



AUDITED
CONSOLIDATED
ANNUAL FINANCIAL
STATEMENTS

2019

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These consolidated annual financial statements represent the financial information of The Foschini Group Limited and were audited in compliance with section 30 of the Companies Act of South Africa, No. 71 of 2008, as amended (Companies Act of South Africa). These consolidated annual financial statements were prepared by the TFG Finance and Advisory department of The Foschini Group Limited, acting under supervision of B Ntuli CA(SA), CFO of The Foschini Group Limited.

These consolidated annual financial statements were authorised by the Supervisory Board on 28 June 2019 and published on 12 July 2019.

* The supplementary information presented does not form part of the consolidated annual financial statements and is unaudited.



Directors' responsibility for and approval of the consolidated annual financial statements

For the year ended 31 March 2019

The directors are responsible for the preparation and fair presentation of the consolidated annual financial statements of The Foschini Group Limited, comprising the consolidated statement of financial position at 31 March 2019, and the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and the consolidated segmental analysis and the notes to the consolidated annual financial statements which includes a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa and JSE Limited Listings Requirements.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of consolidated annual financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these consolidated annual financial statements.

The directors have made an assessment of the ability of the company and its subsidiaries to continue as going concerns and have no reason to believe that the businesses will not be going concerns in the foreseeable future.

The auditor is responsible for reporting on whether the consolidated financial statements are fairly presented in accordance with International Financial Reporting Standards.

APPROVAL OF CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

The consolidated annual financial statements of The Foschini Group Limited were approved by the Supervisory Board on 28 June 2019 and signed by:

M Lewis
Chairman

Authorised director

A E Thunström
Chief Executive Officer

Authorised director

Directors' report

For the year ended 31 March 2019

REVIEW OF ACTIVITIES

NATURE OF BUSINESS

The Foschini Group Limited (TFG) is a diverse group with a portfolio of 29 leading fashion retail brands – @home, @homelivingspace, American Swiss, Archive, Charles & Keith, Colette, Connor, Donna, Duesouth, Exact, Fabiani, The FIX, Foschini, G-Star RAW, Hi, Hobbs, Johnny Bigg, Markham, Mat & May, Phase Eight, Relay Jeans, Rockwear, SODA Bloc, Sportscene, Sterns, Tarocash, Totalsports, Whistles and yd. Our range of 29 retail brands offers clothing, jewellery, cellphones, accessories, cosmetics, sporting and outdoor apparel and equipment, homeware and furniture across value to upper market.

TFG London refers to the consolidated performance of Dress Holdco A Limited and all its subsidiaries. Dress Holdco A Limited is the ultimate UK holding company of Phase Eight, Whistles and Hobbs brands. TFG London operates through retail outlets throughout the United Kingdom and internationally, as well as online.

TFG Australia refers to the consolidated performance of TFG Retailers Proprietary Limited and all its subsidiaries. TFG Retailers Proprietary Limited is the ultimate Australian holding company of the Retail Apparel Group (RAG). Certain previously owned G-Star RAW franchise stores were disposed of in the current financial year (note 38). RAG operates through retail outlets throughout Australia and New Zealand, as well as online.

GENERAL REVIEW

The financial results are reflected in the consolidated annual financial statements on pages 20 to 91. The subsidiary companies, analysis of shareholdings and definitions are contained in the appendices on pages 92 to 96.

AUTHORISED AND ISSUED SHARE CAPITAL

The Group's share buy-back programme commenced at the end of May 2001. At 31 March 2019, 1,1 (2018: 1,1) million shares are owned by a subsidiary of the company, 3,0 (2018: 3,1) million shares are held by employees of TFG in terms of share incentive schemes and 1,5 (2018: 1,3) million shares are owned by the share incentive trust. These were eliminated on consolidation. For further details of authorised and issued share capital and treasury shares refer to notes 10 and 11.

DIVIDENDS

Interim ordinary

The directors declared a dividend of 330,0 (2018: 325,0) cents per ordinary share, which was paid on Monday, 7 January 2019 to ordinary shareholders recorded in the books of the company at the close of business on Friday, 4 January 2019.

Final ordinary

The directors declared a final dividend of 450,0 (2018: 420,0) cents per ordinary share, payable on Monday, 22 July 2019, to ordinary shareholders recorded in the books of the company at the close of business on Friday, 19 July 2019.

PREFERENCE

The company paid the following dividends to holders of 6,5% cumulative preference shares:

25 September 2018 – R13 000 (26 September 2017 – R13 000)

18 March 2019 – R13 000 (19 March 2018 – R13 000)

DIRECTORS

The names of the company's directors at the year end are:

Independent non-executive directors

M Lewis (Chairman)
Prof. F Abrahams
S E Abrahams
G H Davin
D Friedland
B L M Makgabo-Fiskerstrand
E Oblowitz
N V Simamane

Non-executive directors

R Stein

Executive directors

A E Thunström (CEO)
B Ntuli (CFO)

Changes to directors in the current financial year

As previously indicated on SENS on 12 March 2018 and 24 May 2018, Mr A D Murray stepped down as CEO of the Group on 3 September 2018 and retired from the Group at the end of September 2018. Mr A E Thunström, previously the CFO of the Group, assumed the position of CEO on 3 September 2018.

As previously indicated on SENS on 1 August 2018, Ms B Ntuli was appointed as CFO and executive director of the Group with effect from 14 January 2019.

The following directors retire by rotation in terms of the memorandum of incorporation (MOI) but, being eligible, offer themselves for re-election as directors:

M Lewis
S E Abrahams
Prof. F Abrahams

In addition, the current CFO Ms B Ntuli will be proposed for re-election as an executive director.

For details of directors' interests in the company's issued shares, refer to note 10. Details of directors' remuneration are set out in note 31.

Directors' report (continued)

For the year ended 31 March 2019

AUDIT COMMITTEE

The directors confirm that the Audit Committee addressed the specific responsibilities required in terms of section 94(7) of the Companies Act of South Africa. Further details are contained within the Audit Committee report.

SUBSIDIARIES

The names of, and certain financial information relating to, the company's key subsidiaries appear in appendix 1 of the supplementary information.

SPECIAL RESOLUTIONS

On 3 September 2018, shareholders approved the remuneration to be paid to non-executive directors for the period 1 October 2018 to 30 September 2019.

On 3 September 2018, shareholders renewed the approval, as a general authority, of the acquisition by the company or any of its subsidiaries of the issued ordinary shares of the company, valid until the next annual general meeting. At the next annual general meeting to be held on 3 September 2019, shareholders will be asked to renew this general authority, as set out in the notice of annual general meeting.

On 3 September 2018, shareholders also approved that the company may provide direct or indirect financial assistance to a related or interrelated company or corporation provided that such financial assistance may only be provided within two years from the date of the adoption of the special resolution and subject further to sections 44 and 45 of the Companies Act of South Africa and the JSE Limited Listings Requirements.

SPECIAL RESOLUTIONS PASSED BY SUBSIDIARY COMPANIES

No special resolutions of any significance were passed during the year under review.

STAFF SHARE INCENTIVE AND SHARE OPTION SCHEMES

Details are reflected in note 30.

SUBSEQUENT EVENTS

Details are reflected in note 21.

GOING CONCERN

These consolidated annual financial statements were prepared on the going concern basis.

The Supervisory Board has performed a review of the company and its subsidiaries' ability to continue trading as going concerns in the foreseeable future and, based on this review, the directors are satisfied that the Group and businesses are going concerns and continued to adopt the going concern basis in preparing the consolidated annual financial statements.

Company Secretary's certificate

For the year ended 31 March 2019

I certify that The Foschini Group Limited has lodged with the Companies and Intellectual Property Commission (CIPC) all returns as required by a public company in terms of the Companies Act of South Africa, and that all such returns appear to be true, correct and up to date.

D van Rooyen

Company Secretary

28 June 2019

Audit Committee report

For the year ended 31 March 2019

The Audit Committee is pleased to present its report for the financial year ended 31 March 2019 to the shareholders of TFG. This report complies with the Companies Act of South Africa and King IV Report on Corporate Governance™ for South Africa 2016 (King IV™)¹.

- Meeting attendance for the committee is set out on page 88 of the integrated annual report. All members of the committee continue to meet the independence requirements of the Companies Act of South Africa and King IV™.
- Each member's qualifications and experience are set out in the profiles on pages 38 to 39 of the integrated annual report.
- Details of fees paid to committee members appear in note 31 of the consolidated annual financial statements.

COMMITTEE MANDATE AND FUNCTIONING

The committee is governed by a formal Audit Committee charter that is reviewed regularly and incorporates all the requirements of the Companies Act of South Africa. This charter guides the committee in terms of its objectives, authority and responsibilities, both statutory and those assigned by the Supervisory Board. The committee fulfilled its responsibilities in accordance with its charter during the 2019 financial year.

The Audit Committee recognises its important role as part of the risk management and corporate governance processes and procedures of TFG.

The committee typically meets three times per year and further meetings are held as required. Salient aspects of Internal Audit reviews are discussed at each meeting. In addition, the following is addressed at each respective meeting:

- Review of enterprise risk management and combined assurance methodology and consideration of outcome of financial risk assessment (typically in March each year)
- Approval of annual results (typically in May each year)
- Approval of interim results (typically in November each year)

The committee considered the draft interim and annual financial reports prepared by executive and senior management and recommended the adoption of these reports to the Supervisory Board subject to certain amendments. The Chairman provided written reports to the Supervisory Board that summarise the committee's findings and recommendations.

The committee held three formal meetings during the 2019 financial year. To further strengthen the Group's governance structures, a joint Audit and Risk Committee was constituted for TFG London and TFG Australia. This committee met twice during the financial year.

Independently of executive management, members of the committee meet separately with the Head of Internal Audit and the external auditors respectively. The Head of Internal Audit reports directly to the Audit Committee.

Meeting dates and topics are agreed well in advance of each year. Each meeting is preceded by the distribution of an Audit Committee pack to each attendee, comprising *inter alia*:

- a detailed agenda;
- minutes of the previous meeting;
- a report by the external auditors; and
- written reports by executive and senior management including:
 - taxation,
 - compliance and legal,
 - governance over technology and information management,
 - internal audit,
 - insurance and loss statistics, and
 - enterprise risk management (ERM).

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AUDIT COMMITTEE MEMBERSHIP

MEMBERS AND APPOINTMENT DATES

S E Abrahams (Chairman)	29 January 1999
Prof. F Abrahams	1 October 2016
D Friedland	1 April 2016
B L M Makgabo-Fiskerstrand	1 October 2015
E Oblowitz	1 October 2010
N V Simamane	24 February 2010

The Chief Executive Officer, the Chief Financial Officer, the Head of Internal Audit, the Head of Enterprise Risk Management, the Company Secretary and the external audit partner and staff attended meetings of the committee by regular invitation. Additional attendees, including Mr R Stein, a non-executive director, and members of executive management, are invited to attend meetings on an *ad hoc* basis. The Chairman of the Group has an open invitation to attend meetings of the Audit Committee.

ROLES AND RESPONSIBILITIES

STATUTORY DUTIES AS PRESCRIBED IN THE COMPANIES ACT OF SOUTH AFRICA

General

- to receive and deal appropriately with any concerns or complaints (whether internal, external or on its own initiative) relating to the accounting practices and internal audit of TFG, the content or auditing of TFG's financial statements, the internal financial controls of TFG or any related matter.

External auditors

- to evaluate the independence, effectiveness and performance of the external auditors;
- to obtain assurance from the auditors that adequate accounting records are being maintained and that appropriate accounting policies are in place, which have been consistently applied save for the introduction of IFRS 9 and IFRS 15;
- to evaluate the appointment of the external auditors on an annual basis and to ensure that such appointment is in terms of the provisions of the Companies Act of South Africa and any other legislation;
- to approve the audit fee and fees in respect of any non-audit services; and
- to determine the nature and extent of any non-audit services the auditors may provide to the Group and to pre-approve proposed agreements for non-audit services.

Financial results

- to make submissions to the Supervisory Board on any matter concerning the Group's accounting policies, financial controls, records and reporting; and
- to provide, as part of the integrated annual report and consolidated annual financial statements, a report by the Audit Committee.

DUTIES ASSIGNED AND DELEGATED BY THE SUPERVISORY BOARD

General

- to ensure that the respective roles and functions of external audit and internal audit are sufficiently clarified and coordinated;
- to assess the effectiveness of the arrangements in place for combined assurance; and
- to assist the Supervisory Board in carrying out its risk management, technology and information management responsibilities.

Audit Committee report (continued)

For the year ended 31 March 2019

External auditors

- to consider and respond to any questions from the Supervisory Board and shareholders regarding the resignation or dismissal of the external auditors, if necessary;
- to review and approve the external audit plan; and
- to ensure that the scope of the external audit has no limitations imposed by executive management and that there is no impairment on its independence.

Internal control and internal audit

- to review the effectiveness of the Group's systems of internal control, including internal financial controls, reporting procedures and risk management, and to ensure that effective internal control systems are maintained;
- to ensure that written representations on internal controls are submitted to the Supervisory Board annually by all divisional managing directors and general managers (these being representations that provide assurance on the adequacy and effectiveness of the Group's systems of internal control);
- to monitor and supervise the effective functioning and performance of the internal audit function;
- to review and approve the annual internal audit plan and the internal audit charter;
- to ensure that the scope of the internal audit function has no limitations imposed by executive management and that there is no impairment on its independence; and
- to review that appropriate internal controls and internal audit plans are prepared to cover the TFG International operations.

Finance function

- to consider the appropriateness of the expertise and experience of the Chief Financial Officer; and
- to satisfy itself with the expertise, resources and experience of the finance function.

Financial results

- to consider any accounting treatments, significant unusual transactions, or accounting judgements and estimates that could be contentious;
- to review executive management's assessment of going concern and to make a recommendation to the Supervisory Board that the going concern concept be adopted by the Group; and
- to review the integrated annual report, as well as the consolidated annual financial statements, interim reports, preliminary reports or other financial information prior to submission and approval by the Supervisory Board.

COMMITTEE EVALUATION

A formal Supervisory Board evaluation (which includes an evaluation of all subcommittees) was followed in the 2019 financial year. Action plans are in place to address the key themes.

ELECTION OF COMMITTEE MEMBERS

The following members made themselves available for election to the committee. Such election was recommended by the Nomination Committee and will be proposed to shareholders at the upcoming annual general meeting (AGM):

S E Abrahams (Chairman)
Prof. F Abrahams
D Friedland
B L M Makgabo-Fiskerstrand
E Oblowitz
N V Simamane

SPECIFIC RESPONSIBILITIES

The committee confirms that it has carried out its functions in terms of the Audit Committee charter and section 94(7) of the Companies Act of South Africa, by:

- confirming the nomination of Deloitte & Touche as the Group's registered auditor, and Mr M van Wyk as the designated partner, for the year ending 31 March 2020; being satisfied that they are independent of the company;
- approving the terms of engagement and fees to be paid to Deloitte & Touche;
- ensuring that the appointment of Deloitte & Touche complies with the provisions of the Companies Act of South Africa;
- determining the nature and extent of any non-audit services, which the external auditors provide to the company or a related company;
- pre-approving proposed agreements with Deloitte & Touche for the provision of any non-audit services;
- preparing this report for inclusion in the consolidated annual financial statements and the integrated annual report;
- receiving and dealing appropriately with any relevant concerns or complaints;
- making submissions to the Supervisory Board on any matter concerning the Group's accounting policies, financial controls, records and reporting; and
- performing other oversight functions as determined by the Supervisory Board.

INTERNAL FINANCIAL CONTROL AND INTERNAL AUDIT

Based on the assessment of the system of internal financial controls and reporting procedures conducted by internal audit, as well as information and explanations given by executive and senior management and discussions held with the external auditors on the results of their audit, the committee is of the opinion that TFG's system of internal financial controls and reporting procedures are effective and forms a basis for the preparation of reliable financial statements in respect of the year under review.

In addition, during the 2019 financial year, the committee was not made aware of any material breaches of any laws or regulations or material breaches of internal controls or procedures.

Internal audit continues to develop and refine its approach to analytically examine and interrogate the store data in an attempt to highlight:

- unmitigated risks; and
- potential loss.

This work has involved the development of IT software to enable intelligent scrutiny of stores' data. The Audit Committee, the Risk Committee and senior management believe this initiative is essential to achieve better coverage of critical issues, particularly given the sizeable growth in new stores that has occurred in TFG Africa, London and Australia.

The committee believes that Mr H Nell, the Head of Internal Audit, possesses the appropriate expertise and experience to meet his responsibilities in that position and that the internal audit function is functioning and performing effectively.

COMBINED ASSURANCE

The Audit Committee reviewed the combined assurance process and related methodologies and the outcomes thereof and considers this process to be effective.

Read more in our Risk Committee report on page 109 of the integrated annual report.

Audit Committee report (continued)

For the year ended 31 March 2019

RISK MANAGEMENT

While the Supervisory Board is ultimately responsible for the maintenance of an effective risk management process, the committee, together with the Risk Committee, assists the Supervisory Board in the assessment of the adequacy of the risk management process. The Chairman of this committee has an open invitation to Risk Committee meetings to ensure that relevant information is regularly shared. The committee fulfils an oversight role regarding financial reporting risks, internal financial controls, fraud risk as it relates to financial reporting and technology, and information management risks as they relate to financial reporting.

The strategies adopted by the Audit Committee and the Risk Committee ensure timely reviews of any internal control weakness identified by any of the assurance providers. In addition, there continues to be significant improvements in the development of ERM methodologies, which will further enhance the Group's risk management coverage and focus.

Read more about our risk management approach in the Risk Committee report on page 110 of the integrated annual report.

TFG INTERNATIONAL OPERATIONS

The creation of the joint Audit and Risk Committees has continued to significantly enhance the governance oversight of both TFG London and TFG Australia. This committee meets twice a year and provides feedback to the Audit and Risk Committees as well as the Supervisory Board. The Chairmen of both these committees will also review the results of the TFG International operations and provide feedback to the Audit and Risk Committees as well as to the Supervisory Board.

Internal audit continues to draw up an audit plan to cover the significant risks identified and audits were conducted during the year to cover those risks. No major concerns surfaced from their audit work.

THE FINANCIAL AND BUSINESS ENVIRONMENT

SOUTH AFRICA

The year under review has presented significant challenges to the retail industry as a whole. In South Africa there has been a lack of GDP growth; with the result that job creation has not achieved at the required levels to enable the vast majority of South Africans, with insufficient sustainable income, to purchase life's necessities. In addition, increased fuel costs and electricity price increases have placed a further financial burden on the vast majority of our citizens. The recent political elections were conducted in an exemplary manner and President Ramaphosa must now deliver on his election promises of GDP growth, job creation, the provision of affordable housing, improved educational facilities and appropriate healthcare availability.

It is not surprising that, with the exception of a few retailers, the South African retail industry suffered during the year under review. One remains cautiously optimistic that TFG's superb results in South Africa, which demands continuous commitment to excellence, is sustainable into the future. The investment in state-of-the-art IT holds a key to success as the world struggles with the physical size of outlets and the ever-increasing reliance on online sales. In South Africa, the latter still represents a small percentage of sales but efforts to improve the TFG offering in this regard continue relentlessly.

UNITED KINGDOM

Regrettably, the uncertainty of Brexit has continued and currently no solution to the crisis is apparent. The Brexit uncertainty is not the only reason why retailers in the United Kingdom are failing, with the major groups either downsizing or going into administration.

As our major brands rely on the sales emanating from the concessions we maintain in a number of these department stores, the determination and expertise of our United Kingdom team has been rewarded by achieving remarkable results in a depressed overall environment.

AUSTRALIA

The executive team in Australia continues to achieve stellar results in an environment which is also suffering from depressed turnovers. The management remains confident that the newer brands, some of which have only been launched in the recent past, will complement those more mature brands and believes that the RAG contribution to TFG's results will continue to show sizeable growth.

ACCOUNTING STANDARDS

The Audit Committee has spent a considerable amount of time and effort dealing with the introduction of IFRS 9 and 15 in the year under review and preparing for IFRS 16, which is effective from 1 April 2019.

IFRS 9 presented a real challenge to our credit financial team. Support was required from IT, including an outsourcer, as the provisions moved from IAS 39 (the incurred loss model) to IFRS 9, which requires a forward-looking approach based on ECL (expected credit loss) formulation. In addition to validating our models on a regular basis, consideration had to be given to uncertainties in the environment, particularly the threat, in South Africa, of the introduction of debt forgiveness regulations to assist a defined financial class of customers who find themselves unable to discharge their indebtedness. Various protestations and submissions have been provided to government from credit providers not to introduce such legislation as it goes against the constitutional right of a credit provider to collect debts owing to it. The outcome of the risk is currently unclear. TFG has made an estimated provision against losses which may incur should such legislation become effective.

In the United Kingdom, as indicated earlier, an estimated provision has been raised against the possibility of concession stores being placed into administration (refer to note 20 of the consolidated annual financial statements). Regrettably, our ability to take credit guarantee insurance is no longer an effective mitigant as, in many instances, such insurance is no longer available and/or has become excessively costly.

It must be stressed that the Audit Committee believes that the provisions raised pursuant to IFRS 9 regulations is adequate and embodies sound business judgement; a view shared by our external auditors who independently challenged the provision.

The introduction of IFRS 15 did not present TFG with any major problems and has been integrated with minor impact on our results.

Because of the large number of stores we rent locally and internationally, the forthcoming introduction of IFRS 16 has presented our finance Group in Southern Africa, the United Kingdom (including other countries outside of the United Kingdom) and Australia with formidable challenges. With 4 085 trading outlets in TFG it must be appreciated that providing an opening entry on 1 April 2019 is a mammoth task. As can be seen from note 40 to the consolidated annual financial statements this work is substantially complete with only a few minor updates still outstanding. Management and the Group finance team are confident that this work will be completed well before issuance of our half year results covering the six months ending 30th September 2019.

OTHER ACCOUNTING MATTERS

Provision for doubtful debts

As set out above, the effects of IFRS 9 have played a significant part in determining the level of provisioning required to cover doubtful debts. It has been evident that the financial pressures which all credit customers have had to and continue to endure has had a negative effect on collections. Although we have noticed a slight deterioration in customer settlements, the level of provisioning is considered to be appropriate in the circumstances. The relaxation of income verification requirements imposed by the credit regulator had the effect of many individuals applying for credit facilities. The TFG risk strategy addressed the significant surge in applications, ensuring that the quality of our book was maintained. Further it is gratifying to note that cash sales continue to grow throughout the Group as a percentage of total sales (Refer to page 69 of the integrated annual report).

Inventory

With the continued growth of the Group via expansion, it is to be expected that the carrying value of inventory will increase. After lengthy debate and review of the external and internal auditors' reports, together with input from senior executives and brand leaders, the Audit Committee is satisfied that the value of inventory reflected on the statement of financial position at 31 March 2019 is fairly stated.

Combined assurance

The progress in providing a comprehensive combined assurance framework is most pleasing as all five layers of risk providers have had input into the process. This financial and operational framework is aimed at ensuring all identified risks facing the Group are mitigated as far as possible. In addition, the risk profiles are updated on a continuous basis, thus enabling the Group to address new risks as they manifest themselves on a proactive basis.

Audit Committee report (continued)

For the year ended 31 March 2019

Losses from crime-related incidents

Although the Group continues to suffer losses from crime-related incidents, it has been pleasing to note that an active and highly effective Forensics division has been successful in curtailing losses from fraud, burglaries, armed robberies, etc.

IT Governance

Regular reports are provided to, *inter alia*, the Audit Committee on the progress made by the Group's IT division to be an enabler to the Group's brands. Appropriate levels of investment in IT is a high priority of the Group, with the clear understanding that IT remains a critical service provider to the Group's operations.

Funding

The Group continues to enjoy strong support from many institutions, not only in Southern Africa, but also in the geographies where we trade internationally. Because of multiple properties which the Group rents, gearing ratios will spike following the introduction of IFRS 16 in the 2019/2020 year. This accounting standard is unlikely to pose any concerns to TFG's funders.

EXTERNAL AUDITORS

The Group's external auditors are Deloitte & Touche and the designated partner is Mr M van Wyk.

Deloitte & Touche is afforded unrestricted access to the Group's records and management, and present any significant issues arising from the annual audit to the committee. In addition, Mr M van Wyk, where necessary, raises matters of concern directly with the Chairman of the committee.

The committee gave due consideration to the independence of the external auditors and is satisfied that Deloitte & Touche is independent of the Group and executive and senior management and is therefore able to express an independent opinion on the Group's consolidated annual financial statements. The Committee specifically considered Deloitte & Touche's tenure (two years) and the nature and extent of non-audit services. Non-audit services of R4,1 million were provided in the current year (2018: R0,4 million (KPMG) and R1,5 million (Deloitte & Touche)).

The committee has nominated, for approval at the AGM, Deloitte & Touche as the external auditor and Mr M van Wyk as designated audit partner for the 2020 financial year, having satisfied itself (as required by the JSE Limited Listings Requirements):

- that the audit firm is accredited by the JSE Limited; and
- that the quality of the external audit is satisfactory (after referencing the most recent inspection reports issued by the Independent Regulatory Board for Auditors (IRBA) in respect of both the audit firm and the designated audit partner).

FINANCIAL STATEMENTS

The committee reviewed the financial statements of the company and the Group and is satisfied that they comply with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

In addition, the committee reviewed executive management's assessment of going concern and recommended to the Supervisory Board that the going concern concept be adopted by TFG.

As recommended by King IV™ the Committee has concentrated primarily on the following financial captions with the actions taken to address the risks listed:

ADOPTION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Audit Committee specifically considered the impact of the following new accounting standards:

- IFRS 15 *Revenue from Contracts with Customers* (adopted fully retrospectively as at the start of the earliest period presented in the 2019 consolidated annual financial statements)
- IFRS 9 *Financial Instruments* (adopted retrospectively on 1 April 2018 with an adjustment to the Group's opening retained earnings)
- IFRS 16 *Leases* (only applicable to the Group's 2020 financial year)

The Audit Committee received regular presentations from management on the processes and controls in place to address the adoption of these new accounting standards; as well as on the financial impact and the required disclosures.

The external auditors provide detailed reports on their work to satisfy themselves that the adoption of the new accounting standards has been correctly applied.

RECOVERY OF TRADE RECEIVABLES

During the year, we receive detailed presentations from the Group Director responsible for Credit on the progress being made in controlling the collection of receivables, which reports detail trends in recoveries, bad debt write-offs and other matrixes associated with TFG's customer accounts status.

In addition to reports provided to the Audit Committee, similar presentations are made to the Supervisory Board at regular intervals.

The Audit Committee receives reports from the external auditors on their work. Robust discussions take place on their findings.

INVENTORY

The Audit Committee members receive monthly reports from the Chief Executive Officer, which include comments made by each divisional head on:

- their inventory holdings, stock-turn statistics and write-down information; and
- the adequacy or otherwise of the overall quantum of their inventory holdings per business unit.

Internal audit conducts ongoing cyclical inventory counts and reports on their findings to the Audit Committee. In addition, the detailed internal audit reports relating to inventory counts are reviewed throughout the year by the Risk Committee.

The external auditors provide a detailed year-end report on their work to satisfy themselves that this critical caption is fairly stated.

Audit Committee report (continued)

For the year ended 31 March 2019

INTEGRATED ANNUAL REPORT

The committee fulfils an oversight role in respect of the integrated annual report. In this regard, the committee gave due consideration to the need for assurance on the sustainability information contained in this report and concluded that obtaining independent assurance would not be beneficial to stakeholders in all aspects of our business.

The committee considered the sustainability information as disclosed in the integrated annual report, assessed its consistency with the consolidated annual financial statements and sustainability overview report and is satisfied that the sustainability information is in no way contradictory to that disclosed in the consolidated annual financial statements.

EXPERTISE OF CHIEF FINANCIAL OFFICER AND FINANCE FUNCTION

The committee considers the appropriateness of the expertise and experience of the Chief Financial Officer and finance function on an annual basis.

In respect of the above requirement, the committee believes that Ms B Ntuli, the Chief Financial Officer, possesses the appropriate expertise and experience to meet her responsibilities in that position.

The committee further considers that the expertise, resources and experience of the finance function are appropriate based on the nature, complexity and size of the Group's operations.

It should also be noted that the JSE granted a dispensation to the Group for Mr A E Thunström to act in the dual role as Chief Executive Officer and Chief Financial Officer for the period 3 September 2018 to 13 January 2019.

APPROVAL

The committee recommended the approval of the consolidated annual financial statements and the integrated annual report to the Supervisory Board.

S E Abrahams

Chairman: Audit Committee

28 June 2019

Independent auditor's report

For the year ended 31 March 2019

TO THE SHAREHOLDERS OF THE FOSCHINI GROUP LIMITED

Report on the Audit of the Consolidated Financial Statements

OPINION

We have audited the consolidated financial statements of The Foschini Group Limited (the Group or TFG) set out on pages 20 to 92, which comprise the statement of financial position as at 31 March 2019, and the income statement and statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2019, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

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 Financial Statements* section of our report. 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

Independent auditor's report (continued)

For the year ended 31 March 2019

KEY AUDIT MATTER

Impairment of trade receivables

The Group has a significant level of trade receivables – retail to the value of R7 439,8 million that are due to be recovered through instalments as a result of credit granted to customers.

As disclosed in note 39.2 the Group adopted IFRS 9: *Financial Instruments* (IFRS 9) in the current year which significantly impacted the manner in which impairment is measured; from an incurred loss model previously applied under IAS 39: *Financial Instruments: Recognition and Measurement* to an expected credit loss (ECL) model under IFRS 9. The adoption of IFRS 9 has resulted in a change in accounting policy in relation to impairment of financial assets. An adjustment was made to opening retained earnings to account for the change in accounting policy.

The measurement of ECLs reflects a probability-weighted outcome, the time value of money and forward-looking information. The Group measures ECL by projecting the probability of write-off, exposure at write-off, timing of when write-off is likely to occur and loss given write-off. The ECL is calculated by multiplying these components together.

The impairment of trade receivables – retail is material to the consolidated financial statements in terms of its magnitude, the level of subjective judgement applied by the directors and the effect that it has on the Group's credit risk management processes and operations. This has resulted in this matter being identified as a matter of most significance in the audit of the consolidated financial statements.

HOW THE MATTER WAS ADDRESSED IN OUR AUDIT

In evaluating the impairment of trade receivables – retail our audit included the following procedures with assistance from our credit specialist team:

- We obtained an understanding of and tested the relevant controls relating to the process over customer approvals and the controls over the review of the ECL model and parameters;
- We reviewed and assessed the methodology applied by management in their IFRS 9 model documentation, which forms the basis of the ECL calculation, against the requirements of IFRS 9;
- Detailed assessment of the modelling code against the developed methodology to ensure the model yields the results in line with the impairment methodology;
- Independently re-coding key elements of the model, i.e. ECL, probability of write off, loss given write off and survival discount; and
- We evaluated the appropriateness of forward-looking economic expectations included in the model by comparing to independent industry data. We evaluated management's economic response models to ensure that the macroeconomic inputs are appropriately incorporated into the models. Where management applied out-of-model adjustments to the forward-looking information, we evaluated these for reasonableness against historical experience and evaluated the methodology applied to incorporate these into the forecasts.

Specific attention was also given to the following areas:

- Our data specialist team reconciled the data used in the impairment model to the source system;
- With assistance from our IT specialist team we tested the business rules applied for the critical IFRS 9 modelling fields; and
- Evaluated the appropriateness of the disclosures included in the consolidated financial statements against the requirements of IFRS 7: *Financial Instruments: Disclosure*.

Based on our testing we found that the directors' impairment to be reasonable and the disclosure in the consolidated financial statements, as set out in note 1.2, 1.9, 1.14, 6, 20 and 39.2, are appropriate.

KEY AUDIT MATTER

Valuation of inventory under the retail inventory method

Inventory on hand at year end is one of the Group's most significant assets amounting to R7 680,9 million. The Group carries inventory at the lower of cost or net realisable value, which is calculated using either the Retail Inventory Method (RIM) or cost. This is an industry specific accounting method used to derive a weighted average product cost, approximating the net realisable value of the inventory. Included in the year end inventory balance, is inventory to the value of R4 706,9 million which has been valued using the RIM.

The RIM of valuation is complex, contains significant assumptions relating to the average margin and level at which it is applied, which can vary between retail entities and the method is impacted by the timing of markdowns, which could impact the gross margin. Judgement by the directors is also required in the application thereof as far as it relates to gross margin percentages and markdowns.

The valuation of the South African merchandise inventory was determined to be a key audit matter in the audit of the Group as a result of the significance of the balance, the complex nature of the calculations and the level of judgement applied by the directors in determining the valuation.

Refer to the inventory accounting policy note, Key management assumptions note and estimates, note 5, Inventory.

HOW THE MATTER WAS ADDRESSED IN OUR AUDIT

We obtained an understanding of the Group's processes around the valuation of inventory according to the RIM.

Our IT specialists performed specific automated procedures in respect of the controls around the inventory valuation process. The accuracy and completeness of the purchase data in the system was assessed through the testing of relevant automated and manual controls in the procurement process.

With the assistance of our data analytics specialists, we:

- Evaluated the appropriateness of the application of the RIM, as described in IAS 2: Inventory ("IAS 2");
- Performed detail analytical procedures by analysing the gross margin of each product per style to identify if the margin on the product is within the standard deviation to the average margin applied to the style in the RIM calculation and assessed the impact on inventory on hand at year end;
- Tested the underlying purchases and process around the setting of the RIM prices;
- Assessed markdowns pre- and post- year end to ensure that there was no unfair bias in the valuation;
- Considered whether the provision for obsolete inventory, built into the RIM valuation method of inventory, adequately covered the risk of overstatement of inventory;
- Based on the above procedures evaluated the extent to which the RIM valuation approximated cost as required by IAS 2; and
- Considered the adequacy of the disclosure in the consolidated financial statements.

Based on our testing we found that the assumptions used in the application of the RIM is reasonable and the disclosure in the consolidated financial statements acceptable.

Independent auditor's report (continued)

For the year ended 31 March 2019

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the Directors' Report, the Audit Committee Report and the Company Secretary's Certificate as required by the Companies Act of South Africa, and the Integrated Annual Report, which we obtained prior to the date of this report. The other information does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 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 FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group'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 or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated 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 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 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 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 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 to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 Audit Committee 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 Audit Committee 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 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 Deloitte & Touche has been the auditor of The Foschini Group Limited for 2 years.

Deloitte & Touche

Registered Auditor

Per: Michael van Wyk

Partner

28 June 2019

Unit 11 Ground Floor, La Gratitude, 97 Dorp Street, Stellenbosch, 7600

Consolidated statement of financial position

As at 31 March

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

	Note	2019 Rm	Restated* 2018 Rm	Restated* 2017 Rm
ASSETS				
Non-current assets				
Property, plant and equipment	2	2 820,0	2 861,9	2 469,0
Goodwill and intangible assets	3	8 590,1	7 667,2	4 675,9
Deferred taxation asset	4	1 045,7	663,6	515,4
		12 455,8	11 192,7	7 660,3
Current assets				
Inventory	5	7 680,9	6 900,6	5 603,8
Trade receivables – retail	6	7 439,8	7 373,6	6 843,3
Other receivables and prepayments	7	1 147,6	821,8	771,0
Concession receivables	8	174,3	296,8	246,1
Cash and cash equivalents	9	1 111,0	1 206,1	878,5
		17 553,6	16 598,9	14 342,7
Total assets		30 009,4	27 791,6	22 003,0
EQUITY AND LIABILITIES				
Equity attributable to equity holders of The Foschini Group Limited				
Share capital	10	3,3	3,3	3,1
Share premium		4 098,2	4 098,2	1 625,4
Treasury shares	11	(748,1)	(660,3)	(634,2)
Dividend reserve	12	1 065,4	994,4	878,1
Hedging surplus (deficit)	13	33,8	10,0	(8,6)
Foreign currency translation reserve	14	121,7	(814,1)	(258,4)
Put option reserve	15	(84,4)	(86,0)	(82,8)
Post-retirement defined benefit plan reserve	16	(34,2)	(34,2)	(58,8)
Retained earnings		9 851,6	9 610,2	8 933,1
		14 307,3	13 121,5	10 396,9
Non-controlling interest		–	4,5	4,2
Total equity		14 307,3	13 126,0	10 401,1
LIABILITIES				
Non-current liabilities				
Interest-bearing debt	17	6 017,4	4 825,7	4 442,2
Put option liability	15	81,0	72,7	74,7
Cash-settled share incentive scheme		–	–	6,8
Operating lease liability	18	363,5	335,1	255,7
Deferred taxation liability	4	933,7	829,4	337,9
Post-retirement defined benefit plan	16	233,8	215,8	233,1
		7 629,4	6 278,7	5 350,4
Current liabilities				
Interest-bearing debt	17	3 196,0	4 524,9	3 307,0
Trade and other payables	19	4 535,0	3 724,3	2 836,7
Operating lease liability	18	22,5	30,7	15,2
Taxation payable		319,2	107,0	92,6
		8 072,7	8 386,9	6 251,5
Total liabilities		15 702,1	14 665,6	11 601,9
Total equity and liabilities		30 009,4	27 791,6	22 003,0

* Refer to note 39 for the impact of the changes in accounting policies.

Consolidated income statement

For the years ended 31 March

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

	Note	2019 Rm	Restated* 2018 Rm
Revenue	23	37 128,2	31 463,0
Retail turnover		34 101,4	28 519,5
Cost of turnover		(15 820,8)	(13 557,5)
Gross profit		18 280,6	14 962,0
Interest income	24	1 764,0	1 755,8
Other income	25	1 262,8	1 187,7
Net bad debt		(992,8)	(837,5)
Trading expenses	26	(15 986,8)	(12 941,5)
Operating profit before acquisition costs and finance costs		4 327,8	4 126,5
Acquisition costs		-	(79,4)
Finance costs	27	(749,9)	(696,6)
Profit before tax		3 577,9	3 350,5
Income tax expense	28	(939,3)	(942,3)
Profit for the year		2 638,6	2 408,2
Attributable to:			
Equity holders of The Foschini Group Limited		2 638,4	2 406,9
Non-controlling interest		0,2	1,3
Profit for the year		2 638,6	2 408,2
Earnings per ordinary share (cents)	29		
Total			
Basic		1 141,7	1 070,2
Diluted (basic)		1 131,3	1 060,0

* Refer to note 39 for the impact of the changes in accounting policies.

Consolidated statement of comprehensive income

For the years ended 31 March

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

	2019 Rm	Restated* 2018 Rm
Profit for the year	2 638,6	2 408,2
Other comprehensive income (loss):		
Items that will never be reclassified to profit or loss		
Actuarial gain on post-retirement defined benefit plan	-	34,2
Deferred tax on items that will never be reclassified to profit or loss	-	(9,6)
Items that are or may be reclassified to profit or loss		
Movement in effective portion of changes in fair value of cash flow hedges	32,7	27,2
Foreign currency translation reserve movements	935,8	(555,7)
Deferred tax on items that are or may be reclassified to profit or loss	(8,9)	(8,6)
Other comprehensive income (loss) for the year, net of tax	959,6	(512,5)
Total comprehensive income for the year	3 598,2	1 895,7
Attributable to:		
Equity holders of The Foschini Group Limited	3 598,0	1 894,4
Non-controlling interest	0,2	1,3
Total comprehensive income for the year	3 598,2	1 895,7

* Refer to note 39 for the impact of the changes in accounting policies.

Consolidated statement of changes in equity

For the years ended 31 March

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

	Share capital Rm	Share premium Rm	Treasury shares Rm	Other reserves Rm	Retained earnings Rm	Attributable to equity holders of The Foschini Group Limited Rm	Non-controlling interest Rm	Total equity Rm
Equity at 31 March 2017	3,1	1 625,4	(634,2)	469,5	9 051,5	10 515,3	4,2	10 519,5
IFRS 15 transition*					(118,4)	(118,4)		(118,4)
Equity at 31 March 2017 – restated*	3,1	1 625,4	(634,2)	469,5	8 933,1	10 396,9	4,2	10 401,1
Total comprehensive income for the year				(512,5)	2 406,9	1 894,4	1,3	1 895,7
Profit for the year – restated*					2 406,9	2 406,9	1,3	2 408,2
<i>Other comprehensive loss</i>								
Actuarial gain on post-retirement defined benefit plan (note 16)				34,2		34,2		34,2
Movement in effective portion of changes in fair value of cash flow hedges (note 13)				27,2		27,2		27,2
Foreign currency translation reserve movements (note 14)				(555,7)		(555,7)		(555,7)
Deferred tax on movement in other comprehensive income (note 4)				(18,2)		(18,2)		(18,2)
Contributions by and distributions to owners								
Share-based payments reserve movements					155,0	155,0		155,0
Transfer from dividend reserve (note 12)				(878,1)	878,1	-		-
Dividends paid (note 35)					(1 626,2)	(1 626,2)	(1,0)	(1 627,2)
Transfer to dividend reserve (note 12)				994,4	(994,4)	-		-
Share capital issued and share premium raised (note 10)	0,2	2 472,8				2 473,0		2 473,0
Proceeds from sale of shares in terms of share incentive schemes					91,7	91,7		91,7
Shares purchased in terms of share incentive schemes			(231,6)			(231,6)		(231,6)
Delivery of shares by share incentive schemes			205,5		(205,5)	-		-
Increase in the fair value of the put option liability (note 15)				(3,2)	(28,5)	(31,7)		(31,7)
Equity at 31 March 2018 – restated*	3,3	4 098,2	(660,3)	70,1	9 610,2	13 121,5	4,5	13 126,0

* Refer to note 39 for the impact of the changes in accounting policies.

Consolidated statement of changes in equity (continued)

For the years ended 31 March

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

	Share capital Rm	Share premium Rm	Treasury shares Rm	Other reserves Rm	Retained earnings Rm	Attributable to equity holders of The Foschini Group Limited Rm	Non-controlling interest Rm	Total equity Rm
Equity at 31 March 2018 – restated* IFRS 9 transition*	3,3	4 098,2	(660,3)	70,1	9 610,2 (517,4)	13 121,5 (517,4)	4,5	13 126,0 (517,4)
Equity at 1 April 2018	3,3	4 098,2	(660,3)	70,1	9 092,8	12 604,1	4,5	12 608,6
Total comprehensive income for the year				959,6	2 638,4	3 598,0	0,2	3 598,2
Profit for the year					2 638,4	2 638,4	0,2	2 638,6
Other comprehensive income								
Movement in effective portion of changes in fair value of cash flow hedges (note 13)				32,7		32,7		32,7
Foreign currency translation reserve movements (note 14)				935,8		935,8		935,8
Deferred tax on movement in other comprehensive income (note 4)				(8,9)		(8,9)		(8,9)
Contributions by and distributions to owners								
Share-based payments reserve movements					87,3	87,3		87,3
Transfer from dividend reserve (note 12)				(994,4)	994,4	-		-
Dividends paid (note 35)					(1 756,1)	(1 756,1)		(1 756,1)
Transfer to dividend reserve (note 12)				1 065,4	(1 065,4)	-		-
Proceeds from sale of shares in terms of share incentive schemes					46,7	46,7		46,7
Shares purchased in terms of share incentive schemes			(274,3)			(274,3)		(274,3)
Delivery of shares by share incentive schemes			186,5		(186,5)	-		-
Decrease in the fair value of the put option liability (note 15)				1,6		1,6		1,6
Realisation on disposal of non-controlling interest						-	(4,7)	(4,7)
Equity at 31 March 2019	3,3	4 098,2	(748,1)	1 102,3	9 851,6	14 307,3	-	14 307,3

* Refer to note 39 for the impact of the changes in accounting policies.

	2019	2018
Dividend per ordinary share (cents)		
Interim	330,0	325,0
Final	450,0	420,0
Total	780,0	745,0

Consolidated cash flow statement

For the years ended 31 March

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

	Note	2019 Rm	Restated* 2018 Rm
Cash flows from operating activities			
Operating profit before working capital changes	33	5 420,8	5 029,7
Increase in working capital	33	(743,1)	(937,2)
Cash generated from operations	33	4 677,7	4 092,5
Interest income		15,7	48,0
Finance costs		(749,9)	(696,6)
Taxation paid	34	(947,1)	(960,2)
Dividends paid	35	(1 756,1)	(1 627,2)
Net cash inflows from operating activities		1 240,3	856,5
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(942,4)	(896,6)
Acquisition of assets through business combinations		-	(2 898,9)
Acquisition of management buy-out		-	(41,3)
Proceeds from sale of property, plant and equipment and intangible assets		32,3	40,4
Proceeds from disposal of businesses	38	41,7	-
Net cash outflows from investing activities		(868,4)	(3 796,4)
Cash flows from financing activities			
Shares purchased in terms of share incentive schemes		(274,3)	(231,6)
Proceeds on issue of share capital		-	2 473,0
Proceeds from sale of shares in terms of share incentive schemes		46,7	91,7
(Decrease) increase in interest-bearing debt	36	(319,2)	1 067,9
Net cash (outflows) inflows from financing activities		(546,8)	3 401,0
Net (decrease) increase in cash and cash equivalents during the year		(174,9)	461,1
Cash and cash equivalents at the beginning of the year		1 206,1	878,5
Cash held in non-controlling interest		(6,4)	-
Effect of exchange rate fluctuations on cash held		86,2	(133,5)
Cash and cash equivalents at the end of the year	9	1 111,0	1 206,1

* Refer to note 39 for the impact of the changes in accounting policies.

Consolidated segmental analysis

For the years ended 31 March

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

	TFG Africa retail*** Rm	Credit*** Rm	TFG London Rm	TFG Australia Rm	Total Rm
2019					
External revenue	22 588,6	487,6	7 345,8	4 942,2	35 364,2
External interest income	15,7	1 748,3	-	-	1 764,0
Total revenue**	22 604,3	2 235,9	7 345,8	4 942,2	37 128,2
External finance costs	(678,6)		(55,1)	(16,2)	(749,9)
Depreciation and amortisation	(557,9)		(185,0)	(101,2)	(844,1)
Impairment	(66,8)		(12,5)		(79,3)
Group profit before tax					3 577,9
Segmental profit before tax	2 326,5	713,7	205,9	421,7	3 667,8
Reconciling items to Group profit before tax					
Foreign exchange transactions					10,0
Share-based payments					(87,3)
Operating lease liability adjustments					(12,6)

	Restated* TFG Africa retail*** Rm	Restated Credit*** Rm	TFG London Rm	TFG Australia Rm	Restated* Total Rm
2018					
External revenue	20 861,5	364,2	5 348,9	3 132,6	29 707,2
External interest income	47,3	1 707,8	-	0,7	1 755,8
Total revenue**	20 908,8	2 072,0	5 348,9	3 133,3	31 463,0
External finance costs	(617,1)		(66,5)	(13,0)	(696,6)
Depreciation and amortisation	(510,2)		(132,2)	(103,1)	(745,5)
Group profit before tax					3 350,5
Segmental profit before tax	2 378,9	731,6	202,1	253,1	3 565,7
Reconciling items to Group profit before tax					
Foreign exchange transactions					(13,2)
Share-based payments					(155,0)
Operating lease liability adjustments					(47,0)

* Refer to note 39 for the impact of the changes in accounting policies.

** Includes retail turnover, interest income and other income.

*** The chief operating decision-maker assessed the Group's current operating segments and concluded that the value-added services and central and shared services segments would be allocated to TFG Africa as this better reflects the current operating segments within the Group. In addition, certain costs were reallocated between Credit and TFG Africa. The comparable prior year's information has been restated accordingly.

The Group has identified that the Chief Executive Officer in conjunction with the Operating Board fulfils the role of the chief operating decision-maker (CODM). The Operating Board, as distinct from the Group's Supervisory Board, consists only of executive directors. All operating segments' operating results are reviewed regularly by the CODM to make decisions about the allocation of resources to the operating segment and to assess its performance.

Performance is measured based on segmental profit before tax, as included in the monthly management report reviewed by the CODM.

For management purposes, the following operating divisions have been identified as the Group's reportable segments:

The Group is structured based on products and services offered by the following four reportable operating divisions:

- **TFG Africa retail division** comprising of the @home division, Exact division, The FIX division, the Foschini division, the Jewellery division, the Markham division and the Sport division, retailing clothing, jewellery, cosmetics, cellphones and homeware and furniture.
- **Credit** manages the Group's trade receivables and related functions with regard to the granting of credit.
- **TFG London division** comprising the Phase Eight, Whistles and Hobbs divisions, which operate internationally in the retail sector. The retail brand operates across Europe, Asia, Australasia and North America.
- **TFG Australia division** comprises the Retail Apparel Group (RAG). RAG operates through retail outlets throughout Australia and New Zealand, as well as online.

GEOGRAPHICAL INFORMATION

Given the increasing international footprint of TFG, the naming conventions defined below are used to assist our stakeholders in understanding the Group's activities:

- "TFG" or the "Group" – refers to the consolidated performance of TFG Limited and all its subsidiaries.
- "TFG Africa" – refers to all operations on the African continent.
- "TFG London" – refers to the consolidated performance of Dress Holdco A Limited and all its subsidiaries including the Phase Eight, Whistles and Hobbs brands.
- "TFG Australia" – refers to the consolidated performance of TFG Retailers Proprietary Limited and all its subsidiaries including the Retail Apparel Group (RAG) brands.
- "TFG International" – refers to all operations outside the African continent and includes both TFG London and TFG Australia.

The TFG Africa retail and Credit reportable segments earn revenue from TFG Africa. TFG London operates through retail outlets throughout the United Kingdom and internationally, as well as online. TFG Australia operates through retail outlets throughout Australia and New Zealand, as well as online.

In presenting information on the basis of geographical segments, segment revenue is based on the location of the customers while segment assets are based on the location of the asset.

Consolidated segmental analysis (continued)

For the years ended 31 March

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

The geographical information is presented in the table below:

	TFG Africa retail*** Rm	Credit Rm	TFG London Rm	TFG Australia Rm	Total Rm
2019					
Segment revenue					
South Africa	21 202,7	2 151,7	-	-	23 354,4
Rest of Africa	1 154,0	84,2	-	-	1 238,2
United Kingdom and Ireland	-	-	3 658,5	-	3 658,5
Australia	-	-	35,5	4 554,5	4 590,0
Rest of the World	-	-	1 106,7	167,3	1 274,0
E-commerce	247,6	-	2 545,1	220,4	3 013,1
Total segment revenue**	22 604,3	2 235,9	7 345,8	4 942,2	37 128,2
Segment non-current assets					
South Africa					2 831,4
Rest of Africa					90,1
United Kingdom and Ireland					5 020,0
Australia					3 341,4
Rest of the World					127,2
Total segment non-current assets					11 410,1

	Restated* TFG Africa retail*** Rm	Credit Rm	TFG London Rm	TFG Australia Rm	Restated* Total Rm
2018					
Segment revenue					
South Africa	19 542,5	1 995,0	-	-	21 537,5
Rest of Africa	1 187,3	77,0	-	-	1 264,3
United Kingdom and Ireland	-	-	2 839,3	-	2 839,3
Australia	-	-	39,9	2 966,7	3 006,6
Rest of the World	-	-	835,1	78,7	913,8
E-commerce	179,0	-	1 634,6	87,9	1 901,5
Total segment revenue**	20 908,8	2 072,0	5 348,9	3 133,3	31 463,0
Segment non-current assets					
South Africa					2 860,8
Rest of Africa					96,0
United Kingdom and Ireland					4 445,3
Australia					3 006,5
Rest of the World					120,5
Total segment non-current assets					10 529,1

* Refer to note 39 for the impact of the changes in accounting policies.

** Includes retail turnover, interest income and other income.

*** The chief operating decision-maker assessed the Group's current operating segments and concluded that the value-added services and central and shared services segments would be allocated to TFG Africa as this better reflects the current operating segments within the Group.

Non-current assets consist of property, plant and equipment and goodwill and intangible assets.

Notes to the consolidated financial statements

For the year ended 31 March 2019

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

1. ACCOUNTING POLICIES

REPORTING ENTITY

The Foschini Group Limited (the “company”) is a company domiciled in South Africa. The address of the company’s registered office is Stanley Lewis Centre, 340 Voortrekker Road, Parow East, 7500, South Africa. The consolidated annual financial statements (together referred to as the “financial statements”) for the year ended 31 March 2019 comprise the company and its subsidiaries (together referred to as the “Group”).

1.1 BASIS OF PREPARATION

Statement of compliance

The financial statements are prepared in accordance with the Group’s accounting policies, which comply with International Financial Reporting Standards (IFRS), The South African Institute of Chartered Accountants Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Pronouncements as issued by the Financial Reporting Standards Council and disclosure required by the Companies Act of South Africa and the JSE Limited Listings Requirements, and consistently applied with those adopted in the prior year except as noted otherwise.

The financial statements were authorised for issue by the Supervisory Board on 28 June 2019.

Basis of measurement

The financial statements are prepared on the going concern and historical cost basis, except where otherwise stated.

Functional and presentation currency

The financial statements are presented in South African Rand, which is the Group’s functional currency, rounded to the nearest million, unless otherwise stated.

1.2 SIGNIFICANT JUDGEMENTS AND ESTIMATES

The preparation of financial statements in conformity with IFRS requires management and directors to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Significant areas of estimation, uncertainty and critical judgements made in applying the Group’s accounting policies that potentially have a significant effect on the amounts recognised in the financial statements are as follows:

Trade receivables – applicable from 1 April 2018

Business model assessment

IFRS 9 requires all financial assets to be classified and measured on the basis of the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The Group determines the business model at a level that reflects how categories of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence, including how the performance of the assets is evaluated and measured, as well as the risks that affect the assets and how these are managed, controlled and mitigated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income (FVOCI) that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group’s continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate. If the business model is no longer appropriate, a prospective change to the classification of those assets is considered.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

1. ACCOUNTING POLICIES (continued)

1.2 SIGNIFICANT JUDGEMENTS AND ESTIMATES (continued)

Trade receivables impairment – applicable from 1 April 2018

Measurement of Expected Credit Losses (ECLs)

When measuring the ECLs of financial assets for the Group, the following judgement and estimates are employed (note 20):

- The Group uses reasonable and supportable forward-looking information, which is based on assumptions and expert opinion for the future movement of different economic drivers and how these drivers will affect each other.
- Probability of Write-off (PW) constitutes a key input in measuring ECLs. PW is an estimate of the likelihood of write-off over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- Loss Given Write-off (LGW) is an estimate of the loss arising on write-off of financial assets. It is based on the difference between the contractual cash flows due from a financial asset and those that the Group would expect to receive.
- Exposure at Write-off (EAW) is an estimate of the expected exposure at a future write-off date.

Trade receivables impairment – applicable up to 31 March 2018

Trade receivables are disclosed net of any accumulated impairment losses. The trade receivables – retail impairment was determined in accordance with the applicable standard, IAS39. This standard requires impairment of the financial assets based on an incurred loss model where some objective evidence of impairment or deterioration in the quality of the trade receivables – retail balance has been observed. The calculation of the impairment amount is performed using the internationally recognised Markov model principles. The Markov model is a statistical model utilised to quantify the probability of default by analysing the observed patterns of delinquency and default over an appropriate period of time to determine the inherent rate of bad debt in a debtors' book. The probability of default is applied to the accounts receivable balance at statement of financial position date. Accounts that are known to have applied for debt review are fully impaired. The Supervisory Board believes that the application of the Markov model results in trade receivables – retail balances being measured reliably.

Inventory valuation

Inventory is valued at the lower of cost and net realisable value. The Group uses a combination of the Retail Inventory Method (RIM) within TFG Africa and the standard cost method in TFG International to value inventory. The RIM method contains certain assumptions which is also impacted by markdowns. The allowances for markdown and obsolescence of inventory take into account historic information related to sales trends and represent the expected markdown between the original cost and the estimated net realisable value. The net realisable value assigned to this inventory is the net selling price in the ordinary course of business less the estimated costs of completion (where applicable) less the estimated costs to make the sale (note 5).

Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using appropriate valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The fair value of forward exchange contracts are determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables – retail, concession receivables and payables is assumed to approximate their fair values due to their short-term nature.

Taxation

The Group is subject to income tax in more than one jurisdiction. Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made (note 28).

Other

Further estimates and judgements are made relating to residual values, useful lives and depreciation and amortisation methods (notes 2 and 3); goodwill impairment assessments (note 3); estimating the fair value of share incentives granted (note 30); and pension fund and employee obligations (note 30).

1.3 BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the company, its subsidiaries and structured entities. The financial statements of subsidiaries are prepared using consistent accounting policies.

Subsidiaries and structured entities are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to use power over the entity to affect the amount of the investor's returns. In assessing control, potential voting rights that are presently exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Adjustments made on changes of interest in subsidiaries are recognised in equity when control is retained, and in profit or loss when control is lost.

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest (NCI) and other components of equity. Any resultant gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

The Group established a structured entity in the form of the share incentive trust. The Group does not have any direct or indirect shareholding in the share incentive trust. The results of the share incentive trust that in substance are controlled by the Group, are consolidated.

All intra-group transactions, intra-group balances and any unrealised gains and losses arising from intra-group transactions are eliminated on consolidation.

The financial statements of foreign operations are translated in terms of the accounting policy on foreign currencies.

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the recognition conditions of IFRS 3 *Business Combinations* are recognised at their fair values at acquisition date, except for non-current assets (or disposal Group) that are classified as "held for sale" in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which are recognised at fair value less costs to sell.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any NCI in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Where the purchase price of a highly probable future business combination was hedged using a cash flow hedge, the effective portion of that hedge is capitalised as part of the purchase price paid when the business combination occurs.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

1. ACCOUNTING POLICIES (continued)

1.3 BASIS OF CONSOLIDATION

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

NCIs arising from a business combination, which are present ownership interests, and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation, are measured either at the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets or at fair value. The treatment is an accounting policy choice, but is selected for each individual business combination and disclosed in the note for business combinations. All other components of NCIs are measured at their acquisition date fair values, unless another measurement basis is required by IFRS.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

1.4 COST OF TURNOVER

Cost of turnover is calculated as the cost of goods sold, including all costs of purchase, costs of conversion and other costs, including costs incurred in bringing inventories to their present location and condition. Costs of purchase include royalties paid, import duties and other taxes, and transport costs. Costs of conversion are immaterial. Inventory write-downs are recognised in cost of turnover.

1.5 DIVIDENDS

Dividend distributions are accounted for in the period when the dividend is declared. Dividends declared on equity instruments after the reporting date are accordingly not recognised as liabilities at the reporting date. However, final dividends declared after the reporting date is transferred to a dividend reserve.

1.6 EARNINGS PER SHARE

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding, adjusted for the effects of all dilutive potential ordinary shares, which comprise share incentives granted to employees.

Headline EPS and diluted headline EPS is calculated per the requirements of SAICA Circular 4/2018, using the same number of shares as the EPS and diluted EPS calculation.

1.7 EMPLOYEE BENEFITS

Short-term employee benefits

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service. The accruals for employee entitlements to wages, salaries, annual and sick leave represent the amount the Group has a present obligation to pay as a result of employees' services provided to the reporting date. The short-term employee benefits are calculated at undiscounted amounts based on current wage and salary rates and expensed when incurred.

Post-employment benefits

The Group contribute to several defined benefit and defined contribution plans as mentioned below.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension, provident and retirement funds are recognised as an employee benefit expense in profit or loss when the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit plans

Post-retirement medical aid benefits

Where the Group has an obligation to provide post-retirement medical aid benefits to employees, the Group recognises the cost of these benefits in the year in which the employees render the services using the accounting methodology as described in respect of defined benefit plans below.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of a defined benefit plan is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods – that benefit is discounted to determine its present value and the fair value of any plan assets is deducted from it.

The Projected Unit Credit Method is used to determine the present value of the defined benefit post-retirement medical aid obligations and the related current service cost and, where applicable, past service cost. This calculation is performed by a qualified actuary. When the calculation results in a benefit to the Group, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits is available in the form of any future refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to the Group if it is realisable during the life of the plan or on settlement of the plan liabilities.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income (OCI). The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains or losses on the settlement of a defined benefit plan when the settlement occurs.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

1. ACCOUNTING POLICIES (continued)

1.7 EMPLOYEE BENEFITS (continued)

Share-based payment transactions

Equity-settled share-based options

The Group grants equity-settled share instruments to certain employees under an employee share plan. The grant date of fair value of options, share appreciation rights (SARs) and forfeitable shares granted to employees is recognised as an expense, with a corresponding increase in equity in a separate reserve over the vesting period of the instruments. The fair value is measured at the grant date using a Binomial option pricing model. The amount recognised as an expense is adjusted to reflect the actual number of share instruments for which the related service and non-market vesting conditions are expected to be met so that the amount ultimately recognised as an expense is based on the number of share instruments that meet the related service and non-market performance conditions at the vesting date. Costs incurred in administering the schemes are expensed as incurred.

Shares forfeited are sold on the open market and resultant gain or loss is recognised in equity.

Cash-settled share-based options

Certain employees of the Group receive remuneration in the form of cash-settled share options whereby they render services in exchange for remuneration based on the earnings before finance costs and tax (EBIT).

The fair value of the amount payable to employees in respect of the cash-settled share options, which are settled in cash, is recognised as an expense, with a corresponding increase in liabilities over the vesting period during which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the options. Any change in the liability is recognised in profit or loss.

1.8 EXPENSES

Finance costs

Finance costs comprise interest paid and payable on borrowings calculated using the effective interest method. All borrowing costs are recognised in profit or loss.

Operating lease payments

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Contingent rent is expensed as incurred.

1.9 FINANCIAL INSTRUMENTS

A financial instrument is recognised when the Group becomes a party to the contractual provisions of the instrument.

Initial measurement

Financial instruments are initially recognised at fair value plus any directly attributable transaction costs. Except in the case of financial assets measured at fair value through profit or loss (FVTPL) where, transaction costs are recognised in profit or loss. Subsequent to initial recognition, financial instruments are measured as described below.

Non-derivative financial instruments

Non-derivative financial instruments recognised in the statement of financial position include cash and cash equivalents, trade and other receivables, concession receivables, interest-bearing debt and trade and other payables.

Cash and cash equivalents

Cash and cash equivalents comprises cash on hand and amounts held on deposit at financial institutions. Cash and cash equivalent is measured at amortised cost based on the relevant exchange rates at reporting date. Outstanding cheques are included in trade and other payables and added back to cash and cash equivalent balances included in the statement of financial position.

Financial assets measured at fair value through profit or loss

The reinsurance contract issued in cell captive arrangements are classified as financial assets and are designated for measurement at the fair value with the movement in fair value being recognised in profit or loss.

Trade receivables – retail and concession receivables

Trade receivables – retail and concession receivables are held within a business model whose objective it is to collect the contractual cash flows and have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Subsequent to initial measurement, trade receivables – retail and concession receivables are measured at amortised cost using the effective interest method, less any accumulated impairment losses.

Write-off policy

The Group writes off its trade receivables – retail and concession receivables when it has no reasonable expectations of recovering the receivable in its entirety, or a portion thereof. A write-off constitutes a derecognition event.

Trade receivables – retail are written off where the trade receivables – retail account customer has not made a qualifying payment for 6 months. The Group utilises both an in-house collection department and external collection specialists in an effort to recover outstanding amounts. Amounts recovered subsequent to write-off are recorded in profit or loss.

Reclassifications of financial assets

If the business model under which the Group holds financial assets changes, the financial assets affected may be reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that result in reclassifying the Group's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on modification and derecognition of financial assets are described below.

Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy, a modification results in derecognition when it gives rise to substantially different terms and resultant cash flows, to those applicable at initial recognition.

The terms and conditions contained in the credit agreement relating to trade receivables – retail accounts allow the Group the flexibility to extend the term of the facility or to adjust the instalment due. Such an adjustment therefore does not constitute a renegotiation of the terms of the trade receivables – retail account.

The Group derecognises a financial asset in whole or in part only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay in respect thereof. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received thereon.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

1. ACCOUNTING POLICIES (continued)

1.9 FINANCIAL INSTRUMENTS (continued)

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in other comprehensive income (OCI) and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

Financial liabilities measured at amortised cost

Non-derivative financial liabilities including interest-bearing debt and trade and other payables are recognised at amortised cost, comprising original debt less principal payments and amortisations.

The fair value of non-derivative financial liabilities determined for disclosure purposes is estimated based on the present value of future principal and interest cash flows discounted at the relevant market rate of interest for a similar instrument at the reporting date.

Gains and losses on subsequent measurement

Hedged instruments are accounted for as described in the hedge accounting policy note (note 1.13).

Put option to acquire the TFG London Group equity

Where a minority shareholder has the right to put equity instruments of a subsidiary to another Group entity, the Group records a financial liability for its obligation to pay the put option exercise price and derecognises the related NCI. This recognition occurs when the put option contract is signed.

Where the put option is entered into as part of a business combination, the put option is accounted for as a financial liability and is recognised as a component of the consideration transferred. No NCI is recorded.

Subsequent to this recognition, the put option liability is remeasured as a financial liability at fair value through profit or loss, with changes in the carrying amount of the liability recorded directly in equity in the put option reserve. Changes in the carrying amount of the liability include translation differences arising from translating foreign currency put option liabilities into the presentation currency.

When the put option is exercised, the amount paid by the Group will be recognised as a reduction in the put option liability. If the put option is not exercised, the put option liability is reclassified as an NCI on the date when the option lapses.

Call option to acquire the TFG London Group equity

Where the Group has a call option to acquire an NCI, this instrument is regarded as an equity instrument and is recognised directly in equity at cost. When the call option is exercised, the purchase price is recognised in equity, and the related interests of the parent and NCI are adjusted to reflect the revised interests. Any gain or loss on the transaction arising with the NCI (calculated as the purchase price paid compared to the carrying value of the NCI acquired) is recognised directly in equity.

Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are subsequently measured at fair value, with the gain or loss on measurement being recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any gain or loss depends on the nature of the hedge (note 1.13).

The fair value of forward exchange contracts is the present value of their forward price.

Fair value determination

The fair values of any quoted investments in the company are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's-length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models that make maximum use of market inputs and rely on entity-specific inputs as little as possible.

Offset

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when the Group have a legally enforceable right to offset the recognised amounts, and intend either to settle them on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

1.10 SHARE CAPITAL

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share instruments are recognised as a deduction from equity, net of any tax effects.

Preference share capital

Preference share capital is classified as equity. Dividends thereon are recognised as distributions within equity.

Treasury shares

The Foschini Group Limited shares purchased and held by the company or its subsidiaries are classified as treasury shares and are presented as a deduction from equity. Dividend income on treasury shares is eliminated on consolidation. Gains or losses on disposal of treasury shares are accounted for directly in equity. Issued and weighted average numbers of shares are reduced by treasury shares for EPS purposes.

1.11 FOREIGN CURRENCIES

The functional currency of each entity within the Group is determined based on the currency of the primary economic environment in which that entity operates.

Foreign currency transactions

Transactions in currencies other than the entity's functional currency are translated at the rates of exchange ruling on the transaction date.

Monetary assets and liabilities denominated in such currencies are translated at the rates of exchange ruling at the reporting date.

Non-monetary assets and liabilities denominated in such currencies are measured based on historical cost and translated using the exchange rate at the date of the transaction.

Foreign currency gains and losses arising on translation are generally recognised in profit or loss.

However, foreign currency differences arising from the translation of qualifying cash flow hedges to the extent that the hedges are effective are recognised in OCI.

Foreign operations

As at the reporting date, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the presentation currency of the Group at the rate of exchange ruling at the reporting date. The income statement and statement of comprehensive income are translated at the exchange rates at the dates of the transactions or the average rates if it approximates the actual rates.

Foreign currency differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve in equity. When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the transaction reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, the relevant proportion of the cumulative amount is reattributed to NCI.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

1. ACCOUNTING POLICIES (continued)

1.12 GOODWILL

For business combinations, goodwill is measured as the difference between the aggregate of the acquisition-date fair value of the consideration transferred, the amount of any NCI and, in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held interest in the acquiree, as well as the net of the acquisition-date amounts of identifiable assets acquired and the liabilities assumed (measured in accordance with IFRS 3). If the difference between the above is negative, the resulting gain is recognised as a bargain purchase in profit or loss.

Goodwill arising on the acquisition of subsidiaries is subsequently measured at cost less accumulated impairment losses.

Goodwill is allocated to cash-generating units and tested annually for impairment and whenever there is an indication of impairment.

1.13 HEDGE ACCOUNTING

The Group uses derivative financial instruments, such as forward exchange contracts designated as hedging instruments in cash flow to hedge its foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The hedged item may comprise of a firm commitment or highly probable forecast transaction which results in the recognition of a non-financial asset or a liability.

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any material ineffective portion is recognised in the statement of profit or loss.

The Group designates the change in fair value of the entire forward contracts in its cash flow hedge relationships as the hedging instrument.

The amounts accumulated in OCI are accounted for, depending on the nature of the underlying hedged item. If the hedged item subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability.

1.14 IMPAIRMENT OF ASSETS

Non-derivative financial assets – applicable from 1 April 2018

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can objectively be related to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets, and the amortised cost is presented on the face of the statement of financial position.

Measurement of ECLs

Impairment in terms of IFRS 9 is determined based on an ECL model, as opposed to an incurred loss model applied in terms of IAS 39. The ECL model applies to all financial assets measured at amortised cost. The measurement of ECLs reflects a probability-weighted outcome, the time value of money and the best forward-looking information available to the Group at reporting date.

The Group measures ECLs by projecting the probability of write-off, exposure at write-off, timing of when write-off is likely to occur and loss given write-off. The ECLs are calculated by multiplying these components together. For variable rate financial instruments, the ECLs are discounted using the current effective interest rate applicable to the portfolio of financial assets. For fixed rate financial instruments, the ECLs are discounted using the original effective interest rate applicable to the portfolio of financial assets.

The Group has adopted the simplified approach which recognises lifetime ECLs regardless of stage classification. A financial asset can move in both directions through the stages of the impairment model.

The Group uses past due information to assess changes in credit risk since initial recognition. The Group considers that a change in credit risk has occurred when a trade receivables – retail account customer is in arrears with one contractual payment and is classified as stage 2 as opposed to stage 1. At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired and therefore classified as stage 3. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The Group's definition of credit-impaired is aligned to the Group's internal definition of default. IFRS 9 does not define default. The Group has adopted the rebuttable presumption that default is evident where a trade receivables – retail account customer is in arrears for more than 90 days based on contractual payment requirements. Trade receivables – retail accounts which have been identified as belonging to customers who are sequestered, placed under administration or debt review, are classified as being in default regardless of past due status.

When a financial asset is classified as stage 3 impaired, interest income is calculated on the impaired value (gross carrying amount less impairment allowance) based on the effective interest rate. The contractual interest income calculated on the gross carrying amount of the financial asset is suspended and is only recognised in interest income if and when the financial asset is reclassified out of stage 3. Any difference in the estimated stage 3 interest in a subsequent financial reporting period is recognised as an adjustment to the carrying value of the allowance for impairment and not as interest income.

Non-derivative financial assets – applicable up to 31 March 2018

A financial asset not classified as at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events had a negative effect on the estimated future cash flows of that asset, which can be reliably measured.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account.

Individually significant financial assets are tested for impairment on an individual basis. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

Non-financial assets

The carrying values of the Group's non-financial assets, other than inventories and deferred taxation assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and to then reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

1. ACCOUNTING POLICIES (continued)

1.15 INTANGIBLE ASSETS (EXCLUDING GOODWILL)

Intangible assets acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on brands, is recognised in profit or loss as incurred.

The useful life of an intangible asset that is considered to be indefinite is assessed annually or whenever there is an indication that the intangible asset may be impaired. Currently, the Instinct, Fabiani, G-Star RAW, Phase Eight, Whistles, Hobbs and RAG trademarks are considered to have indefinite useful lives.

Computer software is classified as an intangible asset with a finite useful life. Purchased software and the direct costs associated with the customisation and installation thereof are capitalised. Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss. Expenditure on research activities is recognised in profit or loss as incurred.

Amortisation for intangible assets with finite useful lives is recognised in profit or loss on a straight-line basis over their estimated useful lives from the date they are available for use, at the following rate per annum:

Colette	over the lifetime of the contract
Computer software	8,33% – 20%

Amortisation methods, useful lives and residual values are reassessed at each reporting date.

1.16 INVENTORIES

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less selling expenses.

The cost of inventories is based on the Retail Inventory Method (RIM) within TFG Africa and the standard cost method in TFG International to value inventory and includes expenditure incurred in acquiring the inventories and bringing them to their present location and condition. Costs may also include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventories.

1.17 PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are measured at cost or deemed cost less accumulated depreciation and accumulated impairment losses. The cost of self-constructed assets, includes the cost of materials, direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Certain items of property, plant and equipment that had been revalued to fair value on or prior to transition to IFRS are measured on the basis of deemed cost, being the fair value at the date of transition.

Items of property, plant and equipment are depreciated on a straight-line basis over the periods of their estimated useful lives, at the following rates per annum:

Shopfittings	14% – 20%
Passenger vehicles	20% – 33,3%
Commercial vehicles	20%
Computer equipment	8,33% – 33%
Office equipment	4% – 33%
Furniture and fixtures	16,67%
Buildings	3,33%
Leasehold improvements	Shorter of useful life or lease period
Land is not depreciated.	

The above depreciation rates are consistent with the comparative period.

Depreciation of an item of property, plant and equipment commences when the item is ready for its intended use. Depreciation methods, useful lives and residual values are reassessed at each reporting date.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The day-to-day servicing costs of property, plant and equipment are recognised in profit or loss as incurred.

Gains or losses on the disposal of property, plant and equipment are recognised in profit or loss. The gain or loss is the difference between the net disposal proceeds and the carrying amount of the asset.

1.18 REVENUE AND OTHER INCOME

Revenue is defined as the sum of the items described in further detail below:

Retail turnover

Retail turnover represents the invoiced value of retail sales, excluding intra-group sales and value-added tax.

Retail turnover is recognised based on the satisfaction of performance obligations, which occurs when, control of goods transfers to a customer. Retail turnover is recognised once the contract is concluded and risks and rewards have been transferred to the customer. On conclusion, the full retail turnover will be recognised by the Group at the point of sale when the merchandise is transferred to the customer.

Retail turnover is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises retail turnover when it transfers control of a product or service to a customer.

Interest income

Interest income for all financial instruments, except for those classified as held for trading or those measured or designated as FVTPL are recognised as interest income in the consolidated income statement using the effective interest method. Interest on financial instruments measured at FVTPL are included within the fair value movement during the year.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset. The future cash flows are estimated taking into account all the contractual terms of the instrument. The calculation of the EIR includes all fees received between parties to the contract that are incremental and directly attributable to the specific credit agreement. For financial assets at FVTPL transaction costs are recognised in profit or loss at initial recognition. The interest income is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance). For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)).

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

1. ACCOUNTING POLICIES (continued)

1.18 REVENUE AND OTHER INCOME (continued)

Interest income in the Group's consolidated statement of comprehensive income also includes the effective portion of fair value changes of derivatives designated as hedging instruments in cash flow hedges of interest rate risk. For fair value hedges of interest rate risk interest income and expense, the effective portion of fair value changes of the designated derivatives as well as the fair value changes of the designated risk of the hedged item are also included in interest income and expense.

Value-added services

Publishing income

Publishing income is recognised on sale of publications and monthly in respect of advertising and subscriptions in the period in which the product is provided to the customer. The performance obligation is fulfilled once the publication is sold or posted to the customer.

Mobile one2one airtime income

Mobile one2one airtime and data income is recognised in the period in which the services are provided by the Group. In the case of a monthly contract, the income will be measured monthly on provision of the services as the performance obligation is met periodically in advance as the services are made available to consumers. Incentive commissions are recognised on fulfilment of the sales volume threshold in respect of which the incentive commission is paid. The performance obligation is considered met on achievement of the relevant volume target.

Income earned from the insurance cell captives

Commission based income is recognised based on concluded sales. Dividend income declared by cell captives is recognised on date of declaration thereof. The reinsurance contracts issued in cell captive arrangements are classified as financial assets and are designated for measurement at FVTPL.

There is no impairment of the income necessary as it is based on actual cash flows being affected or where payment on credit is fulfilled through a trade receivables – retail account.

Collection cost recovery

Collection cost recovery arises when collection activities are performed to recover balances relating to trade receivables – retail account customers which are in arrears and is recognised in profit or loss when the activity has been performed.

1.19 SEGMENTAL REPORTING

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The Group has identified that the Chief Executive Officer in conjunction with the Operating Board fulfils the role of the CODM. The Operating Board, as distinct from our Supervisory Board, consists only of executive directors. All operating segments' operating results are reviewed regularly by the CODM to make decisions about the allocation of resources to the operating segment and to assess its performance.

Segment results reported to the CODM include items directly attributable to a segment and those that can be allocated on a reasonable basis. Unallocated items comprise mainly the operating lease liability adjustment and the share-based payments reserve movements.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment and computer software.

Amounts reported in the Group segmental analysis are measured in accordance with IFRS.

1.20 TAXATION

Income tax expense comprises current and deferred taxation.

Income tax expense is recognised in profit or loss, except to the extent that it relates to a transaction recognised directly in OCI or in equity, in which case it is recognised in OCI or equity as appropriate.

Current tax is the expected taxation payable that is calculated on the basis of taxable income for the year using the tax rates enacted or substantively enacted at the reporting date and any adjustment of taxation payable for previous years.

Deferred taxation is recognised in respect of temporary differences between the tax base of an asset or liability and its carrying amount. Deferred taxation is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they probably will not reverse in the foreseeable future.

Deferred taxation is measured at the tax rates expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred taxation assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realised simultaneously.

Deferred taxation assets are recognised for all deductible temporary differences and assessed losses to the extent that it is probable that taxable profit will be available against which such deductible temporary differences and assessed losses can be utilised. Deferred taxation assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The company withholds dividends tax on behalf of its shareholders at a rate of 20% on dividends declared. Amounts withheld are not recognised directly as part of the company's tax charge but rather as part of the dividend paid recognised directly in equity. Where withholding tax is withheld on dividends received, the dividend is recognised at the gross amount with the related withholding tax recognised as part of tax expense unless it is otherwise reimbursable in which case it is recognised as an asset.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

2. PROPERTY, PLANT AND EQUIPMENT

	2019			2018		
	Cost/ deemed cost Rm	Accumulated depreciation and impairment Rm	Carrying value at the end of the year Rm	Cost/ deemed cost Rm	Accumulated depreciation Rm	Carrying value at the end of the year Rm
Land and buildings	345,2	(103,3)	241,9	358,1	(99,0)	259,1
Shopfittings and furniture and fixtures	6 401,1	(4 356,6)	2 044,5	5 865,0	(3 758,2)	2 106,8
Motor vehicles	123,2	(39,2)	84,0	119,9	(38,2)	81,7
Office equipment	198,2	(85,1)	113,1	156,8	(73,2)	83,6
Computer equipment	1 078,2	(745,5)	332,7	954,3	(628,0)	326,3
Leasehold improvements	6,5	(2,7)	3,8	6,5	(2,1)	4,4
Total	8 152,4	(5 332,4)	2 820,0	7 460,6	(4 598,7)	2 861,9

Reconciliation of property, plant and equipment – 2019 (Rm)

	Opening balance	Additions	Disposal of businesses	Disposals	Impair- ment	Depre- ciation	Foreign exchange move- ments	Total
Land and buildings	259,1	-	-	(6,5)	-	(10,7)	-	241,9
Shopfittings and furniture and fixtures	2 106,8	575,7	(24,4)	(35,9)	(79,2)	(586,2)	87,7	2 044,5
Motor vehicles	81,7	25,3	-	(11,0)	-	(12,2)	0,2	84,0
Office equipment	83,6	50,4	-	(0,2)	-	(20,7)	-	113,1
Computer equipment	326,3	126,1	(0,9)	(0,9)	(0,1)	(126,9)	9,1	332,7
Leasehold improvements	4,4	-	-	-	-	(0,6)	-	3,8
Total	2 861,9	777,5	(25,3)	(54,5)	(79,3)	(757,3)	97,0	2 820,0

Reconciliation of property, plant and equipment – 2018 (Rm)

	Opening balance	Additions	Additions through business combi- nations	Disposals	Depre- ciation	Foreign exchange move- ments	Total
Land and buildings	266,3	3,5	-	-	(10,7)	-	259,1
Shopfittings and furniture and fixtures	1 742,8	665,0	406,7	(82,6)	(560,3)	(64,8)	2 106,8
Motor vehicles	78,5	25,6	-	(10,5)	(11,7)	(0,2)	81,7
Office equipment	79,9	19,1	-	-	(15,4)	-	83,6
Computer equipment	296,4	50,1	50,3	(0,1)	(70,4)	-	326,3
Leasehold improvements	5,1	-	-	-	(0,7)	-	4,4
Total	2 469,0	763,3	457,0	(93,2)	(669,2)	(65,0)	2 861,9

None of the Group's assets are in any way encumbered. An impairment was recognised in trading expenses in the current year due to certain assets being fully impaired. Registers of the land and buildings are available for inspection at the registered office of the company at Parow East.

3. GOODWILL AND INTANGIBLE ASSETS

	2019			2018		
	Cost Rm	Accumulated amortisation Rm	Carrying value Rm	Cost Rm	Accumulated amortisation Rm	Carrying value Rm
Intangible asset on acquisition of trademarks	3 729,7	(8,1)	3 721,6	3 302,6	(9,3)	3 293,3
Goodwill	4 190,4	-	4 190,4	3 766,6	-	3 766,6
Computer software	1 117,2	(439,1)	678,1	960,0	(352,7)	607,3
Total	9 037,3	(447,2)	8 590,1	8 029,2	(362,0)	7 667,2

Reconciliation of goodwill and intangible assets – 2019 (Rm)

	Opening balance	Additions	Disposal of business Disposals	Amorti- sation	Foreign exchange move- ments	Total	
Intangible asset on acquisition of trademarks	3 293,3	-	(4,0)	-	(2,6)	434,9	3 721,6
Goodwill	3 766,6	-	(63,2)	-	-	487,0	4 190,4
Computer software	607,3	164,9	-	(11,8)	(84,2)	1,9	678,1
Total	7 667,2	164,9	(67,2)	(11,8)	(86,8)	923,8	8 590,1

Reconciliation of goodwill and intangible assets – 2018 (Rm)

	Opening balance	Additions	Additions through business combi- nations	Disposals	Amorti- sation	Foreign exchange move- ments	Total
Intangible asset on acquisition of trademarks	1 584,6	-	1 949,7	-	(5,0)	(236,0)	3 293,3
Goodwill	2 559,8	-	1 395,8	-	-	(189,0)	3 766,6
Computer software	531,5	133,3	16,3	(0,1)	(71,3)	(2,4)	607,3
Total	4 675,9	133,3	3 361,8	(0,1)	(76,3)	(427,4)	7 667,2

ASSESSMENT OF INDEFINITE BRANDS:

All brands are assessed with the below criteria when considering if the brand has an indefinite useful life:

- The brands can be managed effectively by another management team and are therefore not linked to the tenure of current management.
- Management does not intend to change the current brands identity or discontinue a product line.
- The brands are all well established within the areas of trading.
- The Group's ongoing investment ensures that the above brands remain up to date and fashionable.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

3. GOODWILL AND INTANGIBLE ASSETS (continued)

BRANDS WITH AN INDEFINITE USEFUL LIFE

The Instinct brand intangible asset represents registered rights to the exclusive use of the Instinct brand name. The useful life of the Instinct brand is considered to be indefinite. This useful life is assessed annually or whenever there is an indication of impairment.

The Fabiani brand intangible asset represents registered rights to the exclusive use of the Fabiani brand name. The useful life of the Fabiani brand is considered to be indefinite. This useful life is assessed annually or whenever there is an indication of impairment.

The G-Star RAW brand intangible asset represents TFG's rights in terms of various franchise agreements to operate G-Star RAW stores in South Africa. The useful life of the G-Star RAW brand is considered to be indefinite. This useful life is assessed annually or whenever there is an indication of impairment.

The Phase Eight intangible asset represents registered rights to the exclusive use of the Phase Eight brand name. The useful life of the Phase Eight brand is considered to be indefinite. This useful life is assessed annually or whenever there is an indication of impairment.

The Whistles intangible asset represents registered rights to the exclusive use of the Whistles brand name. The useful life of the Whistles brand is considered to be indefinite. This useful life is assessed annually or whenever there is an indication of impairment.

The RAG intangible asset represents registered rights to the exclusive use of the RAG brand names. The useful life of RAG brands is considered to be indefinite. This useful life is assessed annually or whenever there is an indication of impairment.

The Hobbs intangible asset represents registered rights to the exclusive use of the Hobbs brand name. The useful life of the Hobbs brand is considered to be indefinite. This useful life is assessed annually or whenever there is an indication of impairment.

BRANDS WITH A DEFINITE USEFUL LIFE

The Colette brand intangible asset represents TFG's rights in terms of franchise agreements to operate Colette stores in South Africa. The useful life of the Colette brand is considered to be definite. The intangible asset will be amortised over the remaining useful life of the franchise agreement. This useful life is assessed annually or whenever there is an indication of impairment.

The Damsel in a Dress intangible asset represents registered rights to the exclusive use of the Damsel in a Dress brand name. The useful life of the Damsel in a Dress brand is considered to be definite. This useful life is assessed annually or whenever there is an indication of impairment.

IMPAIRMENT TESTING OF INDEFINITE LIFE INTANGIBLE ASSETS AND GOODWILL

Indefinite life intangible assets and goodwill acquired through business combinations has been allocated to the individual cash-generating units as follows:

	2019 Rm	2018 Rm
TFG Africa	91,8	91,8
TFG London	4 746,0	4 187,9
TFG Australia	3 059,3	2 765,4
	7 897,1	7 045,1

Indefinite life intangible assets and goodwill is tested annually for impairment or whenever there is an indication of impairment.

KEY ASSUMPTIONS USED IN RECOVERABLE VALUE CALCULATION

The assumptions below have been applied to calculate the recoverable amount of the TFG Africa, TFG London and TFG Australia cash-generating units based on a value in use or fair value less costs of disposal:

Retail turnover growth rates: Retail turnover growth rates are based on the approved forecast sales growth for the forecast period of five years. The retail turnover growth rates are between 3% and 13% (2018: 2% – 12%).

Gross margins: Gross margins are based on the approved forecast gross margin for the forecast period and are between 48% and 69% (2018: 45% – 70%).

Discount rates: Discount rates between 5% and 11% (2018: 5% – 13%) represent the current market assessment of the risks specific to the cash-generating unit, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC).

Long-term growth rates: The rate is based on the longer-term inflation expectations across the current operating retail industry being 2% (2018: 2% – 2,5%).

No impairment loss was recognised as the recoverable amount exceeded the carrying amount of all cash-generating units.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

4. DEFERRED TAXATION

	2019 Rm	Restated* 2018 Rm
Balance at 1 April	(165,8)	145,7
Brand acquisition	-	(363,6)
IFRS 9 opening balance adjustment	176,0	-
Amounts recognised directly in other comprehensive income		
Foreign currency movements	(99,0)	42,5
Financial instrument reserves	(8,9)	(8,6)
Post-retirement defined benefit plan reserve	-	(9,6)
Current year movement in temporary differences recognised in profit or loss		
Prior year under (over) provision	60,8	(0,3)
Operating leases	(66,2)	23,6
Working capital allowances	(111,8)	74,2
Capital allowances	332,9	(56,2)
Trademarks	-	(0,1)
Restraint of trade	(2,1)	0,9
Assessed loss	(3,9)	(14,3)
At 31 March	112,0	(165,8)
Arising as a result of:		
Deferred taxation asset		
Operating leases	17,4	83,6
Working capital allowances	601,8	394,0
Capital allowances	410,0	126,4
Forfeitable shares	-	39,2
Assessed loss	3,3	7,2
Post-retirement defined benefit plan reserve	13,2	13,2
Deferred taxation asset^	1 045,7	663,6
Arising as a result of:		
Financial instrument reserves	(14,5)	(5,6)
Working capital allowances	(43,6)	-
Capital allowances	-	(49,3)
Restraint of trade	(23,2)	(21,1)
Intangible assets	(852,4)	(753,4)
Deferred taxation liability	(933,7)	(829,4)
Net deferred taxation	112,0	(165,8)

* Refer to note 39 for the impact of the changes in accounting policies.

^ Sufficient future taxable income is anticipated to utilise the deferred taxation asset.

5. INVENTORY

	2019 Rm	Restated* 2018 Rm
Merchandise	7 524,8	6 764,4
Raw materials	150,9	126,0
Shopfitting stock	3,1	6,8
Consumables	2,1	3,4
Inventory at year end	7 680,9	6 900,6
Inventory write-downs included above	316,7	260,2

6. TRADE RECEIVABLES – RETAIL

	2019 Rm	Restated* 2018 Rm
6-month credit plan	930,5	1 032,8
12-month credit plans	6 509,3	6 340,8
	7 439,8	7 373,6

The effective rate of interest earned on the above receivables during the year under review is 20,4% (2018: 20,9%).
The Group's management of and exposure to credit and market risk is disclosed in note 20.

7. OTHER RECEIVABLES AND PREPAYMENTS

	2019 Rm	2018 Rm
Miscellaneous debtors and other receivables	601,1	432,5
Financial instrument asset	50,3	0,1
Prepaid expenses	196,8	124,1
Insurance cell captive receivables	299,4	265,1
	1 147,6	821,8

The Group's management of and exposure to credit and market risk is disclosed in note 20.

8. CONCESSION RECEIVABLES

	2019 Rm	2018 Rm
Concession receivables	174,3	296,8

The Group's management of and exposure to credit and market risk is disclosed in note 20.

9. CASH AND CASH EQUIVALENTS

	2019 Rm	2018 Rm
Bank balances	1 111,0	1 206,1

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 20.

* Refer to note 39 for the impact of the changes in accounting policies.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

10. SHARE CAPITAL

	2019 Rm	2018 Rm
Authorised		
200 000 (2018: 200 000) 6,5% cumulative preference shares of R2 each	0,4	0,4
600 000 000 (2018: 600 000 000) ordinary shares of 1,25 cents each	7,5	7,5
	7,9	7,9
Issued		
<i>Ordinary share capital</i>		
Ordinary shares of 1,25 cents each		
Total in issue	3,0	3,0
Shares held by subsidiary	—*	—*
Shares held in terms of the share incentive schemes	(0,1)	(0,1)
Total in issue at the end of the year – company	3,0	3,0
Total in issue at the end of the year – Group	2,9	2,9
<i>Preference share capital</i>		
200 000 (2018: 200 000) 6,5% cumulative preference shares of R2 each	0,4	0,4
Total in issue at the end of the year – company	3,4	3,4
Total net issued share capital – Group	3,3	3,3

* Zero as a result of rounding.

	Number of shares	
	2019	2018
Reconciliation of number of shares issued:		
Total in issue	236 756 814	236 756 814
Shares held by subsidiary	(1 080 599)	(1 080 599)
Shares held in terms of share incentive schemes	(4 412 155)	(4 399 200)
Total in issue at the end of the year – company	236 756 814	236 756 814
Total in issue at the end of the year – Group	231 264 060	231 277 015

Dividend and voting rights

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. Holders of the cumulative preference shares receive a cumulative dividend of 6,5 cents per share at interim (September) and year end (March) of each year. Holders of ordinary shares received the following dividends during the year:

Interim: 330,0 cents per ordinary share paid on 7 January 2019.

Final: 450,0 cents per ordinary share payable on 22 July 2019.

Unissued ordinary shares

In terms of the provisions of the Companies Act of South Africa and limited to the issuing of shares in terms of the company's obligations under the staff share incentive schemes, the unissued ordinary shares are under the control of the directors only until the forthcoming annual general meeting

DIRECTORS' INTEREST

At 31 March 2019, the directors had the following interest in the company's issued shares:

	Shares '000	Share appreciation rights accepted '000	Price per share R	Year of delivery	2019 Total '000	2018 Total '000
Non-executive						
M Lewis (indirect non-beneficial)	1 591,7	-	-		1 591,7	1 591,7
Prof. F Abrahams	-	-	-		-	-
S E Abrahams	-	-	-		-	-
G H Davin	-	-	-		-	-
D Friedland (indirect beneficial)	20,4	-	-		20,4	20,4
B L M Makgabo-Fiskerstrand	-	-	-		-	-
E Oblowitz (direct beneficial)	2,2	-	-		2,2	2,2
N V Simamane (direct beneficial)	1,6	-	-		1,6	1,6
R Stein (direct beneficial)	266,6	-	-		266,6	266,6
R Stein (indirect beneficial)	70,1	-	-		70,1	70,1
Total non-executive	1 952,6	-			1 952,6	1 952,6

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

10. SHARE CAPITAL (continued)

	Shares '000	Share appreciation rights accepted '000	Price per share* R	Year of delivery	2019 Total '000	2018 Total '000
Executive						
A D Murray (direct beneficial) ¹	-	-	-		-	508,2
A D Murray (indirect beneficial) ¹	-	-	-		-	722,5
A D Murray (performance-based restricted forfeitable shares) ¹	-	-	-		-	149,0
A D Murray (restricted forfeitable shares) ¹	142,9	-	-		142,9	142,9
	142,9	-			142,9	1 522,6
A D Murray ¹	-	89,4	111,10	2020	89,4	89,4
A D Murray ¹	-	76,4	148,15	2020	76,4	76,4
A D Murray ¹	-	119,0	142,72	2020	119,0	119,0
A D Murray ¹	-	132,8	138,30	2020	132,8	132,8
	-	417,6			417,6	417,6
A E Thunström (direct beneficial)	-	-	-		-	-
A E Thunström (indirect beneficial)	-	-	-		-	-
A E Thunström (performance-based restricted forfeitable shares)	74,7	-	-		74,7	64,3
	74,7	-			74,7	64,3
A E Thunström	-	31,2	148,15	2020	31,2	31,2
A E Thunström	-	37,8	142,72	2020	37,8	37,8
A E Thunström	-	47,0	138,30	2021	47,0	47,0
A E Thunström	-	77,0	183,89	2022	77,0	-
	-	193,0			193,0	116,0
Executive						
Total executive excluding share appreciation rights	217,6				217,6	1 586,9
Total executive share appreciation rights		610,6			610,6	533,6
Non-executive and executive						
Total excluding share appreciation rights	2 170,2				2 170,2	3 539,5
Total share appreciation rights		610,6			610,6	533,6

¹ Retired as an executive director at the end of September 2018. Restricted forfeitable shares and SARs were accepted in the capacity of an executive director.

* Price per share equates to the strike price.

The following changes have taken place since 31 March 2019:

1. On 31 May 2019, an executive director sold ordinary shares previously granted on 2 June 2016 with performance-based restrictions in terms of the Group's 2010 share incentive scheme.

	Shares accepted '000*	Indicative value Rm[#]
A E Thunström	2,5	0,4

* Subject to performance criteria.

[#] Indicative value based on closing share price of R176,10 on 31 May 2019.

2. On 3 June 2019, the executive directors accepted the following share appreciation rights (SARs) in terms of the Group's 2007 Share Incentive Scheme for nil consideration.

	SARs accepted '000*	Price per SAR R
A E Thunström	85,6	174,32
B Ntuli	43,9	174,32

* Subject to performance criteria.

3. On 3 June 2019, the executive directors accepted the following ordinary shares in terms of the Group's 2010 Share Incentive Scheme for nil consideration. The shares vest on the third anniversary of the grant date provided the recipient remains in the Group's employ and the requisite performance conditions are satisfied.

	Shares accepted '000	Indicative value Rm^{##}
A E Thunström*	49,0	8,7
B Ntuli*	25,1	4,5
B Ntuli**	13,5	2,4

* Subject to performance criteria.

** In addition to the standard annual share award, Ms Ntuli received retention shares to the value of R2,5 million that vest in June 2022. This award forms part of Ms Ntuli's sign on share award to compensate her for financial entitlements she forfeited as a result of leaving her previous employer.

^{##} Indicative value based on closing share price of R177,05 on 3 June 2019.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

11. TREASURY SHARES

In terms of a special resolution passed at the annual general meeting of the company on 3 September 2018, shareholders renewed the approval, as a general authority, of the acquisition by the company or any of its subsidiaries of the issued ordinary shares of the company not exceeding 5% in aggregate in any one financial year. The general authority is subject to the JSE Limited Listings Requirements and the Companies Act of South Africa, and is valid only until the company's next annual general meeting.

	Number of shares	
	2019	2018
Foschini Stores Proprietary Limited	1 080 599	1 080 599
The Foschini Share Incentive Trust	1 298 600	1 568 600
Employees of TFG in terms of share incentive schemes	3 100 600	2 870 000
Balance at the beginning of the year	5 479 799	5 519 199
The Foschini Share Incentive Trust	295 950	446 500
Employees of TFG in terms of share incentive schemes	976 905	1 215 000
Shares purchased during the year in terms of share incentive schemes	1 272 855	1 661 500
The Foschini Share Incentive Trust	(86 000)	(457 704)
Employees of TFG in terms of share incentive schemes	(153 750)	(70 200)
Shares sold during the year	(239 750)	(527 904)
The Foschini Share Incentive Trust	(50 800)	(258 796)
Employees of TFG in terms of share incentive schemes	(969 350)	(914 200)
Shares delivered during the year	(1 020 150)	(1 172 996)
Foschini Stores Proprietary Limited	1 080 599	1 080 599
The Foschini Share Incentive Trust	1 457 750	1 298 600
Employees of TFG in terms of share incentive schemes	2 954 405	3 100 600
Balance at the end of the year	5 492 754	5 479 799

As at 31 March 2019, a subsidiary, Foschini Stores Proprietary Limited, held 1 080 599 (2018: 1 080 599) shares, representing 0,5% (2018: 0,5%) of the company's share capital. The Foschini Share Incentive Trust held 1 457 750 (2018: 1 298 600) shares, representing 0,6% (2018: 0,5%) of the company's share capital, and employees of TFG held 2 954 405 (2018: 3 100 600) shares representing 1,2% (2018: 1,3%) of the company's share capital. The Foschini Share Incentive Trust and employees of TFG hold shares in terms of the share incentive schemes.

12. DIVIDEND RESERVE

A liability for dividends is recognised in the period when the dividend is declared. An amount equal to dividends declared subsequent to the reporting date is transferred to the dividend reserve.

A final dividend of 450,0 (2018: 420,0) cents per ordinary share was declared on 23 May 2019 and is payable on 22 July 2019.

No liability has been raised as this distribution was declared subsequent to the reporting date.

	2019 Rm	2018 Rm
Balance at 1 April	994,4	878,1
Transfer from dividend reserve to distributable earnings	(994,4)	(878,1)
Transfer to dividend reserve from distributable earnings	1 065,4	994,4
Balance at 31 March	1 065,4	994,4

13. HEDGING SURPLUS

The hedging surplus comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

	2019 Rm	2018 Rm
Balance at 1 April	10,0	(8,6)
Effective portion of changes in fair value of cash flow hedges	32,7	27,2
Deferred tax on movement in effective portion of cash flow hedges	(8,9)	(8,6)
Balance at 31 March	33,8	10,0
Comprised as follows:		
Forward exchange contracts – fair value	48,4	15,7
Total fair value of cash flow hedges	48,4	15,7
Deferred tax on forward exchange contracts	(14,6)	(5,7)
Total deferred tax on cash flow hedges	(14,6)	(5,7)
Balance at 31 March	33,8	10,0

The opening balance of R10,0 million was realised during the year and recycled to profit or loss. The forward exchange contracts are used to hedge the estimated foreign currency exposure to forecast purchases over the next six months.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

14. FOREIGN CURRENCY TRANSLATION RESERVE

The foreign currency translation reserve comprises gains and losses arising on translation of the assets, liabilities, income and expenses of foreign operations.

	2019 Rm	2018 Rm
Balance at 1 April	(814,1)	(258,4)
Foreign currency translation differences	935,8	(555,7)
Balance at 31 March	121,7	(814,1)

15. PUT OPTION RESERVE AND LIABILITY

The Group has put/call arrangements with certain JV partners which is payable on a basis of 7 times EBITDA less net debt.

	2019 Rm	2018 Rm
Put option liability movement		
Balance at 1 April	72,7	74,7
(Decrease) increase in the fair value of the put option liability	(1,6)	31,7
Settlement of put/call for management owned shares	-	(34,3)
Foreign exchange movements	9,9	0,6
Balance at 31 March	81,0	72,7
Put option reserve movement		
Balance at 1 April	86,0	82,8
(Decrease) increase in the fair value of the put option liability	(1,6)	31,7
Transfer to retained earnings	-	(28,5)
Balance at 31 March	84,4	86,0

The Group's management of and exposure to cash flow and liquidity risk is disclosed in note 20.

16. POST-RETIREMENT DEFINED BENEFIT PLAN

DEFINED BENEFIT PLAN

At March 2019, the Group had an obligation to provide post-retirement health care to 731 (2018: 770) members. Employees who joined the company prior to 1 January 1999 and have met certain requirements are eligible for a post-employment subsidy on their contributions. These members belong to the TFG Medical Aid Scheme, registered in terms of the Medical Schemes Act, No. 131 of 1998, as amended. An actuarial valuation was performed as at 31 March 2018.

	2019 Rm	2018 Rm
Movements for the year		
Balance at 1 April	215,8	233,1
Settlements	(11,2)	(11,0)
Service cost	4,3	3,8
Interest cost	24,9	24,1
Actuarial gain	-	(34,2)
Balance at 31 March	233,8	215,8
Net expense recognised in profit or loss		
Settlements	(11,2)	(11,0)
Service cost	4,3	3,8
Interest cost	24,9	24,1
	18,0	16,9
Post-retirement defined benefit plan reserve included in other comprehensive income (loss)		
Balance at 1 April	34,2	58,8
Actuarial gain	-	(34,2)
Actuarial gain remeasurements due to:		
Demographic assumptions	-	8,0
Financial assumptions	-	(20,2)
Experience adjustments	-	(22,0)
Deferred tax on actuarial gain	-	9,6
	34,2	34,2
Key assumptions used		
Gross discount rates used	10,5%	10,5%
Implied allowances for medical scheme contribution inflation	9,3%	9,3%

OTHER ASSUMPTIONS

Mortality assumptions:

- Pre-retirement Male "SA85-90 (Lite)"
- Pre-retirement Female "SA85-90 (Lite)"
- Post-retirement Male "PA90" males - rated down by 1 year
- Post-retirement Female "PA90" females - rated down by 1 year

"SA85-90 (Lite)" and "PA90" are standard actuary mortality tables used as the basis for the assumptions regarding the life expectancy of employees and pensioners in the valuation.

Withdrawal and retirement assumptions:

- Employees are assumed to retire at their normal retirement date of 60 (2018: 60), dependent on the employee. The retirement age has changed from 60 to 65 during the current year. The Group does not anticipate that this will have a material impact on the valuation. A new actuarial valuation will be performed at 31 March 2020.
- Withdrawal assumptions: 0% - 20,3% depending on age of employee.

It was also assumed that no significant changes would occur in the structure of the medical arrangements or in the subsidy scales for members (except for the adjustments above).

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

16. POST-RETIREMENT DEFINED BENEFIT PLAN (continued)

SENSITIVITY ANALYSIS

Possible changes at the reporting date to one of the relevant actuarial assumptions, holding the other assumptions constant, would have affected the defined benefit obligation as indicated below.

Total actuarial liability 31 March 2019:

	Defined benefit obligation	
	Increase Rm	Decrease Rm
Health cost inflation (1% movement)	261,2	210,8
Expected retirement age (1 year movement)	228,9	238,8
Discount rate (1% movement)	210,8	261,6

17. INTEREST-BEARING DEBT

	2019 Rm	2018 Rm
Non-current liabilities	6 017,4	4 825,7
Unsecured fluctuating loans in terms of long-term bank facilities	6 017,4	4 825,7
Current liabilities		
At amortised cost	3 196,0	4 524,9
Balance at 31 March	9 213,4	9 350,6

Interest-bearing debt includes banking facilities amounting to R3 063,0 (2018: R4 407,0) million, which bears variable interest at a margin of 0,50% – 1,75% (2018: 0,48% – 1,75%) above three-month JIBAR payable within one year, R1 350,0 (2018: R1 250,0) million, which bears variable interest at a margin of 1,53% – 1,70% (2018: 1,37% – 1,90%) above three-month JIBAR payable between one and two years, and R3 473,0 (2018: R2 277,0) million, which bears variable interest at a margin of 0,61% – 1,78% (2018: 0,26% – 1,75%) above three-month JIBAR payable after two years. The effective rate (excluding TFG International) for 2019 was 8,32% Nominal Annual Compounded Monthly (NACM) (2018: 8,47% NACM). In addition to the above, a GBP60,0 (2018: GBP69,1) million loan, which bears variable interest at a margin of three-month London Interbank Offered Rate (LIBOR) plus margin: 3,25% – 4,00% (2018: 3,75% – 5,25%). An AUD19,0 (2018: AUD29,8) million loan, which bears a fixed interest rate of 3,26% (2018: 3,26%).

The Group's borrowing powers in terms of its memorandum of incorporation are unlimited.

The Group's management of and exposure to liquidity and market risk is disclosed in note 20.

18. OPERATING LEASE LIABILITY

	2019 Rm	2018 Rm
Accrual for straight-lining of operating leases:		
Non-current liabilities	363,5	335,1
Current liabilities	22,5	30,7
Balance at 31 March	386,0	365,8
The Group leases the majority of its trading premises under operating leases.		
Leases on trading premises are contracted for periods of between three and ten years, with renewal options for a further five years, wherever possible. The lease agreements for most stores provide for a minimum annual rental payment and additional payments determined on the basis of turnover. Turnover rentals, where applicable, average approximately 4,5% (2018: 4,5%) of turnover. Rental escalations vary, but average at a rate of approximately 4% – 6% (2018: 4% – 7%) per annum.		
At 31 March, future non-cancellable minimum lease rentals are as follows:		
Less than 1 year	3 199,5	2 432,1
More than 1 year and less than 5 years	6 382,7	5 300,7
More than 5 years	661,8	292,9

19. TRADE AND OTHER PAYABLES

	2019 Rm	Restated* 2018 Rm
Trade payables	2 236,8	1 986,0
Other payables and accruals	1 816,3	1 295,8
Employee-related accruals	231,2	212,9
Gift card liability	97,5	62,3
Financial instrument liability	-	51,2
Lay-by liability	153,2	116,1
	4 535,0	3 724,3

The Group's management of and exposure to market and cash flow and liquidity risk is disclosed in note 20.

* Refer to note 39 for the impact of the changes in accounting policies.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

20. RISK MANAGEMENT

OVERVIEW

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Currency risk

This note presents information about the Group's exposure to each of the above risks and the Group's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

RISK MANAGEMENT FRAMEWORK

The Supervisory Board has overall responsibility for the establishment and oversight of the Group's enterprise risk management framework. The Supervisory Board has delegated oversight over the related processes to the Risk and Audit Committees. The Committees report regularly on their activities to the Supervisory Board.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The Risk Committee reviews the enterprise risk management framework and the related policies and processes annually.

The Risk and Audit Committees assist the Supervisory Board in the assessment of the adequacy of the risk management process.

CREDIT RISK

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises on trade receivables – retail, other receivables, concession receivables and cash and cash equivalents. The Group does not consider there to be any significant concentration of credit risk in respect of which adequate impairment has not been raised. The Group considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

Credit quality

The Group monitors credit risk per class of financial instrument. The table below outlines the classes identified, as well as the financial statement line item and the note that provides an analysis of the items included in the financial statement line for each class of financial instrument.

Class of financial instrument and financial statement caption	Note
Trade receivables – retail	6
Concession receivables	8

TRADE RECEIVABLES – RETAIL

The Group does not have any balances past due date which have not been adequately provided for, as the provisioning methodology applied takes the entire trade receivables – retail population into consideration.

The formal governance structures within the Group include the Credit Executive Committee as well as the Financial Services Credit Committee (FSCC). The FSCC is responsible for approving all credit risk related policies and processes and will inform the credit risk appetite within the guidelines specified through the Operating Board mandate, under which the Credit Executive Committee operates. The FSCC is mandated by the Credit Executive Committee to review all credit risk related aspects.

Credit granting

The risk arising on trade receivables – retail is managed through a stringent Group policy on the granting, continual review and monitoring of credit facilities. The Group established a credit policy under which each application for a new credit facility is analysed individually for creditworthiness. This process applies information submitted by the applicant and external bureau data (where this is available) to statistical credit scoring models, and includes an assessment of affordability before terms and conditions are offered. A credit facility is established for each customer, which represents the maximum possible exposure to any account holder. The facility is made available to the account holder over time depending on the quality of credit behaviour displayed by the customer. These credit facilities are reviewed annually subject to the requirements of the applicable legislation in the jurisdictions where credit is provided, such as the National Credit Act. The scorecards are monitored regularly and redeveloped as appropriate.

Account holders who are more than one cycle delinquent are unable to spend. Depending on the duration of the delinquency, credit limits may be adjusted downwards. Where certain criteria are met, accounts in arrears are rehabilitated to maximise collections and profitability.

The Group does not typically require collateral for lending. However, certain categories of customers may be required to make a deposit with each purchase.

There is a large, diverse and widely distributed customer base. Therefore, the Group does not consider there to be any significant concentration of credit risk.

Allowance for impairment – applicable from 1 April 2018

The FSCC must determine adequate allowances in accordance with the Group's stated policies and procedures, IFRS and relevant supervisory guidance. The policies, procedures and impact of the allowance for impairment are reviewed and approved at a FSCC level. The FSCC is responsible for developing and maintaining the Group's processes for measuring expected credit losses (ECLs) including monitoring of credit risk, incorporation of forward-looking information and the method used to measure ECLs. In addition, the FSCC must ensure that the Group has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECLs.

Allowance for impairment – applicable up to 31 March 2018

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables. The allowance is calculated using the internationally recognised Markov model. The Markov model is a statistical model utilised to quantify the probability of default by analysing the observed patterns of delinquency and default over an appropriate period of time to determine the inherent rate of bad debt in a debtors' book. The probability of default is applied to the trade receivables – retail balance at statement of financial position date. Accounts that are known to have applied for the debt review are fully impaired. The impairment allowance is adjusted for management's judgement as to whether the actual incurred losses are likely to be greater or less than suggested by the Markov model. The Supervisory Board believes that the application of these techniques results in trade receivables – retail balances being measured reliably. The Group does not consider there to be any significant credit risk in respect of which any further impairment of trade receivables – retail is required.

The internal audit function performs regular audits making sure that the established controls and procedures are adequately designed, implemented and adhered to.

Incorporation of forward-looking information – applicable from 1 April 2018

The Group uses forward-looking information that is available without undue cost or effort in its measurement of ECLs. Significant judgement and estimates are applied in the process of incorporating forward-looking information into the ECLs calculation and increase the level of volatility in the impairment provision number.

The Group developed a macroeconomic model index in conjunction with a reputable economics consultancy to assist in determining a macroeconomic overlay based on key economic indicators and future expectations thereof. Back testing revealed a lack of correlation between the index and the probability of write-off. As a result, an alternative approach is followed to assess forward-looking information.

The following approach is followed to assess forward-looking information via the FSCC. This entails:

- Use of third-party economic reports and forecasts;
- Applying credit judgement to the forward-looking model with respect to existing and potential regulatory or legislative changes;
- Upside and downside scenarios based on alternative macroeconomic conditions which are compared to the "base case" scenario and are probability-weighted based on the best estimate of their relative likelihood; and
- Approval of the probability-weighting and scenarios used.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

20. RISK MANAGEMENT (continued)

TRADE RECEIVABLES – RETAIL (continued)

The principal macroeconomic indicators considered include: Gross Domestic product (GDP) year-on-year growth, unemployment rates, repurchase interest rates, inflation and fuel price year-on-year movement and the Transunion Consumer Credit Index. The Group has made use of three macroeconomic scenarios (basic, adverse and favourable) taking into account the relative likelihood of each of the scenarios. Probabilities are assigned to each scenario to calculate the impact on ECLs. The baseline scenario is considered to be the most plausible scenario and is in line with the assumptions used for the Group's strategic planning and budgeting purposes. Existing and potential regulatory or legislative changes are also considered. The only significant regulatory or legislative change affecting the macroeconomic scenarios as at reporting date is the potential implementation of debt intervention legislation in South Africa.

The expectation related to macroeconomic indicators did not differ materially as at the current and previous reporting dates.

Measurement of ECLs

The key inputs used for measuring ECLs are:

- Probability of Write-off (PW);
- Exposure at Write-off (EAW); and
- Loss given Write-off (LGW).

These ECL parameters are derived from statistical models and internal historical data and are adjusted to reflect probability-weighted forward-looking information.

PW is an estimate of the likelihood of write-off over a given time horizon. It is estimated as at a point in time based on the expectation over the full lifetime of the asset. The calculation is based on statistical models compiled from historical internal data using quantitative factors to calculate a future view.

EAW is an estimate of the expected exposure at a future write-off date. The EAW model predicts the relationship between the eventual write-off balance and the current gross carrying value in the event of write-off. An analytically determined pay-down rate of the gross carrying amount over the life of an account is calculated based on a pay-down model methodology.

The Group measures ECLs over the period that it is exposed to credit risk and measures ECLs considering the risk of write-off over the maximum contractual period over which the entity is exposed to credit risk. The revolving trade receivables – retail account facility does not have a fixed-term or repayment structure. No provision is made and held against trade receivables – retail unutilised facilities based on the fact that the facility does not meet the definition of a loan commitment. The Group can refuse or limit future purchases at any point.

LGW is an estimate of the likely loss arising on write-off. The LGW model for trade receivables – retail consider the period of recovery, recovery costs and recovery rates. The calculation is on a discounted cash flow basis. The cash flows are discounted at the current effective interest rate for variable rate financial instruments and at the original effective interest rate for fixed rate financial instruments.

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Homogenous subpopulations within the development population are identified. These homogenous subpopulations tend to behave differently, which is an indication that different behaviour scorecards need to be developed on each subpopulation/segment to obtain better results. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change, there is appropriate re-segmentation of the assets. This may result in new segments being created or assets moving to an existing segment that better reflects the similar credit risk characteristics of that segment of assets.

Geographical segments

Credit on trade receivables – retail accounts are offered only in the TFG Africa geographical segment. Credit is offered in South Africa, Namibia, Botswana, Eswatini and Lesotho. The exposures to credit in Namibia, Botswana, Eswatini and Lesotho are insignificant from a Group perspective.

Risk profile

The risk profile of the active trade receivables – retail book based on the TFG provision matrix is as follows at 31 March 2019:

	Stage 1 Rm	Stage 2 Rm	Stage 3 Rm	Total Rm
Gross trade receivables – retail	4 889,9	2 716,4	1 685,1	9 291,4
Allowance for expected credit losses	(459,7)	(614,3)	(777,6)	(1 851,6)
Net trade receivables – retail	4 430,2	2 102,1	907,5	7 439,8

Trade receivables – retail partially written off during the current year included in gross trade receivables – retail amounted to R333,2 million as at 31 March 2019 and is classified as stage 3.

CONCESSION RECEIVABLES

Concession receivables relates to balances due from stores located in the United Kingdom and internationally, where concessions are in place.

	2019 Rm	2018 Rm
Concentration by region		
United Kingdom	77,1	211,9
International	97,2	84,9
Total	174,3	296,8

Reconciliation of net concession receivables:

	2019 Rm	2018 Rm
Gross concession receivables	315,2	302,6
Allowance for incurred losses (IAS 39)	-	(5,8)
Allowance for expected credit losses (IFRS 9)	(140,9)	-
Net concession receivables	174,3	296,8

Movement in the concession receivables allowance for impairment were as follows:

	2019 Rm	2018 Rm
Opening balance at 1 April	(5,8)	(6,4)
Change on initial application of IFRS 9	(150,9)	-
Restated opening balance	(156,7)	(6,4)
Utilisation of provision	67,4	1,1
Increase in provision	(31,8)	(0,6)
Effect of exchange rate fluctuations	(19,8)	0,1
Balance at 31 March	(140,9)	(5,8)

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

20. RISK MANAGEMENT (continued)

OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments are neither past due nor impaired. Accordingly, the Group is not exposed to significant credit risk.

CASH AND CASH EQUIVALENTS

The Group limits its exposure to credit risk through dealing with well-established financial institutions with high credit standings, and thus management does not expect any counterparty to fail to meet its obligations.

EXPOSURE

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

In determining the recoverability of trade receivables – retail, the Group considers any changes in credit quality of the receivables up to the reporting date. The concentration of credit risk is limited as the customer base is large and unrelated.

The maximum exposure to credit risk at the reporting date was:

	2019 Rm	Restated* 2018 Rm
Trade receivables – retail	7 439,8	7 373,6
Other receivables	950,8	697,7
Concession receivables	174,3	296,8
Cash and cash equivalents	1 111,0	1 206,1
	9 675,9	9 574,2

IMPAIRMENT LOSSES: TRADE RECEIVABLES – RETAIL

The Group manages the ageing of its trade receivables – retail book on both a contractual and recency basis, but uses the recency basis to determine write-off and impairment losses based on a contractual assessment. Recency refers to the number of payment cycles that elapsed since the last qualifying payment was received.

Recency categories range from 0 to 5.

The ageing of past due unimpaired trade receivables – retail at 31 March was:

	Carrying amount	
	2019 Rm	Restated* 2018 Rm
Recency 1	642,3	728,4
Recency 2	205,1	249,7
Recency 3	86,0	138,6
Recency 4	47,5	78,9
Recency 5	9,8	35,0
	990,7	1 230,6

* Refer to note 39 for the impact of the changes in accounting policies.

Reconciliation of net trade receivables – retail:

	2019 Rm	Restated* 2018 Rm
Gross trade receivables – retail	9 291,4	8 474,8
Allowance for incurred losses (IAS 39)	-	(1 101,2)
Allowance for expected credit losses (IFRS 9)	(1 851,6)	-
Net trade receivables – retail	7 439,8	7 373,6
Movement in the trade receivables – retail allowance for impairment were as follows:		
Opening balance at 1 April	(1 101,2)	(1 039,0)
Change on initial application of IFRS 9	(542,5)	-
Restated opening balance	(1 643,7)	(1 039,0)
Movement in allowance for impairment	(207,9)	(62,2)
Balance at 31 March	(1 851,6)	(1 101,2)

* Refer to note 39 for the impact of the changes in accounting policies.

Active customers that are not past due and have a good track record with the Group make up 77,7% of the trade receivables – retail book (2018: 79,5%).

Trade receivables – retail with a contractual amount of R1 115,3 million (2018: R1 394,0 million) written off during the year are still subject to enforcement activity.

CASH FLOW AND LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure it will always have sufficient cash flow to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

This risk is managed through cash flow forecasts, the optimisation of daily cash management and by ensuring that adequate borrowing facilities are maintained. In terms of its memorandum of incorporation, the Group's borrowing powers are unlimited.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

20. RISK MANAGEMENT (continued)

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments and exclude the impact of netting agreements:

	Carrying amount Rm	Cash flows Rm	Less than 1 year Rm	1-2 years Rm	More than 2 years Rm
31 March 2019					
Non-derivative financial liabilities					
Interest-bearing debt	9 213,4	10 453,9	3 455,9	2 771,5	4 226,5
Trade and other payables	4 303,8	4 206,3	4 206,3	-	-
Derivative financial liabilities					
Put option liability	81,0	81,0	-	-	81,0
	13 598,2	14 741,2	7 662,2	2 771,5	4 307,5

	Restated* Carrying amount Rm	Restated* Cash flows Rm	Restated* Less than 1 year Rm	1-2 years Rm	More than 2 years Rm
31 March 2018					
Non-derivative financial liabilities					
Interest-bearing debt	9 350,6	10 086,8	4 917,0	1 568,3	3 601,5
Trade and other payables	3 460,2	3 397,9	3 397,9	-	-
Derivative financial liabilities					
Put option liability	72,7	72,7	-	-	72,7
Forward exchange contracts used for hedging	51,2	1 001,5	1 001,5	-	-
	12 934,7	14 558,9	9 316,4	1 568,3	3 674,2

* Refer to note 39 for the impact of the changes in accounting policies.

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur and impact profit or loss:

	Carrying amount Rm	Cash flows Rm	Less than 1 year Rm	1-2 years Rm	More than 2 years Rm
31 March 2019					
Forward exchange contracts					
Asset	50,3	(2 452,5)	(2 452,5)	-	-
	50,3	(2 452,5)	(2 452,5)	-	-
31 March 2018					
Forward exchange contracts					
Asset	0,1	(886,7)	(886,7)	-	-
Liability	(51,2)	(1 001,5)	(1 001,5)	-	-
	(51,1)	(1 888,2)	(1 888,2)	-	-

MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's profit or loss or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

CURRENCY RISK

The Group is exposed to foreign exchange risk. The financial risk activities are governed by appropriate policies and procedures to identify financial risks, measured and managed in accordance with the Group's treasury policy. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Group's policy that no trading in derivatives for speculative purposes may be undertaken.

Currency risk is the risk that the future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities. The Group is exposed to currency risk as operating subsidiaries undertake transactions that are denominated in foreign currencies. These currencies are primarily the Australian Dollar (AUD), Chinese Yuan (CNY), Euro, British Pound (GBP) and US Dollar (USD).

The hedging instrument used is forward exchange contracts (FECs). Cash flow hedge accounting is applied to all open FECs. FECs are designated as hedging instruments in cash flow hedges of forecasted transactions and firm commitments. These forecast transactions are used to mitigate the exposure of the variability in cash flows attributable to highly probable forecast transactions and firm commitments to purchase inventory denominated in a foreign currency.

There is a clear economic relationship between the hedging instrument and the hedged item. The conclusion is that the changes in fair values of the hedging instrument and the hedged item are moving in opposing directions and the change in fair value of hedging instrument highly offsets the change in fair value of the hedged item. The Group has established a hedge ratio of 1:1 since the notional amount and currency of the hedged item is the same as the notional amount of the foreign currency leg of the hedging instrument. To test the hedge effectiveness, the Group uses a qualitative method.

The hedge ineffectiveness can arise from:

- Differences in the timing of the cash flows of the hedged instruments.
- The credit risk of the contracting parties differently impacting the fair value movements of the hedging instruments and hedged items.
- The variability of the forecasted amount of cash flows of hedged items and hedging instruments.

The risk of financial loss due to the volatility of the foreign currency transactions arises from:

- Translation exposure – the effect of exchange rate movements on the recorded results of a foreign entity.
- Transaction exposure – the effect of exchange rate movement on the price of goods and services imported/exported.

The Group manages its currency risk by hedging transactions that are expected to occur within a maximum 12-month period for hedges of highly probable forecasted purchases and firm commitments.

When a derivative is entered into for the purpose of being a hedge, the Group negotiates the terms of the derivative to align to the terms of the hedged exposure in order to ensure that the critical terms are matched. For hedges of highly probable forecast transactions and firm commitments, the derivative covers the period of exposure from the point the cash flows of the transactions are forecasted up to the maturity date of the FEC. Any timing mismatches are addressed under the sources of ineffectiveness.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

20. RISK MANAGEMENT (continued)

CURRENCY RISK (continued)

The Group is holding the following forward exchange contracts that form part of a hedging relationship:

	Notional amount Rm	Carrying amount Rm	Average forward rate	Line item in the statement of financial position
Year ended 31 March 2019				
Forward exchange contracts CNY/ZAR	439,2	8,4	2,13	Other receivables and prepayments
Forward exchange contracts EUR/ZAR	0,2	–*	15,99	Other receivables and prepayments
Forward exchange contracts GBP/ZAR	0,2	–*	18,47	Other receivables and prepayments
Forward exchange contracts USD/AUD	1 498,3	34,1	0,73	Other receivables and prepayments
Forward exchange contracts USD/ZAR	427,6	7,8	14,45	Other receivables and prepayments
Year ended 31 March 2018				
Forward exchange contracts CNY/ZAR	389,6	(20,1)	1,97	Trade and other payables
Forward exchange contracts EUR/ZAR	1,1	(0,1)	15,67	Trade and other payables
Forward exchange contracts GBP/ZAR	0,1	–*	16,79	Trade and other payables
Forward exchange contracts USD/AUD	886,7	0,1	0,77	Other receivables and prepayments
Forward exchange contracts USD/ZAR	478,2	(26,7)	12,81	Trade and other payables

* Zero as a result of rounding.

EXPOSURE TO CURRENCY RISK

Exposure to currency risk is hedged through the use of forward exchange contracts. At 31 March, the Group had forward exchange contracts in various currencies to acquire inventory not yet recorded as assets on the statement of financial position.

	Foreign currency '000	Rand equivalent (at forward cover rate) R'000
31 March 2019*		
CNY	206 634	439 249
Euro	10	152
GBP	11	209
USD	141 938	2 012 851
		2 452 461
31 March 2018*		
CNY	193 976	389 596
Euro	67	1 057
GBP	7	121
USD	122 965	1 497 428
		1 888 202

* FEC contracts at 31 March.

The following significant exchange rates applied during the year:

	Average rate		31 March spot rate	
	2019	2018	2019	2018
AUD	10,00	10,04	10,28	9,08
CNY	2,05	1,96	2,17	1,88
Euro	16,00	15,19	16,39	14,56
GBP	17,99	17,20	18,87	16,59
USD	13,76	12,98	14,49	11,83

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

20. RISK MANAGEMENT (continued)

SENSITIVITY ANALYSIS

The Group is primarily exposed to the Chinese Yuan, Euro, British Pound and US Dollar currencies. The following analysis indicates the Group's sensitivity at year end to the indicated movements in these currencies on financial instruments, assuming that all other variables, in particular interest rates, remain constant. The rates of sensitivity are the rates used when reporting the currency risk to the Supervisory Board and represent management's assessment of the potential change in foreign currency exchange rates at the reporting date.

A 10% strengthening of the Rand against the following currencies at 31 March would have increased equity and profit or loss by the amounts shown below.

	Profit or loss Rm	Equity Rm
31 March 2019		
CNY	-	44,8
Euro	-	-*
GBP	-	-*
USD	-	223,5
31 March 2018		
CNY	-	37,0
Euro	-	0,1
GBP	-	-*
USD	-	158,4

* Zero as a result of rounding.

A 10% weakening of the Rand against the above currencies at 31 March would have had the equal but opposite effect on equity and profit or loss to the amounts shown above on the basis that all other variables remain constant.

The methods and assumptions used to calculate the above sensitivity analysis are consistent with the prior year.

FOREIGN CASH

The Group has exposure to foreign currency translation risk through cash balances included in the net assets of foreign subsidiaries, in currencies other than the South African Rand. This risk is not hedged. The table below includes only the material foreign currency cash balances held in the Group other than the South African Rand.

	2019 Rm	2018 Rm
AUD	121,7	159,5
CHF	18,8	23,3
Euro	67,2	86,1
GBP	303,3	174,2
MXN	11,5	1,8
NZD	14,1	18,6
HKD	11,5	6,6
USD	71,8	33,9

A 10% strengthening of the Rand against the following currencies at 31 March would have increased equity and profit or loss by the amounts shown below.

	Profit or loss Rm	Equity Rm
31 March 2019		
AUD	-	12,2
CHF	-	1,9
Euro	-	6,7
GBP	-	30,3
MXN	-	1,2
NZD	-	1,4
HKD	-	1,1
USD	-	7,2

31 March 2018

AUD	-	15,9
CHF	-	2,3
Euro	-	8,6
GBP	-	17,4
MXN	-	0,2
NZD	-	1,9
HKD	-	0,7
USD	-	3,4

A 10% weakening of the Rand against the above currencies at 31 March would have had the equal but opposite effect on equity and profit or loss to the amounts shown above on the basis that all other variables remain constant.

INTEREST RATE RISK

The Group is exposed to interest rate risk as it borrows, provides credit and invests funds. This risk is managed by maintaining an appropriate mix of fixed and floating rate instruments with reputable financial institutions.

There is no interest rate risk on trade payables.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

20. RISK MANAGEMENT (CONTINUED)

PROFILE

At 31 March, the interest rate profile of the Group's interest-bearing financial instruments was:

	Interest rate at 31 March		Carrying amount	
	2019 %	2018 %	2019 Rm	Restated* 2018 Rm
Variable rate instruments				
Trade receivables – retail (6 months)	-	-	930,5	1 032,8
Trade receivables – retail (12 months)	14,8 – 24,9	15,0 – 24,3	6 509,3	6 340,8
Cash and cash equivalents	10,3	10,0	1 111,0	1 206,1
			8 550,8	8 579,7
Financial liabilities				
Interest-bearing debt	3,3 – 8,3	3,3 – 8,5	(9 213,4)	(9 350,6)
Put option liability	-	-	(81,0)	(72,7)
			(9 294,4)	(9 423,3)

* Refer to note 39 for the impact of the changes in accounting policies.

FAIR VALUE SENSITIVITY ANALYSIS FOR FIXED RATE INSTRUMENTS

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at 31 March would not affect profit or loss.

CASH FLOW SENSITIVITY ANALYSIS FOR VARIABLE RATE INSTRUMENTS

An increase (decrease) of 100 basis points in interest rates at 31 March would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis was performed on the same basis for 2018.

	Profit or loss Rm	Equity Rm
31 March 2019		
Variable rate instruments	101,7	-
Cash flow sensitivity (net)	101,7	-
31 March 2018		
Variable rate instruments	94,6	-
Cash flow sensitivity (net)	94,6	-

CAPITAL RISK MANAGEMENT

The Supervisory Board's policy is to maintain a strong capital base to maintain investor, creditor and market confidence, to sustain future development of business and to ensure that the Group continues as a going concern. The Group primarily makes use of equity for capital management purposes.

Equity consists of ordinary share capital and retained earnings of the Group. The Supervisory Board monitors the return on equity, which the Group defines as profit for the year divided by total average equity. The Supervisory Board also monitors the level of dividends to ordinary shareholders.

The Supervisory Board seeks to maintain a balance between the higher returns that might be attained with higher levels of borrowings and the advantages and security afforded by a sound capital position.

It is our intention to bring our debt to equity ratio (currently 56,6% on a consolidated basis with recourse gearing of 54,6%) closer to our medium-term target of 40%. This will ensure that the Group is well positioned to take advantage of future growth opportunities.

INSURANCE RISK

The Group is the cell owner in cell captive arrangements with an insurer. The short-term insurance business of TFG customers is housed in the cell captives, which were purchased by the Group by subscribing for ordinary shares in the insurer.

The liabilities in the cell captives represent the insurance claims paid or payable to the Group's customers. The assets represent the assets allocated to the cell captives by the insurer. The underwriting management of the cell captives are performed by the insurer for a fee payable by the Group to the insurer.

The Group manages its insurance risk by reviewing the underwriting management performed by the insurer. This will include a review of the insurer's methodology for estimating claims and a review of the adequacy of the assets allocated to the cell captives by the insurer. Claims development in the cell captives are also reviewed by the Group.

The Group will change the cell captive agreements or insurer if the underwriting of claims are not performed adequately.

FAIR VALUE HIERARCHY OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The table below analyses financial instruments carried at fair value by the valuation method. The different levels have been defined as follows:

Level 1 – Quoted prices (unadjusted) in an active market for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2019 Rm	2018 Rm
Level 2		
Forward exchange contracts – asset	50,3	0,1
Forward exchange contracts – liability	-	(51,2)
Insurance cell captive receivables	299,4	265,1
Level 3		
Put option liability	(81,0)	(72,7)

There are no level 1 financial instruments in the Group.

There were no transfers between levels during the current year.

MEASUREMENT OF FAIR VALUES:

The following valuation techniques were used for measuring level 2 fair values:

Forward exchange contracts

The fair values are based on authorised financial institution quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.

Insurance cell captive receivables

The fair value is based on the net asset value at reporting date.

The following valuation techniques were used for measuring level 3 fair values:

Put option liability

The Group has put/call arrangements with certain JV partners which is payable on a basis of 7 times EBITDA less net debt. The put/call liability will increase in line with the EBITDA increase times the multiple less net debt.

FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

The fair value is not disclosed as the carrying value is a reasonable approximation of the fair value.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

21. SUBSEQUENT EVENTS

The directors have declared a gross final ordinary dividend of 450,0 cents per ordinary share from income reserves, for the period ended 31 March 2019. No further significant events took place between the year ended 31 March 2019 and date of approval of the financial statements.

22. COMMITMENTS AND CONTINGENT LIABILITIES

	2019 Rm	2018 Rm
Capital expenditure		
Capital commitments	16,3	19,7

There are no contingent liabilities.

23. REVENUE

	Note	2019 Rm	Restated* 2018 Rm
Retail turnover		34 101,4	28 519,5
Interest income	24	1 764,0	1 755,8
Other income	25	1 262,8	1 187,7
		37 128,2	31 463,0

* Refer to note 39 for the impact of the changes in accounting policies.

24. INTEREST INCOME

	2019 Rm	2018 Rm
Trade receivables – retail	1 748,3	1 707,8
Sundry	15,7	48,0
	1 764,0	1 755,8

25. OTHER INCOME

	2019 Rm	2018 Rm
Value-added services	754,6	806,6
Collection cost recovery	487,6	364,2
Sundry income	20,6	16,9
	1 262,8	1 187,7

26. TRADING EXPENSES

	2019 Rm	2018 [^] Rm
Operating profit before acquisition costs and finance costs has been arrived at after taking account of:		
Trading expenses		
Depreciation and amortisation	(844,1)	(745,5)
Employee costs	(6 181,0)	(4 948,0)
Occupancy costs	(4 141,6)	(3 411,5)
Other operating costs	(4 820,1)	(3 836,5)
	(15 986,8)	(12 941,5)
The following disclosable amounts are included above:		
Auditor's remuneration		
Audit fees	(17,2)	(13,0)
Non-audit fees	(4,1)	(1,5)
Profit and loss on sale and impairment of assets	(113,3)	(52,9)
Retirement fund expenses (note 30)	(321,8)	(280,0)
Staff discount (note 30)	(113,0)	(98,4)

[^] Due to the adoption of IFRS 9, the net bad debt line item is now presented on the face of the consolidated income statement for better comparability.

27. FINANCE COSTS

	2019 Rm	2018 Rm
Finance costs on financial liabilities measured at amortised cost	(749,9)	(696,6)

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

28. TAXATION

	2019 Rm	Restated* 2018 Rm
Income tax expense		
South African current taxation		
Current year	837,5	742,0
Prior year under (over) provision	51,6	(5,8)
Dividends withholding tax	3,9	3,2
South African deferred taxation		
Current year	(68,5)	13,5
Prior year (over) under provision	(68,0)	0,3
Assessed loss	-	4,3
Non-South African current taxation		
Current year	255,8	198,9
Prior year under provision	0,2	-
Non-South African deferred taxation		
Current year	(80,4)	(10,6)
Prior year under provision	7,2	-
Assessed loss	-	(3,5)
	939,3	942,3
	%	%
<i>Reconciliation of the tax expense</i>		
Effective tax rate	26,3	28,1
Australian Group tax relief	0,2	-
Prior year unrecognised capital allowances	0,3	-
Learnership allowances	0,3	0,2
Exempt income	-	0,3
Non-deductible expenditure	(0,2)	(0,9)
Non-South African tax rate	0,9	0,1
Prior year over provision	0,2	0,2
South African statutory rate	28,0	28,0

* Refer to note 39 for the impact of the changes in accounting policies.

29. EARNINGS PER SHARE

BASIC AND HEADLINE EARNINGS PER SHARE

The calculation of basic and headline earnings per share for the year ended 31 March 2019 was based on profit for the year attributable to ordinary shareholders of The Foschini Group Limited of R2 638,4 (2018: R2 406,9) million and headline earnings of R2 743,4 (2018: R2 448,8) million divided by the weighted average number of ordinary shares as follows:

	2019		2018 Restated*	
	Gross Rm	Net of taxation Rm	Gross Rm	Net of taxation Rm
Profit for the year attributable to equity holders of The Foschini Group Limited		2 638,4		2 406,9
Adjusted for:				
Profit on disposal of non-controlling interest	(1,4)	(1,0)	-	-
Loss on disposal of business	23,8	21,8	-	-
Loss on disposal and impairment of property, plant and equipment and intangible assets	123,4	91,5	54,4	43,0
Profit on disposal of property, plant and equipment and intangible assets	(10,1)	(7,3)	(1,5)	(1,1)
Headline earnings		2 743,4		2 448,8
Acquisition costs	-	-	79,4	79,4
Headline earnings excluding acquisition costs**		2 743,4		2 528,2

	2019 Number of shares		2018 Number of shares	
	Gross	Weighted	Gross	Weighted
Gross number of ordinary shares in issue	236 756 814	236 756 814	219 515 434	219 515 434
Treasury shares	(5 479 799)	(5 479 799)	(5 519 199)	(5 519 199)
Net number of ordinary shares in issue at beginning of year	231 277 015	231 277 015	213 996 235	213 996 235
Shares purchased in terms of share incentive schemes	(1 272 855)	(1 039 595)	(1 661 500)	(1 362 113)
Shares sold	239 750	102 507	527 904	831 664
Shares delivered	1 020 150	749 266	1 172 996	102 811
Additional share issue	-	-	17 241 380	11 336 798
Net number of ordinary shares in issue at end of the year	231 264 060	231 089 193	231 277 015	224 905 395

* Refer to note 39 for the impact of the changes in accounting policies.

** Headline earnings excluding acquisition costs is calculated to remove the impact of the prior year's acquisition costs of the RAG, G-Star RAW and Hobbs acquisitions as well as the TFG London management buy-out.

This pro forma financial information has been prepared for illustrative purposes only to provide information on the headline earnings excluding acquisition costs per share. Because of its nature, the pro forma financial information may not be a fair reflection of the Group's results of operation, financial position, changes in equity or cash flows. There are no events subsequent to the reporting date which require adjustment to the pro forma information. The directors are responsible for compiling the pro forma financial information in accordance with the JSE Limited Listings Requirements and in compliance with the SAICA Guide on Pro Forma Financial Information. The underlying information used in the preparation of the pro forma financial information has been prepared using the accounting policies in place for the year ended 31 March 2018. The pro forma information should be read in conjunction with the unmodified Deloitte & Touche independent reporting accountants' report thereon dated 23 May 2018, which is available for inspection at the company's registered offices, at no charge, during normal business hours.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

29. EARNINGS PER SHARE (continued)

BASIC AND HEADLINE EARNINGS PER SHARE (continued)

	2019	Restated* 2018
Weighted average number of ordinary shares in issue	231 089 193	224 905 395
Earnings per ordinary share		
Total (including acquisition costs) (cents)	1 141,7	1 070,2
Total (excluding acquisition costs)** (cents)	1 141,7	1 105,5
Headline earnings per ordinary share		
Total (including acquisition costs) (cents)	1 187,1	1 088,8
Total (excluding acquisition costs)** (cents)	1 187,1	1 124,1

Diluted earnings and diluted headline earnings per share

The calculation of diluted earnings and diluted headline earnings per share for the year ended 31 March 2019 is based on profit for the year attributable to ordinary shareholders of The Foschini Group Limited of R2 638,4 (2018: R2 406,9) million and headline earnings of R2 743,4 (2018: R2 448,8) million divided by the fully diluted weighted average number of ordinary shares as follows:

	2019	2018
Weighted average number of ordinary shares as above	231 089 193	224 905 395
Number of shares that would have been issued for no consideration	2 120 768	2 172 199
Weighted average number of ordinary shares used for dilution	233 209 961	227 077 594

	2019	Restated* 2018
Diluted earnings per ordinary share		
Total (including acquisition costs) (cents)	1 131,3	1 060,0
Total (excluding acquisition costs)** (cents)	1 131,3	1 094,9
Diluted headline earnings per ordinary share		
Total (including acquisition costs) (cents)	1 176,3	1 078,4
Total (excluding acquisition costs)** (cents)	1 176,3	1 113,4

* Refer to note 39 for the impact of the changes in accounting policies.

** Headline earnings excluding acquisition costs is calculated to remove the impact of the prior year's acquisition costs of the RAG, G-Star RAW and Hobbs acquisitions as well as the TFG London management buy-out.

This pro forma financial information has been prepared for illustrative purposes only to provide information on the headline earnings excluding acquisition costs per share. Because of its nature, the pro forma financial information may not be a fair reflection of the Group's results of operation, financial position, changes in equity or cash flows. There are no events subsequent to the reporting date which require adjustment to the pro forma information. The directors are responsible for compiling the pro forma financial information in accordance with the JSE Limited Listings Requirements and in compliance with the SAICA Guide on Pro Forma Financial Information. The underlying information used in the preparation of the pro forma financial information has been prepared using the accounting policies in place for the year ended 31 March 2018. The pro forma information should be read in conjunction with the unmodified Deloitte & Touche independent reporting accountants' report thereon dated 23 May 2018, which is available for inspection at the company's registered offices, at no charge, during normal business hours.

30. EMPLOYEE BENEFITS

SHARE INCENTIVE SCHEMES

Executive directors and key management personnel of the Group participate in its equity-settled share incentive schemes as documented below:

Share appreciation rights (2007 Share Incentive Scheme)

The scheme rules of the 2007 scheme provide that, upon fulfilment of certain performance conditions, the share appreciation rights (SARs) may upon request be converted from the third anniversary of the grant date. Participants are entitled to receive shares in equal value to the growth in the share price on a defined number of shares between the date of grant and the date of conversion. The entitlement to these shares is subject to Group performance criteria linked to inflation. All rights expire after six years.

Forfeitable shares (2010 Share Incentive Scheme)

Two forfeitable share (FS) instruments form part of this scheme, namely performance and restricted shares. Performance shares vest after a minimum of three years subject to inflation-linked Group performance criteria. Shares lapse after three years if the performance criteria have not been achieved. Restricted shares are issued with the specific objective of improving the retention of key senior talent, while still utilising an instrument that aligns the interests of recipients with that of shareholders. Restricted shares vest after three years, subject to continued employment.

	2019	2018
Share instruments granted and accepted for the financial year ended 31 March		
2 June 2017 – 2007 Share Incentive Scheme		
Grant price*		R138,30
Fair value of option^		R33,56
Expected volatility		34,54%
Expected dividend yield		4,09%
Risk-free interest rate		7,25%
2 June 2017 – 2010 Share Incentive Scheme		
Consideration		nil
Estimated value on grant date		139,49
Expected volatility		0%
Expected dividend yield		0%
Risk-free interest rate		0%
1 June 2018 – 2007 Share Incentive Scheme		
Grant price*	R183,89	
Fair value of option^	R61,39	
Expected volatility	32,69%	
Expected dividend yield	5,16%	
Risk-free interest rate	8,00%	
1 June 2018 – 2010 Share Incentive Scheme		
Consideration	nil	
Estimated value on grant date	R184,24	
Expected volatility	0%	
Expected dividend yield	0%	
Risk-free interest rate	0%	
5 December 2018 – 2010 Share Incentive Scheme		
Consideration	nil	
Estimated value on grant date	R179,87	
Expected volatility	0%	
Expected dividend yield	0%	
Risk-free interest rate	0%	

* Grant price equates to the strike price.

^ Using the Binomial model, the expected volatilities above were calculated as rolling volatilities to match the expected life of the instrument. TFG's historical daily closing share price was used for the calculation.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

30. EMPLOYEE BENEFITS (continued)

SHARE INCENTIVE SCHEMES (continued)

The Group recognised total expenses of R87,3 (2018: R155,0) million relating to equity-settled share-based payment transactions.

Details of the share instruments outstanding at the end of the year are set out below:

	Number of SARs	
	2019	2018
2007 Share Incentive Scheme		
SARs granted, subject to fulfilment of conditions, at 1 April	1 298 600	1 568 600
SARs granted during the year subject to fulfilment of conditions	295 950	446 500
SARs forfeited during the year	(86 000)	(1 200)
SARs delivered during the year [#]	(50 800)	(715 300)
SARs granted, subject to fulfilment of conditions, at 31 March	1 457 750	1 298 600

SARs delivered during the year equates to 120 696 (2018: 456 657) ordinary shares.

[#] For the SARs delivered during the year, the weighted average share price is R200,9 (2018: R162,2) on relevant dates of delivery.

	Number of FS	
	2019	2018
2010 Share Incentive Scheme		
FS granted, subject to fulfilment of conditions, at 1 April	3 100 600	2 870 000
FS granted during the year subject to fulfilment of conditions	976 905	1 215 000
FS forfeited during the year	(153 750)	(70 200)
FS delivered during the year ^{##}	(969 350)	(914 200)
FS granted, subject to fulfilment of conditions, at 31 March	2 954 405	3 100 600

^{##} For the FS delivered during the year, the share price is R184,24 (2018: R139,49) on date of delivery.

Upon request, SARs in terms of the 2007 scheme may be converted from the following financial years:

Grant date	Grant price*	Year of conversion	Number of SARs
13 June 2013	R96,86	2020	4 700
10 June 2014	R111,10	2020	153 200
8 June 2015	R148,15	2020	274 600
2 June 2016	R142,72	2020	342 000
2 June 2017	R138,30	2021	414 200
1 June 2018	R183,89	2022	269 050
			1 457 750

* Grant price equates to the strike price.

Upon request, FS in terms of the 2010 scheme vest from the following financial years:

Grant date	Grant price*	Year of conversion	Number of FS
2 June 2016	R147,00	2020	988 100
2 June 2017	R139,49	2021	1 041 700
1 June 2018	R184,24	2022	884 600
5 December 2018	R179,87	2022	40 005
			2 954 405

* Grant price equates to the strike price.

These schemes are administered by The Foschini Share Incentive Trust, which holds shares in The Foschini Group Limited as follows:

	Number of shares	
	2019	2018
Shares held at the beginning of the year	1 298 600	1 568 600
Shares purchased during the year	295 950	446 500
Shares forfeited during the year	(86 000)	(1 200)
Shares delivered during the year	(50 800)	(715 300)
Shares held at the end of the year	1 457 750	1 298 600

RETIREMENT FUNDS

TFG Retirement Fund: Defined contribution plan

TFG Retirement Fund, which is governed by the provisions of the Pension Funds Act, No. 24 of 1956, is a defined contribution plan. It provides comprehensive retirement and other benefits for members and their dependants. The employer and the members (including those flexitime employees who have opted to join the fund in accordance with the provisions of the Labour Relations Act) make equivalent contributions of at least 7,5% of pensionable salary in respect of retirement benefits. In addition, the employer covers death, disability and funeral benefits, reinsurance, administration and management costs for all permanent and flexitime (2019: 6 175; 2018: 5 235) employees.

A statutory valuation of the fund was performed at 31 December 2015, in which the valuator reported that the fund was in a sound financial position. An interim actuarial valuation of the TFG Retirement Fund was performed as at 31 December 2017, in which the valuator reported that the fund was in a sound financial condition.

	Number of members		Employer contributions	
	2019	2018	2019 Rm	2018 Rm
Summary per fund#:				
TFG Retirement Fund	13 045	12 408	199,3	201,1
Investment Solutions Provident Fund^	-	273	2,4	4,2
Namflex Pension Fund	409	383	3,8	3,3
Sibaya Provident Fund	29	24	0,4	0,3
Alexander Forbes Retirement Fund	108	91	1,0	0,8
National Pensions Scheme Authority (NAPSA) of Zambia	190	206	0,6	0,6
Social Security and National Insurance Trust (SSNIT)	30	31	0,3	0,4
National Social Security Fund (NSSF)	24	23	-*	-*
	13 835	13 439	207,8	210,7

* Zero as a result of rounding.

The information above is specific to TFG Africa, which refers to our activities on the African continent.

^ The Investment Solutions Provident Fund was dissolved into the TFG Retirement Fund during the current year and therefore there were no members as at 31 March 2019.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

30. EMPLOYEE BENEFITS (continued)

RETIREMENT FUNDS (continued)

TFG LONDON

All UK-based employees are automatically enrolled in the company's defined contribution pension scheme, underwritten by Scottish Widows, subject to certain limited criteria. As a condition of the company contributing to this scheme, employees are required to make additional personal contributions, but can also choose to opt out of the scheme. For certain employees, the company contributes to a separate personal pension scheme selected by the employee instead. GBP0,7 million (R13,5 million) was paid in the current year.

TFG AUSTRALIA

For employees, a government-mandated 9,5% of all ordinary time earnings must be paid into a retirement fund nominated by the employee provided the employee meets certain requirements. AUD10,0 million (R100,5 million) was paid into a superannuation fund in the current year.

MEDICAL AID

TFG Medical Aid Scheme: Defined contribution plan

The company and its wholly owned subsidiaries operate a medical aid scheme for the benefit of their permanent South African employees. Membership of the scheme is voluntary, except for senior employees. Permanent employees in Lesotho and Eswatini can also apply to the scheme upon meeting certain criteria.

Total membership currently stands at 2 970 (2018: 2 938) principal members.

These costs are charged against income as incurred and amounted to R66,5 (2018: R64,2) million, with employees contributing a further R66,5 (2018: R64,2) million to the fund.

In respect of the year ended 31 December 2018, the scheme earned risk contributions of R137,2 million and reflected a deficit of R3,7 million after the deduction of all expenses. The scheme's Plan B experienced claims in excess of expectation and a few high-cost claims added to the claims experience causing the plan to record a deficit for the year. The trustees made changes to the benefit design and contributions for the new benefit year, and the expectation is that the plan will return to a surplus position. The scheme had net assets totalling R156,6 million.

The budgeted projected surplus in respect of the year ending 31 December 2019 is R5,7 million.

Other defined contribution plans

Permanent employees are able to take up voluntary medical aid scheme membership in country.

Post-retirement defined medical aid

Qualifying retired employees are entitled to medical aid benefits, which have been fully provided for (note 16).

Other

Group employees and pensioners are entitled to a discount (on selling price) on purchases made at stores within the Group.

31. DIRECTORS' REMUNERATION

								IFRS share allo- cation fair value
	Fees [^] R'000	Remune- ration R'000	Pension fund R'000	Travel allow- ance R'000	Other benefits* R'000	Perfor- mance bonus# R'000	Total R'000	R'000
2019								
Non-executive								
M Lewis	976,9	-	-	-	-	-	976,9	-
E Oblowitz	830,8	-	-	-	-	-	830,8	-
S E Abrahams	790,8	-	-	-	-	-	790,8	-
Prof. F Abrahams	655,8	-	-	-	-	-	655,8	-
R Stein	613,5	-	-	-	-	-	613,5	-
D Friedland	629,3	-	-	-	-	-	629,3	-
N V Simamane	613,3	-	-	-	-	-	613,3	-
B L M Makgabo-Fiskerstrand	613,3	-	-	-	-	-	613,3	-
G H Davin	586,3	-	-	-	-	-	586,3	-
Total	6 310,0	-	-	-	-	-	6 310,0	-
Executive								
A E Thunström**	-	6 268,2	846,2	452,5	58,1	13 381,6	21 006,6	4 311,1
B Ntuli***	-	1 162,2	156,9	85,4	9,3	-	1 413,8	-
A D Murray****	-	4 700,3	634,5	256,1	26,2	8 843,1	14 460,2	-
Total	-	12 130,7	1 637,6	794,0	93,6	22 224,7	36 880,6	4 311,1
Total remuneration 2019	6 310,0	12 130,7	1 637,6	794,0	93,6	22 224,7	43 190,6	4 311,1

								IFRS share allo- cation fair value
	Fees [^] R'000	Remune- ration R'000	Pension fund R'000	Travel allow- ance R'000	Other benefits* R'000	Perfor- mance bonus R'000	Total R'000	R'000
2018								
Non-executive								
M Lewis	927,0	-	-	-	-	-	927,0	-
E Oblowitz	720,3	-	-	-	-	-	720,3	-
S E Abrahams	678,8	-	-	-	-	-	678,8	-
Prof. F Abrahams	601,0	-	-	-	-	-	601,0	-
R Stein	534,0	-	-	-	-	-	534,0	-
D Friedland	570,0	-	-	-	-	-	570,0	-
N V Simamane	554,8	-	-	-	-	-	554,8	-
B L M Makgabo-Fiskerstrand	554,8	-	-	-	-	-	554,8	-
G H Davin	556,3	-	-	-	-	-	556,3	-
Total	5 697,0	-	-	-	-	-	5 697,0	-
Executive								
A E Thunström	-	4 026,6	543,6	370,4	58,9	3 436,1	8 435,6	3 638,6
A D Murray	-	8 865,9	1 196,9	483,2	53,6	11 923,1	22 522,7	17 471,2
Total	-	12 892,5	1 740,5	853,6	112,5	15 359,2	30 958,3	21 109,8
Total remuneration 2018	5 697,0	12 892,5	1 740,5	853,6	112,5	15 359,2	36 655,3	21 109,8

Performance bonus included in 2019 remuneration to be paid in 2020 and accrued in 2019.

^ Fees only relate to services as directors.

* Other benefits include housing allowance and medical aid subsidy.

** A E Thunström was appointed CEO in September 2018.

*** B Ntuli appointed as CFO, effective from 14 January 2019.

**** A D Murray retired 30 September 2018.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

32. RELATED PARTIES

SHAREHOLDERS

An analysis of the principal shareholders of the company is provided in appendix 2. For details of directors' interests, refer to note 10.

SUBSIDIARIES

During the year, in the ordinary course of business, certain companies within the Group entered into transactions. These intra-group transactions were eliminated on consolidation.

OTHER RELATED PARTIES

THE FOSCHINI GROUP RETIREMENT FUND

The Foschini Group Retirement Fund is administered by Foschini Retail Group Proprietary Limited, a subsidiary of The Foschini Group Limited.

	2019 Rm	2018 Rm
Administration fee earned from The Foschini Group Retirement Fund	5,4	5,0

A non-executive director of The Foschini Group Limited (Mr R Stein) is also a trustee of The Foschini Group Retirement Fund.

DIRECTORS

Remuneration

Details relating to executive and non-executive directors' remuneration are disclosed in note 31.

Interest of directors in contracts

No directors have any interests in contracts that are in contravention of section 75 of the Companies Act of South Africa, No. 71 of 2008. Executive directors are bound by service contracts.

Loans to directors

No loans have been made to directors.

EMPLOYEES

	2019 Rm	2018 Rm
Remuneration paid to key management personnel other than the executive directors is as follows:		
Short-term employee benefits		
Remuneration	200,8	181,1
Performance bonus	87,8	64,3
Travel allowance	32,0	29,1
Post-employment benefits		
Pension fund	25,0	22,8
Other long-term benefits		
Other benefits	6,8	6,9
Share-based payments		
Fair value of share instruments granted	64,3	110,8
Restraint of trade payments	46,5	6,3
Total remuneration	463,2	421,3

Refer to note 31 for further disclosure regarding remuneration paid to executive directors of the company.

33. CASH GENERATED FROM OPERATIONS

	2019 Rm	Restated* 2018 Rm
Operating profit before working capital changes		
Profit before tax	3 577,9	3 350,5
Finance costs	749,9	696,6
Operating profit before finance costs	4 327,8	4 047,1
<i>Adjustments for:</i>		
Interest income – sundry	(15,7)	(48,0)
Non-cash items	1 108,7	1 030,6
Depreciation and amortisation	844,1	745,5
Operating lease liability adjustments	12,6	47,0
Share-based payments	87,3	155,0
Post-retirement defined benefit medical aid movement	18,0	16,9
Employee related provisions	21,0	-
Foreign currency translation reserve movements	(10,0)	13,2
Cash-settled share incentive scheme	-	0,1
Profit on disposal of non-controlling interest	(1,4)	-
Loss on disposal of business	23,8	-
Loss on disposal and impairment of property, plant and equipment and intangible assets	123,4	54,4
Profit on disposal of property, plant and equipment and intangible assets	(10,1)	(1,5)
	5 420,8	5 029,7
Changes in working capital		
Inventory	(611,0)	(372,5)
Trade and other receivables	(787,0)	(487,6)
Trade and other payables	654,9	(77,1)
	(743,1)	(937,2)
Cash generated from operations	4 677,7	4 092,5

* Refer to note 39 for the impact of the changes in accounting policies.

34. TAXATION PAID

	2019 Rm	2018 Rm
Balance at beginning of the year	(107,0)	(92,6)
Current tax for the year recognised in profit or loss	(1 149,0)	(938,3)
Additions through business combinations	-	(43,4)
Foreign exchange movements	(10,3)	7,1
Balance at end of the year	319,2	107,0
	(947,1)	(960,2)

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

35. DIVIDENDS PAID

	2019 Rm	2018 Rm
Dividends paid during the year	(1 756,1)	(1 626,2)
Dividends paid by subsidiary to non-controlling interest	-	(1,0)
	(1 756,1)	(1 627,2)

36. CHANGES IN LIABILITY ARISING FROM FINANCING ACTIVITY

31 March 2019

	Opening balance Rm	Cash flows Rm	Non-cash item Foreign exchange movements Rm	Closing balance Rm
Decrease in interest-bearing debt	9 350,6	(319,2)	182,0	9 213,4

31 March 2018

	Opening balance Rm	Cash flows Rm	Non-cash items Foreign exchange movements Rm	Additions through business combinations Rm	Closing balance Rm
Increase in interest-bearing debt	7 749,2	1 067,9	(54,7)	588,2	9 350,6

37. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

TFG FOUNDATION

The TFG Foundation is an unconsolidated structured entity of the Group. The Group has no control of the TFG Foundation as it is not exposed to, or has rights to, variable returns from its involvement with the entity and does not have the ability to use power over the entity to affect the amount of the investor's returns. The trust earns dividends and interest from investments held in the trust. The funds earned are disbursed to a number of non-profit organisations (NPOs)/non-governmental organisation (NGOs) across South Africa. The TFG Foundation disbursed funds totalling R9,2 (2018: R7,4) million across 28 (2018: 81) organisations nationally this past year. The Group is not required to provide any financial assistance. There is no loan or receivable outstanding between the trust and the Group at year end.

38. DISPOSALS DURING THE YEAR

The assets of the G-Star RAW franchise stores in Australia were disposed of effective 6 December 2018 for a purchase consideration of AUD11,1 million (R111,2 million). The purchase consideration will be repaid over a 3 year period. In the current year, AUD3,8 million (R38,2 million) of the purchase consideration was received. The loss on disposal raised amounted to AUD2,4 million (ZAR23,8 million) and is reflected in trading expenses in the current year.

In the current year, the Group disposed of Pienaar Sithole and Associates Proprietary Limited for a consideration of R3,5 million.

39. ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED IN THE CURRENT YEAR

The financial statements have been prepared in accordance with International Financial Reporting Standards on a basis consistent with the prior year except for the adoption of the following new or revised standards.

During the year, the Group adopted the relevant accounting standards that are in issue and which have become effective.

39.1 IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

During the current year, the Group has adopted IFRS 15. This standard applies specific rules whereby the timing of cash payments specified in a contract are different to the transfer of control of the related goods to the customer, thus changing when the related revenue is recognised.

IFRS 15 *Revenue from Contracts with Customers* replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts*. It is a single, comprehensive revenue recognition model for all contracts with customers and has the objective of achieving greater consistency in the recognition and presentation of revenue.

In terms of the new standard, revenue is recognised based on the satisfaction of performance obligations, which occurs when control of goods transfers to a customer.

The Group previously accounted for lay-by revenue on the initiation of the contract. With the adoption of IFRS 15, the Group now accounts for the revenue once the contract is concluded and risks and rewards have been transferred to the customer. Upon receipt of final payment from the customer, control of the goods will transfer to the customer and the sale will be concluded. On conclusion, the full revenue will be recognised by the Group at this point in time.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

39. ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED IN THE CURRENT YEAR (continued)

39.1 IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

The Group has adopted this standard fully retrospectively as at the start of the earliest period presented, as is permitted in the transitional arrangements. The change in accounting policy has therefore resulted in a restatement of the comparative figures on the statement of financial position, income statement, statement of changes in equity and cash flow statement.

Refer to the details below for a summary of the effect of this change in the IFRS 15 accounting policy.

	31 March 2017 Rm	IFRS 15 Rm	Restated 31 March 2017 Rm
Consolidated statement of financial position			
Non-current assets			
Deferred taxation asset	483,6	31,8	515,4
Current assets			
Inventory	5 511,2	92,6	5 603,8
Trade receivables – retail	7 000,7	(157,4)	6 843,3
Equity			
Total equity	10 519,5	(118,4)	10 401,1
Current liabilities			
Trade and other payables	2 751,3	85,4	2 836,7
Consolidated income statement			
Retail turnover	28 593,0	(73,5)	28 519,5
Cost of turnover	(13 591,9)	34,4	(13 557,5)
Income tax expense	(953,5)	11,2	(942,3)
Consolidated cash flow statement			
Operating cash flows before working capital changes	5 068,8	(39,1)	5 029,7
Increase in working capital	(976,3)	39,1	(937,2)

Earnings per ordinary share (cents)	Note	31 March 2018	IFRS 15	Restated 31 March 2018
Total				
Basic	29	1 082,6	(12,4)	1 070,2
Headline	29	1 101,2	(12,4)	1 088,8
Diluted (basic)	29	1 072,3	(12,3)	1 060,0
Diluted (headline)	29	1 090,7	(12,3)	1 078,4
Total (excluding acquisition costs)				
Basic	29	1 117,9	(12,4)	1 105,5
Headline	29	1 136,5	(12,4)	1 124,1
Diluted (basic)	29	1 107,2	(12,3)	1 094,9
Diluted (headline)	29	1 125,7	(12,3)	1 113,4

39.2 IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 *Financial Instruments* (IFRS 9) was issued in July 2014 and has replaced IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39). The standard is effective from 1 January 2018 and was implemented by the Group from 1 April 2018. This standard incorporates amendments to the classification and measurement of financial instruments, hedge accounting guidance and the accounting requirements for the impairment of financial assets measured at amortised cost and fair value through other comprehensive income (FVTOCI).

Adoption of IFRS 9

As permitted by IFRS 9, the Group has elected not to restate its comparative financial statements. IFRS 9 has been retrospectively adopted on 1 April 2018 with an adjustment to the Group's opening 1 April 2018 retained earnings. Comparability will therefore not be achieved due to the fact that the comparative financial information has been prepared in accordance with IAS 39. The Group continues to apply hedge accounting. All of the Group's existing hedging relationships which were established under IAS 39 are considered eligible to be treated as continuing hedging relationships under IFRS 9. The Group will continue to designate the change in fair value of the entire forward contracts in its cash flow hedge relationships. The complete fair value is recognised in OCI and accumulated as a separate component of equity.

Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVTOCI and FVTPL. IFRS 9 requires all financial assets to be classified and measured on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Management have assessed the business models which apply to the financial assets held by the Group and the financial instruments have been classified into the appropriate IFRS 9 categories.

The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

THE FOSCHINI GROUP LIMITED AND ITS SUBSIDIARIES

39. ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED IN THE CURRENT YEAR (continued)

39.2 IFRS 9 FINANCIAL INSTRUMENTS (continued)

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

Under IFRS9, the measurement of impairment of trade receivables has changed from an incurred loss model where there is observed evidence of an event or behaviour giving rise to an impairment, to an expected loss model where no evidence of impairment is necessary. This includes a forward-looking estimate of loss events as well as forward-looking indicators based on any anticipated changes in macro or microeconomic circumstances.

The following table is a reconciliation of the original measurement categories and carrying amounts determined under IAS 39 and the new measurement categories and carrying amounts determined under IFRS 9 for each class of financial assets and financial liabilities as at 1 April 2018:

			Original carrying amount under IAS 39 Rm	New carrying amount under IFRS 9 Rm
Financial asset				
Trade receivables – retail	Loans and receivables	Amortised cost	7 373,6	6 831,1
Other receivables and prepayments	Loans and receivables	Amortised cost	821,8	821,8
Concession receivables	Loans and receivables	Amortised cost	296,8	145,9
Cash and cash equivalents	Loans and receivables	Amortised cost	1 206,1	1 206,1
			9 698,3	9 004,9
Financial liabilities				
Interest-bearing debt	Amortised cost	Amortised cost	9 350,6	9 350,6
Put option liability	FVTPL	FVTPL	72,7	72,7
Trade and other payables	Amortised cost	Amortised cost	3 724,3	3 724,3
			13 147,6	13 147,6

Impact on the financial statements

The following table sets out the impact of the changes in accounting policies and retrospective adjustments made for each individual line item affected on the financial statements for IFRS 15 and the retrospective impact of IFRS 9 recognised in the opening statement of financial position on 1 April 2018. IFRS 9 was adopted without restating comparative information and the impact is not reflected in the restated comparatives.

	31 March 2018 Rm	IFRS 15* Rm	Restated 31 March 2018 Rm	IFRS 9 Rm	1 April 2018 Rm
Consolidated statement of financial position					
Non-current assets					
Deferred taxation asset	620,6	43,0	663,6	176,0	839,6
Current assets					
Trade receivables – retail	7 573,8	(200,2)	7 373,6	(542,5)	6 831,1
Concession receivables	296,8	–	296,8	(150,9)	145,9
Equity					
Total equity	13 272,3	(146,3)	13 126,0	(517,4)	12 608,6

* Refer to note 39.1 for the impact of the IFRS 15 change in accounting policy.

40. ACCOUNTING STANDARDS AND INTERPRETATIONS TO BE ADOPTED IN FUTURE YEARS

There are standards and interpretations in issue that are not yet effective. These include the following standards and interpretations that are applicable to the Group and may have an impact on future financial statements:

IFRS 16 LEASES

IFRS 16 will be adopted by the Group for the first time for its financial reporting year ending 31 March 2020. The amendments to the standard will be applied retrospectively subject to transitional provisions.

IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, and presentation and disclosure of leases for both parties to a contract, i.e. the customer (lessee) and the supplier (lessor). IFRS 16 replaces the previous leases standard, IAS 17 *Leases*, and related interpretations. IFRS 16 has one model for lessees which will result in majority of leases being included on the statement of financial position. No significant changes have been included for lessors.

The scope of IFRS 16 includes leases of all assets, with certain exceptions, and requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions), in a similar way to finance leases under IAS 17. Lessees recognise a liability to pay rentals with a corresponding asset, and recognise interest expense and depreciation separately.

The lease expense recognition for lessees will generally be accelerated. The new standard requires lessees and lessors to make more extensive disclosures than under IAS 17.

The application of IFRS 16 will result in changes to both the statement of financial position and income statement line items, including but not limited to, property, plant and equipment, operating lease assets, operating lease liabilities, occupancy costs, operational costs and finance costs. More specifically, items such as finance costs depreciation and operating lease payments will be impacted. Key statement of financial position metrics such as leverage and finance ratios, debt covenants and income statement metrics, such as earnings before interest, taxes, depreciation and amortisation (EBITDA), will be impacted. The Group is in the process of assessing the overall impact the new standard will have on these consolidated annual financial statements.

The Group has implemented systems to calculate the take-on adjustment as well as the monthly postings, and is currently in the process of performing a quality review and audit of the results. The change is expected to have a material impact on the statement of financial position and certain income statement captions of the Group. The Group expects to create a right of use asset and a lease liability of approximately R7,5 billion and R8,5 billion respectively as at 31 March 2019.

Appendix 1: Subsidiary companies

As at 31 March

Name of subsidiary	Issued share capital		
	Country of registration	R	Ownership
<i>Trading subsidiaries*</i>			
Dress Holdco A Limited	UK	4 165 243 303	100%
Fashion Retailers Proprietary Limited	Namibia	250 006	100%
Fashion Retailers (Zambia) Limited	Zambia	54 145 149	100%
Foschini (Lesotho) Proprietary Limited	Lesotho	1 000	100%
Foschini Retail Group Proprietary Limited	South Africa	259 240 502	100%
Foschini (Swaziland) Proprietary Limited	Eswatini	50 002	100%
Prestige Clothing Proprietary Limited	South Africa	10	100%
TFG Apparel Supply Company Proprietary Limited	South Africa	1	100%
TFG Retailers Proprietary Limited	Australia	2 887 633 062	100%
The Foschini Group Ghana Limited	Ghana	42 313 606	100%
The Foschini Group Kenya Limited	Kenya	36 664 321	100%

* These companies are material direct subsidiaries of The Foschini Group Limited.

Appendix 2: Shareholdings of The Foschini Group Limited

ANALYSIS OF SHAREHOLDINGS

Compiled by JP Morgan Cazenove utilising the company's transfer secretaries' records as at 29 March 2019.

<i>Spread analysis</i>	Number of holders	% of total shareholders	Number of shares held	% of shares in issue
1-1 000 shares	10 168	73,9	3 082 050	1,3
1 001-10 000 shares	2 607	19,0	7 208 919	3,1
10 001-100 000 shares	716	5,2	23 966 468	10,1
100 001-1 000 000 shares	215	1,6	60 454 290	25,5
1 000 001 shares and over	44	0,3	142 045 087	60,0
	13 750	100,0	236 756 814	100,0

DISTRIBUTION OF SHAREHOLDINGS

<i>Category</i>	Number of shares held	% of shares in issue
Unit trusts	86 083 946	36,3
Pension funds	68 418 692	28,9
Sovereign wealth	17 523 744	7,4
Other managed funds	15 059 369	6,4
Insurance companies	13 404 609	5,7
Private investors	8 540 823	3,6
Trading position	7 820 322	3,3
Exchange-traded funds	6 487 221	2,7
Custodians	4 603 844	1,9
Employees	4 388 555	1,9
Hedge funds	1 454 628	0,6
Corporate holdings	1 104 199	0,5
Other	1 866 862	0,8
	236 756 814	100,0

BENEFICIAL SHAREHOLDINGS GREATER THAN 5%

Beneficial interests – direct and indirect, as per share register and information supplied by nominee companies as at 29 March 2019.

	Holding	% of shares in issue
Government Employees Pension Fund (PIC)	33 006 888	13,9

Appendix 2:

Shareholdings of The Foschini Group Limited (continued)

FUND MANAGERS' HOLDINGS GREATER THAN 5%

According to disclosures made, the following fund managers administered client portfolios which included more than 5% of the company's issued shares.

	Holding	% of shares in issue
Government Employees Pension Fund (PIC)	27 550 944	11,6
Investec Asset Management Holdings Proprietary Limited	14 084 112	6,0
Hermes Investment Management Limited	13 994 091	5,9
	55 629 147	23,5

SHAREHOLDING SPREAD

Category	Number of holders	% of total shareholders	Number of shares held	% of shares in issue
Public	13 371	97,2	196 304 577	82,9
Government Employees Pension Fund (PIC)	12	0,1	33 006 888	13,9
Directors	5	-	1 952 595	0,8
Trust	1	-	1 457 750	0,7
Subsidiary	1	-	1 080 599	0,5
Employees of TFG	360	2,7	2 954 405	1,2
Total	13 750	100,0	236 756 814	100,0

GEOGRAPHICAL SPLIT OF INVESTMENT MANAGERS AND COMPANY RELATED HOLDINGS

Region	Total shareholding	% of shares in issue
South Africa	130 387 538	55,1
United States of America and Canada	43 131 279	18,2
United Kingdom	33 331 419	14,1
Rest of Europe	13 955 268	5,9
Rest of world*	15 951 310	6,7
Total	236 756 814	100,0

GEOGRAPHICAL SPLIT OF BENEFICIAL SHAREHOLDERS

Region	Total shareholding	% of shares in issue
South Africa	124 005 883	52,4
United States of America and Canada	41 245 939	17,4
United Kingdom	23 458 112	9,9
Rest of Europe	27 679 007	11,7
Rest of world*	20 367 873	8,6
Total	236 756 814	100,0

* Represents all shareholdings except those in the above regions

APPENDIX 3: Definitions

Companies Act of South Africa	Companies Act of South Africa, No. 71 of 2008, as amended
Concession arrangement	In addition to their own stand-alone stores, TFG London has concession arrangements with key department store partners from whom they occupy an agreed floor space area (referred to as “mat”) dedicated to their product
Current ratio	Current assets divided by current liabilities
Debt to equity ratio	Net borrowings expressed as a percentage of total equity
Dividend cover	Basic earnings per share divided by dividend declared
Doubtful debt provision as a % of debtors’ book	Provision for doubtful debts expressed as a percentage of gross receivables
EBIT	Earnings, excluding acquisition costs, before finance costs and tax
EBITDA	Earnings, excluding acquisition costs, before finance costs, tax, depreciation and amortisation
EBITDA finance charge cover	EBITDA divided by finance costs
EBITDA margin	EBITDA expressed as a percentage of retail turnover
Finance charge cover	Operating profit before finance costs divided by finance costs
Free cash flow	Earnings, excluding acquisition costs, before finance costs and tax plus depreciation and amortisation net of changes in net working capital and capital expenditure
Gross square metre	The total leased store area, including stock rooms
Headline earnings	Net income attributable to ordinary shareholders adjusted for the effect, after tax, of exceptional items
Headline earnings – adjusted	Headline earnings adjusted for the impact of acquisition costs incurred
Headline earnings per ordinary share	Headline earnings divided by the weighted average number of shares in issue for the year
Market capitalisation	The market price per share at year end multiplied by the number of ordinary shares in issue at year end
Net bad debt as a % of debtors’ book	VAT-exclusive bad debts, net of recoveries and including provision movement as percentage of gross receivables
Net bad debt write-off	VAT-inclusive bad debts, net of recoveries and excluding movement in provision
Net bad debt write-off as a % of credit transactions	Net bad debt write-off expressed as a percentage of credit transactions
Net bad debt write-off as a % of debtors’ book	Net bad debt write-off expressed as a percentage of gross receivables
Net borrowings	Interest-bearing debt and non-controlling interest loans reduced by preference share investment (where relevant) and cash

APPENDIX 3: Definitions (continued)

Non-recourse debt	Debt where lenders cannot seek compensation from TFG parent companies, their sponsors or guarantors, and is typically debt raised by our international companies
Omnichannel	Describes the integrated multi-channel retailing (e-commerce, online sales, mobile app sales)
Operating margin	Operating profit before finance costs expressed as a percentage of retail turnover
Operating profit	Profit earned from normal business operations
Outlets	TFG London trades through a combination of stand-alone stores and concession arrangements resulting in their presence being referred to as outlets rather than the traditional stores
Overdue values as a % to debtors' book	Overdue portion of debtors at statement month-end as a percentage of gross receivables
Recourse debt	Amounts owed by TFG companies in Africa (excluding our international subsidiaries) where the lenders have the ability to claim for damages from the borrower's parent, sponsor or guarantor
Recourse debt to equity ratio	Recourse debt reduced by preference share investment (where relevant) and cash, expressed as a percentage of total equity
Return on capital employed (ROCE)	Earnings, excluding acquisition costs, before finance costs and tax (EBIT)/average capital employed
Same store	Stores that traded out of the same trading area for the full current and previous financial years
Tangible net asset value per ordinary share	Total net asset value, after non-controlling interest, excluding goodwill and intangible assets, divided by the net number of ordinary shares in issue at year end
Total shareholder return (TSR)	The return for a shareholder through the appreciation in TFG's share price plus dividends paid over a specified period
Trading expenses	Costs incurred in the normal course of business including, among others, depreciation, amortisation, employee costs, occupancy costs, net bad debt and other operating costs
VWAP	Volume weighted average price
Weighted CPI	CPI of the major geographical areas that TFG trade in (South Africa, United Kingdom and Australia), weighted by their respective geographical turnover contribution percentage

COMPANY INFORMATION

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Registration number 1937/009504/06
JSE codes: TFG – TFGP
ISIN: ZAE000148466 – ZAE000148516

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SHAREHOLDERS' CALENDAR

Financial year end
Integrated report publication date
Annual general meeting (82nd)
Interim profit announcement (2020)

31 March 2019
12 July 2019
3 September 2019
7 November 2019

UPCOMING DISTRIBUTION PAYMENTS

Ordinary
– final 2019
– interim 2020

July 2019
January 2020

Preference
– interim 2020
– final 2020

September 2019
March 2020

QUERIES REGARDING THIS REPORT CAN BE ADDRESSED TO:

D van Rooyen (Company Secretary)
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www.tfglimited.co.za