor channels as new law impacted hospitality retail. The turnover performance was positively impacted by recent acquisitions – most notably, Heaney Meats and several corporate retail stores. SPAR Ireland's retail network is now 1 387 stores.
- SPAR Switzerland has delivered a significantly improved result against a weak comparable period which had been impacted by overly aggressive marketing. SPAR Switzerland's total store network has grown to 345 stores, an increase of 23 stores, largely attributable to the independent chain, PAM, which has joined the group.
- Notwithstanding its challenges, the business in Poland has made good progress in the first half. The SPAR licence for Poland has been officially transferred to the group. This allowed 157 existing SPAR retailers to join the new business. Nine existing Piotr i Paweł stores have been converted into SPAR stores. A new distribution centre in Czeladź, near Krakow, has commenced operations. The total store network in Poland stands at 219 stores, which includes 53 Piotr i Paweł stores. Poland contributed R1.0 billion in turnover for the first half.

GROUP FINANCIAL REVIEW BY SEGMENT

Rmillion	SOUTHERN AFRICA	IRELAND	SWITZERLAND	POLAND	THE SPAR GROUP LTD
Income statement					
Turnover ⁽¹⁾	40 239.7	12 736.7	5 808.6	964.4	59 749.4
Gross profit	3 727.6	1 713.3	1 057.4	230.2	6 728.5
Operating profit	1 267.3	285.5	86.8	(304.7)	1 334.9
Profit before taxation	1 053.8	264.9	37.4	(324.9)	1 031.2
Financial position					
Total assets	24 020.0	15 407.8	9 536.1	2 751.7	51 715.6
Total liabilities	19 248.6	13 818.7	8 672.0	3 045.2	44 784.5

⁽¹⁾ Turnover represents revenue from the sale of merchandise.

The **turnover** of The SPAR Group grew by 10.1% to R59.7 billion (2019: R54.3 billion), with 32.6% of total turnover now generated in foreign currency. The Southern African business reported strong turnover growth of 7.8%, despite a challenging start to the year. The turnover of the BWG Group increased by 3.2% in euro-currency terms. The depreciation of the rand against the euro over this period resulted in a 7.4% increase in reported turnover to R12.7 billion (2019: R11.9 billion). SPAR Switzerland contributed turnover of R5.8 billion (2019: R5.1 billion) with sales improving 4.4% in local currency terms, being further boosted by the weakening of the rand. Poland reported R1.0 billion in turnover for the first half, a new contribution of 1.6% towards group turnover for the period.

The group's **gross margin** increased by 0.9% to 11.3% (2019: 10.4%), impacted by the acquisition of the Polish business. SPAR Southern Africa saw an increase in its gross margin to 9.1% (2019: 8.7%), due to the relatively weaker performance of both the liquor and Build it businesses, which on average trade at lower gross margins of 6% and 5% respectively. The BWG Group reported a gross margin of 13.5% (2019: 12.8%). This business operates in the higher margin convenience sector and saw margin gains from the acquisitions of Heaney Meats and corporate retail stores. The Swiss business reported a substantially improved gross margin increase to 18.2% from 17.0% in the previous period, which was heavily impacted by an aggressive marketing campaign.

COMMENTARY (CONTINUED)

GROUP FINANCIAL REVIEW BY SEGMENT (CONTINUED)

Group operating expenses increased by 23.2%, largely impacted by new acquisitions with the new Polish business expenses contributing 10.0% of the overall increase in the group. The Polish business expenses include significant foreign exchange losses on leases and loans based in euro-currency, as well as IFRS adjustments and legal and professional fees arising from business rescue proceedings. The Southern African business expenses increased by 11.7%, a large portion of which is driven by investment in corporate retail stores and the inclusion of the operating expenses of the newly acquired SPAR Encore. The remainder of the increase is attributed to employment costs, fuel and IT spend. The adoption of IFRS 16 resulted in a net decrease in operating expenses of 1.3%, under the new standard these costs are reflected within interest. BWG Group's operating expenses increased by 5.9% excluding the effect of foreign exchange and the acquisition of new businesses. New acquisitions in this region contributed an additional 3.1% to the increase in operating expenses. Increases in comparable business expenses attributed to rising payroll costs related to turnover growth and a strong investment in marketing and selling expenses. The Swiss business reported an increase in expenses measured in local currency of 2.3%. This was attributed to higher distribution costs in line with the growth in turnover and additional expenses relating to the COVID-19 pandemic.

Profit before tax was down 20.3% to R1.0 billion (2019: R1.3 billion), and was fundamentally impacted by the materiality of the Polish losses, as well as the adjustments arising on the revaluation of the liability to purchase the minority interests in the Irish business. The adoption of IFRS 16 contributed 2.9% to this decline in group profit. Due to higher effective tax rates in South Africa, profit after tax declined by 28.7% to R0.7 billion (2019: R1.0 billion).

Headline earnings per share decreased by 22.1% to 408.0 (2019: 523.6) cents for reasons explained above. On a normalised basis, diluted headline earnings per share decreased by 13.4%. Excluding the impact of the Polish result in the first half, normalised diluted headline earnings per share increased by 8.5%.

Cash generated from operations totalled R1 503.6 million (2019: R727.2 million) and increased against the comparative period due to decreased working capital levels and the adoption of IFRS 16 reallocating cashflows on finance leases from operating activities to investing and financing activities. The SPAR Group's cash flow from investing activities, showed a net outflow of R758.2 million (2019: R608.3 million), including total net capital expenditure of R691.1 million (2019: R405.3 million) and an outflow on business acquisitions of R528.4 million (2019: R223.9 million). These business acquisitions included R236.0 million for Heaney Meats in Ireland, R120.1 million for SPAR Encore in Southern Africa and retail stores in these regions. Furthermore, the impact of a net R683.5 million inflow to increase borrowings and the outflow of R884.4 million to repurchase non-controlling interests in Ireland, resulted in the group net overdraft position of R1 911.2 million (2019: net cash balance of R460.8 million) at the reporting date. The group's capital expenditure during the period included operational investments of R176.8 million in Southern Africa. These comprised primarily transport, logistics and equipment requirements. Capital expenditure in the Swiss operations of R158.8 million was incurred, including further store refurbishments and ongoing technology upgrades.

GEOGRAPHICAL REVIEW

SPAR Southern Africa

The Southern African business reported strong turnover growth of 7.8% to R40.2 billion (2019: R37.3 billion) despite a challenging start to the year, impacted by low economic growth, a weak consumer and disruption to retailer performance through ongoing electricity load shedding, all of which weighed heavily on the key Christmas trading period and into January. February and March saw a return to more normal trading patterns, albeit with increased spikes in buying ahead of the COVID-19 lockdown measures enforced by the government on 26 March 2020.

Combined food and liquor wholesale turnover growth was recorded at 9.0% versus 7.5% in the prior year. Internally calculated food inflation was 4.1% for the period. This inflation measure has increased from the 3.1% reported at the end of September 2019.

Case volumes handled through the seven distribution centres reflect a strong increase over that of the previous period and increased 3.8% to 126.0 million cases (2019: 121.4 million cases).

COMMENTARY (CONTINUED)

GEOGRAPHICAL REVIEW (CONTINUED)

SPAR Southern Africa (continued)

At a retail level, turnover of **SPAR** stores increased 9.6% to R46.4 billion (2019: R42.3 billion) and recorded market leading like-for-like growth of 7.9%. The combined food and liquor retail sales, which allow for a better industry comparison, increased by 9.7%. Wholesale turnover for food grew 9.7% to R31.6 billion, displaying retailers' continued support of the group's voluntary trading model. This performance has been boosted by strong growth in house brands. Turnover from total house brands increased 9.9% year-on-year to R7.5 billion, representing 23.6% of core SPAR turnover. House brands include all internally generated brands, such as home meal replacement offerings such as Chikka chicken. It also includes the SPAR private label products, which are more representative of the products competing with the proprietary brands on the shelf. SPAR private label grew by 11.8% year-on-year, representing 15.9% of core turnover. The business has worked hard to develop its supplier base in this area. During the first half the group purchased a 50% stake in Monteagle Africa Ltd, for R156.2 million. The acquisition was approved by the Competition Commission on 6 March 2020 and the business has subsequently been rebranded SPAR Encore. SPAR Encore is the backbone of SPAR private label products. It procures, packages and distributes products from independent manufacturers to our distribution centres.

The group continues to place strategic emphasis on driving organic growth to support the profitability of existing retailers. A total of 83 SPAR stores were refurbished during the period, focusing on the world-class retail concept execution to ensure that our retail offering remains relevant to the communities it serves. A net 19 stores were opened, increasing the total number of SPAR stores to 979 stores by 31 March 2020. Total retail space recorded growth of 1.1% (2019: 1.3%) during the period.

The retail turnover of **TOPS at SPAR** increased 10.6% to R7.4 billion (2019: R6.6 billion). Like-for-like retail sales increased 6.8% for the period. In contrast to our retailer sales performance, wholesale turnover growth was weak, increasing by 3.9% to R4.2 billion. The difference between wholesale and retail turnover is largely due to the distribution of beer and Smirnoff "ready to drink" beverages which are no longer moving through our distribution centres, as well as a potential loss in retailer loyalty over the peak Christmas trading period, which saw extreme pricing from wholesale and retail competitors. During the period, the TOPS at SPAR store network increased by 22 stores on a net basis to 844 stores while 36 stores were revamped.

Against the backdrop of an extremely weak building industry, **Build it** saw a decline in wholesale turnover of 2.4%. The building sector's calculated inflation for the period was in the region of c.3.4%. Our retailers have proven their resilience increasing retail turnover by 0.9% to R7.0 billion and like-for-like turnover down 0.1%. Against a weak market, the performance of this business is underpinned by a focus on retail execution to differentiate the brand and also the agility of our retailers and their ability to react quickly to customer needs. The stores have vastly improved and the customer experience remains a key area of focus through the GUEST (Greet-uniform-engage-sell-thank) programme. As at 31 March 2020, Build it's store network totalled 389 stores.

The pharmaceutical business, **S Buys**, reported an increase in turnover of 10.3% to R546.8 million (2019: R495.6 million) for the period. Driven by increases of 7.0% in the Scriptwise business catering for high-value speciality scripts and 13.4% in wholesale sales which were boosted by the COVID-19 pandemic. The profitability of the business was, however, impacted by increased costs of courier distribution and staff. The Pharmacy at SPAR business added four new stores, increasing the total to 124 stores.

COMMENTARY (CONTINUED)

GEOGRAPHICAL REVIEW (CONTINUED)

SPAR Ireland

The BWG Group again delivered strong results for the six months and reported euro-denominated turnover growth of 3.2%. Excluding new businesses, the turnover growth of the comparable business is 2.6% in base currency terms. Operating profit is under pressure, increasing 1.5% in euro-currency terms. Recent deflation trends have slowed and reversed in certain retail categories. Latest measures indicate that food and non-alcoholic drinks declined 1.6%, while alcohol and tobacco increased by 2.7%.

In the month of March, the hospitality sector came to a halt with the commencement of COVID-19 lockdown measures. While EUROSPAR and neighbourhood convenience stores traded well during the period, the Value Centre Cash & Carry and foodservices business were impacted, due to these measures. EUROSPAR sales have shown strong growth, as have the Londis, MACE, SPAR and XL stores formats. Ambient categories such as dry groceries, health and beauty and alcohol are performing very well. Coffee, deli sales and impulse categories such as confectionary and soft drinks are in decline. Gilletts and Appleby Westward in the South West of England reported stable performances in sterling terms.

The total number of stores across BWG Group's store formats as at 31 March 2020 increased by a net 27 stores to 1 387.

SPAR Switzerland

In contrast to Ireland, the Swiss business has seen some temporary new business as a result of lockdown measures in Switzerland during the month of March. These restrictions, together with the closure of borders, has resulted in an increase in revenue for TopCC cash & carry and the neighbourhood convenience stores as consumers opt to avoid large supermarkets. Turnover was further boosted by wholesale deliveries to 29 new stores in the period as SPAR Switzerland expands its distribution network. At period end there were 345 SPAR and SPAR Express stores serviced. The cash & carry business, trading as TopCC, reported an increase in turnover of 5.7% while wholesale is up 3.5%. The region reported turnover of R5.8 billion for the six months (2019: R5.1 billion). Reported operating profit percentage is up to 1.5% from 0.3% in the prior period. Profit before tax increased to a profit of R37.4 million from a previous year loss of R27.4 million.

SPAR Poland

Piotr i Paweł, a retail chain of supermarket stores, together with a wholesale distribution network in Poland, was acquired effective from 1 October 2019. Given its business rescue status, the group paid EUR1 for the business and agreed to settle its debt and to provide the necessary working capital for the business going forward. The group has made significant progress in this region during the first six months. The SPAR licence to trade in Poland was officially transferred to the group in February 2020. In addition to acquiring access to two Piotr i Paweł distribution centres, a third distribution centre has been secured, creating an effective distribution base for Piotr i Paweł and SPAR stores nationwide. At the end of the period, there were 53 Piotr i Paweł stores currently serviced, and 166 SPAR stores that are being onboarded. Against the backdrop of COVID-19 and the closure of courts in Poland, normal trading operations have been obstructed, which is expected to have adverse effects on both retail and wholesale performance reported in the second half of the financial year.

Poland contributed R1.0 billion in turnover for the first half. Gross margins at 23.9% are stronger than other segments as a result of the greater exposure to retail in the existing Polish business. The reported operating loss of R324.9 million was negatively impacted by non-operational costs, including foreign exchange losses on euro-based loan and lease agreements, as well as provisions and depreciation recognised on the adoption of IFRS 9 and IFRS 16. The reported losses attributable to ordinary shareholders was R227.4 million for the period.

COMMENTARY (CONTINUED)

COVID-19 UPDATE

Towards the end of the reporting period, our markets had begun to experience the onset of the global COVID-19 pandemic in the form of lockdowns or reactive consumer behaviour in anticipation thereof.

We have taken the necessary proactive measures to safeguard the following key priorities:

- The safety of our people, retailers, suppliers and customers
- Managing the supply chain and keeping our retailers' shelves replenished
- Supporting our communities

We have moved with urgency to invest in the safety and cleanliness of our offices, distribution centres, delivery vehicles and stores, to protect our colleagues and customers while working and shopping. Our retailers have proven their resilience with readiness to adapt in this time of crisis. Our supply chains have been robust to date and our distribution centres have worked tirelessly to ensure that inventory is tightly monitored and that our retailers continue to receive the service they are familiar with. All consumer concerns have been dealt with swiftly and we are committed to being transparent with all our stakeholders.

As an organisation, we are aware of the important role we play in society. We remain committed to supporting our communities. SPAR's family values and culture of caring and community underpin everything we do and in times of crisis, these principles truly come to the fore.

We thank all our suppliers, retailers, staff and customers who have adapted with us to find new ways of operating during these unprecedented times.

PROSPECTS

Considering the global COVID-19 pandemic, high levels of uncertainty are expected to remain across all our markets and trading conditions will remain challenging. Food prices are expected to rise, and consumer spending will experience unprecedented levels of pressure.

Given the important role we play in food wholesale and retail, contingency plans are essential to ensure the robustness of our supply chains and our management are actively focused on this. There is no doubt that the world is changing and against the backdrop of this pandemic, our businesses will continue to adapt to changing consumer behaviour.

In Southern Africa, our liquor and Build it retailers have been impacted by the temporary closure of stores, due to lockdown measures. Our Irish business has seen a severe impact on its value centres and foodservices businesses, with the pandemic enforced closure of the hospitality industry. In contrast to this, the closure of the borders and shopping centres has created some temporary new business in Switzerland, with the consumers opting for convenience over large supermarkets. Our Polish business has been impacted by the temporary closure of the courts and the resultant delay on business rescue proceedings that would have been completed by now. This has obstructed normal trading operations of the Piotr i Paweł business. This business has also been impacted by reduced footfall in the mall-based stores.

At this stage, it is not possible to estimate the full economic or business impact of the pandemic. Management will have greater visibility as the situation progresses and will continue to monitor the developments on an on-going basis. Owing to the uncertainty, the board has declared a conservative interim dividend and will consider the annual dividend at year-end, when there is more clarity.

Despite all the setbacks, nothing compares to the suffering that some will endure as a result of this pandemic. We are privileged to be in business, serving our communities during these unprecedented times. Two certainties remain – we will continue to be a retail destination in the communities we serve, and we will secure the future of our business by supporting our retailers through these challenging times.

Mike Hankinson
Chairman

Graham O'Connor
Chief Executive Officer

DECLARATION OF ORDINARY DIVIDEND

Notice is hereby given that an interim gross cash dividend of 200 cents (2019: 284 cents) per share has been declared by the board in respect of the six months ended 31 March 2020. The dividend has been declared out of income reserves.

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

Last day to trade cum-dividend	Tuesday, 9 June 2020
Shares to commence trading ex-dividend	Wednesday, 10 June 2020
Record date	Friday, 12 June 2020
Payment of dividend	Monday, 15 June 2020

Shareholders will not be permitted to dematerialise or rematerialise their share certificates between Wednesday, 10 June 2020 and Friday, 12 June 2020, 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 160 cents per share for shareholders liable to pay tax on dividends, and 200 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
- The SPAR Group Limited's tax reference number is 9285/168/20/0

By order of the board

MJ Hogan
Company Secretary

Pinetown
21 May 2020

CHANGES TO THE BOARD OF DIRECTORS

CF Wells retired as an independent non-executive director with effect from 11 February 2020.

DIRECTORATE AND ADMINISTRATION

DIRECTORS

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

* *Non-executive*

COMPANY SECRETARY

MJ Hogan

THE SPAR GROUP LTD

(SPAR) or (the company) or (the group)
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ISIN: ZAE 000058517
JSE SHARE CODE: SPP

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