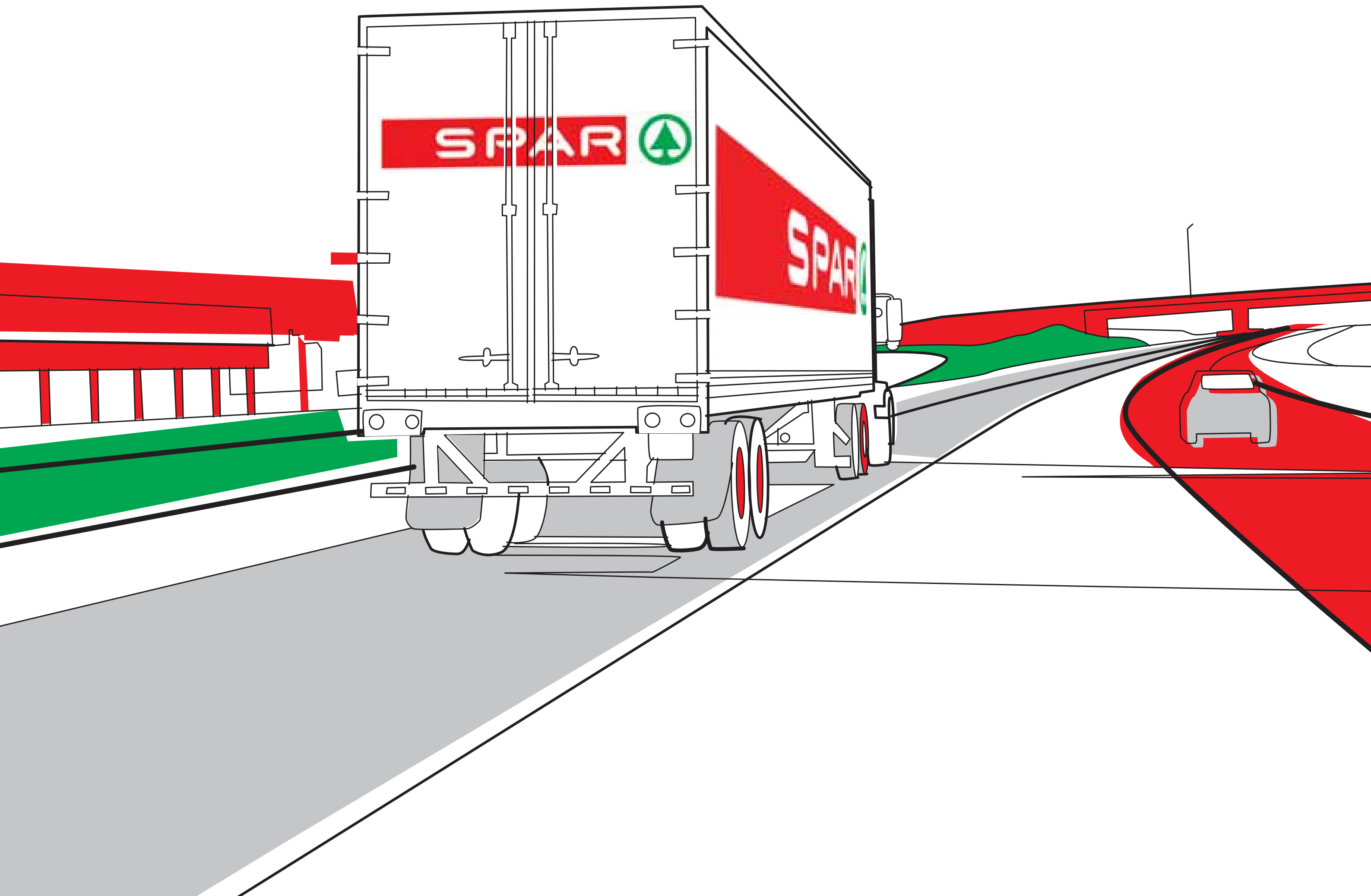
The SPAR Group Limited




INTEGRATED ANNUAL REPORT
**for the year ended 30 September 2011**


## SCOPE AND BOUNDARY OF THE REPORT

This report includes the operations of The SPAR Group Limited ("SPAR") and its subsidiaries in Southern Africa. The information in this report covers the year ended 30 September 2011.

SPAR aims to achieve the highest standards in all the disclosures included in this report in order to provide meaningful, accurate, complete, transparent and balanced information to stakeholders.

In compiling this report, SPAR has been guided by the principles of the Global Reporting Initiative guidelines, the governance guidelines outlined in King lll, as well as the statutory reporting requirements as per the JSE Listings Requirements and the Companies Act, 2008.

The financial information contained in this report has been independently audited by Deloitte & Touche. The board of directors ("board") is satisfied with the accuracy of the information contained in the balance of this integrated report.

## BOARD RESPONSIBILITY STATEMENT

The board of directors acknowledges its responsibility to ensure the integrity of the integrated report. The board has accordingly applied its mind to the integrated report and in the opinion of the board, the integrated report addresses all material issues, and presents fairly the integrated performance of the organisation. The board has authorised the integrated report for release on 8 November 2011.

**Mike Hankinson**
*Chairman*

# INTRODUCTION

The SPAR Group has embraced the King Code of Corporate Governance and in this report has made progress towards meeting the code's disclosure recommendations for an integrated report.

# CONTENTS



# FINANCIAL HIGHLIGHTS

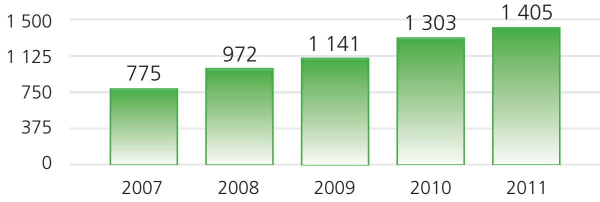
## TURNOVER ▲ 10.4%

## OPERATING PROFIT ▲ 7.8%

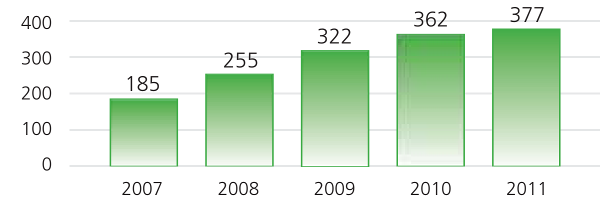
## HEADLINE EARNINGS per share ▲ 3.9%

## ANNUAL DIVIDEND 377 cents per share ▲ 4.1%

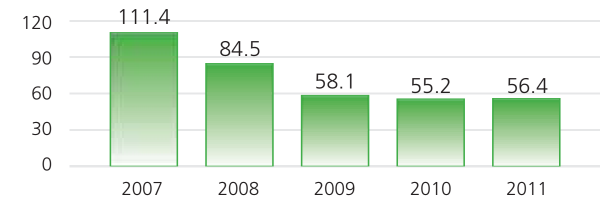
**OPERATING PROFIT** (Rmillion)




**DIVIDENDS PER SHARE** (cents)




**RETURN ON NET ASSETS** (%)







# BUSINESS PROFILE

SPAR acts as a wholesaler and distributor of goods and services to SPAR supermarkets, Build it building materials outlets, TOPS at SPAR liquor stores and Pharmacy at SPAR pharmacy and healthcare outlets. Seven distribution centres provide goods and services to retail stores in South Africa, Swaziland, Botswana, Lesotho, Mozambique and Namibia. In addition, SPAR wholesales goods to stores in Zambia, Malawi and Zimbabwe.

The relationship between SPAR and its independent retailers is one of a "voluntary trading" partnership. The philosophy being that all parties will benefit by working together in a spirit of close co-operation. The company actively drives and manages its brands and provides a full range of support services to independent retailers.

## NON-FINANCIAL INFORMATION

| | |
|---|---|
| PERMANENT EMPLOYEES | 3 816 |
| DISABLING INJURIES – reduced by 27% versus 2010 | 11 |
| CSI SPEND –1% of profit after taxation | R9.6 million |

### CARBON DISCLOSURE EMISSIONS OF TOTAL FOOTPRINT

| | |
|---|---|
| SCOPE 1 – fuel | 36.5% |
| SCOPE 2 – electricity | 49.3% |
| SCOPE 3 – business travel and employee commute | 14.2% |

## VALUES

SPAR's vision is underpinned by its values, which are:

- Loyalty, honesty and integrity
- A passionate commitment to our customers
- Pride in what we do
- Empowerment of our people, respect for each other and individual accountability
- Teamwork and a strong work ethic
- A family culture, where work can be fun

## BRAND PROMISE

The SPAR brand is a critical element of the group's success. It is the power of the brand that drives the demand by independent retailers to be part of the SPAR "family", which then drives the demand for SPAR's goods and services.

## VISION

To be the first choice brands in the communities we serve.

## VALUE PROPOSITION

To provide leadership and access to a full support service to retailers to enable them to run sustainably profitable and professional businesses.

### SPAR provides leadership...

SPAR has a primary responsibility for providing leadership to its retail members.

SPAR's membership of SPAR International and its relationship with other international wholesalers and retailers enable the group to remain at the forefront of global wholesale and retail thinking, trends and technologies. As a result, the company provides thought leadership, best practice and technologies to its independent retailers to which they would not otherwise have access.


### and access to full support services...

The group provides a suite of services across the entire wholesale and retail value chain.

Through the provision of such services by the group, SPAR retailers are far better placed to compete effectively in a market that is dominated by supermarket chains while maintaining their independence.


### to retailers...

The SPAR Group's customers are independent retailers who have chosen to take part in the SPAR voluntary trading system under either The SPAR Guild or The Build it Guild. Unlike many countries around the world, SPAR South Africa remains almost entirely focused on the independent retailers.

While SPAR is largely focused on food retail, the group also services liquor retail through TOPS at SPAR, building material retail through Build it and pharmaceutical and health product retail through Pharmacy at SPAR.

SPAR's operating model (refer to page 5) enables it to leverage its core competencies across a large variety of retail offerings in order to deliver its value proposition in the most appropriate manner for retailers.

### ...to enable them to run sustainably profitable and professional businesses

SPAR will continue to grow and prosper if their independent retailers remain profitable and enhance the SPAR brand.

As a wholesaler, SPAR is reliant on significant volumes constantly moving through its facilities. The scale of the business enables it to leverage its purchasing power as well as maximise efficiencies. The positive impact of this purchasing power and the associated efficiencies is then passed on to the retailers to ensure that they are able to compete effectively and remain profitable.

The leadership and support service offering provided by SPAR to its customers ensures that the retailers are best positioned to deliver a highly professional service to the consumer. As a result, the retailers are enabled to profitably build the SPAR brand.

# SPAR OPERATING MODEL

The group's operating model is geared towards supporting independent retailers through a decentralised wholesale, distribution and support service offering.

### PROCURE

- Centralised and regional supplier negotiations
- Regional procurement

### WAREHOUSE

- Centralised warehousing and distribution facilities
- Seven regional distribution centres

### DISTRIBUTE

- Regional distribution fleets
- Distribution to neighbouring countries

### RETAIL SERVICE

- Marketing and branding
- Product development
- Systems support
- Real estate management
- Retail operations
- Training

### INTERNAL BUSINESS SUPPORT

- Finance
- Human resources
- IT
- Legal and compliance

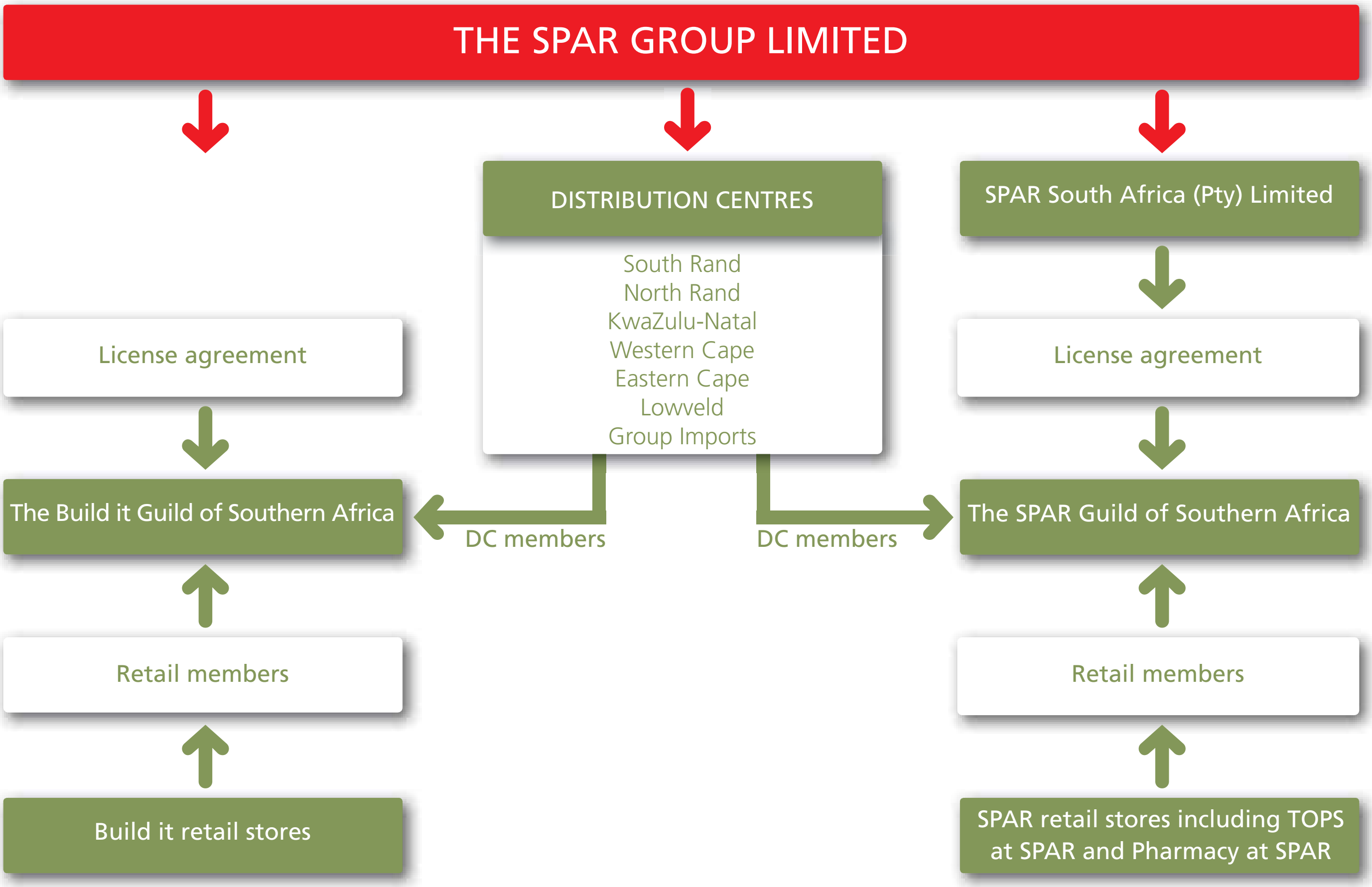
# THE SPAR MODEL

SPAR operates under a license agreement with SPAR International in Amsterdam. This license agreement covers South Africa, Botswana, Namibia, Swaziland and Mozambique. SPAR International provides its members with services such as the exchange of know-how, project support, buying services, private label development, marketing activities and brand protection. In addition, it also organises a series of congresses and seminars on an annual basis.

SPAR retailers in the Southern African region are members of The SPAR Guild of Southern Africa, a not-for-profit company ("NPC"). Similarly, Build it retailers in the Southern African region are members of The Build it Guild of Southern Africa which is also an NPC.

Independent retailers who elect to be part of the SPAR family sign a membership agreement with the Guild which provides them access to the procurement and distribution expertise of the group and the associated support services that the group offers. In turn the independent retailers undertake to adhere to certain standards and procedures as laid out in the membership agreement. This arrangement is referred to as a voluntary trading relationship as opposed to a franchise arrangement.

# ORGANISATIONAL STRUCTURE




# THE BENEFITS OF JOINING THE SPAR/BUILD IT FAMILY

From the moment a retailer becomes a SPAR/Build it member, a range of support, services and benefits become available. Retailers list the following among the many advantages of their membership of the group:

- Consolidated deliveries from distribution centres
- Reduced back-door congestion
- Improved buying
- Volume discounts
- Improved cash flow
- Store development advice
- Retail consultancy service
- Comprehensive computer systems
- International brand
- Strong house brand
- Regular promotions
- Leaflets and point of sale material
- Media exposure in the press, TV and radio
- Category management advice
- National sponsorships
- Customer service surveys
- Retail look and learn trips
- Training
- Retail incentives

## OPERATIONAL OVERVIEW

### SUPERSPAR


NUMBER OF STORES:
**275**

- Selling areas of 1 300 m$^2$+
- Aggressively priced
- Friendly and professional service
- Full range of groceries and general merchandise
- Extensive service departments such as fresh produce, in-store bakery, butchery, deli and meal solutions

### SPAR


NUMBER OF STORES:
**446**

- Selling areas of 700 m$^2$+
- Neighbourhood/rural supermarket shopping focus
- Competitively priced
- Friendly and professional service
- Comprehensive range of groceries
- Fresh produce, in-store bakery, butchery, deli and home-meal replacement departments

### KWIKSPAR

NUMBER OF STORES:
**138**

- Selling areas of 300 m$^2$ to 700 m$^2$
- Range of prices offering good value
- Focus on convenience with emphasis on speed
- Friendly and professional service
- Fresh produce, baked goods, meat and take-out foods

### tops! at SPAR

NUMBER OF STORES:
**501**

- Stand-alone liquor store
- Full range of liquor products
- Located within close proximity of SPAR member's store
- Membership limited – an extension of The SPAR Guild

### Build it


NUMBER OF STORES:
**269**

- Stand-alone building materials outlet
- Basic building and hardware products
- Aimed at home builders/renovators in lower to middle income sectors
- Membership open – controlled by The Build it Guild

### Pharmacy at SPAR


NUMBER OF STORES:
**6**

- Stand-alone or in store pharmacy
- Full range of pharmaceutical and health products
- Located within close proximity of SPAR member's store
- Membership limited – an extension of The SPAR Guild

# STAKEHOLDERS

SPAR is committed to understanding the interests and expectations of its stakeholders and adding sustainable value to each stakeholder.

SPAR believes that the ability to manage relationships is one of its core competencies. The success of the business depends on the organisation's ability to develop, manage and grow relationships with all key stakeholders.

There is a very strong relationship between SPAR and the retailers, as without one, the other would not be able to prosper. It is therefore fundamental that SPAR actively manages its relationships with its retailers. Think Retail surveys are held annually to gather information on how retailers rate SPAR's service to them.

Consumers contribute to the growth of the group and it is important that SPAR continually monitors their needs. A customer care line provides an interface between the group and consumers. Consumer surveys and focus groups are held at retail store level to determine consumer needs and provide retailers with valuable consumer research.

SPAR's employees are a key stakeholder group and are critical to the success of the group. SPAR strives to be an employer of choice and ensures that its employees remain motivated and enthusiastic in all that they do. Employee surveys are held in each distribution centre and at central office, which gauge employee satisfaction with the company.

Maintaining and growing credibility among shareholders and the broader investment community remains a key issue. This is undertaken by providing relevant, timeous and transparent communication through investor roadshows, one on one meetings and reports.

Strong collaborative relationships with suppliers are important to the company. Engagement with suppliers is not only around securing competitive pricing, but is also aimed at sharing ideas on best practices in supply chain efficiencies. Annual reviews are done with all major suppliers.

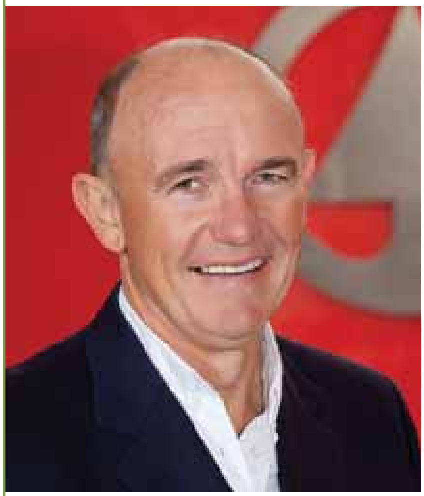
The broader community is an important stakeholder group and SPAR's corporate social investment ("CSI") programme is aimed at bringing about positive social and economic changes to the previously disadvantaged communities in which the group conducts its business.


SUPERSPAR


CORN FLAKES


SPAR

# CHAIRMAN'S AND CHIEF EXECUTIVE'S REPORT



Wayne Hook

## GROUP TRADING OVERVIEW

Trading for the year under review has been challenging with consumer spend still under pressure, low levels of food inflation for most of the year, and a highly competitive retail environment. The group has, nevertheless, produced a satisfactory set of annual results, with a pleasing improvement in performance in the second half of the year.

Turnover growth of 10.4% included exceptional performances from our liquor business, up 19.9% on 2010, and from the building materials division, which grew by 18.2%. Food inflation averaged 3.3% across the group, while case volumes through our distribution centres increased by 6.5% for the year, reflecting the underlying health of our business. Operating profit was up 7.8% for the year and by a pleasing 11.8% for the second half of the year.

The profitability of our independent retailers continues to be a focus area for us. Despite this challenge, our comparable gross margin was successfully maintained. The impact of our new retail division, and our new building materials wholesale division, has resulted in an improvement in reported gross margin from 7.9% to 8.1%.

Operating expenses, up by 17.4%, continued to be affected by the retail division and building materials wholesale operation as these two new initiatives have no full base year comparative. Comparable group expenses increased by 9.6% and were significantly impacted by high diesel prices which contributed to delivery costs increasing by 19.9%.

Headline earnings of R955.1 million grew by 4.3%, whilst headline earnings per share increased 3.9% to 557.1 cents. The dividend cover was maintained and a dividend of 377 cents per share was declared for the year.

Cash generation remained strong and was positively impacted by reduced capital expenditure during the year. The group has no long term borrowings and continues to fund its operations from confirmed overdraft facilities.

## RETAIL PERFORMANCE

The performance of our independent retailers is vital to our growth, and accordingly, we have included a review of each of our retail sector performances.

### SPAR

SPAR retailers performed well in a tough trading environment and increased retail turnover by 7.9% to R48.1 billion. Existing stores grew by 6.3% which when viewed against food inflation of 3.3%, showed some positive real growth.

The retail environment remained extremely competitive and continued to reflect the increased advertising activity and aggressive pricing by all the major retailers. Margins have continued to be under pressure, both at wholesale and retail, and the group remains committed to striving for sustainably profitable growth for our retailers.

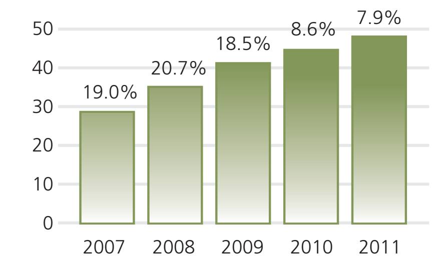
During the course of the year we opened a further 25 SPAR stores, bringing our total store numbers to 859. This resulted in retail trading space increasing by 3% to 925 729 $m^2$. We closed 12 stores which either failed to meet group standards, or for financial reasons. It is satisfying to report that 126 retailers completed major upgrades to their stores during the year which continues to drive organic growth at retail. The rollout of SPAR's customised merchandising concepts continued and provides a point of differentiation for us at retail.

New business activity is forecast to remain healthy as 25 new stores are planned for 2012, which, together with store revamps and format conversions, is expected to add approximately 3% to retail trading space.

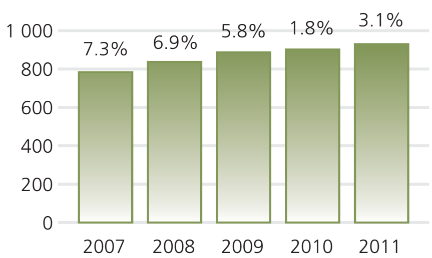
### TOPS AT SPAR

TOPS enjoyed another successful year with retail sales growing 20.3% to R4.15 billion. Wholesale liquor turnover enjoyed similar growth and topped R2.6 billion. We opened 48 new stores and now have 501 trading under the TOPS banner. We can now confidently claim to be the No #1 liquor brand in the country.

SPAR RETAIL SALES (Rmillion) and GROWTH (%)




SPAR RETAIL SELLING AREA ('000 $m^2$) and GROWTH (%)



TOPS continues to invest in innovative marketing campaigns under the "shake things up" theme. We have established a real connection with our TOPS customers and they have become our brand ambassadors.

The group anticipates another good performance in the year ahead and expects to open 32 stores, although the moratorium on issuing liquor licenses in Gauteng until February 2012 is a concern.

### BUILD IT

Build it has once again had an excellent trading year with 21 new stores opening. Both retail and wholesale sales grew in excess of 18% to R6.4 billion and R3.9 billion respectively. The organic growth through existing stores grew 14% which, when compared to the sluggish performance of the building industry, was outstanding. Aggressive marketing, together with our continued focus on the "changing face" store upgrade programme, and a strong customer service campaign have all played a part in this strong performance.

During the year Build it has progressed from being the third largest to the second largest building materials retailer in the country.

The new SPAR Group Imports warehouse, which opened at the end of last year, distributes a growing range of housebrand products to Build it retailers around the country. We are confident that we will start to see a positive profit contribution from this facility during the forthcoming year.

We anticipate another solid performance from Build it in the new year, and forecast to open 21 stores during 2012.

### SAVEMOR

This is a new retail format aimed at making inroads into the small rural towns and central business districts where we cannot justify the cost of setting up a SPAR store. We have opened 11 stores during the year and expect to open a further 12 stores during the course of the new year.

### PHARMACY AT SPAR

We opened five pharmacies during the year and although our retail rollout has been slow, we are confident that this will gain momentum once we have fine-tuned our offering. We anticipate opening 10 additional stores in the new year.

### CORPORATE RETAIL STORES

The group purchased, as planned, a further five retail stores during the course of the year bringing to 10 the total number of SPAR stores owned. The strategy behind the acquisition of these stores remains unchanged and was undertaken substantially for defensive reasons to secure key retail sites. As these are large stores, we have created the necessary administrative and support infrastructure and will continue developing the capabilities required to manage these businesses.

During the year under review, this division reported an aggregate retail turnover of R640 million. However, these stores are not yet trading at expected levels and have declared a disappointing pre-tax loss of R29.9 million. Management are committed to significantly improving this result in the new year.

### WAREHOUSE AND DISTRIBUTION

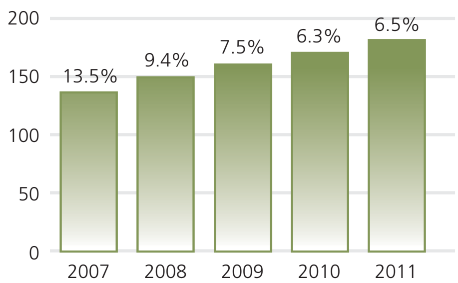
The group despatched in excess of 181.6 million cases through the six SPAR distribution centres which represented a 6.5% increase on the volumes handled last year. Volumes through our facilities have increased by in excess of 50% over the last five years.

During the year we completed an extension to our perishable facility in Port Elizabeth, which ends a five-year facilities upgrade programme. During this period we have built new warehouses in Cape Town and Durban and extended those in Johannesburg, Nelspruit and Port Elizabeth, and have also introduced system enhancements and new technologies into these facilities. The group has spent in excess of R1.0 billion on these initiatives.

Mike Hankinson

HEADLINE EARNINGS PER SHARE (cents)


CASES DISTRIBUTED (millions) and GROWTH (%)



The increased risk of rising fuel prices has resulted in a renewed focus on improving our logistics systems governing route management and controlling fuel consumption by vehicle type. An enhanced system to monitor fuel utilisation by vehicle was rolled out at all distribution centres during the year.

In the forthcoming year we will finalise the rollout of labour management and store replenishment systems enhancements to all distribution centres.

## CAPITAL EXPENDITURE

The group spent R160 million on capital expenditure in 2011, which included both expansionary and replacement items. Also included in this amount was the cost of the Eastern Cape perishable facility extension which was completed in September at a cost of R39 million.

We anticipate that group capital expenditure in the year ahead will not exceed R190 million, the majority of this spend being on the replacement, or expansion, of our fleet and materials handling equipment. There will not be any material expenditure on warehouse facilities.

Provision has also been made for the upgrade of our information technology infrastructure which will improve our systems resilience, and the modernisation of our financial systems. An amount of R47 million has been budgeted for these items.

We will also finalise an option on land in Gauteng to cater for our future anticipated capacity requirements. It is not expected that any expenditure will be incurred on this new facility before 2014.

## RISK MANAGEMENT

Risk management continues to be a key focus area in all distribution centres and good audit results have been reported by our independent risk consultants. Unfortunately, a five-week strike over wages by 800 workers at our distribution centre in KwaZulu-Natal tested our ability to deal with the risk of industrial action. Deliveries to stores continued without significant disruption thanks to a sound business continuity plan and the combined efforts of management, non-striking staff, retailers and suppliers. Our sincere appreciation to all who assisted in this effort. This matter was successfully resolved subsequent to our year-end. We remain proud of our employee relations record, and confirm that this is the second strike we have experienced in the last twenty years.

## ENVIRONMENT

A genuine concern for our impact on the environment is receiving ongoing attention in our business. We are fully committed to accurately measuring our impact and have once again participated in the Carbon Disclosure Project assessment. Specific projects covering warehouse design, targeting reduced energy usage, recycling and waste disposal, biodiesel trials and vehicle selection are all receiving direct attention. More leadership to our retailers will be a focus in the years ahead. In October this year we hosted the second Children's Environmental Awareness Conference in Durban which was attended by participants from a number of African countries. It was incredibly satisfying to see such a commitment by young people to making a difference and spreading the message about the dangers of climate change. It gives one cause for hope and encourages our continued involvement in this important issue.

The group has a long standing commitment to the social upliftment of the diverse communities in which we operate. In the past year the group spent R9.6 million on community development projects. We continue to encourage our independent retailers to focus on numerous local projects in support of the "My SPAR" campaign.

## CORPORATE GOVERNANCE

The directors and employees are committed to ensuring that the group is managed in an efficient, responsible and ethical manner. Following the release of the King Report on Governance for 2009 ("King III"), the board has reviewed and evaluated corporate governance practice within the group. We are satisfied that the principles contained in the Code of Corporate Practices and Conduct are being applied. In those exceptions where the board decides that certain principles are not appropriate, explanations have been provided.

## DIRECTORATE

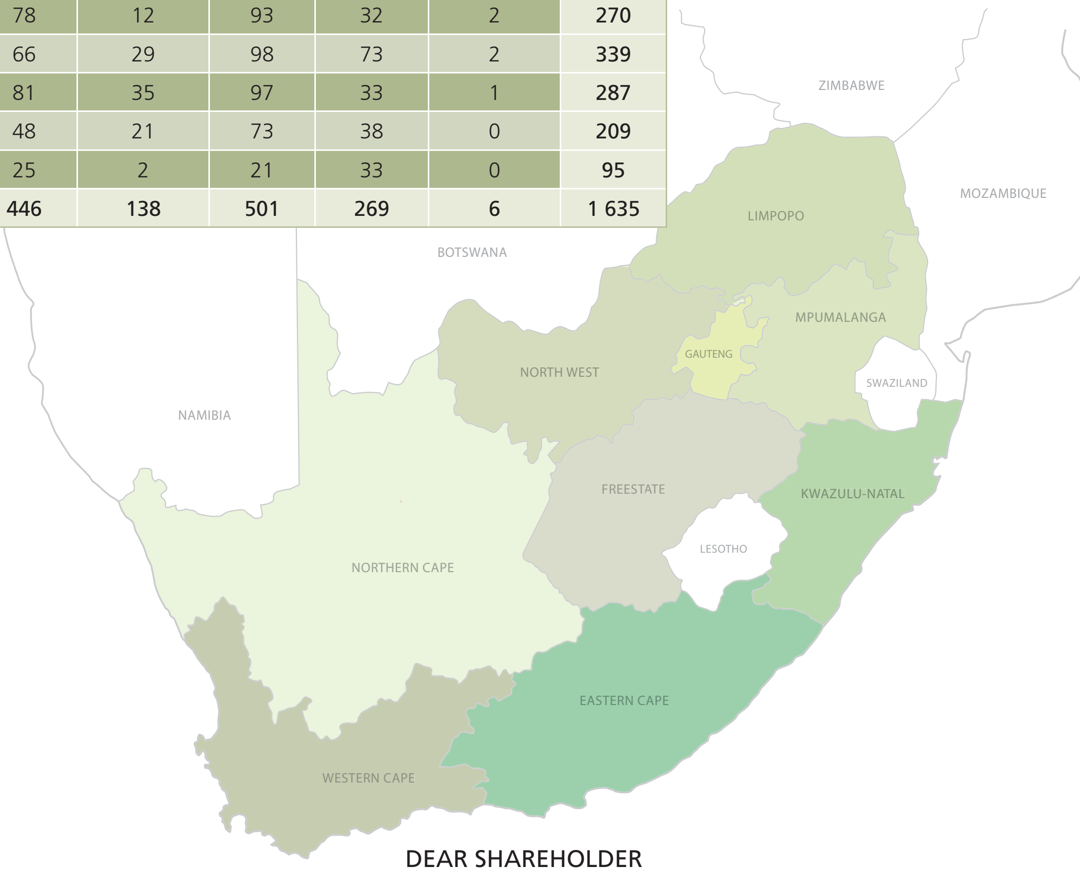
Chris Wells joined the board in April 2011 and brings a wealth of business experience having held various senior management positions and directorships. Chris has taken over as chairman of the Risk Committee. We welcome him to the board and look forward to his contribution.

## EXECUTIVE MANAGEMENT

As reported last year, Rodney Coe retired as Group Financial Director in September 2010 and Mark Godfrey succeeded Rodney effective 1 October 2010.

There have been no other executive management changes during the course of the year under review. SPAR's senior management continued to be committed and are highly motivated. The group remains confident that it has succession for all key positions.

| SERVICED BY | SUPERSPAR | SPAR | KWIKSPAR | TOPS | BUILD IT | PHARMACY | TOTAL |
|---|---|---|---|---|---|---|---|
| South Rand | 68 | 148 | 39 | 119 | 60 | 1 | 435 |
| North Rand | 53 | 78 | 12 | 93 | 32 | 2 | 270 |
| KwaZulu-Natal | 71 | 66 | 29 | 98 | 73 | 2 | 339 |
| Western Cape | 40 | 81 | 35 | 97 | 33 | 1 | 287 |
| Eastern Cape | 29 | 48 | 21 | 73 | 38 | 0 | 209 |
| Lowveld | 14 | 25 | 2 | 21 | 33 | 0 | 95 |
| TOTAL | 275 | 446 | 138 | 501 | 269 | 6 | 1 635 |




## PROSPECTS

The short-term outlook remains challenging with consumer spending expected to remain under pressure and an increasingly competitive retail environment. However, continuing lower interest rates and increased levels of food inflation improves the outlook for trading. Management are positive about the opportunities for the business and will focus on improving the performance of new business initiatives, driving retail growth and realising further cost savings through improved operating efficiencies.

Cash generation is expected to improve as capital expenditure remains at lower levels and the effective dividend cover is maintained.

## APPRECIATION

It is appropriate after yet another solid performance in a challenging trading environment to pay tribute to those who have made it happen. Our sincere thanks go to the board of directors, to the executive management team and to all staff members for their contribution to this team effort. To our suppliers for their co-operation and assistance and finally and most importantly, a very big thank you to our dedicated retailers for their commitment and unwavering support during a tough trading year.

Mike Hankinson
*Chairman*

Wayne Hook
*Chief Executive*

## DEAR SHAREHOLDER

On behalf of the board, I invite you to attend the annual general meeting of The SPAR Group Limited to be held at 09:00 in the company's boardroom, 22 Chancery Lane, Pinetown, Durban on Tuesday, 14 February 2012.

Mike Hankinson
*Chairman*

# DIRECTORATE

Back row from left to right: Mark Godfrey, Chris Wells, Rowan Hutchison, Phinda Madi, Harish Mehta, Kevin O'Brien, Peter Hughes and Roelf Venter

Front row from left to right: Mike Hankinson, David Gibbon, Phumla Mnganga and Wayne Hook

## NON-EXECUTIVE DIRECTORS

**Michael John Hankinson** (62) BCom, CA(SA)
*Independent non-executive chairman*
Appointed to the board: September 2004
A director of Transnet Limited, Grindrod Limited, Illovo Sugar Limited, Apollo Tyres Limited (Delhi) and Chairman of Brandcorp Holdings Limited.

**David Braidwood Gibbon** (69) CA(SA)
*Independent non-executive director*
Appointed to the board: October 2004
A former partner of Deloitte & Touche.

**Peter Kilby Hughes** (65) C.I.S.
*Independent non-executive director*
Appointed to the board: September 1989
A former CEO of The SPAR Group Limited.
A former regional and divisional director within the Barlow Group.

**Rowan James Hutchison** (64) BCom (Hons), MBA
*Independent non-executive director*
Appointed to the board: October 2004
A former CEO of RMB Asset Management.

**Mziwakhe Phinda Madi** (47) BProc (Unizul), EDP (HEC – Paris), EDP (Northwestern – Chicago, USA)
*Independent non-executive director*
Appointed to the board: October 2004
Chairman of Allcare Medical Aid Administrators and a former visiting professor of Rhodes University's Business School for five years. Phinda is also non-executive director of Illovo Sugar Limited, Nampak Group, Sovereign Food Investments Limited. A founding member of the Black Economic Empowerment Commission, Phinda has also authored three books.

**Phumla Mnganga** (43) BA, BEd, MBL
*Independent non-executive director*
Appointed to the board: January 2006
Managing director of Lehumo Women's Investment Company. Non-executive director of Tolcon-Lehumo, Crookes Brothers Limited, Gold Circle Horseracing and Betting. Also Vice-chairperson of the Council of the University of KwaZulu-Natal and Chairperson of the Siyazisiza Trust.

**Harish Kantilal Mehta** (61) BSc, MBA
*Independent non-executive director*
Appointed to the board: October 2004
Executive Chairman of Clearwater Capital (Pty) Limited, Joint Chairman of UHC Communications (Pty) Limited. Director of Redefine Properties Limited, Director of Avusa Limited, Director of Wasteman (Pty) Limited and Chairman of Cibapac (Pty) Limited.

**Chris Wells** (62) BCom, CA(SA)
*Independent non-executive director*
Appointed to board: April 2011
Non-executive director of Essar Infrastructure PLC.
Director of Benmar Infrastructure Investments (Pty) Limited, Sethani NPC Limited.

## EXECUTIVE DIRECTORS

**Wayne Allan Hook** (55) CA(SA)
*Chief Executive*
Appointed to the board: October 2006
Joined The SPAR Group Limited in 1984.
Served in financial, information technology and logistics management before being appointed managing director of SPAR KwaZulu-Natal in 1997. Appointed CEO of SPAR in October 2006.

**Roelf Venter** (54) BCom (Hons) MBA
*Group Retail Operations and Chairman of the Guild*
Appointed to the board: February 2007
Joined The Spar Group Limited in 1983.
Served in various marketing and buying management positions before being appointed managing director of SPAR West Rand and subsequently SPAR South Rand. Appointed Group Marketing Director in October 1999 and transferred to the position of Retail Operations director and Chairman of The SPAR Guild of Southern Africa in 2006.

**Mark Wayne Godfrey** (46) CA(SA)
*Group Financial Director*
Appointed to the board: October 2010
Joined The SPAR Group Limited in 1996. Served in financial management positions in various group operations.

## COMPANY SECRETARY

**Kevin James O'Brien** (48) BA, LLB, BSoc Sc (Hons)
Joined The SPAR Group Limited in 1993.
Served in personnel, human resources and property management positions in various group operations. A former general manager of Capper and Company, a SPAR distribution operation in the United Kingdom. Appointed Company Secretary in 2006.

# EXECUTIVE MANAGEMENT

Back row from left to right: Trevor Currie, Mike Prentice, Roelf Venter, Rob de Vos, Mark Godfrey and Enno Stelma
Middle row from left to right: Ray Whitmore, Conrad Isaac, Rob Philipson, Brett Botten, Bill Brown and Kevin O'Brien
Front row from left to right: Mario Santana, Thuli Tabudi and Wayne Hook

Wayne Allan Hook (55) CA(SA)
*Chief Executive Officer*
Appointed to the board: October 2006
Joined The SPAR Group Limited in 1984. Served in financial, information technology and logistics management before being appointed managing director of SPAR KwaZulu-Natal in 1997. Appointed CEO of SPAR in October 2006.

Brett Walker Botten (47) CA(SA)
*Managing Director SPAR South Rand division*
Joined The SPAR Group Limited in 1994. Served as Managing Director of SPAR North Rand, SPAR Lowveld and SPAR Eastern Cape divisions.

William Hogg Brown (62)
*Managing Director SPAR Western Cape division*
Joined The SPAR Group Limited in 1984. Served as Managagaing Director of Eastern Cape division. Previous Sales Director of SPAR KwaZulu-Natal division.

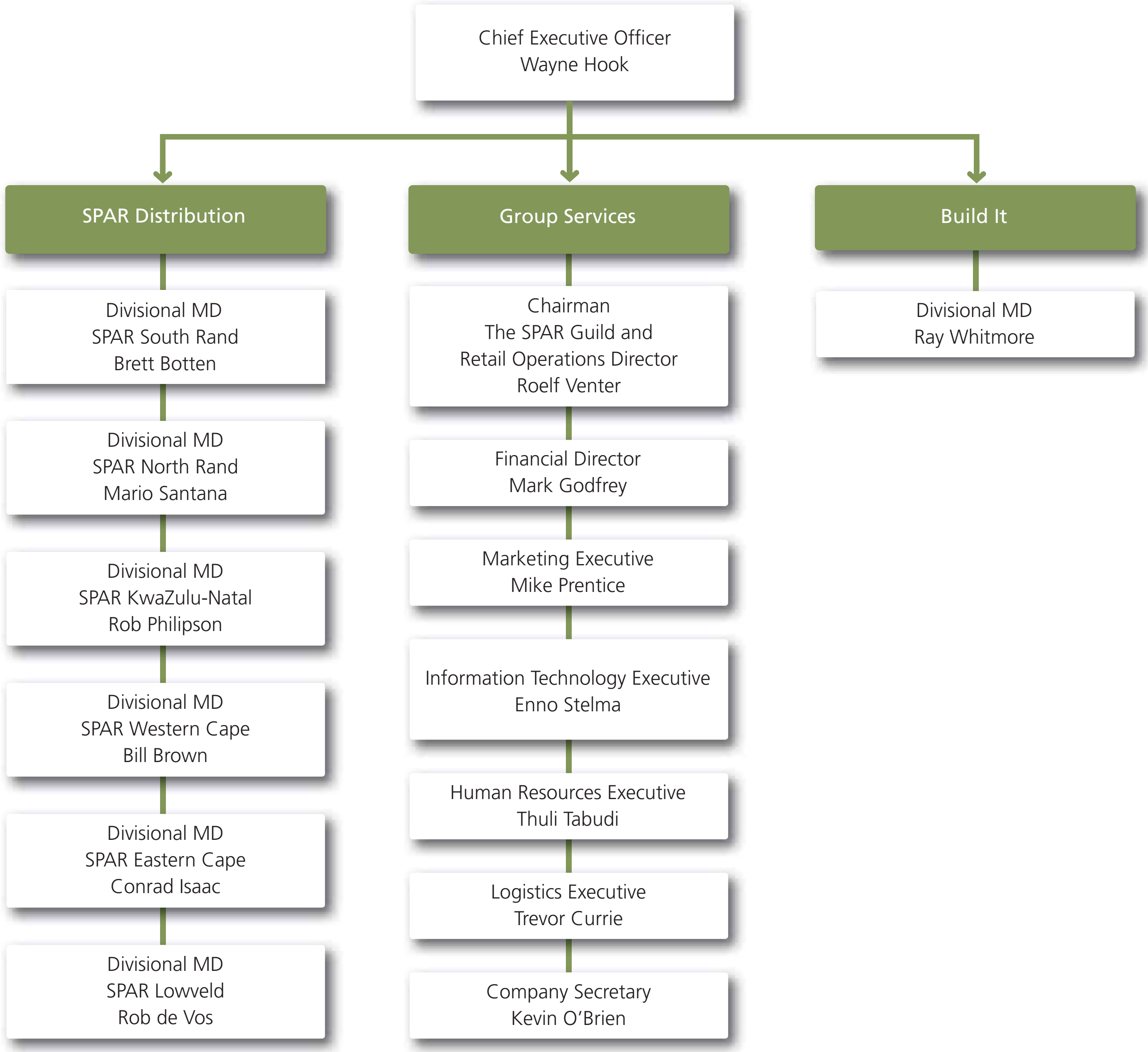
Robert de Vos (50)
*Managing Director SPAR Lowveld division*
Joined The SPAR Group Limited in 1988. Served in various retail operations positions before being appointed divisional Retail Operations Director at SPAR North Rand division.

Trevor Duncan Currie (56)
*Group Logistics Executive*
Joined The SPAR Group Limited in 1985. Served in logistics management positions in various group operations. Previous Logistics Director at SPAR Western Cape and Eastern Cape divisions.

Mark Wayne Godfrey (46) CA(SA)
*Group Financial Director*
Appointed to the board: October 2010
Joined The SPAR Group Limited in 1996. Served in financial management positions in various group operations.

Conrad Luke Isaac (50)
*Managing Director SPAR Eastern Cape division*
Joined The SPAR Group Limited in 1982. Previous Human Resources Director of SPAR Eastern Cape division.

Kevin James O'Brien (48) BA, LLB, BSocSc (Hons)
*Company Secretary*
Joined The SPAR Group Limited in 1993. Served in personnel, human resources and property management positions in various group operations. A former general manager of Capper and Company, a SPAR distribution operation in the United Kingdom. Appointed Company Secretary in 2006.




**Robert Grant Philipson** (43)
*Managing Director*
*SPAR KwaZulu-Natal division*
Joined The SPAR Group Limited in 1996. Served in retail operations positions in various group operations before being appointed divisional Retail Operations Director at SPAR KwaZulu-Natal division.

**Mike Prentice** (44) BCom, LLB
*Group Marketing Executive*
Joined The SPAR Group Limited in 1991. Served in marketing management positions in various group operations. Previous Marketing Director at SPAR North Rand division.

**Mario Menezes Santana** (38)
*Managing Director SPAR North Rand division*
Joined The SPAR Group Limited in 1995. Served in retail operations positions in various group operations before being appointed divisional Retail Operations Director at SPAR North Rand division.

**Enno Paul Stelma** (50) BCom
*Group IT Executive*
Joined The Spar Group Limited in 1989. Served in IT management positions in various group operations.

**Thulisile Tabudi** (43) PhD
*Group Human Resources Executive*
Joined The SPAR Group Limited in 1999. Previous HR Director at SPAR South Rand division.

**Roelf Venter** (54) BCom (Hons) MBA
*Group Retail Operations and*
*Chairman of the Guild*
Appointed to the board: February 2007
Joined The Spar Group Limited in 1983. Served in various marketing and buying management positions before being appointed managing director of SPAR West Rand and subsequently SPAR South Rand. Appointed Group Marketing Director in October 1999 and transferred to the position of Retail Operations Director and Chairman of The SPAR Guild of Southern Africa in 2006.

**Raymond Edward Whitmore** (56) CA(SA)
*Managing Director Build it*
Joined The SPAR Group Limited in 1983. Previous Managing Director of SPAR Western Cape division.

# CORPORATE GOVERNANCE

### Introduction

The board of directors takes the ultimate responsibility for the group's adherence to sound corporate governance standards and ensures that all business judgements are made with reasonable care, skill and diligence. The board is also committed to and fully endorses the principles of the Code of Corporate Practices and Conduct as set out in the King Report on Corporate Governance for South Africa. Sound corporate governance structures and processes are applied at SPAR and are considered by the board to be pivotal in delivering sustainable growth to the group.

The King Committee released King III on 1 September 2009. The JSE has indicated that listed companies should comply with the changes introduced by King III in respect of financial years commencing on or after March 2010.

For this reason, the board has since made significant strides in ensuring compliance with King III, which it has adopted and endorsed as a strategic business imperative, in order to continue to conduct the business of the group with openness, integrity and accountability.

The board understands its responsibility to act in the best interests of the group. In following the "apply or explain" approach as set out in King III, the board of directors has, however, concluded that to follow certain recommendations contained in King III, would not be in the best interest of the group. The following table lists the areas where the group does not comply with King III (with an explanation as to the reasons for non-compliance).

| | |
|---|---|
| 1. | A detailed breakdown of the directors' remuneration and benefits, as well as the three highest paid executives, should be disclosed annually in the annual report. |
| | Explanation: The board has resolved not to disclose the remuneration of the three highest paid executives who are not directors because such disclosure would reveal sensitive information to competitors. None of these executives is paid at a higher rate than the two highest paid executive directors in the group. |
| 2. | The chairman of the board and the company's CEO attend audit committee meetings by invitation. |
| | Explanation: SPAR's board chairman, Mr MJ Hankinson, is an independent non-executive director. Contrary to the recommendations of King III with regards to the composition of an Audit Committee, Mr Hankinson serves on the said committee. However, SPAR is satisfied that his position as chairman of the board does not result in him exercising undue influence over the deliberations and decisions of the committee. Mr Hankinson serves as a member of the Audit Committee because his expertise and experience are seen to add value to the deliberations of the committee. Mr WA Hook, the Group CEO and Mr MW Godfrey, the Group Financial Director, attend Audit Committee meetings by invitation. |

### Responsibility for the annual financial statements

The directors are responsible for preparing annual financial statements in a manner that fairly presents the state of affairs of the group. The external auditors are responsible for carrying out an independent examination of the financial statements in accordance with International Standards of Auditing and reporting their findings thereon. The annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the Companies Act. The directors' approval of the annual financial statements appears elsewhere in this report. The directors have no reason to believe that the group's business will not continue as a going concern in the year ahead.

## GOVERNANCE FRAMEWORK

| Board of directors | |
|---|---|
| Non-executive independent directors | Executive directors |
| MJ Hankinson (Chairman) | WA Hook (CEO) |
| DB Gibbon | MW Godfrey |
| PK Hughes | R Venter |
| RJ Hutchison | |
| MP Madi | |
| HK Mehta | |
| P Mnganga | |
| CF Wells | |

### Board committees

| Audit Committee |
|---|
| DB Gibbon (Chairman) |
| MJ Hankinson |
| HK Mehta |
| CF Wells |
| WA Hook (by invitation) |
| MW Godfrey (by invitation) |
| PC Cheesman (internal-auditor by invitation) |
| B Botes (external-auditor by invitation) |
| **Remuneration and Nominations Committee** |
| MJ Hankinson (Chairman) |
| RJ Hutchison |
| HK Mehta |
| WA Hook (by invitation) |
| **Risk Committee** |
| CF Wells (Chairman) |
| MJ Hankinson |
| DB Gibbon |
| HK Mehta |
| WA Hook |
| MW Godfrey |
| PC Cheesman |
| TD Currie (Logistics) |
| KJ O'Brien |
| EP Stelma (IT) |

| Executive management team | |
|---|---|
| WA Hook | Chief Executive Officer |
| MW Godfrey | Group Financial Director |
| R Venter | Retail Operations Director |
| BW Botten | Divisional Managing Director (South Rand) |
| WH Brown | Divisional Managing Director (Western Cape) |
| TD Currie | Group Logistics Executive |
| R de Vos | Divisional Managing Director (Lowveld) |
| CL Isaac | Divisional Managing Director (Eastern Cape) |
| KJ O'Brien | Company Secretary |
| RG Philipson | Divisional Managing Director (KwaZulu-Natal) |
| MG Prentice | Group Marketing Executive |
| MM Santana | Divisional Managing Director (North Rand) |
| EP Stelma | Group IT Executive |
| SAT Tabudi | Group HR Executive |
| RE Whitmore | Divisional Managing Director (Build it) |

## BOARD OF DIRECTORS

### Composition

The group has a unitary board structure with eight independent non-executive directors and three executive directors. During the year, Mr CF Wells was appointed as an independent non-executive director with effect from 1 April 2011. The Chairman of the board is an independent non-executive director. The roles of the Chairman and the Chief Executive Officer are separated and a clear division of authority exists between these roles. The non-executive directors represent a wide range of skills and have financial and commercial experience, and are aware of their duties to ensure that the group maintains a very high standard of corporate governance. Each director is an individual of high calibre with diverse backgrounds and expertise. The executive directors include a competent financial director. Details and qualifications of the directorate are provided in this report.

There are no service contracts between either the non-executive directors or executive directors and the company or any group company. One third of the directors retires each year, on a rotation basis, but may offer themselves for re-election in terms of the company's Articles of Association.

## Mandate

The board is responsible for approving the strategic direction of the group and is governed by a charter that sets out the framework of its accountability, responsibility and duty to the company. The board conducts its business in the best interest of the company and ensures that the group performs in the interests of its broader stakeholder group, including present and future investors in the group, its customers and clients, its business partners, employees and the societies in which it operates.

## Board charter and responsibilities

The general powers of the board and the directors are conferred in the company's Articles of Association. The terms of reference for the board are set out in the board charter which is reviewed on a regular basis. The board charter has been re-modelled based on the principles recommended by King III and sets out the powers and authority of the board. It also provides a clear and concise overview of the roles and responsibilities of the board members. The revised charter is available on request from the Company Secretary.

The board has a fiduciary duty to act in good faith, with due care and diligence, and in the best interests of all stakeholders.


The powers and responsibilities of the board include:

- approving the strategic direction of the group and the budget necessary for the implementation of the strategy, as set out by the charter's framework of accountability, responsibility and duty of the board to the company;
- being the guardian of the ethics and values of the group;
- retaining full and effective control of the group;
- appointing the Chief Executive Officer;
- monitoring and guiding management;
- implementing the group's vision and values; and
- communicating with shareholders openly throughout the year.

The responsibility of the board and executive management team are differentiated in the board charter. The board has a levels of authority policy within which executive management operates. The levels of authority policy covers the following areas:

- treasury;
- capital expenditure;
- loans to retailers;
- property leases; and
- remuneration.

## Board and committee meetings

The board meets formally four times a year and reviews strategy, operational performance, capital expenditure, risk management, internal controls, communications and other material aspects pertaining to the group's business. The Audit Committee and Risk Committee met three times during the year, whilst the Remuneration and Nominations Committee held two meetings.

| Board meeting attendance | | |
|---|---|---|
| Director | Attended | Held |
| MJ Hankinson (Chairman) | 4 | 4 |
| DB Gibbon | 4 | 4 |
| MW Godfrey | 4 | 4 |
| WA Hook | 4 | 4 |
| PK Hughes | 4 | 4 |
| RJ Hutchison | 4 | 4 |
| MP Madi | 4 | 4 |
| HK Mehta | 4 | 4 |
| P Mnganga | 4 | 4 |
| R Venter | 4 | 4 |
| CF Wells | 2* | 4 |

**CF Wells appointed to the board on 1 April 2011*

### Board and committee evaluation

The board recognises the merits of annually evaluating the collective performance of the board. During the financial period under review, the board performed a comprehensive evaluation of the board and its committees. During the board evaluation, each director was requested to complete questionnaires relating to the following:

- board self-evaluation;
- evaluation of the chairman's performance; and
- evaluation of the performance of the Company Secretary.

The results of the questionnaires were collated for review by the board. The chairman of the board held one on one discussions with board members to discuss the outcomes of the evaluations. No significant problems were identified during the process. The board and its committees will again conduct a formal performance evaluation during the next financial year.

### Regulatory compliance

Board members are kept appraised of changes to all relevant legislation, including the JSE Listings Requirements. These updates are provided by the company's sponsor and the Company Secretary. During the year under review, the board received regular updates regarding the developments of the new Companies Act, the Consumer Protection Act, JSE Listings Requirements, King III and other governance codes. The focus in 2012 will be on the following issues:

- converting the group's current Articles of Association to a Memorandum of Incorporation;
- ensuring that the members of the Audit Committee are elected by the shareholders at annual general meetings;
- the establishment of a Social and Ethics Committee and the election of its members;
- approval for the remuneration of non-executive directors was obtained at a general meeting of the company held on 22 July 2011. A similar resolution for the remuneration of non-executive directors can be found in the notice of meeting for the 2012 annual general meeting;
- investigating and implementing a proper Business Rescue policy to be followed when taking action against financially distressed retail stores;
- approval for intercompany loans was obtained at a general meeting of the company held on 22 July 2011. A similar resolution can be found in the notice of meeting for the 2012 annual general meeting; and
- continuous progress with regards to compliance with King III and other legislation relevant to the group.

### Delegation of authority

The daily management of the group's affairs is the responsibility of the Chief Executive Officer, who co-ordinates the implementation of board policy through the executive committee which he chairs. The board charter outlines key responsibilities that are specifically reserved for the board.

### Committees

The Audit Committee is now a statutory committee in terms of the Companies Act and the board made a decision to early adopt this provision of the Companies Act by proposing the committee members to the shareholders at the 2011 annual general meeting.

Furthermore, the board has powers to establish committees as it deems appropriate. The board therefore has constituted the following committees:

- Remuneration and Nominations Committee; and
- Risk Committee.

These committees of the board are chaired by an independent non-executive director. The board acknowledges its accountability to the group's stakeholders for the actions of these committees and is satisfied that they have met their respective responsibilities for the year under review.

# CORPORATE GOVERNANCE continued

## AUDIT COMMITTEE

As referred to above, the provisions of the new Companies Act have transformed the Audit Committee from being a committee of the board into a separate statutory committee that is appointed by the shareholders.

The Audit Committee operates under an approved charter, assisting the board to fulfil its oversight responsibility on corporate governance. Its specific responsibility is on accurate financial reporting and the existence of adequate financial systems and controls. It does so by evaluating the operations and findings of both internal and external audits and assessing the appropriateness and adequacy of the accounting procedures and the systems of internal financial and operational controls. During the year under review, the committee held three meetings whilst functioning under the new terms of reference approved by the board.

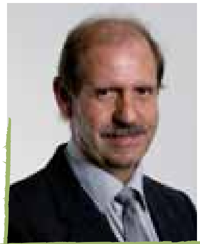
In accordance with the committee's charter, the committee consists of no less than three independent non-executive directors, one of whom is the chairman of the committee. The chairman of the committee is not the chairman of the board.

In accordance with the principles of King III and the Companies Act, the responsibility of the Audit Committee now includes the following:

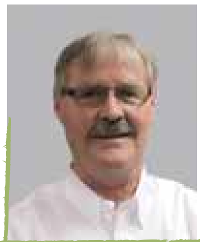
- overseeing integrated reporting;
- ensuring that a combined assurance model is applied to provide a co-ordinated approach to all assurance activities;
- satisfying itself of the expertise, resources and experience of the group's finance function;
- oversight of internal audit;
- being an integral part of risk management;
- being responsible for recommending the appointment of the external auditor and overseeing the external audit process;
- determine the fees to be paid to the auditor and the auditor's terms of engagement;
- ensure that the appointment of the auditor complies with all relevant legislation;
- determine the nature and extent of non-audit services provided to the company;
- to prepare a report to be included in the annual financial statements of the company, describing the work undertaken by the committee during the year under review and commenting on any changes to accounting practises;
- receiving any complaints from within or outside the company relating to accounting practices, internal audit, the content of the company's financial statements or internal financial controls; and
- reporting to the board and the shareholders on how it has discharged its duties.

**The Audit Committee**

*Back row from left to right: Mark Godfrey, Chris Wells and Wayne Hook*
*Front row from left to right: Michael Hankinson, David Gibbon and Harish Mehta*



*Brian Botes*



*Chris Cheesman*

The Chief Executive Officer, Group Financial Director, internal auditor and external auditors are required to attend Audit Committee meetings. The group's internal auditor and the external auditors have unfettered access to members of the committee and the Chief Executive Officer and attend all formal committee meetings. Members of the group's executive management team attend meetings as required. The Company Secretary is secretary to the committee. The committee reports on its findings to the board after each formal committee meeting.

**Audit Committee attendance**

| Director | Attended | Held |
|---|---|---|
| DB Gibbon (Chairman) | 3 | 3 |
| MJ Hankinson | 3 | 3 |
| HK Mehta | 2 | 3 |
| CF Wells | 2* | 3 |
| WA Hook (by invitation) | 3 | 3 |
| MW Godfrey (by invitation) | 3 | 3 |
| PC Cheesman (internal auditor by invitation) | 2 | 3 |
| B Botes (external auditor by invitation) | 3 | 3 |

**CF Wells appointed to the board on 1 April 2011*

## Audit Committee report

The following report was prepared by Mr Gibbon, the chairman of the Audit Committee:

### Statutory duties

The Audit Committee's role and responsibilities include statutory duties per the Companies Act, 2008, and further responsibilities assigned to it by the board. The Audit Committee executed its duties in terms of the requirements of King III and instances where the King III requirements have not been applied have been explained in the corporate governance statement, included elsewhere in the integrated report.

### Key duties discharged by the committee

*External auditor appointment and independence*

The Audit Committee has satisfied itself that the external auditor was independent of the company, as set out in section 94 (8) of the Companies Act, 2008, which includes consideration of previous appointments of the auditor, the extent of other work undertaken by the auditor for the company and compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board for Auditors. Requisite assurance was sought and provided by the auditor that internal governance processes within the audit firm support and demonstrate its claim to independence.

The committee ensured that the appointment of the auditor complied with the Companies Act, 2008, and any other legislation relating to the appointment of auditors.

The committee, in consultation with executive management, agreed to the engagement letter terms, audit plan and budgeted audit fees for the 2011 year.

There is a formal procedure that governs the process whereby the auditor is considered for non-audit services. The committee approved the terms of a master service agreement for the provision of non-audit services by the external auditor, and approved the nature and extent of non-audit services that the external auditor may provide in terms of the agreed pre-approval policy.

The committee has nominated, for election at the annual general meeting, Deloitte and Touche as the external audit firm and Mr B Botes as the designated auditor responsible for performing the functions of auditor, for the 2012 year. The Audit Committee has satisfied itself that the audit firm and designated auditor are accredited as such on the JSE list of auditors and their advisors.

*Financial statements and accounting practices*

The Audit Committee has reviewed the accounting policies and the financial statements of the company and is satisfied that they are appropriate and comply with International Financial Reporting Standards and the requirements of the Companies Act.

An Audit Committee process has been established to receive and deal appropriately with any concerns and complaints relating to the reporting practices of the company. No matters of significance have been raised in the past financial year.

*Internal financial controls*

The Audit Committee has overseen a process by which internal audit performed a written assessment of the effectiveness of the company's system of internal control and risk management, including internal financial controls. This written assessment by internal audit formed the basis for the Audit Committee's recommendation in this regard to the board, in order for the board to report thereon. The board's report on the effectiveness of the system of internal controls is included elsewhere in the integrated report.

The Audit Committee receives and deals with any concern or complaints, whether from within or outside the company, relating to the accounting practices and internal audit of the company, the content or auditing of the company's financial statements, the internal financial controls of the company and related matters.

*Duties assigned by the board*

In addition to the statutory duties of the Audit Committee, as reported above, and in accordance with the provisions of the Companies Act, 2008, the board of directors has determined further functions for the Audit Committee to perform, as set out in the Audit Committee's terms of reference. These functions include the following:

*Integrated reporting and combined assurance*

The Audit Committee fulfils an oversight role regarding the company's integrated report and the reporting process. The Audit Committee considered the company's sustainability information as disclosed in the integrated report and has assessed its consistency with operational and other information known to Audit Committee members, and for consistency with the annual financial statements. The Audit Committee discussed the sustainability information with management. The committee is satisfied that the sustainability information is reliable and consistent with the financial results.

The Audit Committee has recommended to the board the appointment of an external assurance provider during the 2012 financial year, to perform an assurance engagement on key performance indicators included in the company's sustainability reporting.

The Audit Committee is satisfied that the company has optimised the assurance coverage obtained from management, internal and external assurance providers in accordance with an appropriate combined assurance model.

The Audit Committee has, at its meeting held on 3 November 2011, recommended the integrated report for approval by the board of directors.

*Going concern*

The Audit Committee has reviewed a documented assessment, including key assumptions, prepared by management of the going concern status of the company. The board's statement on the going concern status of the company, as supported by the Audit Committee, is elsewhere in the integrated report.

The external auditors review the interim results of the company as part of their audit scope and participate during the discussions by the Audit Committee regarding the results. However, no formal audit opinion is expressed on the interim results.

*Governance of risk*

The board has assigned oversight of the company's risk management function to the Risk Committee. The chairman of the Audit Committee is a member of the Risk Committee to ensure that information relevant to the Risk Committee is transferred regularly. The Audit Committee fulfils an overview role regarding financial reporting risks, internal financial controls, fraud risk as it relates to financial reporting risks, information technology risks, tax risks as well as compliance and regulatory risk as it relates to financial reporting.

*Internal audit*

The Audit Committee is responsible for ensuring that the company's internal audit function is independent and has the necessary resources, standing and authority within the company to enable it to discharge its duties. Furthermore, the committee oversees co-operation between the internal and external auditors, and serves as a link between the board of directors and these functions.

The internal audit function's charter and annual audit plan was approved by the Audit Committee.

The internal audit function reports centrally with responsibility for reviewing and providing assurance on the adequacy of the internal control environment across all of the company's operations. The internal auditor is responsible for reporting the findings of the internal audit work against the agreed internal audit plan to the Audit Committee on a regular basis.

The group internal auditor has direct access to the Audit Committee, primarily through its chairman.

The Audit Committee is also responsible for the assessment of the performance of the group internal auditor and the internal audit function.

During the year, the committee met with the external auditors and with the group internal auditor without management being present.

The Audit Committee has satisfied itself that adequate procedures are in place to ensure that the group complies with its legal, regulatory or other responsibilities.

*Evaluation of the expertise and experience of the financial director and finance function*

The Audit Committee has satisfied itself that the financial director, Mr MW Godfrey, has the appropriate expertise and experience to act in this capacity.

The Audit Committee has considered, and has satisfied itself of the appropriateness of the expertise and adequacy of resources of the finance function and experience of the senior members of management responsible for the group financial function.

DB Gibbon

*Chairman of the Audit Committee*


The Risk Committee

*From left to right: Wayne Hook, Mark Godfrey, Harish Mehta, Chris Wells, Kevin O'Brien, Mike Hankinson and David Gibbon*

*Trevor Currie*

*Chris Cheesman*

*Enno Stelma*

## RISK COMMITTEE

The board is responsible for governing the risk management process of the group. This duty is discharged through the Risk Committee which is a sub-committee of the board. The Risk Committee is governed by its own terms of reference which have been approved by the board.

The Risk Committee is chaired by Mr CF Wells who is an independent non-executive director. The other members of the Risk Committee comprise four independent non-executive directors, two executive directors and the following members of senior management: Logistics, Information Technology, Internal Audit and Secretarial, who report to the group executive committee on risk issues. During the year under review, the board, after careful consideration, delegated IT governance to the Risk Committee.

The group's assets are insured against loss. Disaster recovery plans are in place to provide business continuity with the least amount of disruption particularly from information technology and operational viewpoints.

## Risk management

The group believes that effective risk management is essential for improved performance, growth and sustainable value creation. To this end, the group has adopted a common and integrated approach to the management of risk. The board is accountable for the risk policy and is responsible for the management of strategic risks. Management is responsible for implementing the group's risk policy through a comprehensive risk management programme.

**Risk Committee attendance**

| Director | Attended | Held |
|---|---|---|
| CF Wells (Chairman) | 2* | 3 |
| DB Gibbon | 3 | 3 |
| MJ Hankinson | 3 | 3 |
| HK Mehta | 1 | 3 |
| WA Hook | 3 | 3 |
| MW Godfrey | 3 | 3 |
| TD Currie (Logistics) | 3 | 3 |
| PC Cheesman (Internal Audit) | 3 | 3 |
| KJ O'Brien | 3 | 3 |
| EP Stelma (IT) | 3 | 3 |

**CF Wells appointed to the board on 1 April 2011*

The top ten key risks identified in the year under review are set out in the table below. These risks, both internal and external in nature, were those considered to have potentially the most significant impact upon the group if realised. These risks and their mitigating and management strategies are the subject of the ongoing review by the Risk Committee.

| THE TOP TEN KEY RISKS | | | | |
|---|---|---|---|---|
| **Cause** | **Consequence** | **Risk*** | **Existing controls** | **SPAR indicators** |
| **1. PHYSICAL DESTRUCTION OF A DISTRIBUTION CENTRE** (or part thereof) | | | | |
| – Uncontained fire<br>– Natural disaster<br>– Racking collapse<br>– Accidental damage<br>– An incident at a neighbouring facility | – Financial loss<br>– Loss of market share<br>– Loss of retailers<br>– Additional time needed for the rebuild<br>– Fatalities, casualties or injuries<br>– Legal consequences may arise<br>– Reputational damage | H | – Fire risk programme<br>– Bi-annual audits<br>– Business continuity plan and emergency management plan<br>– Training<br>– Risk management programme<br>– Comprehensive insurance programme | – Insurance reports<br>– Audit reports<br>– Risk reports |
| **2. POLITICAL INSTABILITY** | | | | |
| – National political event<br>– Fundamental shift in the economic system of the country | – Business model may need to change appropriately<br>– Operating in an environment of uncertainty<br>– Planning difficulties<br>– Infrastructure collapse | H | – Transformation policies and procedures<br>– Engagement with government<br>– Business forums | – Media<br>– Share price |
| **3. AN OPERATIONAL INCIDENT THAT COULD HAVE NEGATIVE CONSEQUENCES FOR THE GROUP'S REPUTATION** | | | | |
| – Food poisoning<br>– Product contamination<br>– Unfair labour practices<br>– Third party injuries<br>– Non-compliance by retailers (pricing policy violation)<br>– Non-compliance with legislation<br>– Ammonia leaks<br>– Lack of adequate transformation | – Loss of market share<br>– Brand integrity<br>– Share price<br>– Loss of retailers<br>– Prosecution | H | – Media response and communication mechanism<br>– Food safety standards<br>– Reaction plan<br>– Insurance cover<br>– Retailers programme (meetings, membership agreement, audits)<br>– Executives responsible for legislative compliance<br>– Support services<br>– Media consultants | – Marketing reports (including social media)<br>– Food safety audits |
| **4. SEVERE ECONOMIC RECESSION** | | | | |
| – Global and macro-economic conditions | – Retailers negatively affected<br>– Loss of revenue<br>– Share price drop<br>– Potential for a business restructuring<br>– Failure of retailers<br>– Debts/head lease agreements | H | – Ongoing business management<br>– Management of variable costs (labour)<br>– Retail model<br>– Engagement with shareholders | – Economic reports<br>– Share price<br>– Trading results |
| **5. MASS EXODUS OF RETAILERS** | | | | |
| – Destruction of a warehouse<br>– New overseas entrants into the domestic market<br>– Competitor develops a more attractive retail business model<br>– Exit by a large group of stores | – Loss of revenue<br>– Loss of market share | M | – Current relationships with retailers<br>– Ongoing review of the business model<br>– Head leases<br>– Right of first refusal<br>– Retail surveys | – Retail surveys |

**Assessed risk without mitigating controls*

| THE TOP TEN KEY RISKS | | | | |
|---|---|---|---|---|
| Cause | Consequence | Risk* | Existing controls | SPAR indicators |
| **6. SUSTAINED INDUSTRIAL ACTION** | | | | |
| – Unsatisfactory resolution of central bargaining and outsourcing issues<br>– General appetite for industrial action<br>– Retail industry strike with sympathy from SPAR staff | – Loss of revenue<br>– Industrial relations climate negatively affected | M | – Recognition agreements<br>– Good relationship with unions<br>– Compliant with labour legislation<br>– Standardised labour practices at retailers<br>– Working conditions and benefits above industry norms | – HR/IR reports |
| **7. LONG-TERM INFRASTRUCTURE FAILURE** (water, road, telecoms) | | | | |
| The main concerns relate to:<br>– Water utilities<br>– Power<br>– Telecoms<br>– Fuel supply<br>– Freight<br>– Traffic congestion<br>– Legislative backlogs | – Loss of revenue<br>– Increased costs of business model | M | – Generators, backup power<br>– Good relationships with fuel companies<br>– Short-term water backup for the fire system<br>– Off-peak deliveries | – Media reports<br>– Logistics reports |
| **8. FINANCIAL FAILURE OF KEY CUSTOMERS** | | | | |
| – Economic recession<br>– Poor business practices | – Financial loss<br>– Loss of market share<br>– Loss of customers<br>– Business sustainability affected<br>– Brand damage<br>– Revision to operating model | M | – Retail operations support<br>– Credit management practices<br>– Facilitating sale of business<br>– Retail model | – Divisional credit reports<br>– Trading results |
| **9. NEW ENTRY INTO DOMESTIC MARKET BY A MAJOR COMPETITOR** | | | | |
| – Foreign entrants<br>– Expanded domestic competition by a current retailer | – Financial loss<br>– Loss of market share<br>– Loss of retailers<br>– Business sustainability affected<br>– Brand damage<br>– Revision to the operating model | +M | – The current retail model is still considered attractive | – Media reports<br>– Share price |
| **10. COLLAPSE OF THE GROUP IT SYSTEM** | | | | |
| – Unavailability of the networks<br>– Physical destruction of hardware<br>– Sabotage | – Operations are halted<br>– Loss of sales<br>– Increased costs<br>– Downtime | M | – Disaster recovery plan<br>– Redundancy built into systems<br>– Audits (internal and external)<br>– Fire prevention measures<br>– Physical and intelligent controls<br>– Business continuity plan | – IT audit report |

**Assessed risk without mitigating controls*

## REMUNERATION AND NOMINATIONS COMMITTEE

The function of the Remuneration and Nominations Committee, as set out in the committee's terms of reference, is to align the remuneration philosophy with the group's business strategy. The key focus in this regard is to attract, retain, motivate and reward senior executives and staff by the payment of fair, competitive and appropriately structured remuneration in the best interests of shareholders.

The committee, consisting of three independent non-executive directors and the Chief Executive Officer (by invitation), is responsible for recommending to the board, on an annual basis, the remuneration packages of the executive directors and executive management. The Chief Executive Officer apprises the committee of the salary packages of senior management whose remuneration is not determined by the committee. The committee oversees the operation of the group's incentive bonus schemes and the allocation of share options after considering the recommendations of the Chief Executive Officer.

Executive directors and executive management are participants in the group's incentive bonus scheme, which remunerates executives based on the achievement of both financial targets and functional objectives which are set annually.

Independent external studies and comparisons are undertaken to ensure that remuneration is market related and linked to both individual performance and group performance.

The committee is responsible for making recommendations to the board, for shareholder approval on all fees payable to non-executive directors for membership of the board and board committees. During the period under review, non-executive directors received a base fee of R240 000 per annum. In addition, non-executive directors who served on the Audit Committee received a fee of R70 000 per annum and members of the Risk and Remuneration and Nominations Committees received a fee of R55 000 per annum. The chairperson of the Audit Committee received a fee of R145 000 per annum and the chairperson of the Risk and Remuneration and Nominations Committee received a fee of R85 000 per annum. The chairperson of the committee reports to the board on the committee's deliberations and decisions.

The committee gives consideration to the composition of the board and makes appropriate representations to the board. The board is conscious of its responsibility to ensure proper succession planning for the role of chairman of the board as well as senior management of the group. In this regard the group believes that a capable senior management team is in place.


**The Remuneration Committee**
*From left to right: Wayne Hook, Harish Mehta, Mike Hankinson and Rowan Hutchison*

### Remuneration policy

The group is committed to paying fair and market related remuneration to ensure that the group is able to attract and retain top quality people. The following principles are fundamental in guiding the implementation of the remuneration policy:

a) The group strives to ensure that remuneration is free of unfair differentiation. Fair differentiation based on performance and skills shortage is applied.

b) The group takes cognisance of its external environment through an understanding of national remuneration trends and by benchmarking itself against comparable companies. To this end, the company will strive to position key positions and those where there is a shortage of skills on the 75th percentile of the market, and the rest of the positions at least on the 50th percentile.

c) The use of a performance management system ensures that there is a correlation between individual/team performance and remuneration earned.

d) Management is tasked with managing remuneration responsibly and thus ensuring the sustainability of the group.

e) Salary scales are based on the Paterson Grading System and will be informed by market comparisons and are used to provide remuneration guidelines rather than definite salaries.

The group's remuneration policy will be put to shareholders for a non-binding advisory vote at the 2012 annual general meeting. For details of the remuneration policy, please see the notice of annual general meeting.

| Remuneration and Nominations Committee attendance | | |
|---|---|---|
| Director | Attended | Held |
| MJ Hankinson (Chairman) | 2 | 2 |
| WA Hook (by invitation) | 2 | 2 |
| RJ Hutchison | 2 | 2 |
| HK Mehta | 2 | 2 |

### Company Secretary

All directors have access to the advice and services of the Company Secretary who is responsible for ensuring proper administration and sound corporate governance procedures. All directors are provided with access to information that may be relevant to the proper discharge of their duties. The Company Secretary provides guidance to the directors on their responsibilities within the prevailing regulatory and statutory environment and the manner in which such responsibilities should be discharged. Details of the Company Secretary are provided in this report.

### Management reporting

Comprehensive management reporting disciplines are in place. These include the preparation of annual budgets by all operating divisions and central office departments.

The group's budget is reviewed by senior management and approved by the board. Monthly results are reported against approved budgets and compared to the prior year. Profit projections and cash flow forecasts are updated regularly, while working capital and cash levels are monitored on an ongoing basis.

### IT governance

The board recognises that IT is an integral part of conducting business at SPAR, as IT is fundamental to the support, sustainability and growth of the organisation. IT serves all aspects, components and processes in the organisation and is therefore not only an operational enabler for the group, but a strategic business imperative which can be leveraged to create opportunities and to gain a competitive advantage. The board is cognisant of the fact that as much as IT is a strategic asset within the group, it also presents the organisation with significant risks. The latter, together with its related costs and constraints, should be well governed and controlled to ensure that it supports the group's strategic objectives. It is for this reason that the board has deemed it appropriate to delegate this function to the Risk Committee. However, the responsibility of IT governance ultimately resides with the board.

### Code of ethics

The group is committed to a policy of dealing fairly and with integrity in the conduct of its affairs. The board has continued to provide effective leadership based on an ethical foundation, through the code of ethics which reflects the group's position on ethics and integrity. Compliance with the code of ethics is required of all group employees. The code is intended to raise ethical awareness, and as a guide in day-to-day decision making. A review of ethics is conducted annually and the board has no reason to believe that there has been any material non-adherence to the code of ethics during the year under review.

### Whistle-blowing

During the year under review, the group has embarked on the rollout of a whistle-blowing facility across its operations. This reporting mechanism is aimed at combating practices that are in conflict with the group's business ethics. The process of whistle-blowing encourages reports to be made in good faith in a responsible and ethical manner. Incidents reported to the whistle-blowing hot line are reviewed at Audit and Risk Committee meetings. Details on how to utilise the whistle-blowing line are available on the group's website.

### Fraud policy

The board has adopted a fraud policy to protect the organisation from dishonest or unethical conduct, including financial or other unlawful gains and to regulate its responses to fraudulent activities.

### Dealing in company shares

In terms of the JSE Limited's rules, no director, officer or employee of the company may deal either directly or indirectly in the group's shares at any time on the basis of having access to price-sensitive information, nor may a director or officer of the company deal in the group's shares during closed periods. Closed periods extend from the end of the group's financial half-year and year-end until the publication of the relevant results.

All dealings in shares of The SPAR Group Limited by company directors and the Company Secretary are reported on the JSE Stock Exchange News Service ("SENS") within 48 hours of the trade. All trades must be pre-approved by a duly authorised director of the company.

### Investor relations

The board encourages objective and honest communication with investors in a timely, relevant and balanced manner. It is practice to engage with shareholders on a frequent basis, principally through presentations on the release of the group's half-year and annual results. The group's investor information is posted timeously on the website www.spar.co.za.

# SUSTAINABILITY REPORT

## SOCIAL

### Corporate citizenship

Good corporate citizenship is fundamental to the group's growth strategy and SPAR continues to be committed to behaving and operating in a socially responsible manner. In all our dealings with staff, retailers, suppliers, shareholders, consumers, local communities and government departments, the highest levels of ethical behaviour, respect and integrity are observed. SPAR understands and appreciates its responsibilities to society and the environment and it plays an active and constructive role in the areas in which it operates.

### Employment and labour practices

SPAR subscribes to the principle of dignity for all employees. Employment policies are non-discriminatory and sensitive towards the equal treatment of employees. Accordingly, human resource strategies include:

- a strong bias to employment equity and transformation;
- fair and appropriate remuneration;
- performance management; and
- attracting and retaining competent employees.


Our employees enjoy freedom of association and the right to bargain collectively is entrenched within the group. Recognition agreements with representative trade unions exist in those distribution centres that have majority union membership. Senior management in unionised distribution centres are responsible for union negotiations. Distribution centres have

codes of conduct and disciplinary and grievance procedures in place and these are communicated to all employees during their induction into the group.

Group training initiatives are structured and aimed at aligning training with transformation objectives. During the year under review, the group spent an amount equivalent to 3.05% (2010: 2.21%) of its total payroll on skills development.

Specific training initiatives focus on:

- operator training;
- technical skills training;
- supervisory skills training;
- management development training; and
- leadership development training.

Ongoing organisational development initiatives such as "12 Ladders" and "SPARing for Quality" continue to ensure that work teams operate effectively and that workplace relationships are continuously improved.

Internal surveys show that the group provides meaningful employment opportunities with a high degree of job satisfaction.

SPAR believes that its reputable employment practices continue to be instrumental in the group's ability to attract and retain talent. The group aspires to being an employer of choice with market related conditions of service. Succession plans and a graduated development process aimed at creating leadership potential are in place. The structured and systematic development of individuals at all levels within the group, aims at identifying and realising leadership potential.

SPAR continues to comply with the Skills Development Act. Developmental focus continues to be placed on technical, supervisory and management competencies which underpin sustainability. The SPAR Academy of Learning, which provides in-house training to both group and retailer employees, maintains its accreditation with the Wholesale and Retail Sector Education and Training Authority, and its links to the Transport Sector Education and Training Authority.

SPAR's employment equity achievements are a reflection of the training, development and mentoring of black employees with the objective of preparing them for senior roles in the group. To this end, each of the seven distribution centres and central office has its own employment equity committee. These committees are responsible for setting employment equity targets annually. Monitoring of the group's progress in terms of the employment equity plans and targets is done by the respective employment equity committees. Employment equity plans are submitted, as required, in terms of the Employment Equity Act.

Key achievements in talent development during the year under review include:

- 37 187 (2010: 23 490) days off-the-job training;
- 16 (2010: 48) managers completed the Senior Leadership Development Programme;
- R12.8 million (2010: R9.1 million) spent on skills development; and
- of the employees participating in skills development, 82.0% (2010: 84.7%) were previously disadvantaged and 25.4% (2010: 23.2%) were female.

| Occupational levels as per the Department of Labour | SPAR categories | 2011 | 2010 |
|---|---|---|---|
| Board of directors | Executive and non-executive directors<br>Paterson Grades EU and F | **30%** | 30% |
| Senior management | Group and divisional executives and specialised group functions<br>Paterson Grade EL | **15.08%** | 14.08% |
| Professionally qualified and experienced specialists and mid-management | Middle management<br>Paterson Grades DL and DU | **41.76%** | 39.80% |
| Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents | Supervisory and technical positions<br>Paterson Grades CL and CU | **75.79%** | 75.27% |
| Semi-skilled and discretionary decision making | Operators and clerical staff<br>Paterson Grade B | **94.44%** | 93.73% |
| Unskilled and defined decision making | Defined decision making positions<br>Paterson Grade A | **97.33%** | 98.68% |
| Total permanent black employees as a percentage of total employees | | **82.12%** | 81.51% |

## CORPORATE SOCIAL INVESTMENT

SPAR's corporate social investment programme is aimed at bringing about positive social and economic changes to the previously disadvantaged communities in which the group conducts its business.

CSI remains core to SPAR's upliftment programme. The group's CSI spend of R9.6 million (2010: R9.3 million) of profits after tax goes towards assisting previously disadvantaged communities and organisations, with the strategy broadly focusing on four areas, namely:

- poverty alleviation;
- healthcare;
- hunger; and
- safety.

The group continues to partner with Operation Hunger and is involved in 7 (2010: 6) feeding schemes around the country. An internal competition during the financial year under review resulted in these schemes being operated under the banner Isonka (feeding the community):

- two schemes in Khayelitsha in the area covered by the Western Cape distribution centre;
- Barkley West in the area covered by the South Rand distribution centre;
- Mthatha in the area covered by the KwaZulu-Natal distribution centre;
- Helenvale in the Eastern Cape;
- Tzaneen in the North Rand distribution area; and
- Nelspruit in the Lowveld.

Examples of the group's continued community participation are:

- the group's Eastern Cape distribution centre continues to support the Ikamv'elihle Rehabilitation Centre, located in Mdantsane in the Eastern Cape. The centre focuses on bringing community based care and support services closer to members of the community who are HIV sufferers. The centre also offers soup kitchens, material support programmes, educational awareness programmes and offers group support to members of the community. In addition to this project, the Eastern Cape distribution centre supports the Ubomi Obutsha community feeding scheme. The scheme is run by the Church of Ministries and is aimed at taking care of schoolgoing children by providing them with food in the morning before school and after school. The children are also taught computer skills. A further initiative has been undertaken by the distribution centre in the form of a partnership with the Nelson Mandela Metropole University. The initiative is aimed at improving the nutritional levels of students. At least 200 students are fed on a daily basis;
- the Arebaokeng Child Daycare Centre, located in Tembisa in Gauteng – this daycare and hospice facility is supported by the group's North Rand distribution centre. The centre offers daycare for the children of HIV/Aids sufferers. In 2010, the centre provided support for 149 children while in 2011, 160 children benefited from the services provided by the centre. The Department of Health and Social Welfare have shown an interest in this project as it benefits the lives of the children and their parents. Staff and children at the centre are encouraged to become self-sufficient by growing vegetables and operating a small onsite bakery;
- Junior Achievement South Africa ("JASA") – the group's Lowveld distribution centre continues to be involved in providing growth opportunities for entrepreneurs in disadvantaged communities. Learners are instructed in business ethics, product choice, marketing, human resources and business plans. JASA programmes are classified by the Department of Trade and Industry as



enterprise development. All 2011 JASA candidates were assessed by a psychologist and given career feedback on suitable job opportunities. During 2011, 73 children benefited from the programme. Of the 73 learners, 34 were from Hazyview and the remaining 39 learners were from Malelane. A further four programmes are being run during 2011 and all the programmes have been implemented with the assistance of local SPAR retail stores;

- the group's Western Cape distribution centre continues to make positive social and economic contributions to previously disadvantaged communities with a specific focus on children. In 2011, the distribution centre continued to support JL Zwane, Ubuntu House and MaAfrica Tikkun. The following further initiatives were identified during the course of 2011: Heavens Nest, a home of safety for abused and abandoned children; Sinyakhaya Soup Kitchen, which provides meals for children affected by unemployment and poverty; and Stars of Today, a home of safety providing 500 children with after school care and feeding. Seven food tents were erected at three of the abovementioned centres. These food tents provide people with the opportunity to grow their own crops, harvest the crops and then to feed their communities;

- the group's KwaZulu-Natal distribution centre continues to support the Gozololo Daycare Centre in KwaMashu outside Durban. This centre caters for orphaned children and other children who are in need of educational, emotional and nutritional support due to extreme poverty in the community. The distribution centre provides a monthly donation of food which is used to provide meals for the daycare centre and food parcels for the children's guardians. Gozololo has expanded to operate out of several sites and currently meets the needs of 2 000 children.

  The KwaZulu-Natal distribution centre has extended its support to another project called Izulu Orphan Projects, which is situated in rural KwaZulu-Natal. The programme has registered 180 families and the distribution centre provides both food and building materials for the project; and

- the Kids Haven Orphanage in Kempton Park aims at rehabilitating children living and working on the streets of Kempton Park and reintroducing them into society. The orphanage cares for children and continues to be actively supported by the South Rand distribution centre.

### Crime

The high levels of crime being experienced at retail stores continue to be a cause for concern. In an effort to minimise the impact of crime on retailers' stores and customers, programmes continue to be developed to identify, prevent and monitor potential crime incidents. The group continues to work closely with the Consumer Goods Council of South African ("CGCSA")

Crime Prevention Programme and Business Against Crime as well as the local police. The work done by managers dedicated to analysing crime incidents and patterns has greatly assisted in the early detection of potential criminal activity. This, combined with the ongoing vigilance of SPAR retailers, has been critical to containing crime during the year. The group continues to provide a much needed counselling service to the victims of crime.

### Safety and health

SPAR provides a healthy and safe work environment for its employees as a basic right and acknowledges that a healthy and safe workplace improves employee morale and productivity. The group understands that a healthy and safe workplace is essential to the food industry.

Health and safety requirements are monitored and reviewed in terms of the group's risk management framework and legislative compliance is required as a minimum standard. To this end, a comprehensive risk management programme is in place, which is audited on a regular basis by an external risk management service provider. The five components of the programme are emergency planning, health and safety, transport, fire and security.

The group has an in-house customer care line that addresses consumer complaints and queries relating to products sold at retailers' stores.

The required health and safety committees are in place and training in health and safety matters is ongoing. The distribution centre health and safety committees deal with issues as and when required to do so. Unresolved issues are reported to senior management.

SPAR provides a wellness service to its employees through onsite clinics. The group invested in excess of R2.5 million in the year under review (2010: R2 million) for this service. The clinic services are provided free of charge to all employees, permanent and temporary. Through these clinics, employees have access to support initiatives that focus on health and wellness, alcohol and substance abuse and HIV/Aids. The group has in place a specific HIV/Aids policy and management framework. HIV positive employees are provided with counselling and support. Employees are offered voluntary membership of the Tiger Brands Medical Aid Scheme. Members of the scheme and their dependents have access to cost-effective comprehensive health cover and to the Vitality programme offered by Momentum. Although access to the scheme is open to all employees, affordability of contributions remains a barrier for some employees. Investigations into a low income medical scheme are ongoing.

| Event | Number of injuries 2011 | Number of injuries 2010 |
|---|---|---|
| Disabling injuries | **11** | 14 |
| Non-disabling Injuries | **129** | 160 |
| Number of staff using on-site clinics | **12 964** | 14 982 |
| Deaths on duty | **nil** | nil |

### Sector collaboration

The SPAR Group represents its interests and participates at the following forums:

- Consumer Goods Council of South Africa and its various sub-committees;
- The Retailers Association, and through their offices, to Business Unity South Africa. In this regard SPAR is represented on the directorate of the Commission for Conciliation, Mediation and Arbitration;
- The Wholesale and Retail Sector Education and Training Authority and its Standards Generating Body;
- The Transport Education and Training Authority; and
- various regional business chambers.

## TRANSFORMATION

### Diversity and equal opportunity

The group promotes equal opportunity and fair treatment in employment through the elimination of unfair discrimination.

SPAR acknowledges and supports the social and economic importance of transformation in South Africa and recognises it needs to be a meaningful participant in the South African economy. Sustainable business requires that transformation uplifts and positively influences employment equity and black economic empowerment to create a new business platform. Transformation is a group imperative, and steady progress continued to be made during the financial year.

### Broad-based black economic empowerment ("BBBEE")

The group supports the principles contained in the BEE Act, No 53 of 2003, and the BEE Codes of Good Practice. The group is a level 6 contributor (BB rating) with a 60% recognition level. Based on current equity plans in place, this rating will continue to improve. Empowerdex, an external South African national accreditation system, has been appointed to confirm the group's latest rating.

| Element | Empowerdex score | Empowerdex % |
|---|---|---|
| Ownership | D | 6.12 |
| Management and control | D | 2.75 |
| Employment equity | D | 4.93 |
| Skills development | B | 10.02 |
| Preferential procurement | C | 8.91 |
| Enterprise development | A | 15.00 |
| Socio-economic development | A | 15.00 |
| Overall score | BB | 52.86 |

### Ownership

The SPAR BBBEE Employee Trust and The SPAR BBBEE Retailer Employee Trust, approved by shareholders on 12 August 2009, are both still operational and a third party service provider has been appointed to manage the scheme in partnership with the group.

### Enterprise development

The creation and nurturing of new independent retail stores is an important objective of the group. The identification and facilitation of new entrants into the economy is one of the primary BBBEE contributions that the group can make to transformation. The development of black enterprises as retail members of the SPAR voluntary trading organisation under its three existing banners, namely, SPAR, TOPS at SPAR and Build it, provides a powerful access point and meaningful growth opportunity for genuine empowerment.

The introduction of new retailers into the group continues to be a key focus area for the group's training and development initiative. The Management Induction Programme which was launched in 2002, continues to facilitate the training of retailers on every aspect of owning a retail store. The Retail Management Programme was launched in 2008 and the first participants graduated in October 2009. The Retail Management Programme was introduced to ensure a constant and competent supply of managers with retail store operations experience. The annual Young Managers Conference continues to be a great success, as does the International SPAR Young Managers Conference. SPAR delegates from South Africa continue to receive high praise from the SPAR International Organising Committee.

The establishment of new stores immediately creates employment which in turn contributes to poverty alleviation. SPAR's value proposition is attractive to potential retail members. Sustainable and world-class services and assistance for successful modern retailing, encompassing functional and technical requirements, including access to finance, are provided by SPAR.

At September 2011, there were 192 (2010:167) black-owned stores (including neighbouring countries).

### Preferential procurement

The group continues to source local goods and supports local industry wherever possible. This practice, however, needs to be balanced with consumer expectations of value, quality and price.

The importance of preferential procurement to BBBEE is acknowledged.

The group continues to use the services of EMEX, a recognised rating agency, to assist in securing BBBEE data on suppliers. The group currently has BBBEE credentials for all SPAR brand suppliers and most of the top non-SPAR brand suppliers.

## ENVIRONMENTAL IMPACT

Environmental considerations and resultant operational processes extend across the scope of the organisation. To effectively co-ordinate and manage the process, the group continues to adhere to a group environmental policy. This policy focuses on:

- reducing any negative impact of SPAR's operations on the environment; and
- leveraging the competencies of the organisation towards making a positive contribution to preserving the environment.

In an attempt to reduce the negative impact of SPAR's operations on the environment, the areas of focus, at an operational level, continue to be on:

- quantifying and setting reduction targets for fuel and energy usage;
- improving recycling initiatives to further reduce waste;
- providing leadership to SPAR retailers in regard to environmental issues, with the major focus being placed in the areas of energy consumption and waste management; and
- the group is conscious of the negative impact of food packaging on the environment and will work closely with its suppliers in an attempt to reduce the impact of packaging on the environment.

The group commits itself to exposing its staff and SPAR retailers to various interventions from experts in the environmental field. Advertising campaigns to educate consumers and encourage them to consider the environmental impacts of their actions are being undertaken.

Senior management is tasked with the responsibility of implementing the environmental policy and progress is monitored.

As part of the group's commitment to educate consumers and the community, the group arranged a children's conference on the environment during the year under review. The conference was held in Durban during the first week of the new financial year and 120 children from around the country, Namibia, Swaziland and the Cameroon attended a three-day conference. The conference agenda covered biodiversity, recycling and climate change. A selection of schools were asked to present on what their schools were doing to make a difference with regard to the environment. The children were also given an opportunity to visit Ushaka Marine World, the Sharks Board and the Umgeni Bird Park.

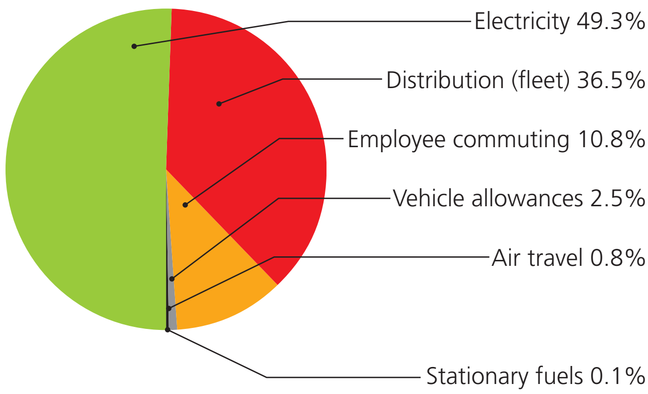
### Carbon disclosure project

As a JSE listed company, the group once again participated in the Carbon Disclosure Project ("CDP") in 2011 and submitted a report for the period 1 October 2009 to 30 September 2010.

Data was supplied for the 2009-2010 financial year. For this period, SPAR's activities resulted in a total of 83 993.30 tonnes of carbon dioxide equivalent ($CO_2e$). Of this, 72 178.46 tonnes of $CO_2e$ arose from Scope 1 and 2 emissions. The remaining 11 814.84 tonnes of $CO_2e$ arose from Scope 3 business travel and employee commuting emissions. Scope 1 emissions account for 36.5% of the total footprint. Scope 2 accounts for 49.3% and Scope 3 for 14.2% of the total $CO_2$ footprint.

Plans have been implemented to optimise data collection, investigate various emission reduction opportunities and the establishment of a robust set of environmentally focused key performance indicators.

Breakdown of total $CO_2$ emissions for the group




The following initiatives have been implemented at distribution centres in an attempt to reduce the group's impact on the environment:

### Recycling

Cardboard and plastic recycling initiatives are in place in five of the seven distribution centres. The aim is to introduce this into all the distribution centres. SPAR Western Cape and SPAR KwaZulu-Natal have made significant progress in this regard.

SPAR Western Cape recycled 2 051 metric tonnes (2010: 417 metric tonnes) of cardboard and 186 metric tonnes (59 metric tonnes) of plastic. A joint initiative in 2011 between the distribution centre, SPAR stores and local schools has yielded the recycling of 560 kg of PET plastic.

SPAR KwaZulu-Natal has recycled 922 metric tonnes of cardboard and 96 metric tonnes of plastic. 36% of SPAR stores are involved in the cardboard recycling initiative and 20% in the plastic recycling initiative. The distribution centre has set a target of 50% of stores for both cardboard and plastic.

Plans are in place to roll these recycling initiatives out to all distribution centres.

### Bio-diesel

Both the Eastern Cape and the Western Cape distribution centres make use of a 5% ratio of bio-diesel. The Western Cape distribution centre used 65 187 litres of bio-diesel and the Eastern Cape distribution centre 4 500 litres.

### Energy

All the distribution centres have in place a variety of energy saving measures, ranging from efficient low energy fittings and bulbs to timers on all electrical equipment.

### Water

Water saving initiatives have been implemented in two of the distribution centres. These initiatives are aimed at introducing a truck wash recycling system. The group will be taking part in the water disclosure project next year. The aim is to introduce water saving initiatives into all the distribution centres.

In a positive step towards ensuring the future of our marine resources and ecosystems, the group continues its relationship with WWF's Southern African Sustainable Seafood Initiative (SASSI) and continues to align seafood procurement policies for the entire SPAR house branded products with best practice guidelines for sustainable seafood. The group has developed a sustainable seafood policy and with SASSI's guidance, continues to assess the sustainability of its current SPAR branded seafood range.

In addition to the SASSI initiative, the group's Freshline team have over the past three years, assisted local farmers in the Freshline supply chain to adopt more sustainable farming methods on their farms. To date, 21 such farmers, representing 33% of the farmers used in the Freshline supply chain, have been trained in sustainable farming methods. This initiative will be progressed during the next financial year. The group will continue to engage with its SPAR brand suppliers to gain further knowledge of the sustainable business practices of those suppliers.

## FACILITIES

Environmental issues are continually taken into account in distribution centre design. Distribution centres have energy management plans in place and new facilities or additions to existing facilities are designed taking into account the need to be environmentally friendly. Advanced lighting technology is utilised and the use of natural lighting maximised. New technology and processes have been used in the design of refrigeration plants and battery charging areas.

## FLEET MANAGEMENT

Resource conservation is a focus area of the fleet management programme, with route determination a priority in reducing costs and emissions. The group transport manager is tasked with driving operational efficiencies. New vehicles bought into the fleet are required to meet the minimum Euro 3 emission standards. To further improve efficiencies and reduce the fuel consumption and emissions of vehicles, driver trainers are employed at all distribution centres. The trainers aim to improve driver performance by ensuring an understanding of the most efficient use of vehicles, thereby extending vehicle life and minimising fuel consumption. The positive effects of these interventions will be seen over time and will be monitored by the group's involvement with the Carbon Disclosure Project.

## PRODUCT STEWARDSHIP

The group is committed to ensuring food safety throughout the supply chain.

A cold chain "best practice" has been developed and this is monitored for compliance. The group strives to attain the highest levels of product safety and engages on a constant basis with manufacturers and suppliers. All SPAR brand suppliers are required to undergo regular food safety audits. In this regard, the group is cognisant of the provisions of the Consumer Protection Act, No 68 of 2008, and the effects this will have on its relationship with suppliers and retailers. Ongoing training on the provisions of the Consumer Protection Act has taken place at distribution centres and with SPAR retailers.

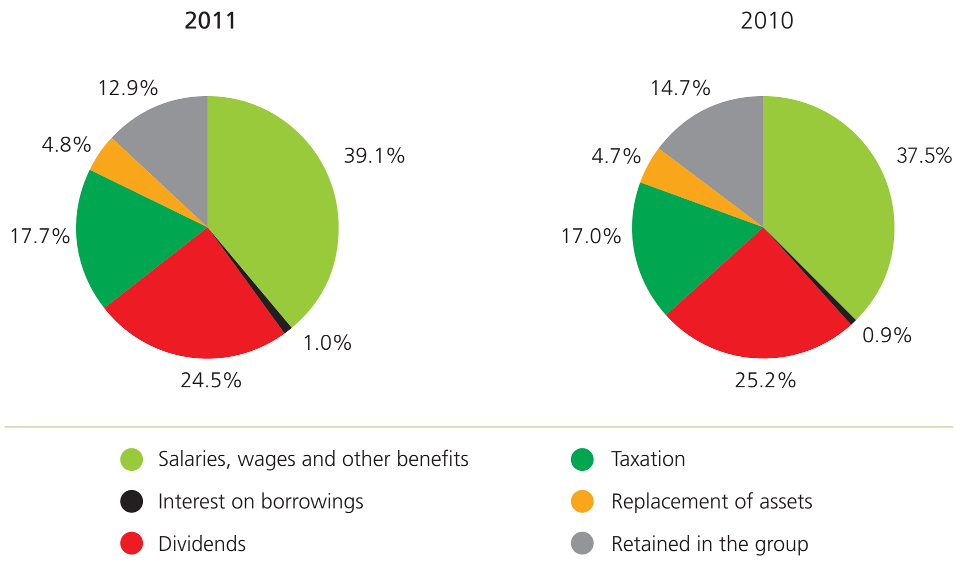
## ECONOMIC PERFORMANCE

This year was the SPAR brand's 48th year of operation in South Africa and its seventh year as a JSE listed company. Since listing, SPAR has been able to report consistent growth in earnings and dividends and its value added statement can be found on page 37. The success of SPAR has enabled employees, retailers, suppliers, local communities, consumers and government departments to share in the wealth created by the company.

# VALUE ADDED STATEMENT

Value added is the measure of the wealth the group has created. The statement shows how wealth has been distributed.

| | 2011 Rmillion | % of Revenue | % | 2010 Rmillion | % of Revenue | % |
|---|---|---|---|---|---|---|
| Revenue | 38 820 | | | 35 160 | | |
| Less: | | | | | | |
| Net cost of product and services | 36 295 | | | 32 885 | | |
| Value added | 2 525 | | | 2 275 | | |
| Add: | | | | | | |
| Income from investments and associates | 25 | | | 25 | | |
| Wealth created | 2 550 | 6.6 | 100.0 | 2 300 | 6.5 | 100.0 |
| Applied to: | | | | | | |
| Employees | | | | | | |
| Salaries, wages and other benefits | 998 | | 39.1 | 863 | | 37.5 |
| Providers of capital | 650 | | 25.5 | 600 | | 26.1 |
| Interest on borrowings | 25 | | 1.0 | 21 | | 0.9 |
| Dividends to ordinary shareholders | 625 | | 24.5 | 579 | | 25.2 |
| Taxation | 452 | | 17.7 | 391 | | 17.0 |
| Replacement of assets | 123 | | 4.8 | 108 | | 4.7 |
| Retained in the group | 327 | | 12.9 | 338 | | 14.7 |
| Wealth distributed | 2 550 | | 100.0 | 2 300 | | 100.0 |



# FIVE YEAR FINANCIAL REVIEW

| Rmillion | **2011** | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| **CONDENSED STATEMENTS OF COMPREHENSIVE INCOME** | | | | | |
| Revenue | **38 820** | 35 160 | 32 256 | 26 993 | 21 920 |
| Operating profit | **1 405** | 1 303 | 1 141 | 972 | 775 |
| Interest received | **18** | 25 | 35 | 46 | 32 |
| Interest paid | **(25)** | (21) | (29) | (19) | (10) |
| Share of equity accounted associate income | **7** | | | | (2) |
| Profit before taxation | **1 405** | 1 307 | 1 147 | 999 | 795 |
| Taxation | **(452)** | (391) | (402) | (317) | (272) |
| Total comprehensive income | **953** | 916 | 745 | 682 | 523 |
| **CONDENSED STATEMENTS OF FINANCIAL POSITION** | | | | | |
| **Assets** | | | | | |
| Property, plant and equipment | **1 550** | 1 521 | 1 426 | 1 083 | 736 |
| Goodwill | **382** | 300 | 246 | 246 | 246 |
| Loans and investments | **59** | 41 | 17 | 56 | 118 |
| Finance lease receivables | | | | 20 | 9 |
| Operating lease receivables | **119** | 139 | 143 | 125 | 115 |
| Other non-current assets | **1** | 2 | 2 | 4 | 4 |
| Deferred taxation asset | **13** | 3 | 22 | 16 | 15 |
| Current assets | **6 178** | 5 523 | 4 684 | 4 284 | 3 815 |
| Total assets | **8 302** | 7 529 | 6 540 | 5 834 | 5 058 |
| **Equity and liabilities** | | | | | |
| Capital and reserves | **2 489** | 2 187 | 1 940 | 1 488 | 1 110 |
| Deferred taxation liability | **1** | | | | |
| Post retirement medical aid provision | **86** | 75 | 68 | 61 | 55 |
| Operating lease payables | **130** | 135 | 142 | 124 | 115 |
| Current liabilities | **5 596** | 5 132 | 4 390 | 4 161 | 3 778 |
| Total equity and liabilities | **8 302** | 7 529 | 6 540 | 5 834 | 5 058 |
| **CONDENSED STATEMENTS OF CASH FLOWS** | | | | | |
| Cash flows from operating activities before dividends | **1 362** | 818 | 683 | (25) | 1 171 |
| Dividends paid | **(625)** | (579) | (468) | (355) | (246) |
| Cash flows from investing activities | **(254)** | (281) | (268) | (356) | (394) |
| Cash flows from financing activities | **(56)** | (121) | 23 | 29 | (118) |
| Net increase/(decrease) in cash and cash equivalents | **427** | (163) | (30) | (707) | 413 |

# RATIOS AND STATISTICS

| | | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|
| **SHARE PERFORMANCE** | | | | | | |
| Number of ordinary shares (net of treasury shares) | millions | **171.6** | 171.0 | 170.6 | 168.4 | 166.4 |
| Headline earnings per share | cents | **564.6*** | 543.7* | 484.8* | 405.7 | 312.3 |
| Dividends per share | cents | **377.0** | 362.0 | 322.0 | 255.0 | 185.0 |
| Dividend cover | multiple | **1.5*** | 1.5* | 1.5* | 1.6 | 1.7 |
| Net asset value per share | cents | **1 450.5** | 1 278.8 | 1 137.4 | 883.5 | 666.9 |
| **COMPREHENSIVE INCOME INFORMATION** | | | | | | |
| Gross margin | % | **8.1** | 7.9 | 8.0 | 8.1 | 8.2 |
| Trading profit margin | % | **3.7** | 3.8 | 3.8 | 3.6 | 3.6 |
| Headline earnings | Rmillion | **968.0*** | 928.9* | 822.1* | 680.3 | 521.9 |
| **SOLVENCY AND LIQUIDITY** | | | | | | |
| Return on equity | % | **40.7** | 44.4 | 43.5 | 52.5 | 52.3 |
| Return on net assets | % | **56.4** | 55.2 | 58.1 | 84.5 | 111.4 |
| **EMPLOYEE STATISTICS** | | | | | | |
| Number of employees at year-end | | **3 816** | 2 698 | 2 640 | 2 570 | 2 393 |
| **STOCK EXCHANGE STATISTICS** | | | | | | |
| Market price per share | | | | | | |
| – at year-end | cents | **9 629** | 9 290 | 6 470 | 5 050 | 5 511 |
| – highest | cents | **10 448** | 9 293 | 6 595 | 6 200 | 5 699 |
| – lowest | cents | **8 200** | 6 300 | 4 512 | 4 450 | 3 551 |
| Number of share transactions | | **183 725** | 127 113 | 81 598 | 53 673 | 38 761 |
| Number of shares traded | millions | **144.7** | 125.2 | 124.1 | 131.7 | 120.7 |
| Number of shares traded as a percentage of total issued shares | % | **84.6** | 73.2 | 72.7 | 78.2 | 72.5 |
| Value of shares traded | Rmillion | **13 808** | 9 181 | 6 807 | 6 938 | 5 403 |
| Earnings yield at year-end | % | **6.1*** | 5.9* | 7.5* | 8.0 | 5.7 |
| Dividend yield at year-end | % | **3.9** | 3.9 | 5.0 | 5.0 | 3.4 |
| Price earnings ratio at year-end | multiple | **17.3*** | 17.1* | 13.3* | 12.4 | 17.6 |
| Market capitalisation at year-end net of treasury shares | Rmillion | **16 327** | 15 889 | 11 038 | 8 504 | 9 170 |
| Market capitalisation to shareholders' equity at year-end | multiple | **6.6** | 8.3 | 5.7 | 5.7 | 8.3 |

* *Based on headline earnings excluding BBBEE cost.*

# DEFINITIONS

## SHAREHOLDERS' RATIOS

### Basic earnings per share
Attributable profit divided by the weighted average number of ordinary shares (net of treasury shares) in issue during the year.

### Basic earnings per share – diluted
Attributable profit divided by the fully diluted weighted average number of ordinary shares (net of treasury shares).

### Headline earnings per share
Headline earnings divided by the weighted average number of ordinary shares (net of treasury shares) in issue during the year.

### Headline earnings per share – diluted
Headline earnings divided by the fully diluted weighted average number of ordinary shares (net of treasury shares) in issue during the year.

### Dividend cover
Headline earnings per share divided by dividends per share for the year, comprising the interim dividend paid and the final dividend declared post year-end.

### Net asset value per share
The net asset value at year-end divided by the weighted average number of ordinary shares in issue during the year (net of treasury shares).

## COMPREHENSIVE INCOME INFORMATION

### Gross margin
Gross profit expressed as a percentage of turnover.

### Operating profit margin
Operating profit expressed as a percentage of turnover.

### Headline earnings
Headline earnings consist of the earnings attributable to ordinary shareholders, excluding non-trading and capital items.

## PROFITABILITY RETURNS

### Return on equity
Attributable profit expressed as a percentage of the average total equity.

### Return on net assets
Operating profit expressed as a percentage of the net closing asset value at year-end.

# ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2011

## CONTENTS



## PREPARER OF THE ANNUAL FINANCIAL STATEMENTS

In compliance with the disclosure requirement of the Companies Act, No 71 of 2008, the annual financial statements have been prepared by Mr MW Godfrey CA(SA) on behalf of The SPAR Group Limited.

# DIRECTORS' APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The directors of the company are responsible for the maintenance of adequate accounting records and the preparation and integrity of the financial statements and related information. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act of South Africa. The group's independent external auditors, Deloitte & Touche, have audited the financial statements and their unmodified report is enclosed.

The directors are also responsible for the systems of internal control. These controls are designed to provide reasonable but not absolute assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of the assets, to record all liabilities, and to prevent and detect material misstatement and loss. The systems are implemented and monitored by suitably trained personnel with appropriate segregation of authority and duties. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

In preparing the financial statements, the company and group have used appropriate accounting policies, supported by reasonable judgements and estimates, and have complied with all applicable accounting standards. The directors are of the opinion that the financial statements fairly present the financial position of the company and the group as at 30 September 2011 and the results of their operations and cash flows for the year under review.

The annual financial statements are prepared on the going concern basis. Nothing has come to the attention of the directors to indicate that the company or the group will not remain a going concern for the foreseeable future.

The annual financial statements were approved by the board of directors on 8 November 2011 and are signed on its behalf by:

MJ Hankinson
*Chairman*

WA Hook
*Chief Executive Officer*

8 November 2011

# CERTIFICATE BY COMPANY SECRETARY

In terms of section 88(2)(e) of the Companies Act, No 71 of 2008, as amended, I certify that, to the best of my knowledge and belief, the bank has lodged with the Registrar of Companies, for the financial year ended 30 September 2011, all such returns and notices as are required of a public company in terms of the Companies Act and that all such returns are true, correct and up to date.

KJ O'Brien
*Company Secretary*

8 November 2011

# INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF THE SPAR GROUP LIMITED

## REPORT ON THE FINANCIAL STATEMENTS
We have audited the group annual financial statements and annual financial statements of The SPAR Group Limited, which comprise the consolidated and separate statements of financial position as at 30 September 2011, and the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages 44 to 81 and the report of the Audit Committee as set out on pages 23 to 24.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS
The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION
In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of The Spar Group Limited as at 30 September 2011, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa.

**Deloitte & Touche**
*Registered Auditors*

Per Brian Botes CA (SA)
*Partner*

8 November 2011

2 Pencarrow Crescent, La Lucia Ridge Office Estate, Durban

National Executive: GG Gelink *(Chief Executive)*, AE Swiegers *(Chief Operating Officer)*, GM Pinnock *(Audit)*, DL Kennedy *(Risk Advisory & Legal Services)*, N Kader *(Tax)*, J Mazzacco *(Human Resources)* L Geeringh *(Consulting)*, L Bam *(Corporate Finance)*, CR Beukman *(Finance)*, TJ Brown *(Chairman of the Board)*, MJ Comber *(Deputy Chairman of the Board)*

Regional Leader: GC Brazier

A full list of partners and directors is available on request.

B-BBEE rating: Level 2 contributor/AAA (certified by Empowerdex)

Member of Deloitte Touche Tohmatsu Limited

# DIRECTORS' STATUTORY REPORT

## PRINCIPAL ACTIVITY OF THE COMPANY

The principal activity of the company is as a wholesaler and distributor of goods and services to SPAR grocery stores, Build it builders' merchandise outlets, and TOPS at SPAR liquor stores. The company operates seven main distribution centres which are strategically located close to the major metropolitan areas. These distribution centres service SPAR stores, Build it outlets and TOPS at SPAR stores across South Africa and neighbouring countries.

## FINANCIAL RESULTS

The net profit attributable to ordinary shareholders for the year ended 30 September 2011 amounted to R952.6 million (2010: R915.8 million). This translates into headline earnings per share of 557.1 cents (2010: 536.1 cents) based on the weighted average number of shares (net of treasury shares) in issue during the year.

## SHARE CAPITAL

Details of the authorised and issued share capital of the company are set out in note 18.

During the year, 766 591 (2010: 572 221) shares were issued to options holders who exercised their option rights in terms of the rules of The SPAR Group Limited Employee Share Trust (2004).

## TREASURY SHARES

During the year, The SPAR Group Limited Employee Share Trust (2004) purchased 1 050 000 (2010: 2 629 088) shares in The SPAR Group Limited for R97.8 million (2010: R188.1 million) of which 870 609 (2010: 2 497 679) shares were reissued to option holders who exercised their option rights. At year-end, 310 800 (2010: 131 409) treasury shares were held by the company.

At the 2011 annual general meeting ("AGM"), a general authority was granted by shareholders to allow the company to acquire its own shares in terms of the Companies Act. The directors consider it will be advantageous for the company for this general authority to continue. Such authority will be used if the directors consider that it is in the best interests of the company and shareholders to effect such share purchases having regard to prevailing circumstances and the cash resources of the company at the time. Shareholders will be asked to consider a similar special resolution to this effect at the forthcoming annual general meeting.

## SHARE OPTION SCHEME

Details of the unissued shares of the company subject to option, in terms of The SPAR Group Limited Employee Share Trust (2004), are as follows:

| | 2011 | 2010 |
|---|---|---|
| Shares under option at the beginning of the year | 9 457 534 | 11 587 534 |
| Options granted | 874 000 | 1 042 000 |
| Options exercised and paid in full | (1 574 900) | (3 161 100) |
| Options lapsed, cancelled or reinstated | 1 900 | (10 900) |
| Shares under option as at year-end (refer note 18.2) | 8 758 534 | 9 457 534 |
| Options available for issue (under control of the directors) | 3 219 632 | 4 093 632 |

Details of options granted are set out in note 18.2.

## DIVIDENDS

A final dividend of 222 cents in respect of 2010 was declared on 16 November 2010 and paid on 13 December 2010. An interim dividend of 142 cents per share was declared on 10 May 2011 and paid on 13 June 2011. A final dividend of 235 cents per share was declared on 8 November 2011, payable on 5 December 2011.

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

| | |
|---|---|
| Last day to trade cum-dividend | Friday, 25 November 2011 |
| Shares to commence trading ex-dividend | Monday, 28 November 2011 |
| Record date | Friday, 2 December 2011 |
| Payment of dividend | Monday, 5 December 2011 |

Shareholders will not be permitted to dematerialise or rematerialise their share certificates between Monday, 28 November 2011 and Friday, 2 December 2011, both days inclusive.

## DIRECTORATE

Details of the directors of the company at the date of this report are disclosed on pages 14 and 15.

In terms of the company's Articles of Association, one third of the non-executive directors retire annually by rotation at the annual general meeting. Accordingly, Mr PK Hughes and Ms P Mnganga retire at the AGM to be held on 14 February 2012, but offer themselves for re-appointment.

Mr CF Wells was appointed as an independent non-executive director with effect from 1 April 2011.

At 30 September 2011, the directors beneficially held 79 900 (2010: 94 100) shares in the company and unexercised options to acquire a total of 1 310 600 (2010: 1 327 700) ordinary shares in the company (refer notes 28.3 and 29).

## AUDIT COMMITTEE

The Audit Committee, a statutory committee of the board, addresses matters requiring specialist attention. The committee's responsibility includes, but is not limited to, the examination of internal control processes, reviewing and approving the internal audit plan, assessing the reports of the internal and external auditors and confirming that the company will remain a going concern.

The external and internal auditors have unrestricted access to the Audit Committee, and attend meetings to report on their findings and to discuss accounting, auditing, internal control and financial reporting matters.

During the year the independence of the auditors was tested and confirmed.

## RISK MANAGEMENT

The company has in place a Risk Committee, which operates as a sub-committee of the board. The committee is responsible for monitoring the management of risks that may affect the company's operations.

The group has identified the top 16 major risks that may have an effect on the operations of the company.

Regular risk management audits are conducted in conjunction with appropriate risk management consultants, where necessary. Identified risks are reviewed and action plans to minimise the possibility of a loss occurring are in place. Risks are considered to be adequately covered, and self-insurance programmes are in operation covering primary levels of risk. Assets are insured at current replacement values.

The group's practice regarding insurance includes an annual assessment, in conjunction with the group's insurance brokers, of the risk exposure relative to assets and possible liabilities arising from business transactions. In addition, the group's insurance programme is monitored by the Risk Committee.

## SUBSIDIARIES

The interest of the company in the aggregate net loss/profit after taxation of subsidiaries was a loss of R18.0 million (2010: profit of R12.1 million). Details of the company's subsidiaries are set out in note 34.

## EVENTS AFTER THE REPORTING DATE

The directors are not aware of any matters or circumstances arising since the end of the financial year which have or may significantly affect the financial position of the group or the results of its operations.

# ACCOUNTING POLICIES

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and have been prepared on the historical cost basis except for the revaluation of financial instruments, the valuation of share based payments and the post retirement medical obligation. The principal accounting policies are consistent with those of the previous year.

The group has considered and adopted all new standards, interpretations and amendments to existing standards that are effective as at year-end. There has been no material impact of these amendments on the financial statements.

## ADOPTION OF NEW AND REVISED STANDARDS

At the date of these financial statements, the following standards, interpretations and amendments to existing Standards were in issue but not yet effective:

New accounting standards or amendments thereto and interpretations of accounting standards effective for the financial year ending September 2012.

| Standard/ Interpretation | Description | Effective for annual periods beginning on or after |
|---|---|---|
| IFRS 3 | Business combinations | 1 January 2011 |
| IFRS 7 | Financial instruments: disclosures | 1 January 2011 |
| IAS 1 | Presentation of financial statements | 1 January 2011 |
| IAS 24 | Related party disclosures | 1 January 2011 |
| IAS 34 | Interim financial reporting | 1 January 2011 |
| IFRIC 13 | Customer loyalty programmes | 1 January 2011 |

New accounting standards or amendments thereto and interpretations of accounting standards effective after the financial year ending September 2012.

| Standard/ Interpretation | Description | Effective for annual periods beginning on or after |
|---|---|---|
| IAS 12 | Recovery of underlying assets | 1 January 2012 |
| IFRS 9 | Financial instruments | 1 January 2013 |
| IFRS 10 | Consolidated financial statements | 1 January 2013 |
| IFRS 11 | Joint arrangements | 1 January 2013 |
| IFRS 12 | Disclosure of interest in other entities | 1 January 2013 |
| IFRS 13 | Fair value measurement | 1 January 2013 |
| IAS 19 | Employee benefits | 1 January 2013 |
| IAS 27 | Separate financial statements | 1 January 2013 |
| IAS 28 | Investments in associates and joint ventures | 1 January 2013 |

The directors anticipate that the adoption of the aforementioned standards and interpretations and amendments to existing standards will not have a material impact on the profits or financial position of the group.

## BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the results and financial position of the company and all its subsidiaries, which are defined as entities over which the group has the ability to exercise control so as to obtain benefits from their activities. The results of subsidiaries are included from the effective dates of acquisition and up to the effective dates of disposal.

All inter-company transactions and balances between group companies are eliminated.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies in line with those used by the group.

The company has effective control of The SPAR Guild of Southern Africa and The Build it Guild of Southern Africa and the assets and liabilities of these entities are consolidated with those of the company. As the company acts as an agent of these Guilds, the income and the expenditure of the Guilds has been offset and not consolidated.

Investments acquired with the intention of disposal within twelve months are not consolidated.

## PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Land is stated at cost and is not depreciated.

Land and buildings are held for use in the supply of goods.

Owner-occupied buildings are stated at cost and depreciated at 2% per annum on a straight-line basis to their estimated residual value. No revaluations have been made to property since 1984.

The cost less residual values of plant and equipment is depreciated over their estimated useful lives on a straight-line basis. The useful lives and residual values of all assets are reviewed annually and are adjusted should any changes arise. The following depreciation rates apply:

| | |
|---|---|
| Vehicles | 10% to 25% per annum |
| Plant and equipment | 8,3% to 33,3% per annum |
| Furniture and fittings | 20% to 33,3% per annum |
| Computer equipment | 10% to 33,3% per annum |

Where assets are identified as being impaired, that is when the recoverable amount has declined below the carrying amount, the carrying amount is reduced to reflect the decline in value.

Profit and loss on disposal of property, plant and equipment is recognised in profit or loss in the year of disposal.

Property, plant and equipment subject to finance lease agreements is capitalised at the cash cost equivalent and the corresponding liabilities raised. Lease finance charges are charged to operating profit as they fall due. These assets are depreciated over their expected useful lives on the same basis as owned assets, or, where shorter, the term of the lease.

### BUSINESS COMBINATIONS

The acquisition of entities is accounted for under the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of the exchange of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair values at acquisition date, except for non-current assets held for sale, which are recognised at fair value less cost to sell. Goodwill arising on acquisition is initially recognised at cost. Negative goodwill is immediately recognised to profit and loss.

### GOODWILL

Goodwill arising on the acquisition of entities represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the entities recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the group's cash-generating units. Cash-generating units to which goodwill has been allocated are tested annually for impairment or more frequently when there is an indication that the cash-generating unit may be impaired. Any impairment loss is recognised directly to profit and loss. An impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of an entity, attributable goodwill is included in the determination of the profit and loss on disposal.

### INVESTMENTS IN SUBSIDIARIES

Subsidiaries are entities (including special purpose entities) which are, directly or indirectly, controlled by the group. Control is established where the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Investments in subsidiaries are stated at cost less amounts written off to provide for diminution in the net asset values of subsidiaries where appropriate.

### INVESTMENT IN JOINT VENTURES

Investment in joint ventures are accounted for in terms of IAS 31 Interests in Joint Ventures. IAS 31 permits the use of the equity method as an alternative treatment when recognising interests in jointly controlled entities.

### INVESTMENT IN ASSOCIATES

Associates are those companies, which are not subsidiaries, over which the group exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these decisions. Associate companies are accounted for using the equity method except where the investment is classified as held for sale, in which case it is accounted for under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Equity accounted income represents the group's proportionate share of the associate's post-acquisition accumulated profit after accounting for dividends declared by those entities.

The carrying value of investments in associates represents the cost of each investment including goodwill, the share of post acquisition retained income or losses and other movements in reserves. Losses of an associate in excess of the group's interest in that associate (which includes any long-term interests that, in substance, form part of the group's net investment in the associate) are not recognised. Any excess of the cost of acquisition over the group's share of the fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of the acquisition, is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

When a group company transacts with the associate, profits and losses are eliminated to the extent of the group's interest in the relevant associate.

### IMPAIRMENT (excluding goodwill)

At each statement of financial position date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the extent that the increased carrying amount does not exceed the original carrying value. A reversal of an impairment loss is recognised immediately to profit and loss.

### SHARE BASED PAYMENTS

The group has applied the requirements of IFRS 2 Share Based Payments to all equity instruments issued after 7 November 2002 that had not vested as of 1 January 2005. The group issues equity settled share based payments to certain employees. These share based payments are measured at fair value at the date of the grant and are recognised to profit and loss on a straight-line basis over the vesting period. Fair value is measured at grant date by use of a binomial model. The expected life used in the model is adjusted, based on management's best estimate of the effect of non-market vesting conditions.

The group's accounting for the BBBEE transaction complies with the requirements of IFRS 2 Share Based Payments. The fair value of options granted to retailer employees is recognised immediately to profit and loss. The fair value of options granted to SPAR employees is recognised to profit and loss over the vesting period. Fair value is measured at grant date by use of a binomial model. The expected life used in the model is adjusted, based on management's best estimate of the effect of non-market vesting conditions.

### TAXATION

Income taxation expense represents the sum of current taxation payable, deferred taxation and Secondary Taxation on Companies ("STC"). Current taxation is payable based on taxable profit for the year. Taxable profit will differ from reported profit because it will exclude items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been substantively enacted at the statement of financial position date. STC is recognised at the time the dividend is declared.

Deferred taxation is recognised on differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred taxation liabilities are generally recognised for all taxable temporary differences.

Deferred taxation is calculated using taxation rates at the statement of financial position date and is charged or credited to the statement of comprehensive income, except when it relates to items credited or charged directly to equity, in which case the deferred taxation is dealt with in equity.

Deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which future deductible temporary differences can be utilised. The carrying amount of deferred taxation assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available.

Deferred taxation assets and liabilities are not recognised if the temporary difference arises from goodwill, or from the initial recognition (other than business combinations) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit.

### INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Obsolete, redundant and slow moving inventory is identified and written down to estimated economic or realisable values. Net realisable value represents the selling price less all estimated costs to be incurred in marketing, selling and distribution thereof.

When inventory is sold, the carrying amount is recognised to cost of sales. Any writedown of inventory to net realisable value and all losses of inventory or reversals of previous writedowns are recognised in cost of sales.

## POST RETIREMENT MEDICAL AID PROVISION

The company provides post retirement health care benefits to certain of its retirees. The entitlement to these benefits is based on qualifying employees remaining in service until retirement age. The projected unit credit method of valuation is used to calculate the post retirement medical aid obligations, which costs are accrued over the period of employment. These benefits are actuarially valued every two years with the last valuation taking place in the current year. Actuarial gains and losses exceeding 10% of the group's post retirement medical aid provision are amortised to profit and loss over the expected remaining working lives of the participating employees. The liability is unfunded.

## PROVISIONS

Provisions are recognised when the company has a legal or constructive obligation as a result of past events, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

## RETIREMENT BENEFITS

The group contributes to pension and provident funds which are governed by the Pension Funds Act, 1956. The defined contribution funds are reviewed annually by consulting actuaries. Contributions are charged against income as incurred. The defined benefit fund is actuarially valued every three years with the last statutory valuation occurring on 1 March 2008. The projected unit credit method of valuation is used to calculate the fair value of the plan assets and liabilities.

## REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration receivable and represents amounts receivable for goods and services provided in the normal course of business, net of rebates, discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Advertising revenue consists of contributions from suppliers towards promotional activities and is recognised when the associated advertising and promotional activity has occurred.

Interest income is accrued on a time basis, by reference to the principal outstanding and at an applicable interest rate.

Dividend income from investments is brought to account as and when the company is entitled to receive such dividend unless the dividend is due from an entity which operates under severe long-term restrictions. The dividends from these entities are accounted for on a cash basis.

## FOREIGN CURRENCIES

Transactions in currencies other than in Rands are initially recorded at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates ruling at period end. Exchange differences arising on the settlement of monetary items or on reporting the group's monetary items at rates different from those at which they were initially recorded, are recognised to profit or loss in the period in which they arise.

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Rands, which is the functional currency of the company, and the presentation currency for the consolidated financial statements. For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations (including comparatives) are expressed in Rands using exchange rates prevailing at period end. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the group's translation reserve. In the period that the foreign operation is disposed of, such translation differences are recognised to profit or loss.

## FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the statement of financial position when the company or group becomes a party to the contractual provisions of the instrument. Financial instruments are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the instruments are measured as set out below:

- the principal financial assets are cash resources, trade receivables, investments and loans. Trade receivables, loans and cash resources are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. In the company's financial statements, the investments in subsidiaries are stated at cost less amounts written off to provide for the diminution in the net asset values of the subsidiaries;.
- financial liabilities are classified according to the substance of the contractual arrangements. Significant financial liabilities include trade and other payables. Trade and other payables are stated at their nominal value;
- derivative assets and liabilities are recognised at fair value at each reporting date; and
- equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

Financial assets and financial liabilities are offset and the net amounts are reported in the statement of financial position when the group has a legally enforceable right to set-off the recognised amounts and intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

## FINANCIAL GUARANTEES

Financial guarantee contracts are accounted for as insurance contracts in terms of IFRS 4 Insurance Contracts and are measured initially at cost and thereafter in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

## LEASED ASSETS

Leased assets are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rental recoveries received under property head lease agreements are recognised on the straight-line basis over the period of the relevant lease. These are offset against the head lease rental charge in operating expenditure.

Rental income in respect of operating leases is recognised on a straight-line basis over the term of the relevant lease.

### In the capacity of lessee

Assets held under finance leases are recognised as assets of the group at their fair values, or if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit and loss.

Rental costs incurred under operating leases are charged to profit and loss on a straight-line basis over the term of the relevant lease.

# KEY MANAGEMENT JUDGEMENTS

There are a number of areas where judgement is applied in the application of the accounting policies in the financial statements.

Significant areas of judgement have been identified as:

### IMPAIRMENT OF GOODWILL

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which the goodwill relates. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate to calculate the present value. Details of the assumptions used in the impairment test are detailed in note 10.

### PROPERTY, PLANT, EQUIPMENT AND VEHICLES

The directors have assessed the useful lives and residual values of assets based on historical trends.

### PROVISION FOR INVENTORY OBSOLESCENCE

The provision for net realisable value of inventory represents management's estimate of the extent to which inventory on hand at the reporting date will be sold below cost. This estimate takes into consideration past trends, evidence of impairment at year-end and an assessment of future saleability.

### ALLOWANCE FOR DOUBTFUL DEBTS IN TRADE RECEIVABLES

The allowance for doubtful debts in trade receivables 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.

### POST EMPLOYMENT BENEFITS

The post employment benefits are valued by actuaries taking into account the assumptions as detailed in note 21.

### SHARE OPTIONS

The share options are actuarially valued using a binomial model, with the expected life used in the model being based on management estimates.

### KEY SOURCES OF ESTIMATION UNCERTAINTY

There are no key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date that management have assessed as having a significant risk of causing material adjustment to the carrying amounts of the assets and liabilities within the next financial year.

# STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER 2011

| Rmillion | Notes | GROUP 2011 | GROUP 2010 | COMPANY 2011 | COMPANY 2010 |
|---|---|---|---|---|---|
| **Revenue** | 1 | **38 819.6** | 35 159.6 | **37 943.3** | 34 526.7 |
| **Trading profit** | 3 | **1 417.3** | 1 316.3 | **1 438.6** | 1 315.9 |
| BBBEE transactions | 35 | **(12.9)** | (13.0) | **(12.9)** | (13.0) |
| **Operating profit** | | **1 404.4** | 1 303.3 | **1 425.7** | 1 302.9 |
| Interest received | 4 | **18.2** | 24.6 | **18.7** | 24.6 |
| Interest paid | 4 | **(24.7)** | (20.9) | **(24.3)** | (20.9) |
| Share of equity accounted associate income | 12 | **6.7** | 0.4 | | |
| **Profit before taxation** | | **1 404.6** | 1 307.4 | **1 420.1** | 1 306.6 |
| Taxation | 5 | **(452.0)** | (391.6) | **(450.4)** | (385.6) |
| **Profit for the year attributable to ordinary shareholders** | | **952.6** | 915.8 | **969.7** | 921.0 |
| Other comprehensive income | | | | | |
| Exchange differences from translation of foreign operations | | **0.1** | 0.1 | | |
| **Total comprehensive income** | | **952.7** | 915.9 | **969.7** | 921.0 |
| **Earnings per share** (cents) | 6 | | | | |
| Basic | | **555.6** | 536.0 | | |
| Diluted | | **521.4** | 506.2 | | |

# STATEMENTS OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2011

| Rmillion | Notes | GROUP 2011 | GROUP 2010 | COMPANY 2011 | COMPANY 2010 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | 2 123.8 | 2 006.0 | 2 035.0 | 1 963.9 |
| Property, plant and equipment | 9 | 1 550.4 | 1 521.0 | 1 433.3 | 1 457.7 |
| Goodwill | 10 | 381.9 | 299.7 | 245.6 | 245.6 |
| Investment in subsidiaries | 34 | | | 170.7 | 78.3 |
| Investment in associates | 12 | 22.1 | 17.0 | 15.1 | 16.2 |
| Other investments | 13.3 | 1.5 | 1.5 | 1.5 | 1.5 |
| Operating lease receivables | 11 | 119.3 | 139.1 | 131.2 | 139.1 |
| Loans | 13 | 34.8 | 23.0 | 34.8 | 23.2 |
| Deferred taxation asset | 14 | 13.2 | 3.2 | 2.2 | 0.8 |
| Other non-current assets | | 0.6 | 1.5 | 0.6 | 1.5 |
| **Current assets** | | 6 177.8 | 5 522.9 | 5 939.6 | 5 276.9 |
| Inventories | 15 | 1 135.0 | 959.2 | 1 099.5 | 942.1 |
| Trade and other receivables | 16 | 4 867.8 | 4 412.0 | 4 734.4 | 4 259.1 |
| Prepayments | | 26.6 | 28.6 | 25.9 | 27.3 |
| Operating lease receivables | 11 | 36.7 | 25.7 | 36.7 | 25.7 |
| Loans | 13 | 15.3 | 2.2 | 43.1 | 13.0 |
| Taxation receivable | 25 | | 10.0 | | 9.7 |
| Bank balances – Guilds | 17 | 96.4 | 85.2 | | |
| **Total assets** | | 8 301.6 | 7 528.9 | 7 974.6 | 7 240.8 |
| **EQUITY AND LIABILITIES** | | | | | |
| **Capital and reserves** | | 2 489.5 | 2 187.2 | 2 529.3 | 2 193.0 |
| Share capital and premium | 18 | 49.6 | 33.4 | 49.6 | 33.4 |
| Treasury shares | 19 | (27.8) | (10.8) | | |
| Currency translation reserve | | (0.1) | (0.2) | | |
| Share based payment reserve | | 292.0 | 261.8 | 292.0 | 261.8 |
| Retained earnings | | 2 175.8 | 1 903.0 | 2 187.7 | 1 897.8 |
| **Non-current liabilities** | | 216.5 | 209.5 | 215.7 | 208.2 |
| Deferred taxation liability | 14 | 0.6 | | | |
| Post retirement medical aid provision | 21 | 85.5 | 75.1 | 85.5 | 75.1 |
| Operating lease payables | 11 | 130.4 | 134.4 | 130.2 | 133.1 |
| **Current liabilities** | | 5 595.6 | 5 132.2 | 5 229.5 | 4 839.6 |
| Trade and other payables | 22 | 5 391.5 | 4 565.0 | 5 016.7 | 4 246.0 |
| Operating lease payables | 11 | 37.0 | 29.9 | 37.0 | 29.9 |
| Provisions | 23 | 11.6 | 5.8 | 9.7 | 4.6 |
| Taxation payable | 25 | 40.6 | 0.4 | 40.6 | |
| Bank overdrafts | 17 | 114.9 | 531.1 | 125.5 | 559.1 |
| **Total equity and liabilities** | | 8 301.6 | 7 528.9 | 7 974.6 | 7 240.8 |

# STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2011

| Rmillion | Share capital and premium | Treasury shares | Currency translation reserve | Share based payment reserve | Retained earnings | Attributable to ordinary shareholders |
|---|---|---|---|---|---|---|
| **GROUP** | | | | | | |
| Capital and reserves at 30 September 2009 | 23.3 | – | (0.3) | 231.1 | 1 686.2 | 1 940.3 |
| Total comprehensive income for the year | | | 0.1 | | 915.8 | 915.9 |
| Recognition of share based payments | | | | 18.3 | | 18.3 |
| Take-up of share options | | 187.4 | | (120.5) | | 66.9 |
| Transfer arising from take-up of share options | | | | 120.5 | (120.5) | – |
| Share repurchases | | (188.1) | | | | (188.1) |
| Dividends declared | | | | | (578.5) | (578.5) |
| Issue of shares | 10.1 | (10.1) | | | | – |
| Recognition of BBBEE transaction | | | | 12.4 | | 12.4 |
| Capital and reserves at 30 September 2010 | 33.4 | (10.8) | (0.2) | 261.8 | 1 903.0 | 2 187.2 |
| Total comprehensive income for the year | | | 0.1 | | 952.6 | 952.7 |
| Recognition of share based payments | | | | 17.8 | | 17.8 |
| Take-up of share options | | 97.0 | | (55.2) | | 41.8 |
| Transfer arising from take-up of share options | | | | 55.2 | (55.2) | - |
| Share repurchases | | (97.8) | | | | (97.8) |
| Dividends declared | | | | | (624.6) | (624.6) |
| Issue of shares | 16.2 | (16.2) | | | | - |
| Recognition of BBBEE transaction | | | | 12.4 | | 12.4 |
| **Capital and reserves at 30 September 2011** | 49.6 | (27.8) | (0.1) | 292.0 | 2 175.8 | 2 489.5 |
| **COMPANY** | | | | | | |
| Capital and reserves at 30 September 2009 | 23.3 | – | – | 231.1 | 1 675.8 | 1 930.2 |
| Total comprehensive income for the year | | | | | 921.0 | 921.0 |
| Recognition of share based payments | | | | 18.3 | | 18.3 |
| Contribution to Employee Share Trust | | | | (120.5) | | (120.5) |
| Transfer arising from take-up of share options | | | | 120.5 | (120.5) | – |
| Dividends declared | | | | | (578.5) | (578.5) |
| Issue of shares | 10.1 | | | | | 10.1 |
| Recognition of BBBEE transaction | | | | 12.4 | | 12.4 |
| Capital and reserves at 30 September 2010 | 33.4 | – | – | 261.8 | 1 897.8 | 2 193.0 |
| Total comprehensive income for the year | | | | | 969.7 | 969.7 |
| Recognition of share based payments | | | | 17.8 | | 17.8 |
| Contribution to Employee Share Trust | | | | (55.2) | | (55.2) |
| Transfer arising from take-up of share options | | | | 55.2 | (55.2) | - |
| Dividends declared | | | | | (624.6) | (624.6) |
| Issue of shares | 16.2 | | | | | 16.2 |
| Recognition of BBBEE transaction | | | | 12.4 | | 12.4 |
| **Capital and reserves at 30 September 2011** | 49.6 | – | – | 292.0 | 2 187.7 | 2 529.3 |

# STATEMENTS OF CASH FLOW
FOR THE YEAR ENDED 30 SEPTEMBER 2011

| Rmillion | Notes | GROUP 2011 | GROUP 2010 | COMPANY 2011 | COMPANY 2010 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | **737.7** | 238.9 | **703.4** | 214.5 |
| Cash generated from operations | 24 | **1 781.2** | 1 199.5 | **1 736.9** | 1 166.6 |
| Interest received | | **17.1** | 23.6 | **16.9** | 23.6 |
| Interest paid | | **(24.7)** | (20.9) | **(24.3)** | (20.9) |
| Taxation paid | 25 | **(411.3)** | (384.8) | **(401.5)** | (376.3) |
| Dividends paid | 8 | **(624.6)** | (578.5) | **(624.6)** | (578.5) |
| **Cash flows from investing activities** | | **(254.2)** | (281.0) | **(286.0)** | (414.9) |
| Acquisition of subsidiaries | 36.2 | **(82.2)** | (54.1) | | (12.9) |
| Investment to expand operations | | **(118.0)** | (169.3) | **(52.8)** | (149.7) |
| Investment to maintain operations | | **(36.6)** | (34.3) | **(41.5)** | (34.4) |
| – Replacement of property, plant and equipment | | **(41.5)** | (36.3) | **(41.8)** | (36.3) |
| – Proceeds on disposal of property, plant and equipment | | **4.9** | 2.0 | **0.3** | 1.9 |
| Net movement in loans and investments | 24.1 | **(17.4)** | (23.3) | **(191.7)** | (217.9) |
| **Cash flows from financing activities** | | **(56.1)** | (121.3) | **16.2** | 10.1 |
| Proceeds from issue of share capital | | **16.2** | 10.1 | **16.2** | 10.1 |
| Proceeds from exercise of share options | | **25.5** | 56.7 | | |
| Share repurchases | 19 | **(97.8)** | (188.1) | | |
| **Net increase/(decrease) in cash and cash equivalents** | | **427.4** | (163.4) | **433.6** | (190.3) |
| Net overdrafts at beginning of year | | **(445.9)** | (282.5) | **(559.1)** | (368.8) |
| **Net overdrafts at end of year** | 17 | **(18.5)** | (445.9) | **(125.5)** | (559.1) |

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| | Rmillion | **2011** | 2010 | **2011** | 2010 |
| 1. | **REVENUE** | | | | |
| | Turnover | **38 458.7** | 34 844.2 | **37 562.9** | 34 197.8 |
| | Other income | **360.9** | 315.4 | **380.4** | 328.9 |
| | Marketing revenues | **355.3** | 311.2 | **354.7** | 310.7 |
| | Other receipts | **5.6** | 4.2 | **5.6** | 4.2 |
| | Dividends received – subsidiaries and associates | | | **20.1** | 14.0 |
| | Total revenue | **38 819.6** | 35 159.6 | **37 943.3** | 34 526.7 |
| 2. | **COST OF SALES** | | | | |
| | Cost of sales represents the net cost of purchases from suppliers, after discounts, rebates and incentive allowances received from suppliers. | | | | |
| 3. | **TRADING PROFIT** | | | | |
| | Trading profit is arrived at after taking into account: | | | | |
| | Turnover | **38 458.7** | 34 844.2 | **37 562.9** | 34 197.8 |
| | Cost of sales | **(35 336.6)** | (32 083.7) | **(34 565.6)** | (31 463.3) |
| | Gross profit | **3 122.1** | 2 760.5 | **2 997.3** | 2 734.5 |
| | Other income | **360.9** | 315.4 | **380.4** | 328.9 |
| | Operating expenses | **(2 065.7)** | (1 759.6) | **(1 939.1)** | (1 747.5) |
| | Warehousing and distribution expenses | **(968.9)** | (862.4) | **(978.9)** | (871.8) |
| | Marketing and selling expenses | **(595.2)** | (434.7) | **(466.9)** | (426.1) |
| | Administration and information technology expenses | **(501.6)** | (462.5) | **(493.3)** | (449.6) |
| | Trading profit | **1 417.3** | 1 316.3 | **1 438.6** | 1 315.9 |

| Rmillion | GROUP 2011 | GROUP 2010 | COMPANY 2011 | COMPANY 2010 |
|---|---|---|---|---|
| 3. **TRADING PROFIT** continued | | | | |
| Operating expenses include the following: | | | | |
| Auditors' remuneration: | **6.0** | 4.7 | **4.4** | 3.9 |
| Audit fees | **4.6** | 4.5 | **3.2** | 3.8 |
| Other fees | **1.4** | 0.2 | **1.2** | 0.1 |
| Depreciation: | **122.5** | 108.3 | **115.3** | 106.9 |
| Buildings and leasehold improvements | **10.2** | 13.8 | **9.7** | 13.0 |
| Plant, equipment and vehicles | **112.3** | 94.5 | **105.6** | 93.9 |
| Fair value adjustment | **(0.2)** | (0.3) | **(0.2)** | (0.3) |
| Net foreign exchange (profits)/losses | **(0.5)** | 1.1 | **(0.5)** | 1.1 |
| Operating lease charges: | | | | |
| Immovable property | **35.2** | 10.0 | **11.7** | 9.5 |
| Lease rentals payable | **337.6** | 274.5 | **314.1** | 274.0 |
| Sub-lease recoveries | **(302.4)** | (264.5) | **(302.4)** | (264.5) |
| Plant, equipment and vehicles | **13.9** | 7.5 | **12.8** | 7.5 |
| Net loss on disposal of plant and equipment | **3.4** | 0.1 | **3.4** | 0.1 |
| Post retirement medical aid provision | **12.9** | 7.2 | **12.9** | 7.2 |
| Retirement contributions: | | | | |
| Defined contribution plan expenses | **66.7** | 57.7 | **66.5** | 57.4 |
| Defined benefit plan expenses | **0.4** | 0.1 | **0.4** | 0.1 |
| Share based payments charge | **17.8** | 18.3 | **17.8** | 18.3 |
| Staff costs | **997.6** | 863.0 | **942.4** | 855.4 |
| Technical and consulting fees | **12.1** | 7.3 | **11.8** | 7.3 |

| | Rmillion | | GROUP 2011 | GROUP 2010 | COMPANY 2011 | COMPANY 2010 |
|---|---|---|---|---|---|---|
| 4. | **NET INTEREST** | | | | | |
| | **Interest received** | | | | | |
| | Bank deposits | | **7.6** | 12.4 | **8.1** | 12.4 |
| | Loans | | **1.8** | 1.0 | **1.8** | 1.0 |
| | Overdue debtors | | **8.5** | 10.0 | **8.5** | 10.0 |
| | Other | | **0.3** | 1.2 | **0.3** | 1.2 |
| | Total interest received | | **18.2** | 24.6 | **18.7** | 24.6 |
| | **Interest paid** | | | | | |
| | Security deposits | | **(2.5)** | (3.4) | **(2.5)** | (3.4) |
| | Bank overdraft | | **(22.0)** | (17.3) | **(21.6)** | (17.3) |
| | Other | | **(0.2)** | (0.2) | **(0.2)** | (0.2) |
| | Total interest paid | | **(24.7)** | (20.9) | **(24.3)** | (20.9) |
| | Net interest (paid)/received | | **(6.5)** | 3.7 | **(5.6)** | 3.7 |
| 5. | **TAXATION** | | | | | |
| | Current taxation | | | | | |
| | – current year | | **395.7** | 325.3 | **386.6** | 318.8 |
| | – prior year | | **2.8** | (12.8) | **2.7** | (12.8) |
| | Deferred taxation | | | | | |
| | – current year | | **(6.1)** | 23.4 | **1.9** | 24.1 |
| | – prior year | | **(3.3)** | (2.8) | **(3.3)** | (2.8) |
| | Secondary Tax on Companies | | **62.5** | 58.3 | **62.5** | 58.3 |
| | Foreign withholding tax | | **0.4** | 0.2 | | |
| | Total taxation | | **452.0** | 391.6 | **450.4** | 385.6 |
| | **Reconciliation of effective taxation rate** | | | | | |
| | Standard taxation rate | (%) | **28.0** | 28.0 | **28.0** | 28.0 |
| | Permanent differences | (%) | **(0.2)** | (1.3) | **(0.7)** | (1.8) |
| | Prior year overprovision | (%) | | (1.2) | | (1.2) |
| | Secondary Tax on Companies | (%) | **4.4** | 4.5 | **4.4** | 4.5 |
| | Effective rate of taxation | | **32.2** | 30.0 | **31.7** | 29.5 |

| Rmillion | | GROUP 2011 | 2010 | COMPANY 2011 | 2010 |
|---|---|---|---|---|---|
| **6. EARNINGS PER SHARE** | | | | | |
| Earnings per share is calculated using the weighted average number of ordinary shares (net of treasury shares) in issue during the year. In the case of basic earnings per share, the weighted average number of ordinary shares (net of treasury shares) in issue during the year was 171 444 814 (2010: 170 862 375). In respect of diluted earnings per share, the weighted average number of ordinary shares (net of treasury shares) was 182 689 548 (2010: 180 912 511). | | | | | |
| The calculation of the basic and diluted earnings per share attributable to ordinary shareholders is based on the following data: | | | | | |
| **Earnings** | | | | | |
| Earnings for the purpose of basic and diluted earnings per share (profit for the year attributable to ordinary shareholders) | | 952.6 | 915.8 | 969.7 | 921.0 |
| **Number of shares** | | | | | |
| Weighted average number of ordinary shares (net of treasury shares) for the purposes of basic earnings per share | ('000) | 171 445 | 170 862 | 171 445 | 170 862 |
| Effect of diluted potential ordinary shares: | | | | | |
| Share options and BBBEE shares | ('000) | 11 245 | 10 050 | 11 245 | 10 050 |
| Weighted average number of ordinary shares (net of treasury shares) for the purpose of diluted earnings per share | ('000) | 182 690 | 180 912 | 182 690 | 180 912 |
| **7. HEADLINE EARNINGS** | | | | | |
| Profit for the year attributable to ordinary shareholders | | 952.6 | 915.8 | 969.7 | 921.0 |
| Adjusted for: | | | | | |
| Loss on sale of property, plant and equipment | | 2.5 | 0.1 | 2.5 | 0.1 |
| – Gross | | 3.4 | 0.1 | 3.4 | 0.1 |
| – Tax effect | | (0.9) | | (0.9) | |
| Headline earnings | | 955.1 | 915.9 | 972.2 | 921.1 |
| Add BBBEE transactions | | 12.9 | 13.0 | 12.9 | 13.0 |
| Headline earnings before BBBEE transactions | | 968.0 | 928.9 | 985.1 | 934.1 |
| Headline earnings per share | | | | | |
| Basic | (cents) | 557.1 | 536.1 | | |
| Diluted | (cents) | 522.8 | 506.3 | | |
| Before BBBEE transactions | | | | | |
| Basic | (cents) | 564.6 | 543.7 | | |
| Diluted | (cents) | 529.9 | 513.5 | | |

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2011

| Rmillion | | GROUP 2011 | GROUP 2010 | COMPANY 2011 | COMPANY 2010 |
|---|---|---|---|---|---|
| **8. DIVIDENDS PAID** | | | | | |
| 2010 Final dividend declared 16 November 2010 – paid 13 December 2010 | | **243.7** | 339.2 | **243.7** | 339.2 |
| 2011 Interim dividend declared 10 May 2011 – paid 13 June 2011 | | **380.9** | 239.3 | **380.9** | 239.3 |
| Total dividends | | **624.6** | 578.5 | **624.6** | 578.5 |
| 2010 Final dividend per share declared 16 November 2010 – paid 13 December 2010 | (cents) | **222.0** | 200.0 | **222.0** | 200.0 |
| 2011 Interim dividend per share declared 10 May 2011 – paid 13 June 2011 | (cents) | **142.0** | 140.0 | **142.0** | 140.0 |
| Total dividends per share | (cents) | **364.0** | 340.0 | **364.0** | 340.0 |

The final dividend for the year ended 30 September 2011 of 235 cents per share declared on 8 November 2011 and payable on 5 December 2011 has not been accrued.

STC at 10% is payable on this dividend, and has likewise not been accrued for.

| Rmillion | Freehold land and buildings | Leasehold buildings | Plant, equipment and vehicles | Total |
|---|---|---|---|---|
| **9. PROPERTY, PLANT AND EQUIPMENT** | | | | |
| **GROUP – 2011** | | | | |
| Carrying value at 30 September 2010 | 922.5 | 1.4 | 597.1 | 1 521.0 |
| Additions | 28.1 | | 131.4 | 159.5 |
| Disposals at net book value | | | (3.7) | (3.7) |
| Impairment | | | (3.9) | (3.9) |
| Depreciation | (9.9) | (0.3) | (112.3) | (122.5) |
| Carrying value at 30 September 2011 | 940.7 | 1.1 | 608.6 | 1 550.4 |
| Analysed as follows: | | | | |
| Cost | 1 024.6 | 2.7 | 1 144.1 | 2 171.4 |
| Accumulated depreciation and impairments | (83.9) | (1.6) | (535.5) | (621.0) |
| **COMPANY – 2011** | | | | |
| Carrying value at 30 September 2010 | 878.4 | 1.3 | 578.0 | 1 457.7 |
| Additions | 2.1 | | 92.5 | 94.6 |
| Disposals at net book value | | | (3.7) | (3.7) |
| Depreciation | (9.4) | (0.3) | (105.6) | (115.3) |
| Carrying value at 30 September 2011 | 871.1 | 1.0 | 561.2 | 1 433.3 |
| Analysed as follows: | | | | |
| Cost | 944.4 | 2.7 | 1 088.8 | 2 035.9 |
| Accumulated depreciation | (73.3) | (1.7) | (527.6) | (602.6) |

| Rmillion | Freehold land and buildings | Leasehold buildings | Plant, equipment and vehicles | Total |
|---|---|---|---|---|
| 9. **PROPERTY, PLANT AND EQUIPMENT** continued | | | | |
| **GROUP – 2010** | | | | |
| Carrying value at 30 September 2009 | 916.3 | 0.5 | 509.0 | 1 425.8 |
| Additions | 19.9 | 1.0 | 184.7 | 205.6 |
| Disposals at net book value | | | (2.1) | (2.1) |
| Depreciation | (13.7) | (0.1) | (94.5) | (108.3) |
| Carrying value at 30 September 2010 | 922.5 | 1.4 | 597.1 | 1 521.0 |
| Analysed as follows: | | | | |
| Cost | 996.5 | 2.7 | 1 041.4 | 2 040.6 |
| Accumulated depreciation | (74.0) | (1.3) | (444.3) | (519.6) |
| **COMPANY – 2010** | | | | |
| Carrying value at 30 September 2009 | 871.3 | 0.5 | 508.9 | 1 380.7 |
| Additions | 19.9 | 1.0 | 165.1 | 186.0 |
| Disposals at net book value | | | (2.1) | (2.1) |
| Depreciation | (12.8) | (0.2) | (93.9) | (106.9) |
| Carrying value at 30 September 2010 | 878.4 | 1.3 | 578.0 | 1 457.7 |
| Analysed as follows: | | | | |
| Cost | 942.3 | 2.7 | 1 021.2 | 1 966.2 |
| Accumulated depreciation | (63.9) | (1.4) | (443.2) | (508.5) |

Details of land and buildings are recorded in a register which is available for inspection at the registered office of the company. The directors' valuation of freehold land and buildings at 30 September 2011 is R1 287.9 million (2010: R1 026.4 million). The valuation is based on a net yield of 12% (2010: 14%).

As required by IAS 16, the group has reviewed the useful lives and residual values of property, plant and equipment. The review resulted in an adjustment to the residual values and useful lives of the commercial vehicles and freehold buildings in the current year.

| | Rmillion | GROUP 2011 | GROUP 2010 | COMPANY 2011 | COMPANY 2010 |
|---|---|---|---|---|---|
| 10. | **GOODWILL** | | | | |
| | Opening balance | **299.7** | 245.6 | **245.6** | 245.6 |
| | Business combination | **82.2** | 54.1 | | |
| | Closing balance | **381.9** | 299.7 | **245.6** | 245.6 |
| | Closing balance analysis: | | | | |
| | SPAR Lowveld distribution centre | **245.6** | 245.6 | **245.6** | 245.6 |
| | Retail stores | **136.3** | 54.1 | | |
| | | **381.9** | 299.7 | **245.6** | 245.6 |

**10.1** The opening balance of goodwill in 2010 is attributable to the SPAR Lowveld distribution centre operation. The price/earnings model was applied in determining the value in use of the goodwill.

At 30 September 2011, the carrying value of goodwill attributable to the SPAR Lowveld distribution centre operation was not considered to be impaired.

**10.2** During the current year further retail stores were acquired. These acquisitions gave rise to goodwill in the group results (refer note 36).

The following assumptions were applied in determining the value in use of the goodwill:

| | | 2011 | 2010 |
|---|---|---|---|
| Discount rate | (%) | **11.2** | 11.4 |
| Sales growth rate | (%) | **6.0** | 6.0 |

The group prepares ten-year cash flow projections based on the most recent budgets approved by management and extrapolations of cash flows therefrom. The growth rates incorporated in the projections do not exceed the average long-term growth rates for the market.

At 30 September 2011, the carrying value of goodwill arising on the acquisition of retail stores was not considered to be impaired.

| | Rmillion | GROUP 2011 | GROUP 2010 | COMPANY 2011 | COMPANY 2010 |
|---|---|---|---|---|---|
| 11. | **OPERATING LEASE RECEIVABLES AND PAYABLES** | | | | |
| | Operating lease receivables | **156.0** | 164.8 | **167.9** | 164.8 |
| | Less current portion | **(36.7)** | (25.7) | **(36.7)** | (25.7) |
| | Non-current operating lease receivables | **119.3** | 139.1 | **131.2** | 139.1 |
| | Operating lease payables | **167.4** | 164.3 | **167.2** | 163.0 |
| | Less current portion | **(37.0)** | (29.9) | **(37.0)** | (29.9) |
| | Non-current operating lease payables | **130.4** | 134.4 | **130.2** | 133.1 |

The group has entered into various non-cancellable operating lease agreements in respect of rented premises. Other than for those premises occupied by the group, the premises are sub-let to SPAR retailers. Leases are contracted for periods of up to 10 years, some with renewal options. Rentals comprise minimum monthly payments and additional payments based on turnover levels.

Operating leases with fixed escalation charges are recognised in the statement of comprehensive income on the straight-line basis, which is consistent with the prior year.

| Rmillion | GROUP 2011 | GROUP 2010 | COMPANY 2011 | COMPANY 2010 |
|---|---|---|---|---|
| **12. INVESTMENT IN ASSOCIATES** | | | | |
| SPAR Harare (Pvt) Limited | | | | |
| Shares at cost | **3.1** | 3.1 | **3.1** | 3.1 |
| Cumulative share of post-acquisition profit, net of dividend received | **6.5** | 0.4 | | |
| Investment in SPAR Harare (Pvt) Limited | **9.6** | 3.5 | **3.1** | 3.1 |
| Tracim SA (Pty) Limited | | | | |
| Shares at cost | | | | |
| Loan to Tracim SA (Pty) Limited | **12.0** | 13.1 | **12.0** | 13.1 |
| Cumulative share of post-acquisition profit, net of dividend received | **0.5** | 0.4 | | |
| Investment in Tracim SA (Pty) Limited | **12.5** | 13.5 | **12.0** | 13.1 |
| Total investment in associates | **22.1** | 17.0 | **15.1** | 16.2 |
| Summarised financial statements of the group's share of associates: | | | | |
| Total assets | **44.4** | 44.0 | | |
| Total liabilities | **(36.1)** | (35.8) | | |
| Net assets | **8.3** | 8.2 | | |
| Revenue | **193.0** | 146.1 | | |
| Profit for the year attributable to ordinary shareholders | **2.7** | 3.8 | | |

**12.1** The group has a 35% shareholding in SPAR Harare (Pvt) Limited, which company acts as a wholesaler and distributor of goods and services to SPAR supermarkets in eastern Zimbabwe. SPAR Harare (Pvt) Limited has a 30 June year-end.

For purposes of equity accounting, the financial statements of SPAR Harare (Pvt) Limited for the year ended 30 June 2011 have been utilised.

During 2009, the reporting currency of SPAR Harare (Pvt) Limited changed from Zimbabwe dollars to United States dollars.

In prior years, due to the economic uncertainty in Zimbabwe, the group had not recognised its share of the associate profits. In the current financial year, given the improving conditions in Zimbabwe, it is considered appropriate to recommence equity accounting for SPAR Harare (Pvt) Limited. As a result, all post acquisition reserves have been recognised.

| | 2011 | 2010 |
|---|---|---|
| Rates of exchange utilised are: | | |
| Rand/United States dollar exchange rate at year-end | **6.76** | 6.95 |

**12.2** During the prior year, the group acquired a 49.9% shareholding in Tracim SA (Pty) Limited, which company owns and operates the Gateway SUPERSPAR in Hermanus. This is a jointly controlled entity which is equity accounted in terms of IAS 31.

| | Rmillion | GROUP 2011 | GROUP 2010 | COMPANY 2011 | COMPANY 2010 |
|---|---|---|---|---|---|
| 13. | **LOANS** | | | | |
| | Retailer loans | **49.7** | 24.8 | **49.7** | 25.0 |
| | Advance to The SPAR Group Limited Employee Share Trust (2004) | | | **27.8** | 10.8 |
| | Loan to Group Risk Holdings (Pty) Limited | **0.4** | 0.4 | **0.4** | 0.4 |
| | | **50.1** | 25.2 | **77.9** | 36.2 |
| | Less current portion | **(15.3)** | (2.2) | **(43.1)** | (13.0) |
| | Non-current loans | **34.8** | 23.0 | **34.8** | 23.2 |

**13.1** Retailer loans are both secured and unsecured, bear interest at various rates and have set repayment terms.

**13.2** The advance to The SPAR Group Limited Employee Share Trust (2004) is unsecured, bears no interest and has no set repayment terms. The company advanced money to the Trust to enable it to finance the repurchase of the company's shares (refer note 19). This advance constitutes a loan and a contribution. The loan portion is recoverable from the Trust upon exercise of share options to the extent of the sum of option strike prices of options exercised. The contribution portion will be the difference between the cost price of treasury shares and the option strike prices of the equivalent number of treasury shares utilised to satisfy option holders who exercise their option rights.

**13.3** As part of The SPAR Group Limited's ongoing membership of the Group Risk Holdings (Pty) Limited captive insurance scheme, the group was required to acquire 700 shares (comprising 6.2% of total shareholding) in Group Risk Holdings (Pty) Limited at a cost of R1 462 591. In addition to the share allotment, a loan of R382 594 was required to maintain the group's proportionate percentage shareholding in the scheme. This loan is unsecured, interest-free and has no fixed repayment terms.

| | Rmillion | GROUP 2011 | GROUP 2010 | COMPANY 2011 | COMPANY 2010 |
|---|---|---|---|---|---|
| 14. | **DEFERRED TAXATION** | | | | |
| | **Asset** | | | | |
| | Deferred taxation asset analysed by major category: | | | | |
| | Accelerated capital allowances | **(92.1)** | (76.2) | **(92.1)** | (76.1) |
| | Provisions, claims and prepayments | **105.3** | 79.4 | **94.3** | 76.9 |
| | Closing balance | **13.2** | 3.2 | **2.2** | 0.8 |
| | Reconciliation of deferred taxation asset: | | | | |
| | Opening balance | **3.2** | 22.0 | **0.8** | 22.1 |
| | Statement of comprehensive income effect | **10.0** | (20.6) | **1.4** | (21.3) |
| | Business acquisition | | 1.8 | | |
| | Closing balance | **13.2** | 3.2 | **2.2** | 0.8 |
| | **Liability** | | | | |
| | Deferred taxation liability analysed by major category: | | | | |
| | Accelerated capital allowances | **(0.6)** | | | |
| | Closing balance | **(0.6)** | – | | |
| | Reconciliation of deferred taxation liability: | | | | |
| | Opening balance | **–** | | | |
| | Statement of comprehensive income effect | **(0.6)** | | | |
| | Closing balance | **(0.6)** | – | | |

| Rmillion | GROUP 2011 | 2010 | COMPANY 2011 | 2010 |
|---|---|---|---|---|
| **15. INVENTORIES** | | | | |
| Merchandise | **1 157.8** | 978.9 | **1 122.3** | 961.8 |
| Less provision for obsolescence | **(22.8 )** | (19.7) | **(22.8)** | (19.7) |
| Total inventories | **1 135.0** | 959.2 | **1 099.5** | 942.1 |
| Shrinkages and damages written off | **36.3** | 36.2 | **36.3** | 36.2 |
| **16. TRADE AND OTHER RECEIVABLES** | | | | |
| Trade receivables | **4 473.2** | 4 027.1 | **4 357.3** | 3 933.8 |
| Allowance for doubtful debts | **(95.4)** | (99.0) | **(94.6)** | (98.2) |
| Net trade receivables | **4 377.8** | 3 928.1 | **4 262.7** | 3 835.6 |
| Other receivables | **490.0** | 483.9 | **471.7** | 423.5 |
| Total trade and other receivables | **4 867.8** | 4 412.0 | **4 734.4** | 4 259.1 |
| The other receivables balance includes loans made by The SPAR Guild of Southern Africa to SPAR retail members. | | | | |
| **Movement in the allowance for doubtful debts:** | | | | |
| Allowance at 30 September 2010 | **(99.0)** | (87.8) | **(98.2)** | (87.0) |
| Decrease/(increase) in allowance | **3.6** | (11.2) | **3.6** | (11.2) |
| Allowance at 30 September 2011 | **(95.4)** | (99.0) | **(94.6)** | (98.2) |
| Irrecoverable debts written off net of recoveries | **39.5** | 45.8 | **39.5** | 45.9 |

### Trade receivables

The group provides trade credit facilities to SPAR and Build it members. The recoverability of amounts owing by members to the group is regularly reviewed and assessed on an individual basis. To the extent considered irrecoverable, debts are written off. It is a prerequisite for appropriate security to be obtained from retailers to reduce the level of credit exposure. Standard credit terms granted to members are as follows:

**SPAR**

Ex-warehouse supply – 19 days from weekly statement
Ex-direct supplier delivery – 31 days from weekly statement

**Build it**

Ex-direct supplier delivery – 38/48 days from weekly statement

Included in trade receivables are debtors with a net carrying amount of R87.5 million (2010: R124.4 million) which are past due. The group has not provided for these amounts as there has not been a significant change in credit quality of the debts and the amounts are considered recoverable.

## 17. OVERDRAFTS/CASH BALANCES

For the purpose of the statement of cash flow, cash and cash equivalents include cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts.

The group separately discloses bank balances between SPAR bank balances and Guild bank balances, with the latter classification comprising retailer funds held in trust and other cash deposits attributable to The SPAR Guild of Southern Africa and The Build it Guild of Southern Africa.

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flow can be reconciled to the related items in the statement of financial position as follows:

| Rmillion | GROUP 2011 | GROUP 2010 | COMPANY 2011 | COMPANY 2010 |
|---|---|---|---|---|
| Bank balances – Guilds | **96.4** | 85.2 | | |
| Bank overdrafts – SPAR | **(114.9)** | (531.1) | **(125.5)** | (559.1) |
| Net overdrafts | **(18.5)** | (445.9) | **(125.5)** | (559.1) |

## 18. SHARE CAPITAL AND PREMIUM

### 18.1 Authorised

| Rmillion | GROUP 2011 | GROUP 2010 | COMPANY 2011 | COMPANY 2010 |
|---|---|---|---|---|
| 250 000 000 (2010: 250 000 000) ordinary shares of 0.06 cents (2010: 0.06 cents) each | **0.2** | 0.2 | **0.2** | 0.2 |
| 30 000 000 (2010: 30 000 000) redeemable convertible preference shares of 0.06 cents (2010: 0.06 cents) each. | | | | |
| **Issued** | | | | |
| 171 936 604 (2010: 171 170 013) ordinary shares of 0.06 cents (2010: 0.06 cents) each | **0.1** | 0.1 | **0.1** | 0.1 |
| 18 911 349 (2010: 18 911 349) redeemable convertible preference shares of 0.06 cents (2010: 0.06 cents) each. | | | | |
| Share premium | **49.5** | 33.3 | **49.5** | 33.3 |
| Balance at beginning of year | **33.3** | 23.2 | **33.3** | 23.2 |
| Issue of shares | **16.2** | 10.1 | **16.2** | 10.1 |
| Total share capital and premium | **49.6** | 33.4 | **49.6** | 33.4 |

All authorised and issued shares of the same class rank *pari passu* in every respect.

There are no conversion or exchange rights in respect of the ordinary shares and a variation of share rights requires approval by a special resolution from the shareholders at a general meeting in accordance with the Articles of Association.

Certain redeemable convertible preference shares were issued, during the 2009 financial year, in terms of the company's approved BBBEE scheme, with 7 564 540 shares being issued to The SPAR BBBEE Employee Trust and 11 346 809 shares being issued to The SPAR BBBEE Retailer Employee Trust (details of the transaction are covered in note 35). The preference shares are not listed.

The redeemable convertible preference shares, redeemable in 2016, are treated as treasury shares arising from the consolidation of the BBBEE trusts at year-end.

The unissued shares of the company are under the control of the directors to the extent that such shares may be required to satisfy option holders' requirements. This authority will expire at the forthcoming annual general meeting.

18. **SHARE CAPITAL AND PREMIUM** continued

**18.2 Share capital subject to option**

Details of share options granted in terms of the company's share option scheme are as follows:

| Option strike price per share | Option exercisable until | Number of shares under option 2011 | 2010 |
|---|---|---|---|
| R9.6381 | 13 October 2010 | | 5 000 |
| R9.9402 | 14 November 2010 | | 156 400 |
| R10.76224 | 29 January 2012 | **395 600** | 558 900 |
| R13.05818 | 3 February 2013 | **452 100** | 542 400 |
| R13.05818 | 31 March 2013 | **141 834** | 147 234 |
| R15.10867 | 29 January 2014 | **608 000** | 673 600 |
| R21.04 | 14 December 2014 | **1 042 600** | 1 309 500 |
| R29.00 | 13 November 2015 | **874 300** | 1 344 500 |
| R30.36 | 10 January 2016 | **110 000** | 136 800 |
| R46.22 | 8 March 2017 | **1 400 000** | 1 650 200 |
| R58.10 | 3 December 2017 | **693 100** | 761 000 |
| R50.23 | 11 November 2018 | **1 142 000** | 1 142 000 |
| R66.42 | 10 November 2019 | **1 025 000** | 1 030 000 |
| R95.11 | 16 November 2020 | **744 000** | |
| R99.91 | 8 December 2020 | **130 000** | |
| | | **8 758 534** | 9 457 534 |
| Unissued options under the control of the directors | | **3 219 632** | 4 093 632 |

19. **TREASURY SHARES**

During the year The SPAR Group Limited Employee Share Trust (2004) purchased 1 050 000 (2010: 2 629 088) shares in the company at an average purchase price of R93.14 per share (2010: R73.18). The trust purchased and holds these shares for the purpose of satisfying option holder requirements as and when option holders exercise their share option rights.

| Rmillion | GROUP 2011 | 2010 |
|---|---|---|
| **Cost of shares** | | |
| Opening balance | **10.8** | – |
| Share repurchases | **97.8** | 188.1 |
| Share issues to trust on exercise of share option rights | **16.2** | 10.1 |
| Shares sold to option holders on exercise of share option rights | **(97.0)** | (187.4) |
| Closing balance | **27.8** | 10.8 |

| | Number of shares held 2011 | 2010 |
|---|---|---|
| **Shares held in trust** | | |
| Opening balance | **131 409** | – |
| Share repurchases | **1 050 000** | 2 629 088 |
| Share issues to trust on exercise of share option rights | **766 591** | 572 221 |
| Shares sold to option holders on exercise of share option rights | **(1 637 200)** | (3 069 900) |
| Closing balance | **310 800** | 131 409 |

## 20. SHARE BASED PAYMENTS

The company has in place a share option scheme which is operated through The SPAR Group Limited Share Employee Trust (2004) ("the Trust"). On election by option holders, one third of the options granted vest after three years, with a further third vesting on the expiry of years four and five respectively. Options issued by the trust expire 10 years from grant date. Options are forfeited if the employee leaves the group before vesting date.

Share options outstanding at year-end are as follows:

| | Number of options 2011 | 2010 |
|---|---|---|
| Opening balance | 9 457 534 | 11 587 534 |
| New options granted* | 874 000 | 1 042 000 |
| Options taken up** | (1 574 900) | (3 161 100) |
| Options forfeited or reinstated | 1 900 | (10 900) |
| Closing balance | 8 758 534 | 9 457 534 |
| * Weighted average price of options granted during the year | R95.82 | R66.42 |
| ** Weighted average grant price of options taken up during the year | R29.36 | R22.72 |
| ** Weighted average selling price of options exercised during the year | R92.82 | R72.59 |

744 000 Share options were granted on 16 November 2010 and a further 130 000 share options were granted on 8 December 2010. The estimated fair value of the options granted was R22 572 960 and R3 905 200 respectively.

The fair values of these options were calculated using a binomial model.

The valuation of options granted was performed by an independent valuator utilising the following principal assumptions:

| | | ASSUMPTION | | | |
|---|---|---|---|---|---|
| Grant date | Vesting date | Expected option life time | Rolling volatility % | Dividend yield % | Risk-free rate % |
| **2011** | | | | | |
| 16/11/2010 | 16/11/2013 | 4 | 25.08 | 3.89 | 6.67 |
| 16/11/2010 | 16/11/2014 | 5 | 25.08 | 3.89 | 6.95 |
| 16/11/2010 | 16/11/2015 | 6 | 25.08 | 3.89 | 7.16 |
| 8/12/2010 | 8/12/2013 | 4 | 25.05 | 3.91 | 7.14 |
| 8/12/2010 | 8/12/2014 | 5 | 25.05 | 3.91 | 7.52 |
| 8/12/2010 | 8/12/2015 | 6 | 25.05 | 3.91 | 7.80 |
| **2010** | | | | | |
| 10/11/2009 | 10/11/2012 | 4 | 25.00 | 4.25 | 8.58 |
| 10/11/2009 | 10/11/2013 | 5 | 25.00 | 4.25 | 8.76 |
| 10/11/2009 | 10/11/2014 | 6 | 25.00 | 4.25 | 8.87 |

### Broad-based black economic empowerment deal

The company entered into a broad-based black economic empowerment (BBBEE) deal in the 2009 financial year. The participants in this scheme are SPAR group employees and SPAR retailer employees. The scheme operates through The SPAR BBBEE Employee Trust and The SPAR BBBEE Retailer Employee Trust respectively.

In terms of the transaction, 7 564 540 redeemable convertible preference shares were issued to The SPAR BBBEE Employee Trust and 11 346 809 redeemable convertible preference shares were issued to The SPAR BBBEE Retailer Employee Trust. All BBBEE share options vest and mature seven years from grant date (19 August 2016), at a strike price of R69.97.

The share based payment cost relating to SPAR employees is recognised in profit and loss on a straight-line basis over the vesting period. The cost relating to SPAR retailer employees was recognised in profit and loss in the 2009 financial year as these beneficiaries are not classified as employees of the SPAR Group Limited.

| | | ASSUMPTION | | | |
|---|---|---|---|---|---|
| Grant date | Vesting date | Expected option life time | Rolling volatility % | Dividend yield % | Risk-free date % |
| 19/08/2009 | 19/08/2016 | 7 | 25.65 | 5 | 8.11 |

| Rmillion | | GROUP 2011 | GROUP 2010 | COMPANY 2011 | COMPANY 2010 |
|---|---|---|---|---|---|
| **21. POST RETIREMENT MEDICAL AID PROVISION** | | | | | |
| Opening balance – actuarial valuation | | **82.2** | 70.8 | **82.2** | 70.8 |
| Recognised as an expense during the current year | | **9.2** | 9.7 | **9.2** | 9.7 |
| Interest cost | | **6.6** | 6.6 | **6.6** | 6.6 |
| Current service cost | | **2.6** | 3.1 | **2.6** | 3.1 |
| Employer contributions | | **(4.0)** | (2.8) | **(4.0)** | (2.8) |
| Actuarial loss | | **11.3** | 4.5 | **11.3** | 4.5 |
| Actuarial valuation at end of the year | | **98.7** | 82.2 | **98.7** | 82.2 |
| Unrecognised actuarial loss | | **(13.2)** | (7.1) | **(13.2)** | (7.1) |
| Closing balance | | **85.5** | 75.1 | **85.5** | 75.1 |
| The principal actuarial assumptions applied in the determination of fair values include: | | | | | |
| Discount rate | (%) | **8.4** | 8.2 | **8.4** | 8.2 |
| Health care cost inflation | (%) | **6.8** | 6.6 | **6.8** | 6.6 |
| Average retirement age | (years) | **63/65** | 63/65 | **63/65** | 63/65 |

The obligation of the company to pay medical aid contributions after retirement is not part of the conditions of employment for employees engaged after 1 March 1997. However, there are 399 (2010: 362) pensioners and current employees who remain entitled to this benefit. The company continues to adopt the corridor method of recognising actuarial gains and losses.

The last actuarial valuation was performed in September 2011 and the next valuation is expected to be performed during the 2012 financial year.

A 1% movement in the health care cost inflation is not expected to yield a material movement in the recognised obligation, in light of the group adopting the corridor method of recognising actuarial gains and losses.

| Rmillion | GROUP 2011 | GROUP 2010 | COMPANY 2011 | COMPANY 2010 |
|---|---|---|---|---|
| **22. TRADE AND OTHER PAYABLES** | | | | |
| Trade payables | **4 308.9** | 3 506.6 | **4 170.0** | 3 409.7 |
| Other payables | **1 082.6** | 1 058.4 | **846.7** | 836.3 |
| Trade and other payables | **5 391.5** | 4 565.0 | **5 016.7** | 4 246.0 |
| Deposits received by The SPAR Guild of Southern Africa from SPAR retail members are included in other payables. | | | | |
| **23. PROVISIONS** | | | | |
| Supplier claims | **11.6** | 5.8 | **9.7** | 4.6 |
| Total provisions | **11.6** | 5.8 | **9.7** | 4.6 |
| Balance at the beginning of the year | **5.8** | 6.1 | **4.6** | 5.1 |
| Provisions raised | **6.2** | 0.6 | **5.5** | 0.3 |
| Provisions utilised | **(0.4)** | (0.9) | **(0.4)** | (0.8) |
| Balance at the end of the year | **11.6** | 5.8 | **9.7** | 4.6 |

The supplier claim provision represents management's best estimate of the group's liability to suppliers in respect of disputed deliveries and other issues. Claims are considered doubtful based on the age of the claims and specific circumstances.

| | Rmillion | GROUP 2011 | GROUP 2010 | COMPANY 2011 | COMPANY 2010 |
|---|---|---|---|---|---|
| 24. | **CASH GENERATED FROM OPERATIONS** | | | | |
| | Operating profit | **1 404.4** | 1 303.3 | **1 425.7** | 1 302.9 |
| | Adjusted for: | | | | |
| | Depreciation | **122.5** | 108.3 | **115.3** | 106.9 |
| | Net loss on disposal of property, plant and equipment | **3.4** | 0.1 | **3.4** | 0.1 |
| | Post retirement medical aid provision | **12.9** | 4.7 | **12.9** | 7.2 |
| | BBBEE transaction | **12.4** | 12.4 | **12.4** | 12.4 |
| | Share based payments | **17.8** | 18.3 | **17.8** | 18.3 |
| | Provision against loans and trade receivables | **(3.9)** | 7.8 | **4.6** | 12.8 |
| | Amortisation of prepaid cost | **0.9** | 0.9 | **0.9** | 0.9 |
| | Lease smoothing adjustment | **6.5** | 1.2 | **1.0** | (0.1) |
| | Cash generated from operations before: | **1 576.9** | 1 457.0 | **1 594.0** | 1 461.4 |
| | Net working capital changes | **204.3** | (257.5) | **142.9** | (294.8) |
| | Increase in inventories | **(175.9)** | (106.1) | **(157.4)** | (89.1) |
| | Increase in trade and other receivables | **(452.2)** | (700.9) | **(470.4)** | (657.4) |
| | Increase in trade payables and provisions | **832.4** | 549.5 | **770.7** | 451.7 |
| | Cash generated from operations | **1 781.2** | 1 199.5 | **1 736.9** | 1 166.6 |
| | **24.1 Net movement in loans and investments** | **(17.4)** | (23.3) | **(191.7)** | (217.9) |
| | Investment acquired | | (1.5) | | (1.5) |
| | Net movement on retailer and subsidiary loans | **(5.4)** | (8.7) | **(107.5)** | (72.0) |
| | Loan to The SPAR Group Limited Employee Share Trust (2004) | | | **(72.2)** | (131.3) |
| | Loan to associate | **(12.0)** | (13.1) | **(12.0)** | (13.1) |
| 25. | **TAXATION PAID** | | | | |
| | Payable at the beginning of the year | **(9.6)** | 2.3 | **(9.7)** | 2.3 |
| | Statement of comprehensive income charge | **461.5** | 371.1 | **451.8** | 364.3 |
| | Acquisition of subsidiary | | 1.8 | | |
| | (Payable)/receivable at the end of the year | **(40.6)** | 9.6 | **(40.6)** | 9.7 |
| | Total taxation paid | **411.3** | 384.8 | **401.5** | 376.3 |

| Rmillion | GROUP 2011 | 2010 | COMPANY 2011 | 2010 |
|---|---|---|---|---|
| **26. CONTINGENT LIABILITIES** | | | | |
| Guarantees issued in respect of the finance obligations of SPAR retailer members | 415.6 | 366.0 | 415.6 | 366.0 |
| – Loan guarantees | 321.1 | 275.1 | 321.1 | 275.1 |
| – Rental guarantees | 14.1 | 23.1 | 14.1 | 23.1 |
| – IT retail computer equipment lease scheme | 80.4 | 67.8 | 80.4 | 67.8 |
| The board has limited guarantee facilities to R467 million (2010: R409 million). | | | | |
| The company has guaranteed the finance obligations of Klipakkers (Pty) Limited and Kaplian Trading (Pty) Limited to its bankers. These guarantees commenced 15 April 2011 and 25 July 2011 respectively and are for an indefinite period. | | | 18.2 | |
| **27. COMMITMENTS** | | | | |
| **27.1 Operating lease commitments** | | | | |
| Future minimum lease payments due under non-cancellable operating leases: | | | | |
| **Land and buildings** | | | | |
| Payable within one year | 432.1 | 335.8 | 431.6 | 335.7 |
| Payable later than one year but not later than five years | 1 575.9 | 1 278.6 | 1 575.9 | 1 278.6 |
| Payable later than five years | 909.2 | 704.0 | 909.2 | 704.0 |
| Total land and buildings operating lease commitments | 2 917.2 | 2 318.4 | 2 916.7 | 2 318.3 |
| **Other** | | | | |
| Payable within one year | 4.9 | 4.0 | 4.9 | 4.0 |
| Payable later than one year but not later than five years | 2.4 | 1.8 | 2.4 | 1.8 |
| Total other operating lease commitments | 7.3 | 5.8 | 7.3 | 5.8 |
| **27.2 Operating lease receivables** | | | | |
| Future minimum sub-lease receivables due under non-cancellable property leases: | | | | |
| Receivable within one year | 385.6 | 312.1 | 420.2 | 324.0 |
| Receivable later than one year but not later than five years | 1 389.6 | 1 186.6 | 1 544.8 | 1 242.4 |
| Receivable later than five years | 794.2 | 620.4 | 909.2 | 703.6 |
| Total operating lease receivables | 2 569.4 | 2 119.1 | 2 874.2 | 2 270.0 |
| **27.3 Capital commitments** | | | | |
| Contracted | 130.3 | 168.0 | 130.3 | 168.0 |
| Approved but not contracted | 16.1 | 23.0 | 16.1 | 16.0 |
| Total capital commitments | 146.4 | 191.0 | 146.4 | 184.0 |
| Capital commitments will be financed from group resources. | | | | |

## 28. DIRECTORS' REMUNERATION AND INTERESTS REPORT

### 28.1 Emoluments

| R'000 | Salary | Performance related bonus | Retirement funding contributions | Travel allowance and other benefits(1) | Share option gains | Total |
|---|---|---|---|---|---|---|
| **2011** | | | | | | |
| **Executive directors** | | | | | | |
| WA Hook | **2 425** | **696** | **331** | **356** | **1 335** | **5 143** |
| MW Godfrey | **1 283** | **361** | **175** | **330** | | **2 149** |
| R Venter | **1 802** | **501** | **258** | **307** | **893** | **3 761** |
| Total emoluments | **5 510** | **1 558** | **764** | **993** | **2 228** | **11 053** |
| **2010** | | | | | | |
| **Executive directors** | | | | | | |
| WA Hook | 2 288 | 2 023 | 318 | 333 | 350 | 5 312 |
| RW Coe | 1 700 | 1 503 | 250 | 703 | 9 628 | 13 784 |
| R Venter | 1 700 | 1 503 | 247 | 302 | 1 424 | 5 176 |
| Total emoluments | 5 688 | 5 029 | 815 | 1 338 | 11 402 | 24 272 |

(1) *Other benefits include medical aid contributions and a long service award.*

### 28.2 Fees for services as non-executive directors

| R'000 | 2011 | 2010 |
|---|---|---|
| MJ Hankinson (chairman) a b c | **730** | 685 |
| DB Gibbon a c | **351** | 280 |
| PK Hughes | **186** | 175 |
| RJ Hutchison b | **231** | 215 |
| MP Madi | **186** | 175 |
| HK Mehta a b c | **336** | 310 |
| P Mnganga | **186** | 215 |
| CF Wells a c | **137** | |
| Total fees | **2 343** | 2 055 |

a *Member of Audit Committee*
b *Member of Remuneration and Nominations Committee*
c *Member of Risk Committee*

### 28.3 Directors' interests in the share capital of the company

| | 2011 Shares | 2010 Shares |
|---|---|---|
| **Executive directors** | | |
| WA Hook – direct beneficial holding | **4 200** | 4 200 |
| RW Coe – direct beneficial holding | ***** | 13 300 |
| R Venter – direct beneficial holding | **1 600** | 1 600 |
| **Non-executive directors** | | |
| MJ Hankinson – held by associates | **2 800** | 2 800 |
| PK Hughes – direct beneficial holding | **52 000** | 52 000 |
| RJ Hutchison – indirect beneficial holding | **10 000** | 15 000 |
| HK Mehta – direct beneficial holding | **10 000** | 8 000 |
| HK Mehta – indirect beneficial holding | **1 000** | |
| CF Wells – direct beneficial holding | **1 100** | |

As at the date of this report the directors' interests in the share capital of the company remained unchanged.

### 28.4 Declaration of disclosure

Other than that disclosed above and in note 29, no consideration was paid to, or by any third party, or by the company itself, in respect of the services of the company's directors, as directors of the company, during the year ended 30 September 2011.

* *Rodney Coe retired on 30 September 2010 and was succeeded by Mark Godfrey as Group Financial Director.*

## 29. DIRECTORS' SHARE OPTION SCHEME INTERESTS

The group's option scheme provides the right to the option holder to purchase shares in the company at the option price. On election by option holders, one third of the options granted vest after three years, with a further third vesting on the expiry of years four and five respectively. Option holders have ten years from date of issue to exercise their option rights.

### 29.1 Options held over shares in The SPAR Group Limited

| Executive directors | Date of option issue | Option price Rand | Number of options held 2011 | 2010 |
|---|---|---|---|---|
| WA Hook | | | | |
| | 29/01/2002 | 10.76 | | 16 000 |
| | 03/02/2003 | 13.06 | **20 000** | 20 000 |
| | 29/01/2004 | 15.11 | **9 000** | 9 000 |
| | 13/12/2004 | 21.04 | **51 000** | 51 000 |
| | 14/11/2005 | 29.00 | **70 000** | 70 000 |
| | 09/03/2007 | 46.22 | **120 000** | 120 000 |
| | 04/12/2007 | 58.10 | **60 000** | 60 000 |
| | 11/11/2008 | 50.23 | **100 000** | 100 000 |
| | 10/11/2009 | 66.42 | **50 000** | 50 000 |
| | 08/12/2010 | 99.91 | **50 000** | |
| | | | **530 000** | 496 000 |
| RW Coe* | | | | |
| | 11/01/2006 | 30.36 | | 26 800 |
| | 09/03/2007 | 46.22 | | 53 400 |
| | 04/12/2007 | 58.10 | | 35 000 |
| | 11/11/2008 | 50.23 | | 50 000 |
| | 10/11/2009 | 66.42 | | 38 000 |
| | | | | 203 200 |
| R Venter | | | | |
| | 03/02/2003 | 13.06 | **10 000** | 21 000 |
| | 29/01/2004 | 15.11 | **14 000** | 14 000 |
| | 13/12/2004 | 21.04 | **51 000** | 51 000 |
| | 14/11/2005 | 29.00 | **70 000** | 70 000 |
| | 09/03/2007 | 46.22 | **80 000** | 80 000 |
| | 04/12/2007 | 58.10 | **35 000** | 35 000 |
| | 11/11/2008 | 50.23 | **50 000** | 50 000 |
| | 10/11/2009 | 66.42 | **38 000** | 38 000 |
| | 08/12/2010 | 99.91 | **35 000** | |
| | | | **383 000** | 359 000 |
| MW Godfrey | | | | |
| | 13/12/2004 | 21.04 | **26 100** | 26 100 |
| | 14/11/2005 | 29.00 | **25 000** | 25 000 |
| | 09/03/2007 | 46.22 | **20 000** | 20 000 |
| | 04/12/2007 | 58.10 | **8 000** | 8 000 |
| | 11/11/2008 | 50.23 | **12 000** | 12 000 |
| | 10/11/2009 | 66.42 | **12 000** | 12 000 |
| | 08/12/2010 | 99.91 | **25 000** | |
| | | | **128 100** | 103 100 |

* *Rodney Coe retired on 30 September 2010 and was succeeded by Mark Godfrey as Group Financial Director.*

**29. DIRECTORS' SHARE OPTION SCHEME INTERESTS** continued

**29.1 Options held over shares in The SPAR Group Limited** continued

| Non-executive directors | Date of option issue | Option price Rand | Number of options held 2011 | 2010 |
|---|---|---|---|---|
| PK Hughes | | | | |
| | 29/01/2002 | 10.76 | **20 000** | 20 000 |
| | 03/02/2003 | 13.06 | **35 000** | 35 000 |
| | 29/01/2004 | 15.11 | **37 000** | 37 000 |
| | 13/12/2004 | 21.04 | **66 000** | 66 000 |
| | 14/11/2005 | 29.00 | **1 500** | 1 500 |
| | 11/01/2006 | 30.36 | **110 000** | 110 000 |
| | | | **269 500** | 269 500 |

**29.2 Options exercised**

| | Date option exercised | Number of options exercised | Option price Rand | Market price on exercise | Gain |
|---|---|---|---|---|---|
| WA Hook | 08/09/2011 | 16 000 | 10.76 | 94.21 | 1 335 164 |
| R Venter | 02/03/2011 | 11 000 | 13.06 | 94.23 | 892 890 |

**30. RETIREMENT BENEFIT FUNDS**

The company contributes towards retirement benefits for substantially all permanent employees who, depending on preference, are members of either the group's defined contribution pension fund, defined contribution staff provident fund, defined contribution management provident fund or defined benefit fund. Contributions to fund obligations for the payment of retirement benefits are recognised to profit and loss when due.

All funds are governed by the Pension Funds Act, 1956. The funds are managed by appointed administrators and investment managers, and their assets remain independent of the company.

**30.1** In terms of their rules, the defined contribution funds have annual financial reviews, which are performed by the funds' consulting actuaries. At the date of their last reviews the funds were judged to be financially sound. Contributions of R67.2 million (2010: R57.7 million) and R66.5 million (2010: R57.4 million) were expensed for the group and company respectively during the year.

**30.2** The SPAR Group Limited Defined Benefit Pension Fund was valued as at 28 February 2011, using the projected unit credit method and the fund was found to be in a sound financial position. At that date the actuarial fair value of the plan assets represent 100% of the plan liabilities.

The principal actuarial assumptions applied in the determination of fair values include:

| | |
|---|---|
| Pre-retirement discount rate | 11.01% per annum net of retirement fund's tax |
| Inflation | 5.98% per annum |
| Salary escalation | 6.98% per annum |
| Net post retirement discount rate | 5% per annum |
| Post retirement mortality | 1% per annum |
| Marriage rates | 90% of fund membership is married |
| Spouse age difference | Husbands are four years older than wives |

The next actuarial valuation of this fund will take place on 28 February 2014. This fund is closed to further membership. Contributions of R0.4 million (2010: R0.1 million) and R0.4 million (2010: R0.1 million) were expensed for the group and company respectively during the year.

| Rmillion | GROUP 2011 | 2010 | COMPANY 2011 | 2010 |
|---|---|---|---|---|
| **31. FINANCIAL RISK MANAGEMENT** | | | | |
| **Financial instruments classification** | | | | |
| Net bank overdrafts | **(18.5)** | (445.9) | **(125.5)** | (559.1) |
| Loans* | **50.1** | 25.2 | **77.9** | 36.2 |
| Trade and other receivables* | **4 867.8** | 4 412.0 | **4 734.4** | 4 259.1 |
| Trade and other payables** | **(5 391.5)** | (4 565.0) | **(5 016.7)** | (4 246.0) |
| FEC asset/(liability)*** | **1.4** | (0.5) | **1.4** | (0.5) |

* *Classified under IAS 39 as loans and receivables.*
** *Classified under IAS 39 as financial liabilities measured at amortised cost.*
*** *Classified under IAS 39 as financial assets or liabilities at fair value through profit or loss.*

The company and group's financial instruments consist primarily of bank balances and overdraft funding from banks, trade payables, loans and trade receivables. The carrying amount of trade receivables, after accounting for the allowance for doubtful debts and bad debts written off, approximates fair value. Trade receivables represent the estimated future cash to be received in the short term. The book values of the other categories of financial instruments approximate fair value.

In the normal course of its operations the group is, inter alia, exposed to credit, interest and liquidity risk on its financial instruments. Executive management meets on a regular basis to analyse these risks and to re-evaluate financial management strategies. Other than forward exchange contracts ("FEC's"), used to hedge foreign currency liabilities, the group has no financial instruments that are classified at fair value through profit and loss. FECs represent an insignificant portion of the group's financial instruments and amounted to a net asset of R1.4 million in the current year (2010: net liability of R0.5 million). The group does not speculate in or engage in the trading of derivatives or other financial instruments.

The group does not have any exposure to commodity price movements or other obligations that are index linked.

### Currency risk

The group is exposed to currency risks through the import of merchandise and its investments in foreign operations. These risk exposures are not considered significant.

Foreign currency risks that do not influence the group's cash flows (i.e. the risks resulting from the translation of assets and liabilities of foreign operations in the group's reporting currency) are not hedged.

It is the group's policy to cover its material foreign currency exposure, which amounted to R11.8 million at year-end (2010: R4.8 million), in respect of liabilities and purchase commitments. Forward exchange contracts have been taken out to hedge this currency risk at year-end. There were no speculative positions in foreign currencies.

### Foreign exchange contracts

All foreign exchange contracts constitute designated hedges of currency risk at year-end.

| | GROUP | | | | COMPANY | | | |
|---|---|---|---|---|---|---|---|---|
| | Average contract rate | Commit-ment (Rm) | **Fair value of FEC 2011 (Rm)** | Fair value of FEC 2010 (Rm) | Average contract rate | Commit-ment (Rm) | **Fair value of FEC 2011 (Rm)** | Fair value of FEC 2010 (Rm) |
| **Imports** | | | | | | | | |
| USD | 7.24 | 11.8 | **1.4** | (0.5) | 7.24 | 11.8 | **1.4** | (0.5) |

The group has no significant uncovered foreign payables at year-end and consequently no sensitivity analysis has been presented.

### Interest rate risk

The group is exposed to interest rate risk on its cash deposits and loan receivables which impact on the cash flows arising from these instruments. In the current year, interest paid on overdrafts net of cash deposits was R14.4 million (2010: R4.9 million) and interest received from loans was R1.8 million (2010: R1.0 million). The exposure of cash deposits and overdrafts to interest rate risk is managed through the group's cash management system which enables the group to maximise returns while minimising risk. Loan receivables are funded from the group's cash resources.

Changes in market interest rates do not have a material impact on the group's profits and hence no sensitivity analysis has been presented.

## 31. FINANCIAL RISK MANAGEMENT continued

### Credit risk

Trade receivables and lease receivables, short-term investments and loans to retailers represent the significant categories of the group's financial instruments exposed to credit risk.

Trade receivables consist of SPAR and Build it member debts, comprising 1 128 (2010:1 106) stores with an average trading exposure of R4.0 million (2010: R3.6 million) per store at year-end.

Overdue receivables balances, representing 4.09% (2010: 5.6%) of the total trade receivables and loans balances, amounted to R182.9 million (2010: R223.4 million) at the reporting date. Allowances for doubtful debts totalling R95.4 million (2010: R99.0 million) have been raised against overdue balances. It is a prerequisite for appropriate forms of security to be obtained from retailers to reduce exposure and at 30 September 2011, security representing 71.67% (2010: 68.0%) of the trade receivables and loans balances was held by the group. Ongoing credit evaluations are performed including regular reviews of security cover held. Refer note 16 for additional disclosure.

Loans to retailers may be discounted with approved financial institutions under standard conditions with recourse block discounting agreements. Loans which have been discounted with the financial institutions are disclosed as contingent liabilities due to the group providing guarantees against these discounting agreements.

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. In relation to the continuing operation of this scheme, the group is exposed to credit risk in the event of the retail stores defaulting on their payments. At year-end, 1 191 SPAR and TOPS at SPAR stores were participants in the IT retail scheme, with an average debt of R67 476 per store.

The group selectively assists retail members suffering financial stress in order to ensure the continued operation of stores, thereby preserving the recoverability of trade and loan receivable balances.

The directors are of the opinion that the credit risk in respect of short-term cash investments is low as funds are only invested with acceptable financial institutions of high credit standing and within specific guidelines laid down by the board of directors.

### Liquidity risk

The group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The group has the following overdraft/call facilities at its disposal:

| Rmillion | **2011** | 2010 |
|---|---|---|
| Unsecured bank overdraft facilities, reviewed annually, and at call: | | |
| – Utilised as at year-end | **245** | 672 |
| – Unutilised | **1 505** | 678 |
| Total available overdraft/call facilities | **1 750** | 1 350 |

The group increased its overdraft facility requirements during the current year.

The majority of the trade payables at year-end will be paid within 30 days of year-end from available facilities or cash received from debtors.

The group has no long-term borrowings giving rise to cash payment obligations. The company has unlimited borrowing powers in terms of its Articles of Association.

### 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 in 2011. The strategy entails a philosophy of tight risk management and minimum use of derivative instruments.

The capital structure of the group consists only of equity attributable to shareholders comprising issued capital, reserves and retained earnings as disclosed in notes 18 and 20 respectively.

Treasury shares (refer note 19) 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.

## 32. RELATED PARTY TRANSACTIONS

Related party relationships exist between the company, its subsidiaries, key personnel within the group and its shareholders. These transactions occurred under terms and conditions no more favourable than transactions concluded with independent third parties, unless otherwise stated below:

### 32.1 Company

During the year, the following related party transactions occurred:

- SPAR P.E. Property (Pty) Limited is a property company owning the SPAR Eastern Cape distribution centre. This property is rented by The SPAR Group Limited. During the year rentals of R12 480 000 (2010: R11 767 200) were paid by the company to SPAR P.E. Property (Pty) Limited. Dividends of R8 467 205 (2010: R7 458 388) were paid by SPAR P.E. Property (Pty) Limited to The SPAR Group Limited. The intercompany liability due to The SPAR Group Limited as at 30 September 2011 amounted to R61 750 622 (2010: R32 407 305). The liability is interest-free, unsecured and no date has been set for repayment.

- SPAR Namibia (Pty) Limited and The SPAR Group Botswana (Pty) Limited have accounting services provided to them by The SPAR Group Limited. During the year dividends of R8 500 000 (2010: R4 500 000) and R2 478 173 (2010: R2 005 299) and management fees of R1 460 000 (2010: R1 550 000) and R1 434 859 (2010: R1 015 000) were paid to The SPAR Group Limited by SPAR Namibia (Pty) Limited and The SPAR Group Botswana (Pty) Limited respectively. The intercompany liability due to The SPAR Group Limited as at 30 September 2011 amounted to R19 932 379 (2010: R13 730 582) and R13 254 860 (2010: R8 503 972) for SPAR Namibia (Pty) Limited and The SPAR Group Botswana (Pty) Limited respectively. These liabilities are interest-free, unsecured and no date has been set for repayment.

- The SPAR Guild of Southern Africa and The Build it Guild of Southern Africa are non-profit-making companies set up to co-ordinate and develop SPAR in Southern Africa. The members of the Guild consist of SPAR retailers (who are independent store owners) and SPAR distribution centres. The members pay subscriptions to the Guild, which uses these monies to advertise and promote SPAR.

  During the year subscriptions of R3 940 040 (2010: R3 929 271) were paid to The SPAR Guild of Southern Africa. The intercompany (asset)/liability with The SPAR Group Limited as at 30 September 2011 amounted to (R2 311 164) (2010: (R7 695 950)) and R3 909 863 (2010: R2 448 841) for The SPAR Guild and The Build it Guild respectively.

- The SPAR Group Limited Employee Share Trust (2004) purchased shares in the company for the purpose of satisfying option holder obligations. To fund these purchases, the company advances monies to the Trust. At 30 September 2011, funds had been advanced by the company to the Trust to the amount of R27 808 895 (2010: R10 816 388) (refer notes 13 and 19).

  No interest is charged on the intercompany loan balances.

- During the 2009 financial year, The SPAR Group donated an amount of R4 539 and R6 808 to The SPAR BBBEE Employee Trust and The SPAR BBBEE Retailer Employee Trust respectively. These amounts were used by the trusts to invest in The SPAR Group Limited redeemable convertible preference shares, issued in terms of the broad-based black economic empowerment transaction (refer note 35).

- Klipakkers (Pty) Limited is a wholly owned subsidiary of The SPAR Group Limited. During the year The SPAR Group Limited made sales to Klipakkers (Pty) Limited to the value of R445 034 526 (2010: R42 710 567).

- Kaplian Trading (Pty) Limited is a subsidiary of The SPAR Group Limited. During the year The SPAR Group Limited made sales to Kaplian Trading (Pty) Limited to the value of R29 009 402.

- The SPAR Group Limited entered into a joint venture agreement with Tracim (Pty) Limited during the 2010 financial year. The joint venture relates to the Gateway SUPERSPAR in Hermanus. During the year sales of R102 263 091 (2010: R62 351 996) were made to the Gateway SUPERSPAR.

- SPAR South Africa (Pty) Limited, Savemor Products (Pty) Limited, Nelspruit Wholesalers (Pty) Limited and SPAR Academy of Learning (Pty) Limited, are all dormant companies.

- Dividends from SPAR Harare (Pvt) Limited of R615 043 (2010: Rnil) were received during the year.

## 32. RELATED PARTY TRANSACTIONS continued

### 32.2 Investment in associate

Details of the company's investment in its associate are disclosed in note 12.

### 32.3 Shareholders

Details of major shareholders of the company appear on page 82.

### 32.4 Key management personnel

Key management personnel are directors and those executives having authority and responsibility for planning, directing and controlling the activities of the group. No key management personnel had a material interest in any contract with any group company during the year under review. Details of directors' emoluments and shareholding in the company are disclosed in notes 28 and 29 as well as in the Directors' Statutory Report. The board has determined that prescribed officers in accordance with the Companies Act are the executive and non-executive directors only.

Key management personnel remuneration comprises:

| Rmillion | 2011 | 2010 |
|---|---|---|
| Directors' fees | 2.3 | 2.1 |
| Remuneration for management services | 23.9 | 23.8 |
| Retirement contributions | 2.6 | 2.8 |
| Medical aid contributions | 0.8 | 0.7 |
| Performance bonuses | 13.7 | 16.4 |
| Fringe and other benefits | 0.3 | 0.7 |
| Expense relating to share options granted | 12.8 | 33.3 |
| Total | 56.4 | 79.8 |

The remuneration of directors and key executives is determined by the Remuneration Committee having regard to the performance of the individual and market trends.

## 33. SEGMENT REPORTING

The group operates its business from distribution centres situated throughout South Africa. The distribution centres individually supply goods and services of a similar nature to the group's voluntary trading members. The directors are of the opinion that the operations of the individual distribution centres are substantially similar to one another and that the risks and returns of these distribution centres are likewise similar. As a consequence thereof, the business of the group is considered to be a single segment.

| | Issued share capital | | Effective holding | | Cost of investment | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | **Rand** | Rand | **%** | % | **Rmillion** | Rmillion |
| **34. INVESTMENT IN SUBSIDIARIES** | | | | | | |
| **Subsidiary*** | | | | | | |
| SPAR South Africa (Pty) Limited(2) | **10 000** | 10 000 | **100** | 100 | | |
| SPAR Namibia (Pty) Limited(1) | | | | | | |
| (registered in Namibia)** | **100** | 100 | **100** | 100 | | |
| The SPAR Group (Botswana) (Pty) (Limited)(1) | | | | | | |
| (registered in Botswana)** | **136** | 136 | **100** | 100 | | |
| SPAR Mozambique Limitada(1) | | | | | | |
| (registered in Mozambique)** | **8 033** | 8 033 | **97.5** | 97.5 | | |
| SPAR P.E. Property (Pty) Limited(3) | **11 467 875** | 11 467 875 | **100** | 100 | **2.3** | 2.3 |
| Savemor Products (Pty) Limited(2) | **1** | 1 | **100** | 100 | | |
| SPAR Academy of Learning (Pty) Limited(2) | **100** | 100 | **100** | 100 | | |
| Nelspruit Wholesalers (Pty) Limited(2) | **109** | 109 | **100** | 100 | | |
| Klipakkers (Pty) Limited(1) | **100** | 100 | **100** | 100 | **155.1** | 76.0 |
| Kaplian Trading (Pty) Limited(1) | **120** | | **89** | | **13.3** | |
| Rubean Trading (Pty) Limited(2) | **235** | | **100** | | | |
| **Consolidated entities** | | | | | | |
| The SPAR Guild of Southern Africa(1)*** | | | | | | |
| The Build it Guild of Southern Africa(1)*** | | | | | | |
| The SPAR Group Limited Employee Share Trust (2004)(1) | | | | | | |
| The SPAR BBBEE Employee Trust(1) | | | | | | |
| The SPAR BBBEE Retailer Employee Trust(1) | | | | | | |
| Total | | | | | **170.7** | 78.3 |
| Directors' valuation | | | | | **170.7** | 78.3 |

* *The SPAR Group Limited Employee Share Trust (2004), The SPAR BBBEE Employee Trust, and The SPAR BBBEE Retailer Employee Trust have 28 February as their year-end. SPAR Mozambique Limitada has a 31 December year-end. All other companies have a 30 September year-end.*

** *All legal entities are incorporated in the Republic of South Africa unless otherwise indicated.*

*** *Association incorporated under Section 21 of the Companies Act over which the company exercises control.*

(1) *Operating company or entity*

(2) *Dormant*

(3) *Property owning company*

## 35. BBBEE TRANSACTION

On 12 August 2009, shareholders approved a broad-based black economic empowerment transaction (BBBEE). The participants in the transaction are:

- all fulltime employees of the company as at 12 August 2009, but excluding Paterson E or F graded employees; and
- fulltime employees of SPAR and Build it retail stores subject, however, to a minimum employment period pre-condition and the election of the store to participate in the transaction.

In terms of the transaction, 7 564 540 redeemable convertible preference shares were issued to The SPAR BBBEE Employee Trust and 11 346 809 redeemable convertible preference shares were issued to The SPAR BBBEE Retailer Employee Trust. Shares were issued to the trusts at a notional value of R59.18 per share.

To fund the transaction, notional loans were advanced by the company to the trusts. Loans will bear notional interest at 80% of prime, with the loans being credited with notional dividends equivalent to the actual dividends declared by the company during the duration of the transaction. At year-end, the notional outstanding redemption amount was 1 171 608 263 (2010: R1 157 249 874).

The shares issued to the trusts are subject to restrictions on transferability for a period of seven years from issue date. Thereafter the trusts will be required to settle their notional loans by way of surrendering of such number of redeemable convertible preference shares at the then market value as will be required to settle the loan liability. The remaining convertible preference shares held by the trusts will be converted into ordinary SPAR shares and distributed to participants of the relevant trusts.

Full details of the scheme are set out in the Circular to Shareholders (dated 17 July 2009), copies of which are obtainable from the company.

The cost of the BBBEE scheme including transaction costs amounted to R12.9 million (2010: R13.0 million).

The charge relating to employees is recognised in profit and loss over the duration of the scheme.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| Rmillion | **2011** | 2010 | **2011** | 2010 |
| **BBBEE transaction costs** | | | | |
| The SPAR BBBEE Retailer Employee Trust | | | | |
| The SPAR BBBEE Employee Trust | **12.4** | 12.4 | **12.4** | 12.4 |
| Legal and other costs | **0.5** | 0.6 | **0.5** | 0.6 |
| | **12.9** | 13.0 | **12.9** | 13.0 |

## 36. BUSINESS COMBINATIONS

### 36.1 Subsidiaries acquired

| | Principal activity | Date of acquisition | Proportion of shares acquired (%) | Consideration transferred in cash Rmillion |
|---|---|---|---|---|
| **2011** | | | | |
| Kaplian Trading (Pty) Limited (including one SPAR store) | **Retail** | **01/04/2011** | **89** | **13.3** |
| Rubean Trading (Pty) Limited (dormant company) | **Dormant** | **21/06/2011** | **100** | |
| **2010** | | | | |
| Klipakkers (Pty) Limited (including five SPAR stores) | Retail | 19/07/2010 | 100 | 76.0 |

The principal business activity of all the business acquisitions listed above is that of retail trade and all its aspects.

All businesses were acquired for cash.

### 36.2 Assets acquired and liabilities assumed at date of acquisition

| | 2011 R'000 | 2010 R'000 |
|---|---|---|
| **Retail stores** | | |
| **Non-current assets** | **17 100** | 22 329 |
| Property, plant and equipment | **17 100** | 20 157 |
| Deferred tax assets | | 2 172 |
| **Current assets** | | 45 |
| Bank and cash balances | | 45 |
| **Non-current liabilities** | **(6 855)** | (363) |
| Deferred tax liabilities | | (363) |
| Operating lease liability | **(5 155)** | |
| Loan | **1 670** | |
| **Current liabilities** | | (153) |
| Leave pay provision | | (153) |
| Goodwill | **82 155** | 54 089 |
| Purchase price | **92 370** | 75 947 |

### 36.3 Net cash outflow on acquisition of subsidiary

| | 2011 R'000 | 2010 R'000 |
|---|---|---|
| Consideration paid in cash | **92 370** | 75 947 |
| Less: cash and cash equivalent balances acquired | | 45 |
| | **92 370** | 75 902 |

### 36.4 Impact of retail stores on the results of the group

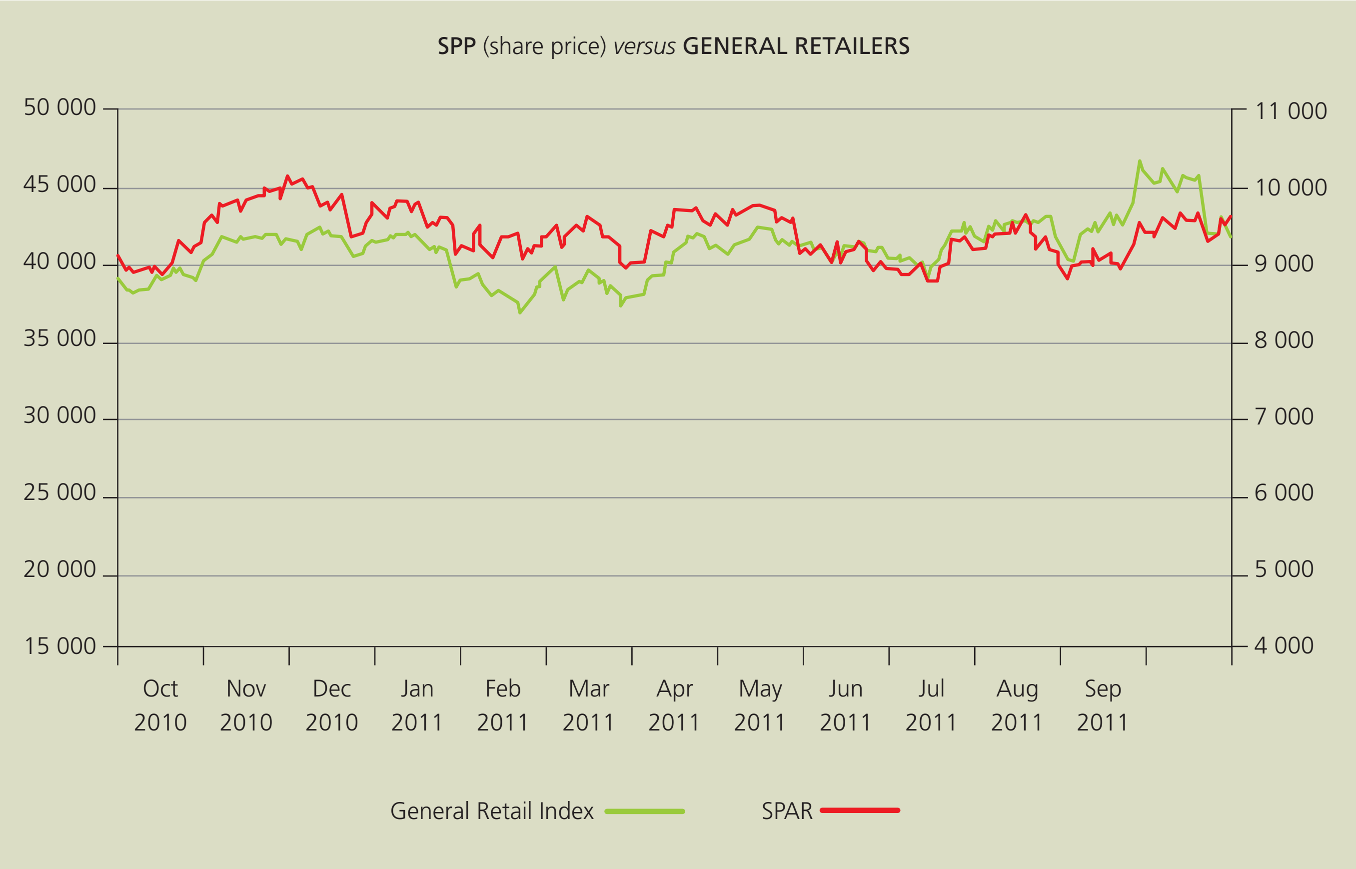
Included in the group operating profit for the year is a loss of R23.1 million (2010: R1.7 million) attributable to the retail businesses. Consolidated turnover for the period includes R166.2 million (2010: R53.9 million) in respect of these retail operations.

# SHARE OWNERSHIP ANALYSIS

| Rmillion | Number of shareholders | % of total | Number of shares | % of total shareholding |
|---|---|---|---|---|
| **Shareholder spread as at 30 September 2011** | | | | |
| Public shareholders | 16 418 | 99.95 | 171 543 104 | 99.77 |
| Non-public shareholders | 8 | 0.05 | 393 500 | 0.23 |
| – shares held by directors | 7 | 0.04 | 82 700 | 0.05 |
| – shares held by The SPAR Group Limited Employee Share Trust (2004) | 1 | 0.01 | 310 800 | 0.18 |
| | 16 426 | 100.00 | 171 936 604 | 100.00 |
| **Type of shareholders** | | | | |
| Pension funds | 235 | 1.43 | 42 691 020 | 24.83 |
| Mutual funds | 341 | 2.08 | 37 719 812 | 21.94 |
| Private investors | 11 050 | 67.27 | 14 919 664 | 8.68 |
| Insurance companies | 40 | 0.24 | 12 633 363 | 7.35 |
| Other | 4 760 | 28.98 | 63 972 745 | 37.20 |
| **Beneficial owners holding in excess of 5% of the company's equity** | | | | |
| GEPF Equity (PIC) | | | 32 604 054 | 18.97 |
| First State Investments | | | 11 346 675 | 6.60 |
| **Fund managers holding in excess of 5% of the company's equity** | | | | |
| PIC | | | 23 768 522 | 13.83 |
| Coronation Fund Managers | | | 23 537 720 | 13.70 |
| First State Investments | | | 14 138 652 | 8.23 |
| **Stock exchange statistics** | | | | |
| Market price per share | | | | |
| – at year-end | | | cents | 9 629 |
| – highest | | | cents | 10 448 |
| – lowest | | | cents | 8 200 |
| Number of share transactions | | | | 183 725 |
| Number of shares traded | | | millions | 144.7 |
| Number of shares traded as a percentage of total issued shares | | | % | 84.6 |
| Value of shares traded | | | Rmillion | 13 808 |
| Earnings yield at year-end | | | % | 6.1* |
| Dividend yield at year-end | | | % | 3.9 |
| Price earnings ratio at year-end | | | multiple | 17.3* |
| Market capitalisation at year-end net of treasury shares | | | Rmillion | 16 327 |
| Market capitalisation to shareholders' equity at year-end | | | multiple | 6.6 |

** Based on headline earnings excluding BBBEE cost.*

## SHARE PRICE PERFORMANCE




## SHAREHOLDERS' DIARY

| | |
|---|---|
| Financial year-end | 30 September |
| Annual general meeting | February |
| **Reports and profit statements** | |
| Interim report | May |
| Annual report | November |
| Annual financial statements issued | December |
| **Interim dividend** | |
| Declaration | May |
| Payable | June |
| **Final dividend** | |
| Declaration | November |
| Payable | December |

# NOTICE TO SHAREHOLDERS

Notice is hereby given that a meeting of the holders of preference shares of The SPAR Group Limited ("the company"); immediately thereafter a meeting of the holders of ordinary shares of the company; and immediately thereafter the annual general meeting of the company will be held in the company's boardroom, 22 Chancery Lane, Pinetown, Durban, South Africa on Tuesday, 14 February 2012, with the first of the meetings starting at 09:00 for the purpose of conducting the following:

## MEETING OF HOLDERS OF PREFERENCE SHARES

1. **Proposed special resolution of the holders of preference shares number 1 – Conversion of par value preference shares into no par value preference shares**

   "Resolved that the preference shares of the company, which have a par value, be and are hereby converted to preference shares of no par value."

   **Reasons and effect**

   The passing of this special resolution of preference shareholders is required in terms of item 6(3) of Schedule 5 to the Companies Act, No 71 of 2008 ("the Act"), read with Regulation 31 of the regulations promulgated under the Act, in order for the par value preference shares of the company to be converted to no par value preference shares.

   The board recommends such conversion in order to bring the company in line with the Act. In accordance with Regulation 31(7) the board has caused a report to be prepared, annexed hereto marked "A", which report sets out the material effects of the proposed conversion on the value of the preference shares and the rights of the holders of such shares.

2. **Proposed ordinary resolution of the holders of preference shares number 1 – Approval of the conversion of par value ordinary shares into no par value ordinary shares**

   "Resolved that the conversion of the ordinary shares of the company, which have a par value, to ordinary shares of no par value, be and is hereby approved."

   **Reasons and effect**

   In terms of item 7.4.2 of Article 31A of the Memorandum of Incorporation of the company, the rights and privileges attaching to any shares of the company may not be modified without the prior approval of the holders of preference shares, by way of an ordinary resolution passed at a meeting of such shareholders.

## MEETING OF HOLDERS OF ORDINARY SHARES

1. **Proposed special resolution of the holders of ordinary shares number 1 – Conversion of par value ordinary shares into no par value ordinary shares**

   "Resolved that, subject to the passing of proposed ordinary resolution of the holders of preference shares as provided for in 2 above, the ordinary shares of the company, which have a par value, be and are hereby converted to ordinary shares of no par value."

   **Reasons and effect**

   The passing of this special resolution of ordinary shareholders is required in terms of item 6(3) of Schedule 5 to the Act, read with Regulation 31 of the regulations promulgated under the Act, in order for the par value ordinary shares of the company to be converted to no par value ordinary shares.

   The board recommends such conversion in order to bring the company in line with the Act. In accordance with Regulation 31(7) the board has caused a report to be prepared, annexed hereto marked "A", which report sets out the material effects of the proposed conversion on the value of the ordinary shares and the rights of the holders of such shares.

## ANNUAL GENERAL MEETING OF THE COMPANY

### ORDINARY BUSINESS

1. To receive, consider and approve the annual financial statements of the company for the year ended 30 September 2011, including the reports of the directors, the Audit Committee and the auditors, which annual financial statements are included in the integrated annual report of which this notice forms part.

2. To consider the re-election, as a director of the company, of:

   2.1 Mr PK Hughes who retires in accordance with the Memorandum of Incorporation of the company, but being eligible, offers himself for re-election; and

   2.2 Ms P Mnganga who retires in accordance with the Memorandum of Incorporation of the company, but being eligible, offers herself for re-election.

   The Remuneration and Nominations Committee of the company has conducted an assessment of the performance of each of the retiring candidates, and the board accepted the results of that assessment. Accordingly, the board recommends their re-election.

3. To confirm the appointment of Mr CF Wells as a director of the company with effect from 1 April 2011.

   The Remuneration and Nominations Committee of the company has conducted an assessment of the performance of Mr CF Wells, and the board accepted the results of that assessment. Accordingly, the board recommends that his appointment as director be confirmed.

4. To reappoint Deloitte & Touche as auditors of the company and to appoint Mr Brian Botes as the designated auditor to hold office until the next annual general meeting.

5. To confirm the appointment of:

   5.1 Mr DB Gibbon, an independent non-executive director, as chairman of the company's Audit Committee;

   5.2 Mr HK Mehta, an independent non-executive director, as a member of the company's Audit Committee;

   5.3 Mr CF Wells, an independent non-executive director (subject to 3 above), as a member of the company's Audit Committee; and

   5.4 Mr MJ Hankinson, an independent non-executive director, as a member of the company's Audit Committee.

### SPECIAL BUSINESS

Shareholders will be requested to consider and, if deemed fit, to pass the following special resolutions and ordinary resolution:

1. **Proposed special resolution number 1 – Replacement of the Memorandum of Incorporation**

   "Resolved that, in terms of the Act, the Memorandum of Incorporation of the company be and is hereby replaced by the new Memorandum of Incorporation which is annexed hereto marked "B"."

   **Reason and effect**

   The reason for this resolution will be to ensure consistency with provisions of the Act. The effect of this resolution, if passed, will be the substitution of the existing Memorandum of Incorporation of the company, which predates the Act, with the new Memorandum of Incorporation, which is consistent with the new Act.

   It is recorded that by the substitution of the existing Memorandum of Incorporation of the company with the new Memorandum of Incorporation, (and subject to the special resolution of the holders of preference shares number 1; the ordinary resolution of the holders of preference shares number 1; and the special resolution of the holders of ordinary shares number 1) the authorised (par value) shares of the company will become no par value shares, however, the number of authorised shares that are currently in existence (being 250 million ordinary shares and 30 million preference shares) will not change.

2. **Proposed special resolution number 2 – Financial assistance to related or inter-related companies**

   "Resolved that the directors, in terms of and subject to the provisions of Section 45 of the Act, are hereby authorised to cause the company to provide any financial assistance, whether by lending money, guaranteeing a loan or other obligation and/or securing any debt or obligation, to any of its subsidiary companies or other related or inter-related companies, during the period of 1 March 2012 to 28 February 2013."

   **Reason and effect**

   This resolution is required in order to comply with the requirements of Section 45 of the Act as read with Section 7(6) of the transitional arrangements which are set out in Schedule 5 of the Act. In terms of the said provisions, a company cannot render financial assistance to a related or inter-related company or corporation unless the board of the company is authorised thereto either in terms of an employee share scheme that satisfies the requirements of Section 97 of the Act, or pursuant to a special resolution of the shareholders. It is the intention that the company should be authorised to render financial assistance to its subsidiary companies or other related or inter-related companies from time to time and to facilitate this by way of a general authority, a special resolution is required.

3. **Proposed special resolution number 3 – Basis of remuneration payable to non-executive directors for the period 1 March 2012 to 28 February 2013**

   "Resolved that the directors' fees payable to the non-executive directors of the company, for the period 1 March 2012 to 28 February 2013, will be determined by reference to the following:

   - Chairman of the board of directors (including his participation on all committees) – R850 000
   - Members of the board of directors – R240 000
   - Chairman of the Audit Committee – R145 000
   - Members of the Audit Committee – R70 000
   - Chairmen of the board committees – R85 000
   - Members of the board committees – R55 000"

   **Reasons and effect**

   This special resolution is required in order to comply with the requirements of the Act which came into effect on 1 May 2011. In this respect, Section 65(11)(h) provides that a special resolution is required to authorise the basis for compensation to directors of a profit company, as required by Section 66(9).

   Section 66(9) provides that remuneration may be paid to its directors for their services as directors only in accordance with a special resolution approved by the shareholders within the previous 2 (two) years.

   Section 66(9) applies only to the remuneration paid to directors for their services as such. Unlike the non-executive directors of the company, the executive directors do not receive any fees/remuneration for their services as directors; their remuneration is for their services as employees of the company.

   The company's annual general meeting is held in February of each year and it is the intention that the basis of determining the remuneration payable to directors for their services as such is determined annually in advance for the then forthcoming period that commences at the beginning of March and ends at the end of the following February.

   The effect of this special resolution, if passed, will be the authorisation of the abovementioned fees. The proposed fees have been determined pursuant to a benchmarking exercise undertaken by the Remuneration and Nominations Committee.

4. **Proposed ordinary resolution number 1 – Authority to issue shares for the purpose of share options**

   Pursuant to the granting of share options by The SPAR Group Limited Employee Share Trust (2004), and in the event of any of the option holders exercising his/their rights thereto, authority is sought to place the issuing of the necessary shares under the control of the directors.

   "Resolved as an ordinary resolution that such number of the ordinary shares in the authorised but unissued capital of the company required for the purpose of satisfying the obligations of The SPAR Group Limited Share Trust (2004) ("the Trust") to option holders, be and are hereby placed under the control of the directors, who are hereby, as a specific authority, authorised to allot and issue those shares in terms of the Trust deed."

   **Reasons and effect**

   The reason for, and the effect of, this resolution is to facilitate, in terms of the requirements of Article 4 of the Memorandum of Incorporation of the company, the issue of the requisite number of ordinary shares to the abovementioned Trust so as to enable it to meet its obligations to holders of the relevant share options when such options are exercised.

5. **Proposed ordinary resolution number 2 – Adoption of The SPAR Group Limited Forfeitable Share Plan**

   "Resolved that, The Spar Group Limited Forfeitable Share Plan ("FSP") be and is hereby adopted."

   **Reasons and effect**

   The company currently has a Share Option Plan ("SOP") in place. An option plan will only render value to participants if the share price increases between the grant date and exercise date. Due to the relatively stable growth in the company's share price, it has been noted that the SOP is not adequate to address retention or incentivise participants. In order to address these issues, the company intends to adopt a FSP. The FSP is intended to replace the SOP, but historic awards made under the SOP will be allowed to continue to fruition.

   The FSP will be used as a retention mechanism or as a tool to attract prospective employees or as an incentive to participants to deliver the group's business strategy over the long-term. Under the FSP, participants will become owners of the forfeitable shares from the settlement date and will immediately benefit from dividends and have shareholder voting rights, thus providing direct alignment between participants and shareholders.

   The effect of this ordinary resolution, if passed, would be the adoption and implementation of the FSP. A summary of the salient features of the FSP is annexed hereto marked "C". A copy of the rules of the FSP can be inspected at 22 Chancery Lane, Pinetown, Durban, South Africa by arrangement with the Company Secretary, KJ O'Brien.

NON-BINDING ADVISORY VOTE

"Resolved that the remuneration policy of the company, which is annexed hereto marked "D", be and is hereby approved."

Reason

This is a recommended practice in terms of the King Report on Governance for South Africa 2009 and the King Code of Governance for South Africa 2009 (together "King III") and in line with sound corporate governance.

PERCENTAGE OF VOTING RIGHTS REQUIRED FOR RESOLUTIONS

1. Special resolutions

   The percentage of voting rights that will be required for the adoption of each special resolution to be adopted is the support of at least 75% of the voting rights exercised on the resolution at a properly constituted meeting of the company's shareholders.

2. Ordinary resolutions

   The percentage of voting rights that will be required for the adoption of ordinary resolution number 1 is the support of more than 50% of the voting rights exercised on the resolution at a properly constituted meeting of the company's shareholders.

   In terms of the JSE Limited Listings Requirements, the percentage of voting rights that will be required for the adoption of ordinary resolution number 2 is the support of more than 75% of the voting rights exercised on the resolution at a properly constituted meeting of the company's shareholders.

RECORD DATE

The record date that has been set by the board for the purpose of determining which shareholders are entitled to participate in, and vote at, the meeting, is Friday, 3 February 2012.

VOTING AND PROXIES

Shareholders who have not dematerialised their shares or who have dematerialised their shares with "own name" registration are entitled to attend and vote at the meeting and are entitled to appoint a proxy or proxies to attend, speak and vote in their stead. The person so appointed need not be a shareholder.

Proxy forms must be forwarded to reach the company's transfer secretaries, Link Market Services South Africa (Pty) Limited, PO Box 4844, Johannesburg, 2000, by no later than 09:00 on Friday, 10 February 2012. Proxy forms must only be completed by shareholders who have not dematerialised their shares or who have dematerialised shares with "own name" registration. A proxy form is attached.

On a show of hands, every shareholder of the company present in person or represented by proxy shall have one vote only. On a poll, every shareholder of the company shall have one vote for every share held in the company by such shareholder.

Shareholders who have dematerialised their shares, other than those shareholders who have dematerialised their shares with "own name" registration, should contact their CSDP or broker in the manner and time stipulated in their agreement:

- to furnish them with their voting instructions; and
- in the event that they wish to attend the meeting, to obtain the necessary authority to do so.

IDENTIFICATION

Section 63(1) of the Act requires meeting participants to provide the person presiding the meeting with satisfactory identification.

By order of the board

KJ O'Brien
*Company Secretary*

8 November 2011

# ANNEXURE A: REPORT IN RESPECT OF THE PROPOSED RESOLUTIONS TO CONVERT THE PAR VALUE SHARES OF THE COMPANY TO SHARES OF NO PAR VALUE

MEETING OF THE HOLDERS OF PREFERENCE SHARES:
**Proposed special resolution of the holders of preference shares number 1**
**– Conversion of par value preference shares into no par value preference shares**

(a) All information that may affect the value of the securities affected by the proposed conversion:

*There is no relevant information. The value of the preference shares will not be materially affected.*

(b) The class of holders of the company's securities affected by the proposed conversion:

*The holders of the preference shares of the company will be affected.*

(c) The material effects that the proposed conversion will have on the rights of the holders of the company's securities affected by the proposed conversion:

*There will be no material effects on the rights of the holders of preference shares.*

(d) Evaluation of any material adverse effects of the proposed arrangement against the compensation that any of those persons will receive in terms of the arrangement:

*The proposed conversion will have no material adverse effects on any person. No person will receive compensation therefor.*

MEETING OF THE HOLDERS OF ORDINARY SHARES:
**Proposed special resolution of the holders of ordinary shares number 1**
**– Conversion of par value ordinary shares into no par value ordinary shares**

(a) All information that may affect the value of the securities affected by the proposed conversion:

*There is no relevant information. The value of the ordinary shares will not be materially affected.*

(b) The class of holders of the company's securities affected by the proposed conversion:

*The holders of the ordinary shares of the company will be affected.*

(c) The material effects that the proposed conversion will have on the rights of the holders of the company's securities affected by the proposed conversion:

*There will be no material effects on the rights of the holders of ordinary shares.*

(d) Evaluation of any material adverse effects of the proposed arrangement against the compensation that any of those persons will receive in terms of the arrangement:

*The proposed conversion will have no material adverse effects on any person. No person will receive compensation therefor.*

REPUBLIC OF SOUTH AFRICA COMPANIES ACT, 2008

**MEMORANDUM OF INCORPORATION OF A PUBLIC COMPANY**

Name of company: THE SPAR GROUP LIMITED

Registration number: 1967/001572/06

## DEFINITIONS AND INTERPRETATION

In this Memorandum of Incorporation, including Annexure A hereto, unless the context otherwise requires:

(a) "the Act" means the Companies Act, No 71 of 2008, as amended from time to time. Reference to the Act shall, if the Act is replaced by any other statute, be construed as a reference to the statute or statutes from time to time in force relating to companies. Reference to any provision of the Act shall be construed as a reference to such provision as modified or re-enacted by any statute for the time being in force;

(b) "the board" means the board of directors of the company, as it may be constituted from time to time;

(c) "books of account" means any documents, accounts, books, writing, records or other information that a company is required to keep in terms of the Act or any other public regulation;

(d) "business day" means any day other than a Saturday, Sunday or officially designated public holiday in the Republic of South Africa;

(e) "the company" means The Spar Group Limited, registration number 1967/001572/06, the company that has adopted, and is governed by, this Memorandum of Incorporation;

(f) "in writing" or "written" means and includes words printed, auto-graphed, represented or produced in any mode in a visible form and further includes a data message being information generated, sent, received or stored by electronic, optical or similar means including, but not limited to, electronic mail;

(g) "JSE" means the JSE Limited, registration number 2005/022939/06;

(h) "Memorandum of Incorporation" means this document, being the Memorandum of Incorporation of the company, including the Schedules annexed hereto;

(i) "notice" includes circulars, abridged and full annual financial statements, quarterly and interim reports, listing particulars, dividend and interest notices and proxy forms;

(j) "registered address" in relation to a shareholder means an electronic mail address, fax number, physical or postal address notified by a shareholder to the company in terms of Article 3.2(1) hereof;

(k) "person" includes a juristic person as defined in the Act;

(l) "prescribed officer" means anyone who exercised general executive control over and management of the whole, or significant portion, of the business and activities of the company; or regularly participates to a material degree in the exercise of general executive control over and management of the whole, or significant portion, of the business and activities of the company;

(m) "Rules" means any necessary or incidental rules relating to the governance of the company in respect of matters that are not addressed in the Act or this Memorandum of Incorporation;

(n) words that are defined in the Act bear the same meaning in this Memorandum of Incorporation as in the Act; and

(o) the provisions contained in the schedule annexed hereto marked "A" form part of this Memorandum of Incorporation.

## ADOPTION OF MEMORANDUM OF INCORPORATION

This Memorandum of Incorporation was adopted by the company on 14 February 2012. The former Memorandum of Incorporation of the company (being its "Memorandum of Association" and "Articles of Association" adopted in terms of the repealed Companies Act, No 61 of 1973, as amended) was repealed in its entirety and simultaneously replaced by this Memorandum of Incorporation, in accordance with the Act, by special resolution of the shareholders of the company.

## ARTICLE 1 – INCORPORATION AND NATURE OF THE COMPANY

### 1.1 Incorporation

(1) The company is incorporated as a public company.

(2) The company is incorporated in accordance with and governed by:

(a) the unalterable provisions of the Act; and

(b) the alterable provisions of the Act, subject to the limitations, extensions, variations or substitutions set out in this Memorandum of Incorporation; and

(c) the provisions of this Memorandum of Incorporation.

1.2 Powers of the company

(1) Subject to Articles 1.3(2) and 2.1(1)(c) below, the company is not subject to any restrictive conditions nor to any prohibitions regarding the amendment of the provisions of this Memorandum of Incorporation other than those contained in the Act.

(2) The purposes and powers of the company are not subject to any restrictions, limitations or qualifications other than those contained in the Act, save that the company shall not have the power to claim a lien on any of its securities and subject to Article 2.3(2) below.

1.3 Memorandum of Incorporation and Rules

(1) Subject to the Act and Articles 1.3(2) and 2.1(1)(c) below, this Memorandum of Incorporation shall only be amended by an order of court or a special resolution of the shareholders of the company. For the avoidance of doubt, an amendment includes, but is not limited to, the creation of any class of shares; the variation of any preferences, rights, limitation or other share terms attaching to any class of shares; the conversion of one class of shares into one or more other classes; the increase of the number of securities; the consolidation of securities; the sub-division of securities; a change of the name of the company; and a conversion of shares from par value to no par value.

(2) If a proposed amendment to this Memorandum of Incorporation relates to the variation of any preferences, rights, limitation or other terms attaching to the preference shares (including, but not limited to, the creation of further securities ranking in priority to, or *pari passu* with, the preference shares), such amendment shall not be implemented without the consent in writing of the holders of 75% of such preference shares or the sanction of a special resolution of the holders of such preference shares passed at a separate meeting of such holders.

(3) The company shall publish a notice of any alteration of this Memorandum of Incorporation by delivering a copy of the alteration to a registered address of each shareholder.

(4) The board shall not have the authority to make rules for the company.

ARTICLE 2 – SECURITIES OF THE COMPANY

2.1 General

(1) The following corporate actions may be taken only in accordance with the JSE Listings Requirements:

(a) the issue of shares for cash and options and convertible securities granted or issued for cash;

(b) the repurchase of the company's securities; and

(c) the alteration of share capital, authorised shares and rights attaching to any class of shares.

(2) The authority of the board to allow the company's issued securities to be held by, and registered in the name of, one person for the beneficial interest of another person, is not limited or restricted by this Memorandum of Incorporation.

(3) The authority of the board to authorise the company to provide financial assistance in relation to the subscription of any option or securities of the company, or of a related or inter-related company, is not limited or restricted by this Memorandum of Incorporation.

(4) The company shall not pay commission exceeding 10% to any person in consideration for their subscribing or agreeing to subscribe, whether absolutely or conditionally, for any securities of the company.

(5) The company may, in accordance with the rules and requirements of the JSE, at any time and from time to time, make an odd-lot offer to shareholders holding less than 100 shares, in terms of which the offeree shareholders are given the right to elect to retain their shareholdings, or to purchase sufficient additional shares to increase their shareholdings to 100 shares, or to sell their shareholdings; and the odd-lot offer may provide that if any offeree shareholder fails to exercise the right of election, his shareholding will be compulsorily sold as if he had elected to sell his shareholding.

2.2 Shares

(1) The company is authorised to issue no more than the maximum number of ordinary shares and preference shares set out in Annexure "A" to this Memorandum of Incorporation, subject to the preferences, rights, limitations and other terms associated with each class as set out in such annexure.

(2) The board shall not have the power to issue authorised shares without the approval of the shareholders of the company, which approval may comprise of a special authority or a general authority for a specified period of time.

(3) The board shall not have the power to increase or decrease the number of authorised shares of any class; to reclassify any shares that have been authorised but are not issued; to classify any unclassified shares that have been authorised but are not issued; nor to determine the preferences, rights, limitations or other terms of any class of shares that are not issued and which preferences, rights, limitations or other terms are not specified in this Memorandum of Incorporation; without the approval of the shareholders of the company, which approval may, subject to Articles 1.3(1), 1.3(2) and 2.1(1)(c) above, comprise of a special authority or a general authority for a specified period of time.

(4) Any equity shares for the time being unissued (whether forming part of the original or any increased capital) shall, before issue, be first offered to all the existing holders of equity shares, as nearly as circumstances permit pro rata in proportion to their shareholdings, unless such shares are issued for the purpose of the acquisition of assets. Notwithstanding the above, the shareholders of the company may authorise the board to issue unissued shares and/or to grant options to subscribe for unissued shares as the board in its discretion thinks fit, provided that any such transaction shall be subject to the JSE Listings Requirements and approval of the JSE. No shareholder of the company shall have any other pre-emptive right to be offered, and to subscribe to, additional shares of the company.

(5) The board shall not have the power to approve the issuing of any authorised shares of the company as capitalisation shares; to issue shares of one class as capitalisation shares in respect of shares of another class; nor to resolve to permit shareholders to elect to receive a cash payment in lieu of a capitalisation share, without the approval of the shareholders of the company, which approval may comprise of a special authority or a general authority for a specified period of time.

(6) Shares of the company are to be issued in either dematerialised or certificated form, as the board may determine.

(7) The certificates or other evidence of title of shares of the company, the transfer of such shares and all matters concerning share transactions shall be in accordance with the requirements of the JSE, any other recognised stock exchange on which the shares of the company may be listed from time to time and/or any other regulatory authority controlling the issue and transfer of securities. The company shall have the power to conform with such requirements, including the power to settle all share transactions totally electronically or otherwise as may be so approved from time to time.

(8) Any authority to sign a transfer deed, granted by a holder of shares for the purpose of transferring shares, that may be lodged at any of the company's transfer offices, shall, as between the company and the grantor of such authority, be deemed to continue and remain in full force and effect. The company may allow such authority to be acted upon until express notice in writing of the revocation of such authority is lodged at the same transfer office. Even after the lodgement of a notice of revocation of authority, the company may give effect to any instruments signed under the authority and certified by any officer of the company as being in order before the lodgement of such notice.

2.3 Debt instruments

(1) The authority of the board to authorise the company to issue secured or unsecured debt instruments is not limited or restricted by this Memorandum of Incorporation.

(2) The granting of special privileges to holders of debt instruments, such as attending and voting at shareholders' meetings and the appointment of directors, is prohibited.

(3) Secured or unsecured debentures, debenture stock, bonds or other securities may be made assignable free from any equities between the company and the person to whom the same may be issued. Any debentures, debenture stock, bond or other securities may be issued at a discount, premium or otherwise.

ARTICLE 3 – SHAREHOLDERS

3.1 Shareholders' authority to act

(1) If, at any time, there is only one shareholder of the company, the authority of that shareholder to act without notice or compliance with any other internal formalities is not limited or restricted by this Memorandum of Incorporation.

(2) If, at any time, every shareholder of the company is also a director of the company, the authority of the shareholders to act without notice or compliance with any other internal formalities after a matter is referred to them by the board, as set out in the Act, is not limited or restricted by this Memorandum of Incorporation.

3.2 Notices

(1) Each holder of registered shares (or their agent) shall notify the company in writing of an electronic mail address, a fax number, and a physical or postal address, each of which shall be deemed to be his registered address within the meaning of this Memorandum of Incorporation, and if he has not notified the company of at least one of the above, he shall be deemed to have waived his right to be served with any notice from the company.

(2) The signature to any notice given by the company may be written, printed, partly written and partly printed or may be an advanced electronic signature (as contemplated in Section 1 of the Electronic Communications and Transactions Act, No 25 of 2002, as amended).

(3) Subject to the provisions of the Act and the JSE Listings Requirements, any notice required to be given by the company to shareholders, or any of them, and not expressly provided for in this Memorandum of Incorporation, shall be sufficiently given if given by advertisement. Any notice given by advertisement shall be deemed to have been served on the first day that such advertisement is published.

### 3.3 Proxies, powers of attorney and representatives

(1) The holder of an instrument of proxy or general or special power of attorney, given by a shareholder, shall be entitled to vote if duly authorised under that instrument or power to attend and take part in any meeting or proceeding of the company, whether or not he is himself a shareholder in the company.

(2) The right of a shareholder to appoint persons concurrently as proxies is not limited, restricted or varied by this Memorandum of Incorporation.

(3) The authority of a shareholder's proxy to delegate the proxy's powers to another person; and to decide without direction from the shareholder whether to exercise or abstain from exercising any voting right of the shareholder, is not limited or restricted by this Memorandum of Incorporation.

(4) A shareholder (or their agent) shall deliver to the company a copy of the instrument appointing a proxy or general or special power of attorney before the person named therein may exercise the shareholder's rights at a shareholders' meeting. Any instrument appointing a proxy (and the power of attorney, if any, under which it is signed, or a notarially certified copy thereof) or general or special power of attorney, shall be delivered to the registered address of the company not less than 48 hours before the time for the holding of the meeting at which the person named in such power or instrument purports to attend or vote, failing which the instrument or power shall be treated as invalid for the purpose of attending or voting at that meeting.

(5) Any shareholder that is a juristic person as defined in the Act may deliver a letter of representation to the registered address of the company appointing a representative of that shareholder to attend and vote at shareholders' meetings. Any such representative shall be entitled to attend and vote at all shareholders' meetings until the shareholder revokes such letter of representation by delivering a letter of revocation to the registered address of the company.

(6) A vote in accordance with the terms of an instrument of proxy, a power of attorney or a letter of representation shall be valid notwithstanding the previous death of the principal (if applicable); revocation of the proxy, power or letter of representation; or transfer of the share in respect of which the vote is given, provided no intimation in writing of the death, revocation or transfer shall have been received at the registered address of the company or by the chairman of the meeting before the vote is given.

(7) An instrument appointing a proxy shall be in any form approved by the board. The board may, in its discretion, permit the acceptance of proxies transmitted by shareholders of the company by electronic mail, according to such directions as may be issued by the board.

### 3.4 Record date for exercise of shareholders' rights

The record date for all transactions shall be as set out in the JSE Listings Requirements.

## ARTICLE 4 – SHAREHOLDERS' MEETINGS

### 4.1 General

(1) The board may convene a shareholders' meeting whenever it thinks fit. If, at any time, there are insufficient directors within the Republic of South Africa capable of acting to form a quorum, any director or any two shareholders of the company may convene a shareholders' meeting in the same manner as nearly as possible as that in which meetings may be convened by the board.

(2) A shareholders' meeting shall be convened on a requisition of the holders of at least 10% of the voting rights entitled to be exercised in relation to the matter to be considered at the meeting, or in compliance with an order of court.

(3) The company is not required to hold any shareholders' meetings other than those specifically required by the Act.

(4) The date and time of any shareholders' meeting shall be determined by the board.

(5) The authority of the board to determine the location of any shareholders' meeting, and to hold any such meeting in the Republic of South Africa or in any foreign country, is not limited or restricted by this Memorandum of Incorporation.

(6) The chairman of the board or, in his absence, the lead independent non-executive (if any) shall be entitled to take the chair at every shareholders' meeting. If there is no chairman of the board or lead independent non-executive, or if at any meeting he is not present within 10 minutes after the time appointed for holding the meeting or is unwilling to act, the other directors may choose a chairman of the meeting and, in default of their doing so, the shareholders present shall choose one of the directors to be the chairman and, if no director present be willing to take the chair, shall choose one of their number to be the chairman.

(7) The authority of the company to conduct a meeting entirely by electronic communication, or to provide for participation in a meeting by electronic communication, is not limited or restricted by this Memorandum of Incorporation. The board may allow persons to participate in a shareholders' meeting by conference call or otherwise, and may allow for electronic voting when the technology is in place.

(8) Notwithstanding anything to the contrary contained in the Act or this Memorandum of Incorporation, all shareholders' meetings that are called for in terms of the JSE Listings Requirements shall be held in person and shall not be held by means of a written resolution.

4.2 Annual general meeting

(1) An annual general meeting shall be held once in every calendar year at such time and place as the board may determine, provided that not more than 15 months shall elapse between the date of one annual general meeting of the company and that of the next.

(2) The business of the annual general meeting shall be to receive and consider the audited annual financial statements, reports of the board and auditors (if any), the Audit Committee report, the Social and Ethics Committee report, the election of directors and the appointment of an Audit Committee and any auditors and/or other officers of the company in the place of those retiring by rotation or otherwise, the transaction of matters prescribed by the Act, any other business which ought to be transacted at an annual general meeting, and any business which is brought under consideration by the reports of the board laid before such meeting. All other business transacted at the annual general meeting and all business transacted at any other shareholders' meeting shall be deemed special.

(3) At least 15 business days before the date of the annual general meeting, a copy of the annual financial statements of the company shall be delivered to all shareholders, save for any shareholder who waives his right to receive such statements.

4.3 Notice of shareholders' meetings

(1) The minimum number of days for the company to deliver a notice of a shareholders' meeting to the shareholders is 15 business days before the meeting is to begin.

(2) A notice shall be given or served by the company upon any shareholder by any method permitted by the Act including, but not limited to:

(a) personal delivery;

(b) fax to the shareholder's fax number registered address;

(c) delivery by registered post to the shareholder's physical or postal registered address;

(d) subject to any requirements of the JSE, by electronic mail; provided that such shareholder has specified an electronic mail registered address; and

(e) subject to any requirements of the JSE, by posting the notice on the company's website; provided that, simultaneously with or as soon as possible after such posting of the notice, the company notifies the shareholder at his electronic mail registered address that the company has posted the notice on its website.

(3) The accidental omission to give notice of any meeting to any shareholders shall not invalidate any resolution passed at such meeting.

(4) Notice of each shareholders' meeting shall be sent to the Manager (Listings) of the JSE at the same time as notice of the meeting is sent to the shareholders of the company. Such notice shall also be announced through the official news service of the JSE.

(5) All notices may, with respect to any registered shares to which persons are jointly entitled, be given to whichever of such persons is named first on the register and notice so given shall be sufficient notice to all the holders of such shares.

(6) Any notice or document given or served by the company upon any shareholder in pursuance of this Memorandum of Incorporation shall, notwithstanding that such shareholder was then deceased, and whether or not the company has notice of his decease, be deemed to have been duly served in respect of any registered shares, whether held solely or jointly with other persons by such shareholder, until some other person is registered in his stead as the joint holder thereof and such service shall, for all purposes under this Memorandum of Incorporation, be deemed a sufficient service of such notice or document on his or her heirs, executors or administrators, and all persons (if any) jointly interested with him or her in any such shares.

(7) Every person who, by operation of law, transfer or other means whatsoever shall become entitled to any share, shall be bound by every notice in respect of such share which, previously to his name and address being entered in the register, shall have been given to the person from whom he derives his title to such share.

4.4 Quorum for shareholders' meetings

(1) The quorum requirement for a shareholders' meeting to begin is sufficient persons present at the meeting (which includes being present in person or by proxy) to exercise, in aggregate, at least 25% of all of the voting rights that are entitled to be exercised in respect of at least one matter to be decided at the meeting; provided that there shall not be a quorum unless there are at least three persons so present at such meeting.

(2) Notwithstanding anything to the contrary contained in the Act, once a quorum for the meeting has been established, all the shareholders forming the quorum must be present at every matter that is considered at the meeting.

(3) A shareholder of the company which is a juristic person as defined in the Act and is present at a shareholders' meeting by an authorised representative shall be deemed to be present at that meeting.

(4) The time periods contained in the Act regarding the postponement of a shareholders' meeting or the consideration of a particular matter at a shareholders' meeting, as a result of the quorum requirements not having been met, apply to the company without variation.

(5) Subject to any requirements of the JSE, the quorum at any postponed meeting shall be the shareholder or shareholders present thereat personally or by proxy, who may transact the business for which the meeting was called.

4.5 Adjournment of shareholders' meetings

(1) The chairman of a shareholders' meeting may, with the consent of the meeting and if so directed by the meeting, adjourn the meeting from time to time and from place to place.

(2) A shareholders' meeting shall not be adjourned beyond the earlier of 120 business days after the record date, or 60 business days after the date on which the adjournment occurred.

(3) Subject to any requirements of the JSE, the quorum at any adjourned meeting shall be the shareholders present thereat personally or by proxy, who may transact the business for which the meeting was called.

(4) No business shall be transacted at any adjourned shareholders' meeting of the company other than business left unfinished at the meeting from which the adjournment took place.

4.6 Votes of shareholders

(1) A resolution put to the vote of any shareholders' meeting shall be decided on a poll taken in such manner as the chairman of the meeting directs. The result of the poll shall be deemed to be a resolution of the meeting.

(2) In the case of an equality of votes, the chairman of the meeting shall be entitled to a second or casting vote.

(3) Subject to the Act and any special terms or restrictions as to voting upon which any shares may be issued, upon a poll every shareholder present or represented by proxy shall have one vote for every share held by him.

(4) The parent or guardian of a minor, the *curator bonis* of a shareholder and any person becoming entitled to shares in consequence of the death or insolvency of a shareholder, may vote at any shareholders' meeting as if he were the registered holder of the shares, provided that at least 48 hours before the time of holding the meeting (or adjourned meeting, as the case may be) at which the person proposes to vote, he shall satisfy the board of the character in respect of which he proposes to act, unless the board shall have previously admitted his right to vote at such meeting in respect thereof.

(5) Where there are joint registered holders of any share, or several executors or administrators of a deceased shareholder in whose sole name any shares stand, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share. If more than one of such joint holders, or executors or administrators, be present at any meeting, personally or by proxy, one of the said persons so present whose name stands first on the register in respect of such shares shall alone be entitled to vote in respect thereof.

4.7 Shareholders' resolutions

(1) For an ordinary resolution to be adopted by the shareholders of the company, it must be supported by the holders of at least 50% of the voting rights exercised on the resolution.

(2) For a special resolution to be adopted by the shareholders of the company, it must be supported by the holders of at least 75% of the voting rights exercised on the resolution.

(3) A special resolution adopted by the shareholders of the company is not required for a matter to be determined by the company, save for:

(a) those matters set out in the Act; and

(b) if the company shall be wound up, whether voluntarily or otherwise, the liquidators may, with the sanction of a special resolution, divide among the shareholders *in specie* any part of the assets of the company and may, with the like sanction, vest any part of the assets of the company in trustees upon such trusts for the benefit of the shareholders as the liquidators, with the like sanction, shall think fit and, if thought expedient, any such division may be otherwise than in accordance with the legal rights of the shareholders of the company, and in particular, any class may be given preferential or special rights, or may be excluded altogether or in part; but in case any division otherwise than in accordance with the legal rights of the shareholders shall be decided on, the provisions of the Act governing dissenting shareholders' appraisal rights shall apply.

(4) The proposal of any resolution to shareholders in terms of sections 20(2) and 20(6) of the Act is prohibited in the event that such a resolution would lead to the ratification of an Act that is contrary to the JSE Listings Requirements unless otherwise agreed with the JSE.

ARTICLE 5 – DIRECTORS AND OFFICERS

5.1 Composition of the board

(1) The company shall have not less than eight directors, of which at least two shall be executive directors. The shareholders of the company may from time to time increase or decrease such minimum number of directors.

(2) If the number of directors falls below the minimum set out above, the remaining directors shall as soon as possible, and in any event not later than three months from the date that the number of directors falls below the minimum, fill the vacancies on a temporary basis or call a shareholders' meeting for the purpose of filling the vacancies. The failure by the company to have the minimum number of directors during such three-month period does not limit or negate the authority of the board or invalidate anything done by the board or the company. After the expiry of the three-month period, the remaining directors shall only be permitted to act for the purpose of filling vacancies or calling shareholders' meetings.

(3) There are no directly appointed or *ex officio* directors of the company.

(4) Alternate directors may be appointed in accordance with the Act.

(5) Subject to the provisions of the Act, holders of the company's securities who are entitled to exercise voting rights may at any time appoint any persons to the office of director and may remove from office any or all of the directors.

(6) Directors of the company shall be elected in the manner set out in the Act. Such elections shall take place at the annual general meeting of the company or at any other shareholders' meeting, but shall not be done by written resolution.

(7) The authority of the board to fill a vacancy on the board on a temporary basis is not limited or restricted by this Memorandum of Incorporation. Any appointment by the board of a director to fill a vacancy on the board, or as an addition to the board, shall be subject to approval by the shareholders at the next annual general meeting or other shareholders' meeting, which approval shall not be given by written resolution.

(8) In order to become and remain a director or a prescribed officer of the company, a person need not satisfy any eligibility requirements or qualifications other than those set out in the Act. The board or the Remuneration and Nominations Committee of the board shall recommend the eligibility of directors or potential directors, taking into account any past performance or contribution.

(9) The periods of service of executive directors shall be governed by their employment contracts.

(10) At each annual general meeting of the company or other shareholders' meeting on an annual basis (and not by written resolution), one third of the non-executive directors for the time being or, if their number is not divisible by three, the number nearest to one third but not less than one third, shall retire from office. The non-executive directors to retire in each year shall be those who shall have been longest in office since their last election, but as between persons who were elected on the same day, those to retire shall, unless otherwise agreed amongst themselves, be determined by lot.

(11) A retiring non-executive director may be re-elected to the office of director. No person not being a retiring non-executive director may be elected to the office of director at any shareholders' meeting unless he or a shareholder intending to propose him has, at least five clear days before the meeting, left at the registered office of the company a notice in writing, duly signed, signifying his candidature for office or the intention of such shareholder to propose him.

(12) If at any meeting at which an election of directors ought to take place, the places of the vacating directors are not filled up, the meeting shall stand adjourned until the same day in the next week, at the same time and place, or if that day is a public holiday, then the next succeeding day which is not a public holiday, and if at such adjourned meeting the places of the vacating directors are not filled up, the vacating directors, or such of them as have not had their places filled up, shall be deemed to have been re-elected at such adjourned meeting.

(13) Subject to the provisions of the Act, the office of a director shall *ipso facto* be vacated if he:

(a) ceases to be a director by virtue of any of the provisions of the Act or becomes prohibited from being a director by reason of an order made under the Act;

(b) becomes insolvent, suspends payment generally or compounds with his creditors;

(c) becomes a lunatic or of unsound mind;

(d) absents himself from the meetings of the board, except on the company's business, for a period of six months without special leave of absence from the board and is not represented by any such meetings by an alternate director, and the board resolves that his office be vacated;

(e) resigns or retires from office; or

(f) is removed from office by an ordinary resolution of the shareholders of the company.

5.2 Authority of the board of directors

(1) Subject to Articles 1.3(4), 2.2(2), 2.2(3), 2.2(4) and 2.2(5) above, the authority of the board to manage and direct the business and affairs of the Company is not limited or restricted by this Memorandum of Incorporation.

(2) The board may from time to time in its discretion raise or borrow monies for the purposes of the company as they think fit. Subject to the Act and any JSE requirements, the board may raise or secure the repayment of such sum or sums in such manner and upon such terms and conditions in all respects as they think fit, and in particular by the issue of bonds, perpetual or redeemable, secured or unsecured debentures, or debenture stock, or any mortgage, charge or other security, on the undertaking of the whole or any part of the property of the company (both present and future).

(3) All acts done at any meeting of the board or of a committee of the board (if any) or by any person acting as a director shall, notwithstanding that it is afterwards discovered that there was some defect in the appointment of such director or persons acting as aforesaid or that they or any of them were ineligible or disqualified to act as a director, be valid as if every such person had been duly appointed, eligible and qualified to be a director.

(4) If, at any time, the company has only one director, the authority of that director to act without notice or compliance with any other internal formalities is not limited or restricted by this Memorandum of Incorporation.

5.3 Board meetings

(1) Subject to the Act and this Memorandum of Incorporation, the directors of the company may meet together for the despatch of business, adjourn or otherwise regulate their meetings as they think fit. Notwithstanding anything to the contrary contained in the Act, the chairman of the board or any two directors shall be entitled to requisition a meeting of the board.

(2) The authority of the board to determine the manner and form of providing notice of its meetings is not limited or restricted by this Memorandum of Incorporation.

(3) The authority of the board to proceed with a meeting despite a failure or defect in giving notice of the meeting is not limited or restricted by this Memorandum of Incorporation.

(4) The quorum requirement for a board meeting to begin is a majority of the directors. Each director shall have one vote on any matter before the board. A majority of the votes cast on a board resolution is sufficient to pass that resolution.

(5) The directors shall elect a chairman of the board and a lead independent non-executive director; and may determine the period for which they are to hold office. If the chairman is not available at any board meeting, the lead independent executive shall assume the chair. If at any board meeting neither of them is present within 10 minutes after the time appointed for holding the meeting, the directors present may choose one of their number to be chairman of the meeting. The chairman of the meeting shall have a casting vote, save that if, at any time, the quorum of directors is two and only two directors are present at a meeting, then the chairman shall not have a casting vote.

(6) The authority of the board to conduct a meeting entirely by electronic communication, or to provide for participation in a meeting by electronic communication, is not limited or restricted by this Memorandum of Incorporation. The board may allow persons to participate in a board meeting by conference call or otherwise, and may allow for electronic voting when the technology is in place.

(7) A decision that could be voted on at a meeting of the board may instead be adopted by written consent of a majority of the directors, given in person, or by electronic communication, provided that each director shall have received notice of the matter to be decided. Such resolution inserted in the minute book, shall be as valid and effective as if it had been passed at a meeting of the board. Any such resolution may consist of several documents and shall be deemed to have been passed on the date on which it was signed by the last director who signed it, unless a statement to the contrary is contained in the resolution.

5.4 Directors' compensation

(1) The authority of the company to pay remuneration to the company's directors, in accordance with a special resolution approved by the company's shareholders within the previous two years, is not limited or restricted by this Memorandum of Incorporation. The remuneration of non-executive directors shall be determined in this manner.

(2) Unless the company by special resolution determines otherwise, the executive directors, who are remunerated for their services as employees of the company, shall not be paid directors' fees. The remuneration of the executive directors for their services as employees of the company shall be determined by the board or the Remuneration and Nominations Committee of the board. The board or such committee shall approve the terms of the contracts of employment of executive directors before such contracts are concluded with the company.

(3) The directors shall be paid all their travelling and other expenses properly and necessarily incurred by them in and about the business of the company, and in attending meetings of the board or of committees thereof. If any director is required to perform extra services or to reside abroad, or shall be specifically occupied about the company's business, such director shall be entitled to receive such remuneration as is determined by a disinterested quorum of directors, which may be either in addition to, or in substitution for, any other remuneration.

5.5 Financial assistance

The authority of the board to authorise the company to provide financial assistance to a director or prescribed officer of the company or of a related or inter-related company; to a related or inter-related company or corporation; to a member of a related or inter-related corporation; or to a person related to any such company, corporation, director, prescribed officer or member, is not limited or restricted by this Memorandum of Incorporation.

5.6 Indemnification of directors

(1) For the purposes of this Article 5.6, "director" includes any former director, alternate director, any prescribed officer of the company, and any person who is a member of any board committee or of the Audit Committee, irrespective of whether or not the person is also a member of the board.

(2) The authority of the company to advance expenses to a director and to indemnify a director for expenses in respect of the defence of legal proceedings is not limited, restricted or extended by this Memorandum of Incorporation.

(3) The authority of the company to indemnify a director in respect of liability is not limited or restricted by this Memorandum of Incorporation.

(4) Subject to the provisions of the Act, every director shall be indemnified out of the funds of the company against all liability incurred by him as such director, in defending any proceedings, whether civil or criminal, in which judgement is given in his favour, or in which he is acquitted, or in connection with any proceedings by or against him in regard to any claim against him (actual or apprehended) based on negligence, default, breach of duty or breach of trust in which relief is granted to him by a court under the Act.

(5) If the directors, or any of them or any other persons shall become personally liable for the payment of any sum primarily due from the company, the directors may execute or cause to be executed any mortgage, charge or security over or affecting the whole or any part of the assets of the company (subject to the relevant provisions of the Act) by way of indemnity to secure the directors or persons becoming liable as aforesaid from any loss in respect of such liability.

(6) The authority of the company to purchase insurance to protect the company or a director is not limited, restricted or extended by this Memorandum of Incorporation.

(7) Subject to the provisions of the Act, no director or servant of the company shall be liable for any act, or omission of any other director or servant, nor for any loss or damage incurred by the company, unless the same happened through his own negligence, default, breach of duty or breach of trust.

5.7 Board committees

(1) The authority of the board to appoint committees of directors; to delegate to any such committee any of the authority of the board; and to include in any such committee persons who are not directors, is not limited or restricted by this Memorandum of Incorporation.

(2) The authority of any committee appointed by the board is not limited or restricted by this Memorandum of Incorporation.

(3) The board may from time to time remove any board committee formed and/or revoke any powers delegated to any such committee.

(4) The board shall have the power to appoint, and at its discretion to remove or suspend, a local board committee or board committees in any foreign country whatsoever and to fix and vary their remuneration; to establish and keep transfer offices and branch registers in any foreign country whatsoever and to close same at its discretion; and to appoint and remove agents who represent the company for such purposes as the board may determine. The board shall have the power to, at any time and from time to time, by power of attorney, appoint any person or persons to be the attorney or attorneys of the company for the purposes of this item with such powers, authorities and discretions (not exceeding those vested in or exercisable by the board in terms of the Act and this Memorandum of Incorporation) for such period and subject to such conditions as the board may from time to time think fit. Any such appointment may, if the board thinks fit, be made in favour of the members of any foreign committee established as aforesaid, or in favour of any company, or of the shareholders or members, directors, nominees or managers of any company or firm, or otherwise in favour of any fluctuating body of persons, whether nominated directly or indirectly by the board. Any such power of attorney may contain provisions for the protection or convenience of persons dealing with such attorneys as the board thinks fit. Any such delegates or attorneys as aforesaid may be authorised by the board to sub-delegate all or any of the powers, authorities and discretions for the time being vested in it.

(5) Any board committee formed shall conform to any regulations that may from time to time be imposed upon it by the board, provided that the meetings and proceedings of any board committee consisting of two or more members shall be governed by the provisions contained in this Memorandum of Incorporation regulating the meetings and proceedings of the board, so far as the same are applicable thereto, and are not superseded by any regulation made by the board.

(6) The Audit Committee is not a board committee and shall be appointed by the shareholders of the company in accordance with the Act.

5.8 Other offices of directors and personal financial interests

(1) A director may be or become employed in any other capacity in the company; or as a director or employee of a company controlled by, or a subsidiary of, or other company promoted by, the company or in which it may be interested as vendor, shareholder or otherwise; other than that of auditor. A director may accept a retainer from the company in consideration of which he agrees to give his services to the company in any special capacity when called upon by the company to do so. A director of the company may represent the company in the management of any business or operations or concern in which the company may be interested as partner or otherwise. Any such appointment and the terms as to remuneration, tenure of office and otherwise, shall be determined by a disinterested quorum of directors in compliance with the Act and any requirement of the JSE. No such director shall be accountable to the company for any remuneration or other benefits received by him as a director, shareholder or member of such company or representative of this company in such management or in any employment or retention of his services by the company.

(2) Subject to the relevant provisions of the Act:

(a) no director shall be disqualified by his office from contracting with the company either as vendor, purchaser, lender or otherwise, or as an underwriter or guarantor for the commission or profit on any shares or securities or liability of the company or of any company in which the company may be interested;

(b) no contract or arrangement entered into by or on behalf of the company in which any director is in any way interested, nor any contract or arrangement entered into with any company or partnership of or in which any director is a shareholder or member, director or partner or otherwise, shall be invalidated or voided by any such reason;

(c) no directors so contracting or being so interested or acquiring any benefit under any contract or arrangement entered into by or on behalf of any person, company or partnership in relation to the affairs of the company shall be liable to account to the company for any profits or benefits realised by or under such contract or arrangement by reason of such director holding that office or by reason of the fiduciary relationship thereby established;

(d) any director may act by himself or his firm in a professional capacity for the company and he or his firm shall be entitled to remuneration for professional services as if he were not a director, provided that nothing herein contained shall authorise a director or his firm to act as auditor of the company; and

(e) any director or directors so interested or acquiring any benefit must disclose the fact of his possessing any interest, whether as director, shareholder or member or otherwise, whether or not it appears on the face of the contract or arrangement, in accordance with the provisions of the Act.

ARTICLE 6 – FINANCES

6.1 Reserves

(1) The board may, before declaring or confirming any dividends, set aside out of the profits of the company such sums as it thinks proper as a reserve or reserves.

(2) The reserve or reserves shall, at the discretion of the board, be applicable for meeting contingencies or for paying or equalising dividends, or for any other purpose whatsoever to which the profits of the company may be properly applied and pending such application may, at the like discretion, either be employed in the business of the company or be invested in such investments (other than shares of the company) as the board may from time to time think fit.

6.2 Dividends

(1) Subject to the provisions of the Act and any JSE requirements, the board shall be entitled to declare dividends after applying the solvency and liquidity test set out in the Act and having reasonably concluded that the company will satisfy such test immediately after paying the proposed dividend.

(2) Subject to the provisions of the Act and any JSE requirements, the shareholders of the company shall be entitled to declare dividends, provided that the shareholders shall not be entitled to declare a larger dividend than that declared by the board.

(3) Each dividend shall be declared payable to shareholders registered as such on a date subsequent to the date of declaration of the dividend or the date of confirmation of the dividend, whichever is the later. This date shall be known as the dividend date.

(4) No dividend shall be paid otherwise than out of profit. Subject to the rights of any person entitled to special rights as to dividends, dividends shall be declared and paid equally on all shares.

(5) No dividend shall bear interest against the company, and any dividend remaining unclaimed for a period of three years from the dividend date may, provided notice of the declaration has been sent a registered address of the person entitled thereto, be forfeited by resolution of the board for the benefit of the company. The board may at any time annul such forfeiture upon such conditions (if any) as it thinks fit. All unclaimed dividends may be invested or otherwise made use of by the board for the benefit of the company. Any other monies due to shareholders shall be held in trust by the company indefinitely until it is lawfully claimed by the relevant shareholders.

(6) Subject to the JSE Listings Requirements, every dividend may be paid by cheque or otherwise as the board may from time to time determine and shall either be sent by post to the physical or postal registered address of the shareholder entitled thereto or be given to him personally. The receipt or endorsement on the cheque or other document of the person whose name appears in the register as the shareholder or his duly authorised agent shall be a good discharge to the company in respect of the dividend. The company shall not be responsible for the loss in transmission, or for any consequences or losses resulting from the loss in transmission, of any cheque or other document sent through the post to the physical or postal registered address of any shareholder, whether or not it was so sent at his request. The postal authorities shall be deemed the agents of the shareholder.

(7) If several persons are registered as joint holders of any share, any dividend payable on the share may be posted or delivered to any one of such holders and any one of them may give an effectual receipt for any such dividend.

(8) Subject to the Act and any requirements of the JSE, the board may resolve that any dividend be paid wholly or in part by the distribution of specific assets and, in particular, of paid-up shares, debentures or debenture stock of the company, or paid-up shares, debentures, or debenture stock of any other company, or in any or more of such ways. The shareholders of the company may also pass such a resolution, provided that no such shareholder resolution shall be final until the board by resolution has confirmed same.

(9) Where any asset, business or property is bought by the company as from a past date upon the terms that the company shall as from that date take the profits and bear the losses thereof, such profits or losses (as the case may be) shall, at the discretion of the board and so far as the law allows, be credited or debited wholly or in part to a revenue account, and in that case the amount so credited or debited shall, for the purpose of ascertaining the funds available for dividend, be treated as a profit or loss arising from the business of the company and the amount available for dividend shall be adjusted accordingly.

6.3 Auditors

Auditors shall be appointed and their duties regulated in accordance with the Act.

6.4 Company records

(1) The board shall cause to be kept such books of account as are prescribed by the Act.

(2) Subject to the Act, the books of account shall be kept at, or be accessible from, the registered office of the company and at such other place or places as the board thinks fit and shall always be open to the inspection of the directors.

(3) The board shall from time to time determine whether and to what extent and at what times and places and under what conditions or regulations the books of account of the company or any of them shall be open to the inspection of shareholders not being directors of the company, and no shareholder (not being a director) shall have any right of inspecting any books of account of the company except as conferred by statute or authorised by the board or by an ordinary resolution of the shareholders of the company.

(4) The board shall from time to time cause to be prepared and laid before the company at a shareholders' meeting such financial statements and reports as are required by the Act to be so laid. Such financial statements and reports shall comply with the financial reporting standards prescribed by the Act.

ARTICLE 7 – SEAL

The company may be provided with a seal on which its name shall be engraved in legible characters, and the power to use such seal shall be vested in the board. The seal of the company shall not be affixed to any instrument except by the authority of a resolution of the board or of a committee of the board, and in the presence of at least one director and the Company Secretary or such other person as the board may appoint for that purpose, and that director and Company Secretary or other person as aforesaid shall sign every instrument to which the seal of the company is so affixed in their presence. Every instrument to which the seal is so affixed and which is so signed shall be binding on the company.

## AUTHORISED SHARES

The company is authorised to issue the following shares:

1. **"Ordinary shares"**

1.1 Maximum number of ordinary shares: 250 million;

1.2 The following terms shall attach to the no par value ordinary shares in the share capital of the company:

1.2.1 Each ordinary share is identical to every other ordinary share and ranks *pari passu* with the other ordinary shares in respect of all rights including, but not limited to, with regards to:

1.2.1.1 voting on any matter to be decided by a vote of shareholders of the company;

1.2.1.2 participating in any distribution of profit to the shareholders; and

1.2.1.3 sharing in the distribution of the company's residual value upon the dissolution of the company;

1.2.2 Every holder of an ordinary share shall have one vote in respect of each share that he or she holds and shall be entitled to vote at every shareholders' meeting or annual general meeting of the company in person or by proxy.

2. **"Preference shares"**

2.1 Maximum number of preference shares: 30 million;

2.2 The following terms shall attach to the no par value redeemable, convertible preference shares in the share capital of the company:

2.2.1 Definitions

2.2.1.1 The following words and expressions shall, when used in this item 2 of Annexure A, bear the meanings assigned to them below and cognate words and expressions shall bear corresponding meanings:

"conversion" means the conversion of a portion of the preference shares into ordinary shares in accordance with the provisions of item 2.2.4;

"conversion and redemption date" means the date upon which the company shall effect the conversion and the redemption, being the 10th business day after the occurrence of the conversion and redemption event;

"conversion and redemption event" means the earliest of the following:

– in the case of a participant who dies prior to the long stop date, the earlier of (i) the anniversary of the subscription date which first succeeds the deceased participant's date of death; and (ii) the long stop date; or

– if a take-over occurs, the date upon which the affected transaction in question is implemented, unless otherwise noted by the board of directors of the company; or

– if the company is wound up, the date of winding-up of the company; or

– the occurrence of the long stop date by the effluxion of time;

"deeds" means the Trust deeds constituting the Trusts;

"entry market price" means the market trice on the subscription date;

"exit market price" means the market price on the conversion and redemption date;

"group" means the company and its subsidiaries;

"initial notional loan" means the notional amount which is deemed to attach to the preference shares on the subscription date, the amount of which shall be determined in accordance with the provisions of item 2.2.4.1;

"long stop date" means the seventh anniversary of the subscription date;

"market price" means the 30-day volume weighted average price of an ordinary share as traded on the JSE (as derived from the official list on the JSE) ending on the date in question;

| | |
|---|---|
| "member retailers" | means members of The Spar Guild of Southern Africa or The Build it Guild of Southern Africa who are members on the subscription date or at any time thereafter and who elect for their employees to participate in The SPAR BBBEE Retailer Employee Scheme; |
| "notional dividends" | means the amounts equal to the aggregate of any and all dividends per ordinary share declared and paid by the company to its shareholders for the period from the subscription date to the conversion and redemption date; |
| "notional interest" | means the amount equal to the aggregate of the interest deemed to have accrued on the initial notional loan for the period from the subscription date to the conversion and redemption date, calculated on a nominal annual compounded monthly basis, at a rate of 80% of the prime rate; |
| "notional loan" | means the notional amount deemed to be owing by each preference shareholder to the company on the conversion and redemption date which notional loan shall be equal to the initial notional loan increased by the notional interest and decreased by the notional dividends as determined in accordance with the provisions of item 2.2.4.1; |
| "ordinary shares" | means no par value ordinary shares in the capital of the company; |
| "participants" | means those employees of the company and/or the employees of the member retailers who, from time to time, are allocated preference shares by the preference shareholders pursuant to the provisions of the deeds; |
| "preference shareholders" | means the holders of the preference shares from time to time, and for the time being the Trusts; |
| "preference shares" | means the no par value redeemable, convertible, preference shares in the capital of the company, which preference shares shall have the rights, privileges and conditions set out in this item 2 of Annexure A; |
| "prime rate" | means the publicly quoted basic rate of interest per annum at which the company's bankers will lend on unsecured overdraft to its most favoured corporate customers, from time to time, as certified by any manager of such bank whose authority, appointment or designation it shall not be necessary to prove; |
| "redemption" | means the redemption of a portion of the preference shares in accordance with the provisions of item 2.2.5; |
| "redemption amount" | means the amount payable by the company for the redemption of the preference shares, which amount shall be 0.06 cents per preference share; |
| "scheme" | means The SPAR BBBEE Employee Scheme and The Spar BBBEE Retailer Employee Scheme constituted by the deeds; |
| "subscription agreements" | means the Preference Share Subscription Agreements entered into between the company and the preference shareholders; |
| "subscription date" | means the date on which the preference shareholders subscribe for the preference shares; |
| "subscription price" | means the amount in respect of each preference share paid by each subscriber of the preference shares; |
| "subsidiary" | means a company which is a subsidiary of the company within the meaning given to it by Section 1 of the Act; |
| "take-over" | means an "Affected Transaction" in respect of the company, as defined in Section 117 of the Act; and |
| "Trusts" | means The SPAR BBBEE Employee Trust and The SPAR BBBEE Retailer Employee Trust. |

2.2.2 Allotment and issue

The preference shares shall be allotted and issued to the preference shareholders, against payment of the subscription price by the preference shareholders to the company, in accordance with the provisions of the subscription agreements.

2.2.3 Dividends

The preference shares shall not confer upon the preference shareholders the right to receive any dividends which, after the date of issue of the preference shares, may be declared from time to time by the company.

2.2.4 Conversion

2.2.4.1 On the conversion and redemption date and in respect of each preference shareholder, the number of preference shares which will be converted into ordinary shares shall be calculated in accordance with the following formulae:

$E = A/C$

and

$A = (Y * C) – U$

Where:

- "E" is the number of preference shares to be converted by the company into ordinary shares;
- "A" is the value calculated to accrue to the Trust in respect of the number of preference shares to be converted into ordinary shares, subject to "A" having a minimum value of zero;
- "Y" is the applicable number of preference shares held by the Trust which are to be converted and/or redeemed on the applicable conversion and redemption date ("Applicable Preference Shares");
- "C" is the exit market price; and
- "U" is the notional loan, calculated in accordance with the following formula:

$W = (X * Y)$

and

$U = W + I – V$

Where:

- "W" is the total initial notional loan which attached to the preference shares;
- "X" is the entry market price;
- "U" is the notional loan;
- "I" is the notional interest which is deemed to have accrued on the initial notional loan in respect of the preference shares; and
- "V" is the notional dividends which are deemed to have been earned on the preference shares.

2.2.4.2 As soon as practical after the conversion and redemption date, the company shall be obliged to convert the number of preference shares which have been calculated to be converted, in accordance with the provisions of item 2.2.4.1 ("E"), on a one-to-one basis, into ordinary shares, and the preference shareholders shall be obliged to accept such conversion.

2.2.4.3 Any of the preference shares which are not converted on the applicable conversion and redemption date will be redeemed by the company in accordance with the provisions of item 2.2.5.

2.2.4.4 On the occurrence of a conversion and redemption event:

2.2.4.4.1 the company shall give notice thereof to the relevant preference shareholders and will forward to a registered address of each such shareholder, a Form of Surrender in the form of Form 1 on page 105 ("Form of Surrender"); and

2.2.4.4.2 the preference shareholders shall complete and sign the Form of Surrender in respect of all the applicable preference shares and shall deliver preference share certificates in respect of all such applicable preference shares together with the completed and signed Form of Surrender to the company at its registered office.

2.2.4.5 Provided that the company has received the preference share certificates and Form of Surrender in terms of item 2.2.4.4, on the conversion and redemption date, the company shall issue and allot to and in favour of the preference shareholders or their nominee, that number of ordinary shares which is equivalent to the number of preference shares calculated to be converted in accordance with the provisions of item 2.2.4.1 ("E"). Any fractions arising from this calculation will be excluded.

2.2.4.6 In the event that the preference shareholders should fail to surrender the necessary preference share certificates for whatever reason, the number of preference shares which have been calculated to be converted in accordance with the provisions of item 2.2.4.1 shall nevertheless be converted against receipt by the company of an undertaking by the preference shareholders in accordance with the provisions of item 2.2.8.4.3.

2.2.4.7 All ordinary shares issued in terms of item 2.2.4.5 shall:

2.2.4.7.1 be issued on a fully paid-up basis;

2.2.4.7.2 be listed on the JSE as soon as possible after the conversion and redemption date; and

2.2.4.7.3 rank *pari passu* with all other ordinary shares in the capital of the company.

### 2.2.5 Redemption

2.2.5.1 The company shall be obliged to redeem those of the preference shares which have not been converted into ordinary shares in accordance with the provisions of item 2.2.4, on the conversion and redemption date, subject to the provisions of the applicable laws by paying the redemption amount to the preference shareholders within seven business days of the conversion and redemption date, in the manner agreed between the parties in writing.

2.2.5.2 For the purpose of giving effect to any redemption of the preference shares in terms of item 2.2.5.1:

2.2.5.2.1 the company shall deliver to a registered address of each relevant preference shareholder a completed Notice of Redemption in the form of Form 2 on page 106 and a Form of Surrender on or prior to the redemption date; and

2.2.5.2.2 the preference shareholders shall complete the Form of Surrender and immediately return it to the company at its registered office together with the preference share certificate in question. The company shall, forthwith after the later of the conversion or redemption date and the date of receipt of such documents, in respect of the preference shares to be redeemed, deliver and/or pay to the preference shareholders, and in such manner agreed between the parties in writing, the redemption amount due in respect of the redemption and shall then be entitled to cancel the issue of such preference shares.

2.2.5.3 In the event that the preference shareholders fail to surrender the necessary preference share certificate for whatever reason, the relevant number of preference shares shall nevertheless be redeemed against receipt by the company of an undertaking by the preference shareholders in accordance with the provisions of item 2.2.8.4.3.

### 2.2.6 Cancellation of preference shares

2.2.6.1 After receipt of all of the preference share certificates and the conversion in terms of item 2.2.4.5 and/or the redemption in terms of item 2.2.5.1, as the case may be, of all of the preference shares:

2.2.6.1.1 the company shall cancel the issue of the preference shares; and

2.2.6.1.2 provided all requisite special and ordinary resolutions have been passed, the company shall effect an amendment to this Memorandum of Incorporation, whereby the preference shares are removed from the company's authorised share capital.

### 2.2.7 Notices, meetings and voting

2.2.7.1 The registered holder of each preference share shall be given due notice of, and shall be entitled to be present and to vote at, all shareholders' meetings of the company.

2.2.7.2 At every shareholders' meeting of the company the preference shareholders shall be entitled to exercise one vote for every preference share held. In this regard the preference shares shall rank *pari passu* with all other shares in the issued share capital of the company.

2.2.7.3 The company shall be obliged to give the preference shareholders notice of any meeting of any other class of shareholders.

2.2.7.4 The provisions of this Memorandum of Incorporation relating to meetings of ordinary shareholders and the quorum required therefore shall apply, *mutatis mutandis*, to any meeting of the preference shareholders.

2.2.7.5 A preference shareholder shall be entitled to that proportion of the total votes in the company which the total number of preference shares held by him bears to the total number of shares issued by the company, provided that if, at a shareholders' meeting, the aggregate votes exercisable by all the preference shareholders present or represented at the meeting exceed 25% less one vote of the total votes exercisable by all shareholders present or represented at that meeting, a preference shareholder shall be entitled to the aforesaid proportion of the total votes at that meeting in respect of one quarter only of its preference shares and, in respect of the other three quarters, such lower proportion as will result in the total number of votes exercisable by all the preference shareholders being reduced to 25% less one vote of the aggregate votes exercisable at the meeting concerned.

2.2.8 General

2.2.8.1 Any payment due by the company to the preference shareholders shall be made without set-off, deduction or any form of withholding whatsoever and shall be made by electronic funds transfer into a bank account nominated in writing by the preference shareholders.

2.2.8.2 The preference shareholders shall be entitled to transfer the preference shares to any third party on notice to the company. If any such transfer occurs, then the company undertakes to give effect to, and to abide by, such transfer.

2.2.8.3 All notices given by the company or the preference shareholders in terms this item 2 of Annexure A shall be in writing.

2.2.8.4 If any certificate issued in respect of the preference shares is defaced, lost or destroyed, it shall be replaced by the company upon receipt by company of either:

2.2.8.4.1 the defaced certificate; or

2.2.8.4.2 an affidavit by the preference shareholder in question to the effect that such certificate has been lost or destroyed; and

2.2.8.4.3 a written undertaking by the preference shareholder to indemnify the company against any loss, liability, damage, cost or expense which the company may suffer as a result of issuing such replacement certificate.

Form 1

## FORM OF SURRENDER

The preference shareholder, being the registered holder of [......] no par value redeemable, convertible preference shares in The Spar Group Limited ("the company"), hereby surrenders and encloses the share certificate in respect of [......] preference shares.

The preference shareholder's signature on this form, constitutes the preference shareholder's execution of an instrument of transfer of its preference shares to the company. The preference shareholder hereby irrevocably nominates and constitutes [..........................................................] (or his duly authorised representative) in the preference shareholder's name, place and stead to sign all further documents necessary to give effect to the conversion of its preference shares.

For: the preference shareholder

_______________________________________

who warrants that he is duly authorised hereto

Form 2

## NOTICE TO THE PREFERENCE SHAREHOLDER OF THE REDEMPTION OF THE REDEEMABLE, CONVERTIBLE PREFERENCE SHARES IN THE SPAR GROUP LIMITED ("the company")

The company hereby gives notice to the preference shareholder of its intention to redeem the no par value redeemable, convertible preference shares held by the preference shareholder in the issued share capital of the company ("the redemption shares") on [.....................................] ("the redemption date").

The amount payable by the company to the preference shareholder in respect of the redemption shares shall be an amount equal to the preference share redemption amount (as defined in item 2 of Annexure "A" to the Memorandum of Incorporation of the company ("the redemption amount").

Please find enclosed herewith a Form of Surrender which must be completed and returned to the company together with the relevant share certificate(s) of the redemption shares, at the following address: [.........................................................................................................].

The company shall, upon the later of the redemption date and the date of receipt of the documents set out above, pay to the preference shareholder the redemption amount in accordance with the instructions contained in the properly completed Form of Surrender.

*Company Secretary*

# ANNEXURE C: SALIENT FEATURES OF THE SPAR GROUP LIMITED FORFEITABLE SHARE PLAN ("FSP")

Terms capitalised below bear the same meanings as those terms bear in the rules of the FSP.

1. The Remuneration Committee may, in its discretion, call upon the Employer Companies to make recommendations to the Remuneration Committee as to which of their respective Employees they wish to incentivise, retain the services of or attract the services of, by the making of an award of Forfeitable Shares. Eligible Employees include any person holding permanent salaried employment or office with any Employer Company, including any executive director, but excluding any non-executive director of the group.

2. Awards of Forfeitable Shares will be made on an ad hoc basis or on an annual basis, as and when the Remuneration Committee, in consultation with the Chief Executive Officer of the group, decides that there is a merit in making the Award to a particular Employee. When the Chief Executive Officer is eligible to receive an Award of Forfeitable Shares, he will be excluded from the decision to make such an Award.

3. Awards made on an ad-hoc basis will be used to address retention issues and will only be subject to continued employment ("Vesting Condition"). It is envisaged that Awards made on an annual basis will be partially subject to Performance Conditions and a Vesting Condition and partially subject to a Vesting Condition only. The split between Awards subject to Performance and Vesting Conditions and a Vesting Condition only will start from a 50%:50% split at executive level to 75%:25% at Chief Executive Officer level. The Vesting Period will be the period or periods commencing on the Award Date and ending on the date as specified in the Award Letter (both dates included) during which the Participant is required to fulfil the Vesting Condition, which will be a period of three years.

4. The number of Forfeitable Shares subject to an Award made to an Employee, and the extent to which the award of Forfeitable Shares will be subject to a Performance Condition, will primarily be based on the Employee's annual salary, grade, performance, retention and attraction requirements and market benchmarks.

5. The Remuneration Committee will set appropriate Vesting Conditions and Performance Conditions, as relevant, for each Award.

6. The rules of the FSP will be flexible in order to allow for settlement in any of the following manners. The exact method will be determined by the Remuneration Committee:

   i) by way of a market purchase of Shares; or

   ii) use of treasury Shares; or

   iii) issue of Shares.

7. In order to effect any forfeiture of Awards, the Forfeitable Shares will be held by an Escrow Agent on behalf of the Employee.

8. The maximum number of Shares which may at any one time be Allocated under the FSP shall not exceed 17 182 700 Shares. The maximum number of Shares which may be allocated to an individual in respect of all unvested Awards may not exceed 1 718 270 Shares. Shares Allocated under the FSP, which are not subsequently settled to an Employee as a result of the forfeiture thereof, will be excluded in calculating the company limit. Similarly, any Shares purchased in the market in settlement of the FSP will be excluded.

9. The Employee will give no consideration for the grant or Settlement of an Award.

10. Employees terminating employment due to resignation or dismissal on grounds of misconduct, proven poor performance or proven dishonest or fraudulent conduct will be classified as bad leavers and will forfeit all unvested Awards.

11. Employees terminating employment due to death, retirement, retrenchment, ill-health, disability, injury or the sale of the Employer Company will be classified as good leavers and a portion of the Award will vest on the Date of Termination of Employment. This portion will reflect the number of months served since the Award Date to the Date of Termination of Employment over the total number of months in the Vesting Period and the extent to which the Performance Condition (if any) has been met. The remainder of the Award will lapse.

12. In the event of a Change of Control, a portion of the Award will Vest. This portion will reflect the number of months served since the Award Date to the Date of Termination of Employment over the total number of months in the Vesting Period and the extent to which the Performance Condition (if any) has been met. The portion of the Award that does not Vest on the Change of Control Date will, except on the termination of the FSP, continue to be subject to the terms of the Award Letter relating thereto unless the Remuneration Committee determines that the terms of the Award Letter relating thereto are no longer appropriate. In this case the Remuneration Committee shall make such adjustment to the number of Awards or convert Awards into awards in respect of shares in one or more other companies provided the Participants are no worse off. The Remuneration Committee may also vary the Performance Condition relating to this portion.

# ANNEXURE C: SALIENT FEATURES OF THE SPAR GROUP LIMITED FORFEITABLE SHARE PLAN ("FSP") continued

13. In the event of a variation in Share capital such as a capitalisation issue, subdivision of Shares, consolidation of Shares, liquidation etc, participants shall continue to participate in the FSP. The Remuneration Committee may make such adjustment to the Award or take such other action to place Participants in no worse a position than they were prior to the happening of the relevant event and to provide that the fair value of the Award immediately after the event is materially the same as the fair value of the Award immediately before the event. The issue of Shares as consideration for an acquisition, and the issue of shares or a vendor consideration placing will not be regarded as a circumstance that requires any adjustment to Awards. Where the Remuneration Committee regards an adjustment as necessary, Auditors, acting as experts and not as arbitrators and whose decision shall be final and binding on all persons affected thereby, shall confirm to the company in writing that these are calculated on a non-prejudicial basis. The Auditors shall confirm in writing to the JSE whether those adjustments were calculated in accordance with the rules of the FSP. Any adjustments made will be reported in the company's annual financial statements in the year during which the adjustment is made.

# ANNEXURE D: REMUNERATION POLICY

## POLICY STATEMENT

The SPAR Group is committed to paying fair and market-related remuneration to ensure that the organisation is able to attract and retain top quality people. Our remuneration policy therefore seeks to:

- acknowledge the contribution of individual employees in ensuring the successful achievement of the company's goals and objectives; and
- position the remuneration levels appropriately and competitively in comparison with the labour market.

## GUIDING PRINCIPLES

1. The SPAR Group will strive to ensure that remuneration is free of unfair discrimination. Fair differentiation based on performance and skills shortage will be applied.
2. The company takes cognisance of its external environment through an understanding of national remuneration trends and by benchmarking itself against comparable companies. To this end, the company will strive to position key positions and those where there is a shortage of skills on the 75th percentile of the market and the rest of the positions at least on the 50th percentile.
3. The use of a performance management system ensures that there is a correlation between individual/team performance and remuneration earned.
4. Management is tasked with managing remuneration responsibly and thus ensuring the sustainability of the company.
5. Salary scales are based on the Paterson Grading System and will be informed by market comparisons and are used to provide remuneration guidelines rather than definite salaries.

## REMUNERATION

Remuneration packages consist of a basic salary, an unguaranteed performance bonus and add-on benefits:

1. Bands A to C – receive a monthly salary and a guaranteed 13th cheque. A performance bonus of up to 50% of a monthly salary or part thereof may be paid at the end of the financial year, at the discretion of the company, based on the achievement of set targets.
2. Bands D and above – receive a monthly salary and a performance-linked bonus. This bonus may be paid at the end of the financial year, at the discretion of the company, dependent on the business unit's and the individual's performance and is based on the achievement of financial, individual and transformation objectives.

   Maximum incentive bonus earnings:

   | Paterson Grade | % of basic annual salary |
   |---|---|
   | F | 100% |
   | EU | 100% |
   | EL | 60% |
   | DU | 30% |
   | DL | 15% |

3. Other pensionable remuneration applicable to bands D and above includes a car allowance, vehicle insurance and fuel usage which are paid by the company.
4. Other variable remuneration, such as allowances, will be paid where applicable in accordance with the legislation as well as collective agreements entered into with the union(s).
5. From date of engagement, permanent employees at all levels become members of one of the available retirement funds.
6. Membership of a medical aid scheme is not compulsory but those who wish to become members can choose from a number of medical aid schemes available. The Tiger Brands medical aid is a group scheme whilst a number of other medical aids have been negotiated at distribution centre level.

## NON-EXECUTIVE DIRECTORS' REMUNERATION

The non-executive directors' remuneration consists of a guaranteed basic monthly salary. Additional fees are paid to various directors based on their membership of board committees. The Remuneration and Nominations Committee, in conjunction with the CEO, makes recommendations on non-executive directors' remuneration and the shareholders approve these.

## AUTHORISATION AND TIMING

1. Salary increases for the group are authorised as follows:
    - 1.1 The Remuneration and Nominations Committee is responsible for recommending salary increases of non-executive/executive directors and the Executive Management Committee;
    - 1.2 The Chief Executive Officer, together with the Executive Management Committee, is responsible for authorising increases for all employees below EU; and
    - 1.3 The Remuneration and Nominations Committee to authorise overall percentage increases for staff below EU.
2. Salary increases will be implemented as follows:
    - 2.1 1 January each year for all staff below E band who are not members of the bargaining unit;
    - 2.2 1 October each year for staff graded E band and above;
    - 2.3 1 March each year for non-executive directors; and
    - 2.4 As per collective agreements with the union(s) for employees in the bargaining unit.

## SHARE OPTIONS

The board may from time to time authorise the issue of share options to management employees as part of the long-term retention strategy. The quantum of options issued are recommended by the Remuneration and Nominations Committee with reference to the following guidelines:

1. The cumulative value of unvested options at the strike price may approximate the following multiples of gross annual basic salary:
    - Chief Executive Officer 7
    - Exco members 6
    - Senior management 4
2. Additional options may be granted to reward exceptional performance.
3. The company will seek to remain competitive against comparable companies.

# FORM OF PROXY

**THE SPAR GROUP LIMITED**
Registration number: 1967/001572/06
JSE code: SPP
ISIN: ZAE000058517
("SPAR" or "the group")

Only for use by members who have not dematerialised their shares or members who have dematerialised their shares with "own name" registration.

All other dematerialised shareholders must contact their CSDP or broker to make the relevant arrangements concerning voting and/or attendance at the meeting.

For use by SPAR shareholders at the meeting of holders of ordinary shares of the company; the meeting of holders of preference shares of the company; and the annual general meeting of the company to be held at 22 Chancery Lane, Pinetown on Tuesday, 14 February 2012 at 09:00.

I/We

of (address)

being the holder/s of shares, appoint (see note 1)

1. or failing him/her/it;

2. or failing him/her/it;

3. the chairman of the annual general meeting

as, my/our proxy to act for me/us on my/our behalf at the annual general meeting which will be held for the purposes of considering, and if deemed fit, passing, with or without modification, the resolutions to be proposed thereat and at any adjournment thereof, and to vote for and/or against the resolutions and/or abstain from voting in respect of the ordinary shares registered in my/our name/s, in accordance with the following instructions:

| | | Number of votes (one vote per share) | | |
|---|---|---|---|---|
| MEETING OF HOLDERS OF PREFERENCE SHARES | | For | Against | Abstain |
| 1. | Proposed special resolution of the holders of preference shares number 1 – Conversion of par value preference shares into no par value preference shares | | | |
| 2. | Proposed ordinary resolution of the holders of preference shares number 1 – Approval of the conversion of par value ordinary shares into no par value ordinary shares | | | |
| MEETING OF HOLDERS OF ORDINARY SHARES | | For | Against | Abstain |
| 1 | Proposed special resolution of the holders of ordinary shares number 1 – Conversion of par value ordinary shares into no par value ordinary shares | | | |
| ORDINARY BUSINESS | | For | Against | Abstain |
| 1. | Approval of 2011 annual financial statements | | | |
| 2. | Re-appointment of Mr PK Hughes as a director | | | |
| 3. | Re-appointment of Ms P Mnganga as a director | | | |
| 4. | Appointment of Mr CF Wells as a director with effect from 1 April 2011 | | | |
| 5. | Appointment of Deloitte as auditor and Mr B Botes as designated auditor | | | |
| 6. | Appointment of Mr DB Gibbon as chairman of the Audit Committee | | | |
| 7. | Appointment of Mr HK Mehta as a member of the Audit Committee | | | |
| 8. | Appointment of Mr MJ Hankinson as a member of the Audit Committee | | | |
| 9. | Appointment of Mr CF Wells as a member of the Audit Committee | | | |
| SPECIAL BUSINESS | | For | Against | Abstain |
| 1. | Special resolution number 1 – Amendment of the Memorandum of Incorporation | | | |
| 2. | Special resolution number 2 – Financial assistance to related or inter-related companies | | | |
| 3. | Special resolution number 3 – Basis of remuneration payable to non-executive directors for the period 1 March 2012 to 28 February 2013 | | | |
| 4. | Ordinary resolution number 1 – Authority to issue shares for the purpose of share options | | | |
| 5. | Ordinary resolution number 2 – Adoption of The SPAR Group Limited Forfeitable Share Plan | | | |
| OTHER | | For | Against | Abstain |
| Non-binding advisory vote on the Remuneration Policy of the company | | | | |

Signed at this day of 2012

Signature

Completed forms of proxy must be received at the office of the company's transfer secretaries, Link Market Services, South Africa (Pty) Limited, PO Box 4844, Johannesburg, 2000, by no later than 09:00 on Friday, 10 February 2012.

# NOTES TO THE FORM OF PROXY

1. A member's instructions to the proxy must be indicated in the appropriate box provided. Failure to comply with the above will be deemed to authorise the proxy to vote or abstain from voting at the annual general meeting as he/she deems fit. A member may instruct the proxy to vote less than the total number of shares held by inserting the relevant number of shares in the appropriate box provided. A member who fails to do so will be deemed to have authorised the proxy to vote or abstain from voting, as the case may be, in respect of all the member's votes exercisable at the annual general meeting.
2. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity (e.g. for a company, close corporation, trust, pension fund, deceased estate, etc.) must be attached to this form of proxy unless previously recorded by the company's share registrar or waived by the chair of the annual general meeting.
3. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies.
4. A minor must be assisted by the minor's parent or guardian unless the relevant documents establishing the minor's legal capacity are produced or have been registered by the company's transfer secretaries.
5. The chairman of the annual general meeting may accept any form of proxy which is completed other than in accordance with these notes if the chairman of the annual general meeting is satisfied as to the manner in which the member wishes to vote.

# CORPORATE INFORMATION

**Company name**
The SPAR Group Limited

**Registration number**
1967/001572/06

**JSE code**
SPP

**ISIN**
ZAE000058517

**Company Secretary**
KJ O'Brien
Appointed Company Secretary 2006

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Umhlanga Rocks
4320

**Attorneys**
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PO Box 1219
Umhlanga Rocks
4320

**Auditors**
Deloitte & Touche
PO Box 243
Durban
4000

**Transfer Secretaries**
Link Market Services South Africa (Pty) Limited
PO Box 4844
Johannesburg
2000

**Sponsor**
One Capital
PO Box 784573
Sandton
2146

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