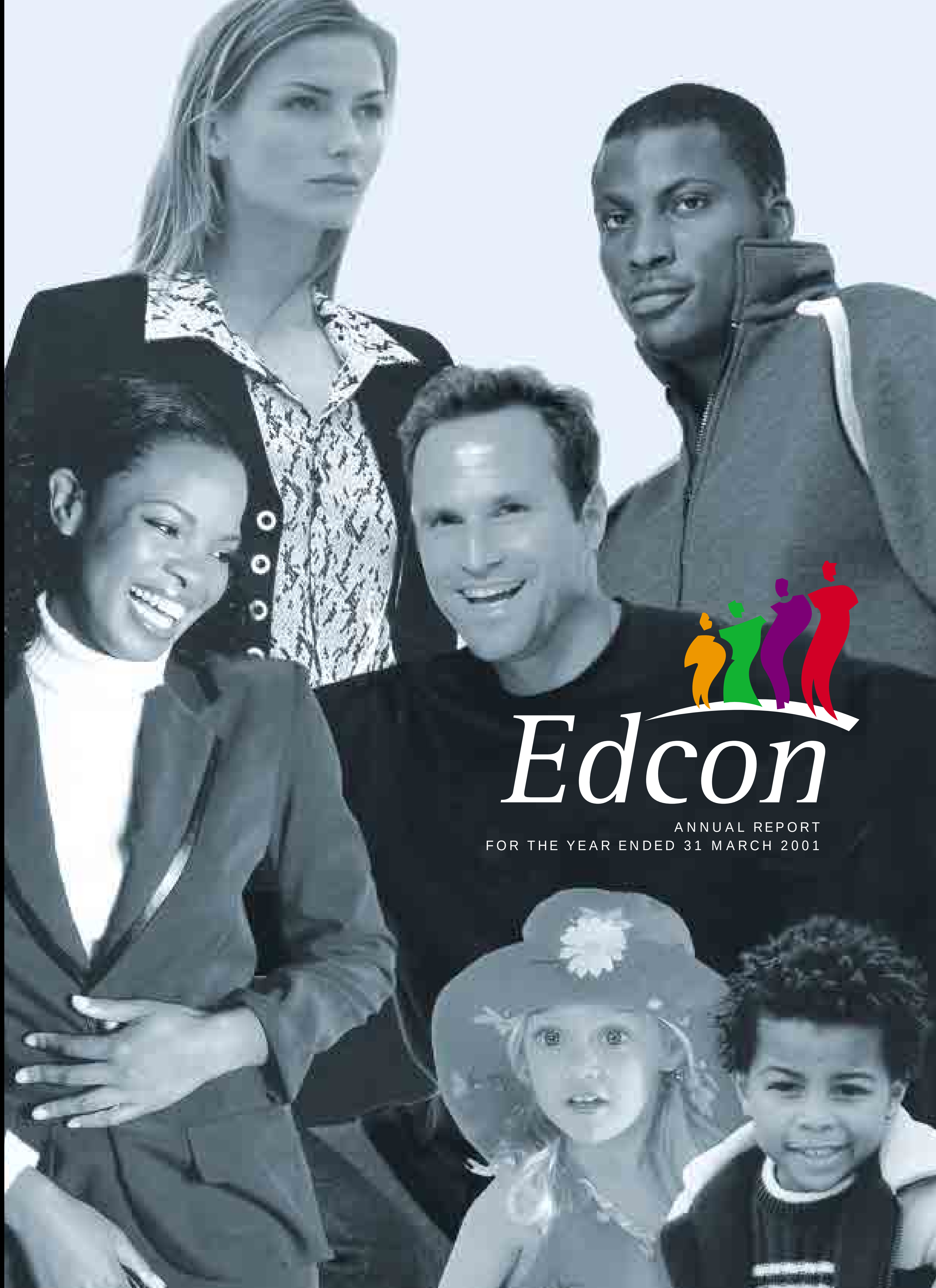
Edcon

http://www.edcon.co.za



Edcon

ANNUAL REPORT
FOR THE YEAR ENDED 31 MARCH 2001

Group Financial Highlights

	2001 52 weeks	2000 52 weeks	Change %
GROUP SUMMARY	Rm	Rm	
Revenue – retail sales	6 844,8	6 423,6	7
Earnings attributable to ordinary shareholders	150,1	226,5	(34)
Attributable cash equivalent earnings	409,0	447,3	(9)
Cash flow from operations	105,3	207,4	(49)
Cash value added	1 647,3	1 648,0	
Total assets	4 409,6	4 105,0	7
Market capitalisation	1 209,2	4 056,5	(70)
ORDINARY SHARE PERFORMANCE (CENTS PER SHARE)			
Earnings			
Attributable earnings basis	261,3	394,8	(34)
Headline earnings basis	267,5	407,9	(34)
Cash equivalent basis	711,7	779,7	(9)
Cash flow	209,8	375,4	(44)
Dividends declared for the financial year	100	152	(34)
Net equity	4 064	3 927	4
Market price	2 105	7 070	(70)
FINANCIAL STATISTICS			
Trading profit as % of retail sales	4,7	6,7	
Return on ordinary shareholders' equity (%)	6,5	10,4	
Liquidity ratios			
Gearing ratio	0,25	0,22	
Total liabilities/shareholders' funds	0,85	0,79	

PROSPECTS

Sales for the year ahead are expected to rise at a rate marginally above that of general inflation and Group budgets anticipate satisfactory earnings growth, especially as Edcon's turnaround initiatives gain further momentum.

Edcon

Edgars Consolidated Stores Limited originated from one small clothing store opened in Johannesburg in 1929. It was listed on the JSE Securities Exchange in 1946. It operates through 701 facias in southern Africa.

customersfirst

OUR (BUSINESS) MISSION:

- To serve our customers through retail outlets with courtesy and care
- To respond appropriately to the needs of the communities we serve for fashion, quality and affordability
- For each trading brand to provide its target customers with service that exceeds expectations, prices that represent clear value, an assortment of wanted product and credit facilities

OUR (CIVIC) MISSION:

- To promote positive change in the quality of life of all citizens in our trading areas
- To focus primarily on support for education

OUR MISSION (AS AN EMPLOYER):

- To regard and treat our people as family
- To provide the tools, training and opportunity for our employees to develop as individuals and provide for their families

EDCON GROUP VALUES

- Customer first
- Respect
- Leading
- Innovation
- Learning
- Teamwork
- Winning
- Discipline

CODE OF CONDUCT

The Group will act in a manner that will earn it the reputation of:

- having scrupulous ethics – openness, honesty, credibility and integrity
- being non-sectional and non-political
- being socially responsible
- being consistent in honouring its legal and moral obligations

With regard to its people, the Group subscribes to a competency based human resource approach in pursuit of:

- a highly trained and competent staff
- a performance and customer focused culture
- equitable employment practices
- sound employee relations

Group Review

Year Number of weeks	Seven year compound growth % p.a.	2001 52	2000 52	1999 52	1998 52	1997 53	1996 52	1995 52
Group income statements (Rm)								
Revenue – retail sales	9,5	6 844,8	6 423,6	5 849,8	5 641,7	5 616,7	5 097,0	4 203,6
Cost of sales		4 498,3	4 100,7	3 834,1	3 583,4	3 510,6	3 163,9	2 593,3
Gross profit		2 346,5	2 322,9	2 015,7	2 058,3	2 106,1	1 933,1	1 610,3
Expenses		2 026,2	1 892,3	1 787,2	1 641,1	1 558,8	1 354,2	1 092,6
Trading profit *	(4,9)	320,3	430,6	228,5	417,2	547,3	578,9	517,7
Net financing costs		76,8	77,4	121,4	56,8	51,8	72,9	60,5
Profit before taxation		243,5	353,2	107,1	360,4	495,5	506,0	457,2
Taxation		75,3	108,3	38,9	122,5	170,5	180,8	181,8
Equity accounted retained earnings		—	—	—	—	6,1	14,9	9,0
Attributable to outside shareholders		18,1	18,4	(17,6)	7,4	10,2	2,9	0,1
Earnings attributable to ordinary shareholders	(6,0)	150,1	226,5	85,8	230,5	320,9	337,2	284,3
Group cash flow (Rm)								
Cash generated from trading	0,2	532,4	655,9	422,0	587,3	692,3	687,7	601,9
Working capital requirements		(249,2)	(334,9)	(22,6)	(417,4)	(96,7)	(61,9)	(201,6)
Cash generated from operating activities		283,2	321,0	399,4	169,9	595,6	625,8	400,3
Net financing costs paid		(76,8)	(77,4)	(121,4)	(56,8)	(51,8)	(72,9)	(60,5)
Taxation paid		(101,1)	(36,2)	(82,4)	(149,7)	(187,0)	(175,1)	(146,1)
Cash inflow from operations		105,3	207,4	195,6	(36,6)	356,8	377,8	193,7
Dividends paid		(79,9)	(60,6)	(21,8)	(13,8)	(16,1)	(7,4)	(66,6)
Net cash retained		25,4	146,8	173,8	(50,4)	340,7	370,4	127,1
Net cash invested	(4,6)	(120,4)	(137,5)	(223,2)	(308,8)	(270,4)	(235,5)	(173,1)
Net financing (raised)/repaid		(95,0)	9,3	(49,4)	(359,2)	70,3	134,9	(46,0)
Increase in shareholder funding		2,1	0,6	13,0	10,2	7,1	5,7	3,0
Increase in interest bearing debt		189,5	27,8	52,3	351,9	(53,7)	(148,8)	49,2
Net cash inflow from financing activities		191,6	28,4	65,3	362,1	(46,6)	(143,1)	52,2
Increase in cash and cash equivalents		96,6	37,7	15,9	2,9	23,7	(8,2)	6,2
Group balance sheets (Rm)								
Assets								
Non-current assets		787,0	878,9	899,9	846,7	731,2	604,2	446,0
Current assets		3 622,6	3 226,1	2 879,7	2 875,2	2 428,7	2 347,2	2 074,8
Total assets	11,5	4 409,6	4 105,0	3 779,6	3 721,9	3 159,9	2 951,4	2 520,8
Equity and liabilities								
Ordinary shareholders' equity	14,2	2 334,5	2 253,0	2 086,6	2 022,6	1 820,1	1 493,8	1 144,8
Minority interest and preference shares		51,9	42,4	31,6	53,1	74,9	34,5	1,2
Interest bearing debt	11,5	820,9	627,8	596,9	554,5	228,1	285,7	433,4
	13,7	3 207,3	2 923,2	2 715,1	2 630,2	2 123,1	1 814,0	1 579,4
Interest free liabilities		1 202,3	1 181,8	1 064,5	1 091,7	1 036,8	1 137,4	941,4
Total equity and liabilities	11,5	4 409,6	4 105,0	3 779,6	3 721,9	3 159,9	2 951,4	2 520,8

(Definitions are given in note 2 to the annual financial statements)

**Includes dividend income*

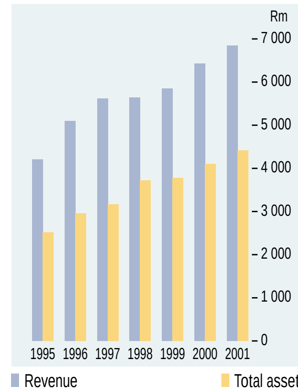
Where appropriate prior year figures have been restated to reflect the change in accounting for dividends as a result of the adoption of AC 107 (revised) and IAS 10. Refer note 9.

Year	Over time financial objectives/ constraints	Seven year compound growth % p.a.	2001	2000	1999	1998	1997	1996	1995
Number of weeks			52	52	52	52	53	52	52
Ordinary share performance (cents per share)									
Earnings									
attributable earnings basis		(7,5)	261,3	394,8	150,6	418,2	597,8	642,4	550,3
headline earnings basis		(7,1)	267,5	407,9	147,6	416,8	592,4	636,3	546,2
cash equivalent basis		1,8	711,7	779,7	514,0	753.3	868,3	850,5	701,2
Attributable cash flow			209,8	375,4	349,7	(91,4)	644,2	696,4	375,0
Dividends declared for the financial year		(7,5)	100,0	152,0	58,0	247,0	247,0	247,0	210,0
Net equity		12,4	4 063,9	3 926,7	3 636,7	3 629,2	3 358,4	2 822,7	2 206,8
Returns									
Return on ordinary shareholders' equity (%)	25,0	Av. 15,1	6,5	10,4	4,2	12,0	19,4	25,6	27,5
Return on capital employed (%)	21,0	Av. 14,2	7,6	10,9	5,6	11,7	18,7	22,9	22,3
Productivity									
Cash value added (Rm)		7,0	1 647,3	1 648,0	1 709,8	1 462,1	1 780,1	1 665,0	1 261,6
Cash value added per retailing employee (R000)		10,0	145,2	140,6	136,0	103,8	121,7	115,9	90,6
Net asset turn (times)			2,1	2,2	2,2	2,2	2,8	2,8	2,7
Net assets per retailing employee (R000)			282,8	249,3	216,0	186,8	145,2	126,2	113,4
Trading profit to retail sales (%)	10,0		4,7	6,7	3,9	7,4	9,7	11,3	12,3
Retail sales per square metre (Rand) (moving annual)		6,2	8 888	8 002	7 143	7 115	7 655	7 799	6 542
Retail sales per retail employee (R000)		12,4	603,5	547,9	465,4	400,7	384,1	354,7	306,1
Revenue growth (%)			6,6	9,8	3,7	0,5	10,2	21,3	15,9
Effective tax rate (%)			30,9	30,6	36,3	34,0	34,4	35,9	39,9
Solvency and liquidity									
Financing cost cover (times)	5,0		4,2	5,6	1,9	7,4	10,6	7,9	8,6
Dividend cover (times)	2,6	Av. 2,4	2,6	2,6	2,6	1,7	2,4	2,6	2,6
Cash realisation rate			0,29	0,48	0,68	(1,12)	0,74	0,82	0,53
Gearing ratio	0,5	Av. 0,22	0,25	0,22	0,24	0,24	0,09	0,17	0,36
Total liabilities/shareholders' funds		Av. 0,86	0,85	0,79	0,78	0,79	0,67	0,93	1,20
Interest free liabilities/total assets			0,27	0,29	0,28	0,29	0,33	0,39	0,37
Current ratio			2,2	2,2	2,2	2,8	2,2	2,2	2,3
JSE Securities Exchange performance									
Traded prices (cents per share)									
last sale in year			2 105	7 070	3 180	8 520	12 000	16 500	12 750
high			7 200	8 400	8 900	13 650	16 500	17 000	15 100
low			1 970	3 000	1 600	6 400	9 800	11 500	11 300
weighted average price per share traded			3 539	5 636	3 065	10 296	11 803	12 019	13 759
Price earnings ratio			8,1	17,9	21,1	20,4	20,1	25,7	23,2
Edcon share price index (1995: 100)			17	62	28	75	105	145	112
JSE actuaries' retail index (1995: 100)			62	118	115	153	125	143	119
Year end market price/net equity per share			0,52	1,80	0,87	2,35	3,57	5,85	5,78
Number of shares in issue (000)			57 445	57 376	57 376	55 732	54 196	52 921	51 876
Volume of shares traded (000)			39 355	34 750	27 281	8 039	3 048	1 144	637
Number of transactions			13 275	18 129	9 955	2 772	1 512	795	626
Volume traded as % of number in issue			68,5	60,6	47,5	14,4	5,6	2,1	1,2
Value of shares traded (Rm)			1 393,1	1 958,7	836,2	827,7	359,7	137,5	87,6
Market capitalisation (Rm)			1 209,2	4 056,5	1 824,5	4 748,4	6 503,6	8 732,0	6 614,2
Number of shareholders			1 932	2 512	12 649	446	511	519	505
Earnings yield (%)			12,4	5,6	4,7	4,9	5,0	3,9	4,3
Dividend yield (%)			4,8	2,1	1,8	2,9	2,1	1,5	1,6

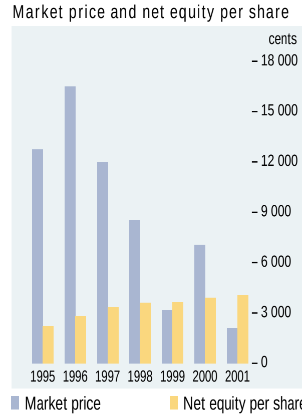
(Definitions are given in note 2 to the annual financial statements)

Where appropriate prior year figures have been restated to reflect the change in accounting for dividends as a result of the adoption of AC 107 (revised) and IAS 10. Refer note 9.

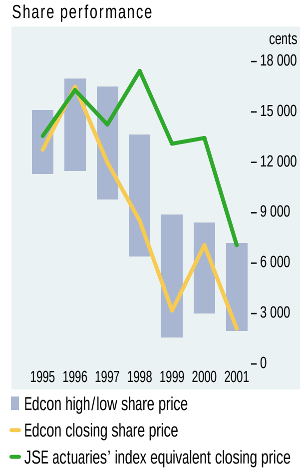
Revenue and total assets



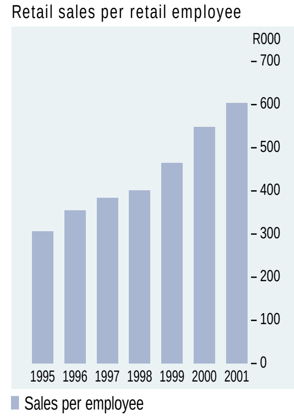
Market price and net equity per share



Share performance



Retail sales per retail employee



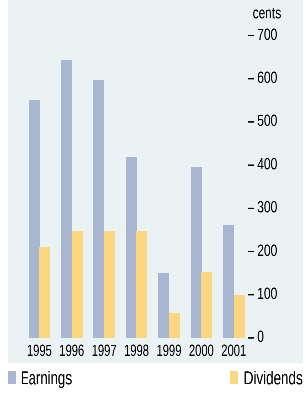
Year Number of weeks	Seven year compound growth % p.a.	2001 52	2000 52	1999 52	1998 52	1997 53	1996 52	1995 52
Divisional analysis (Rm)								
(See accounting policy note 1.13)								
Revenue – retail sales								
Edgars		3 899,9	3 675,8	3 612,9	3 534,2	3 518,7	3 365,2	2 750,4
United		2 657,5	2 535,3	2 056,9	1 863,9	1 880,8	1 731,8	1 453,2
Zimbabwe†		287,4	212,5	180,0	243,6	217,2		
Group	9,5	6 844,8	6 423,6	5 849,8	5 641,7	5 616,7	5 097,0	4 203,6
Trading profit								
Edgars		228,7	223,8	162,6	277,9	380,8	436,6	363,1
United		110,5	175,5	79,5	57,7	84,4	115,2	126,6
Zimbabwe		62,3	46,9	31,2	45,0	52,9		
Credit and Financial Services*		(93,7)	(14,9)	—	—	—	—	—
Manufacturing		3,7	(10,7)	(19,4)	9,6	7,5	17,6	6,7
Group services and consolidation adjustments		8,8	10,0	(25,4)	27,0	21,7	9,5	21,3
Group	(4,9)	320,3	430,6	228,5	417,2	547,3	578,9	517,7
Net assets								
Edgars		981,0	1 019,8	1 000,7	1 051,5	828,5	767,0	663,8
United		623,8	624,5	531,9	525,1	442,4	450,6	339,9
Zimbabwe		111,7	85,0	71,2	129,2	87,7	23,8	12,9
Manufacturing		106,1	135,8	142,2	190,2	161,2	139,9	40,6
Group services **		1 384,7	1 058,1	969,1	734,2	603,3	432,7	522,2
Group	13,7	3 207,3	2 923,2	2 715,1	2 630,2	2 123,1	1 814,0	1 579,4
Other statistical data (year end)								
Number of employees								
retailing		11 342	11 725	12 570	14 079	14 622	14 370	13 933
manufacturing		2 102	2 776	2 685	2 770	3 020	2 004	1 558
Total		13 444	14 501	15 255	16 849	17 642	16 374	15 491
Number of facias		701	671	703	702	660	545	520
Gross trading area (000 m²)		773	788	820	811	776	676	643
Number of active customer accounts (000)		3 153	3 446	3 725	3 598	3 643	3 695	3 335

(Definitions are given in note 2 to the annual financial statements)

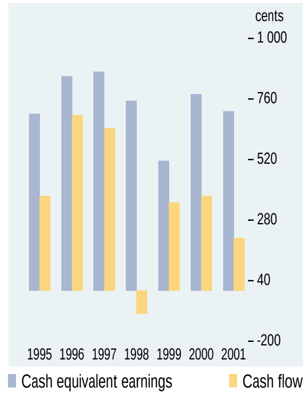
† *Consolidated from April 1 1996 (previously equity accounted)*
* *Credit and Financial Services previously accounted for in the chains*
** *Includes Credit and Financial Services*

Where appropriate prior year figures have been restated to reflect the change in accounting for dividends as a result of the adoption of AC 107 (revised) and IAS 10. Refer note 9.

Earnings per share
and dividends per share



Cash equivalent earnings
and cash flow per share



Revenue and indexed revenue
(Indexed on CFT inflation)

Trading density
and indexed trading density

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IBC Offices







thecorporateboard

Non-executive Directors

1 **W S MacFarlane** ♦❖ (65)
CA(SA), FCA

Director of companies. Past Group Deputy Chairman of The South African Breweries plc.

Appointed to the Board in 1982 and, after retiring from the Board in 1998, re-appointed as Chairman in 1999.

Chairman of the Audit and Remuneration Committees.

2 **A J Aaron** ♦❖ (68)
BCom, LLB

A senior partner of a Johannesburg firm of attorneys and a Director of companies.

Appointed to the Board in 1978.

3 **W F de la H Beck** ♦❖ (78)
BCom, CA(SA)

Director of companies.

Appointed to the Board in 1978.

4 **T N Eboka** # (42)
BS Textile Engineering (USA),
BS Applied Mathematics (USA), MBA (USA)

Director of companies.

Appointed to the Board in 1999.

5 **Z B Ebrahim** ❖ (41)
BA, HDE

Director of companies.

Appointed to the Board in 1999.

6 **J D M G Koolen** • (40)
BCom (Netherlands), MBA

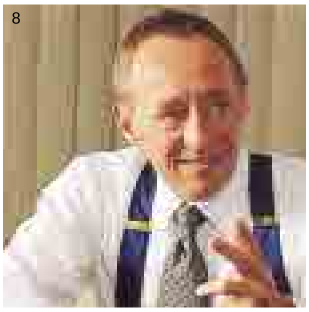
Managing Director of the Monitor Company.

Appointed to the Board in 2001.

7 **M I Wyman** * (54)
CA(SA)

Chief Financial Officer of The South African Breweries plc, Director of companies within the SAB Group.

Appointed to the Board in 1998.



Executive Directors

8 **S M Ross** ♦❖‡# (49)
BA (USA)

Group Chief Executive Officer.

Joined the company and appointed to the Board in 1998. Chairman of the Customer Service Committee.

9 **M R Bower** (46)
BCom, BCompt Hons, CA(SA)

Chief Executive Group Services.

Joined the company and appointed to the Board in 1990.

10 **G R Evans** (48)

Chief Executive United Retail.

Joined the company in 1981.

Appointed to the Board in 1999.

11 **Dr U Ferndale** ❖ (36)
BA Hons, MA, PhD (Human Resource Management)

Group Human Resources Director.

Joined the company and appointed to the Board in 1999.

12 **J A Day** (54)
ACIS

Group Information Technology Director.

Joined the company in 1974.

Appointed to the Board in 2000.

13 **K C van Aardt** (40)
BCom, BCom (Hons), CA(SA)

Group Financial Director.

Joined the company in 2000 and appointed to the Board in 2001.

* UK
‡ USA
• Netherlands
♦ Member of Audit Committee
❖ Member of Remuneration Committee
\# Member of the Customer Service Committee

edconstructure

- **S M Ross**
  Group Chief Executive Officer: Edcon
  (49; joined 1998)
  BA
  - **J Spotts**
    Chief Executive: Edgars
    (38; joined 1999)
    BS, CPA
    - **G Davies**
      Merchandise
      (56; joined 1980)
    - **V Shera**
      Merchandise
      (34; joined 1991)
    - **P Raymond**
      Planning
      (44; joined 1987)
    - **C Scott**
      Planning
      (54; joined 1978)
      BCom
    - **F C Spies**
      Planning
      (43; joined 1981)
      BA
    - **T B Wiseman**
      Operations North
      (48; joined 1985)
      FICB (SA), FIAC (SA)
    - **R T Scott**
      Operations South
      (31; joined 1990)
  - **G R Evans**
    Chief Executive: United Retail
    (48; joined 1981)
    - **A V A Boshoff**
      Operations
      (49; joined 1988)
      BA Hons
    - **M J Deall**
      Planning
      (47; joined 1979)
    - **P Mullen**
      Merchandise
      (54; joined 1986)
    - **R A W Roberts**
      Merchandise
      (57; joined 1969)
  - **C C D Evans**
    Chief Executive: Manufacturing
    (50; joined 1976)
    - **J A Hodnett**
      Managing Director: Studio Clothing
      (50; joined 1993)
    - **D J Eager**
      Director: Central Services Manufacturing, Lauré Fashions & Reactor Clothing
      (54; joined 1982)
      FCA

M R Bower
Chief Executive: Group Services
(46; joined 1990)
BCom, BCompt Hons, CA(SA)

F Gortana
Store Planning
(60; joined 1964)
MISA

M J Lewin
Property Development
(46; joined 1989)
BCom, BAgMan

M J Pienaar
Commercial
(38; joined 1998)
BSc, LLB

K C van Aardt
Group Financial Director
(40; joined 2000)
BCom, BCom Hons, CA(SA)

J F Swart
Group Supply Chain Executive
(54; joined 1969)
BAdmin

R Mlotshwa
Group Managing Director (Zimbabwe)
(51; joined 1981)
BA

D J Viviers
Group Secretary and Legal Advisor
(53; joined 1997)
BA, Proc

Dr U Ferndale
Group Human Resources Director
(36; joined 1999)
BA Hons, MA, PhD

M R Bower
Acting Group Credit Executive
(46; joined 1990)
BCom, BCompt Hons, CA(SA)

J A Day
Group Information Technology Director
(54; joined 1974)
ACIS

edgarszimbabweboard

Non-executive

J P Mkushi
Chairman
(51; joined 1991)
BSc, MSc

D M Zamchiya
Deputy Chairman
(60; joined 1990)
LLB, LLM

M R Bower
Director
(46; joined 1990)
BCom, BCompt Hons, CA(SA)

H D Ferguson
Director
(59; joined 1976)
FCMA

P Mullen
Director
(54; joined 1986)

Executive

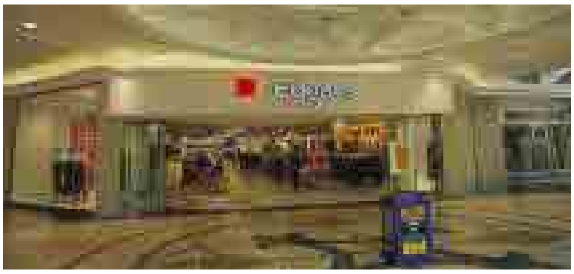
R Mlotshwa
Group Managing Director
(51; joined 1981)
BA

S D Guest
Director: Edgars
(52; joined 1969)

L Masterson
Group Financial Director
(45; joined 1988)
FCIS

S Ndlovu
Group Personnel Director
(49; joined 1990)
BA Hons

Z Vella
Director: Express Chain
(43; joined 1999)
BA Hons Accountancy and Economics



chairman's statement

THE MARKET

In the retail sector, while overall sales are directly dependent on consumers' disposable incomes, clothing sales are contingent on what is left of discretionary income, once other demands with a higher priority have been met. They inevitably remain especially sensitive to the confidence with which consumers view their economic circumstances at the time.

Although disposable incomes, in the year under review, benefited to a degree from lower rates of taxation, the impact was negated at a macro level by an ongoing rise in unemployment, as the formal economy continued to prune staff complements. More seriously, consumer confidence has declined steeply since the middle of calendar year 2000. Poor job prospects, the growing threat of HIV/AIDS, rapid deterioration in the value of the rand, a dearth of meaningful foreign investment and a perceived lack of Government delivery, have all contributed to a cloud of pessimism hanging over consumers.

But, what has been of the most relevance to the Edcon Group has been the significant shift in recent consumer spending patterns. Clothing purchases have been steadily usurped by higher priorities, and have had to compete with spending opportunities previously unavailable to customers. Spiralling fuel and transport costs, coupled with high food inflation, have depleted discretionary incomes, while lower government spending has meant that consumers now carry a greater share of the charge for essential services such as security and school and medical fees. Alarmingly persuasive non-essentials, including the new state lottery and a proliferation of additional casinos, have stretched discretionary incomes, particularly among the poor, to their limits and beyond. Cellular telephones and related airtime spends continue to place further strain on household budgets.

All in all, quite a daunting catalogue of difficulties for consumers. In consequence, Clothing, Footwear and Textile sales, as estimated by the Retailers' Liaison Committee, have increased by less than 5% for the year to March 2001, compared with over 10% reported last year. This has led most clothing retailers, in an attempt to maintain their share of customers' dwindling clothing spend, to lower their margins significantly and to clear excess inventories. Also, several players have intentionally shifted their positioning and pricing into the discount/value end of the market, with a concomitant reduction in overall gross margins. Not surprisingly, the sector, as a result, actually experienced marginal deflation in prices over the period.

The sum of these factors conspired to make 2000 an extremely difficult and even traumatic year for South African clothing retailers. Several large players issued profit warnings during the period and the sector posted its worst performance in thirty years on the JSE Securities Exchange.


W S MacFarlane, Chairman

RESULTS

In September 2000, the Group issued a profit warning as soon as it became apparent that the budgeted sales, gross margin percentage and earnings for the year would not be achieved. At that stage it was clear that the contributions from the chains would not be sufficient to compensate for the budgeted higher cost of credit, including an expected decline of over R120 million in interest chargeable to customers. In line with this notice, earnings for the half year announced in November were down 33% on a sales increase of 6,5% and shareholders were advised that a similar result should be expected for the full year to March 2001.

Reassuringly, management delivered on their revised projection, with annual sales growth of 6,6% and earnings attributable to ordinary shareholders for the year falling by 34%. Notwithstanding lower trading profitability, the decision was taken to self-fund all new debtor accounts, increasing the net financing required for the year to R95 million. Gearing, however, still closed at 0,25, well below the Group's self-imposed constraint of 0,50. Particularly noteworthy, in the area of working capital management, has been the minimal growth in inventories. This bears testimony to meaningful improvements in merchandise planning and efficiencies in the enhanced supply chain.

The investor community has been predictably harsh on the retail sector and the Edcon share has not been immune to this. The share price declined precipitously from 7 070 cents last March to 2 105 cents at the end of March 2001. This represents a discount of 48% to the current net asset value per share of 4 064 cents, with no additional worth being ascribed to the immense value of the Group's brands, its extensive debtors' listings and its highly skilled human capital. The opportunity to turn this undervalued situation to good account has convinced the Board to request shareholders to give approval, at the Annual General Meeting, for a limited share buy-back. This will enhance future earnings and boost the net asset value per share.

DIVIDEND

In line with the Group's long-standing policy of covering dividends 2,6 times, a final dividend of 64 cents per ordinary share has been declared, bringing the total dividends for the year to 100 cents, as compared with 152 cents in the previous year.

PROSPECTS

Stringent monetary and fiscal policies in the recent past have ensured that economic fundamentals in South Africa remain sound. However, without the export-led growth of the previous year, following an anticipated downturn in economic activity in our major trading partners, further growth in 2001 will primarily be dependent upon improved domestic demand.

chairman's statement

A lower taxation burden for consumers and the additional government expenditure announced in the national budget, will lift disposable incomes in the coming months. This, together with a recent welcome upturn in consumer confidence, should bolster slightly what is expected to be another difficult year for clothing retailers.

Despite this background, sales for the year ahead are expected to rise at a rate marginally above that of general inflation, and Group budgets anticipate satisfactory earnings growth, especially as Edcon's turnaround initiatives gain further momentum.

APPRECIATION

We are pleased to welcome Jack Koolen of the Monitor Company to the Edcon Board as a non-executive Director and look forward to the continuation – at closer quarters – of the meaningful input he can provide on the strategic positioning of the business. A warm welcome also goes to Kenneth van Aardt, whose exceptional management skills as Group Financial Director have already impacted positively across the business.

Our heartfelt appreciation is extended to Bill de la H Beck, who will shortly be retiring from our Board after twenty-three years of distinguished service to the company. We will sorely miss his wise counsel. Our thanks also go to Alewyn Burger for his shortened but valuable period on the Board. Robert Maydon, Chief Executive Edgars Operations and Planning, recently retired from the Group after twenty-five years of dedicated service and we wish him well in his future endeavours.

In appraising what has been a most testing period for the retail industry, I continue to believe that Edcon's turnaround programme remains firmly on track, despite prevailing market conditions. The corrective surgery and extensive initiatives, effected throughout the business over the past thirty months, will undoubtedly boost market share and profitability in the years ahead. This has been no small accomplishment and it attests to the consummate leadership and immense industry experience that Steve Ross brings to Edcon. It is my particular pleasure to confirm that Steve's service contract has been extended to 2006. He continues to be exceptionally well supported by the greater Edcon family – directors, executive management, our staff, suppliers and bankers.

My deep appreciation and thanks go to all, and I look forward to exciting developments in the year ahead.

W S MacFarlane, Chairman

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chief executives' report

As retailers, the challenges we face in South Africa today are indeed varied and complex.

In the wider marketplace, as detailed by our Chairman, macro-economic performance remains tepid with persistently low GDP growth. And while our corner of the retail market, Clothing, Footwear, Textiles and Accessories (CFTA), is being cramped by declining consumer spending, it is overtraded in the number of competitors jostling for share and overextended in square metres of trading space operated.

We have seen dynamic changes in the CFTA marketplace as high streets have yielded to malls and population demographics have begun to reflect the steady concession of the rural to the urban milieu. Furthermore, in step with a liberalising economy, there has been a definite shift from a sellers' to a buyers' market, with a wider array of buying choice presented to an increasingly discerning and price-sensitive customer. New entrants to the retail market have pioneered new standards of efficiency in site development, operating overheads and product procurement, which has in turn enabled them to set new price benchmarks.

In this turbulent environment, successful retailers can only target the market share of competitors to secure their own growth. Competing effectively for the spend of smarter customers seeking better value means retailers must achieve optimum efficiency in order to pass cost savings on to the customer. As the consumer market reconfigures and customer profiles and needs are redefined, successful retailers have to stay flexible to survive. Ongoing innovation in responding to these needs with lifestyle enhancing products and services also remains of foremost importance.

As a well-established player in this trading market, Edcon has certain points of leverage that can be applied in accomplishing these imperatives. Our brands enjoy formidable equity. Of the top five retail brands in South Africa across all product categories, Edgars takes top spot in brand awareness with Sales House second and Jet in fifth place (Markinor Brand Survey, 2000). In addition, the Group commands an aggregate market share of around 27% and each of our trading businesses boasts a comprehensive national distribution of outlets. The crucial reach and recognition that these factors afford, provides competitive edge in the realisation of our vision.

VISION

Our vision for the Group remains:

- to own the commodity clothing market by being the dominant CFTA retailer for income earning South Africans
- to be store of choice in each of our target segments
- to be the pre-eminent service provider for middle-income earners
- to stay relevant to the communities we serve in our product and service offerings, our communications and social investment initiatives
- to offer clear value to consumers in each of the markets we serve

S M Ross, Chief Executive Officer

M R Bower, Chief Executive Group Services

- to remodel our store and corporate architecture for peak competitiveness and to best suit the new consumer demographics model, with no compromise to the strength of our offer.

The market insight gained into the segmentation of our target markets, through the extensive research conducted in conjunction with the Monitor Company, supported our decision to section the business into two clearly differentiated channels: Edgars, a mall-based department store serving the higher income segments; and United Retail, a discount speciality store targeting the lower income segments and trading through the Jet, Sales House, Cuthberts and Smiley's Wearhouse brands.

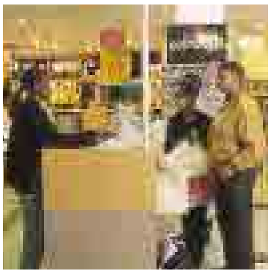
49% of the Clothing and Footwear spend in South Africa comes from households earning approximately R5 000 per month or more. They represent 32% of the viable formal market and 16% of the population. They live primarily in urban and suburban areas and they shop primarily at malls. Across age demographics these customers share a common need which they rate as critical to store selection – SERVICE. For the past eighteen months Edgars has been defining and honing a comprehensive service proposition to our customers. It starts with well-priced product and brands in stock, with acknowledgement from staff, a less than four minute transaction experience and, depending on location, a suite of services designed to assist the time-pressed shopper.

The vision for Edgars is to continue to focus on appropriate mall placement and reducing the number of locations in "high street" rural towns. The product vision is to improve our relationship with consumers by offering the right balance of casual and formal attire in an assortment of quality, stylish, well-priced Edgars labels, genuine national and international brands, as well as cosmetics, home textiles, active wear, cellphones and financial services. Our overall mission is to offer a store that excels against all comparable competitors from the consumer's perspective, to ensure our role as store of first choice and increase our prospects for profitable market share growth.

United Retail's positioning is based on a number of critical considerations for discount retailers going forward. Most significantly, our consumer segmentation research indicates that 51% of the rand purchases of CFTA in the countries in which we trade will be made by consumers in low-income brackets. Besides clearly tagging the significance of this market in our region, this also means that downward pressure on price will continue to be a fact of retail life.

However, the retailers that will succeed in serving this market will be those that offer more than just price as a reason for customers to shop with them. Extra value (superior intrinsic quality for money) will become all the more critical as customers are likely to be loyal to a repertoire of retailers in which they purchase more than 90% of their families' clothing.

United Retail is well underway to implementing a strategy that responds to these imperatives, which is detailed in the dedicated narrative following later in this report.



chief executives' report

PROGRESS

To appreciate the progress we have made in advancing our vision in the context of the successful turnaround of our business as a whole, it is helpful to précis the process entirely to date.

In effect, the recovery process was initiated in January 1999, with the year given to streamlining our organisational structure. Having accomplished this, we were then able to turn our attention to the improvement of our product and service offering while concentrating on the substantial reduction of overheads. This was effected during 2000 and made for much improved profit margins. However, slow turnover growth failed to accommodate an escalation in the cost of the credit book, which albeit within budget, resulted in a momentary bottom-line stall in 2001. In the year under review, we made further progress in the credit arena and began implementing our strategy to realign the Group's extensive and outdated real estate portfolio to the new realities of the South African retail marketplace.

Edcon's real estate empire, built over twenty-five years, has been rendered steadily out of date not only by a fundamentally altered environment but also by a dramatically changed customer. The extent of this change is of course best witnessed in the much-maligned CBDs of our major cities, where a powerful and vibrant new market has emerged – one that we remain committed to serving.

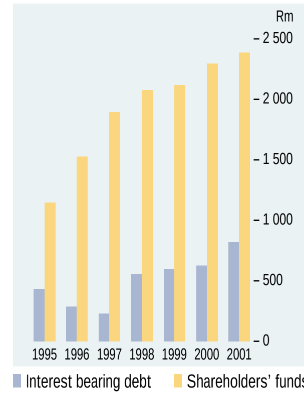
Our plan to shed 25% of existing space over the next three to five years is well under way and will progressively raise the productivity of our trading space by driving up turnover per metre squared. Factoring in the ongoing – but justifiable – addition of space in new developments will effectively see a 15% reduction in space over this period. Working with the constraints imposed by existing lease agreements, we are reducing and redistributing trading space while effectively increasing brand facias and cutting costs by consolidating the operational infrastructure of individual business units. To facilitate this rationalisation, we continue to build strategic relationships with other space users interested in the sub-letting opportunities we can provide.

The Edcon Group accomplished a great deal in the reported period and continues to do so. There have been significant advances on many crucial fronts that have begun to impact collectively to boost the momentum of the recovery process.

Key achievements include:

- At Edgars
  - The ongoing improvement of service levels and steadily improving sales
  - Greater cost efficiency with sales per employee up 16% and sales per square metre rising by 11%
- At United Retail
  - Greatly increased operational efficiency with the consolidation of management structures, instore and back office operations and merchandising

Interest bearing debt
and shareholders' funds



- The repositioning of the brands according to niche strengths and the successful entry to the market of multi-brand stores

- **At Group level**
  - Improved efficiency with vendor compliance at 97%
  - Maximising corporate leverage for improved pricing through collective sourcing
  - Ongoing strategic benefit of enlightened HR management and astute IT governance
  - Improvement in the quality of both the in-house and bank funded debtors books
  - Centralisation of the credit, financial, human resource and marketing functions

FINANCIAL RESULTS, INVESTMENTS AND FUNDING

The sales growth of 6,6% was marginally ahead of the national Clothing, Footwear and Textile increase estimated at approximately 5%. However, pressure on input margins and the strategic move of Sales House and Cuthberts into the value market resulted in no improvement in margin rands earned and a shortfall of R250 million at this level. This was against the Group's budget for the year, which anticipated higher margins and additional sales of almost R240 million. Through improved buying and more competitive initial pricing, markdowns and pricebreaks were well managed and ended 7% below last year. As a result, gross profit rands rose by some 1%. With lower advertising expenditure, no increase in store expenses and inflationary increases in chain management expenses, the Group's retail activities, before head office costs, increased their contribution by 4%. The additional operating cost of credit of R79 million, together with a 26% increase in systems costs (both anticipated at the time of budgeting and both fully analysed in this report), could not be adequately trimmed during the year to match the lower level of retail activity and further impacted negatively on trading profit, which declined by 26%. After an interest charge in line with last year and a constant rate of taxation, earnings attributable to ordinary shareholders fell by a disappointing 34%, having rocketed by 164% last year. Consequently, attributable earnings per share declined similarly to 261 cents and headline earnings per share to 268 cents. Importantly, cash equivalent earnings per share declined by only 9% to 712 cents although only 29% of this was realised in the cash flow per share of 210 cents.

At the divisional level, sales in Edgars rose by 6% in spite of closing 36 stores and reducing retail space by 8%. Their operating margin, before carrying a cost of credit, declined only marginally from 6,1% to 5,9%. On an Economic Value Added basis, their contribution, after absorbing a full cost of credit and cost of capital charge but before head office costs, fell by only 3% from R98 million to R95 million. On a similar basis, United Retail sales rose by 5% through 7% additional space. Their operating margin fell from 6,9% to 4,2% as all their brands moved into the discount channel. On an EVA basis, their contribution fell from R132 million to R43 million. This decline reflects the decreased

chiefexecutives'report

margins in the chain, the once-off costs of converting store brands and the expense of absorbing 22 Edgars stores. It is not possible to provide the profitability of each of the brands within United Retail as they share many facilities including buyers, store managers and systems. However, sales levels continue to be recorded by brand. An analysis of sales follows:

	Total	Growth in sales % CFT	Cellular	Growth in space %
Jet	14	21	(17)	21
Sales House	(7)	(2)	(21)	(2)
Smiley's Wearhouse	9	8	New	(2)
Cuthberts	2	(9)	New	(16)
ABC	(21)	(21)	—	(13)
	5	9	(14)	7

Zimbabwe performed particularly well in a difficult market and reported a 35% sales and 32% trading profit rise in rand terms from their Zimbabwe dollar increases of 47% and 44% respectively. In line with its competitors, the manufacturing division's operating profit, excluding Edcon Sourcing, declined, contributing some R4 million less at the operating level.

Edcon's lower trading profit resulted in a decline in cash generated from operations from R656 million last year to R532 million. Efficient stock management and improved creditor funding generated R26 million. However, the financing of all new debtor accounts rather than utilising the Nedbank owned book and further computer software expenditure, resulted in an additional investment in debtors and prepayments of R275 million. After meeting financing costs, taxation and dividend payments of R258 million, net cash retained and available for investment was R25 million.

Last year's Annual Report indicated that capital expenditure of R257 million had been approved for this year. Cognisant of the sharp deterioration in trading conditions, expenditure was re-evaluated and limited to R183 million. In terms of the Group's outsource agreement, computer equipment was sold at its book value of R93 million to our outsource partners. After merging these assets with other organisation's computer facilities, Edcon will purchase computing capacity at reduced rates. Loans, largely to the Group's share purchase scheme increased by a further R29 million to finance the Trust's acquisition of Edcon shares at approximately R21. Options on these shares have already been allocated to specific staff members at prices above this level.

After these investment activities, net financing requirements were R95 million. Borrowings rose by some R190 million but cash, largely from the sale of computer equipment, increased by R97 million. This cash will be used to fund the proposed share buy-back, if authorised by shareholders at the Annual General Meeting. Closing gearing was substantially in line with last year at 0,25 and well below the Group's constraint of 0,50, while interest cover at 4,2 was below the Group's over-time objective of 5.

Total banking facilities of R1 237 million remain more than adequate to meet estimated peak borrowing requirements and the liability capacity model reflects

unutilised liability capacity of R1 149 million. Total liabilities as a percentage of shareholders' funds at 0,85 were marginally above last year.

In terms of Group policy, amounts incurred on enterprise-wide computer software packages were charged to prepayments pending commissioning of the programmes. During the year, an additional R56 million was debited to prepayments, chiefly for the Retek merchandise system. The total cost of Retek will be released from prepayments once operational in Edgars. It will then be charged to fixed assets and amortised over five years.

Improved asset utilisation and, in particular, use of space, staff and stock, was a priority for the year under review. It is gratifying to report that Group sales per square metre rose by 11% while sales per retail employee increased by 10% and stockturn remained at 3,6 times.

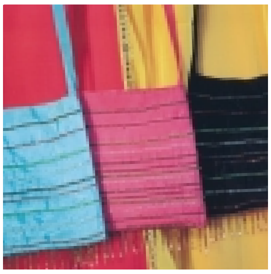
A review of the balance sheet indicates that total assets rose by 7%, substantially in line with the sales increase. Particularly pleasing, however, was no growth in inventories and the 10% decline in non-current assets. Stockholdings are current and the percentage of carry over stock from prior seasons is far lower than in previous years. Management is satisfied that merchandise is saleable and is in stores at prices which will generate a normal gross margin. The decline in fixed assets reflects capital expenditure lower than the depreciation charge and the sale of computer equipment to our outsource partner. The 14% rise in debtors and prepayments is deceptive as all new debtor accounts have been opened in Edcon's books while Nedbank's closed book has declined. If the Nedbank owned book is aggregated with our debtors, combined debtors and prepayments have in fact declined by R70 million. As in the past, the Group continued to write off debtors in accordance with a strict ageing policy. In addition, a doubtful debt provision, calculated on formulae that have proved to be adequate and prudent, has been incorporated in these financial statements.

The Group's treasury continued to manage interest and foreign exchange exposure. At year end, the interest on 27% of borrowings was fixed for more than a year while short-term hedge instruments pegged interest rates on another R209 million for less than six months. In line with Group policy of limiting uncovered foreign exposure to R20 million, uncovered foreign exchange liabilities, net of export proceeds, were R13 million at 31 March 2001.

Management continued to monitor the cash value added by the Group. For the year under review R1 647 million of value was added in cash terms. 58% of this was allocated to employees, 6% to the state in taxes, 6% to lenders, 23% to landlords and 5% to shareholders.

The inflation statement, previously presented in the Annual Report, has not been published this year as inflation in the clothing sector has been low for many years and was negative in the year under review. General inflation levels are also under control in South Africa currently.

Chief Executives' Report
continued



edgars

popularbrands

Having achieved the right pricing strategy, it has become apparent that the smart shopper sees Edgars as a great destination for brands, and quality apparel and footwear.

Chief Executives' Report
continued

edgars

The Edgars' mission is to be the pre-eminent customer service provider to middle and upper middle income families in southern Africa. Defining Edgars' service offer is the assurance to our customers that we will provide an assortment of appropriately fashionable product in size, in stock and in a choice of colours, that represents clear value for quality and price.

We undertake to stay the leading national distributor of best global brands, supplemented by a value for money range of core merchandise including sportswear and other commodity products relevant to our customer segment. Additional key aspects of service involve our continued effort to keep transaction times low, to raise staff attitude, to offer convenient trading hours, collateral services and a fair and efficient return policy.

Sales missed budget for the year but performance against last year showed growing strength with 3,7% growth in the first half and 8,3% in the second. This growth is not adjusted for stores not trading (that were last year) but does reflect the addition of cellphones. Markdowns and pricebreaks were reduced again this year by over 10% and the amount of the inventory carried was below last year. Store expenses were particularly well managed and ended the year 2,5% below last year, while chain management expenses rose by less than general inflation. A good year in the Club and insurance income on cellphone policies boosted incomes further and, before head office costs and costs of credit and capital, Edgars' contribution to the Group rose by a pleasing 11%.

The year under review saw steady improvement and ongoing effort to raise and fulfil service expectations, implementing instore service imperatives such as 60-second customer acknowledgement and the 4-minute max queue. Employee efficiency levels were laudable with sales per employee rising by 16% and sales per square metre up by 11%.

The rollout of the VIP customer services initiative to the top 36 stores continued successfully with several now offering this innovative loyalty programme for credit customers. Service benefits include dedicated VIP lounges instore, advance notice on developments and product specials. Customer response to the initiative, an integrated project by the Credit, Credit Marketing and Operations divisions, has to date been enthusiastic.

We continue to evolve our "Mystery Shopping" initiative referred to in our last report. Every store is shopped, measured and evaluated. A significant portion of a store manager's performance measure relates to scores from Mystery Shoppers compared to goals established each year. Scores improved for the year aided by increased supply chain efficiency and on-time delivery improvement.

The Purple Cash Card continued to grow as our customers steadily recognised the value of our rewards programme. Since our last writing we have issued over a million new cards. In April 2001, we launched an updated and more interactive version of the Purple Card in a bid to improve our cash sale balance to over its current level of 30%.

After their declining performance for the past five years, we began implementing a decisive strategy to reverse the fortunes of the Edgars' CBD stores. Externally, the chain has been involved in municipal initiatives to fight crime, relocate hawkers and clean streets. The offering to customers was reviewed, and rebalanced to better serve the middle income CBD shopper. Four of our top 15 stores in turnover are inner-city high street locations. We are happy to report that three of the four grew their business over the prior year and all of them operated at a lower cost of selling. Our Johannesburg city store improved by over 10% for the year.

Our best store opening to date in Cape Town was launched at Canal Walk in October 2000 and with a half year of volume, ranks in the top 40 stores and will comfortably outstrip planned turnover. We have revamped our Menlyn store in Pretoria and the rate of growth has propelled this location into the number three spot in our chain sales. Current moving annual turnover suggests growth of over 40% for this location. Both these locations trade at densities exceeding the Retail Liaison Committee average.

As an extension of our brand we launched our Edgars.co.za website in September 2000. We offer the broadest assortment of CFTA product in South Africa. Our conversion rates are running ahead of accepted benchmarks and our fulfilment statistics have been world-class.

Having achieved the right pricing strategy in the chain, it has become apparent that the discerning and astute customer sees Edgars as a great value proposition. Additional to this positive perception shift, the chain's immense brand equity was reconfirmed by the Markinor Brand Survey. Building on this brand equity with aggressive marketing will increase the number of footsteps Edgars attracts and convert a greater percent to sales. As the consumer sees more value in our offer their average spend with us will grow and this will be at the expense of competitors' share of market.

The outlook for Edgars is extremely positive. The appeal of well-priced quality on trend apparel and textiles, coupled with the strongest and best priced assortment of national and international brands, served to customers in an environment of care and efficiency, makes us a unique and formidable proposition in this country.

Chief Executives' Report
continued

united retail

durablequality

United Retail's mission is to be the leader in providing the average South African with the most desired quality fashion normally only available to the more affluent sections of the consumer market.

Edcon

Chief Executives' Report
continued

unitedretail

United Retail's mission is to be the leader in providing the average South African, through extremely competitive pricing and convenient locations, with the most desired quality fashion normally only available to the more affluent sections of the consumer market.

Jet's mission is to be the leading discount CFTA retailer in southern Africa offering a choice of house branded commercial fashion, of durable quality, at exceptional prices, to mass middle and lower income families, through exciting, easy to shop stores that are accessible and offer credit. Jet's focus on casual and leisurewear products for the family is already a considerable strength.

Sales House's mission is to be the leading CFTA discount retailer in southern Africa offering a choice of trusted brands, of updated classic styling, of durable quality, at exceptional prices. The chain targets mass middle to lower income families through stores that are accessible, caring and un-intimidating, that are interesting to shop and offer credit. Sales House focuses on smart and careerwear products, already a strong point in the chain's offer.

Cuthberts' mission is to be the leading discount speciality footwear retailer in southern Africa offering a choice of shoes in trusted brands of stylish and commercial fashion at exceptional prices. Cuthberts targets mass middle to lower income families through stores that are exciting, accessible and functional, and that offer credit.

Smiley's mission is to be the leading specialist ladieswear discount retailer targeting the middle income woman who requires commercial, fashion-right merchandise at remarkable prices. The stores are easy-to-shop, predominantly self-service and feminine in tone.

Edcon's strategy for United Retail and its constituent retail brands, as the Group's discount channel, has been informed and confirmed by a cannon of incisive market research conducted over the last 30 months.

The United Retail strategy is built upon three basic assumptions:

- Extremely competitive pricing across the chains, with each chain niched according to the product needs of its target customers and its established brand strengths;
- Maintaining a low-cost retail environment to support this discount positioning; and
- Achieving sustainable advantage other than price.

In addition to discount prices, the four United Retail brands offer: consistent quality comparable to top-end retailers on like for like product; a choice of product across the retail brands, operating from different outlets or from a bouquet of the four under one roof as a multi-brand store; the added convenience of the multi-brand concept in putting more fascias and a fuller product offering closer to target customers; the most wanted product, by better forward planning and

staying ever responsive to customer demand; frequent communication and loyalty benefits through Club Together; and, distinct individual brand persona, building on the established strengths of the individual retail brand's image, personality, product and style. The brands also aim to maintain an instore service objective that is predicated on an understanding of and sensitivity to the customer in their target segments.

The consolidation of the Jet, Sales House, Cuthberts and Smiley's Wearhouse brands into one trading organisation provided the opportunity to vastly increase efficiencies and to take costs out of the business. Hence realising profitability despite low margins. Specifically, this consolidation lowered overheads through combined management, buying, services and operations structures. In addition, procurement costs were reduced by leveraging combined buying strength and by efficient collective sourcing and merchandising.

Furthermore, the knowledge gained of the individual chain's target customers indicated sweeping commonalities. This confirmed the opportunity to multi-brand stores, which would enable these customers to meet their families' product needs by shopping across the brands in convenient proximity. Moreover, trading the brands together allowed for high trading density and significant operational economy through shared trading space, management, staff and systems.

The immense brand equity commanded by Sales House (reconfirmed once again in this year's Markinor survey) and its product strength in smartwear, juxtaposed with Jet's casualwear strength, suggested that the two brands would complement each other in single premises. It also became apparent that Cuthberts could be very successfully added to the mix given the commonality in customer bases, its strong family positioning and its broad footwear offering. This complemented the intent of the multi-brand concept perfectly.

On the other hand, due to its differing customer base, Smiley's Wearhouse could not be considered for multi-branding in the majority of locations. It remains a separate, specialist ladies discount channel. Similarly the ABC brand, with its top-end merchandise and higher prices, did not fit into the discount channel and was accordingly transferred to the Edgars chain on 1 April 2001.

We have to date made impressive progress in aligning the business to our challenging strategy and our extensive restructuring programme is proceeding at pace. Great strides have been made in rationalising the property portfolio and making better use of space owned.

Extensive staff consolidation across the chains, including top management and head office operations, took place. Most of this restructuring has been completed to date. We now have one executive team, one operations team, one procurement team and one marketing team. These teams consist of individual functions that operate across the retail brands thereby significantly reducing duplication of effort, resources and expense whilst focusing skills.

Chief Executives' Report
continued

unitedretail

To facilitate customers' shopping across the brands, a single United Retail Shopping Card was launched in October 2000. This consolidation of account bases was effected to improve card 'stickiness' (the attraction the facility holds for the customer) by improving the benefits offered (through Clubs) and providing the opportunity to use it in multiple stores.

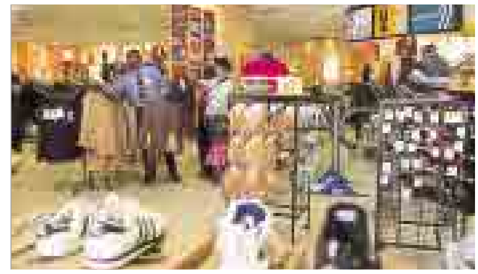
With both the Jet and Sales House Clubs steadily losing members and threatening a lucrative revenue stream, and given that an efficiently run Club operation becomes profitable after 300 000 members, one consolidated United Retail club, Club Together, was launched to much fanfare in October 2000. Club Together became instantly profitable despite the heavy launch costs incurred, with close to a million members by March 2001. Club Together offers better benefits than previously for a similar price and is now also available to Cuthberts customers.

In fiscal 2001 Jet continued to trade strongly off its widely accepted formula and sales increased by 14% despite lower cellular sales. The growth of Jet will be further enhanced as it moves its product into multi-brand partnerships with Sales House. Future marketing effort will concentrate on cementing Jet as discount leader of children's and adults' casual and leisure attire.

Realigning the Sales House offer to the target customers' smartwear needs has begun to fuel the momentum of its turnaround, although sales fell by 7% largely due to this more focused positioning, lower average ticket prices and a significant reduction in cellular sales. A proactive campaign to change negative price and fashion perceptions of the brand and to root it more strongly across different race groups is under way, and making modest progress with improved unit sales and with the white (predominantly rural) market making up 15% of the business. Going forward, marketing will concentrate on Sales House's strength in smartwear. The intended incorporation of Cuthberts into the top 35 Sales House stores by September 2001 will radically reduce the store operating costs of both chains. Cuthberts' 30% white customer base will also assist in the Sales House chain's efforts to attain the perception of servicing the "New Rainbow South Africa".

Turning the Cuthberts brand around has been most successful. Downward adjustments to bring prices in line with its target market and counter perceptions of comparative over pricing, have been supported by vastly improved operational efficiencies. In spite of lowering prices, sales rose by 2% out of 16% less space, the greater part of this resulting from changes in only the last six months! The incorporation of Cuthberts into multi-brand stores is continuing with great success and at an increased pace.

The Smiley's Wearhouse offer has been focused sharply on its core strength as a discount speciality provider to women, with menswear and childrenswear dropped from the offer. Despite this narrower product



offering, the chain increased sales by 9% out of 2% less trading space. The vacating of the speciality ladies discount positioning by a major competitor assisted greatly in these endeavours.

The 4,8% increase in sales for United Retail was well below that expected at the time of preparing the budgets, but does reflect a significant decline in cellphone sales and a more acceptable 8,9% increase in the clothing divisions. Margins were pressed by downward repricing to support the discount positioning in both Sales House and Cuthberts. As a result, after a modest increase in cost reductions and higher advertising spend, gross profit declined by almost 2%. Further strain on the business came from the considerable cost of absorbing 22 Edgars stores and rationalising the United Retail property portfolio. Much of these were "one off" costs associated with retrenchments and other costs relating to closing doors. Consequently, chain direct profit declined by 10% and after absorbing head office costs, operating profit fell by 38%.

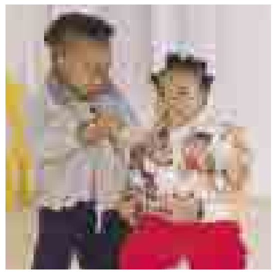
United Retail will continue to face widespread change for the months to come with a significant proportion of the Jet, Sales House and Cuthberts consolidation completed by September 2001 and operations normalised by the Christmas trading season. Of the restructuring planned in CBD stores, Johannesburg, Pretoria and Durban city centres – which account for 16,3% of the United Retail sales – will also be complete by September 2001.

The programme, accompanied by a vast improvement in trading efficiency, will see full achievement when:

- All the original 116 standalone Sales House stores are either closed or have become multi-brand stores (by September 2001), which will result in Sales House trading in 125 multi-brand stores
- The original 112 stand alone Cuthberts stores decrease to 30, but with its facia trading in a further 110 multi-brand stores (90% completed by September 2001)
- The casual/leisure (adult and childrenswear) clothing ranges of United Retail are sold exclusively under Jet facias (90% by September 2001)
- Smiley's Wearhouse holds a significant ladieswear market share in the middle income segments

We have learned many valuable lessons over the past year, amongst many others, about maximising the effectiveness of the brands in relation to trading space, brand product positioning, brand persona and optimising the spread of product, price and trading space across the brands. We go forward with confidence in our strategy, which is now tried and tested. The risk of non-acceptance of multi-brands is for the most part behind us. Having achieved a significant mind-shift on the part of all our people, we intend to accelerate the pace of physical restructuring to speed the return this change will bring. United Retail has budgeted for real sales growth and a significant improvement in profits in the year ahead.

Chief Executives' Report
continued



zimbabwe

Macro-economic and socio-political conditions in Zimbabwe deteriorated throughout the year under review. Inflation and interest rates remained at uneconomic levels, the balance of payments position worsened and the local currency continued to depreciate. Political unrest and the violence associated with farm occupations were concerning while party political rivalry remained unresolved.

In the light of these uncertainties, management has again reviewed the appropriateness of consolidating Zimbabwe's financial statements into the Group results. As all arrear dividends were received in the period under review, there is currently no technical justification in terms of generally accepted accounting practice to deconsolidate and cash account their results.

Management remains concerned, however, that their final dividend of R7 million payable after 18 May 2001, will take a protracted period to be paid due to the alarming shortage of foreign currency in Zimbabwe and their need to meet liabilities for imports such as fuel and electricity, which clearly have a higher priority than dividend payments. The Group's current net interest in Zimbabwe, including the final dividend, is recorded in the Group accounts at R58 million (last year: R41 million). The Board will continue to monitor developments in Zimbabwe and will have no alternative but to deconsolidate its results if there is no likelihood of receiving dividend payments and the situation in the country becomes irretrievable.

Edgars Zimbabwe is an independent operation listed on the Zimbabwe Stock Exchange. Edcon currently owns 56% of its issued share capital and based on its closing share price on 31 March 2001, the current market value of this investment at the official exchange rate is R115 million, well above the carrying value in the Group's balance sheet.

Edgars Zimbabwe trades through 77 stores as Edgars and Express and via a manufacturing division Carousel. The CNA operation proved unprofitable and was closed during the year. Edgars Zimbabwe is the pre-eminent CFTA retailer in their market. Without formal market statistics it is difficult to measure market share, but management estimates that it exceeds that of Edcon in South Africa.

After a particularly good year to December 1999, the Zimbabwe operations again delivered ahead of expectations. Group sales in Zimbabwe dollar terms rose by 47%, marginally below the clothing inflation rate of 52%, but most impressive was their 70% rise in attributable earnings. These results were achieved largely through higher finance charge income on customer accounts and interest earned on significant cash balances on deposit. The rapid rise in all costs associated with running a retail operation in Zimbabwe is concerning as store profitabilities deteriorated. Management of operating costs is a priority in the year ahead.

In rand terms, sales and earnings grew by 35% and 53% respectively. The Edgars chain continued to be the major profit centre of their Group, contributing

69% of turnover and 78% of their operating profit. Its fashionable assortments, underpinned by a flexible credit policy, continued to be widely accepted. Bad debt on accounts remained remarkably low considering the current economic climate. Express enjoyed sales growth of 60% and its value concept has attracted the broad based lower income segment. Carousel, the manufacturing division, ensured that the retail stores remained in stock of wanted, fashionable merchandise.

Prospects for this operation can best be summarised by quoting from Edgars Zimabwe's recent year end announcement to shareholders: "It is estimated that Zimbabwe's GDP declined by up to 5% during 2000. There are no signs of a turnaround in the fortunes of the country and it is likely that this negative operating environment will persist for the best part of 2001. Nevertheless, the Board remains confident that acceptable sales and profit growth will be achieved in the year ahead". Earnings in rand terms are, however, expected to decline somewhat due to an expected sharp deterioration in the value of Zimbabwe's currency.

manufacturing

The manufacturing division is a diversified manufacturer and supplier of predominantly men's and ladies' outerwear, sourcing products from its own manufacturing facilities, from Cut, Make and Trim (CMT) operations and internationally. This division incorporates V.O.C. and Edcon Sourcing (formerly Meltz Success).

V.O.C.

V.O.C. operates through:

Celrose Clothing produces men's and boyswear on a quick response, large volume basis in modern, efficient facilities in Tongaat, KwaZulu-Natal. Their export sales continued to expand, particularly after the reduction in American duties on imports from selected African countries, and now represent 29% of the operation's total sales of just under R120 million. The division remained profitable and contributed R9 million at the operating level.

Studio Clothing is a small, profitable, design facility, with a turnover of some R65 million. It relies exclusively on CMT facilities for its production, which includes the manufacture of ladieswear under licence for Wallis of London.

Chief Executives' Report
continued

manufacturing

H.D. Lee is a jeanswear manufacturer that operates through three factories in Lesotho, CMT facilities and washing plants. The company had a disappointing year and incurred an operating loss of R6 million. Corrective action has been taken. The Lesotho plants have been sold at book value and the head office complement downsized accordingly.

Lauré Fashions – a small specialist jacket factory in Cape Town; and,

Reactor Clothing – a CMT factory in Tongaat.

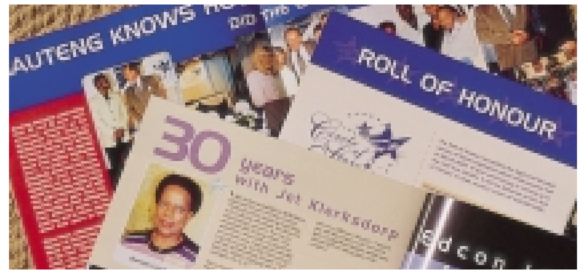
Sales growth for V.O.C. was almost 8% but the poor performance from H.D. Lee resulted in a decline in operating profit from R8 million last year to R4 million currently. Without the losses from H.D. Lee, improved results are forecast for the year ahead.

EDCON SOURCING

As indicated in the last report, this operation functioned as a sourcing business serving the Group's retail chains. Buyers and planners employed by Edcon Sourcing procured merchandise on a commission basis. No further expenses relating to the old Meltz operation were incurred and accordingly this function ran profitably.

credit

The Group continued to offer customers a variety of credit products from an interest free six-month account to a longer term, interest bearing facility. In addition, the financial services division marketed a number of financial and insurance products to the Group's database and instore to shoppers. As indicated in the analysis below, the cost of credit – before charging a cost of capital – rose substantially from R15 million last year to R94 million in the current year. This in spite of an overall reduction in total bad debt on the combined Edcon and Nedbank books. The deterioration arose chiefly from the significant decline in interest rates chargeable on accounts in terms of the Usury Act. From a high of 36% and an average rate of 30% last year, the rate remained at 25% for the full year under review. As a result, gross interest revenue from customers fell by R103 million when compared with that charged last year. The detailed analysis is as follows:



	2001 Rm	2000 Rm
Bank owned book		
Interest from customers	403	557
Cost of financing	(439)	(501)
Cost	(36)	56
Edcon book		
Interest from customers	270	219
Bad debt and doubtful debt provision	(145)	(127)
Collection costs	(200)	(176)
Total cost	(75)	(84)
Profit from financial and insurance services	17	13
Net cost of credit	(94)	(15)

Next year's budget anticipates a total cost of credit similar to that reported for the current year.

Consumer debt levels have declined further from their peak of over 60% of disposable income to a current level of just above 50%. Nevertheless, the Group has continued to apply very stringent entry requirements and, based on a sophisticated in-house scorecard and a bureau score, only 20% of applications from United Retail customers and 40% of Edgars customers are currently granted credit.

In addition, collection activity has been enhanced and further intensified with the introduction of behavioural scoring techniques for collections and the appointment of a full team of night collectors in the three regional credit offices. The Group is being rewarded for its efforts and the key measure of the percentage of the book that is able to buy, as it is not in arrears, has improved from 72% last year to 77%. Similarly, bad debt on the Edcon owned book declined marginally from 3,9% of credit transactions to 3,8%.

Uncollectable debts continued to be written off timeously and the doubtful debt provision, calculated on a consistent basis, at 6,6% of gross debtors, was in-line with the percentage last year. Based on contractual ageing, this provision covers all debtors in ages 6 to 9 whereas on a recency basis the provision exceeds all balances on debtors that have not made a payment of at least 75% of their instalment in the last two months.

As advised in last year's Annual Report, all new accounts were opened in Edcon's books this year and this "new" book increased to R285 million, while the "closed" Nedbank book declined by R340 million to R1,4 billion. Edcon remains committed, in principle, to securitisation but further investigations and a longer credit history are required before any transactions will be considered.

Many customers, hurt by punitive interest rates some years ago, remain averse to credit but are willing to shop in our stores on a cash basis. As a result, cash sales as a percentage of total sales rose again from 30,3% last year to 33,6% but the total number of active store credit accounts decreased from 3 446 000 to 3 153 000. In response to this trend, Edgars launched its cash card last financial year.

A total of 1 750 000 cards have been issued, of which 1,3 million have been activated. Market research indicated that the benefits and workings of the cash

Chief Executives' Report
continued

credit

card could be improved from a customer perspective. Accordingly, the cash card – with improved functionality and offerings – was relaunched in April 2001. Sales on the Purple Cash Card accounted for 7% of Edgars' sales and provided marketing with valuable information for promotional purposes to this enlarged database.

The Group has been developing products and relationships with insurance and banking partners for some time and is now poised to market aggressively several concepts that have been in a test phase. The highly successful launch of an account protection plan to replace lost card protection has been accepted on a positive basis by over 1,7 million customers. It will be followed by enhancements to this product and new innovative insurance offerings, specifically designed to meet the needs of our customers. The Account Protection Plan covers account balances to a maximum of R10 000, at a rate of R2,50 per R1 000 per month. The average charge runs at about R3,00 per customer per month and the cover for death, disability and importantly, retrenchment, is underwritten by the Hollard Group.

A vital element of the profitability of the cellphone departments is the insurance against loss and breakage offered at the time of selling the unit. Similarly, a breakage protection plan is sold with spectacles dispensed from our stores.

After a protracted pilot in stores and having now signed a profit sharing alliance with African Bank, their kiosks/products will be offered in 200 stores by the end of July. At the time of writing this report, some 80 stores serving lower-income customers were equipped to sell loans. Their products no longer depend on salary deductions but will be granted based on a debit order against a banking account into which a salary is paid. On this basis, and capitalising on African Bank's joint venture with Standard Bank, this product should prove most successful.

The high level of rejections on new account applications has been a concern to the Group for some time. In an endeavour to offer these disappointed customers an alternative means of shopping with significant Club related benefits, United Retail will shortly be launching a Maestro debit card product in conjunction with Standard Bank. The functionality and benefits of this card have been highly rated by carefully selected focus groups. This product will be run in terms of a joint venture agreement with the bank.

In addition to the profits generated by the Clubs by offering financial service benefits and the profit element of cellphone and spectacle insurance, the Group earned R17 million from its financial service offerings this year. With the base of account protection customers having been built and running for the full year, along with the roll-out of the products mentioned, the Group has conservatively budgeted for a profit, after providing for all claims and insurance provisions, of R50 million from the financial products division next year.

humanresources

The overarching business mission for the Edcon Group is: ‘To create a compelling place for the customer’. The corporate vision then, is : ‘To create a compelling place for the investor’. The vision for Human Resources gives logical extension to these imperatives: ‘To create a compelling place for the employee’. This framework, based on the understanding that our staff are as cardinal to our business as our customers, requires that the same consideration be given to responding to their needs as we do in responding to our customers.

The importance of effective Human Resource management goes without question when considering that the Group spends around R1 billion on salaries and benefits annually. In this context, the notion that HR is “nice to have” is eclipsed by the need to maximise the value of this investment. And because it is people – across the board – that turn businesses around, effective HR is a key determinant in any turnaround process. Given these considerations, we have concentrated on establishing the HR department as a bona fide business partner to Group operations as opposed to simply being a service department. As such, HR operates through Service Level Agreements (SLA’s) with line managers.

During the year the profile of HR has been raised meaningfully at Edcon, evidenced by the 20% weighting given to HR issues including training, employment equity, performance management and the perception survey, in appraising managers’ outputs.

Our project to structure the Edcon knowledge and skills base through competency profiling, has been completed, culminating in a “Dictionary of Competency” for the Group. This comprehensive compilation of job profiles has been cascaded down the business, with the CEO’s key deliverables (e.g. value to shareholders) forming the determinant for each subsequent subordinate. The inputs (capability required) and outputs (performance required) of every position are clearly defined as they relate to the accomplishment of common business objectives.

We have also been working to establish a portrait of the Edcon employees at all levels, to facilitate an efficient response to and management of their needs, expectations, desires, hopes and fears. This staff footprint, compiled on a per employee basis, will provide an invaluable tool in our holistic approach to effective and responsive people management.

With this in mind, we concluded a Group-wide culture survey that scoped a range of issues including staff perceptions of management, working conditions and employment equity. The survey, polled from a 100% sample, provides a comprehensive and effective agenda for corrective action in the areas flagged. Already, each department throughout the business has formulated specific action plans to effect positive change where needed. The survey has also provided a benchmark against which to measure our progress in delivering on HR issues and will be repeated next year.

In an attempt to entrench a culture of performance, a revised performance management system, highly focused on individualised goals and with a direct link to reward, has been adopted. Furthermore, a staff share scheme in which participants received a number of shares based on their performance, has

Chief Executives' Report
continued

humanresources

also been extended to all non-bargaining unit staff. A cash incentive scheme for bargaining unit staff has been formulated, to be offered in 2001/2.

We believe that Employment Equity equates to good human resource management and Edcon is committed to going beyond targets and numbers to truly effect positive transformation in the culture of the organisation. Our Employment Equity programme is not an initiative only to comply with legislation but is regarded by the Group as a business necessity to ensure the potential of all is utilised to its fullest in the interests of the business. The Employment Equity programme consists of seven strategies. A summary of each strategy is documented below.

1. Appropriate structures and resources must exist to co-ordinate and monitor the implementation of Employment Equity.
   A committee was formed consisting of labour, management and the designated groups, chaired by the Chief Executive Officer. The committee meets regularly and directs the Employment Equity strategy of the Group.
2. The employment of staff should reflect the composition of the country at all job levels.
   Targets have been set for all job categories and levels. Due to a re-alignment of job grades and a freeze on senior management appointments, the target in this category was not achieved. The decline in the percentage of black staff in the skilled categories is largely due to promotions to management and also to the freeze in new appointments. All other targets were exceeded.

Blacks as a % of total staff

31 March 2000	31 March 2001	Target 31 March 2002	Category
8%	7%	12%	Senior Management
31%	39%	38%	Management
67%	66%	74%	Skilled
83%	88%	85%	Semi-skilled
90%	94%	90%	Unskilled

3. Policies, procedures and practices must be equitable.
   All our policies and procedures were reviewed to ensure that they are equitable and various revisions and additions were made, for example, to the recruitment policy and sexual harassment policy.
4. Establish a culture that is conducive to employment equity and supports a growing business.
   Our view is that affirmative action will only be sustainable if it is underpinned by an organisational culture that values diversity. Various initiatives have been launched to achieve this objective.
5. Work towards equal opportunities in the workplace for all women.
   Various initiatives have been introduced to address the unique challenges faced by women in our organisation.
6. Eliminate unfair discrimination against the disabled.
   Disabled employees were co-opted onto the Employment Equity Committee to assist with the compilation of a suitable strategy.
7. Ensure that the Group complies with the requirements of the Employment Equity Act.
   Full consensus with all the relevant stakeholders was achieved and the Employment Equity report was submitted within the timelines and in the format required by the legislation.

humanresources

The Group complies with all relevant legislation that governs skills development in the country and should recover the full 50% of its training levy. The company has progressed in mandating that all training material will be accredited over time. To ensure that supervisors and managers are equipped to deal with the ever-changing demands of retail, many staff attended various training programmes over the past year.

The national Management-Labour Forum continued to be an effective means of strengthening our relationship with labour as an integral partner in the business. Numerous agreements were concluded concerning, for example, extended trading, casual labour, retrenchments and the determination of ideal staffing levels per store. We will continue to collaborate and consult with labour and look forward to good relations in the interests of all parties in the future. To ensure compliance with ever changing labour legislation, we have trained numerous line managers in the latest labour laws.

With the spectre of HIV/AIDS looming ever larger on the country's economic landscape, HR has been working with an external consultant to understand the future impact it is likely to have on the business. Group-wide awareness campaigns – through various channels – will be continued, as will our efforts to establish the understanding of HIV/AIDS related information so as to better tailor our approach.

Employees continued to enjoy the benefits and savings opportunities provided by the various provident and pension funds administered by the Group. Full details of these funds are included in note 5 to the financial statements.

For some years, management has recognised the need to provide for post-retirement medical aid liabilities for pensioners and all staff in respect of service to date. Mindful of the existence of overfunding in the pension fund of R290 million, calculated in terms of International Accounting Standard IAS19, the trustees of the pension fund have agreed to the outsourcing of pensioner liabilities, with a sweetener to pensioners and payments to all medical aid members, with a view to eliminating the company liability for post-retirement medical aid of some R76 million. The proposals, substantially in-line with pending legislation on fund surpluses, are subject to the approval of the authorities. Based on current actuarial calculations, the present value of a pension fund contribution holiday in perpetuity funded from this surplus would be R35 million, while the company would enjoy lower provident fund contributions of approximately R40 million in future. Neither of these assets has been recognised in the financial statements pending a definitive decision from the regulators.

As indicated in last year's report, the Edcon Medical Aid was restructured to comply with the new Medical Aid Act. Claims in terms of the new benefit structures soared and it has been necessary once again to change structures, benefits and contribution rates substantially. As an alternative, members were asked to vote as to whether they would like to close the Edcon fund and move to an external, open Medical Aid. The majority of members elected to remain with

Chief Executives' Report
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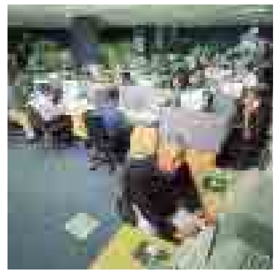


human resources

our in-house scheme and hence new rates and benefits will be introduced shortly. The company has indicated that its contributions in future will only increase by the Group's general salary rate increase and the balance of the total contribution required to maintain the solvency of the scheme will have to be made by members.

Looking ahead, the Group will continue to invest concentrated effort in our ongoing initiatives to structure and optimise the management of our people, by setting clearly defined objectives for every position at every level of the organisation and by focusing the efforts of each individual on the attainment of business goals.

We have authorised a significant investment in a best-of-breed HR technology platform, which will greatly enhance service levels and will be fully installed by March 2002.

We look forward to continued success in ensuring that the Edcon vision is achievable through the effective management of the power of its people.

information technology

Edcon's IT mission is to provide an environment that is stable enough to meet operational needs, provides a high level of data and information integrity and has the flexibility to adapt to changing business and IT requirements.

The IT department is responsible for IT governance and the interface between the business and the external service providers to whom we outsource, through the interpretation of business requirements and effective project management. It also means managing the business' expectations while balancing need, value and affordability in making IT investments.

Effective outsourcing forms the cornerstone of the Group's IT policy and Edcon has developed and refined meaningful relationships with its outsourcing partners and other suppliers, all of them leaders in the IT industry. The team has worked well together to best manage available resources, to achieve better cost control, service delivery and measurement of the services provided.

Over the review period, systems supported the business well with all major issues arising being resolved within Service Level Agreements.

The year saw the extensive review of service levels throughout the business and a concerted drive to increase the flexibility and responsiveness of the

http://www.edcon.co.za

IT function. Concentrated focus was given to the improvement of data integrity and efficient information delivery, to enhance decision-making capacity throughout the business. Good progress was made in the ongoing replacement of legacy systems with packages that provide integrated functionality and the Group achieved the successful bedding down of new systems. IT continued to play a vital role in the re-distribution of the retail brands, implementing systems to support the management of single store units incorporating multiple brands.

Key deliveries for the year included:

- The successful implementation of Retek, within allotted timeframes, into ABC and Cuthberts by May 2000, followed by Jet and Sales House in March 2001. Retek, an integrated merchandising system, provides business benefits by enabling better margin-control, improved buying and merchandising, enhanced stockturn management and more consistent data integrity.
- The implementation of the Arthur 4 Merchandise Planning system.
- The implementation of Nautilis 6, an upgraded distribution management system.
- Credit management was given a boost with the implementation of the TRIAD system which manages credit limits more effectively and prioritises collection activities.
- The implementation of a system to support trading with variable VAT rates for different classifications of merchandise for Edcon's operations in Namibia, with the flexibility of using this system in the rest of the business should legislation in South Africa so require.
- Providing support to the successful rollout of the Account Protection Plan.
- The implementation of ProMT, a profit management tool enabling profit analysis across merchandise ranges and stores, including the calculation of profitability per square metre after the allocation of attributable expenses.
- The sale of computer hardware at its book value of R93 million to our outsource partner on the basis that the equipment is to be merged with other users' facilities and then rented back on a usage basis with a net resultant saving.

Ongoing initiatives over this period have included extensive network upgrades to increase operational efficiencies and to reduce the risk of downtime. In addition, we have instituted a major project to improve security on all e-commerce related systems to reduce the risk of Internet based applications, and to improve privacy of customer information and security of business data.

Our business-to-consumer venture, Edgars.co.za, was launched in September 2000 having cost less than the R15 million budgeted for development. Sales on the site have been modest to date but its technical operation has proved sound and the fulfilment of orders has been effective and efficient. Most significantly, the site has provided a valuable channel for enhanced customer service and contact with customers. While the Internet-shopping boom in this country remains a way off, we are content to maintain a presence and to continue

Chief Executives' Report
continued

informationtechnology

to refine the online offering so as to be well positioned to take advantage as the channel gains momentum.

Although there has been a definite improvement in expense control, IT costs have seen significant growth while remaining within budget. However, in the face of low turnover growth, IT costs as a percentage of sales remain high. Going forward, we will be looking to reduce the rate of growth by ensuring optimal IT spend by strictly tailoring investments to better prioritised business needs.

At year end the amount included under fixed assets in respect of unamortised commissioned enterprise-wide software amounted to R103 million, while the capitalised costs in respect of systems still to be operationalised and included in prepayments, were R143 million.

Looking forward, the main focus in the year ahead will be on streamlining systems and investigating cost saving opportunities through the e-enablement of business processes. The Group will continue with its applications development programme including the implementation of Retek into Edgars.The implementation of a new system for Human Resources management is expected to be substantially completed during the year. The next major project on the horizon is the upgrading of the store systems which have served the Group particularly well for over a decade.

A major undertaking, for which we have already begun to prepare, will be the transfer of the Group's computer centre, currently split between Edgardale and leased premises, to shared facilities managed by PQ Outsource. The move, which will be complete in June 2001, will place the Edcon computer facility in a modern, secure, custom built location with appropriate disaster recovery options.

supplychain

Continued focus on the elimination of non-value adding activities in all components of the supply chain resulted in a reduction in costs for the fourth consecutive year. Notable achievements during the period included: less idle inventory; the introduction of e-commerce business-to-business links with suppliers; outsourcing of transportation to external carriers with resultant savings; improved supply chain data integrity thus enhancing allocation and replenishment efficacies; further reductions in warehouse throughput stock losses; a marked improvement in vendor on-time deliveries; and, the establishment of an efficient fulfilment centre for the Edgars.co.za initiative. The full benefits of the Group's investment in technology in this area will only be realised once Retek is fully operative throughout the Group later this year.

storedevelopment

It was a particularly challenging year for the store development department as they responded to the Group's strategic initiatives to downsize and reposition the property portfolio in South Africa.

16 new stores (15 156 square metres) were opened, 72 new facias created as a result of conversions, including the transfer of 22 Edgars stores to United Retail, 58 stores were closed and handed back to landlords, 21 stores were revitalised, six reduced in size and seven units transferred and rightsized. As a result, after starting the year with 671 facias and 788 000 square metres of space, the year ended with 701 facias in 633 physical stores with space of 773 000 square metres, some 2% below last year. The number of co-brands and multi-brands in United Retail increased over the year from 27 to 62 and almost 17% of Group space is currently represented by combinations of facias. To effect the above changes, capital expenditure of R81 million was spent – R39 million in Edgars and R42 million in United Retail, compared with an original budget of R110 million.

There is little doubt that the retail property market is currently oversaturated and there is scarcely a need for any new clothing retail space throughout the country. Against this background, the development department has, at lease renewal dates, often been in a position to negotiate new rentals at lower rates than previously paid. The future value of rent reductions effected during the year amounted to almost R15 million. The only major new developments in the past year were the opening of the prestigious Canal Walk centre outside Cape Town, in which new Edgars, Jet, Cuthberts and Smiley's stores were opened. The refurbishment of Edgars, Menlyn as part of the total revitalisation and expansion of the centre, lifted sales in this store dramatically.

The budget for store capital expenditure for the year ahead is R73 million (R38 million in Edgars and R35 million in United), with meaningful refurbishments planned for Edgars Eastgate, East Rand Mall and Greenacres in Port Elizabeth. New Edgars stores will open in the Kolonnade in Montana, and Long Beach Mall. The repositioning exercise will continue in United Retail with many more Sales House and Cuthberts stores being moved to Jet premises to operate as co- or multi-brand operations. Currently 125 projects have been scheduled to move, refurbish or close stores in the United Retail portfolio. Total retail space is expected to decline by a net 4% in the year ahead.

Chief Executives' Report
continued

theclubs

A cornerstone of the Group's strategy is to build strong and sustained relationships with our customers. Our clubs give our chains a public face and provide a platform for regular communication with our customer-base, allowing us to care for their personal needs and to make meaningful contributions to their communities.

The impact of our clubs, Edgars Club and Club Together, is currently more significant than ever as each club has more than 900 000 members. Club Together, launched in October 2000, was formed by combining the ailing Jet and Sales House clubs to provide a broader communication platform and enhanced benefit package for members. Customer response has been remarkable with more than 300 000 customers becoming Club Together members since the re-launch.

Club members receive 11 issues of the club magazine each year. Each club has its own magazine with content and creative feel designed specifically for its target market. Articles in the magazine help our customers connect on an emotional level with the organisation by providing a personality for the club and the chains. Latest products are attractively displayed to facilitate a customer's next shopping trip.

Additionally, the clubs enhance the lives of our members by providing products that give peace of mind at unbeatable prices. The critical mass achieved by our clubs yields enormous buying power and enables us to provide insurance products at prices unmatched anywhere else in the market. Club members can rest assured that the club will provide assistance in the event of death, through life insurance, or in cases of hardship, through medical rescue and roadside assistance. Furthermore, special promotions and discount offers throughout the year ensure that participants benefit fully from their membership.

Edgars Club and Club Together aim to uplift South African communities through educational initiatives. Collectively the clubs offer more than R9 million in bursaries each year to club members and their families. Edgars Club has sponsored seminars on nutrition and motivation, featuring national and international speakers that are leaders in their respective fields. Club Together sponsors a "Mother of the Month" competition which culminates in a glittering gala event as the "Mother of the Year" is crowned.

The Edcon Clubs are the vibrant heart of the Group's strategy to build meaningful relationships with its customers. They are instrumental in engendering positive associations with our brands and provide a channel with which we can reach out and add value to the lives and communities of the customers we are committed to serving.

corporate socialresponsibility

Edcon's deeply held commitment to this country and its desire to be a caring corporate citizen defines our mission: to assist in bringing about positive change in the living standards of all South Africans. At Edcon, we believe that the lack of meaningful quality of life for so many is a legacy that cannot be left solely to Government to address. We understand also that sustainable business success and wealth creation thrive only in a stable and conducive environment. We therefore embrace the opportunity put before the business community to contribute meaningfully to the upliftment of our country and the communities we serve.

Edcon's approach to social responsibility is governed by its preference for more direct involvement rather than handouts. While encouraging our staff to support community projects at store and individual level, our contribution extends from the community upliftment initiatives of our Clubs to a number of carefully chosen projects mostly centred around our desire to empower the youth of our country to be better citizens.

Edcon's relationship with SOS Children's Villages, which aim to provide a comfortable environment for abandoned children, allows us to contribute to raising hopes and instilling pride in a group of youths who otherwise could have been swallowed by poverty and crime. The SOS outreach programmes into neighbouring communities, to build capacity in organisations that share similar objectives, make this initiative worthwhile for us.

We have been corporate members of the Nelson Mandela Children's Fund since 1997, having pledged funding over a ten-year period. We are proud to be associated with the fund and applaud the dedication of the former president to programmes intended to improve the plight of the youth of our country.

We are in partnership with the National Business Initiative (NBI) to build capacity in education by assisting them to raise the proficiency of educators. The systemic approach applied by the NBI in addressing the pipeline of education delivery, by ensuring that both administrators and educators in the schooling system are competent in providing quality education, appeals to us. We believe this is the route to go if a sustainable environment for delivery is to be created and hence our support.

While Edcon will continue to concentrate primarily on projects for the upliftment of the youth through the provision of quality education, deserving health and welfare requests also receive due regard and assistance.

Chief Executives' Report
continued

prospects

In the light of the turnaround initiatives we have outlined, we remain confident that the Group's future success is not over-dependent on market recovery.

That notwithstanding, although our short-term expectations for the sector are for a moderate improvement, nor can we be too bullish. Healthy capital inflows issuing from the privatisation of State assets should boost the general economy but resulting job losses will contribute to the ongoing decline in household incomes. Limited foreign investment will continue to retard meaningful growth and high food inflation and spiralling transport costs will continue to exceed salary increases by a widening margin. However, with the novelty of cellular phones, gambling and the lottery on the wane, apparel sales should see some benefit from marginally higher discretionary spend.

For the Group, steeply rising costs for systems and transport, the cost of credit and restructuring coupled with low clothing inflation and restricted turnover growth, will continue to pressure margins. This will be offset by the concerted drive for optimum operational efficiency and disciplined cost control throughout the Group. We will forge ahead with our strategy to redistribute trading space as quickly as is practicable, to save on restructuring costs, and will continue to build strongly on our achievements to date in the steady improvement of all aspects of our business.

lookingahead

Our intention is to become a world-class retailer and we will continue to surpass national standards of trading efficiency and service on our way to matching international industry benchmarks. We are in good shape despite a tough market. Gearing stands at only 25% and as such we are looking better than many of our competitors. We remain confident that of a retail market worth around R30 billion, we can regain a 31% to 32% share within 4 years.

To attain this, we will continue to compete aggressively by differentiating ourselves through outstanding service levels, the best available fashion in size and in stock at the right prices. We will continue to work hard to achieve the optimal management of product ratios, of pricing and economical real estate distribution per customer segment. In addition, we will continue to lead the market by reacting decisively to external risks and recognising retail opportunities in the face of changing trading conditions.

http://www.edcon.co.za

appreciation

This has been a year of tumultuous change for Edcon. Ambitious plans to realign, reallocate and/or rebrand our real estate portfolio have required Herculean efforts against almost impossible deadlines. We want to recognise specially the work of Assie Boshoff and the operations team at United Retail, Franco Gortana, Mike Lewin and the store design team's Houdini performance in September/October during which over one hundred store projects were managed.

Also, we would like to acknowledge and thank the Employment Equity Committee: labour, management, black, white, coloured, Asian, female, disabled, in all combinations, coming together in a spirit of partnership and camaraderie and producing a first rate plan for the transformation of Edcon with full support and consensus.

Our thanks to our Chairman, Selwyn MacFarlane, whose active interest in our turnaround has provided us with insightful ideas, challenged our thinking and truly added value.

For his short tenure on our Board, thanks to Dr Alewyn Burger for his important contribution as a non-executive Director and to Bill Beck we extend our gratitude for his valuable and incisive thinking and advice over so many years. We welcome Jack Koolen to our Board and hope he will be of as much help in the years to come as he has been for these past two in his capacity at the Monitor Company.

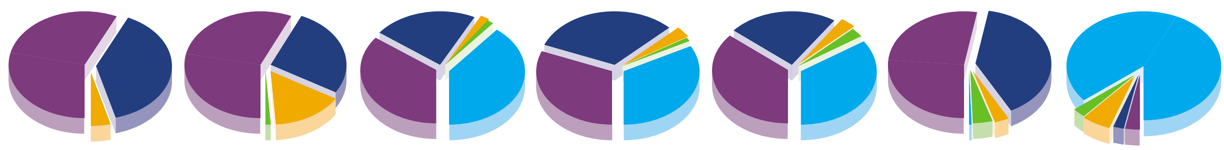
Our respect for our colleagues on the executive committee grows daily and particularly in the year past as they have achieved remarkable progress in our turnaround.

S M Ross, Chief Executive Officer

M R Bower, Chief Executive Group Services

segmentalanalysis

(AUDITED) (NOTE 1)

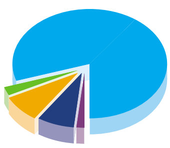
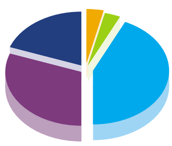
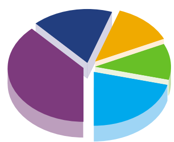
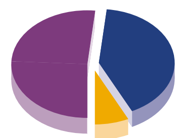
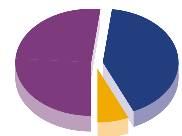
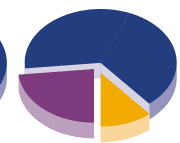


	Revenue – Retail sales (Rm)			Trading profit (Rm)			Depreciation (Rm)			Capital expenditure (Note 2) (Rm)			Non-current assets (Rm)		Inventories (Rm)		Other current assets (Rm)	
	2001	2000	%	2001	2000	%	2001	2000	%	2001	2000	%	2001	2000	2001	2000	2001	2000
Edgars	3 900	3 676	6	229	224	2	73	77	(5)	57	40	43	285	316	640	678	75	90
United Retail	2 658	2 535	5	110	176	(38)	46	48	(4)	58	26	123	183	172	480	418	55	67
Edgars Zimbabwe	287	213	35	62	47	32	4	4	—	6	4	50	26	19	39	45	145	91
Manufacturing Division				4	(11)	136	3	9	(67)	2	2	—	21	24	50	58	64	58
GROUP SERVICES (Note 3)				(85)	(5)		81	80	1	60	68	(12)	272	348	6	6	2 069	1 715
GROUP Edcon	6 845	6 424	7	320	431	(26)	207	218	(5)	183	140	31	787	879	1 215	1 205	2 408	2 021
PER GEOGRAPHIC REGION																		
South Africa	6 341	5 991	6	246	353	(30)	200	211	(5)	176	136	29	748	846	1 147	1 122	2 208	1 878
Zimbabwe	287	213	35	62	47	32	4	4	—	6	4	50	26	19	39	45	145	91
Other (Note 5)	217	220	(1)	12	31	(61)	3	3	—	1	—	—	13	14	29	38	55	52

Notes

1. *Prepared in accordance with accounting policy note 1.13*
2. *Excludes proceeds on disposal of properties, fixtures, equipment and vehicles and movements in loans (note 11.7 and 11.8)*
3. *Incorporating credit division, other corporate divisions and consolidation adjustments*
4. *Represents active accounts and includes bank financed accounts (000): Edgars – 540 (2000: 730) United – 387 (2000: 463)*
5. *Comprising Botswana, Lesotho, Swaziland and Namibia*

Edcon

	Interest free liabilities (Rm)		Net assets (Rm)			Number of employees			Retail sales/retail employee (R000)			Trading area (000 m²)			Retail sales/m² (moving average) (R)			Number of accounts (Note 4) (000)			Number of facias		
	2001	2000	2001	2000	%	2001	2000	%	2001	2000	%	2001	2000	%	2001	2000	%	2001	2000	%	2001	2000	%
	19	64	981	1 020	(4)	5 118	5 603	(9)	762	656	16	399	435	(8)	9 397	8 430	11	1 641	1 730	(5)	163	199	(18)
	94	32	624	625	—	2 317	2 547	(9)	1 147	995	15	319	298	7	8 607	8 244	4	1 303	1 508	(14)	461	395	17
	98	70	112	85	32	1 699	1 693	—	271	214	27	55	55	—	5 218	3 975	31	209	208	—	77	77	—
	29	5	106	135	(21)	1 463	2 077	(30)															
	962	1 011	1 385	1 058	31	2 847	2 581	10															
	1 202	1 182	3 208	2 923	10	13 444	14 501	(7)	603	548	10	773	788	(2)	8 888	8 002	11	3 153	3 446	(9)	701	671	4
	1 093	1 103	3 010	2 743	10	11 502	12 509	(8)	632	574	10	696	712	(2)				2 865	3 139	(9)	601	573	5
	98	70	112	85	32	1 699	1 693	—	271	214	27	55	55	—				209	208	—	77	77	—
	11	9	86	95	(10)	243	299	(19)	893	769	16	22	21	5				79	99	(20)	23	21	10

Corporate Governance Report

Corporate governance incorporates the adoption and monitoring of sound effective systems of internal control, the assessment and management of business risks and the definition and implementation of appropriate business procedures. Responsibilities are fixed, directed and controlled for the purpose of administering and safeguarding shareholders' interests and Group assets. The Directors of Edcon deem corporate governance to be vitally important and are unreservedly committed to applying the principles necessary to ensure that good governance is practised. For this they accept full responsibility. These principles include integrity, transparency and accountability of the Directors to all stakeholders. In pursuit of these ideals, the intention is to exceed "minimum requirements" with due consideration to international trends and codes. Corporate governance within the Edcon Group is managed and monitored by a unitary Board of Directors and several sub-committees of the main Board. The Board is of the opinion that the Group currently complies with the principles incorporated in the Code of Corporate Practices and Conduct, as set out in the King Report and the JSE Securities Exchange Listing Requirements.

BOARD OF DIRECTORS

Its primary responsibilities include discussing and reviewing the strategic direction of Edcon and monitoring investment decisions, considering significant financial matters, and reviewing the performance of executive management against business plans, budgets and industry standards. In addition, specific attention is given to ensuring that a comprehensive system of policies and procedures is operative and compliance with corporate governance principles is reviewed regularly. The Board is chaired by non-executive Director, W S MacFarlane, and consists of six executive and seven non-executive Directors. The names and credentials of the Directors in office on 31 March 2001 are detailed on pages 2 to 3. The Board remains responsible to the shareholders in the exercise of its duties.

Non-executive Directors contribute an independent view to matters under consideration and add to the breadth and depth of experience of the Board. This Group enjoys significant influence at meetings. The roles of Chairman and Chief Executive are separate, with responsibilities divided between them. The Chairman has no executive functions. All Directors have the appropriate knowledge and experience necessary to effect their duties with each actively involved in the Group's affairs. Generally, Directors have no fixed term of appointment but retire by rotation every three years, and, if available, are considered for re-appointment at the Annual General Meeting. Exceptions to this are the current Chief Executive Officer, who has a five year employment contract which commenced on 1 October 1998 and has been extended to 31 March 2006, and the Chief Executive Group Services, who signed a three year contract in March 1999 with the company. In terms of the articles of association, Messrs. W S MacFarlane, M R Bower, and G R Evans retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election. Mr W F de la H Beck also retires but has indicated that he will not offer himself for re-election. Dr A P Burger was appointed to the Board on 17 August 2000 but resigned with effect from 31 March 2001. Shareholders will also be asked to confirm the appointment as non-executive Director of Mr J D M G Koolen with effect from 31 March 2001 and, as executive Director, of Mr K C van Aardt, who was appointed by the Board on 17 February 2001. Non-executive Directors receive no benefits from Edcon other than their directors' fees. All Board members are required to disclose their shareholdings in Edcon, other directorships and any potential conflict of interest. They are then required to excuse themselves from any discussions and decisions on matters in which they have a conflicting interest.

Board meetings are held at least quarterly, with additional meetings called where circumstances necessitate. Effective chairmanship and a formal agenda, raising issues that require attention, ensure that proceedings are conducted efficiently and all appropriate matters addressed. All relevant information is supplied to Directors timeously. Meetings are not dominated by one person or group of persons, rather the interests of all stakeholders remain at the core of all decisions. Members have unlimited access to the Group secretary, who acts as an advisor to the Board and its sub-committees on issues including compliance with Group rules and procedures, statutory regulations and best corporate practices. Furthermore, the advice of independent professionals may be obtained by any Board member in appropriate circumstances, at the expense of the company. The name and address of the secretary are on page 89.

BOARD SUB-COMMITTEES

Specific responsibilities have been delegated to Board committees with defined terms of reference from approved charters. The current Board committees are:

Audit committee

The audit committee identifies and continuously evaluates exposure to significant risks, reviews the appropriateness and adequacy of the systems of internal financial and operational control, reviews accounting policies and financial information issued to the public, provides effective communication between Directors, management and internal and external auditors, and recommends the appointment of the external auditors. The committee has three non-executive members and one executive member and their details are provided on pages 2 to 3.

The audit committee charter provides clear terms of reference to the audit committee. In drafting this charter, full consideration was given to current international trends and developments pertaining to audit committees. Committee members have unlimited access to all information, documents and explanations required in the discharge of their duties. This authority has been extended to the internal and external auditors. The activities of the committee are reviewed by the members via an annual control self-assessment exercise. Furthermore the main Board is provided with regular reports on the committee's activities.

The committee, chaired by W S MacFarlane, meets at least twice a year. Meetings are attended by invitees, including the Chief Executive Group Services, Group Financial Director, external auditors, internal auditor and company secretary. The charter also prescribes that sessions may be held with no management present, to ensure that matters are considered without undue influence. The internal and external auditors have unlimited access to the Chairman.

Remuneration committee

The purpose of the remuneration committee, as set out in its charter, is to approve a broad remuneration strategy for the Group and to ensure that Directors and senior executives reporting to the Chief Executives are adequately remunerated for their contribution to Edcon's operating and financial performance, in terms of base pay and short and long-term incentives. In fulfilling its duties, consideration is given to industry and local benchmarks and international trends. At all times, due attention is paid to succession plans and the retention of key executives. In order to promote an identity of interests with shareholders, share incentives are considered to be an integral and vital element of middle and senior management's incentive pay. The committee members are detailed on page 48. The Directors' emoluments are fully disclosed in note 5 to the financial statements.

Customer service committee

This committee was established to promote a customer service ethic throughout the Group and to provide an independent assessment of customer service against specified service objectives, by setting criteria and measuring delivery against these standards. The committee met for the first time in August 2000. It is responsible for maintaining a comprehensive understanding of the levels of customer service expected in each chain, against which it considers the results of various initiatives including "mystery shopper" reports. It makes recommendations for corrective action by evaluating the performance of each chain. Meetings are held twice per annum under the chairmanship of the Chief Executive Officer. Clear terms of reference have been documented in a charter approved by the main Board. The committee consists of three members of whom one is non-executive. The Directors who are committee members are detailed on page 48.

OTHER GROUP COMMITTEES

Employment equity committee

The role of the employment equity committee is to formulate and implement the employment equity strategy and measure achievements. An employment equity plan has been developed and submitted to the relevant authorities and there is ongoing communication of the strategy and plan as well as monitoring of its implementation and the achievement of goals. A constitution has been adopted which guides activities. The committee of elected and appointed members, holds monthly meetings with representatives from management and labour and is chaired by the Chief Executive Officer.

ACCOUNTABILITY AND AUDIT

Internal control

The Board of Directors is responsible for the Group's systems of internal control. Responsibility for the adequacy, extent and operation of these systems is delegated to the executive Directors. To fulfil this responsibility management maintains accounting records and has developed and continues to maintain appropriate systems of internal control.

The Directors report that the Group's internal controls and systems are designed to provide reasonable, and not absolute, assurance as to the integrity and reliability of the financial statements, to safeguard, verify and maintain accountability of its assets and to detect and minimise fraud, potential liability, loss and material misstatement, while complying with applicable laws and regulations.

The systems of internal control are based on established organisational structures together with written policies and procedures, including budgeting and forecasting disciplines and the comparison of actual results against these budgets and forecasts. The Directors have

Corporate Governance Report
continued

satisfied themselves that these systems and procedures are implemented, maintained and monitored by appropriately trained personnel with suitable segregation of authority, duties and reporting lines and by comprehensive use of advanced computer hardware and software technologies. Employees are required to maintain the highest ethical standards in ensuring that business practices are conducted in a manner which in all reasonable circumstances is above reproach. The effectiveness of the systems of internal control in operation is monitored continually through reviews and reports from:

- senior executives and divisional managers;
- the head of group internal audit;
- external auditors.

Furthermore, management has a control self-assessment process to supplement the existing structures of evaluating the systems of internal control. The process which includes the signing of a representation letter by the Chief Executive of each chain, is designed to assess, maintain and improve controls on an ongoing basis.

None of the above reviews indicated that the systems of internal control were not appropriate or satisfactory. Furthermore, no material loss, exposure or misstatement arising from a material breakdown in the functioning of the systems have been reported to the Directors in respect of the year under review.

Internal audit

The internal audit function is an independent appraisal function which examines and evaluates the Group's activities and the appropriateness, adequacy and efficacy of the systems of internal control and resultant business risks. In terms of the audit committee charter, the head of internal audit has the responsibility of reporting to the audit committee and has unrestricted access to its Chairman. Its objective is to assist members of executive management in the effective discharge of their responsibilities. The scope of the internal audit function includes reviews of the reliability and integrity of financial and operating information, the systems of internal control, the means of safeguarding assets, the efficient management of the Group's resources, and the effective conduct of its operations. Audit plans are based on an assessment of risk areas and every assignment is followed by a detailed report to management including recommendations on aspects requiring improvement. Significant findings are reported to the audit committee. The internal audit work plan is presented in advance to the audit committee.

In addition, internal audit provides pivotal input to the semi-annual risk assessment monitor in terms of which key group risks are identified, assessed and management plans formulated to reduce exposure to these risks. This risk assessment monitor is tabled semi-annually at the audit committee and the main Board for consideration.

A fraud hot line was established last year and Edcon associates are able, anonymously, to report suspected irregularities. The project is administered by both the external and internal auditors. Results confirm that this is an effective tool for the prevention and detection of fraud.

External audit

The external auditors provide an independent assessment of systems of internal financial control and express an independent opinion on the annual financial statements. The external auditors complement the work of the internal audit department and review all internal audit reports on a regular basis. The external audit function offers reasonable, but not absolute assurance on the accuracy of financial disclosures.

RISK MANAGEMENT

The objective of risk management is to identify, assess, manage and monitor the risks to which the business is exposed. Risk management is a Board responsibility. The most significant risks currently faced by the Group are the skills shortage, risks associated with buying fashion goods, AIDS, credit granting risks, IT related risks, crime, the shift in spending patterns and lower margins on clothing and the deteriorating economic and political situation in Zimbabwe. The management of each of the risks is assigned to a senior executive.

Operational and financial risks are managed through detailed systems of operating and financial controls which are reviewed and monitored continuously.

Exposure to currency and interest rate risk is managed by a focused treasury department. Details of the process of management and the current levels of exposure are contained in note 29 to the financial statements.

Merchandise stock losses are managed and limited by adhering strictly to operating and financial controls, dedicated independent security associates and the use of sophisticated video and other technologies.

Losses from defaulting debtors are limited by stringent credit application criteria and clearly defined credit and collection policies. These are reviewed regularly in the light of prevailing economic conditions and bad debt statistics.

With assistance from expert insurance consultants, risks are assessed and insurance cover purchased for all risks above pre-determined self insured limits. Levels of cover are re-assessed annually in the light of claims experiences and changes within and outside the Group.

Disaster recovery plans for the provision of ongoing information technology services in the event of a disaster are documented and updated, and tested at reasonable intervals. Where necessary business resumption plans have and will be developed on an ongoing basis.

RELATIONSHIPS AND REPORTING

Employee participation

Our human resources are now full partners in the business with a common vision to "achieve business success through people". A concerted drive to encourage employee participation at all levels has permeated the business. Employee participation is effected through employee fora, the conclusion of mutually beneficial agreements between labour and the company, an increased focus on training, employee participation as trustees on the medical aid and retirement funds, regular communication with employees through newsletters, the internal radio station in stores, and videos. During the year an employee perception survey was conducted throughout the Group and plans have been introduced to address common concerns.

Employment equity

Edcon has a clearly defined employment equity strategy and a comprehensive employment equity plan agreed to by labour, was completed and submitted in June 2000. This and other specific affirmative action programmes aim at liberating the full potential of previously disadvantaged personnel, while at the same time meeting all legislated requirements. The employee equity committee manages this process. Details of the Group's progress in this and other employee related areas are included in the Chief Executives' Report.

PUBLIC AND SHAREHOLDERS

Communication to the public and shareholders embodies the principles of balanced reporting, understandability, openness and substance over form. Positive and negative aspects of both financial and non-financial information are provided. It is the policy of the company to meet regularly with institutional shareholders and investment analysts and to provide presentations to both local and international investors and analysts bi-annually after the release of company results.

GOING CONCERN

The annual financial statements set out on pages 51 to 85 have been prepared on the going concern basis since the Directors have every reason to believe that the company and Group have adequate resources in place to continue in operation for the foreseeable future.

CODE OF CONDUCT

Edcon has a formal code of conduct that has been explicitly adopted by the Board of Directors. A copy is presented to all staff on joining the Edcon family. The code is consistent with the principles of integrity, honesty, ethical behaviour and compliance with all laws and regulations. Employees are expected to act in terms of the code at all times and failure to do so results in disciplinary action. Employees of outsourced functions are also required to comply with the principles of the code.

Staff with access to confidential financial information are prohibited from disclosing this to outsiders and from trading in Edcon shares during the period after the year end and half year end, until the final or interim results are published.

All Edcon employees are required to adhere to a comprehensive internet and electronic mail policy. This disallows any activities that may bring the Group into disrepute. Firm action has been taken against associates who fail to honour this policy.

ENVIRONMENTAL AND OCCUPATIONAL HEALTH AND SAFETY

The Directors acknowledge their responsibility to all Edcon employees and the public for compliance with occupational safety and environmental health standards. Audits testing for compliance with the Occupational Health and Safety Act are conducted on a regular basis.

CORPORATE SOCIAL ACTIVITIES

Edcon contributes to the social upliftment of the communities in which it operates. Edcon's programmes, predominantly through the Edgars Club and United Retail's Club Together, focus on contributions to education and training through payments to nominated schools, technikons and universities. In addition, bursaries are awarded to Club members and their children to attend training and educational institution courses. Deserving health and welfare requests are also included in the social investment programme.

Corporate Governance Report
continued

Members of Board sub-committees as at 31 March 2001 were as follows:

Audit committee	W S MacFarlane (Chairperson)* S M Ross A J Aaron* W F de la H Beck*
Remuneration committee	W S MacFarlane (Chairperson)* S M Ross A J Aaron* W F de la H Beck* Z B Ebrahim* Dr U Ferndale
Customer service committee	S M Ross (Chairperson) T N Eboka* T B Wiseman

Other committees:

Employment equity committee	S M Ross (Chairperson) M R Bower G R Evans Dr U Ferndale Employee representatives SACCAWU representatives FEDCRAW representatives

* Non-executive Director

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The annual financial statements for the year ended 31 March 2001 incorporate the results for the fifty-two weeks ended 31 March 2001 (2000: fifty-two weeks ended 1 April 2000).

The Directors are ultimately responsible for the preparation of the annual financial statements and related financial information that fairly present the state of affairs and the results of the company and of the Group. The external auditors are responsible for independently auditing and reporting on these annual financial statements in conformity with Statements of South African Auditing Standards.

The annual financial statements set out in this report have been prepared by management in accordance with South African Statements of Generally Accepted Accounting Practice, International Accounting Standards and in the manner required by the Companies Act in South Africa. They incorporate full and reasonable disclosure and are based on appropriate accounting policies which have been consistently applied and which are supported by reasonable and prudent judgements and estimates.

No event, material to the understanding of this report, has occurred between the financial year end and the date of this report.

In the context of their audit, carried out for the purposes of expressing an opinion on the fair presentation of the annual financial statements, the auditors have concurred with the disclosures of the Directors on going concern and corporate governance.

These annual financial statements have been approved by the Board of Directors and are signed on their behalf by

W S MacFarlane, Chairman

S M Ross, Chief Executive Officer

CERTIFICATE BY COMPANY SECRETARY

In my capacity as company secretary, I hereby confirm, in terms of the Companies Act, 1973, that for the year ended 31 March 2001, the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act and that all such returns are true, correct and up to date.

D J Viviers, Secretary and Legal Advisor

17 May 2001

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group annual financial statements

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55 Statements of changes in ordinary shareholders' equity

56 Notes to the annual financial statements

85 Interests in subsidiaries

CURRENCY OF FINANCIAL STATEMENTS

The financial statements are expressed in South African rand (R).

The approximate rand cost of a unit of the following currencies at 31 March was

	2001	2000
US dollar	8,06	6,56
Sterling	11,53	10,47
Deutsche mark	3,63	3,21
Swiss franc	4,66	3,95
Italian lire (100)	2,72	3,09
French franc	1,08	0,96
Zimbabwe dollar	0,15	0,15
Botswana pula	1,44	1,37
Euro	7,10	6,28

KEY INDICATORS IN US DOLLAR TERMS

	2001 US$m	2000 US$m
Revenue – retail sales *	936	1 007
Earnings attributable to ordinary shareholders *	20	36
Total assets	547	626
Market capitalisation	150	618

*Translated at an average rate of R7,31 (2000: R6,38)

Report of the Independent Auditors

To the members of
Edgars Consolidated Stores Limited

We have audited the annual financial statements set out on pages 51 to 85 for the year ended 31 March 2001. These financial statements are the responsibility of the company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

SCOPE

We conducted our audit in accordance with Statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

AUDIT OPINION

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company and the Group at 31 March 2001, and the results of their operations, cash flows and changes in equity for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice, International Accounting Standards and in the manner required by the Companies Act in South Africa.

Ernst + Young

Ernst & Young, Chartered Accountants (SA)
Registered Accountants and Auditors

Johannesburg
17 May 2001

Income Statements

Company 2000 Rm	Company 2001 Rm		Note	Group 2001 Rm	Group 2000 Rm
6 224,3	6 796,8	Total revenues	3	7 542,7	7 013,1
5 697,7	6 239,1	Revenue – retail sales		6 844,8	6 423,6
3 747,1	4 132,6	Cost of sales		4 498,3	4 100,7
1 950,6	2 106,5	Gross profit		2 346,5	2 322,9
		Expenses			
394,6	640,3	general and administration		707,3	585,4
1 207,9	1 275,2	sales and distribution		1 320,0	1 308,2
348,1	191,0	Trading profit	4	319,2	429,3
77,3	9,3	Dividend income	6	1,1	1,3
9,0	5,6	Interest received	7	14,7	11,2
434,4	205,9	Profit before financing costs		335,0	441,8
90,7	90,6	Financing costs	7	91,5	88,6
343,7	115,3	Profit before taxation		243,5	353,2
74,8	38,0	Taxation	8	75,3	108,3
268,9	77,3	Profit after taxation		168,2	244,9
		Attributable to outside shareholders			
		of indirect subsidiaries		0,9	3,2
		of direct subsidiaries		17,2	15,2
268,9	77,3	Earnings attributable to ordinary shareholders		150,1	226,5
		Earnings per ordinary share (cents)	10		
		attributable earnings basis		261,3	394,8
		headline earnings basis		267,5	407,9
		Dividends per ordinary share (cents) declared for the financial year	9	100,0	152,0

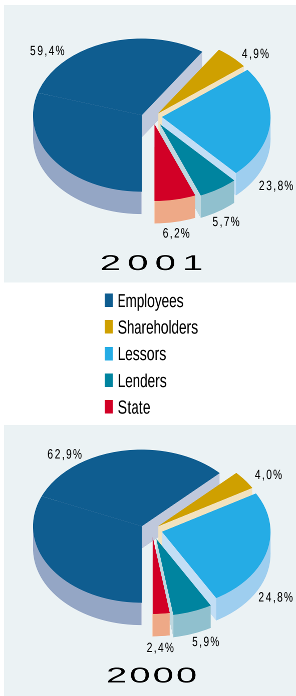
Cash Flow Statements

Company 2000 Rm	Company 2001 Rm		Note	Group 2001 Rm	Group 2000 Rm
		Cash retained from operating activities			
348,1	191,0	Trading profit		319,2	429,3
160,6	197,9	Non-cash items	11.1	212,1	225,3
71,7	4,4	Dividends received	11.2	1,1	1,3
(334,6)	(203,8)	Working capital requirements	11.3	(249,2)	(334,9)
245,8	189,5	Cash generated from operating activities		283,2	321,0
9,0	5,6	Interest received		14,7	11,2
(90,7)	(90,6)	Financing costs paid	11.4	(91,5)	(88,6)
(5,3)	(69,0)	Taxation paid	11.5	(101,1)	(36,2)
158,8	35,5	Cash inflow from operations		105,3	207,4
(56,3)	(76,4)	Dividends paid	11.6	(79,9)	(60,6)
102,5	(40,9)	Net cash retained/(utilised)		25,4	146,8
		Cash utilised in investment activities			
(83,8)	(47,2)	Investment to maintain operations	11.7	(66,1)	(90,2)
(37,3)	(52,7)	Investment to expand operations	11.8	(54,3)	(40,7)
(7,0)	—	Net investment in subsidiaries	11.9	—	(6,6)
(128,1)	(99,9)	Net cash invested		(120,4)	(137,5)
		Cash effects of financing activities			
—	2,0	Increase in shareholder funding	11.10	2,1	0,6
40,4	196,0	Increase in interest bearing debt	11.11	189,5	27,8
40,4	198,0	Net cash inflow from financing activities		191,6	28,4
14,8	57,2	Increase in cash and cash equivalents	11.12	96,6	37,7
44,7	59,5	Cash and cash equivalents at the beginning of the year		118,5	81,4
		Currency adjustments		4,5	(0,6)
59,5	116,7	Cash and cash equivalents at the end of the year		219,6	118,5
		Attributable cash flow per ordinary share (cents)	10	209,8	375,4
		Attributable cash equivalent earnings per ordinary share (cents)	10	711,7	779,7
		Cash realisation rate (%)	2.5	29	48

Cash Value Added Statements

Cash value added is the wealth, expressed in cash terms, that the Group has created by purchasing, manufacturing, processing and marketing its products and services.
The statement below shows how this cash wealth created has been disbursed among the Group's stakeholders.

	Group 2001 Rm	2000 Rm	Change %
Cash generated			
Cash derived from customers	6 645,3	6 145,6	
Cash payments outside the Group to suppliers of materials, merchandise, facilities and services	(4 998,0)	(4 497,6)	
Cash value added	1 647,3	1 648,0	—
Cash utilised to			
Remunerate employees for their services	963,5	943,3	2
Pay direct taxes to the state			
South Africa	72,9	11,8	
Elsewhere	28,2	24,4	16
Provide lenders with a return on monies borrowed	91,5	88,6	3
Provide lessors with a return for the use of their premises	385,9	372,5	4
Provide shareholders with cash dividends	79,9	60,6	32
Cash disbursed among stakeholders	1 621,9	1 501,2	8
Net cash retained	25,4	146,8	
Reconciliation with cash generation			
Cash value added (above)	1 647,3	1 648,0	
Less : Remunerate employees for their services	(963,5)	(943,3)	
Provide lessors with a return for the use of their premises	(385,9)	(372,5)	
Interest received	(14,7)	(11,2)	
Cash generated from operating activities (per cash flow statement)	283,2	321,0	
State taxes summary			
Direct taxes (as above)	101,1	36,2	
Net value added tax	176,9	140,4	
Employee tax	130,6	128,7	
Regional services council levies	15,4	12,1	
Municipal assessment rates and services	87,9	83,8	
Channelled through the Group	511,9	401,2	
Paid in			
South Africa	429,6	322,9	
Elsewhere	82,3	78,3	
	511,9	401,2	



Balance Sheets

Company 2000 Rm	Company 2001 Rm		Note	Group 2001 Rm	Group 2000 Rm
		ASSETS			
		Non-current assets			
752,1	630,1	Properties, fixtures, equipment and vehicles	12	735,0	851,5
9,0	5,0	Trademarks	13	4,0	8,2
256,4	239,0	Investments	14	—	0,8
15,9	45,2	Loans	15	48,0	18,4
1 033,4	919,3	Total non-current assets		787,0	878,9
		Current assets			
1 038,8	1 056,7	Inventories	16	1 214,6	1 204,7
1 728,6	1 938,0	Accounts receivable and prepayments	17	2 173,0	1 902,9
—	39,5	Taxation receivable		15,4	—
59,5	116,7	Cash and cash equivalents	18	219,6	118,5
2 826,9	3 150,9	Total current assets		3 622,6	3 226,1
3 860,3	4 070,2	**Total assets**		4 409,6	4 105,0
		EQUITY AND LIABILITIES			
		Capital and reserves			
591,2	593,2	Share capital and premium	19	593,2	591,2
5,6	2,6	Non-distributable reserves	20	41,9	37,5
1 428,5	1 429,5	Retained surplus	21	1 699,4	1 624,3
2 025,3	2 025,3	Ordinary shareholders' equity		2 334,5	2 253,0
0,3	0,3	Preference share capital	19	0,3	0,3
		Minority interest		51,6	42,1
2 025,6	2 025,6	**Total shareholders' funds**		2 386,4	2 295,4
		Interest bearing debt			
198,4	225,3	Long and medium term	22	225,4	199,1
430,9	600,0	Short term	23	595,5	428,7
629,3	825,3	Total interest bearing debt		820,9	627,8
2 654,9	2 850,9	**Total capital employed**		3 207,3	2 923,2
		Interest free liabilities			
922,5	921,6	Accounts payable	24	1 038,3	1 005,7
30,6	—	Current taxation		—	56,8
119,3	158,4	Deferred taxation	25	164,0	119,3
133,0	139,3	Owing to subsidiaries	14		
1 205,4	1 219,3	Total interest free liabilities		1 202,3	1 181,8
3 860,3	4 070,2	**Total equity and liabilities**		4 409,6	4 105,0
		Net equity per ordinary share (cents)	2.16	4 063,9	3 926,7

Statements of Changes in Ordinary Shareholders' Equity

Company: Share capital and premium Rm	Company: Non-distributable reserves Rm	Company: Retained surplus Rm	Company: Total Rm		Group: Share capital and premium Rm	Group: Non-distributable reserves Rm	Group: Retained surplus Rm	Group: Total Rm
591,2	9,3	1 189,6	1 790,1	Balance as previously reported	591,2	43,2	1 427,5	2 061,9
		24,7	24,7	Change in accounting policy (note 9)			24,7	24,7
591,2	9,3	1 214,3	1 814,8	Restated balance at 31 March 1999	591,2	43,2	1 452,2	2 086,6
		268,9	268,9	Earnings attributable to ordinary shareholders			226,5	226,5
	(1,0)	1,5	0,5	Net transfer from non-distributable reserves		(1,3)	1,8	0,5
		(56,2)	(56,2)	Ordinary dividends (note 9)			(56,2)	(56,2)
				Foreign currency translation reserve		(1,7)		(1,7)
	(2,7)		(2,7)	Derivative valuation adjustment		(2,7)		(2,7)
591,2	5,6	1 428,5	2 025,3	Balance at 31 March 2000	591,2	37,5	1 624,3	2 253,0
		77,3	77,3	Earnings attributable to ordinary shareholders			150,1	150,1
		(76,3)	(76,3)	Ordinary dividends (note 9)			(76,3)	(76,3)
				Foreign currency translation reserve		6,3		6,3
				Increase in tax reserve relating to lifo adjustment		1,1		1,1
	(3,0)		(3,0)	Derivative valuation adjustment		(3,0)		(3,0)
2,0			2,0	Executive share incentive scheme issues	2,0			2,0
				Reversal of deferred taxation			1,3	1,3
593,2	2,6	1 429,5	2 025,3	Balance at 31 March 2001	593,2	41,9	1 699,4	2 334,5

Notes to the Annual Financial Statements

1. ACCOUNTING POLICIES AND BASES OF PREPARATION

The financial statements are prepared in accordance with the historical cost convention, as modified by the revaluation of general purpose land and buildings and the restatement of certain financial instruments to fair value. The financial statements incorporate the following principal accounting policies which conform with South African Statements of Generally Accepted Accounting Practice and International Accounting Standards. These policies are consistent in all material respects with those applied in the previous year, except for the change disclosed in note 9.

The following South African Statements of Generally Accepted Accounting Practice have been adopted ahead of their effective dates:

AC 107 (revised) – Events after the balance sheet date

AC 116 (revised) – Employee benefits

AC 133 (revised) – Financial instruments: recognition and measurement

The following International Accounting Standard has been adopted ahead of its effective date:

IAS 39 – Financial instruments: recognition and measurement

1.1 Basis of consolidation

The Group annual financial statements consolidate the financial statements of the company and all significant subsidiaries.

The results of any subsidiaries acquired or disposed of during the year are included from the dates effective control was acquired and up to the dates effective control ceased.

The identifiable assets and liabilities of companies acquired are assessed and included in the balance sheet at their fair values as at the date of acquisition.

The company carries its investments in subsidiaries at cost less accumulated impairment losses (refer note 1.3).

All intragroup transactions and balances are eliminated on consolidation.

1.2 Goodwill

Goodwill, being the excess of the purchase consideration of shares in subsidiary companies over the attributable fair value of their net identifiable assets at date of acquisition, is capitalised and amortised on a straight-line basis over the lesser of its effective economic life and twenty years.

1.3 Impairment

The carrying value of assets is reviewed at each balance sheet date to assess whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated. Where the carrying value exceeds the estimated recoverable amount, such assets are written down to their recoverable amount.

1.4 Inventories

Retail trading inventories are valued at the lower of cost, using either the weighted average cost or the retail method, and net realisable value. The retail method approximates the lower of weighted average cost and net realisable value. Where the retail method is used cost is reduced, in the case of marked down items, to values at which normal gross margins can be realised. In the case of own manufactured inventories, cost includes the total cost of manufacture, based on normal production facility capacity, and excludes financing costs.

Work in progress is valued at actual cost, including direct material costs, labour costs and manufacturing overheads.

Factory raw materials and consumable stores are valued at average cost, less provision for slow moving items.

1.5 Long term liabilities

Where long term facilities have been arranged, borrowings in terms of such facilities are regarded as long term liabilities.

Liabilities have been classified in the balance sheet as interest bearing or interest free as the Directors believe this to be more meaningful than a current or non-current classification.

1.6 Foreign currency translations

1.6.1 Foreign entities

All foreign subsidiaries are classified as foreign entities for the purposes of foreign currency translation.

The assets and liabilities of foreign subsidiaries are translated into South African rand at rates of exchange ruling at the date of consolidation. Income, expenditure and cash flow items are translated using weighted average rates of exchange during the relevant accounting period. Differences arising on translation are reflected in a foreign currency translation reserve.

1.6.2 Foreign currency transactions and balances

Transactions in foreign currencies are converted to South African rand at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities in foreign currencies are stated in South African rand using rates of exchange ruling at the financial year end. Resulting surpluses and deficits are included in financing costs and are separately identified.

1.7 Financial instruments

1.7.1 Derivative instruments

The Group uses derivative financial instruments including interest rate swaps, forward rate agreements, interest rate caps and forward exchange contracts to hedge its exposure to interest rate and foreign currency fluctuations. It is the policy of the Group not to trade in derivative financial instruments for speculative purposes. Further details regarding financial risk management are set out in note 29.

In terms of hedge accounting, hedges are either (a) fair value hedges, which hedge the exposure to changes in the fair value of a recognised asset or liability or (b) cash flow hedges, which hedge exposure to variability in cash flows.

In the case of fair value hedges, any gains or losses on marking to market the hedging instrument, are recognised immediately in profit before taxation for the period.

1. ACCOUNTING POLICIES AND BASES OF PREPARATION *(continued)*

1.7 Financial instruments *(continued)*

1.7.1 Derivative instruments *(continued)*

Gains and losses on effective cash flow hedging instruments in respect of firm commitments or forecasted transactions, are recognised directly in equity. Any ineffective portion of a cash flow hedge is recognised in profit before taxation for the period. When the hedged firm commitment or forecast transaction is recognised as an asset or a liability, the cumulative associated gains or losses reflected in equity are included in the initial measurement of the asset or liability. For other cash flow hedges that do not result in the recognition of an asset or liability, the cumulative gains or losses reflected in equity are included in profit before taxation in the period in which the hedged firm commitment or forecast transaction affects income before taxation.

1.7.2 Trade and other receivables

Trade and other receivables are stated at cost less a provision for doubtful debts.

1.7.3 Cash and cash equivalents

Cash and cash equivalents are measured at fair value.

1.7.4 Financial liabilities

Financial liabilities are recognised at their original debt value less principal payments and amortisations except for derivatives which are measured at fair value.

Discounts arising from the difference between the net proceeds of debt instruments issued and the amounts repayable at maturity are charged to net financing costs over the life of the instruments.

1.8 Leases

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred from the lessor to the Group as lessee.

Assets subject to finance leases are capitalised at their cash cost equivalent with the related lease obligation recognised at the same value. Capitalised leased assets are depreciated to their estimated residual values over their estimated useful lives. Residual values are determined from anticipated future cash flows. These are not discounted to their present value. Finance lease payments are allocated, using the effective interest rate method, between the lease finance cost, which is included in financing costs, and the capital repayment, which reduces the liability to the lessor.

Operating leases are those leases which do not fall within the scope of the above definition. Operating lease rentals are charged against trading profit on a systematic basis over the term of the lease.

1.9 Properties, fixtures, equipment and vehicles

1.9.1 Properties

General purpose land and buildings are revalued every three years, by recognised professional valuers, to net realisable open market value using the alternative or existing use basis as appropriate. Depreciation is provided on manufacturing buildings over the remaining estimated useful life in those circumstances where the estimated residual value is less than the carrying value. All other buildings are depreciated over 50 years.

Expenditure relating to leased premises is capitalised and depreciated to expected residual value over the remaining period of the lease.

1.9.2 Fixtures, equipment and vehicles

Fixtures, equipment and vehicles are recorded at historic cost and depreciated to their expected residual values over the following estimated useful lives

Fixtures and fittings	8 years
Computer equipment	5 years
Machinery	10 years
Vehicles	5 years

In determining the estimated residual value, expected future cash flows have not been discounted to their present value.

1.10 Taxation

Deferred taxation is provided at legislated future rates using the balance sheet liability method. Full provision is made for all temporary differences between the taxation base of an asset or liability and its balance sheet carrying amount.

No deferred tax liability is recognised in those circumstances where the initial recognition of an asset or liability has no impact on accounting profit or taxable income.

Assets are raised in respect of the deferred taxation on assessed losses where it is probable that future taxable profits will be available against which the deferred taxation asset can be realised in the foreseeable future.

Where applicable, non-resident shareholders' taxation is provided in respect of foreign dividends receivable.

1.11 Trademarks and brand names

Where payments are made for the acquisition of trademarks or brand names, the amounts are capitalised and amortised over their anticipated useful lives, currently estimated to be between seven and ten years. No valuation is made of internally developed and maintained trademarks or brand names. Expenditure incurred to maintain brand names is charged in full against trading profit.

1.12 Software costs

Packaged software and the direct costs associated with the development and installation thereof are capitalised. Software is depreciated in full on a systematic straight-line basis over five years from the date of being commissioned in the business.

Notes to the Annual Financial Statements
continued

1. ACCOUNTING POLICIES AND BASES OF PREPARATION *(continued)*

1.13 Segmental information

The principal segments of the Group have been identified on a primary basis by chain, cost centre and manufacturing operation and on a secondary basis by significant geographical region. The basis is representative of the internal structure for management purposes. The source and nature of business risks and returns are segmented on the same basis.

Segment sales reflect sales to third parties including arm's length inter-segment sales recorded at fair value. The segment result is presented as segment trading profit without allocation of finance costs and taxation. Corporate expenses are allocated on an appropriate basis after giving due consideration to the nature of such expenses incurred. Segment gross assets include those assets that can be specifically identified with a particular segment. Neither trade accounts receivable, which are housed in the centralised credit division, nor corporate liabilities which are held at the centre, are allocated to segments.

1.14 Share capitalisation awards and cash dividends

The full cash equivalent of capitalisation share awards, and cash dividends paid by the company, are recorded and disclosed as dividends declared in the statement of changes in equity. Dividends declared subsequent to the year end are included in total shareholders' equity until paid. Upon allotment of shares in terms of a capitalisation award, the election amounts are transferred to the share capital and share premium account, cash dividend election amounts are paid and the amount removed from equity.

1.15 Income recognition

Income from all sales of merchandise through retail outlets is brought to account when the risk in the merchandise passes to the customer. Income from manufacturing and other operations is recognised when the sale transactions giving rise to such income are concluded. Interest earned on arrear account balances is accrued on a time proportion basis recognising the effective yield on the underlying assets. Dividends are recognised when the right to receive payment is established.

1.16 Employee benefits

The Group operates defined benefit pension and medical aid benefit plans as well as several defined contribution provident funds.

Current contributions to the Group's defined contribution funds are charged against income when incurred. The cost of providing benefits to the Group's defined benefit plans is determined using the projected unit credit actuarial valuation method. Improved benefits in defined benefit funds are only granted if they can be financed from the actuarial surplus. Contribution rates to defined benefit plans are adjusted for any unfavourable experience adjustments. Favourable experience adjustments are retained within the funds. Actuarial surpluses are brought to account in the Group's financial statements when it is clear that economic benefits will be available to the Group.

1.17 Share incentive scheme

Edcon operates a staff share incentive scheme through the Edgars Stores Limited Staff Share Trust. Shares are offered on a combined option and deferred sale basis which staff can take up in tranches over a period of five years. The beneficiaries under the scheme are executive Directors, senior management and with effect from 2001 all non-bargaining unit staff.

1.18 Accounting for insurance activities

Insurance profits are determined in accordance with generally accepted practice for insurance companies. Full provision is made for the estimated cost of claims notified but not settled and for those incurred but not yet reported. In addition a monthly reserve is created for future deaths in terms of the life cover provided.

1.19 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

2. DEFINITIONS

2.1 Capital employed

Shareholders' funds including outside shareholders' interests in subsidiaries and interest bearing debt.

2.2 Cash and cash equivalents

Comprise cash on hand and demand deposits together with any highly liquid investments readily convertible to known amounts of cash and not subject to significant risk of changes in value.

2.3 Attributable cash flow per ordinary share

Attributable cash flow from operations after adjusting for minority interests and preference dividends paid divided by the weighted average number of ordinary shares in issue during the year.

2.4 Cash generated from trading

Trading profit adjusted for all non-cash items which have been charged or credited therein.

2.5 Cash realisation rate

Percentage of the potential cash earnings realised and is derived by dividing attributable cash flow per ordinary share by cash equivalent earnings per ordinary share.

2.6 Cost of sales

Includes the historical cost of inventory, distribution costs incurred in bringing the inventory to the retail locations, markdowns, stock losses and promotional costs.

2.7 Current ratio

Current assets divided by current liabilities. Current liabilities include short term borrowings and interest free liabilities other than deferred taxation.

2. DEFINITIONS *(continued)*

2.8 Dividend cover
Earnings per ordinary share divided by dividends per ordinary share.

2.9 Dividend yield
Dividends per ordinary share divided by the closing share price on the JSE Securities Exchange.

2.10 Earnings per ordinary share

2.10.1 Attributable earnings basis
Earnings attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the year.

2.10.2 Cash equivalent basis
Earnings attributable to ordinary shareholders adjusted for non-cash items in attributable earnings and equity accounted retained earnings, divided by the weighted average number of ordinary shares in issue during the year.

2.10.3 Diluted earnings basis
Earnings attributable to ordinary shareholders adjusted for the effects of any changes in income or expense that would result from the conversion of the dilutive potential ordinary shares, divided by the weighted average number of ordinary shares in issue during the year increased by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.10.4 Headline earnings basis
Earnings attributable to ordinary shareholders, adjusted for profits and losses on capital items recognising the taxation and minority impacts of these adjustments, divided by the weighted average number of ordinary shares in issue during the year. This calculation is in accordance with the South African Accounting Issues Task Force Opinion AC 306 "Headline Earnings".

2.11 Earnings yield
Earnings per ordinary share divided by the closing share price on the JSE Securities Exchange.

2.12 Financing cost cover
Trading profit divided by net financing costs.

2.13 Gearing ratio
Interest bearing debt, reduced by cash and cash equivalents, divided by shareholders' funds.

2.14 Net assets
The sum of fixed and current assets less all interest free liabilities.

2.15 Net asset turn
Retail sales divided by closing net assets.

2.16 Net equity per ordinary share
Ordinary shareholders' equity divided by the number of ordinary shares in issue at the year end.

2.17 Price earnings ratio
The closing share price on the JSE Securities Exchange divided by earnings per ordinary share.

2.18 Shareholders' compound annual rate of return
Calculated by recognising the market price of an Edcon share five years ago as a cash outflow, recognising the annual dividend per share streams since that date and closing share price at the end of five years as inflows, and determining the internal rate of return inherent in these cash flow streams.

2.19 Retail sales
Represent sales of merchandise through retail outlets and exclude value added and general sales tax, fees, rental income and intragroup transactions.

2.20 Return on capital employed
Profit after taxation, plus equity accounted retained earnings, plus interest paid taxed at the standard rate, as a percentage of average capital employed.

2.21 Return on ordinary shareholders' equity
Earnings attributable to ordinary shareholders as a percentage of average ordinary shareholders' equity.

2.22 Revenue
Represents all sources of income accrued to the Group and company.

2.23 Weighted average number of ordinary shares in issue
The number of ordinary shares in issue at the beginning of the year, increased by shares issued during the year, weighted on a time basis for the period during which they have participated in the income of the Group. In the case of shares issued pursuant to a share capitalisation award in lieu of dividends, the participation of such shares is deemed to be from the date of issue.

2.24 Weighted average price paid per share traded
The total value of shares traded each year divided by the total volume of shares traded for the year on the JSE Securities Exchange.

Notes to the Annual Financial Statements

continued

	Group 2001 R000	Group 2000 R000	Company 2001 R000	Company 2000 R000
3. REVENUES				
Retail sales	6 844 798	6 423 587	6 239 097	5 697 682
Administration fees			14 361	15 321
Finance charges charged	308 137	235 315	269 980	218 610
Club fees	168 819	163 140	168 819	163 140
Dividend income	1 116	1 277	9 286	77 325
Interest received	14 720	11 243	5 632	8 967
Insurance premiums charged	89 619	43 300	89 619	43 300
Manufacturing sales to third parties	115 496	135 251		
	7 542 705	7 013 113	6 796 794	6 224 345
4. TRADING PROFIT				
This is stated after taking account of the following items				
4.1 Amortisation of trademarks				
Charge for the year	4 246	5 601	4 003	4 018
Impairment loss	—	3 293		
	4 246	8 894	4 003	4 018
4.2 Auditors' remuneration				
Audit fees	3 661	3 043	2 724	2 153
Fees for consulting and other services	154	384	121	300
Expenses	70	61	70	55
Prior year under-provision	111	136	38	46
	3 996	3 624	2 953	2 554
4.3 Depreciation of properties, fixtures, equipment and vehicles				
Land and buildings	4	7	—	—
Leasehold improvements	10 691	10 434	10 169	9 525
Fixtures and fittings	91 494	91 600	85 424	83 183
Computer equipment and software	94 324	98 455	90 985	92 308
Machinery and vehicles	6 338	8 296	3 407	5 280
Capitalised leased assets	253	326	—	74
	203 104	209 118	189 985	190 370
4.4 Fees payable				
Managerial, technical, administrative and secretarial fees paid outside the Group	159 587	122 715	158 860	121 796
4.5 Operating lease expenses				
Properties				
Minimum lease payments	375 565	360 359	342 866	316 223
Turnover clause payments	10 311	12 119	15 731	16 744
Sublease rental income	(15 578)	(12 084)	(15 578)	(11 623)
Furniture, equipment and vehicles	68 383	43 179	64 300	39 281
	438 681	403 573	407 319	360 625
4.6 Net loss on disposal of properties, fixtures, equipment and vehicles	4 376	7 486	2 806	7 325
4.7 Decrease in impairment provision in subsidiaries			—	(41 054)

Edcon

	Group		Company	
	2001 R000	2000 R000	2001 R000	2000 R000

5. DIRECTORS AND EMPLOYEES

5.1 Employees

The Group employed 13 444 (2000: 14 501) permanent employees of whom 11 342 (2000: 11 725) were employed in retailing and 2 102 (2000: 2 776) in the manufacturing divisions.

The proportion of black staff has remained unchanged at 77%. 71% of the complement is female (2000: 72%).

Currently 49% (2000: 40%) of permanent employees have more than five years' service with the Group. Labour turnover for the year was 26% (2000: 21%).

The aggregate remuneration and associated cost of permanent and casual employees including Directors was

	Group 2001 R000	Group 2000 R000	Company 2001 R000	Company 2000 R000
Salaries and wages	857 540	829 202	694 053	687 335
Profit sharing	1 825	2 014	1 825	2 014
Retirement benefit costs	77 213	76 746	68 678	68 085
Medical aid contributions				
Current	23 680	32 389	20 621	29 709
Post-retirement	3 264	2 914	2 843	2 673
	963 522	943 265	788 020	789 816

Total costs of training 9 699 staff members (2000: 6 468) amounted to R13,1 million (2000: R9 million) which equates to 1,4% of employment costs. Of this cost, R0,7 million related to bursaries given to permanent employees who studied on a part time basis.

Included in retirement benefit costs are amounts for the Edcon Pension Fund and the Edcon Medical Aid calculated as follows

Edcon Pension Fund

	Group 2001 R000	Group 2000 R000
Current service cost	4 431	4 245
Less: Employee contributions	(1 166)	(1 117)
Net current service cost	3 265	3 128
Interest cost	33 552	30 691
Expected return on assets	(67 262)	(59 263)
Net actuarial gain not recognised in the year	31 719	26 831
Pension cost	1 274	1 387
The actual return on pension fund assets	83 650	92 117

Edcon Medical Aid – unfunded

	Group 2001 R000	Group 2000 R000
Current service cost	3 615	3 228
Interest cost	13 088	11 362
Net actuarial loss not recognised in the year	(13 439)	(11 676)
Medical aid cost	3 264	2 914

Notes to the Annual Financial Statements
continued

5. DIRECTORS AND EMPLOYEES *(continued)*

Retirement funds

Separate funds, independent of the Group, provide retirement and other benefits for all employees on the permanent staff and their dependants. For the full year there were three defined contribution funds of significance, namely Edgars Provident Fund, SACCAWU National Provident Fund and FEDCRAW Provident Fund. Defined contribution funds are available to employees in Zimbabwe and Namibia. The Group has one defined benefit fund namely Edgars Pension Fund.

A statutory valuation of the Edgars Pension Fund was carried out by an independent firm of consulting actuaries on 31 December 1999 using the attained age method of valuation. The actuarial value of liabilities for all pensioners and members, including a stabilisation reserve, was determined at R293 million. The fair value of assets calculated by reference to the market value was R523 million. The fund was accordingly fully funded. The actuarial valuation was based on the principal assumptions that the fund will earn 15% per annum after taxation, that salary increases will be 12,5% per annum plus merit increases and using a post-retirement interest rate of 4,5% per annum. In the current year an actuarial estimate was performed using the projected unit credit method and the fair value of assets and liabilities were not materially different from those reflected above. Proposals have been submitted to the authorities to offer pensioners an enhanced pension in exchange for their assuming all their medical aid liabilities. Similarly, a portion of the surplus will be utilised to pay lump sums to medical aid members to meet the company's existing post-retirement medical aid liability for service rendered to date. The surplus is adequate to cover enhanced pensions plus all post-retirement medical aid liabilities and will also allow for a pension fund contribution holiday indefinitely together with a transfer of approximately R40 million to the Edcon Provident Fund to allow for potential future company obligations. The above proposal has been approved by the Trustees and is awaiting Financial Services Board approval.

Contributions to the Group's significant funds are at a rate of 17,49% of benefit salary and where funds are contributory members pay a maximum of 7,5%. The employer's portion is charged against profits.

All funds are subject to the Pension Funds Acts of the various countries and where required by law actuarial valuations are conducted every three years. The market value of investments of the various Edgars funds as at 31 March 2001 was R1 219,0 million (2000: R1 253,0 million).

The funded status of the Edcon Pension Fund determined in terms of AC 116 and IAS 19 is as follows

	Group	
	2001 R000	2000 R000
Benefit obligation	282 647	278 592
Fair value of assets	572 974	508 186
Funded benefit plan asset	290 327	229 594
Unrecognised net asset	290 327	229 594
Recognised plan asset	—	—

No asset has been recognised pending finalisation of the proposals of outsourcing pensions with pension enhancements and making single payments in full and final settlement of the company's total post-retirement medical aid liability for all medical aid members estimated currently at approximately R76 million.

5. DIRECTORS AND EMPLOYEES *(continued)*

Retirement funds *(continued)*

Membership of and employer contributions to each of the funds at 31 March were

	Pensioners	Members	Contributions R000
2001			
Edgars Pension Fund	1 833	244	1 274
Edgars Zimbabwe Pension Fund	254	1 702	3 460
Edgars Provident Fund	—	7 512	63 913
Edgars Namibia Retirement Fund	13	181	615
SACCAWU National Provident Fund	—	1 641	5 356
FEDCRAW Provident Fund	—	525	3 112
	2 100	11 805	77 730
2000			
Edgars Pension Fund	1 777	286	1 387
Edgars Zimbabwe Pension Fund	276	1 809	1 540
Edgars Provident Fund	—	7 601	60 249
Edgars Namibia Retirement Fund	14	223	635
SACCAWU National Provident Fund	—	1 774	5 201
FEDCRAW Provident Fund	—	599	3 145
	2 067	12 292	72 157

Medical aid funds

The company and its subsidiaries operate a defined benefit medical aid scheme for the benefit of permanent employees. These costs are charged against income as incurred and amounted to R24 million (2000: R32 million). Membership of the Group's medical aid scheme is voluntary for lower income earners. Total membership currently stands at 4 984 principal members in South Africa. In terms of employment contracts and the rules of the schemes certain post-retirement medical benefits are provided to past employees by subsidising a portion of the medical aid contributions of members, after retirement. The cost of providing post-retirement medical aid has been determined in accordance with AC 116 and IAS 19 and the charge against income for the year was R3 million (2000: R3 million). The actuarially determined present value of the company's liability for post-retirement medical aid benefits for all pensioners and staff, for service to date, is R76 million (2000 revised estimate: R89 million).

The status of the Edcon Medical Aid fund determined in terms of AC 116 and IAS 19 is as follows

	Group	
	2001 R000	2000 R000
Unfunded benefit obligation	76 086	88 882
To be funded from anticipated pension fund surplus	76 086	88 882
Recognised plan liability	—	—

Notes to the Annual Financial Statements

continued

5. DIRECTORS AND EMPLOYEES *(continued)*

5.2 Directors' emoluments

Name	Months paid 2001	Months paid 2000	Fees R000	Remun-eration R000	Retirement, medical, accident and death benefits R000	Performance bonus R000	Loyalty bonus R000	Other benefits R000	Company 2001 Total R000	Company 2000 Total R000
Non-executive Directors										
W S MacFarlane			70						70	70
A J Aaron			30						30	30
W F de la H Beck			35						35	35
A P Burger			15						15	—
W E Cesman			—						—	20
Z B Ebrahim			25						25	10
T N Eboka			25						25	10
M I Wyman			20						20	20
								Total (A)	220	195
Executive Directors										
S M Ross	12	12	20	3 420	81	755		73	4 349	3 671
M R Bower	12	12	20	1 003	156	29	1 075	57	2 340	1 051
D N Cousins	—	5							—	300
J A Day	12	2	20	643	108	33		38	842	93
G R Evans	12	8	20	871	126	348		29	1 394	587
Dr U Ferndale	12	8	20	736	93	30		4	883	434
R C Maydon	7	8	10	449	69		771	23	1 322	617
K C van Aardt	2	—	5	100	16				121	—
	69	55						Total (B)	11 251	6 753
								Total emoluments (A+B)	11 471	6 948
Pension for past managerial services										
D N Cousins									—	311
D W Etheridge									—	528
R C Maydon									930	—
Retired ex directors									135	126
									1 065	965
								Total	12 536	7 913

		Group 2001 R000	Group 2000 R000	Company 2001 R000	Company 2000 R000
6. INCOME FROM SUBSIDIARIES					
Administration fees (included in trading profit)				14 361	15 321
Dividend income		1 116	1 277	9 286	77 325
Interest received				2 647	5 215
		1 116	1 277	26 294	97 861
7. FINANCING COSTS AND INTEREST RECEIVED					
7.1 Financing costs					
Interest paid to independent third parties		92 870	88 233	89 070	88 862
Interest paid to subsidiaries				934	188
Interest paid on lease liabilities		—	45	—	—
Foreign currency (profits)/losses		(1 379)	338	601	1 702
		91 491	88 616	90 605	90 752
7.2 Interest received					
Interest received from independent third parties		14 720	11 243	2 985	3 752
Interest received from subsidiaries				2 647	5 215
		14 720	11 243	5 632	8 967
8. TAXATION					
8.1 Taxation charge					
Current taxation	– this year	31 071	102 375	175	62 667
	– prior years	(7 592)	(2 152)	(8 358)	—
Secondary taxation on companies	– this year	7 150	4 933	7 150	4 933
	– prior years	(66)	(3 064)	(66)	(3 064)
Withholding taxes	– this year	(429)	9 449	—	4 312
Total current taxation		30 134	111 541	(1 099)	68 848
Deferred taxation	– this year	34 897	(3 838)	29 907	6 368
	– prior years	9 143	1 020	9 168	(387)
	– notional (note 25)	1 117	8		
	– rate adjustment	—	(402)	—	—
Total deferred taxation		45 157	(3 212)	39 075	5 981
		75 291	108 329	37 976	74 829
Comprising					
South African normal taxation		31 438	66 090	30 892	68 648
Secondary taxation on companies		7 084	1 869	7 084	1 869
Withholding taxes		(429)	9 449	—	4 312
Foreign taxes		37 198	30 921		
		75 291	108 329	37 976	74 829

Notes to the Annual Financial Statements
continued

	Group 2001 R000	Group 2000 R000	Company 2001 R000	Company 2000 R000
8. TAXATION *(continued)*				
8.2 Reconciliation of rate of taxation	%	%	%	%
Standard rate – South Africa	30,0	30,0	30,0	30,0
Adjusted for				
Deferred tax rate change	—	(0,1)	—	—
Dividend income	(0,4)	(0,1)	(2,7)	(7,7)
(Exempt income)/disallowable expenditure	(0,2)	0,4	(0,6)	0,7
Foreign tax rate variations	1,0	1,2		
Prior years	0,4	(1,2)	0,7	(1,2)
Secondary taxation on companies	2,9	1,3	6,3	1,6
Tax losses set off against temporary differences	(0,2)	—		
Tax losses utilised	(2,6)	(3,6)		
Withholding tax on dividends received	—	2,7	—	1,5
Effective tax rate	30,9	30,6	33,7	24,9
8.3 Tax losses				
Estimated tax losses available for set off against future taxable income	77 200	90 643		
Less amount attributable to temporary differences	75 578	74 276		
Estimated tax losses available to reduce future tax charge	1 622	16 367		
9. DIVIDENDS				
Ordinary shares				
No. 106 of 55 cents declared on 3 November 1999 and paid 13 December 1999				
No. 107 of 97 cents declared on 18 May 2000 and paid 30 June 2000	55 655	24 672	55 655	24 672
No. 108 of 36 cents declared on 16 November 2000 and paid 29 December 2000	20 680	31 557	20 680	31 557
Total ordinary dividends	76 335	56 229	76 335	56 229
6% preference shares				
For the year	18	18	18	18
Total dividends paid	76 353	56 247	76 353	56 247

No. 109 of 64 cents declared on 17 May 2001 payable 29 June 2001.

Dividends to shareholders are now accounted for on the date of declaration as a result of the adoption of AC 107 and IAS 10. As a result, the retained earnings have been restated as disclosed in the statements of changes in shareholders' equity.

	Group 2001 R000	Group 2000 R000

10. EARNINGS AND CASH FLOW PER ORDINARY SHARE

The weighted average number of shares used in calculating the earnings per ordinary share statistics is 57 444 600 (2000: 57 376 200).

10.1 Attributable earnings basis

	2001 Cents	2000 Cents
Calculated on attributable earnings of R150 113 000 (2000: R226 546 000)	261,3	394,8

The potential dilution in earnings per ordinary share arising from the conversion of the compulsorily convertible debentures and the possible exercise of 3 247 742 share options issued in terms of the approved executive share incentive scheme is immaterial. This is based on the assumptions that conversion or exercise occurred at the commencement of the current year and that related interest savings were realised.

10.2 Headline earnings basis

	2001 Cents	2000 Cents
Calculated on headline earnings of R153 685 000 (2000: R234 020 000)	267,5	407,9

This basis is a measure of the trading performance and excludes profits and losses of a capital nature.
It is derived as follows

	2001 R000	2000 R000
Earnings attributable to ordinary shareholders	150 113	226 546
Adjusted for		
Loss on disposal of properties, fixtures, equipment and vehicles	4 376	7 486
Trademark impairment loss	—	3 293
Taxation and minority adjustment on above	(804)	(3 305)
Headline earnings	153 685	234 020

10.3 Attributable cash equivalent earnings basis

	2001 Cents	2000 Cents
Calculated on attributable cash equivalent earnings of R408 823 000 (2000: R447 349 000)	711,7	779,7

This basis recognises the potential of the earnings stream to generate cash and is consequently an indicator of the underlying quality of earnings. It is derived as follows

	2001 R000	2000 R000
Earnings attributable to ordinary shareholders	150 113	226 546
Adjusted for		
Non-cash items (note 11.1)	212 117	225 372
Deferred taxation (note 8.1)	45 157	(3 212)
Cash equivalent earnings	407 387	448 706
Adjusted for minority share of non-cash items		
Depreciation	(1 065)	(1 114)
Net profit on disposal of properties, fixtures, equipment and vehicles	(459)	(61)
Deferred taxation	2 972	—
Amortisation of trademarks	(12)	(182)
Attributable cash equivalent earnings	408 823	447 349

Notes to the Annual Financial Statements
continued

	Group 2001 R000	Group 2000 R000	Company 2001 R000	Company 2000 R000
10. EARNINGS AND CASH FLOW PER ORDINARY SHARE *(continued)*				
10.4 Attributable cash flow basis				
Calculated on attributable cash inflow of R120 497 000 (2000: R215 408 000)	209,8	375,4		
This basis focuses on the cash stream actually achieved in the year under review. It is derived as follows				
Cash flow from operations	105 260	207 493		
Adjusted for				
Minority interests	15 255	7 933		
Preference dividends paid	(18)	(18)		
Attributable cash flow	120 497	215 408		
11. CASH FLOW				
11.1 Non-cash items				
Depreciation (note 4.3)	203 104	209 118	189 985	190 370
Amortisation of trademarks (note 4.1)	4 246	8 894	4 003	4 018
Net loss on disposal of properties, fixtures, equipment and vehicles (note 4.6)	4 376	7 486	2 806	7 325
Decrease in impairment provision in subsidiaries (note 4.7)			—	(41 054)
Write-off of investment in non-consolidated subsidiaries			834	—
Other	391	(142)	298	—
	212 117	225 356	197 926	160 659
11.2 Dividends received				
Dividends receivable at the beginning of the year			11 121	5 593
Dividends received (note 6)	1 116	1 277	9 286	77 325
Dividends receivable at end of year			(15 965)	(11 121)
	1 116	1 277	4 442	71 797
11.3 Working capital requirements				
Increase in inventories	(10 087)	(123 808)	(16 389)	(101 801)
Increase in accounts receivable	(274 876)	(302 022)	(209 373)	(290 218)
Increase/(decrease) in accounts payable	35 781	90 945	(955)	97 807
Decrease in amount owing to/(by) subsidiaries			22 851	(40 373)
	(249 182)	(334 885)	(203 866)	(334 585)
11.4 Financing costs paid				
Interest paid	(92 870)	(88 278)	(90 004)	(89 050)
Foreign currency profits/(losses)	1 379	(338)	(601)	(1 702)
	(91 491)	(88 616)	(90 605)	(90 752)
11.5 Taxation paid				
Taxation liability at the beginning of the year	(56 776)	(16 572)	(30 630)	—
Taxation receivable at the beginning of the year	—	33 527	—	32 945
Currency translation	1 262	1 590		
Current taxation provided (note 8)	(30 134)	(111 541)	1 099	(68 848)
Taxation liability at the end of the year	—	56 776	—	30 630
Taxation receivable at the end of the year	(15 411)	—	(39 482)	—
	(101 059)	(36 220)	(69 013)	(5 273)

	Group 2001 R000	Group 2000 R000	Company 2001 R000	Company 2000 R000
11. CASH FLOW *(continued)*				
11.6 Dividends paid				
By the company				
Dividends declared and paid (note 9)	(76 353)	(56 247)	(76 353)	(56 247)
By subsidiaries				
Paid by subsidiaries	(3 533)	(4 365)		
	(79 886)	(60 612)	(76 353)	(56 247)
11.7 Investment to maintain operations				
Replacement of properties, fixtures, equipment and vehicles	(158 000)	(96 429)	(138 644)	(89 088)
Proceeds on disposal of properties, fixtures, equipment and vehicles	91 942	6 232	91 383	5 336
	(66 058)	(90 197)	(47 261)	(83 752)
11.8 Investment to expand operations				
Additions to owned and leased premises	(12 457)	(13 935)	(11 472)	(11 572)
Additions to properties, fixtures, equipment and vehicles	(12 935)	(29 618)	(11 950)	(28 687)
Increase in loans	(28 929)	2 890	(29 287)	2 994
	(54 321)	(40 663)	(52 709)	(37 265)
11.9 Net investment in subsidiaries				
Outside shareholders' interest	—	(6 571)	—	(6 981)
	—	(6 571)	—	(6 981)
11.10 Increase in shareholder funding				
Ordinary share issues	2 017	4	2 017	4
Shares in subsidiaries purchased by outside shareholders	152	688		
	2 169	692	2 017	4
11.11 Increase in interest bearing debt				
Long and medium term				
Raised	50 000	—	50 000	—
Repaid	(34 450)	(17 553)	(30 243)	(16 800)
Net increase in short term	166 883	42 398	169 121	53 670
Derivative valuation adjustment	7 164	3 590	7 164	3 590
Currency adjustments	(77)	(556)		
	189 520	27 879	196 042	40 460
11.12 Increase in cash and cash equivalents				
Cash on hand	55 023	9 426	57 289	12 121
Cash and cash equivalents transferred from subsidiary			—	2 658
Cash on deposit	46 144	27 667		
Currency adjustments	(4 565)	625		
	96 602	37 718	57 289	14 779

Notes to the Annual Financial Statements
continued

	Group		Company	
	2001 R000	2000 R000	2001 R000	2000 R000
12. PROPERTIES, FIXTURES, EQUIPMENT AND VEHICLES				
Historic cost except for revalued land and buildings				
Land and buildings				
Historic cost	14 211	13 591	428	428
Revaluation surplus	27 828	27 828	3 282	3 282
Leasehold improvements	144 902	135 915	137 724	129 554
Fixtures and fittings	941 568	872 810	881 578	817 902
Computer equipment and software	690 758	752 189	659 023	725 129
Machinery and vehicles	95 879	94 487	58 277	66 939
Capitalised leased assets	9 752	9 752	16 089	16 089
	1 924 898	1 906 572	1 756 401	1 759 323
Accumulated depreciation				
Buildings				
On historic cost	91	87		
Leasehold improvements	63 153	54 920	60 145	52 415
Fixtures and fittings	565 537	485 745	533 392	458 487
Computer equipment and software	495 672	449 674	472 748	433 062
Machinery and vehicles	55 699	54 958	43 983	47 188
Capitalised leased assets	9 722	9 699	16 059	16 059
	1 189 874	1 055 083	1 126 327	1 007 211
Net carrying value	735 024	851 489	630 074	752 112
Comprising				
Land and buildings	41 948	41 332	3 710	3 710
Leasehold improvements	81 749	80 995	77 579	77 139
Fixtures and fittings	376 031	387 065	348 186	359 415
Computer equipment and software	195 086	302 515	186 275	292 067
Machinery and vehicles	40 180	39 529	14 294	19 751
Capitalised leased assets	30	53	30	30
	735 024	851 489	630 074	752 112

	Group		Company	
	2001 R000	2000 R000	2001 R000	2000 R000

12. PROPERTIES, FIXTURES, EQUIPMENT AND VEHICLES *(continued)*

Movements for the year

	Group 2001 R000	Group 2000 R000	Company 2001 R000	Company 2000 R000
Capital expenditure				
Land and buildings	—	6		
Leasehold improvements	12 457	13 935	11 472	11 572
Fixtures and fittings	80 823	44 611	74 243	41 454
Computer equipment	80 727	78 367	75 507	74 655
Machinery and vehicles	9 385	3 063	844	1 639
Capitalised leased assets			—	27
	183 392	139 982	162 066	129 347
Other				
Currency adjustments	(468)	(1 249)		
Software capitalised	—	75 033	—	75 033
Assets transferred on Group rationalisation			—	26 500
	182 924	213 766	162 066	230 880
Disposals				
Land and buildings	—	2 995	—	2 400
Leasehold improvements	883	4 555	863	4 477
Fixtures and fittings	62	664	48	395
Computer equipment	92 944	3 619	90 314	3 700
Machinery and vehicles	2 396	1 658	2 894	1 689
Capitalised leased assets	—	227		
	96 285	13 718	94 119	12 661
Depreciation (note 4.3)	203 104	209 118	189 985	190 370

Land and buildings were revalued at 1 April 1998 to open market value based on the open market net rentals for each property. If these assets had not been revalued the carrying amount of all assets at 31 March 2001 would have been R707,2 million. Deferred taxation has been raised out of the revaluation surplus. The independent valuation was carried out by David W Grey (Registered Valuer). It is the Group's policy to carry out such valuations every three years. No other categories of assets are revalued.

A register of the Group's land and buildings is available for inspection at the company's registered office. A copy will be posted, upon request, by the secretary to any member of the public.

At 31 March 2001 the properties, fixtures, equipment and vehicles have an estimated replacement cost and insured value of R2 601,3 million (2000: R2 818,0 million) which excludes input value added tax where appropriate.

At 31 March 2001 the Group had no idle fixed assets.

The gross cost of fully depreciated fixtures, equipment and vehicles at 31 March 2001 amounted to R90,0 million (2000: R125,0 million).

Notes to the Annual Financial Statements

continued

	Group		Company	
	2001 R000	2000 R000	2001 R000	2000 R000
13. TRADEMARKS				
Trademarks represent registered rights to the exclusive use of certain trademarks and brand names.				
Balance at the beginning of the year	8 239	17 149	9 073	13 091
Current year movements				
Disposal	33	2	70	—
Amortisation				
Charge for the year	4 246	5 601	4 003	4 018
Impairment loss	—	3 293	—	—
Currency adjustment	33	(14)		
Balance at the end of the year	3 993	8 239	5 000	9 073
Comprising				
Cost	23 984	24 017	15 000	15 120
Accumulated amortisation	19 991	15 778	10 000	6 047
	3 993	8 239	5 000	9 073
14. INVESTMENTS				
(Annexure 1; page 85)				
14.1 Subsidiaries not consolidated				
Shares at cost	—	834	—	518
Long term loans			—	316
Carrying amount	—	834	—	834
Directors' valuation of shares	—	834		
14.2 Consolidated subsidiaries				
Shares at cost			55 534	55 539
Indebtedness			183 472	200 043
			239 006	255 582
Total interests in subsidiaries			239 006	256 416
No special resolutions, the nature of which would be of significance to members in their appreciation of the state of affairs of the Group, were passed by any subsidiary during the period covered by this report.				
14.3 Owing to subsidiaries			139 276	132 996
14.4 Aggregate profits/losses of subsidiaries				
Profits	77 752	109 325		
Losses	511	533		
	77 241	108 792		

	Group		Company	
	2001 R000	2000 R000	2001 R000	2000 R000

15. LOANS

Executive share trust	43 792	13 948	43 792	13 948
Secured staff loans	94	301	94	301
Unsecured staff loans	4 137	4 116	1 338	1 688
	48 023	18 365	45 224	15 937

The loan to the executive share trust is interest free and is secured by shares in Edgars Consolidated Stores Limited. It will be repaid when shares held by the trust are sold. Other loans are unsecured, earn market related interest rates and have various repayment terms.

16. INVENTORIES

Merchandise	1 140 232	1 116 818	1 050 392	1 032 921
Raw materials	29 414	36 496		
Work in progress	38 218	44 614		
Consumable stores	6 788	6 771	6 302	5 947
	1 214 652	1 204 699	1 056 694	1 038 868
Estimated replacement cost	1 214 652	1 204 699		

17. ACCOUNTS RECEIVABLE AND PREPAYMENTS

Trade accounts receivable	1 951 998	1 752 533	1 807 860	1 640 053
Provision for doubtful debts	(129 474)	(116 106)	(119 115)	(110 824)
Software	142 865	94 849	142 865	94 849
Other accounts receivable and debit balances, including payments in advance	207 576	171 507	106 388	104 547
	2 172 965	1 902 783	1 937 998	1 728 625

18. CASH AND CASH EQUIVALENTS

Cash on hand	118 761	63 738	116 711	59 503
Cash on deposit	100 868	54 765		
	219 629	118 503	116 711	59 503

Notes to the Annual Financial Statements
continued

	Group		Company	
	2001 R000	2000 R000	2001 R000	2000 R000
19. SHARE CAPITAL AND PREMIUM				
19.1 Authorised				
72 000 000 (2000: 72 000 000) ordinary shares of 10 cents	7 200	7 200	7 200	7 200
150 000 6% redeemable preference shares of R2	300	300	300	300
	7 500	7 500	7 500	7 500
19.2 Issued ordinary shares and premium				
Balance at the beginning of the year 57 376 200 (2000: 57 376 125) ordinary shares	591 226	591 222	591 226	591 222
Executive share incentive scheme issues 68 400 (2000: 75) ordinary shares	2 017	4	2 017	4
Balance at the end of the year 57 444 600 (2000: 57 376 200) ordinary shares	593 243	591 226	593 243	591 226
Comprising				
Share capital	5 744	5 738	5 744	5 738
Share premium	587 499	585 488	587 499	585 488
	593 243	591 226	593 243	591 226

In terms of a shareholders' resolution on 19 July 2000 the Directors have unconditional authority until the next Annual General Meeting to issue 279 800 ordinary shares and the remaining unissued shares to the staff share scheme.

	Group		Company	
19.3 Issued preference share capital				
150 000 6% preference shares of R2 redeemable at the option of the company	300	300	300	300

19. SHARE CAPITAL AND PREMIUM *(continued)*

19.4 Executive share incentive scheme

In terms of a shareholders' resolution on 3 June 1999 the Directors are authorised to issue shares not exceeding 20% of the total issued ordinary share capital of the company on a fully diluted basis for the purposes of the approved executive share incentive scheme. Movements in the number of share options held by eligible participants are as follows

	2001	2000
	Number of shares	Number of shares
Balance at the beginning of the year	3 783 200	4 221 011
Options granted	2 138 487	234 000
Options exercised	(139 200)	(172 800)
Options forfeited	(390 745)	(499 011)
Balance at the end of the year	5 391 742	3 783 200

Details of share options exercised during the period	R	R
Average subscription price per share	29,50	30,48
Average issue market price per share	55,89	69,80

The options outstanding at 31 March 2001 become unconditional between the following dates

	Number of shares	Subscription Price
4 August 1999 and 4 August 2008	96 000	29,50
1 September 1999 and 1 September 2008	450 000	20,61
10 March 2000 and 10 March 2009	150 000	26,00
22 July 2000 and 22 July 2009	60 000	46,70
4 August 2000 and 4 August 2008	480 500	29,50
23 November 2000 and 23 November 2010	100 000	21,80
4 August 2001 and 4 August 2008	415 000	29,50
4 February 2002 and 4 February 2004	1 592 000	20,47
11 March 2002 and 11 March 2009	30 000	29,00
5 May 2002 and 5 May 2009	3 000	30,20
5 November 2002 and 5 November 2009	50 000	63,00
2 December 2002 and 2 December 2009	5 000	71,00
19 January 2003 and 19 January 2010	13 000	69,00
23 November 2003 and 23 November 2010	938 483	21,80
27 November 2003 and 27 November 2010	1 008 759	21,80
	5 391 742	

Should the option holder resign from the Group prior to the commencement dates as indicated above, the shares for options will not be issued, payment will therefore not be required, and the options will be forfeited .

Notes to the Annual Financial Statements
continued

19. SHARE CAPITAL AND PREMIUM *(continued)*

19.4 Executive share incentive scheme *(continued)*

Share options granted to executive Directors are as follows

	2001 Number of shares	2000 Number of shares
Balance at the beginning of the year	1 405 000	1 045 011
Directors appointed during the year	59 748	462 000
Options granted	168 635	80 000
Options exercised	(10 500)	(50 000)
Options forfeited	(80 000)	(132 011)
Transfers out	(115 000)	—
Balance at the end of the year	1 427 883	1 405 000

Details of gains realised on share options during the period

	Number of shares	Subscription price R	Market price R	Share option gain R000	Share option gain R000
J A Day	10 500	29,50	50,51	221	
S M Ross	50 000	20,61	70,88		2 514

The options outstanding at 31 March 2001 become unconditional between the following dates

	Number of shares	Subscription price
4 August 1999 and 4 August 2008	40 000	29,50
1 September 1999 and 1 September 2008	450 000	20,61
10 March 2000 and 10 March 2009	120 000	27,30
22 July 2000 and 22 July 2009	30 000	46,70
4 August 2000 and 4 August 2008	129 500	29,50
23 November 2000 and 23 November 2010	100 000	21,80
4 August 2001 and 4 August 2008	44 000	29,50
4 February 2002 and 4 February 2004	336 000	20,47
11 March 2002 and 11 March 2009	30 000	29,00
5 November 2002 and 5 November 2009	20 000	63,00
23 November 2003 and 23 November 2010	128 383	21,80
	1 427 883	

It is company policy that employees who have access to price sensitive information should not deal in shares or exercise share options of the company for the periods from half year end and year end to twenty four hours after publication of the half year and year end results.

	Group 2001 R000	Group 2000 R000	Company 2001 R000	Company 2000 R000
20. NON-DISTRIBUTABLE RESERVES				
Balance at the beginning of the year comprising				
Equity accounted reserves of Edgars Stores Limited (Zimbabwe) prior to consolidation	37 484	37 484		
Derivative valuation adjustment	(2 672)	—	(2 672)	—
Revaluation reserve	19 489	20 735	2 298	3 303
Foreign currency translation reserve	(27 185)	(25 490)		
Post-acquisition profits of subsidiaries set off against pre-acquisition losses	1 045	1 045		
Share premium	6 041	6 041	6 041	6 041
Tax reserve relating to lifo adjustment in foreign subsidiaries	3 347	3 339		
	37 549	43 154	5 667	9 344
Movements				
Derivative valuation adjustment	(3 056)	(2 672)	(3 056)	(2 672)
Foreign currency translation reserve	6 307	(1 695)		
Revaluation reserve net of deferred taxation	—	(1 246)	—	(1 005)
Increase in tax reserve relating to lifo adjustment	1 117	8		
Balance at the end of the year	41 917	37 549	2 611	5 667
Comprising				
Equity accounted reserves of Edgars Stores Limited (Zimbabwe) prior to consolidation	37 484	37 484		
Derivative valuation adjustment	(5 728)	(2 672)	(5 728)	(2 672)
Revaluation reserve	19 489	19 489	2 298	2 298
Foreign currency translation reserve	(20 878)	(27 185)		
Post-acquisition profits of subsidiaries set off against pre-acquisition losses	1 045	1 045		
Share premium	6 041	6 041	6 041	6 041
Tax reserve relating to lifo adjustment in foreign subsidiaries	4 464	3 347		
	41 917	37 549	2 611	5 667
21. RETAINED SURPLUS				
Comprising				
Company	1 429 337	1 428 418		
Consolidated subsidiaries	270 013	195 853		
	1 699 350	1 624 271		
Distributions by certain foreign subsidiaries will give rise to withholding taxes of R1,3 million. No provision is raised until dividends are declared as these reserves are considered to be permanent capital.				
Included in the company retained earnings are dividends declared on 17 May 2001 (note 9)	36 764	55 655		

Notes to the Annual Financial Statements

continued

	Group 2001 R000	Group 2000 R000	Company 2001 R000	Company 2000 R000
22. LONG AND MEDIUM TERM INTEREST BEARING DEBT				
Secured loan in respect of assets with a net book value of R105 508 611 (2000: R128 432 753) held under a suspensive sale agreement bearing interest payable six monthly in arrears at a linked variable rate presently of 6,62% (2000: 7,22%), redeemable in bi-annual instalments to 30 June 2003	131 127	147 450	131 127	147 450
Unsecured loan bearing interest payable six monthly in arrears at a fixed rate of 12,38%, redeemable February 2004	50 000	—	50 000	—
2 144 000 unsecured compulsorily convertible debentures of 10 cents each issued at a premium of R17,70. Interest is payable six monthly in arrears on 31 March and 30 September of each year at a rate of 12,34%. These debentures will automatically convert into Edgars Consolidated Stores Limited ordinary shares of 10 cents each on 31 March 2004. The company at its discretion may at the request of the holder convert at an earlier date, but not before 31 March 2002	38 163	38 163	38 163	38 163
Unsecured loan bearing interest payable six monthly in arrears at a linked variable rate presently of 9,6% (2000: 9,4%) redeemable in bi-annual instalments to 30 June 2005	29 102	34 065	29 102	34 065
Unsecured loan bearing interest payable monthly in arrears at a linked variable rate presently of 12,5% (2000: 12,5%) repayable in monthly instalments to May 2002	791	1 423	—	—
	249 183	221 101	248 392	219 678
Current portion repayable within one year transferred to short term interest bearing debt	23 755	21 962	23 119	21 326
	225 428	199 139	225 273	198 352
Summary of interest bearing debt redemption by financial year				
Repayable in 2001		21 962		21 326
2002	23 755	23 901	23 119	23 199
2003	25 037	25 027	24 882	24 942
2004	189 266	139 270	189 266	139 270
2005	7 265	7 097	7 265	7 097
Thereafter	3 860	3 844	3 860	3 844
	249 183	221 101	248 392	219 678
Current portion redeemable within one year transferred to short term interest bearing debt	23 755	21 962	23 119	21 326
	225 428	199 139	225 273	198 352

	Group 2001 R000	Group 2000 R000	Company 2001 R000	Company 2000 R000
23. SHORT TERM INTEREST BEARING DEBT				
Current portion of long and medium term interest bearing debt	23 755	21 962	23 119	21 326
Unsecured bank overdrafts/balances, acceptances and call funds	571 784	406 694	576 882	409 554
	595 539	428 656	600 001	430 880
24. ACCOUNTS PAYABLE				
Trade accounts payable	929 122	907 696	823 996	828 247
Value added taxation payable	7 251	8 374	—	4 965
Sundry accounts payable and accrued expenses	101 901	89 644	97 584	89 323
	1 038 274	1 005 714	921 580	922 535
25. DEFERRED TAXATION				
Balance at the beginning of the year	119 384	130 068	119 346	112 155
Income statement (note 8.1)	45 157	(3 212)	39 075	5 981
Movement related to acquisition of outside shareholders' interests in subsidiaries	—	(6 364)		
Movement related to assets transferred from subsidiary			—	1 641
Foreign currency translation	620	(566)		
Revaluation reserve	—	(534)	—	(431)
Tax reserve relating to lifo adjustment in foreign subsidiaries (note 20)	(1 117)	(8)		
Balance at the end of the year	164 044	119 384	158 421	119 346
Comprising				
Properties, fixtures, equipment and vehicles and other net temporary differences	128 385	83 584	111 798	75 132
Net temporary differences on accounts receivable	49 942	48 196	45 639	43 230
	178 327	131 780	157 437	118 362
Revaluation reserve	8 390	8 390	984	984
Assessed losses	(22 673)	(20 786)		
	164 044	119 384	158 421	119 346
26. FUTURE CAPITAL EXPENDITURE				
Contracted				
Properties, fixtures, equipment and vehicles	5 725	38 068	5 725	37 463
Authorised by the Directors but not yet contracted				
Properties, fixtures, equipment and vehicles	173 469	219 120	161 642	210 908
	179 194	257 188	167 367	248 371

All the expenditure will be incurred during the next financial year and is to be financed from net cash retained from operations and banking facilities.

Notes to the Annual Financial Statements
continued

	Group		Company	
	2001 R000	2000 R000	2001 R000	2000 R000
27. LEASES				
The Group leases the majority of its land, buildings and vehicles under operating leases whereas other operating assets are generally owned. The lease agreements of certain of the Group's store premises provide for a minimum annual rental payment and additional payments determined on the basis of turnover.				
At 31 March 2001 the future minimum property operating lease commitments are				
Due as follows				
Within one year	358 777	302 803		
Between two and five years	1 231 868	1 140 924		
In more than five years	613 713	803 607		
The Group entered into a first time agreement for the leasing of certain computer equipment. The agreement provides for minimum annual rental payments and additional payments depending on usage.				
At 31 March 2001, the future minimum computer equipment operating lease commitments are				
Due as follows				
Within one year	53 639	—		
Between two and five years	165 511	—		
In more than five years	—	—		
28. CONTINGENT LIABILITIES				
Guarantees on behalf of subsidiaries for facilities to the extent that they were used and in respect of staff loans and certain pensions	418	475	661	4 916
Litigation, current or pending, is not considered likely to have a material adverse effect on the Group.				

29. FINANCIAL RISK MANAGEMENT

29.1 Treasury risk management

Senior executives meet on a regular basis to analyse currency and interest rate exposures and re-evaluate treasury management strategies against revised economic forecasts. Compliance with Group policies and exposure limits is reviewed at quarterly meetings of the Board.

29. FINANCIAL RISK MANAGEMENT *(continued)*

29.2 Foreign currency management

Material forward exchange contracts at 31 March 2001 are summarised below. The writing of option contracts is prohibited, thus currency options are only purchased as a cost effective alternative to forward exchange contracts. The amounts represent the net rand equivalents of commitments, to purchase and sell foreign currencies and all of these commitments mature within one year. Accordingly, the average rates shown include the cost of forward cover for periods of up to twelve months.

	2001		2000	
	Rand equivalent R000	Average rate	Rand equivalent R000	Average rate
Foreign currency against rand hedged forward orders				
US dollar	43 678	7,97	38 980	6,55
Italian lire	—	—	2 574	299,17
Euro	696	7,25	—	—

The company, and certain of its subsidiaries, in terms of approved policy limits, manage short term foreign currency exposures relating to trade imports, exports and interest flows on foreign borrowings. Net uncovered rand transaction exposures at 31 March 2001 amounted to R13,4 million (2000: R0,4 million). The Group policy is to limit this aggregate exposure to R20 million. All other significant foreign trade positions in the Group were fully covered at 31 March 2001.

29.3 Interest rate management

As part of the process of managing the Group's fixed and floating rate borrowings mix, the interest rate characteristics of new borrowings and the refinancing of existing borrowings are positioned according to expected movements in interest rates. The interest rate repricing profile at 31 March 2001 is summarised as follows

	Floating rate	1 – 6 months	7 – 12 months	Beyond 12 months	Total borrowings
2001					
Borrowings (R000)	392 575	209 102	—	219 290	820 967
% of total borrowings	47,8%	25,5%	—	26,7%	100%
2000					
Borrowings (R000)	208 118	234 065	—	185 612	627 795
% of total borrowings	33,2%	37,3%	—	29,5%	100,0%

In order to hedge specific exposures in the interest rate repricing profile of existing borrowings and anticipated peak additional borrowings, the company and certain of its subsidiaries make use of interest rate derivatives, only as approved in terms of Group policy limits. These derivatives are regarded as cash flow hedges and the adjustment to fair value at year end is taken to a non-distributable reserve.

29.4 Credit risk management

Potential concentrations of credit risk consist principally of trade accounts receivable and short term cash investments. The Group only deposits short term cash surpluses with major banks of high quality credit standing. Trade accounts receivable comprise a large, widespread customer base and Group companies perform ongoing credit evaluations of the financial condition of their customers and, where appropriate, credit guarantee insurance cover is purchased. The granting of credit is controlled by application and behavioural scoring models, and the assumptions therein are reviewed and updated on an ongoing basis. At 31 March 2001, the Group did not consider there to be any significant concentration of credit risk which had not been insured or adequately provided for.

Notes to the Annual Financial Statements
continued

29. FINANCIAL RISK MANAGEMENT *(continued)*

29.5 Liquidity risk

The Group has minimised risk of illiquidity as shown by its substantial banking facilities and reserve borrowing capacity.

		2001 R000	2000 R000
Unutilised banking facilities			
Total banking and loan facilities		1 237 184	1 452 901
Actual interest bearing debt (notes 22 and 23)		820 967	627 795
Unutilised banking facilities		416 217	825 106
Reserve capacity			
The aggregate amount of the Group's year end interest bearing debt is limited to an amount determined in terms of the company's articles of association. This amount is calculated as 75% of shareholders' funds.			
Maximum permissible year end interest bearing debt		1 750 814	1 690 022
Actual interest bearing debt (notes 22 and 23)		820 967	627 795
		929 847	1 062 227
Cash and cash equivalents (note 18)		219 629	118 503
Unutilised borrowing capacity		1 149 476	1 180 730
Sustainable liabilities			
The unutilised liability capacity is based on the estimated capacity of each asset investment to sustain liabilities.			
	Liability capacity		
Loans and investments	50%	24 012	9 600
Properties, fixtures, equipment and vehicles	50%	369 508	429 864
Inventories	75%	910 989	903 524
Accounts receivable	66%	1 434 157	1 255 837
Cash, cash equivalents and taxation receivable	100%	219 629	118 503
		2 958 295	2 717 328
Liabilities		(1 202 318)	(1 181 874)
Permissible year end interest bearing debt		1 755 977	1 535 454
Actual interest bearing debt (notes 22 and 23)		(820 967)	(627 795)
Unutilised liability capacity		935 010	907 659

29. FINANCIAL RISK MANAGEMENT *(continued)*

29.6 Fair value of financial instruments

The estimated net fair values have been determined as at 31 March 2001, using available market information and appropriate valuation methodologies, and are not necessarily indicative of the amounts that the Group could realise in the normal course of business.

	2001		2000	
	Carrying amounts R000	Fair values R000	Carrying amounts R000	Fair values R000
Assets				
Liquid resources	219 629	219 629	118 503	118 503
Accounts receivable	2 030 100	2 030 100	1 807 934	1 807 934
Investments and loans	48 023	48 023	19 199	19 199
Liabilities				
Interest bearing debt	820 967	820 754	627 795	627 795

The following methods and assumptions were used by the Group in establishing fair values

Liquid resources, trade accounts receivable, investments and loans: the carrying amounts reported in the balance sheet approximate fair values.

Borrowings: the fair values of the Group's loans are estimated using discounted cash flow analyses applying the RSA yield curve. The carrying amount of short term borrowings approximates their fair value.

Forward instruments: forward exchange contracts are entered into mainly to cover import orders, and fair values are determined using foreign exchange market rates at 31 March 2001. Forward rate agreements are entered into mainly to hedge interest rate exposure and fair values are determined using money market derivative rates at 31 March 2001.

29.7 Derivative fair valuation adjustment

	Foreign currency management R000	Interest rate management R000	Total R000
Opening non-distributable reserve (note 20)	918	(3 590)	(2 672)
Adjustment to derivative fair values	518	(3 574)	(3 056)
Closing non-distributable reserve (note 20)	1 436	(7 164)	(5 728)

Notes to the Annual Financial Statements
continued

30. INTERESTS OF DIRECTORS AND MANAGERS IN SHARE CAPITAL AND CONTRACTS

The interests, direct and indirect, of the Directors and managers in office at the date of this report, and their families, aggregated as to beneficial interest and non-beneficial interest, are as follows

Ordinary shares	2001 Beneficial	2000 Beneficial	2001 Non-beneficial	2000 Non-beneficial
Non-executive Directors				
W S MacFarlane	5 000	5 000	11 003	11 003
M I Wyman	—	4 260		
Executive Directors				
S M Ross	4 500	2 000		
J A Day	500	—		
U Ferndale	5 000	—		
Executives	5 097	3 297	7 500	
Balance at 31 March and 17 May 2001	20 097	14 557	18 503	11 003

Disclosures by the Directors indicate that at 31 March 2001 and at the date of this report, their interests and those of their families did not, in aggregate, exceed 5% in respect of either the share capital or voting control of the company.

Each Director of the company has certified that he was not interested in any contract of significance to the company or any of its subsidiaries which could have given rise to a related conflict of interest during the year.

A register detailing Directors' and managers' interests in the company is available for inspection at the company's registered office. A copy will be posted, upon request, by the secretary to any member of the public.

31. RELATED PARTY TRANSACTIONS

Related party relationships exist within the Group. During the year all purchasing and selling transactions were concluded at arm's length. Details of material transactions with related parties not disclosed elsewhere in the financial statements are as follows

	2001		2000	
	Edcon Purchases from	Amounts owed by Edcon	Edcon Purchases from	Amounts owed by Edcon
V.O.C. Investments Limited	R230,6m	R64,8m	R187,2m	R49,2m

32. SOCIAL INVESTMENT AND ENVIRONMENTAL PROTECTION

Social investment has become an established part of operational life throughout southern Africa. Edcon's programmes continue to focus predominantly on education and training, but also included health and welfare. Total contributions for the year amounted to R8,4 million.

The Group risk management committee continued to monitor Edcon's possible impact on the environment including a debate regarding the packets used in stores. No reports of pollution from the manufacturing facilities or our retail operations were received during the year.

33. REPORT OF THE DIRECTORS

A separate report is not considered appropriate as details of the performance of the various operations of the Group are contained in the Chief Executive Officers' Report and the Group Financial Review. Other required disclosures are contained in either these reviews or the annual financial statements, together with the notes thereto.

Interests in Subsidiaries

Annexure 1

	Nature of business	Issued ordinary capital		% interest in capital		Book value of shares		Amounts owing by subsidiaries (note 14.2)	
		2001	2000	2001	2000	2001	2000	2001	2000
Incorporated in South Africa		R	R	%	%	R	R	R	R
African Accent (Pty) Ltd	D	100	100	100	100	100	100		
Cannon Clothing (Pty) Ltd	D	100	100	100	100				
Celrose Clothing (Pty) Ltd	D	100 000	100 000	100	100				
Cuthberts (Bophuthatswana) (1990) (Pty) Ltd	D	100 000	100 000	100	100				
Dale Retail Property Services (Pty) Ltd	G	36 000	36 000	100	100			372 268	293 843
Decisions Home Shopping Ltd	D	200 000	200 000	100	100	200 000	200 000		
E-Corporate Travel Solution (Pty) Ltd	T	100	100	50	50				
Edcon Sourcing (Pty) Ltd	R	1 000	1 000	100	100	256 369	256 369	37 601 086	43 226 540
Edcon Sourcing (Pty) Ltd – preference shares	R					50 000 000	50 000 000		
Edgars Investment Holding Company Ltd	D	141 076	141 076	100	100	141 076	141 076		
Edgars Retail Trading (Pty) Ltd	D	600	600	100	100	600	600		
Ellesse SA (Pty) Ltd	D	100	100	100	100				
Goose Bay Trading (Pty) Ltd	D	1	1	100	100	1	1		
H.D. Lee Company (Pty) Ltd	D	50 000	50 000	100	100				
Jet Stores (Pty) Ltd	R	4 504	4 504	100	100	4 504	4 504		
Lauré Fashions (Pty) Ltd	M	1 000	1 000	100	100			4 129 544	7 880 708
M S Litho (Pty) Ltd	D	100	100	100	100				
National Security Corporation Ltd	G	2 000	2 000	100	100	1 800	1 800		
Peoples Stores (Bophuthatswana) (Pty) Ltd	D	250 000	250 000	100	100	250 000	250 000		
Peoples Stores (Transkei) (Pty) Ltd	D	290 000	290 000	100	100	290 000	290 000		
R22 Properties (Pty) Ltd	P	1	1	100	100	1	1		
Reactor Clothing (Pty) Ltd	M	100	100	100	85				
Sales House (Pty) Ltd	R	100	100	100	100	100	100		
Shoecorp Shoe Stores (Pty) Ltd	R	33 752	33 752	100	100				
Smiley's Wearhouse (Pty) Ltd	R	120	120	100	100	1 726 762	1 726 762	35 823 924	23 415 825
Studio Clothing (Pty) Ltd	D	100	100	100	100				
United Retail Ltd	D	6 000	6 000	100	100	6 000	6 000		
UPC Retail Services (Pty) Ltd	D	6 000	6 000	100	100	6 000	6 000		
V.O.C. Investments Ltd	M	950 000	950 000	100	100	950 000	950 000	29 404 524	31 843 334
W.M. Cuthbert & Company Ltd	D	12 200	12 200	100	100				
Incorporated in Botswana		P	P						
Jet Supermarkets Botswana (Pty) Ltd	R	300 000	300 000	100	100				
Incorporated in Lesotho		M	M						
Easy Rider Clothing (Pty) Ltd	M	1 000	1 000	85	85				
Edgars Stores (Lesotho) (Pty) Ltd	R	200 000	200 000	100	100	200 000	200 000	—	995 021
Jet Supermarkets (Lesotho) (Pty) Ltd	D	100	100	100	100	100	100		
Lee Manufacturing (Lesotho) (Pty) Ltd	M	4 000	4 000	100	100			2 876 248	3 436 909
Sales House (Lesotho) (Pty) Ltd	D	1 000	1 000	100	100	1 000	1 000		
Incorporated in Namibia		N$	N$						
Edgars Stores (Namibia) Ltd	R	1 050 000	1 050 000	100	100			43 112 734	53 304 340
Incorporated in Swaziland		E	E						
Edgars Stores Swaziland Ltd	R	1 500 000	1 500 000	100	100	1 500 000	1 500 000	29 535 058	35 258 312
Jet Supermarkets Swaziland (Pty) Ltd	D	100	100	100	100	100	100		
Incorporated in Zimbabwe		Z$	Z$						
Edgars Stores Limited†	R	46 146 000	46 146 000	56	56				
Incorporated in Guernsey		£	£						
Bellfield Limited	G	41	41	100	100	75	75	616 979	211 253
Berwick Holdings Limited**	D	—	2	—	100	—	3 692	—	176 842
Interest in subsidiaries						55 534 588	55 538 280	183 472 365	200 042 927

* *Nature of business R: Retailing M: Manufacturing G: Group Services D: Dormant P: Property Holding T: Travel*

† *December financial year end. Details as at 31 December 2000*

** *Deregistered during the year*

Shareholders' Information

FINANCIAL CALENDAR

Financial year end	31 March
Annual General Meeting	July
Reports	
Interim report	November
Preliminary announcement of annual results	May
Annual report	June
Dividends payable	
Ordinary shares – interim and final	December and June
6% preference shares	December and June

ANALYSIS OF HOLDINGS OF ORDINARY SHARES AT 31 MARCH 2001

	Number of members			Number of shares		
Size of holding	Individuals	Other	% of total	Individuals	Other	% of total
1 – 500	1 452	161	83,49	206 731	27 247	0,41
501 – 2 500	161	47	10,77	162 506	52 472	0,37
2 501 – 5 000	23	17	2,07	97 748	50 766	0,26
5 001 – 50 000	14	33	2,43	118 489	494 908	1,07
50 001 – 100 000	2	7	0,47	138 544	493 984	1,10
Over 100 000	—	15	0,77	—	55 601 205	96,79
Total	1 652	280	100,00	724 018	56 720 582	100,00

	Number of members	Shares held	% of total
Directors and Group executives	9	20 097	0,03
Pension funds	7	614 439	1,07
Nominee companies	137	42 275 514	73,59
Insurance companies and other corporate bodies	97	13 808 369	24,04
Investment and trust companies	30	17 260	0,03
Individuals	1 652	708 921	1,24
Total	1 932	57 444 600	100,00

SHAREHOLDERS WITH A HOLDING OF GREATER THAN 5% OF ISSUED ORDINARY SHARES

RMB Asset Management (Pty) Limited	13 184 039	22,95
South African Breweries plc	11 199 413	19,50
Liberty Asset Management Limited	8 752 983	15,24
Old Mutual Asset Managers (SA) (Pty) Limited	5 342 138	9,30
Coronation Asset Management (Pty) Limited	2 999 876	5,22

The company has been advised by STRATE (Share Transactions Totally Electronic) that dematerialisation of the Edcon shares will commence on 1 October 2001. The first date for electronic trading is 22 October 2001.

Notice is hereby given that the fifty-fifth Annual General Meeting of the members of Edgars Consolidated Stores Limited will be held at the registered office of the company, Edgardale, Press Avenue, Crown Mines, Johannesburg, on Thursday, 19 July 2001 at 09:00 for the following purposes:

1. to receive and adopt the financial statements for the year ended 31 March 2001;
2. to elect directors in place of those retiring in accordance with the provisions of the company's articles of association;
3. to consider, and if deemed fit, to pass with or without modification the following ordinary and special resolutions;

3.1 Ordinary Resolution

"That 279 800 unissued ordinary shares in the capital of the company be and they are hereby placed at the disposal and under the control of the directors who may, subject to the provisions of the Companies Act, 1973, issue such shares to such persons on such terms and conditions and with such rights attached thereto as the directors may determine." This resolution renews the general authority to issue shares given by members to the directors on 14 July 1999.

3.2 Special Resolution number 1

"Article 13 of the Articles of Association of the company be and is hereby amended by the addition of the following –

'13A Acquisition of shares issued by the company:

Subject to the provisions of the Act and the requirements of the JSE Securities Exchange South Africa ("JSE"), the company may, with the prior approval of a special resolution of its shareholders in general meeting, acquire any shares issued by the company on the basis that –

– the price payable on such acquisition shall be paid out of the funds of or available to the company whether or not such payment results in a reduction of the issued share capital, share premium, reserves, stated capital, or any capital redemption reserve fund, or any other account of the company;

– the shares so acquired shall be cancelled as issued shares and the authorised share capital of the company shall remain unaltered.

13B Acquisition of shares in holding company and acquisition by subsidiary company/ies of shares in the company:

The company may –

– subject to the provisions of the Act and the requirements of the JSE, with the prior approval by way of a special resolution of its shareholders in general meeting, acquire any shares issued by any of its holding companies;

– to the extent and in the manner required by the Act and the requirements of the JSE, authorise any subsidiary of the company to acquire shares in the company.' "

The reason for and effect of special resolution number 1 is to broaden the ambit of Article 13 to enable the company or any of its subsidiaries to purchase issued shares in the capital of the company.

3.3 Special Resolution number 2

"That the company hereby approves, as a general approval contemplated in sections 85(2) and 85(3) of the Companies Act, 1973 (Act 61 of 1973), as amended ("the Act"), the acquisition by the company or any of its subsidiaries from time to time of issued ordinary shares in the company, upon such terms and conditions and in such amounts as the directors of the company may from time to time determine, but subject to the articles of association of the company, the provisions of the Act and the Listings Requirements of the JSE Securities Exchange South Africa ("JSE") as presently constituted and which may be amended from time to time, and:

a. any such acquisition of ordinary shares shall be implemented on the open market on the JSE;
b. this general authority shall only be valid until the company's next annual general meeting, provided that it shall not extend beyond 15 (fifteen) months from the date of passing of this special resolution;

Notice of Annual General Meeting
continued

c. a paid press announcement will be published as soon as the company has acquired ordinary shares constituting, on a cumulative basis, 3% (three percent) of the number of ordinary shares in issue prior to the acquisition pursuant to which the 3% (three percent) threshold is reached, which announcement shall contain full details of such acquisitions;
d. acquisitions of ordinary shares in the aggregate in any one financial year may not exceed 10% (ten percent) of the company's issued ordinary share capital from the date of the grant of this general authority;
e. in determining the price at which the company's ordinary shares are acquired by the company in terms of this general authority, the maximum premium at which such ordinary shares may be acquired will be 10% (ten percent) of the weighted average of the market price at which such ordinary shares are traded on the JSE, as determined over the 5 (five) business days immediately preceding the date of repurchase of such ordinary shares by the company."

The reason for this special resolution is to grant the company a general authority in terms of the Act for the acquisition by the company or any of its subsidiaries of shares issued by it, which authority shall be valid until the earlier of the next annual general meeting of the company or the variation or revocation of such general authority by special resolution by any subsequent general meeting of the company, provided that the general authority shall not extend beyond 15 (fifteen) months from the date of this annual general meeting. The passing and registration of this special resolution will have the effect of authorising the company or any of its subsidiaries to acquire shares issued by the company.

Although the JSE Listing Requirements allow a company to repurchase up to 20% of its issued share capital in any one financial year, the Directors are only seeking authority to repurchase up to 10% of issued share capital in this financial year.

Statement by the board of directors of the company

Pursuant to and in terms of the Listings Requirements of the JSE Securities Exchange, the directors of the company state that:

a. the intention of the directors of the company is to utilise the authority at a future date provided the cash resources of the company are in excess of its requirements. In this regard the directors will take account of, inter alia, an appropriate capitalisation structure for the company, the long-term cash needs of the company, and will ensure that any such utilisation is in the interests of shareholders;
b. following the maximum number of securities to be repurchased and the date on which such repurchase will take place, the directors of the company will ensure that:
   - the company and its subsidiaries will be able to pay their debts as they become due in the ordinary course of business for the next 12 (twelve) months;
   - the consolidated assets of the company and its subsidiaries, fairly valued in accordance with Generally Accepted Accounting Practice, will be in excess of the consolidated liabilities of the company and its subsidiaries;
   - the issued share capital and reserves of the company and its subsidiaries will be adequate for the purposes of the business of the company and its subsidiaries for the next 12 (twelve) months; and
   - the working capital available to the company and its subsidiaries will be sufficient for the group's requirements for the next 12 (twelve) months.

A member entitled to attend and vote at this meeting may appoint a proxy or proxies to attend and speak and on a poll to vote in his stead. Such proxy need not be a member of the company. Proxy forms, available from the transfer secretaries, must reach the registered office of the company at least 48 hours before the meeting.

By order of the Board

D J Viviers, Group Secretary

PO Box 100
Crown Mines
2025

14 June 2001

Offices

EDGARS CONSOLIDATED STORES LIMITED

Incorporated in the Republic of South Africa
Registration number 1946/022751/06

GROUP SECRETARY

D J Viviers

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