# INDEPENDENT AUDITOR'S REPORT

## TO THE SHAREHOLDERS OF THE SPAR GROUP LIMITED

## REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

### Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of The SPAR Group Limited (the Company) and its subsidiaries (together the Group) as at 30 September 2019, and its consolidated and separate financial performance and its 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.

#### What we have audited

The SPAR Group Limited's consolidated and separate financial statements set out on pages 16 to 91 comprise:

- the consolidated and separate statements of financial position as at 30 September 2019;
- the consolidated and separate statements of profit or loss and other comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report.

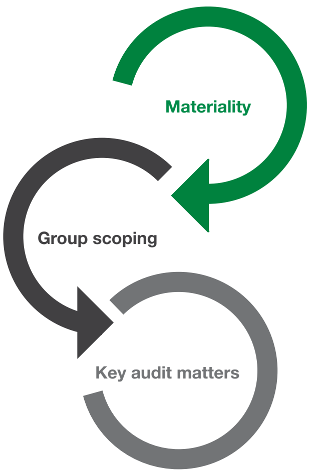
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We are independent of the Group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively.

### Our audit approach

#### Overview




*Overall group materiality*

- Overall group materiality: R139,000,000, which represents 5% of profit before tax.

*Group audit scope*

- The Group audit scope was determined based on indicators such as the contribution from each component to consolidated assets, consolidated revenue and consolidated profit before tax. A combination of full scope audits, audits of specific financial statement line items and specified audit procedures were performed. Analytical procedures have been performed over the remaining components.

*Key audit matters*

- Valuation of the financial liability relating to TIL JV Ltd
- Expected credit losses ("ECL") on financial assets

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

| | |
|---|---|
| *Overall group materiality* | R139 000 000 |
| *How we determined it* | 5% of profit before tax |
| *Rationale for the materiality benchmark applied* | We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector. |

### How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group is arranged around four geographical segments in Southern Africa, Ireland, Switzerland and Poland. Each component within these geographical segments is an aggregation of a number of business units.

Based on our Group scoping assessment, Southern Africa, Ireland and Switzerland were considered to be financially significant and further scoping assessments were performed over the components within each geographic segment. Full scope audits were performed over all components in Switzerland and the majority of the components in Ireland. Poland is not considered to be financially significant. This segment is made up of two statutory entities. An audit of specific financial statement line items was performed over one statutory entity and analytical procedures were performed over the other statutory entity. The Southern African segment is comprised of seven distribution centres, a central office function, various statutory entities and equity-accounted associates. Full scope audits were performed on the central office function and five distribution centres. Audits of specific financial statement line items were performed on one additional distribution centre and two statutory entities. Specified audit procedures were performed at one statutory entity and analytical procedures were performed over all remaining components.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by the Group engagement team, component auditors from the local PwC network firm and non-PwC firms operating under our instruction. The Group engagement team was directly responsible for the audit of the Group consolidation, the central office function, one distribution centre which was subject to a full scope audit and the entities subject to audits of specific line items. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained. We had various interactions with our component teams in which we discussed and evaluated recent developments, audit risks, materiality, the scope and findings of the work performed, and the reports issued by the component teams. The Group engagement leader visited the component audit teams responsible for the audit of the Ireland and Switzerland segments.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Valuation of the financial liability relating to TIL JV Ltd** | |
| *This key audit matter relates to the consolidated and separate financial statements*<br>Refer to the accounting policy note 1.19 on financial instruments and note 28 and 39 to the financial statements for the related disclosures.<br><br>Included in the Group's net assets at year-end, are financial liabilities amounting to R2.2 billion (Company: R1.3 billion) which arose on previous acquisitions and relate to agreements to acquire the remaining shareholding from non-controlling shareholders at specified future dates.<br><br>The first contractual repayment on the TIL JV Ltd financial liability, is scheduled for 31 December 2019 and is based on the actual results of the TIL JV Ltd Group for the 2019 financial year. This first repayment has been included in "Current portion of financial liabilities" under current liabilities.<br><br>Management's valuation of the non-current financial liability involved the use of the key management judgement and assumptions in relation to the following:<br>• the estimated future net profit after tax of the TIL JV Ltd Group for financial years 2020 and 2022, which represent the years during which the second and third contractual repayments will occur; and<br>• the discount rate which is based on the cost of equity in respect of the Irish operations.<br><br>We considered the valuation of the financial liability which arose on the acquisition of TIL JV Ltd (Incorporated in Ireland) to be a matter of most significance to the current year audit due to the magnitude of this financial liability (R1.3 billion) and the significant management estimation involved in its valuation. | We obtained an understanding of the methodology applied by management in performing the valuation of this financial liability and found this to be in line with the requirements of IFRS 13: Fair Value Measurement.<br><br>We tested the mathematical accuracy of management's model and where applicable, we agreed the inputs used by management in the model to the contractual agreements. No material differences were noted.<br><br>We assessed the ZAR/Euro exchange rate used by management in the valuation model by comparing the exchange rate to external sources. We found the exchange rate used by management to be reasonable.<br><br>We compared the 2019 profit used by management in the computation of the current financial liability to the TIL JV Ltd Group 2019 actual profit and we found the 2019 profit used in management's computation to be in line with the actual profit achieved for the 2019 financial year.<br><br>We assessed whether the estimated net profit after tax used for the years 2020 and 2022 were in line with the underlying assumptions included in TIL JV Ltd's most recently approved business plan. We found management's forecasts for future years to be in line with the approved business plan.<br><br>In assessing the reasonableness of management's forecasts, we considered the level of precision with which management had historically prepared their forecasts by comparing them to actual performance. We found management's explanations to support the forecasts used in the model to be reasonable.<br><br>We made use of our valuation expertise to assess the appropriateness of the discount rate applied by management. Our assessment regarding the discount rate included recalculating the inputs with reference to independent market data. We found the discount rate applied by management to be within a reasonable range. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|

**Expected credit losses ("ECL") on financial assets**

*This key audit matter relates to the consolidated and separate financial statements*

Refer to the accounting policy note 1.19 on financial instruments and note 39 to the financial statements for the related disclosures.

Included in the Group's net assets at year-end, are financial assets of R15.1 billion (Company: R10.9 billion) which are accounted for in accordance with IFRS 9: Financial Instruments.

The Group assesses the ECL associated with all financial assets measured at amortised cost and recognises an allowance for ECL for these financial assets.

This key audit matter relates to the following financial assets:

- Loans receivable,
- Block discounting loans receivable, and
- Trade and other receivables

ECL on these financial assets are measured using either the general approach or the simplified approach.

*General approach*

The general approach was applied to determine the ECL on loans receivable (including the loan receivable from Piotr I Pawel Group), and block discounting loans receivable. The Group assesses, at the end of each reporting period, whether there has been a significant increase in credit risk since initial recognition. Where there has been no significant increase in credit risk, the Group recognises a twelve month ECL. Where there has been a significant increase in credit risk, the Group recognises a lifetime ECL.

The measurement of the ECL under this approach reflects a probability weighted outcome, the time value of money and the best forward-looking economic information available to the Group. This incorporates the probability of default ("PD"), exposure at default ("EAD") and the loss given default ("LGD").

*Simplified approach: Provision matrix*

This approach, which was applied to trade receivables, recognises a lifetime ECL. The provision matrix is based on historical credit loss experience, adjusted for forward-looking factors such as the inflation rate, fuel cost, prime rate and unemployment rate, specific to trade receivables and the economic environment.

We determined the ECL on these financial assets to be a matter of most significance to our current year audit due to the following:

- the first-time adoption of IFRS 9 by the Company and the Group;
- the magnitude of the financial assets over which the ECL model is applied; and
- the degree of judgement and estimation applied by management in determining the ECL.

We obtained an understanding of the methodology applied by management in performing the ECL computations on each class of financial assets and found this to be in line with the requirements of IFRS 9.

We tested the mathematical accuracy of management's models and we found no material differences.

*General approach*

For loans receivable and block discounting loans receivable, we performed the following procedures:

- We evaluated the assumptions used by management in their assessment of credit risk by reference to either payment history or counterparty forecast cash flows. We found management's assumptions to be reasonable.
- For the loan receivable from Piotr I Pawel Group ("PIP"), we made use of our actuarial expertise to assess the appropriateness of the ECL calculated by management. Our assessment included evaluating, inter alia, the modelling methodologies, the loan staging assessment, the forward-looking information and assessing the reasonableness of the resultant PD, LGD and ECL percentages with reference to independent market data. We found the ECL calculated by management to be reasonable.

*Simplified approach: Provision matrix*

For trade receivables, we performed the following procedures:

- We used past data to test the accuracy of the historical loss rates calculated by management. We found the historical loss rates to be reasonable.
- We assessed the forward-looking assumptions used by management to adjust the historic loss rates with reference to independent market data. We found the assumptions used by management to be reasonable.

We assessed the disclosure included in note 39 against the requirements of IFRS 9. We found the disclosure to be in line with the requirements of IFRS 9.

**Other information**

The directors are responsible for the other information. The other information comprises the information included in the document titled "The SPAR Group Limited Annual Financial Statements 2019", which includes the Directors' Statutory Report, the Audit Committee Report and the Certificate by the Company Secretary as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report, and the other sections of the document titled "The SPAR Group Limited Integrated Annual Report 2019", which is expected to be made available to us after that date. The other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of the directors for the consolidated and separate financial statements**

The directors are responsible for the preparation and fair presentation of the consolidated and separate 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the consolidated and separate financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of The SPAR Group Limited for 2 years.

PricewaterhouseCoopers Inc.

**PricewaterhouseCoopers Inc.**
*Director: S Randelhoff*
*Registered Auditor*

Durban
12 November 2019