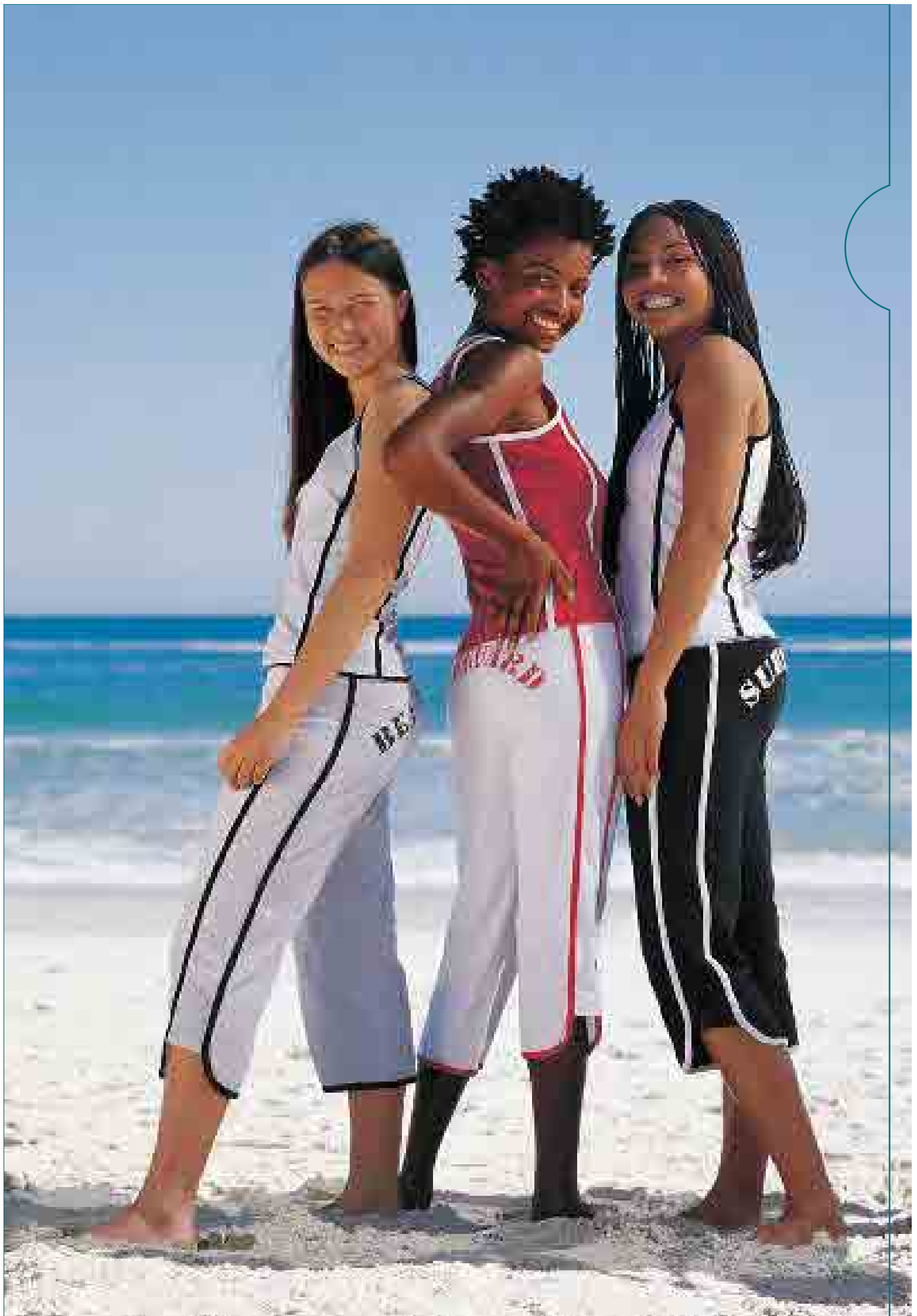


# Creating value

Edcon Annual Report **2004**





# Group Values

## We value:

1

### People

We treat the individual, our customers, employees, shareowners and the community with care and respect.

2

### Integrity

We are open, honest, fair and inclusive in all our relationships. We accept and learn from constructive criticism. We make and keep commitments.

3

### Performance

To improve we must measure our performance. Goals must be clearly set and measured. Excellence is recognised, rewarded and results in career growth.

4

### Professionalism

We try to achieve our full potential as leaders and Edcon employees. We commit to winning by; learning as much as we can, continuously improving what we do, and working as a disciplined team every day.

## Achievements

2004	2003	2002	Target
<b>Return on ordinary shareowners' equity</b>			
28,3%	15,7%	7,5%	20,0%
<b>Operating profit to retail sales</b>			
10,3%	7,3%	4,9%	10,0%
<b>Financing cost cover (times)</b>			
21,3	13,8	5,1	5,0
<b>Gearing ratio</b>			
0,06	(0,05)	0,16	0,25
<b>Stockturn (times)</b>			
5,2	4,7	3,8	5,5



Manufacturing  
Division



## Group Financial Highlights

	2004 52 weeks	2003 52 weeks (Restated)	Change
<b>Group summary</b>	<b>Rm</b>	Rm	%
Revenue – retail sales	10 530,0	8 313,7	27
Earnings attributable to ordinary shareowners	676,2	341,8	98
Headline earnings	703,1	373,1	88
Attributable cash equivalent earnings	988,9	503,6	96
Cash value added	2 508,5	2 389,7	5
Total assets	5 095,9	4 217,0	21
Market capitalisation	7 341,4	2 585,0	184
<b>Ordinary share performance (cents per share)</b>			
Attributable earnings basis	1 535,9	720,2	113
Headline earnings basis	1 597,0	786,0	103
Cash equivalent basis	2 246,3	1 061,1	112
Attributable cash flow	2 433,2	2 314,4	5
Dividends declared for the financial year	768,0	308,0	149
Net equity	5 897,1	4 917,5	20
Market price	14 200	5 000	184
<b>Financial statistics and targets</b>			<b>2004 Targets</b>
Operating profit as % of retail sales	10,3	7,3	10,0
Return on ordinary shareowners' equity (%)	28,3	15,7	20,0
Financing cost cover (times)	21,3	13,8	5,0
Stockturn (times)	5,2	4,7	5,5
Gearing ratio	0,06	(0,05)	Max. 0,25

Restatements: Restated for consolidation of the Edgars Stores Limited Staff Share Trust (the "Staff Share Trust"). Refer to note 1.1 on page 100.

### Prospects

Relatively low interest and inflation rates are forecast for the months ahead. This should be positive for retailers, but will be offset by the slow growth in GDP, high unemployment and Rand strength. Nevertheless, the Edcon Board is confident, based on the current momentum in the industry, that the Group's CFT sales will continue to grow in real terms in the year ahead, albeit at a slower pace than in the past year. Furthermore, sales for the coming year will be boosted by the first-time inclusion of Boardmans, by the scheduled inclusion of a 53rd trading week and by an estimated 5% increase in average retail space through new store openings.

Economies of scale, the additional contribution from new space, and further improvements in the recently acquired businesses will enhance overall productivity. Accordingly, headline earnings per share for the coming year are expected to increase at a somewhat faster rate than sales growth.



**Retail sales  
growth of 27%**

**R2,5 billion  
wealth created  
for all stakeholders**

**Profit before tax  
up 82% to over  
R1 billion**

**Headline earnings  
per share doubled  
at 1 597 cents**

**Record final  
dividend of  
521 cents**

(up 182%)

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## Group Vision

- ✿ To be the consumers' store of choice for the products we sell, in the markets we trade.
- ✿ To create wealth for the benefit of all stakeholders.

## Group Mission

The Group's **business mission** is to create value by providing our customers with:

- ✿ the right products and outstanding personal service; and
- ✿ payment options and financial services to meet their individual lifestyles and financial needs.

The Group's **mission as an employer** is to be regarded as a preferred employer in southern Africa by:

- ✿ consistently creating wealth for employees;
- ✿ living our corporate values as if our livelihood depended on them;
- ✿ developing and training people for lifetime employability; and
- ✿ making work challenging, exciting and rewarding.

The Group's **community mission** is to:

- ✿ share wealth for positive change in the quality of life of people in the areas in which we trade, primarily through support for education; and
- ✿ be perceived both internally and externally, as a caring organisation.



Edgars Consolidated Stores Limited originated from one small clothing store opened in Johannesburg in 1929. It was listed on the JSE Securities Exchange South Africa in 1946. It operates through 641 stores in southern Africa.

## 7 Year Group Review

Year	Six year compound growth % p.a.	2004 52	2003 52	2002 52	2001 52	2000 52	1999 52	1998 52
Number of weeks		(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
<b>Group income statements (Rm)</b>								
Revenue – retail sales	11, 0	10 530,0	8 313,7	6 709,8	6 557,4	6 423,6	5 849,8	5 641,7
Cost of sales		6 423,3	5 107,0	4 264,1	4 227,9	4 100,7	3 834,1	3 583,4
Gross profit		4 106,7	3 206,7	2 445,7	2 329,5	2 322,9	2 015,7	2 058,3
Expenses		3 162,0	2 649,2	2 064,2	1 978,5	1 878,1	1 787,3	1 641,1
Trading profit	14,6	944,7	557,5	381,5	351,0	444,8	228,4	417,2
Credit and financial services profits <sup>1</sup>		136,8	51,7	(55,2)	(93,7)	(14,9)	—	—
Operating profit before financing costs		1 081,5	609,2	326,3	257,3	429,9	228,4	417,2
Net financing costs		50,7	44,2	63,5	85,8	77,4	121,4	56,8
Profit before taxation		1 030,8	565,0	262,8	171,5	352,5	107,0	360,4
Taxation		354,6	223,2	93,4	51,3	108,3	38,9	122,5
Attributable to outside shareowners		—	—	—	—	18,4	(17,6)	7,4
<b>Earnings attributable to ordinary shareowners</b>	19,6	676,2	341,8	169,4	120,2	225,8	85,7	230,5
<b>Group cash flow (Rm)</b>								
Cash generated from trading (cash “EBITDA”)	14,9	1 351,1	900,8	527,7	464,0	655,2	421,9	587,3
Working capital requirements		(676,7)	(38,2)	184, 6	(234,2)	(334,5)	(24,4)	(417,4)
<b>Cash generated from operating activities</b>	25,8	674,4	862,6	712,3	229,8	320,7	397,5	169,9
Net financing costs paid		(50,7)	(44,2)	(63,5)	(85,8)	(77,4)	(121,4)	(56,8)
Taxation paid		(422,5)	(103,2)	(40,0)	(95,5)	(36,2)	(82,4)	(149,7)
<b>Cash inflow from operations</b>		201,2	715,2	608,8	48,5	207,1	193,7	(36,6)
Dividends paid		(190,8)	(98,4)	(54,9)	(75,6)	(59,9)	(21,7)	(13,8)
<b>Net cash retained</b>		10,4	616,8	553,9	(27,1)	147,2	172,0	(50,4)
<b>Net cash invested</b>		(337,1)	181,1	(128,7)	(79,4)	(140,5)	(206,5)	(308,6)
<b>Net financing raised</b>		(326,7)	797, 9	425,2	(106,5)	6,7	(34,5)	(359,0)
Increase in shareowner funding		43,4	(312,9)	(171,5)	(23,0)	3,2	(1,9)	10,0
Increase in interest bearing debt		183,1	(393,4)	(238,7)	208,6	27,8	52,3	351,9
<b>Net cash inflow from financing activities</b>		226,5	(706,3)	(410,2)	185,6	31,0	50,4	361,9
<b>Decrease in cash and cash equivalents</b>		(100,2)	91,6	15,0	79,1	37,7	15,9	2,9
<b>Group balance sheets (Rm)</b>								
Assets								
Non-current assets		1 192,3	1 192,8	840,8	746,1	865,0	883,0	846,4
Current assets		3 903,6	3 024,2	3 242,4	3 428,8	3 227,4	2 879,6	2 875,2
<b>Total assets</b>	5,4	5 095,9	4 217,0	4 083,2	4 174,9	4 092,4	3 762,6	3 721,6
Equity and liabilities								
Shareowners’ funds	4,2	2 650,1	2 131,8	2 229,4	2 267,8	2 282,8	2 101,2	2 075,4
Interest bearing debt	(6,7)	366,5	183,4	575,0	818,8	627,8	596,9	554,5
		3 016,6	2 315,2	2 804,4	3 086,6	2 910,6	2 698,1	2 629,9
Interest free liabilities	11,3	2 079,3	1 901,8	1 278,8	1 088,3	1 181,8	1 064,5	1 091,7
<b>Total equity and liabilities</b>	5,4	5 095,9	4 217,0	4 083,2	4 174,9	4 092,4	3 762,6	3 721,6

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

Restatements: Throughout this Group review, comparatives are restated to include the consolidation of the Edgars Stores Limited Staff Share Trust. Refer to note 1.1 on page 100.

2001 is restated excluding Zimbabwe. 1998 to 2000 includes Zimbabwe.

<sup>1</sup> Credit and Financial Services was previously accounted for in the chains.

## 7 Year Group Review

Year	Six year compound growth % p.a.	2004 52	2003 52	2002 52	2001 52	2000 52	1999 52	1998 52
Number of weeks		(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
<b>Ordinary share performance (cents per share)</b>								
Attributable earnings basis	24,2	<b>1 535,9</b>	720,2	309,4	211,4	398,5	151,3	418,2
Headline earnings basis	25,1	<b>1 597,0</b>	786,0	310,4	214,9	411,7	148,4	416,8
Cash equivalent basis	19,9	<b>2 246,3</b>	1 061,1	748,0	654,8	788,1	516,9	753,4
Attributable cash flow	88,5	<b>2 433,2</b>	2 314,4	1 123,1	249,9	851,1	489,0	54,3
Dividends declared for the financial year	20,8	<b>768,0</b>	308,0	117,0	100,0	152,0	58,0	247,0
Net equity	8,4	<b>5 897,1</b>	4 917,5	4 464,6	4 539,7	3 945,2	3 659,1	3 629,7
<b>Returns</b>								
Return on ordinary shareowners' equity (%)	Av 12,0	<b>28,3</b>	15,7	7,5	5,4	10,7	4,2	12,0
<b>Productivity</b>								
Cash value added (Rm)	9,4	<b>2 508,5</b>	2 389,7	2 018,7	1 537,7	1 647,3	1 709,7	1 462,1
Net asset turn (times)	Av 2,6	<b>3,5</b>	3,6	2,4	2,1	2,2	2,2	2,1
Gross profit to retail sales (%)	Av 36,6	<b>39,0</b>	38,6	36,4	35,5	36,2	34,4	36,5
Cost of selling to retail sales (%)	Av 20,8	<b>18,2</b>	19,2	20,6	20,9	21,8	22,5	22,4
Retail trading profit to retail sales (%)	Av 6,4	<b>9,0</b>	6,7	5,7	5,4	6,9	3,9	7,4
Operating profit to retail sales (%)	Av 6,3	<b>10,3</b>	7,3	4,9	3,9	6,7	3,9	7,4
Revenue – retail sales per square metre (Rand) (moving average)	10,9	<b>13 262</b>	10 657	9 572	9 042	8 002	7 143	7 115
Revenue – retail sales per retail employee (R000)	16,8	<b>1 017,9</b>	788,5 <sup>2</sup>	690,6	637,7	547,9	465,4	400,7
Revenue – retail sales growth (%)	Av 9,8	<b>26,7</b>	23,9	2,3	2,1	9,8	3,7	0,4
Stockturn (times) (moving annual)	Av 3,9	<b>5,2</b>	4,7	3,8	3,4	3,7	3,7	3,2
Effective tax rate (%)	Av 34,3	<b>34,4</b>	39,5	35,5	29,9	30,7	36,4	34,0
<b>Solvency and liquidity</b>								
Financing cost cover (times)	Av 8,3	<b>21,3</b>	13,8	5,1	3,0	5,6	1,9	7,3
Dividend cover (times)	Av 2,3	<b>2,0</b>	2,3	2,6	2,1	2,6	2,6	1,7
Cash realisation rate	Av 1,03	<b>1,08</b>	2,18	1,50	0,38	1,08	0,95	0,07
Gearing ratio	Av 0,16	<b>0,06</b>	(0,05)	0,16	0,28	0,22	0,24	0,24
Total liabilities/shareowners' funds	Av 0,85	<b>0,92</b>	0,98	0,83	0,84	0,79	0,79	0,79
Interest free liabilities/total assets	Av 0,33	<b>0,41</b>	0,45	0,31	0,26	0,29	0,28	0,29
Current ratio	Av 2,1	<b>1,7</b>	1,5	2,2	2,2	2,2	2,2	2,8
<b>JSE Securities Exchange South Africa performance</b>								
Traded prices (cents per share)								
closing price		<b>14 200</b>	5 000	2 410	2 105	7 070	3 180	8 520
high		<b>14 500</b>	6 100	3 360	7 200	8 400	8 900	13 650
low		<b>4 800</b>	2 410	1 900	1 970	3 000	1 600	6 400
weighted average price per share traded		<b>9 672</b>	4 158	2 674	3 539	5 636	3 065	10 296
Price earnings ratio		<b>9,2</b>	6,9	7,8	10,0	17,7	21,0	20,4
Edcon share price index (1998: 100)		<b>167</b>	59	28	25	83	37	100
JSE Securities South Africa actuaries' retail index (1998: 100)		<b>111</b>	68	48	49	78	76	100
Year end market price/net equity per share		<b>2,41</b>	1,02	0,54	0,46	1,79	0,87	2,35
Number of shares in issue (000)		<b>51 700</b>	51 700	57 445	57 445	57 376	57 376	55 732
Volume of shares traded (000)		<b>36 367</b>	24 620	33 890	39 355	34 750	27 281	8 039
Number of transactions		<b>11 061</b>	3 697	5 291	13 275	18 129	9 955	2 772
Volume traded as % of number in issue		<b>70,3</b>	47,6	59,0	68,5	60,6	47,5	14,4
Value of shares traded (Rm)		<b>3 517,4</b>	1 023,6	906,3	1 393,1	1 958,7	836,2	827,7
Market capitalisation (Rm)		<b>7 341,4</b>	2 585,0	1 384,4	1 209,2	4 056,5	1 824,5	4 748,4
Number of shareowners		<b>3 982</b>	2 884	3 160	1 932	2 512	12 649	446
Earnings yield (%)		<b>10,8</b>	14,4	12,8	10,0	5,6	4,7	4,9
Dividend yield (%)		<b>5,4</b>	6,2	4,9	4,8	2,1	1,8	2,9

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

<sup>2</sup> CNA and Super Mart retail sales have been annualised for the purpose of this calculation.

<sup>3</sup> Averages are calculated over 7 years.



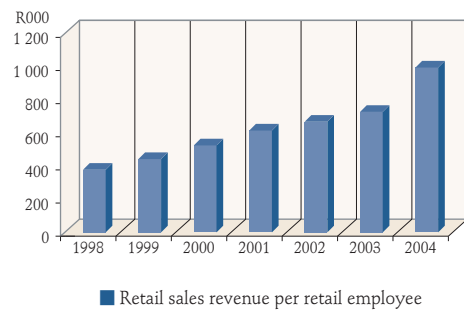
## 7 Year Group Review

Year	Six year compound growth % p.a.	2004 52	2003 52 (Restated)	2002 52 (Restated)	2001 52 (Restated)	2000 52 (Restated)	1999 52 (Restated)	1998 52 (Restated)
<b>Divisional analysis (Rm)</b> (See accounting policy note 1.15)								
<b>Revenue – retail sales</b>								
Edgars	8,0	5 595,8	4 817,5	4 125,2	3 952,3	3 675,8	3 612,9	3 534,2
Jet	11,6	3 599,9	2 924,2	2 584,6	2 605,1	2 535,3	2 056,9	1 863,9
CNA		874,3	389,5	—	—	—	—	—
Super Mart		460,0	182,5	—	—	—	—	—
Zimbabwe		—	—	—	—	212,5	180,0	243,6
Group	11,0	10 530,0	8 313,7	6 709,8	6 557,4	6 423,6	5 849,8	5 641,7
<b>Trading profit</b>								
Edgars	13,8	603,8	421,4	296,4	228,5	223,8	162,6	277,9
Jet	37,8	395,3	174,4	115,5	110,7	175,5	79,5	57,7
CNA		1,4	(2,4)	—	—	—	—	—
Super Mart		8,5	10,2	—	—	—	—	—
Zimbabwe		—	—	—	—	46,9	31,2	45,0
Manufacturing		(17,3)	(7,7)	(36,6)	3,7	(10,7)	(19,4)	9,6
Group services		(47,0)	(38,4)	8,5	8,8	10,0	(25,4)	27,0
Group	14,6	944,7	557,5	383,8	351,7	445,5	228,5	417,2
<b>Shareowners' funds</b>								
Edgars		903,3	920,4	909,2	981,0	1 019,8	1 000,7	1 051,5
Jet		428,0	426,6	518,8	623,8	624,5	531,9	525,1
CNA		226,5	94,6	—	—	—	—	—
Super Mart		106,1	63,0	—	—	—	—	—
Zimbabwe		—	—	—	—	85,0	71,2	129,2
Manufacturing		91,3	81,8	95,4	106,1	135,8	142,2	190,2
Credit and Financial Services <sup>1</sup>		2 507,6	1 694,0	1 751,8	1 681,1	1 582,4	—	—
Group services		(1 612,7)	(1 148,6)	(1 045,8)	(1 124,2)	(1 164,7)	355,2	179,4
Group		2 650,1	2 131,8	2 229,4	2 267,8	2 282,8	2 101,2	2 075,4
<b>Other statistical data (year end)</b>								
Number of full time employees <sup>4</sup>								
retailing		10 345	11 269	9 716	10 282	11 725	12 570	14 079
manufacturing		1 086	1 272	1 050	1 463	2 776	2 685	2 770
Total		11 431	12 541	10 766	11 745	14 501	15 255	16 849
Number of stores		641	593	449	544	671	703	702
Gross trading area (000 m <sup>2</sup> )		818	775	681	718	788	820	811
Number of active customer accounts (000)		2 933	2 850	2 860	2 944	3 446	3 725	3 598

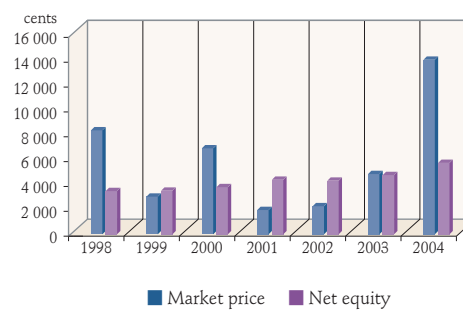
(Definitions are given in note 2 to the annual financial statements)

<sup>4</sup> Excludes permanent part timers (PPT).

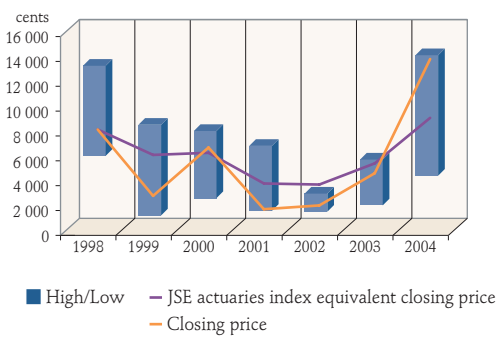
Retail sales revenue per retail employee



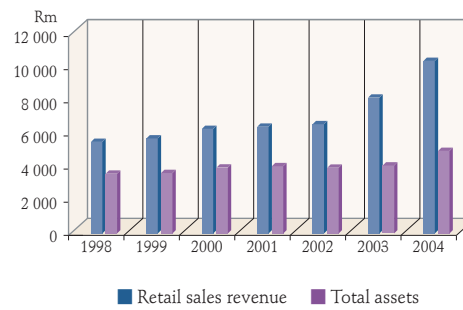
Market price and net equity per share



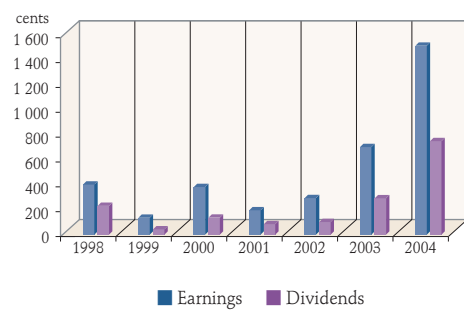
Share performance



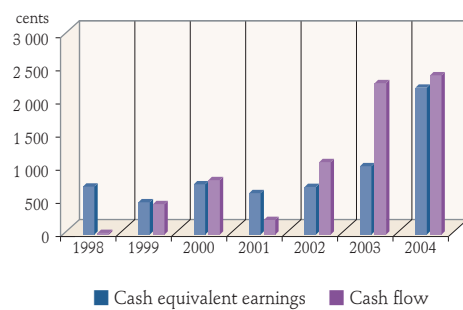
Retail sales revenue and total assets



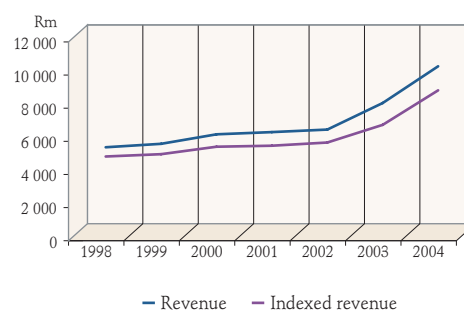
Earnings and dividends per share



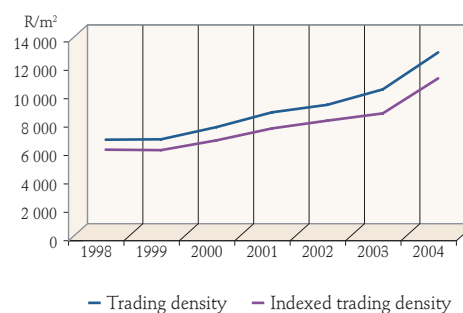
Cash equivalent earnings and cash flow per share



Revenue and indexed revenue  
(indexed on CFT inflation)



Trading density and indexed trading density



## Non-executive Directors



**W S MacFarlane, A J Aaron, P L Wilmot**



**S D M Zungu, T N Eboka**



**J D M G Koolen, Z B Ebrahim**

# Board of Directors

## Corporate Board

### Independent non-executive directors

#### *W Selwyn MacFarlane (68) – Chairman*

As a past President of SAICA and past Deputy Chairman of South African Breweries Miller plc., Mr MacFarlane is a valuable asset to Edcon, having provided strategic and corporate governance guidance as a Board member from 1982 – 1998. He has continued to contribute strong leadership in his current role as Chairman of the Board since 1999. As a past Director of a number of companies Mr MacFarlane has extensive corporate experience. Mr MacFarlane serves on Edcon's Audit and Risk and Remuneration and Nominations Committees.

#### *Tina N Eboka (45)*

Ms Eboka's education and unique experience have strengthened the Edcon Board since her appointment in 1999. She completed BS degrees in both Textile Engineering and Applied Mathematics and holds a Masters of Business Administration. She worked for more than 10 years in retail, specialising in textile and clothing manufacture. As executive Vice-President of CSIR, Ms Eboka is also a Director of Seardel and a member of the Board of the UNISA Graduate School of Business Leadership.

#### *Zohra B Ebrahim (44)*

Of strategic importance to Edcon is our 'employer of choice' campaign. Ms Ebrahim has assisted us greatly, bringing extensive experience in Human Resources to Edcon as a member of the Board from 1999. She is Past President of the Institute of People Management and is Chairman and CEO of Organisation Development Africa. Her many years of community involvement and civic action include facilitating the delivery of low-cost housing. Ms Ebrahim is a member of our Remuneration and Nominations, and Transformation Committees and is also a Non-Executive Director of Fifth Quadrant Actuaries and Consultants.

#### *Jacobus D M G Koolen (43)*

Appointed to the Board in 2001, Mr Koolen is Managing Director of the Monitor Group. Born in the Netherlands, he holds BCom and MBA degrees and has given Edcon invaluable strategic leadership as we develop and exploit opportunities through careful market segmentation. Mr Koolen has helped refine Edcon's aspiration to be the consumers' store of choice for the products we sell in the markets we trade. Mr Koolen is a member of the Transformation Committee.

#### *Peter L Wilmot (64)*

Appointed to the Board in 2001. As Chairman of the Audit and Risk Committee, Mr Wilmot brings extensive knowledge and understanding of accounting matters. Recognised internationally by his peers, Mr Wilmot is Deputy Chairman of The Standards Advisory Council of the International Accounting Standards Board, past Chairman of the SA Accounting Practices Board and past Chairman of Deloitte. He is a Director of Brait, Allied Electronics Corporation Ltd, Allied Technologies Ltd and Bytes Technology Group Limited.

#### *Sandile D M Zungu (37)*

Mr Zungu was appointed to the Edcon Board during the year under review. He holds a degree in Mechanical Engineering and an MBA. Active in the strategy and transformation of several listed companies at management and at Board level (Metropolitan Holdings Ltd, Denel and Ellerine Holdings), Mr Zungu also heads Africa Vanguard Resources investment company, which has a 26% stake in a joint venture with Harmony Gold and Mining Company Ltd. Edcon welcomes Mr Zungu to the Board and looks forward to benefiting from his leadership. Mr Zungu will serve on the Transformation Committee.

## Non-executive director

### **Archie J Aaron (72)**

As Chairman of Edcon's Remuneration and Nominations Committee and a member of our Audit and Risk Committee, Mr Aaron is our longest-serving Board member, appointed in 1978. The advice and experience Mr Aaron brings to Edcon has immeasurable value – he has been in legal practice for more than 50 years and is one of the country's leading senior commercial lawyers. He is a senior director of Werksmans Inc, a Johannesburg firm of attorneys and holds a number of directorships.

## Executive directors

### **Stephen M Ross (52) – Chief Executive Officer**

Steve was appointed Group Chief Executive Officer and a member of the Board in 1998. A native of New York, he brings more than 25 years' experience in both wholesale manufacturing and apparel retailing to Edcon, having worked for companies as varied as Macy's, Lord & Taylor, Sears and Philips-van Heusen. Steve chairs the Customer Service Committee of the Board and has been instrumental in transforming the spirit of our company for the benefit of our employees, our customers and our shareowners. He will serve on the Transformation Committee.

### **Stephen R Binnie (36)**

As Group Financial Director, Steve was appointed to the board in 2003. Born in Scotland, Steve holds the following degrees: BCom, BAcc, CA(SA) and an MBA. He has been a senior financial manager for over 13 years, including Financial Director of the credit bureau, Information Trust Corporation, and an executive at an international banking group.

### **Adriaan van Aswegen Boshoff (52)**

Assie is Chief Executive of our Discount Division, encompassing Jet, Cuthberts, Super Mart and Legit, bringing more than 16 years' experience in all aspects of the division's management to bear on his role – from HR to Industrial Relations to Marketing to Operations. He has been a member of the Board since 2002.

### **Mark R Bower (49)**

As Chief Executive of Group Services, Mark is responsible for the Group's finance, company secretarial, credit, HR, IT, property development, investor relations and operations in Zimbabwe. He has been a Board member since 1990, when he joined Edcon. With BCom, BCompt and BCompt Honours degrees, and a CA(SA), Mark was an audit partner and a Financial Director of a number of listed companies for 17 years. Mark has been a Trustee of the Eden Trust/Thuthuka Bursary Fund for the advancement of Black Chartered Accountants since 1989.


### **Dr Urin Ferndale (39)**

Urin has been Group Human Resources Director and a member of the Board since 1999. With a PhD in industrial psychology, Urin has developed unparalleled skills in the strategic aspects of human resources, industrial relations and employment equity. He worked for several parastatals and listed companies before joining Edcon. He continues to be instrumental in Edcon's 'employee of choice' campaign, fostering entrepreneurial innovations and performance leadership initiatives in all of our colleagues. Dr Ferndale will chair the new Transformation Committee.

### **Jon L Spotts (41)**

Trained as a Certified Public Accountant in the United States, Jon is the Chief Executive of the Department Stores Division, encompassing Edgars, ABC, CNA, and now Boardmans. Jon has more than 18 years' experience in retail, much of it with Sears Roebuck, where he was a buyer, financial manager, merchandise planning manager and National Marketing Manager for the US\$3,6 billion business. Jon has been a member of the Board since 2002.



Edcon  We make it happen



Value is created through:

**Strong leadership and  
governance**



Value is created by setting clear goals and implementing robust strategies based on a thorough understanding of the possible risks and rewards within the business and community environment.

## Chairman's Statement



W S MacFarlane, Chairman

“The Group has created new wealth of R2,5 billion in the past year, with the State and our employees sharing in 17% and 51% respectively.”

Edcon has done it again! After last year's performance of more than doubling headline earnings per share, it has doubled that record level yet again this year. In my 2003 report I had promised that “the best is yet to come”, but the actual achievement far exceeded my most optimistic expectations and has been truly outstanding. Since the low point reached in 1999, the compound growth rate achieved in headline earnings per share now stands at over 60% per annum for the five year period, certainly delivering on the Group's commitment to provide profitable and sustainable growth. Once more, the Group has bettered all the key performance benchmarks set by the Board and management and, in the case of the 28% return achieved on shareowners' equity, has easily surpassed the “long standing” 20% target level.

These successes have been extremely motivating for all involved, and, far from leading to any sense of complacency, they are serving to strengthen the resolve and determination to maintain the impetus with innovative ideas and plans, new business initiatives, more retail space and further internal efficiencies.

Underpinning the successful year were a number of important accomplishments, including:

- Increasing retail sales by a remarkable 27%, of which 19% can be ascribed to the established businesses of Edgars and Jet.
- Improving market share and cementing Edcon's position as the leading clothing, footwear and textile (CFT) retailer in South Africa.



- Boosting stockturn from 4,7 to over 5,0 times, with remarkable turns of 7,2 times in Jet and 5,2 times in Edgars.
- Successfully integrating the recent CNA and Super Mart acquisitions onto all Edcon's systems, management structures and supply chain processes.
- Raising total dividends per share by 149% to 768 cents.
- Achieving important profit diversification in the Group's Credit and Financial Services businesses, which lifted their earnings by 165% to R137 million.
- Receiving timely recognition in being placed the overall winner in the JSE/SAICS annual report award and achieving 19th position with its first entry in the Deloitte and Financial Mail "Best Employer to Work for in South Africa" survey.

Perhaps most significant of all, from the perspective of our shareowners, has been the increase in the share price from R50 per share at the end of last March to R142 only one year later – an increase of 184% and providing a quite exceptional return.

## Economy

The background against which all this has happened has been a South African economy characterised by a deterioration in the overall GDP growth rate, as the strong Rand negatively affected the production sectors, including manufacturing, mining and agriculture.

In contrast, conditions for retailers improved considerably during the past year. The 550 basis point reduction in the prime interest rate, the 800 basis point reduction in the usury rate, and a sharp deceleration in inflation all served to enhance the purchasing power of consumers. Further personal tax cuts boosted the finances of many households.

Moving forward, it is critical for the South African economy that appropriate policies to stimulate GDP growth are employed. This may be difficult to achieve in the light of significant formal sector retrenchments and the continued strength of the Rand, but the overwhelming mandate received by the government in the recent general election provides policymakers with the scope and flexibility to implement bold measures.

## Group results

A detailed analysis of revenue indicates that Edcon's sales (on a comparable store basis) increased by some 20%, in the existing businesses. This is significantly ahead of the 9% improvement reported by the Retailers Liaison Committee for the balance of the market. The Cash Value Added Statement reveals the size of value added by the Group to the South African economy and details the benefits accruing to Edcon's various stakeholders as a result. The Group has created new wealth of R2,5 billion in the past year, with the State and our employees sharing in 17% and 51% respectively.

Another landmark achievement was the Group recording a profit before taxation in excess of R1 billion for the first time, bringing headline earnings per share to 1 597 cents, up a commendable 103% on the previous year, and enabling a record final dividend of 521 cents to be declared, up 182%.

The Balance Sheet remains extremely healthy. Despite funding new customer growth and store refurbishments, the gearing ratio has only reached 6% of shareowners' funds, well within the Group's self-imposed limit of 25%. Considerable capacity, therefore, still exists to finance further growth in the asset base. In 2002, the Group implemented an innovative debtors securitisation transaction. The structure that was put in place facilitated the unlocking of value by separating Edcon's two distinct activities of

## Chairman's Statement continued

retailing and credit provision. The exercise has certainly met its objectives of lowering funding costs and limiting credit and interest rate risks. As a result, the Board has approved a further securitisation transaction, which will see Edcon selling another R1 billion of its receivables' book to OntheCards during June 2004. Cash generated from the disposal will be used to repay debt and to fund future expansion opportunities. The Chief Executive – Group Services' report provides more detailed information on this.

### Sustainable development

Last year we reported that the Group had adopted a triple bottom-line approach to managing the business and the Board remains committed to achieving a balance between economic performance and Edcon's impact on society and the environment. The Group is very cognisant of the power of influence that Edcon has as a leading retailer in South Africa and, in consequence, it is actively working to achieve social upliftment on a broader scale across the country.

Management is conducting black economic empowerment (BEE) supplier education and has introduced Group utilisation metrics to ensure attainment of its BEE objectives, in line with the Department of Trade and Industries' BEE scorecard.

The Group also recognises its responsibility to the environment and is currently refining strategies to measure and monitor its impact on South Africa's resource base. Policies are already in place to regulate conduct in areas such as property development, product content, manufacturing and wastage.

Human development and empowerment are critical to Edcon's success and sustainability. The Group believes it can have significant reach in its social investment campaigns by targeting education, social development and health initiatives. Internally, the Group is also engaged in a campaign to inspire and support staff to contribute to the transformation of their community. A comprehensive description of Edcon's social projects is included in the Chief Executive – Group Services' report.

Overall, Edcon is aware of the needs and requirements of all stakeholders and takes responsibility for how its businesses affect the environment and the communities in which it operates. Further information on sustainable development policies is included in the Transformation and Corporate Governance sections of this report.

### Corporate governance and risk management

The Group, at all levels, subscribes to the values of good corporate governance and is committed to applying the principles of the second King Report and to complying with the JSE Securities Exchange South Africa listing requirements. It continues to ensure that business is conducted with discipline, integrity, transparency and social responsibility. A comprehensive Board Charter, which commits the Directors to uphold these principles, was adopted during the year, and a formal Code of Ethics is in place to guide the manner in which business is conducted and to complement Edcon's mission and values.

Various committees are in operation to assist the Board in the fulfilment of its responsibility. These include an Audit and Risk Committee, a Remuneration and Nominations Committee, a Customer Service Committee and a recently established Transformation Committee, which will monitor and review the Group's progress on the four primary pillars of transformation, namely employment equity, community involvement, BEE procurement and black share ownership.

The future prosperity of our country, as well as the company, hinges on positive social transformation and upliftment of all communities. In order to assist in accelerating the transformation process at Edcon, an Executive of Transformation has been appointed to drive change within the Group.

The Board recognises that it carries the ultimate responsibility for risk management in Edcon. In order to enable the Board to monitor the risks facing the Group, a Risk Management Workgroup is in operation which reports to the Audit and Risk Committee and ensures that major risks facing Edcon are assessed on a quarterly basis. Detailed action plans are then implemented to mitigate these risks. An analysis of the current top ten risks is included in the Corporate Governance section of this report.

### Prospects

Relatively low interest and inflation rates are forecast for the months ahead. This should be positive for retailers, but will be offset by the slow growth in GDP, high unemployment and Rand strength. Nevertheless, the Edcon Board is confident, based on the current momentum in the industry, that the Group's CFT sales will continue to grow in real terms in the year ahead, albeit at a slower pace than in the past year. Furthermore, sales for the coming year will be boosted by the first time inclusion of Boardmans, by the scheduled inclusion of a 53rd trading week and by an estimated 5% increase in average retail space through new store openings.

Economies of scale, the additional contribution from new space, and further improvements in the recently acquired businesses will enhance overall productivity. Accordingly, headline earnings per share for the coming year are expected to increase at a somewhat faster rate than sales growth.

### Appreciation

The success Edcon has attained is a direct result of the commitment, hard work and talent of all management and staff. Each and every employee, from the stores and distribution centres to the corporate offices, has played their part in the wonderful achievement.

On behalf of the non-executive Directors, I would like to express our deep appreciation to Steve Ross, his management team and all staff for an outstanding performance in the past year. Since his arrival in 1998, Steve Ross has displayed strong-minded and clearly focused leadership and his example has "raised the bar" for all retailers in South Africa. Edcon is privileged to have such a Chief Executive at its helm.


We would like to take the opportunity to welcome to the Board Mr Sandile Zungu, as a non-executive director. Mr Zungu is chairman of state arms manufacturer Denel and also non-executive director of Ellerine Holdings and Metropolitan Holdings. He brings with him extensive experience in black economic empowerment and was previously an executive director of New Africa Investments Limited and non-executive chairman of BJM Holdings.

My personal thanks go to all the Directors for their contribution and guidance over the past year. To our shareowners, suppliers and, most of all, our customers, we express special gratitude for their valuable support and encouragement. We are confident that a robust organisation is now in place and that it is well positioned to ensure future sustainable growth for all stakeholders.



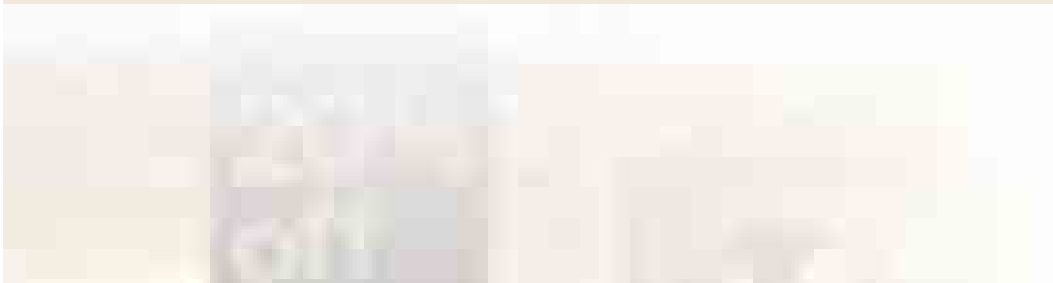
**W S MacFarlane**

Chairman

Edcon  We make it happen

Value is created by:

**Harnessing knowledge  
and enthusiasm of our  
people**



**Value is created by identifying and seizing opportunities, setting high but realistic expectations, balancing the needs of stakeholders and actively engaging in the community we serve.**

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## Chief Executive's Report



**S M Ross**, Group Chief Executive Officer

“These returns reflect the effort from an organisation of dedicated people committed to improving their collective performance every year.”

As we complete our first decade of democracy in South Africa, Thomas Jefferson's words at his Inauguration, describing the fledgling American democracy as “in the full tide of successful experiment”, have special relevance to the achievements of the last 10 years and the prospects that stand before us.

Jefferson's words apply equally to our own retail experiment as we have managed to set another record in 2004, the second year our earnings have more than doubled. R10 000 invested in shares of Edcon on our last trading day in March 1999 would be worth R44 654 on the same day in 2004. Dividend per share growth rate over the same period was 1 324,1%. Compound annual growth rates measured over the last five years reached: 12,5% in sales; 36,5% in operating profit; profit before taxation 57,3% and headline earnings per share 60,8%. These returns reflect the effort from an organisation of dedicated people committed to improving their collective performance every year.

Key operating improvements from 1999 include:

- Sales per square metre have grown from R7 143 to R13 262;
- Sales per employee have risen from R465 400 to R1 017 900;

- Store cost of selling has reduced from 22,5% to 18,2%;
- Bad Debts as a percent of credit transactions have dropped from 4,0% to 2,4%;
- Stockturn from the businesses trading since 1999 has improved from 3,7 to 6 times annually;
- and operating margins for the Group have climbed from 3,9% to 10,3%.

What worried Thomas Jefferson as he took the oath of office on March 4, 1801 in the brand new federal city called Washington was ‘sustainability’. He reflected in his speech about the planning and principles that had guided the formation of the union and the crafting of the constitution. He appealed to his audience to unite to common purpose, practice tolerance, and be patient, diligent and courageous. What worried Jefferson worries us at Edcon. The growths and performance enumerated in the preceding paragraph are only really great if they create a solid base from which growth and performance can continue. The solution as President Jefferson detailed it required two things, a well-conceived plan and the people to execute it. We see it the same way.

The vision of the Edcon Group of stores is **“to be the consumers’ store of choice for the products we sell, in the markets we trade”** and **“to create wealth for the benefit of all stakeholders.”** The proper execution of the first part delivers the second.

All of our planning, from site location, to product development, procurement and pricing, store design, recruitment, training and community involvement is guided by the mandate to be the **“store of choice”**. This is a dynamic process; we don’t compete in a vacuum. What worked yesterday will probably be inadequate tomorrow as a competitor or new market entrant finds a way to jump ahead.

Our mandate as management is to anticipate the next step before the competition, leverage off the competitive advantage our size provides, commit our resources prudently, stay nimble enough to be responsive to change and to engage as many minds in our organisation as possible in the collective effort to recognise what it takes to be the store of choice and the collective will to make it happen.

We see the consumer – with the aid of considerable and ongoing research – in segments defined primarily by age, income and location. Our businesses target the lower, middle and upper middle-income consumers that are part of the formal economy with household incomes (HHI) of at least R1 500 per month. The middle-income segments begin at the R5 500 per month HHI and the upper middle begins at R13 500.

The primary customers for Edgars, CNA, Red Square, ABC Shoes and Boardmans (from April 2004) come from the segments of middle income and up. Consequently we have amalgamated these businesses under one Chief Executive, Jon Spotts. This is now called Department/Speciality Stores (together called Department Stores division).

The primary customers for Jet, Cuthberts, Legit, Jet Shoes (from April 2004) and Super Mart come from the formal consumer segments with lower income. We have bundled all these businesses under Assie Boshoff,



## Chief Executive's Report continued

who became Chief Executive, Discount/General and Discount Speciality (together called Discount division), Sales House, no longer a standalone operation, is included under the Jet heading.

Edcon's aggregate clothing, footwear, textile and accessories (CFTA) market-share growth over the 12 months to March is 146 basis points, a number even more remarkable when you consider it was delivered, on average, with 1% less floor space for the year. Our share of the formal CFT market is now just under 29%.

Detailed analysis of strategy and performance for both trading entities will be found in their respective reports. I reserve the privilege of previewing some of those numbers.

### Department Stores Division

**Edgars:** 155 Department stores selling apparel and footwear for the family, home textiles, cosmetics, jewellery, accessories, cellular products and luggage. It is the largest seller of international brands in southern Africa. Edgars' contribution to Edcon turnover was 53,1%. Rated the number one South African apparel and footwear retailer in the annual Markinor survey, 2003, it delivered another year of double-digit sales growth and single digit expense growth. The stores achieved a 70 basis point improvement in gross profit margin, turning stock over five times. Finally, cost reductions were less than 10% of sales and stock losses remain just over 1%. By all key measures, Edgars delivered an excellent performance. We expect double digit growth at a somewhat slower rate than 2004 but with trading profit growing slightly faster than the rate of sales.

**CNA:** 186 Speciality stores selling books, magazines, music, stationery, cellular products, greeting cards and toys. CNA contributed 8,3% to Edcon's turnover. In our first full financial year since we acquired the stores, operating and merchandise structures were overhauled and repopulated. On June 1, 2003 CNA converted to the Retek merchandise information system and from that date we began to build a selling history. On the same date CNA integrated with the Edcon distribution system. We made Edcon's credit facility available to all locations after a successful pilot. Inventories in stores at the point of takeover were marked for clearance to make way for extensive restocking of books, stationery, interactive, cellular products, magazines and greeting cards undertaken during the first half of the calendar year 2003. We renegotiated lease and supplier agreements. Extensive training and retraining of staff for service is underway and ongoing. Senior managers are now part of the student roster for Edcon leadership development programmes. In early November we acquired 36 "ThisDay" stores and converted them to CNA. It was a busy year formulating the correct basis of the business and adjusting forward plans.



We were occasionally excessive in restocking and exceeded the appetite of some of the smaller stores but this has been remedied and new model stocks have been created now that we have real history to work with. We expect growth in low double digits for the year ahead, with expenses flat and substantial improvement in trading profit.

**Boardmans:** 25 Home Living stores, primarily mall-based, acquired in the year under review. The chain caters to the needs of middle-income customers for, *inter alia*, kitchenware, kitchen electronics, bedroom, bathroom, glassware, crockery, entertainment, outdoors and some furniture. We became the official owners as of April 1, 2004. This acquisition will gain strength from Edgars' dominance in bed and bath and the extension of Edcon credit. In turn it will provide opportunity for Edgars in kitchen and home décor. There will be additional locations added in the 2005 financial year. We expect first year sales of approximately R250 million and a small trading profit.

## Discount Division

**Jet:** 239 Discount speciality stores selling apparel and footwear for the family, plus cellular products and a narrow range of home textiles. Apart from cellular, all products are private label. The contribution to Edcon turnover from the Jet chain is 34,3%. Rated the number two apparel and footwear retail brand in South Africa in the Markinor survey 2003, sales grew twice as fast as expenses. Jet's gross profit margin improved another 240 basis points, despite retail selling price deflation of 1%. Cost reductions were less than 5% of sales and average stockholdings were 3% less than last year. Stockturn improved 24% year-on-year. Jet provided, by all key measures, an outstanding performance. We expect this year to show double digit revenue growth in the mid teens and trading profit up at a slightly faster rate.

**Super Mart:** 17 Discount cash-only general merchandise stores selling kitchenware, hardware, paint, apparel, footwear, music, beauty/hair care, stationery, school supplies, seasonal electronics and plasticware. Its contribution to Edcon turnover was 4,3%. Super Mart was purchased in October 2002 as a going concern of 5 full-sized and 2 speciality stores. The conditions of sale included an earn-out agreement due to be completed in 2005. However, as we opened additional stores it became apparent that the infrastructure, especially IT and distribution needed, to support rapid growth was inadequate and any intervention by Edcon to assist would confuse the calculation of the earn-out. As such we made a discounted present value offer for the balance of the business, which was concluded in December 2003 and which enabled us to accelerate the conversion to Retek and, simultaneously, our distribution network. Operations were managed with immediate effect by the Jet operations team. Combining the discount purchasing leverage of Jet for apparel, footwear and schoolwear will improve our margins in the year ahead and we are very bullish on the prospects for this business. Sales will grow in excess of 30% and trading profit will improve at a substantially faster rate.

## Chief Executive's Report continued

**Legit:** 44 Discount fashion stores selling apparel, footwear, accessories and cellular products to women between the ages of 16–24. The Legit locations formerly housed Smileys Wearhouse, a retail operation purchased in 2000, that was part of a related transaction for parts of a wholesale operation. Sales numbers have and will continue to be consolidated under the Jet total until the format reaches meaningful size.

### Manufacturing

VOC is an Edcon company operating in Tongaat, South Africa which employs over 1 000 people. It imports, contracts and manufactures apparel for inter-company, domestic and foreign customers. We are encouraged that the R19 million loss from the first half of this year attributed to the completion of contracts for exports to the UK, which were compromised by the strength of the Rand versus the Pound, has been minimally offset by a small profit in the second half. The team has been diligent and resourceful in continuing to trim costs by 12% for the year, switching from export to domestic sales at higher finished margins, and reducing inventory by over 35%. Barring any wild swings in currency we expect Manufacturing to break even in 2005.

### The plan

In our quest for sustainability, we plan to continue to grow our primary revenue generators – Edgars and Jet. Firstly, through adding a combination of new products to existing assortments, for example by expanding Big-and-Tall products for Men called 'Size Up', launched last year at Edgars. Secondly, we plan to expand these chains through the addition of 81 new locations in 2005. The combined market share of Edgars and Jet exceeds 40% in one category of footwear, and 30% in three of the six categories tracked in apparel. This qualifies these businesses as mature and, consequently, we expect our growth in the years ahead to be at a somewhat slower pace than the past two years.

CNA will have accumulated a full year's selling history by June 2004. Armed with that, and a more seasoned team which has mastered earlier learning curves, we expect healthy growth in the short and medium term. Super Mart has, on a percentage basis, much upside potential, coming off a smaller base and we expect to double this year's sales by 2007.

In the incubator are trial concepts at both the Department Stores and Discount divisions that will provide additional revenue. Details of another securitisation of Edcon's debtors book will be outlined in greater detail in a later report. This transaction will yield additional funds for expansion of our existing businesses, as well as for any potential acquisitions. Behind all these projects is our intent, through the sale of product and financial services, to continue to expand our relationship with our 2,9 million active customers, to recruit as many additional customers from our targeted segments as possible and to leverage as much as

possible off the existing assets that serve the current business. Embedded in that objective is a focus on product that can be managed effectively by Retek; be moved efficiently through our supply chain; be purchased on our credit system; and, complement, the offerings of either the Department Stores or Discount divisions. We believe this represents a solid plan for sustainability.

## The people

The next consideration to evaluate our sustainability is whether we have the right people. The simple answer based strictly on results of the last 5 years is obviously yes. At the very least we have an organisation that has demonstrated the ability to improve product, premises, and pipeline sufficiently to capture the attention of consumers and grow market share profitably. The more complex answer about whether such an organisation is prepared adequately to meet a future fraught with change, escalating pressure from competition and the possible inertia of maturing formats is detailed extensively in the Chief Executive – Group Services’ report, Human Resources section. Critical for a resounding “yes, we have the people”, we must deliver the best training, most motivation, unwavering discipline and real transformation.

In 2002 we made a strategic commitment to refine and improve every facet of how we managed our most precious asset: our people. We had a sense of what needed attention from the results of our internal “organisation perception survey”. Training and development, compensation, leadership, employee care, communication and social responsibility all required action plans. Last year in this space I detailed our roll out of a company generated set of values (PIPP, see values on the inside front cover) as the first step towards accomplishing our intention to be rated an ‘employer of choice’. Within 12 months of that commitment we submitted ourselves to the independent scrutiny of a national survey of company environments in the “Best Company to Work For” survey, managed by Deloitte in South Africa. Of the 113 companies that submitted their credentials for evaluation we were ranked 19th. That places Edcon in the league of many of South Africa’s most prestigious and top performing companies and we have set our sights on improving this rating for 2004.

Last year at our strategic conference, as a sequel to our commitment to become an employer of choice and in the face of our internal growth and acquisitions, we committed to rigorous leadership development. Sustained growth, both organic and through acquisition must be driven from every corner of the organisation. The plan for growth outlined above relies on healthy (albeit diminishing in year-on-year percent increases over time) contribution from the core trading entities.

We believe that leaders exist at every level of our company and we need their participation to extract the maximum value from the core businesses. Whether they lead a replenishment team restocking shelves, a cleaning crew, or the IT department, team ownership of the job at hand will improve the result. Team performance is the sum of the quality of the team leader’s brief and the personal leadership and motivation of the team members.

## Chief Executive's Report continued

Different levels and jobs require tailored training, so we have identified the levels of work within the business, and begun to orient individual positions better relative to those levels of work. We aim to ensure we are working at the correct level and are ably equipped by the company's training to do so, by identifying and remedying competency gaps. Exposure to local and international best practice through seminars and workshops occurs regularly for the top management. Senior managers are sent on courses at Harvard and Insead. Coupling this training with merit-based performance management and the opportunities created through growth, allows for kinetic career movement.

It is imperative that we continue to strengthen the "bench" of management to be able to absorb and adapt the new businesses to Edcon best practice as soon as possible. In the event that the demand exceeds the internal supply it is equally important that, having attracted the best and the brightest from outside, we can quickly induct, train and assimilate those people to the full benefit of the individual and the company. Many other pages in the annual report are devoted to comprehensive coverage of these issues.

Real transformation will be manifest when we have achieved all employment equity targets, reached our full potential in our social responsibility, delivered the right mix of BEE supply to our business and found the right solution for Black share-ownership at Edcon. We acknowledge that the rate of change on procurement and share-ownership has not kept pace with our overall tempo of change, and this year I initiated a request to the Board of Directors to create a new Transformation Committee to oversee and assist our progress on all these measures. Dr Ferndale will chair the committee and I will be the other executive member. Zohra Ebrahim, Jack Koolen and Sandile Zungu will be the non-executive members. A Transformation portfolio has been formed within Edcon to direct and or coordinate all the Group efforts that fall under this heading. The executive in charge, Nelly Segal-Mosiane, reports to me, serves on the Central Executive Forum and will update the Transformation Committee at the two meetings per year. In this space a year from now will be a full progress report and, in the case of procurement, a status report enumerating our balanced scorecard results. Throughout this report it is evident that attention to the detail of enabling our people to be their best and consequently sustain our success, is our first priority.

Retail is often cited as a cyclical business dependent on the strength of the economy to grow. There certainly is some measure of the health of the economy in our performance. But, for this past year, we have again grown our share of market on an average of less space, and very limited inflation, i.e. achieving real growth. Retailers elsewhere, like Wal-Mart, Tesco, Kohls, Chico's, Zara and others, have defied the gravity of sagging economies ravaged by inflation or terror or SARS, to produce consistent and profitable growth year after year. They have all solved Thomas Jefferson's conundrum of sustainability, with great plans and great people. Our objective is to do the same.

## Appreciation

There is no part of our successful year that could have been achieved without the talent that sits on our Central Executive Forum. World class thinking and doing begets world class performance. Each is to be commended for recognising the value of their contribution and making it happen. John Day, a former member of the Board and most recently Group Strategic Planning Executive, has announced his retirement with our good wishes. John's counsel over the years has been constructive and appreciated. Nelly Segal-Mosiane has joined our Central Executive Forum in her capacity as Transformation Executive. Her capable management of our escalating role in the community has deservedly earned her considerable respect within and beyond Edcon. It is an ongoing comfort to debate the state and delegate the direction of our business to such enormously competent people as Mark Bower, Assie Boshoff, Urin Ferndale, and Jon Spotts.

Credit is due to the many suppliers that have a valued relationship with Edcon and seek to improve their previously high standards for service delivery. I thank them and exhort them to improve continuously with us.

I welcome Sandile Zungu to our fine Board of Directors. We are fortunate to have a diverse group of professionals, who take their responsibility to shareowners very seriously and add real value to wide ranging issues. Our company is much improved through their patience, guidance and insistence. I am especially appreciative of Archie Aaron and Peter Wilmot, the respective chairs of Remuneration and Nominations, and Audit and Risk Committees for the new plateau of governance achieved through the committee charters. My personal thanks again this year to Selwyn MacFarlane. Just when I think we have reached a standard of execution, he demonstrates that the path to perfection is just ahead. I am fortunate to have such a mentor and attribute much of my growth as an executive to him.

Lastly, I appreciate my good fortune to work with a wonderful group of selfless, inspirational people at a wonderful company in an exciting and beautiful country. It is a magic combination that will continue to produce and prosper.



**S M Ross**

Group Chief Executive Officer

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Edcon  We make it happen

Value is created by:

**providing innovative,  
efficient information  
rich systems**



Edcon was the overall winner at the South African Annual Report Awards hosted by the Institute of Chartered Secretaries and Administrators

**Value is created by effective administration, world class credit facilities, transparent timeous financial reporting; creative store design and competitive property procurement; and cost-effective distribution. Value is added for many stakeholders through excellence in financial reporting while the community benefits from a structured Social Investment Programme.**

Chairman's Statement

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## Chief Executive Group Services' Report



**M R Bower**, Chief Executive – Group Services

“Our leadership strategy is designed to ensure that Edcon’s business is sustainable and to establish the Group as an Employer of Choice.”

It has been a momentous year for Edcon, and the Group Services division once again contributed meaningfully to the Group’s outstanding results. Group Services’ achievements are too numerous to detail, but some of the more notable were: the distribution of record volumes of merchandise through our distribution centres during peak periods; further enhancements to the Group’s state-of-the-art information systems, which supported the business through trading days when sales exceeded R100 million; the conversion of 140 CNA stores to Edcon systems over a single weekend; further significant reductions in future lease costs; the renegotiation or cession of over 200 CNA and Boardmans’ leases; meaningful progress in Human Resource management on our journey to be “the employer of choice”; enlightened credit management evidenced by the “able to purchase percentage” being at an all time high of 88%; Moody’s upgrade of the securitisation investor OntheCards’ B rated notes; extensive training and leadership programmes, with the spend on training rising from 2,3% to 2,8% of the Group salary bill; and increasing input and influence through our Corporate Social Investment initiatives in the communities in which we operate.



The division's superb performances were also recognised by external independent organisations and I am particularly proud to report that the Group received the following accolades during the year under review:

- 19th place in the Deloitte "Best Company to Work For" survey.
- 6th over one year and 15th over five years in the Sunday Times Top 100 Companies Survey.
- Best Reporting and Communication Award in the Industrial Services Category from the Investment Analyst Society of Southern Africa.
- Overall winner in the South African Annual Report Awards sponsored by the South African Institute of Chartered Secretaries and Administrators, the JSE and MOTIV.
- 7th in the Ernst & Young "Excellence in Corporate Reporting" survey.
- Computerweek, Strategist and Computer Society of South Africa's IT Project Masters Award for innovation in IT in 2003.

## FINANCE

Three years ago, Edcon's management identified a set of key financial objectives which would be utilised to measure progress of the turnaround strategy implemented by the business and to guide the financial activities of the Group. We are delighted to report the successful attainment of all objectives, other than stockturn, which we will reach early in the new financial year.

	Targets	Achievements	
		2004	2003
Return on shareowners' equity	20%	<b>28,3%</b>	15,7%
Operating profit to retail sales	10%	<b>10,3%</b>	7,3%
Financing cost cover (times)	5,0	<b>21,3</b>	13,8
Gearing ratio	Max. 0,25	<b>0,06</b>	(0,05)
Stockturn (times)	5,5	<b>5,2</b>	4,7

In an ongoing attempt to improve efficiencies and operating performance, the Group has revised their key over time targets and the following challenges have been set by management:

Return on shareowners' equity over time	25%
Operating profit to retail sales	12%
Stockturn	6 times

Our objective is to reach these milestones by 2007.

## Earnings

Once more, Edcon achieved triple digit growth in headline earnings per share. At 1 597 cents, the 103% increase on last year follows a 153% rise attained in the previous financial year.

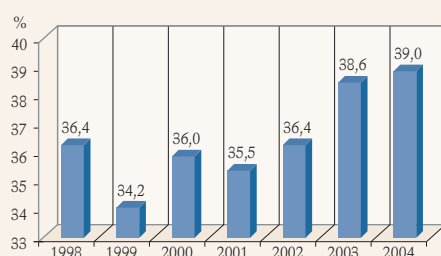
Sales increased by a remarkable 27%, of which 19% can be ascribed to the existing businesses of Edgars and Jet and 8% being the full 12 month effect of the CNA and Super Mart acquisitions in October of the previous year. It is even more encouraging to note that this growth was achieved with only 2% additional average retail space. Cash sales now account for 39% of total sales, assisted by the addition of the CNA and Super Mart cash chains. Improvement to productivity is highlighted by the key measures of trading density and sales per retail employee, which rose by 24% and 29% respectively.

## Chief Executive Group Services' Report continued



**S R Binnie**, Group Financial Director

**Group gross profit margin**



Another accomplishment has been the improvement, of 40 basis points in the gross profit margin to 39%, brought about by the Group's strength in merchandise procurement and efficient supply chain processes. This was achieved despite the inclusion of CNA, which had to work through distressed inventory, and Super Mart, a discount business.

Increases in store expenses continue to be well contained and, combined with productivity improvements, have been limited to 9% in the existing chains, with the new acquisitions accounting for the balance of the increase. Consequently, the cost of selling percentage dropped from 19,2% of sales to 18,2%, with Edgars, Jet and CNA all recording

reductions and Super Mart reflecting an increase due to new store openings. All the chains except CNA are within the 20% target set by management and it is anticipated that CNA will move closer to the Group objective as the benefits of integrating onto Edcon's systems and processes are realised.

### Analysis of other operating costs

	2004 Rm	2003 Rm	Change %
Chain management expenses	321	316	2
Club and allied income	(136)	(126)	8
Systems costs	500	411	22
Corporate	563	452	25
	<b>1 248</b>	<b>1 053</b>	<b>19</b>

The management of costs remains a priority and this is underlined by the negligible increase in chain management expenses. Similarly, the systems costs incorporate the operating costs and a once-off charge of R27 million related to the integration of the new businesses, together with the expenses of significantly higher trading activity across all chains.

Corporate costs include all the expenses of the head office and support functions. Further provisions were made for staff profit share payments as a result of the Group's enhanced profitability, as well as leave pay for casual employees, as now required by legislation. Also contained in these costs is a R35 million charge for the Edgardale Head Office revamp.

Another excellent year by the credit and financial services business saw them more than double their contribution to R137 million. The quality of the debtors' book and the accelerating pace of development in the Financial Services division, with its innovative insurance offerings, played a part in this success. Collection activity remains impressive and underlines the effectiveness of the credit granting systems and processes. A more detailed analysis of the division's performance is included later in this report.

Operating profit before financing costs as a percentage of sales jumped to 10,3% from 7,3%, in excess of the Group's internal objective of 10%. As a consequence of interest costs associated with the rise in debtors and investment activities, the net financing costs increased to R51 million from R44 million. However, this includes a R20 million foreign exchange loss due to the stronger Rand being applied to the translation of assets in foreign jurisdictions. Financing costs cover improved from 13,8 times last year to 21,3 times in the current year.

The Group reached a significant milestone as it generated a profit before taxation in excess of R1 billion for the first time. The effective tax rate decreased from 39,5% to 34,4%, as the prior year charge included a secondary tax on companies charge, resulting from the repurchase of shares.

Earnings attributable to ordinary shareowners almost doubled to reach R676 million. This was another record year in which the Group met all its return-based performance objectives.

In terms of the Group's policy of covering dividends twice by attributable earnings, the Board has declared a final dividend of 521 cents per share, reflecting 182% growth on last year's final dividend. Total dividends of 768 cents per share are, therefore, 149% higher than the previous year.

## Divisional results

	Retail sales % change	Average space % increase	Chain inflation % increase
Edgars	16	(1)	4
Jet	23	(1)	(1)
CNA	124	1	2
Super Mart	152	67	(2)

The Edgars chain, with 1% less average trading space and its selling price inflation at only 4%, still grew sales by a strong 16%. All major merchandise groups recorded impressive increases. Enhanced trading densities and benefits of disciplined expense management contributed towards the growth in trading profit of 43%.

The 127% rise in trading profit for the Jet chain, incorporating Jet, Sales House, Cuthberts and Legit, was a truly remarkable performance for the division. The chain achieved a sales growth of 23%, all the more commendable considering the decrease of 1% in average retail space and its deflation in prices of 1%. Focused inventory management and controlled store expenses, ensured the success of the chain.

## Chief Executive Group Services' Report continued

The CNA chain is now operating efficiently on all of Edcon's systems and platforms, with appropriate management team and staff structures now in place. Sales for the period were in line with the Group's targets and, as predicted at half year, the business had a profitable second-half, thus generating a small trading profit in its first full year under Edcon management. The results include a once-off charge of R27 million for system integration costs.

A decision was made to accelerate the buy-out of the former Super Mart owners and a final amount of R42 million was paid in December 2003. During the year, the estimated useful life of goodwill which arose on the acquisition of Super Mart was revised from 7 years to 3 years. This had the effect of increasing the amortisation charge for the year by R13 million. Integration of the chain onto Edcon's systems has proceeded according to plan, going live on 1 April 2004. An overall profit of R9 million was delivered following a R1 million half year loss. The Group is pleased with the progress being made and is confident of further advances in the new year.

The fortunes of the Manufacturing division have also improved significantly. After reporting a loss of R19 million at the interim stage, due to onerous contracts in the light of the strong Rand, a small profit was made in the second half of the year. Exports are now more appropriately priced relative to currency and volumes delivered to local customers increased satisfactorily in the last 6 months.

### Cash flows

The significant rise in profitability is reflected in the growth in cash "EBITDA" from R901 million last year to R1 351 million. Efficient working capital management remains a priority for Edcon and disciplined inventory management has played a major role in the success of Edcon. This is emphasised by a low 4% increase in stockholdings despite the 27% rise in sales.

The strong growth of the Group's business has required a substantial investment in accounts receivable. In terms of the securitisation agreement with OntheCards, only customers on our books prior to November 1999 were sold, and the rise in accounts receivable is an indication of the growth in new accounts and sales to accounts opened after this date, all of which are currently being funded by Edcon. The rise in accounts payable is a natural consequence of the increased volume of activity associated with improved trading performance of the Group.

Capital expenditure reflects investments in Edgars and Jet Stores, of R70 million and R47 million respectively. A further outlay of R55 million went to upgrading and rolling out stores in the recent acquisitions. The balance predominantly relates to the purchase of additional computer and sundry equipment.

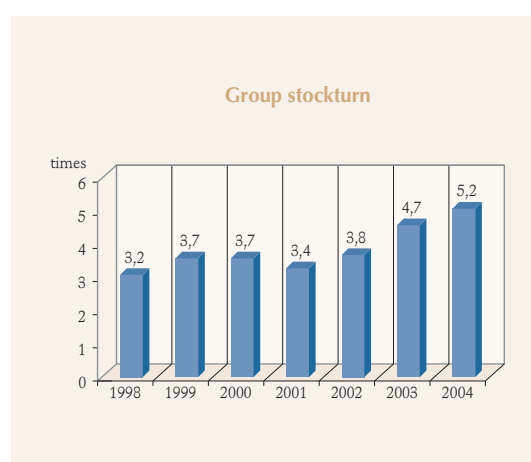
The Group concluded the purchase of 36 ThisDay stores for R11 million with effect from 3 November 2003. This, together with the Super Mart purchase settlement of R42 million, which was discussed above, is included in the acquisitions.

A decrease in shares held by United Retail, a wholly owned subsidiary and the Staff Share Trust was responsible for the rise in shareowner funding. In order to fund investment activities the Group increased its interest bearing debt by R183 million. Attributable cash flow per share, excluding the anticipated effect of the investment in the proposed securitisation of trade account receivables, referred to under post balance sheet events, rose by 5% to 2 433 cents per share.

During the past year, a total of R2,5 billion of additional wealth, in cash value added terms, was created for the South African economy. Shareowners and the state received significantly greater portions of 8% and 17% respectively. Employees, however, have benefited from Edcon's success and their share increased from 43% last year, to the current 51%. Externally, landlords were allocated 22% and lenders were paid 2%.

## Balance sheet

Total assets increased by 21%, mainly as a result of the growth in new customers which are all funded by Edcon. Debtors managed by the Credit division amount to R4,7 billion, an increase of 25% over the prior year and in line with expectations. The growth in credit sales of 23% (R1,2 billion), a shift to interest bearing accounts, which have a longer term, and the rise in the penetration of financial service products, account for the increase. The Group's conservative policy relating to doubtful debts is consistent with prior years.



Stockturn for the Group increased from 4,7 to 5,2 times as the benefits from the Retek merchandise system and effective inventory control continue to be realised. Adequate provision has been made for any possible obsolete stockholdings.

All long term debt has been repaid and the convertible debentures matured on 31 March 2004. The remaining short term interest bearing debt comprises unsecured bank overdrafts. The Group's Treasury division is responsible for the management of liquidity, interest rate and foreign exchange risks. These activities and processes are managed within set policies and procedures. In addition a Treasury Risk Workgroup has been established to monitor and evaluate the company's exposure to significant risks in the

forementioned areas. The workgroup is an independent body which defines the policies and objectives of the Treasury division and ultimately reports into the Audit and Risk Committee through the Risk Management Workgroup. An overriding philosophy of Edcon's treasury operation is that derivative transactions will only be concluded for hedging purposes and no speculative trading is permitted. At year end there was R6,1 million in uncovered foreign exchange liabilities net of export proceeds.

Edcon remains in an extremely strong financial position as evidenced by the low gearing ratio of 0,06 and net interest bearing debt at only R171 million. Future flexibility is ensured by the existence of R662 million in unutilised borrowing facilities. The cash position will improve substantially once a further tranche of debtors is securitised (see below). In terms of their responsibilities, the Directors have assessed the appropriateness of the going concern concept and are satisfied the Group has adequate resources in place to continue in operation for the foreseeable future.

## Post balance sheet events

As announced in March 2004, Edcon acquired the business of Boardmans for a purchase price of approximately R80 million which includes goodwill of approximately R26 million. Boardmans became a division of Edcon with effect from 1 April 2004. Their product range compliments Edcon's current homewares offering and the Group believes its strengths in merchandising and logistics management can improve Boardmans' recent disappointing performance.

## Chief Executive Group Services' Report continued

In terms of an option granted during the first securitisation negotiated in 2002, the Group has resolved to securitise a further R1 billion of its receivables book during June 2004. These debtors will be sold on a non-recourse basis and will result in the unequivocal transfer of ownership to OntheCards. Edcon will continue to manage the accounts for these investors in their role of servicer to the securitisation vehicle. The purchase will be financed predominately by triple-A rated notes with the balance expected to achieve an A3 rating on the Moody's credit rating scale. The transaction will be income enhancing for Edcon as it lowers the Group's funding costs. The rates are expected to be lower than the first securitisation, reinforced by Moody's positive re-rating of the OntheCards B class notes which occurred earlier this year. Cash generated from the disposal will be used to repay debt and to fund future internal and external expansion opportunities.

### Capital expenditure

Chains/Divisions	(R million)			Actual 2004	Estimate 2005
	Store fixturing	Computer equipment & software	Other		
Edgars	70,2	7,4	—	77,6	164,9
Jet	47,4	5,8	—	53,2	90,0
CNA	28,3	2,1	0,1	30,5	45,1
Super Mart	26,7	3,2	—	29,9	31,1
Boardmans	—	—	—	—	34,3
Manufacturing	—	0,2	4,7	4,9	5,0
Credit and Financial Services	—	2,3	1,4	3,7	5,7
Group Services	—	61,4	11,4	72,8	235,7
<b>Group</b>	<b>172,6</b>	<b>82,4</b>	<b>17,6</b>	<b>272,6</b>	<b>611,8</b>

New Stores	Net number of new stores 2004		New store estimate 2005
	Number of stores 2004	Number of stores 2004	
Edgars	4	155	22
Jet	4	283	59
CNA	35	186	10
Super Mart	5	17	7
Boardmans	—	—	32 *
<b>Group</b>	<b>48</b>	<b>641</b>	<b>130</b>

\*Includes 25 stores from the acquisition.

The above table shows a comparison of estimated capital expenditure for the forthcoming year and the actual expenditure for the current year. Since March 1999, the Group has shed some 78 000 m<sup>2</sup> of retail

space due to the closure of unprofitable stores. The new year will see a significant investment in retail space development. A rigorous evaluation process is undertaken for all proposed new stores with sales projections conservatively determined and all costs considered. Only stores which are expected to be value enhancing are approved. A discussion on the expansion opportunities within the individual chains is included in the Department Stores and Discount division reports. Unit volume growths, an increase in the number of stores and integration of Super Mart and Boardmans have necessitated a significant investment in the Distribution Centres and IT hardware costs. These are included in the Group Services' figures.

### Accounting policies and statements

In accordance with the recommendation issued by the JSE Securities Exchange South Africa, the Group's Staff Share Trust has been consolidated in the Group results. The impact of the new ruling is reflected in the table below.

	2003		
	Restated R000	Prior R000	Change %
Attributable earnings	341 802	347 549	(2)
Diluted earnings	344 670	350 417	(2)
Headline earnings	373 062	378 809	(2)
Diluted headline earnings	375 930	381 677	(2)
Weighted average number of shares (000)	47 461	50 331	(6)
Weighted average number of shares – diluted (000)	52 264	54 121	(3)
Earnings per share (cents)	720	691	4
Diluted earnings per share (cents)	659	647	2
Headline earnings per share (cents)	786	753	4
Diluted headline earnings per share (cents)	719	705	2

In order to achieve compliance with AC103 and IAS 8, changes in accounting policy, the prior year results have been restated. The headline earnings per share and the diluted headline earnings per share for last year, as a direct consequence, have increased from 753 to 786 cents per share, and from 705 to 719 cents per share respectively. A comparison of the current year's effect reveals an impact consistent with the previous year.

The Group has not recognised any compensation expense related to share options granted by the Staff Share Trust. For information purposes the current expense for the year for options granted after 7 November 2002 is estimated to be R3,8 million on 671 344 options issued. The expense has been estimated in accordance with IFRS2 – Share Based Payments, which only becomes effective on 1 January 2005.

In December 2003, the International Accounting Standards Board published the results of their improvements project. A number of reformatted statements were effective immediately and the impact thereof has been incorporated into these results. Modified standards applicable to financial years beginning on or after 1 January 2005 are not expected to have a material impact on the financial statements.



## Chief Executive Group Services' Report continued

### INVESTOR RELATIONS

In line with our strategy of creating value for stakeholders, Edcon recognises that investor relations is crucial to ensuring that current and potential stakeholders understand the true value and potential of our company. Through investor relations we aim to strengthen Edcon's financial brand by making the company's operations and strategy as comprehensible as possible to the investment community and financial press.

We seek to maintain ongoing communication with the investment community, both locally and internationally. Notwithstanding their operational commitments, management make themselves available to meet with the investment community on a regular basis. This is done through a combination of group meetings, results presentations and site visits organised by Edcon, in addition to one-on-one meetings at the request of analysts and institutional investors. As part of our aim to diversify our shareowner base, management travel to the US and UK to meet with institutional investors on an annual basis, as well as attending investor conferences.

In recognition of the important role played by the media, part of our investor relations effort is focused on the press. We aim to generate a better understanding of all aspects of Edcon's business. Interviews are set up with financial journalists upon the announcement of our interim and final results. We are constantly available to speak to journalists to provide them with answers and commentary as required.

Edcon issues detailed interim and final results publications, as well as quarterly trading updates. In addition, we distribute a number of other announcements and press releases during the year to keep the financial community and the media informed of developments within the company.

In response to increasing demand for real-time, comprehensive information the Edcon website is continually updated with the latest financial results, analyst presentations and press releases. It also contains share price information, press articles about Edcon, an investor calendar and details of our Directors and our corporate governance policies.

Edcon aims to be at the forefront of financial reporting and disclosure. We strive to raise the bar in this regard. To this end, Edcon was the overall winner in the South African Annual Report Awards sponsored by the South African Institute of Chartered Secretaries and Administrators, the JSE and MOTIV.

The high concentration of Edcon shares among a few investors was identified as a potential risk to the share price. Over the past year this concentration has been reduced noticeably with Edcon's top ten shareowners currently owning 65% of the company, versus 81% a year ago. The broadening of our shareowner base has also seen a sharp increase in the proportion of Edcon shares held by international investors. This has increased to 18% as at the end of March 2004 from 8% at the end of March 2003.



Edcon finalised a secondary listing on the Namibian Stock Exchange in September 2003. This was to expand our shareowners base and to enhance public awareness of Edcon and its trading brands in Namibia where we have Edgars, Jet and CNA outlets.

Edcon has listed a level 1 American Depositary Receipt (ADR) in the United States in April 2004. The rationale for this is to broaden the range of US investors that are able to invest in Edcon shares. This is in line with our strategy to diversify further our shareowner base, in terms of the number and the geographical spread of investors.

## CREDIT AND PERSONAL FINANCIAL SERVICES

It was a most productive year for Edcon's Credit and Financial Services business. In last year's Annual Report management indicated that the Usury rate was expected to decline, while bad debts would climb in the year under review. Based on these assumptions, the cost of credit was expected to improve somewhat, while the total profit from financing was budgeted to approach R100 million. Anticipated net bad debt did not materialise, but interest rates in fact declined by more than predicted. Nevertheless, Credit and Personal Financial Services' profit rose from R52 million to R137 million. The profit from financing the total business – at R86 million – would have exceeded the forecast were it not for a R20 million foreign exchange loss on the translation of foreign assets.

The results of the credit operation are analysed as follows:

	<b>March 2004 Rm</b>	March 2003 Rm
<b>Total cost of financing</b>		
Cost of credit	<b>(6)</b>	(38)
Financial services profit	<b>143</b>	90
Credit and financial services profit (per income statement)	<b>137</b>	52
Notional financing costs allocated to own debtors	<b>(239)</b>	(224)
Total cost of credit	<b>(102)</b>	(172)
Net financing costs (per income statement)	<b>(51)</b>	(44)
Notional financing receipts allocated	<b>239</b>	224
Group net financing receipts	<b>188</b>	180
Total profit from financing	<b>86</b>	8

## Chief Executive Group Services' Report continued

### Credit and financial services

#### OntheCards

	March 2004 Rm	March 2003 Rm
Initial discount	—	(47)
Discount	(68)	(66)
Other income	100	33
Net profit/(loss)	32	(80)

#### Edcon

Interest from customers	355	332
Net bad debt	(92)	(82)
Doubtful debt provision	(38)	(42)
Release of provision on OntheCards debtors	—	50
Other	11	7
Net Profit	236	265
Collection costs	(296)	(259)
Profit from Financial Services	143	90
Profit on collection of RAG book	22	36
Net profit	137	52

#### Statistics

Weighted average Usury rate (%)	25,3	27,1
Growth in credit sales (%)	22,9	17,4
Growth in collections – total book (%)	16,0	11,9

#### Debtors books – (R millions)

Own book	2 240	1 305
Less provision	(125)	(87)
RAG gross debtors	3	75
Less provision	(3)	(48)
OntheCards	2 471	2 398
Total	4 586	3 643
Credit sales as % of total sales	62	63
Number of active accounts with debit balances	2 933	2 850
Net write off to debtors balance % (including VAT) – own book	5,2	5,8
Net bad debt write off to credit transactions % (including VAT) – own book	2,4	2,5
Doubtful debt provision as % of debtors book (excl. RAG, incl. Group provision)	6,5	6,7
% Able to purchase (combined book) (excl. RAG)	88,1	85,7

The division's long term strategy is formulated on three pillars of business, namely Credit, Insurance and Investment products.

## Credit

### Credit management

The team continued to improve the condition of the debtors' book with 88% of all accounts current and able to purchase at year end, compared with 86% last year. The Group now has 2 933 000 accounts with a debit balance, some 83 000 more than last year. Due to the improved condition of the book, there were 240 000 additional customers able to purchase on their accounts this year. Profitability, however, came under pressure as the Usury rate declined rapidly by 800 basis points over the year to 21% and averaged 25,3% compared with 27,1% last year. The impact of this change was reduced by promoting interest bearing accounts, resulting in 73% of all accounts opened during the year being interest bearing. Interest bearing accounts have 12 months to pay and the longer repayment period enables the Group to increase the credit limit for these customers. In addition, the gross value of the debtors' books rose by 25% during the year under review, which reduced the impact of the lower interest rates. Credit sales grew by 21%, while the longer average term of the book is reflected in the growth in collections of 16%. The improvement in the Edcon book broadly followed the trend experienced by the majority of credit grantors, and the books compared favourably with our competitors that participate in the Transunion ITC and PIC Solutions benchmarking reports. Bad debt losses were managed effectively during the year and, as reflected in the bad debt ratios which both improved, the increase in net bad debt arises solely from the growth in our own book.

New account acquisition strategies worked well during the period and are set to have an even bigger impact in the year ahead. This will boost finance and insurance revenues in the coming year. The number of new accounts opened and activated during the year increased by 92% in Edgars and by 206% in Jet, in spite of stringent entry requirements, to ensure approval is only given to customers who are an acceptable credit risk. This increased demand for our credit is a testament to the improved assortments in both chains.

At an operational level, the Group's state-of-the-art technologies and its highly efficient and disciplined collections operation, functioned efficiently during the year with collectors and customer service staff improving their individual performances, thus lifting productivity and service levels to new heights. Voice logging equipment was introduced for legal and quality assurance purposes and this technology will further assist in improving service delivery and in raising productivity levels as queries will be resolved promptly. Paper trail technology was also introduced to increase speed of delivery and to track service delivery to customers.

### Securitisation

All transactions on accounts in OntheCards (OtC) were sold on a daily basis to OtC, while any collections on these accounts were remitted daily to OtC. Transactions with OtC generated a profit of R32 million this year compared with the R33 million loss incurred before the initial discount of R47 million last year. Receivables in OtC remained in the region of R2,4 billion while their bad debt write offs were well below levels forecast in the pricing model. This resulted in improved profitability in OtC and a re-rating by Moody's of the OtC B notes to A3. Consequently, the cost of funding all future tranches of securitised debt should be lower. All indicators of risk remained substantially below trigger levels and Edcon's exposure to OtC is limited to R370 million via its investments in promissory notes and preference shares. Results of OtC's operations are published quarterly on the Internet at [www.rmb.co.za](http://www.rmb.co.za). The capital released on the sale of receivables to OtC over time will facilitate further growth and the offering of personal loans to the existing account base. A test of these loans commenced during March 2004; however there was no financial impact in the year under review. This offering will be competitively priced in the marketplace. Considering the Group's strong retail brands, we expect this book to attain critical mass within 18 months.

## Chief Executive Group Services' Report continued

### **Risk management**

Credit granting has remained conservative during the year with Edgars rejecting 47% of all account applications and Jet 67%. A new business profitability model was implemented during the year and this assisted the Group in expanding its customer base. Existing customer profitability models have been developed and will be implemented during the year ahead together with a performance re-pricing model that will allow for differentiated service and pricing to customers, based on the performance of the account. These two initiatives will further entrench Edcon Credit as market leaders, and as a global best practice organisation. This technology and data will allow the Group to operate profitably in previously ignored customer segments, while improving the performance of the highest profit customer segments.

Collections of the ex Rag book proceeded well and only R3 million remains to be collected. A further R22 million profit was realised on this book during the year in addition to the R36 million profit brought to account last year. The biggest impact of this acquisition remains the 250 000 plus customers that took up the Jet account card and continue to shop with the Group. These customers also found value in the Jet Club and financial service products, further adding to the return from this acquisition. Delinquent accounts were written off on a basis consistent with last year, by applying the Group's write off policy, recognising both contractual and recency ages of accounts. The number of accounts written off in Edgars decreased by 19% and in Jet by 26% over last year. The doubtful debt provision was calculated on the same basis as last year (being 100% of debtors in ages six to nine) and an additional head office provision of R20 million was raised this year to reflect the growth in account numbers.

Third party credit management has progressed well with the profitable management of the Arthur Kaplan Jewellers book. We are currently exploring other opportunities to grow this business and to leverage our infrastructure. A number of discussions are already well underway with other organisations and it is expected that the Group will manage at least one other third party's credit within the next 12 months. Others could follow thereafter.

### **New products**

Previous Annual Reports indicated that various tests with Standard Bank and African Bank had been unsuccessful. Nevertheless, we will continue to explore opportunities during the coming year to make basic, more affordable banking products available to our customers. The possibility of offering a co-branded credit card and savings account to customers, in association with a financial institution, will be explored. As previously mentioned, the division has initiated the roll out of personal loans to selected target markets within our customer base.

### **Insurance products**

The Group continued to build on the very successful formula of the joint venture with the Hollard Insurance Company. Edcon provides the distribution channel for products to its three million customers while Hollard is the underwriter of the insurance products offered.

In last year's Annual Report, management estimated that income in excess of R110 million would be earned on insurance products. Profit from insurance related products in fact rose to R143 million from the R90 million reported last year. This once again highlights the demand by our customers for these valued products. Our credit life programme, marketed as an Account Protection Plan, was again the main contributor with 2,67 million policies in force and claims ratios comfortably within acceptable norms. The Family Funeral Plan was also well supported, while the profit from cellphone insurance is reflected in the chain which sells the cover. Prudent claims administration disciplines enforced by the underwriters protected the profitability of these schemes, despite the risky nature of the products. Conservative actuarial reserves for claims and lapsed policies have again been raised in the insurance vehicles underwriting all the Group's insurance products. The Group also introduced Personal Accident, Commuter and Parent Funeral plans to selected target markets during the year. Certain products were also extended into Namibia and Botswana.

Edcon customers have on average 1,1 insurance products per customer. We believe that considerable opportunity still exists to increase the penetration of insurance products per account and this will translate into healthy profit growth in the years ahead, particularly in the light of the growth in the account base and the increased account balances.

### Investment products

Edcon Financial Services has not pursued opportunities within this discipline yet. Plans are, however, well developed to introduce some basic investment products during the year ahead.

The Usury rate is expected to increase marginally later in the year, but management has not budgeted for an increase in the margin between Usury and borrowing rates. Bad debt will increase above current levels as management has consciously extended the reach of its new accounts into slightly riskier profiled customers, as the book is currently considered to be too risk averse. On balance, the cost of credit is expected to remain in line with this year's R6 million, while Financial Services should increase their contribution meaningfully. The total profit from financing is expected to rise to about R125 million (this year R86 million).

### SUPPLY CHAIN

All supply chain functions, including efficient sourcing, quality inspection and movement of Edcon product from supplier to stores, have been centralised and reorganised to optimise the efforts of these crucial support services.

Edcon supply chain efficiencies	2004	2003	Change %
Total logistics cost per unit handled (cents)	133,3	158,6	(16,0)
Total units through distribution centres (millions)	125,5	81,2	54,6
Distribution centres – Units per person per annum	319 320	269 916	18,3

CNA has been fully integrated into the Edcon supply chain with significant savings for CNA. This has enhanced group efficiencies in product handling and transport. The conversion of Super Mart to Edcon

## Chief Executive Group Services' Report continued

supply chain systems and processes was completed at year end and similar productivity improvements are anticipated in this business.

New radio frequency technology was implemented in all distribution centres and has improved picking accuracy and speed, while allowing much greater flexibility in product type handled and physical layout required for processing. The Group distribution centres processed 45 million units more than last year at 16% lower cost per unit handled, despite the 12,5% diesel price inflation.

By June, Boardmans will be fully integrated and the Group plans to consolidate Edcon's Cape Town distribution facilities into Boardmans' distribution centre in Diep Rivier. This enhanced Boardmans distribution centre will be configured to handle all Edcon products. Inadequate, and separate, Super Mart distribution facilities will be closed and a new group distribution centre will be commissioned in Gauteng in August, with state-of-the-art carton sortation equipment to handle products of varying shape, size and weight.

The new strategic alliance with Hong Kong based sourcing agent, Linmark Group Limited, has contributed meaningfully to improvements in the supply chain in respect of imports, by leveraging off Linmark's extensive sourcing, social compliance, and value-add capabilities. Importantly, Linmark provides the Group with access to an extensive hard-lines sourcing capacity.

### PROPERTY DEVELOPMENT

It was another challenging and busy year for the property development department as they designed and fixtured new and refurbished existing stores, incorporated newly acquired ex ThisDay units, converted Smiley's stand-alone outlets to Legit, facilitated a 5,5% net increase in retail space and re-negotiated and took cession of leases.

5 new Edgars, 4 Red Square, 21 Jet, 6 CNA and 6 Super Mart stores were opened. In addition, 36 newly acquired ex ThisDay stores were converted to CNA stores. 5 Edgars, 17 Jet, 1 Super Mart and 7 CNA stores were closed.

Following the above changes, the Group ended the year with 438 Edgars/Jet stores (672 817 square metres) compared with 430 outlets last year, while Super Mart had 17 stores (56 896 square metres) compared with 12 last year, CNA 186 stores (88 307 square metres) – last year 151 – and total group closing square meterage was 818 020 compared with 775 344 last year (up 5,5%).

Shifts in shopping patterns over time have meant that retail premises in CBD's and urban areas are, in some instances, overpriced. This has enabled retailers to renegotiate rental rates at lease breaks. Through this process, we achieved rental reductions of a total of R52 million over the next 3 to 5 years when compared with existing lease terms. This was achieved after saving R59 million last year and R43 million the previous year on a similar basis.

Edgars stores were opened in Mitchell's Plain Promenade, East London Beacon Bay, Hazyview, Northgate and Shelly Beach. Red Square stores opened in Benoni Lakeside, Cape Town Durbanville, Durban Hillcrest and Johannesburg Melville Campus. Jet stores were opened in Bedford Centre, Northmead, Bloemfontein, Jwaneng, Maun, Molepolole, Palapye, Bushbuckridge, Mitchell's Plain Promenade, Durban, Balfour Park, Southgate, King Williamstown, Klerksdorp, Maputsoe, Lusikisiki, Namibia Maerua Mall, Pietermaritzburg Midlands Mall, Port Elizabeth Clearly Park, Springbok and Vereeniging. Super Mart stores were opened in Southgate, King Williamstown, Klerksdorp, Newcastle, Pietermaritzburg and Manzini Swaziland. In addition to the 36 ex ThisDay stores, CNA stores were opened in White River, Umhlanga Rocks, Pietermaritzburg Midlands Mall, Nelspruit, Johannesburg Laub Street and Mitchell's Plain Promenade.

Refurbishments costing more than R1 million each were carried out in Edgars Centurion, Klerksdorp, La Lucia, Pietersburg, Westville and Somerset West and in Jet Tygervalley, Durban, Eaststrand Mall, Eastgate, Empangeni, Northgate, Pietermaritzburg, Potgietersrus, Centurion, Pretoria, Westgate and Westville.

Budgeted capital expenditure for the coming year is far higher than is the norm for Edcon, but it reflects entry into several new shopping centres for Edgars, including Gateway, Festival Walk, Woodhill and Clearwater and the realisation that Jet can expand rapidly into smaller rural towns. Aggressive expansion of the Super Mart brand is also appropriate to meet the demands of an underserved market.

Group space is estimated to increase on a time weighted basis by 5% for the year with average increases of 7,1% in Edgars and 6,8% in Jet.

## INFORMATION TECHNOLOGY

Not only has Group IT played a significant role in the success of Edcon over the past financial year, but it also provided Edcon with a sustainable competitive advantage over other retailers. This is as a direct result of the capability that Edcon created in its information systems and business processes, which will be difficult for competitors to emulate.

### The ability to support acquisitions

The CNA conversion to Edcon systems and processes on 1 June 2003 was extremely successful and has resulted in delivering considerable business benefit. Distribution and IT costs have reduced significantly and stock availability has improved markedly. In addition to the direct benefits for CNA, the project developed the skills, capacity and framework that enabled 36 ThisDay stores to be converted to CNA stores in 14 days during November 2003. The whole process of integrating new businesses has been further streamlined and this has enabled the integration of Super Mart and Boardmans to be accomplished more efficiently, more rapidly, and at a lower cost than the CNA conversion.

### Effectiveness and efficiency of IT systems

Standardised but flexible systems are implemented in all Edcon divisions. This allows for the exploitation of synergies while still supporting different brand entities within Edcon. Further consolidation and standardisation of the information platforms continues to contribute to economies of scale, allowing for rapid business growth at optimum cost while maintaining stability and sustainability. As indicated in last



## Chief Executive Group Services' Report continued

year's Annual Report it has been an imperative for some time to lower IT costs as a percentage of sales. To this end, I am pleased to report that IT costs, excluding integration costs for new businesses were 4,7% of sales compared with 4,9% last year.

Further economies of scale are expected in the new year and, on a totally comparable basis, IT costs for next year are expected to rise by 6% – well below the budgeted sales growth. IT capital expenditure for the past year was R82 million and the budget for the year ahead envisages further capital expenditure of R135 million. Key project areas include hardware for Boardmans' point of sale upgrades, customer relationship management software, HR developments, financial service upgrades, hardware for the warehouse expansion programme and further upgrades to the network and computing capacities to cope with growth in the business.

### Edcon retailing practices

The stability of our systems, the accuracy of the data they produce and the richness in their functionality have enabled the business to implement scientific retail practices. In general, the business is relying more and more on management information to make critical business decisions. A key example of this is in the area of merchandise replenishment, which uses statistical forecasting of product sales to determine stockholdings and optimal purchase orders.

### Extended supply chain

An integrated extended supply chain provides Edcon's suppliers with online visibility of their product requirements, which facilitates maximum efficiency in the management of Edcon's merchandise pipeline. The upgrade of the IT infrastructure supporting the distribution process has also contributed to improved availability and stability and has facilitated record distribution volumes.

### Security of systems

IT systems and data are recognised as critical assets requiring effective corporate governance. To this end, Group IT has established an Information Security Management Programme that provides acceptable assurance that Edcon's information systems are performing in terms of specifications, are providing adequate protection and that data and software integrity is maintained.

### Partnerships

A highly motivated, energised and competent Group IT team consisting of Edcon staff as well as Business Connexion, Accenture, 3Fifteen, HR Focus, Microsoft and Deloitte has delivered significant business value to Edcon over the past year. The team received recognition from the industry for its innovative approach to building business solutions and, in particular, a prize from Computerweek Strategist for innovation in the development of the merchandise data warehouse.



**Dr U Ferndale**, Group Human Resources Director

## HUMAN RESOURCES

### Introduction

Edcon acknowledges that the sustainability of the business is dependent on our people. Therefore, the Human Resources mission is to drive a process of culture change within Edcon which will ensure a passion for customer service, leading to the success of the business and superior results. This will be achieved by providing our staff with an environment in which they can flourish, through professional and equitable people management practices, based on well-defined competencies (knowledge, skills and attitudes). Against this background, there has been a fundamental change in the way that we conduct our business and consequently we are in the process of reviewing and redefining competency profiles for all jobs within Edcon.

During the past year, the Human Resources function has been reviewed and repositioned as a strategic business partner. We also intend to implement an electronic-HR solution within Edcon that will enhance service delivery to the business.

### Talent management

A comprehensive talent management programme, to facilitate the identification and development of talent has been launched to assist in unleashing the potential of all staff within Edcon.

Our talent acquisition department continues to be in the front-line in the war for talent. It is our stated ambition to deal with prospective employees in the same way that we deal with our customers – with respect and professionalism. In the new year, efforts will be accelerated to market Edcon as an employer of choice to the external market.

# Chief Executive Group Services' Report continued

## Employment equity

Edcon respects the freedom and dignity of all employees regardless of race, religion, gender and political persuasion. We aspire to have a workforce that reflects the society in which we conduct our business. We regard our Employment Equity programme as a necessity to ensure that the potential of our diverse staff complement is maximised in the interests of the business.

As reported last year, our Employment Equity strategy is based on the following principles:

🌍 **Structures and resources exist to co-ordinate and monitor the implementation of Employment Equity.** The Employment Equity Forum, chaired by the Chief Executive Officer, and with representation from all stakeholders, meets quarterly to review progress and the effectiveness of our current strategies.

🌍 **The profile of employees at all levels must reflect the demographics of the country.**

Significant progress has been made in our efforts to change the demographics of our workforce profile. Currently 83% of all our staff are black and 71% are female. Half of our management are black and 60% are women. We have not achieved our targets set for this year largely due to the fact that staff turnover was lower than expected and we have inherited the management of our acquisitions. The biggest challenge is to accelerate the representativeness of senior management. Currently 21% of all our senior managers are black and 24% are women.

Based on the above numbers it is evident that Edcon is leading the retail industry with regard to black management and additional measures to ensure that next year's targets are achieved include:

- 🌍 Recruitment of black executive trainees with the potential of being appointed into senior management positions after appropriate exposure to the business.
- 🌍 Expansion of bursary and graduate development programmes.
- 🌍 The talent management programme, discussed above, will be focused primarily on designated groups.

🌍 **All policies, procedures and practices are equitable.**

- 🌍 We have introduced sophisticated assessment and competency based recruitment technologies to gauge the potential of prospective candidates, in addition to their qualifications and experience.
- 🌍 Staff turnover statistics and exit interviews are monitored monthly to ensure that trends are analysed and corrective action is taken.

🌍 **The culture of the company should be conducive to employment equity and sustainable business growth.**

- 🌍 Although Edcon is pursuing a unified set of values for the Group, we do it in a way that is not insensitive to the rich variety of cultures within our organisation.
- 🌍 Regular diversity workshops for staff will assist the Group to achieve this objective.

- Our perception survey results, with specific reference to organisational culture and Employment Equity, show a huge improvement compared with the previous year. This is a clear indication that we have made progress in our efforts to promote a culture of equal opportunity and equity in the workplace.

🌍 **Equal opportunities must exist for women.**

- The representation of women in management increased from 47% to 60% currently.
- The sub-committee on women continuously reviews obstacles preventing women from fulfilling their potential.

🌍 **Discrimination against the disabled must be eradicated.**

- The sub-committee on the disabled has identified various strategies to address challenges facing employees or prospective employees and to participate fully in the working environment in Edcon.

🌍 **All legislative requirements regarding employment equity must be met.**

- We have achieved full consensus with all relevant stakeholders regarding our latest Employment Equity progress report and it was submitted timeously to the Department of Labour.

**Employment Equity Statistics – black staff**

Category	Actual 2003	Actual 2004	Target 2004
Senior Management	21%	20%	25%
Management	48%	50%	52%
Skilled	76%	80%	80%
Semi-skilled	90%	91%	90%
Unskilled	94%	94%	94%

**People development**

People development, and ensuring that all employees develop to their full potential continues to be a key component of the Group's strategy. The talent management programme is designed to facilitate employee career discussions. All learning initiatives are customised based on individual and company needs. The training and development programmes are aligned to ensure that the company meets the requirements of the Skills Development Act. Edcon has been granted provisional accreditation as a training provider and has set the goal of establishing one of the largest learnership programmes in the retail industry.

Our highly rated merchandise trainee programme continues to address the shortage of merchant skills (especially black) in the country. Edcon has fulfilled all the requirements of the Skills Development Act and received the maximum permissible refund of costs from the Wholesale and Retail SETA.

To complement internal development programmes, bursaries are available to all staff for studies at tertiary institutions. About 80% of all bursaries were awarded to black employees. Furthermore, Edcon continues to offer internship programmes for psychologists and the TOPP (Training Outside Public Practice) programme for Chartered Accountants.

## Chief Executive Group Services' Report continued

A pilot electronic-learning programme has been successfully completed and will now be rolled out systematically to all major trading areas.

In support of our employment equity strategy, about 84% of all training interventions were allocated to previously disadvantaged individuals. Participation in our training programmes, during the past financial year increased from 1,1 to 2,4 training intervention per person.

A training committee, with representation from labour and management, monitors the quality and relevance of training programmes.

### Leadership

Our leadership strategy is designed to ensure that Edcon's business is sustainable and to establish the Group as an Employer of Choice.

During the year, the leadership skills of all managers and supervisors have been assessed. This information was instrumental in the design of a comprehensive leadership and management development programme for all managers at Hill Business School. To instil a consistent leadership philosophy, the entire executive management has participated in a 13-day programme and this training will be extended to the full senior management team in the new year. We also plan to send a number of our senior executives on strategic planning programmes for sustainable growth at Harvard Business School.

Short Leadership courses and quarterly presentations by prominent speakers provide managers with timeous and relevant information on best management practices.

### Health and safety

Regular safety audits are conducted to ensure compliance with applicable health and safety legislation and intensive training programmes for staff heighten awareness. No fatal accidents were reported in the past year and the number of reported injuries at the workplace in the past year was 229. Monthly health days and annual medical checks for senior management contribute to the awareness of a healthy lifestyle.

### HIV/AIDS

Edcon, as a responsible employer, is committed to addressing the HIV/AIDS epidemic in the workplace in a proactive and non-discriminatory manner. Against the background of the government's anti-retroviral programme and the affordability of drugs, Edcon's response to HIV/AIDS is being reviewed continuously. This will take into account the capacity of the company to address the epidemic in a holistic manner.

An AIDS impact study conducted last year was repeated this year. An external consultant used the ASSA 2000 HIV/AIDS projection model from the Actuarial Society. They found that the prevalence of HIV amongst Edcon employees was estimated at 8,5%, up from the 7,4% disclosed last year. According to this report, it is predicted that the average cost of HIV/AIDS based on our current strategy, will be approximately 0,6% of the gross payroll for the 2004 calendar year. It is also estimated that HIV prevalence will peak at 9% by 2005.

Edcon acknowledges that education is one of the most important issues relating to HIV/AIDS and has introduced a voluntary peer counsellor and peer educator training programme. Attendance is voluntary for employees and they will be equipped to provide counselling and educational support for other employees and their community. Free condoms for staff are distributed to all Edcon outlets. Communication through posters, videos, industrial theatres and our in-house newsletter is ongoing.

### Employee relations

Edcon subscribes to the principle of freedom of association and of employee's rights to organise and bargain collectively. A relationship agreement concluded between Edcon and SACCAWU last year enhanced interactions between labour and management. This manifested itself in no man-days lost, due to strike action, over the past year.

The relationship with SACCAWU was improved further by a Shop Stewards conference, which focused on the role of the Shop Stewards in Edcon. Union membership decreased from 45,7% last year to 36,4% of the workforce.

We have also launched an unprecedented Employee Rights Campaign to assist staff in understanding their rights in the workplace. Full-time adjudicators have been employed to chair all disciplinary hearings within Edcon. The number of CCMA referrals reduced substantially and our success rate is now at 99%. Furthermore, we intend introducing full-time initiators to enhance further the quality of our disciplinary process and the perception of fairness within Edcon.

To ensure compliance with labour legislation, regular labour relations audits are conducted.

### Flexible staffing

The establishment of flexible staffing centres in all major cities has been concluded. Sophisticated software assists the Group in the efficient deployment of staff, across the store environment, in a cost-effective manner. The flexible staffing centres also conduct all stocktakes within Edcon.

We are currently piloting a programme to manage customer liaison associates (previously called security guards and managed externally) and canvassers.

### Perception survey

The results of our annual Organisation Perception Survey clearly indicate an improvement in job satisfaction and employee perceptions of the company. This is further corroborated by staff turnover that decreased from 21% last year to the current 14%.

### Restructuring and retrenchments

During the year under review, CNA and Super Mart were fully integrated into Edcon and a number of business units were restructured to enhance their effectiveness. Many of the affected staff were successfully reassigned into other parts of Edcon with minimal impact on employee morale. In addition, outplacement programmes were conducted with certain employees to assist them in making an easier transition into a career outside the Group.

## Chief Executive Group Services' Report continued

In line with the requirements of the Labour Relations Act, the recognised unions within Edcon were consulted. No industrial unrest occurred as a result of these restructuring/acquisition initiatives.

### Performance management and rewards

Edcon strives to attract, retain and motivate staff through innovative performance linked reward and incentive schemes. Adjustments to the remuneration packages of staff are based on benchmark information from competitors and the general market.

To emphasise the importance of people in the future success of our organisation, 50% of managers' and supervisors' goals next year will be linked to a human resource index that measures progress in employment equity, training, perception survey results, performance management and leadership. Very few, if any, South African organisations allocate such a significant portion of their performance reviews to people related issues.

### Medical aid

Regulatory changes to the Medical Schemes Act introduced Prescribed Minimum Benefits, which resulted in changes to chronic benefit structures offered to staff, and the concept of Designated Service Providers – viz Direct Medicine & Carecross doctors. Despite this major change, the annual increases in monthly contributions were contained to an average of 12,3%, which was below the industry average of 14%.

The reserve requirements for medical aid funds of 22,5% as at 31 December 2003 were exceeded by 4,5% in the Edcon Medical Aid Fund. This helps to provide flexibility for future product enhancements.

The benefits and support provided by the HIV/AIDS programme to registered members has been well accepted. The upper limit has now been removed thus promoting registration of new members. The Ingwe Health Plan introduced an HIV/AIDS Management Programme, which includes lifestyle management, member education and treatment.

Membership of Edcon's two schemes has remained static and company contributions increased by 8% over the past year.

### Retirement funds

Employees have the option of joining an in-house administered, defined contribution Provident Fund or one of the two Union administered defined contribution Provident Funds.

Despite the extreme volatility of the investment market, the Edcon Provident Fund's investment strategy has again proved successful and it reported superior returns for members. Mindful of employees approaching retirement age and the volatile investment markets, a more stable optional portfolio was introduced for members over the age of 55.

While the effect of HIV/AIDS has impacted many death and disability benefits in the industry, we are pleased to advise that we have been able to maintain unchanged benefits for employees during this past financial year.



Full details on the distribution of the surplus in the Edcon Pension Fund are included in note 6.1 to the Financial Statements.

## Employer of Choice

Our strategy to position Edcon as an Employer of Choice continues to be a driving force. The Chief Executive Officer chairs a bi-monthly Employer of Choice Committee that reviews the progress and strategies of our various initiatives. As reported last year, eight broad areas of focus have been identified to assist in our pursuit of attracting and retaining the best talent in the country.

### Company reputation

Edcon's listing in the 2004 edition of the book "The Best Companies to Work for in SA" and a rating in the "Top 20 Best Employers in SA" by the reputable Deloitte survey, at our first attempt, are confirmation of the progress being made.

We intend to strengthen our external marketing of Edcon further by being visible at job fairs and universities. The professionalism of our resourcing interventions with prospective employees is of prime importance.

### The community

A revitalised corporate social investment strategy has been successfully relaunched in the past year. More detail on these initiatives is included later in the report.

## Leadership

Leadership continues to be a key component of our Employer of Choice campaign. As mentioned earlier in this report, a systematic approach to leadership development has been adopted and various programmes have been initiated to facilitate the appropriate leadership culture and skills within Edcon. The weighting of leadership in management's performance agreements has been increased from 10% to a minimum of 15%.

## Culture

Edcon's values (People, Integrity, Performance, Professionalism) were reinforced during the year through; industrial theatre, competitions, in-store radio and our internal newsletter. All staff members also received a copy of our Code of Ethics. The values and our Code of Ethics will be re-emphasised in the new year and programmes to cement the "Edcon culture" to all staff members are also planned. The Ombudsperson and the appointment of full-time independent adjudicators enhanced the perception of fairness and openness at Edcon.

## Training

As indicated earlier in this report our training interventions per person increased by almost 50% in the past year. All training programmes are competency based and designed to assist individuals to cope with their current jobs and to prepare them for potential future roles.

# Chief Executive Group Services' Report continued

## Employee care

An exciting new recognition programme has been launched in the past financial year. This programme provides quarterly recognition to staff who aptly portray the company's four values. This provides an avenue for staff to nominate and acknowledge the efforts of their colleagues. A national event is planned for June 2004 to provide recognition to the top 12 employees who have best espoused our values, based on votes from their peers.

We also plan to establish an Employee Care Centre, at Head Office with areas of focus including:

- Outplacement counselling for staff facing retrenchment.
- Trauma counselling.
- Psychological support for staff and their immediate families.
- Legal guidance etc.

## Compensation

Our various incentive schemes were successfully relaunched in the past year and our remuneration strategy continues to incorporate best practices in our industry and in South Africa.

## Meaningful jobs and working conditions

Our internal organisational perception survey results, clearly indicate a huge improvement in the job satisfaction of all staff. Employees' understanding of their own roles and goals has improved significantly but we will continue to review and address any staff concerns relating to their working environment.

## TRANSFORMATION

South Africa through its transition, has created a strong need for economic transformation. The history of apartheid until 1994, and the absence of committed state support for social development, have meant that many larger South African companies have embraced broader developmental objectives.

As one of South Africa's largest retailers, Edcon believes that the future prosperity of our country, as well as the company, hinges on the positive transformation and upliftment of our communities. It is the effects of this transformation process on standards and quality of life of our people that are at the heart of our concerns in achieving a sustainable economy.

We are committed to achieving commercial success in ways that honour ethical values and respect people, and the natural environment.

There are many challenges that accompany transformation and these are viewed as part of the process in ensuring that all opportunities are explored to the benefit of all stakeholders. For this reason we are identifying, nurturing and developing passionate people who can lead the way. Our most precious asset

during our transformation process must be people who hold the values of leadership, integrity, accountability, stakeholder participation, learning, innovation and increasing degrees of connectedness.

At Edcon we consider our approach to transformation to be the key driver in ensuring sustainable development processes. This has implied both internal change and adjustment and external pro-activity with respect to our relationships with stakeholders.

In line with this thinking, our approach takes into account the significant value of transformation as a powerful force in building a strong corporate culture by promoting a common sense of purpose and achievement and a common pride. Corporate culture at its strongest and most unifying, is in turn a powerful driver of business success. We do not underestimate the challenges involved within managing the different aspects of cultural and operational change within the Group. We recognise this is an ongoing process and acknowledge that a considerable amount of work still needs to be done in this field.

As a true South African company we believe that sustainability development is a process for realising human development in an inclusive, connected and equitable way. We at Edcon recognise our responsibility as a business to actively contribute to addressing the inequities of the country's past.

To facilitate this approach, Edcon has formed a Black Economic Empowerment (BEE) Committee representing all internal stakeholders. Chaired by the Chief Executive Officer, it meets quarterly to review strategic positioning and oversee the process of internal transformation.

Edcon has also established a Transformation Committee at Board level, chaired by the Group HR Director, to assist in the integration of transformation practices across the business and to advise the Board and business on matters relating to transformation.

#### Current BEE status

Company Ownership	<ul style="list-style-type: none"> <li>1,9 million Edcon share options have been allotted to black employees.</li> <li>Black shareholding through institutional shareowners cannot be accurately determined.</li> </ul>
Management and Control	<ul style="list-style-type: none"> <li>31% of the Board are black.</li> <li>21% of senior management are black.</li> <li>48% of management are black.</li> </ul>
Employment Equity	<ul style="list-style-type: none"> <li>Edcon complies fully with the Employment Equity Act.</li> <li>Internal Employment Equity forum chaired by the Chief Executive Officer.</li> <li>83% of all staff are black.</li> <li>Employment Equity strategy will address imbalances from promotion, development and recruitment perspectives.</li> </ul>
Human Development	<ul style="list-style-type: none"> <li>Edcon has fulfilled the requirements of the Skills Development Act and has received full reimbursal of costs from the Wholesale and Retail SETA.</li> <li>A talent management programme is facilitating the internal development process with a strong focus on Blacks.</li> <li>84% of all training is focused on previously disadvantaged staff.</li> <li>80% of staff bursaries is awarded to previously disadvantaged employees.</li> </ul>

## Chief Executive Group Services' Report continued

- 3% of payroll is invested in training for all staff (of which 2,4% is on black staff development).
- Preferential Procurement**
  - The Group is currently collating the amount spent with black enterprises with a view to setting targets for the future.
  - Black owned enterprises are being identified as potential suppliers and are nurtured where appropriate.
- Social Development**
  - Corporate Social Investment has become an integral part of Edcon's ethos.
  - Edcon's investment in social development has been in excess of R45 million over the last 3 years.

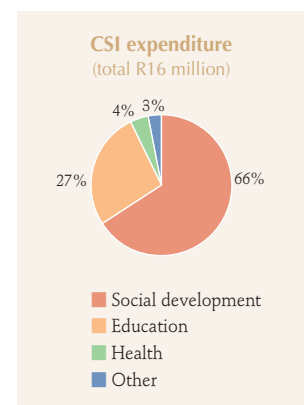
### CORPORATE SOCIAL INVESTMENT (CSI)

Over the years, Edcon's approach to CSI has evolved from passive philanthropy to a comprehensive programme where meaningful interaction with stakeholders is core. We believe that human development and empowerment are integral to sustainability and that CSI is at the heart of creating a sense of relevance and purpose. Community involvement forms an important part of our strategy.

We focus on managing stakeholder expectations, improving the developmental and business effectiveness of social investments and aligning our social commitment with both government's development objectives and our corporate policy on sustainability. At the individual programme level, we have become more structured in how we invest and evaluate the impact and contribution to the company, consumers and the community.

We believe our influence is best leveraged by concentrating on education, social development and South Africa's dire health challenges. Our aim is to better the lives of disadvantaged communities, particularly children, in meaningful and sustainable ways. Because these social concerns are interlinked, we seek to be holistic in our approach to ensure our effectiveness. More than 80% of our CSI budget is dedicated to proactive, interconnected and coordinated projects.

Edcon is well positioned to maximise its impact in the communities in which we trade by influencing the values that drive our society. In 2003, we refined our approach with a view to inspiring our communities and spreading ethical behaviour. At Edcon, we prefer to talk about corporate social involvement rather than corporate social investment.



### Social development

Social development is the cornerstone for building communities that are healthy and strong enough to support our decade-old political transformation. Health and education services are highly dependent on

the social well-being of our people and Edcon believes that we cannot truly empower people without necessary interventions in social welfare.

No matter how much we invest in education, if a child is hungry, or does not have sufficient clothing, we cannot expect improvements in results. The same applies for any interventions in the fight against HIV/AIDS. The Social issues facing us as a nation cannot be approached in isolation. Edcon is consequently integrating social welfare into all our projects and, for the year under review, we donated clothing at a cost of R9,3 million to our communities.

Edcon also continues to make some direct monetary donations. These will always be to those vulnerable members of society – the disabled, aged and malnourished – who require a considered, relevant financial intervention.

#### Interventions for past year:

- The Jet Club Community Awards.
- The Nelson Mandela Children's Fund Christmas Party – Edcon chains and some of the company's suppliers provided a gift pack for each child attending the party.
- The CSI division also purchased mobility equipment for disabled children and provided them with clothing and school fees.
- A multi-disciplinary conference on child abuse was sponsored by Jet at the University of the Free State.
- Blankets for the Community Chests of KwaZulu-Natal were distributed to the elderly and to children living with AIDS.
- Donations to SOS Children's Villages, of which Edgars is the largest corporate sponsor.

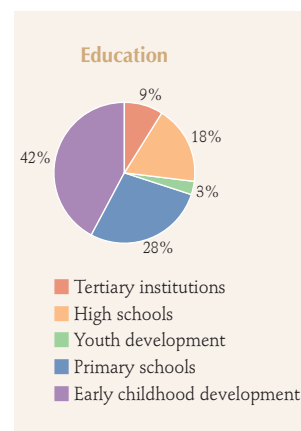
## Education

Education is the foundation for a strong society, renewable workforce and a healthy community. Our focus is to design or support educational initiatives to enhance the learning experience for young South Africans. Our spend on education can be analysed as follows:

For the year under review, Edcon partnered with several NGO's and the Department of Education and launched projects with investments in excess of R4 million. Some of the programmes where we believe we are adding value to the standard and quality of life of our communities are detailed below.

#### Project highlights for past year:

- Class of 2003 competition which seeks to encourage youth participation in social developments.
- Edcon has formed partnerships with Read Education Trust and Penreach, to focus on early cognitive development programmes.
- Assistance to Rally to Read, which delivers carefully selected books to remote, rural schools across South Africa and kick-starts teacher development programmes. Edcon extended its support for this programme nationally.
- Through its partnership with the National Business Initiative (NBI), Edcon funds the Equip Programme, which aims to improve leadership and governance in schools. In addition, we completed the renovation



## Chief Executive Group Services' Report continued

of the Bonke school in the Eastern Cape and provided the school with computers and other education materials.

- CIDA City Campus continued to receive our support.
- Youth development – Edcon supported the North West Premier's youth awards and continued to support Junior Achievement (JA) through their fundraising initiatives. Edcon gave valuable entrepreneurship experience by sponsoring the mini-enterprise programme in each of the seven provinces in which JA operates, and by training young people in how to participate in corporate and industrial employment or to start their own businesses.
- Participation in the 'take a girl child to work' day.

### Health

In addition to Edcon's internal HIV/AIDS awareness campaigns, our external contributions towards improving South Africa's health centre primarily on HIV/AIDS prevention, education and care-giving. By empowering our communities with life skills training and encouraging behavioural change, prevention of HIV/AIDS and other communicable diseases can be curtailed dramatically. 64% of our healthcare donations related to HIV/AIDS.

In addition, we support dedicated health institutions, which manage HIV/AIDS by caring for the orphans of HIV/AIDS victims, and by helping those suffering from AIDS to anticipate a dignified death.

Edcon also partners with organisations dealing with other pressing health conditions.

Project highlights for past year:

- Support for the National AIDS Week Business Bannerthon, aimed at uniting South African business in the spirit of "showing they care" and "making a difference".
- Donations of nutritional packs, through the SOS Outreach Programme and Tikkun. Edcon donated nutritional packs, which were distributed to HIV/AIDS orphans.
- Edgars/702 Blood Drive to encourage blood donation.
- CNA donated gift packs for Reach for a Dream parties.
- Donations to the Avril Elizabeth Home.

Acknowledgement should be given to all Edcon staff for seeking opportunities, on their own initiative, to improve the lives of needy people throughout the year. It is with great pride and admiration that recognition is given to all Edcon staff for MAKING IT HAPPEN for our communities. The energy and teamwork displayed in this regard confirm, unequivocally, the new culture that exists in the company.

### Looking forward

In the year ahead, we will continue to build relationships that add value and that enhance our reputation and credibility and thereby our ability to do more better.

In line with this thinking, our strategy for CSI takes into account the significant internal value of integrating this imperative into the fabric of our business. CSI offers a powerful common sense of purpose and achievement, a common pride.

At Edcon, we have undertaken to create structured and informal opportunities to involve and inspire our employees to become proactive contributors to their communities. Attracting and retaining passionate people is a stated objective of Edcon in seeking to become a recognised employer of choice. We believe that our employees are fulfilled by extending their talents and skills beyond the corporate organisation.

## ZIMBABWE

The economic environment in Zimbabwe deteriorated further in the year under review with inflation spiralling to over 600% and the currency depreciating further to above Z\$800 to purchase R1. Lower export revenues, particularly from agriculture and tourism, resulted in dire shortages of foreign currency, and accordingly, once again, no funds were available for the payment of foreign dividends.

Against this background, Edgars Zimbabwe (in Zim \$) traded remarkably well with sales for their financial year rising by 452% compared to sectoral inflation of 439%. Improved efficiencies boosted headline earnings per share growth to 610%. Growths of this magnitude are however not sustainable and it is impossible to earn a real return on the investment in debtors from interest charges. Edgars Zimbabwe also simply cannot indefinitely finance the resultant soaring debtors book. Consequently, credit terms have had to be reduced in the new year to 4 months, with an inevitable impact on future sales.

No dividend payments have been received for the past 3 years, resulting in outstanding dividends amounting to Z\$630 million. Subject to minority shareholder and Zimbabwe authorities' approval, your Board has proposed an empowerment transaction whereby these dividends be donated, in the form of shares, to the Edgars Employee Endowment Trust Company for the benefit of Edgars Zimbabwe staff. This donation will be augmented further by a direct transfer of shares from Edcon's current holding to the extent that Edgars Zimbabwe will become a locally owned corporation and importantly will no longer be foreign controlled.

This development will have no current impact on Edcon as its investment in Edgars Zimbabwe was written down to a nominal R1 last year, its results are not consolidated and no income from Zimbabwe has been reflected in Edcon's results for the past four years.

Future prospects for businesses in Zimbabwe are bleak, but Edcon will continue to provide assistance and support to management while at the same time protecting the Edgars brand in these difficult times.

## APPRECIATION

It is indeed a privilege to lead, and work with, a winning team of highly competent and ambitious professionals. My sincere thanks go to them and their staff for another superlative performance. You should all be justly proud of your individual achievements and of the Group's record results. Congratulations on a job well done and I look forward to exceeding the boundaries of possibility again in the year ahead.

Thank you



**M R Bower**

Chief Executive – Group Services

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Edcon  We make it happen

Value is created by:

**Anticipating  
consumer needs**



**Value is created by anticipating merchandise trends and providing quality products, outstanding service and unique benefits to enhance the retail experience and encourage customer loyalty in our target markets.**

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## Department Stores Division



**J L Spotts**, Group Executive – Department Stores Division

“We remain the leading national distributor of top global brands.”

### Edgars

The Edgars’ mission is to be the pre-eminent customer service provider of clothing, footwear, textiles and accessories to middle and upper income families in southern Africa. Edgars aims to deliver a superior shopping experience through; store layouts and signage that make merchandise easy to find, being in-stock of sizes and colours, friendly and helpful sales assistance and quick and easy checkout.

Underpinning our customer service deliverables is a merchandise offering that provides an assortment of appropriately fashionable product that represents clear value for quality and price. We remain the leading national distributor of top global brands, supplemented by a value for money range of core merchandise including sportswear and other commodity products relevant to our customer segment.

#### Key performance indicators

	2004	2003	Change %
Retail sales (Rm)	5 595,8	4 817,5	16
Retail trading profit (Rm)	603,8	421,4	43
Number of stores	155	151	3
Average retail space (000 m <sup>2</sup> )	379	383	(1)
Stockturn (times)	5,2	4,8	

The Edgars chain achieved unprecedented success across every relevant key performance indicator for the third consecutive year. Chain performance compared favourably with industry performance, as well as with internal standards. Market share grew by 153 basis points. The most significant gains were noted on the footwear business, supplemented by apparel with Ladies', Mens', Childrens', Intimate Apparel and Active Apparel groups all recording gains.

Edgars exceeded its sales and profit contribution budgets for the year, resulting in an increase of 16% for sales and 43% for profit contribution over the previous year. This was achieved with 1% less average trading space and selling price inflation at 4%. Sales momentum improved during the course of the year with a 13% increase recorded for the first 6 months and 19% increase for the second half. Gross profit margin rose by 18,1% (an increase of 70 basis points compared to last year) as assortments became more focused and markdowns were controlled. Store and chain management expenses were well managed and ended 8,3% up on last year, resulting in positive leverage on a percent to sales basis.

Stockturn improved by 8,3% as the chain continues to leverage the capabilities of the Retek merchandising system. Retek has allowed us to improve the freshness of our inventories through enhanced information reporting, distribution methodologies and inventory control processes. The replenishment systems have become more detailed and intelligent, allowing better Stock Keeping Unit (SKU) level fulfilment. Markdowns and pricebreaks are centrally managed providing excellent control and strategic implementation. The outlook for the coming year is promising as current inventory as a percentage of total inventory at year end was 12,7% better than the prior year.

Trading densities were improved by 17% due to enhanced salesfloor replenishment processes, revamps to some of our larger stores and new fixturing programmes. Edgars' locations are well matched to our target customer base allowing for focused assortments and marketing programmes. The revamp and fixturing programmes allowed us to trade more efficiently in areas where we have the greatest growth potential. Future expansion plans include the rollout of further Red Square stores and the addition of several full-line Edgars stores over the next year.

Edgars also realised benefits from revising its Cash Card programme which provides financial incentives for customers who wish to pay using cash, cheques or bank credit cards. Cash Card usage increased by R65,1 million (or 15,8%) due to a new incentive and reward points system, special card member double points days and more aggressive marketing.

After several years of modest growth, an important shift in momentum occurred this year as our credit account base increased year-on-year, due to improved credit marketing activities and the enhanced merchandise and service offering. As a result credit sales grew by 12,7% as the account base showed an increase of 6,3% and the average credit purchase increased by 16,3%. The new credit marketing activities included pre-approved account mailings and a realignment of Edgars Club benefits. Our initial tests on the pre-approved account mailings were very successful with response rates easily exceeding established direct mail norms. We will tailor future mailing campaigns based on learnings gained from the tests to make them even more effective.

## Department Stores Division continued

Also as part of the campaign to maximise credit business a new set of benefits for Edgars Club members was launched in April 2003 to attract increased support from middle and upper income customers. Many of the old benefits were primarily suited for middle and lower income customers. Club members now have the option to retain their old benefits (Classic Club) or select a new range of benefits (Lifestyle Club).

Customer service is central to our strategy and the successes of the past year were achieved through continuous improvement in our ability to meet our customer service deliverables. The fundamentals are simple, yet they require that each person in the organisation fulfil their role in order to meet them. Consistency from department to department and from store to store is vital and this year more people delivered great performances than ever before. Employee efficiency levels improved as sales per employee rose by 17% and as a result, approximately 84% of store staff will qualify for our performance incentive programme, Performance Rewards. The majority of our head office staff will also benefit from the Performance Rewards programme with an estimated 77% of employees qualifying for a payout.

Experience has helped the organisation realise improved benefits from the performance management process and our Performance Rewards incentive programme. Each employee received a personalised set of goals and was personally evaluated against those goals. A more targeted approach to training has allowed us to improve the competency of our staff. Each employee in the chain has been measured against the competencies defined for their respective position. A customised training programme is then developed to address the gap between the knowledge and skills currently possessed by the employee and the required competencies.

The focus of the Edgars chain for the coming year will be to take the execution of our customer service strategy to the next level. We are instituting new processes and staff programmes to ensure that all staff have a renewed focus on service delivery. Process maps will be used to ensure that store staff understands their role in the service delivery process as well as the roles of the rest of our value chain. Other innovative tools such as custom designed board games will be rolled out to bring excitement to the process of learning about service delivery. Winners of our Golden Heart Recognition Programme will be eligible to star in one of our "Find Your Inspiration" television advertisements. We will also include service messages in our above-the-line advertising, resulting in a consistent message internally and externally.

Superior customer service delivery requires the exercise of great leadership skills throughout the organisation. The Edgars executive team has spent a considerable amount of their time during the past year participating in a customised leadership workshop. Learnings from the workshop have been utilised to compile a new leadership framework, which is being taught to divisional level management through an intensive leadership development training programme. Fundamentals of the leadership framework will also be taught to lower levels of staff through specialised training interventions. We will continue to

engender accountability for leadership by including a leadership skills battery in the performance management goals of every employee in the Edgars chain.

Integration of processes across all disciplines of our value chain (buying, planning, marketing, operations, human resources) is integral to providing seamless delivery to our customers. Cross-functional task teams will be established at divisional level throughout the organisation to improve integration skills. These teams will tackle real life business issues resulting in customer focused solutions, as well as personal and team development.

One of the most significant projects to be managed by a cross-functional team will be the creation of new job profiles for every job in the organisation. Our current job profiles were compiled four years ago and the development of the organisation has rendered many aspects of these profiles obsolete. New business processes and increased performance standards have created the need to redefine the roles of everyone on the team. The new job profiling process will be more user friendly than the past version and will allow for easy integration of the profiles into essential business processes such as recruitment, performance management and workflow design.

As important as the definition of roles may be to customer service delivery, having the right people to perform these functions is perhaps even more critical. Thus, a new Talent Management Programme will be completed during the first quarter to help meet the talent needs of our growing organisation. Each employee in the chain will complete a self-assessment of their current performance, long term potential and career path aspirations. Line managers will use the self-assessment as guidance on their assessment of the employee and as a coaching tool with the employee. An individual development plan will be created for each staff member. Finalised assessments will be accumulated at each functional level and used by senior management to determine areas of strength and opportunity, as well as organisational development needs.

As mentioned the profile of our renewed focus on customer service will be raised through the implementation of a new marketing campaign entitled "Find Your Inspiration". The campaign tells inspirational stories of real people who will wear our clothes. It features ordinary people who have been inspired to greatness in some area of their lives and it will feature very accomplished people who will tell of their inspirations. Importantly, the campaign will also feature Edgars employees telling their inspirational stories, which will exhibit that our staff care and are good at what they do. It will be the job of every employee in the organisation to live up to this promise.

Complementing that campaign the chain also launched a staff uniform programme in April 2004, which allows staff to be more identifiable to customers on the sales floor and more professional in appearance. We call our uniforms "Valuniformal" to differentiate them from uniforms in other retail stores. The Valuniformal are backed up by the commitment of our staff to our PIPP values (people, integrity, performance, professionalism). Every time a staff member dons their Valuniformal, they commit to themselves, their customers and their colleagues to do their best to live the company values.

## Department Stores Division continued

### Outlook

The outlook for Edgars continues to be very promising. Employees at every level of the organisation are engaged in improving our proposition to the customer. The appeal of well-priced, fashionable 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 force in this country.

### CNA

In October 2002, Edcon acquired the CNA trademarks and the assets of 136 of CNA's top stores from the liquidators of Central News Agency. CNA had been the major South African bookstore, newsagent and stationer since 1896, but its holding company was placed into liquidation in July 2002.

Edcon acquired CNA for the following reasons:

- It suited Edcon's acquisition strategy of expanding its share of money spent by middle market South African households on non-food retail products by acquiring reasonably priced established retail stores.
- The CNA weaknesses could be remedied by leveraging Edcon's strengths of logistics, systems, procurement, planning and retail operations.
- To utilise Edcon corporate services, thus creating economies of scale.

The few months prior to this financial year were spent on integration of CNA into Edcon. That allowed us to start the process of rectifying and restoring fundamentals of the business. In addition to internal business issues, CNA had to take immediate steps to restore the confidence of both its suppliers and its customers.

Key performance indicators	2004	2003	Change %
Retail sales (Rm)	874,3	389,5	124
Retail trading profit (Rm)	1,4	(2,4)	
Number of stores	186	151	23
Average retail space (000 m <sup>2</sup> )	82	81	2
Stockturn (times)	2,7	2,7	

The chain delivered a small trading profit in its first full year under Edcon management. Sales for the year were in line with Edcon's target, reaching R874,3 million. Stockturns remain at only 2,7 times and the Group believes there is scope for significant improvement in the year ahead.



The CNA mission is to become the most dominant retailer of reading, writing, listening, learning and communicating consumables to families in the broad middle income market of southern Africa.

Underpinning this strategy is competitive pricing, well positioned and easy to shop stores, strong customer interface at till points and exciting and fresh assortments, all put together by skilled, well trained staff and backed up by first class systems.

The changes undertaken at CNA in this past year have been enormous. Some of the most notable are; the strategy was implemented and stress tested; supplier terms and conditions were renegotiated or reinstated; systems were converted to those of Edcon; corporate services assumed responsibility for CNA's administration; merchandise and operational structures were streamlined. 36 ThisDay stores were acquired and converted to CNA; the CNA in-store radio was launched; new marketing campaigns introduced, including the reintroduction of TV advertisements; 185 stores were changed to reflect new colours and common point-of-sale marketing; 7 stores were closed; 6 stores were opened; 16 stores were revamped and/or reduced; each product group was overhauled in terms of assortment, price positioning and in-store display; and credit in CNA was offered to the existing Edcon customer base.

## Outlook

The focus for the coming year will be on improving the in-stock position of core SKU'S. Sales history from the past year has given us a much better idea of the demands of the current CNA customer, enabling us to better identify the core items in the business. Replenishment methodologies within the Retek system will allow merchants to deal with the varied levels of demand in a very disparate store network, thus improving the in-stock position. The results of this process will be monitored using a new Service Level Report which details SKU in-stock for each store by day.

CNA has a great brand name, excellent real estate portfolio and strong customer base. The Edcon infrastructure will allow a rejuvenated CNA workforce to fulfil the mandate of returning the chain to its pre-eminent position in its chosen product categories.



**J L Spotts**

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Edcon  We make it happen

Value is created by:

Understanding that  
customers desire  
service



Value is created by understanding that customers seek style and demand quality at the best possible price.

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## Discount Division



**A v A Boshoff**, Chief Executive – Discount Division

“Creating these record achievements was the work of a great team.”

### Discount Division

In prior reports the multi-brand trading amalgamation of Jet, Sales House and Cuthberts under one roof was grouped with Smiley's Wearhouse, Jet and Cuthbert stand-alone stores, under the umbrella of “United Retail”. This year, changes at Edcon and United including the addition of Super Mart and the conversion of Smiley's to Legit, require a more descriptive name to suit the bundle of businesses. United becomes the Discount division.

The Discount division includes Jet, Super Mart, Cuthberts, Legit and in the year ahead will incorporate Jet Mart and Jet Shoes. All these businesses serve the same target market segments of low, and low middle income, southern Africans for apparel, footwear and selected general merchandise. They are managed by one operations and marketing team, using a single merchandise system platform (Retek), with the Jet merchandise and planning departments procuring and allocating merchandise for the entire Discount division. The Group provides distribution, Human Resources, IT, credit and property requirements. Special teams are in place managing the incubation of Super Mart/Jet Mart and Legit. I reported last year on a plan to eliminate the Sales House and Cuthberts identification from the “multi-brand” stores over time, while



retaining their merchandise brands. That time has come and the transformation will begin in the current financial year.

## Jet Chain

Key performance indicators	2004	2003	Change %
Retail sales (Rm)	3 599,9	2 924,2	23
Retail trading profit (Rm)	395,3	174,4	127
Number of stores	283	279	1
Average retail space (000 m <sup>2</sup> )	283	286	(1)
Stockturn (times)	7,2	5,8	

Jet's performance for the past financial year has been outstanding by every measure. Retail sales revenue rose by 23% over the previous year, which with a 1% decrease in average retail space, translates into a 24% rise in comparable sales. An improved buying margin, together with decreases in the proportion of markdowns, culminated in a gross profit margin increase of 253 basis points. Shifting indirect imports to direct imports as well as a strong Rand increased the buying margin. Closing inventory expressed as a percentage of sales decreased from 10,6% last year to 7,8%, while inventory turn reached a very efficient 7,2 times. Jet's trading density improved by 24% to R12 709/m<sup>2</sup>. The store cost of selling ratio decreased by 194 basis points, from 18,4% to 16,5% with the attendant impact on chain trading profit, which was 127% higher than the previous year at R395,3 million. Stock losses as a percentage of sales were 1,2%.

The comprehensive relocation and consolidation phase of its property portfolio over the past three years has resulted in Jet having a far more focused real estate base. Based on the success of our business model we are now actively looking for additional store locations. As always, site selection will be based on the demographics of our target segment and rentals that are within our business model parameters. Simplified store design, minimal opening costs and transaction efficiencies will continue to be the hallmark of all new stores.

Overall sales growth was supported by strong performances in ladies', boys', infants', home textiles and cellular products. Exceptional results were recorded in Men's and Footwear. Creating these record achievements was the work of a great team, a disciplined planning process and a world class merchandise information system which allows us to see performances by Stock Keeping Unit (SKU) by store.

We are continually focused on maximising our investments in those SKU's providing the best return and, by trading with an average of less than eight weeks of forward cover, we are able to react to trends instantly. Rapid stockturn and flexible supply has transformed the business from a traditional "push" pipeline to a "pull" pipeline. The value created in a pull system, with reduced markdowns and carrying costs, is passed on to the consumer in the form of sharper prices and improved quality for the same price. This strategy maintains our "Store of Choice" attractiveness to our customers.

Our credit facility further created value for qualifying customers. Jet Club is the largest loyalty club of its kind in South Africa, with the most widely distributed magazine. Club members now exceed one million, a growth of 12,3% over the previous year, thus providing a database of potential customers for other high quality discount financial services products including funeral coverage, emergency rescue and retrenchment insurance.

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We acknowledge that people are crucial to executing successful strategies. The recruitment, retention, motivation, training and development of our people is paramount to the ongoing future success of the Discount division. The successful implementation of our strategic and tactical plans depends upon our ability to match the required tasks in our business with the right level of skills. This matching process not only requires continuous honest assessment of skills in relation to tasks, but also brings with it the massive responsibility to develop and groom continuously based on the needs of the individual as well as the business.

The Edcon Employer of Choice initiative will provide the Discount division with a platform to assist employees in realising their full potential as individuals and as members of the Discount team. In the Discount division, we standardise and simplify all processes using visual models and generic standardised solutions. A well designed solution will be easy to understand, communicate, supervise and measure. It will ensure that it is adopted and will create a standard which we call “best practice”.

According to the annual Markinor survey of brands, the Jet brand ranks second in brand awareness and loyalty for apparel retailers in South Africa. Jet advertising for the past year as a percentage of sales was at just over 1,7% of sales in line with last year. However, the Markinor measures for both awareness and loyalty improved. We attribute this partly to a growing customer base and to the more efficient and targeted reach of our advertising to our target market.

The launch of Legit, a new retail format converted from what was formerly Smiley’s Wearhouse, is aimed at young fashionable women. The Legit customer is 16 to 24, has savvy and is working on a tight budget. All merchandise carries the Legit label and includes clothing and footwear. The remaining stand-alone Cuthberts stores will have been phased out before the end of the new financial year. This will coincide with the elimination of Cuthberts as a store brand. Stand-alone Jet Shoes stores will be rolled out pending performance analyses of pilot stores recently opened.

### Super Mart

Key performance indicators	2004	2003	Change %
Retail sales (Rm)	460,0	182,5	152
Retail trading profit (Rm)	8,5	10,2	(17)
Number of stores	17	12	42
Average retail space (000 m <sup>2</sup> )	50	31	61
Stockturn (times)	4,6	3,7	

In October 2003, we initiated a process to accelerate the buy-out of the former Super Mart owners. This was completed in December 2003 when we assumed full control of the chain. In its first full year in the Edcon stable, Super Mart achieved a profit of R9 million and sales of R460 million. The lower level of profitability this year reflects the disproportionate opening costs of new stores. Enhanced merchandise management allowed the chain to improve stockturn from 3,7 times to 4,6 times.

Super Mart, a cash only business, had 17 stores at the close of this financial year. It is a general merchandise discounter selling kitchenware, tableware, glassware, music, hardware, lighting, plasticware, small electrical appliances, household textiles, beauty/health care, stationery, apparel, schoolwear and shoes. Of the 17 Super Mart stores, only 6 have been open for more than 18 months. The original 5 stores purchased hold the greatest brand equity for the name Super Mart. We plan to introduce an opening price point range of mens', ladies' and kids' apparel and footwear from Jet. This will boost Super Mart's apparel contribution from the current 7% to over 15% of sales. We intend to co-brand the existing Super Mart stores with the Jet logo. For the new store opening in Thohoyondou during April 2004, a market where no equity existed for the Super Mart name, we have introduced a new name "Jet Mart" to leverage off South Africa's number two apparel retail brand. All future openings will be Jet Mart and over time the co-branded Super Mart and Jet stores will be changed to Jet Mart. In the interim, one team is managing all aspects of the business for both.

## Outlook

Our strategic focus going forward will revolve around the continuous enhancement of our retail value proposition, an increase in scale through merchandise category dominance, improved levels of operating efficiencies and the development internally of a capacity to react positively to changes in the environment. We are committed, in the year ahead, to deliver growth in sales, market share and profit.

Our progress to date is a direct function of an outstanding, energetic and devoted team of people. It is my privilege to work beside them.



**A v A Boshoff**

Chief Executive – Discount Division

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## Segmental Analysis (audited – note 1)

	Revenues			Revenue - Retail Sales			Segment Result - Operating Profit			Depreciation, Amortisation and Impairment			Capital Expenditure (Note 2)			Non-current Assets		Inventories	
	2004 Rm	2003 Rm	%	2004 Rm	2003 Rm	%	2004 Rm	2003 Rm	%	2004 Rm	2003 Rm	%	2004 Rm	2003 Rm	%	2004 Rm	2003 Rm	2004 Rm	2003 Rm
<b>Edgars</b>	5 707	4 908	16	5 596	4 817	16	604	421	43	70	71	(1)	78	54	44	260	254	680	665
<b>Jet</b>	3 758	3 076	22	3 600	2 924	23	395	174	127	40	43	(7)	53	33	61	176	157	280	311
<b>Makro</b>	874	390	124	874	390	124	1	(2)		4	2	100	30	1		42	55	186	101
<b>Super Mart</b>	460	183	151	460	183	151	9	10	(10)	9	3	200	30	14	114	48	27	53	61
<b>Manufacturing Division</b>	112	128	(13)				(17)	(8)	(113)	3	4	(25)	5	6	(17)	17	16	32	49
<b>Credit and Financial Services</b>	588	466	26				137	52	163	4	4		4	6	(33)	412	412		
<b>Group Services (Note 3 and 6)</b>	15	38	(61)				(47)	(38)	(24)	139	177	(21)	73	28	161	237	272		
<b>Group</b> <b>Edcon</b>	11 514	9 189	25	10 530	8 314	27	1 082	609	78	269	304	(12)	273	142	92	1 192	1 193	1 231	1 187
<b>Per geographic region</b>																			
<b>South Africa</b>	11 013	8 852	24	10 073	7 993	26	954	540	77	265	300	(12)	248	129	92	1 160	1 170	1 181	1 139
<b>Other (Note 5)</b>	501	337	49	457	321	42	128	69	86	4	4		25	13	92	32	23	50	48

### Notes

1. Prepared in accordance with accounting policy note 1.15.
2. Excludes proceeds on disposal of properties, fixtures, equipment and vehicles and movements in loans (notes 12.6 and 12.7).
3. Incorporating corporate divisions, consolidation adjustments and goodwill amortisation.
4. Represents active accounts with debit balances and includes securitised debtors accounts (000): Edgars – 988 (2003: 1 145) Jet – 530 (2003: 614).
5. Comprising Botswana, Lesotho, Swaziland and Namibia.
6. Comparatives have been restated to include the Staff Share Trust where applicable.
7. Excludes permanent part timers.
8. CNA and Super Mart are for a period less than a year in 2003. Figures were annualised where considered appropriate.

Other Current Assets		Liabilities		Shareowners' Funds			Number of Employees (Note 7)			Retail Sales / Retail Employees			Closing Retail Space			Retail Sales / m² (moving average)			Number of Accounts (Note 4)			Number of Stores		
2004 Rm	2003 Rm	2004 Rm	2003 Rm	2004 Rm	2003 Rm	%	2004	2003	%	2004 R000	2003 R000	%	2004 000 m²	2003 000 m²	%	2004 R	2003 R	%	2004 000	2003 000	%	2004	2003	%
34	87	71	86	903	920	(2)	4 734	4 779	(1)	1 182	1 008	17	386	375	3	14 778	12 611	17	1 506	1 430	5	155	151	3
14	40	42	81	428	427		1 794	1 792		2 007	1 632	23	287	280	3	12 709	10 226	24	1 418	1 408	1	283	279	1
12	19	13	80	227	95	139	855	1 649	(48)	1 022	472 <sup>8</sup>	117	88	80	10	10 610	11 209 <sup>8</sup>	(5)				186	151	23
38	4	33	29	106	63	68	768	841	(9)	599	434 <sup>8</sup>	38	57	40	43	9 260	11 981 <sup>8</sup>	(23)				17	12	42
45	39	3	22	91	82	11	1 086	1 272	(15)															
2 182	1 396	86	114	2 508	1 694	48	975	1 164	(16)										9	12	(25)			
348	253	2 198	1 673	(1 613)	(1 149)	(40)	1 219	1 044	17															
2 673	1 838	2 446	2 085	2 650	2 132	24	11 431	12 541	(9)	1 018	789 <sup>8</sup>	29	818	775	6	13 262	10 657 <sup>8</sup>	24	2 933	2 850	3	641	593	8
2 507	1 729	2 431	2 083	2 417	1 954	24	11 116	12 327	(10)	906	774	17	781	743	5				2 804	2 718	3	598	555	8
166	109	15	2	233	178	31	315	214	47	1 451	1 558	(7)	37	32	16				129	132	(2)	43	38	13

Chairman's Statement

Chief Executive's Report

Chief Executive Group Services' Report

Department Stores Division

Discount Division

Segmental Analysis

Edcon Top Structure

Corporate Governance Report

Group Annual Financial Statements

## Edcon Top Structure



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



**Mr S R Binnie**  
Group Financial Director  
(36; joined 2002)  
BCom, BAcc, CA(SA), MBA

**Dr U Ferndale (Mr)**  
Group Human Resources Director  
(39; joined 1999)  
BA Hons, MA, Dlit et Phil

**Mr J H Slabbert**  
Chief Information Officer  
(48; joined 2002) BSc (RAU), BSc Hons (RAU),  
MSc (Unisa), MSc.OR (Unisa), LicM (Belgium)

**Mr F Gortana**  
Store Development Executive  
(63; joined 1964)  
MISA

**Mr M J Lewin**  
Property Development Executive  
(49; joined 1989)  
BCom, BAgMan

**Mr M J Pienaar**  
Executive Manager: Commercial  
(41; joined 1996)  
BSc, LLB

**Mr I P Wood**  
Financial Services Executive  
(39; joined 1991)  
ACIS, AICM

**Ms E A Bagley**  
Group Secretary and Legal Advisor  
(53; joined 2004)  
B.Proc, MBL

**Ms T A Christelis**  
Executive Manager: Investor Relations  
(34; joined 2003) BCom, BAcc, CA(SA), CFA,  
HDip. Company Law

**Mr R Mlotshwa**  
Group Managing Director: Zimbabwe  
(53; joined 1981)  
BA




**Mr J A Day**  
Chief Strategy Officer  
(57; joined 1974)  
ACIS

**Mr M J Deall**  
Merchandise Logistics Executive  
(50; joined 1979)

**Mr P J Moonsamy**  
Chief Executive: Manufacturing  
(44; re-joined 2003)  
BAdmin (UDW), MBA (UCT)

**Mr G R Evans**  
Chief Executive: New Business  
(51; joined 1981)

**Ms N Mosiane**  
Group Executive: Transformation  
(35; joined 1997)  
BA

Edcon  We make it happen

# Corporate Governance Report

## **The Board of Directors accepts accountability for the transparent governance of Edcon.**

Governance of the Group is managed and monitored by a unitary Board of Directors, assisted by several committees of the Board.

Edcon's Board Charter states that the Board is ultimately accountable and responsible for the performance and affairs of the Group and is the core of the Group's governance system. The Directors accept this unconditionally and declare that they :

- regard corporate governance as vitally important to the success of the business;
- are responsible for the Group achieving the highest standard of business conduct;
- are unreservedly committed to applying the principles necessary to ensure that good corporate governance is practised in all of the Group's business dealings; and
- act with due regard to their fiduciary duties and responsibilities in a professional manner, thereby upholding Edcon's core values of people, integrity, performance and professionalism.

## **The Board's responsibilities are well defined and adhered to.**

The Board Charter constitutes an integral part of each director's conditions of appointment. The Board's primary responsibilities, based on a predetermined assessment of materiality, include :

- evaluating and reviewing Edcon's strategic direction;
- identifying, considering and reviewing key risk areas and relevant responses as well as key performance indicators of Edcon's business;
- monitoring investment decisions;
- considering significant financial matters;
- reviewing the performance of executive management against business plans, budgets and industry standards;
- ensuring that competent, appropriately skilled and motivated executives lead key portfolios in the business;
- acting consistently in its duties and responsibilities to the Group and thus to the shareowners and other stakeholders;
- monitoring the stewardship of the Group;
- retaining full and effective control over the Group, as well as monitoring management's implementation of plans and strategies;
- ensuring that a comprehensive system of policies and procedures is operative;
- identifying, considering, monitoring and, if appropriate, approving financial and non-financial matters relevant to the business of the Group;
- ensuring ethical behaviour and compliance with relevant laws and regulations, audit and accounting principles and the Group's internal governing documents and codes of conduct;
- benchmarking performance against international best practice;

- defining levels of materiality, reserving specific powers to the Board and delegating other matters, with the necessary written authority and terms of reference to management or Board committees. The Board recognises that delegating authority to Board committees or management does not in any way discharge the Directors from their duties and responsibilities;
- instituting effective mechanisms that ensure Board responsibility for the performance by management of its functions;
- acting responsibly towards the Group's relevant stakeholders;
- being aware of and committing to the underlying principles of good corporate governance and ensuring that compliance with corporate governance principles is reviewed regularly;
- reviewing the formulation and implementation of the employment equity strategy of the Group and measuring achievement of objectives and compliance with regulatory targets; and
- evaluating on a regular basis economic, political, social and legal issues, as well as any other relevant external matters that may influence or affect the development of the business or the interests of the shareowners and, if appropriate, the taking of external expert advice.

It should be noted that, when terminology such as “ensure”, “review” or “evaluate” is used to describe the duties of the Board or its Committees, it does not mean the Board or Committee members actually get involved in the detailed activities. Rather, members of the Board or Committee rely on reports from management and the internal and external auditors and then obtain their own desired levels of comfort and assurance through query and discussion.

## The Board

The size of the Board is dictated by the articles of association of the company, which permit a maximum of 20 Directors. Currently the Board is chaired by independent non-executive Director Mr W S MacFarlane, and consists of six executive and seven non-executive Directors. None of the non-executive Directors represent major shareowners in the company. The names and credentials of the Directors in office on 27 March 2004 and their attendance at Board meetings are detailed on pages 8 and 92 respectively.

Non-executive Directors introduce an independent view to matters under consideration and add to the breadth and depth of experience of the Board. All of the non-executive Directors are considered to be independent in character and judgment. This group enjoys significant influence at meetings. It is normally expected that a non-executive Director will hold office for no more than three consecutive three year terms.

The Board is always mindful of the need to maintain infusion of fresh thinking and a relevant mix of skills and experience. Procedures for appointments to the Board are formal and transparent and the Remuneration and Nominations Committee is charged with reviewing the Board's composition and structure.

The effectiveness of the Board composition and the performance of all Directors, with the exception of the Chief Executive Officer is assessed annually. Also on an annual basis the Board members evaluate the performance of the Chairman of the Board. The Chairman of the Board, in conjunction with the Chairman of the Remuneration and Nominations Committee, reviews the performance of the Chief Executive Officer each year.

## Corporate Governance Report continued

Newly appointed Directors cease to hold office at the next Annual General Meeting following their appointment unless the appointment is renewed at that meeting. All Directors retire by rotation. If at any Annual General Meeting any Director will have held office for 3 years since his or her last election, that Director shall retire at that Annual General Meeting. In addition, one third of the Directors retire each year. Retiring Directors are eligible for re-election by shareowners. The only exception to this is the Chief Executive Officer, who has an employment contract to 31 March 2006. Both the Chief Executive – Group Services and the Group Human Resources Director, have contracts that expire on 31 January 2007. The Chief Executive – Department Stores division is also subject to shareowner appointment, but has a contract that expires on 1 June 2006. In terms of the articles of association, Mesdames Z B Ebrahim and T N Eboka and Messrs A J Aaron, P L Wilmot and J L Spotts will retire by rotation at the next Annual General Meeting and, being eligible, will offer themselves for re-election. Shareowners will also be asked to confirm the appointment as an independent non-executive Director of Mr S D M Zungu, who was appointed to the Board on 23 March 2004.

The roles of Chairman and Chief Executive Officer are separate, with responsibilities divided between them. The Chairman, who has no executive functions, has accepted the role of the “senior independent director” and meets at least monthly with senior executive management to monitor progress and discuss relevant business issues. He is available to respond to shareowner queries or issues relating to the Group at any time during the year.

All Directors have the appropriate knowledge and experience necessary to carry out their duties, with each actively involved in the Group's affairs.

Non-executive Directors receive no share options nor significant benefits from Edcon other than their Directors' fees and staff discounts on private purchases. All Board members are required to disclose their shareholdings in Edcon, other directorships and any potential conflict of interest, and do not participate in any discussions and decisions on matters in which they have a conflict of interest. Directors are required to advise and obtain clearance from the Chairman and the Chairman of the Remuneration and Nominations Committee before dealing in Edcon shares. The Chairman will withhold clearance during a closed period or any period when there exists unpublished price sensitive information in relation to the company's shares.

Board meetings are held at least quarterly, with additional meetings called where circumstances necessitate. Non-executive Directors do not meet without the Chairman or executive Directors present. Effective chairmanship and a formal agenda, ensure all issues requiring attention are raised, proceedings are conducted efficiently and all appropriate matters are addressed at each meeting. All relevant information is supplied to Directors timeously. One person or group of persons does not dominate meetings; rather the interests of all stakeholders remain at the core of all decisions.

To further enhance independence, the Directors intend recommending to shareowners that the articles of association be amended to provide that the quorum for Board meetings be increased from its current three



to seven, a majority of whom must be non-executive Directors and one of whom must be the Chief Executive Officer or another executive Director designated by the Chief Executive Officer.

Adequate “directors and officers” insurance cover has been purchased by the company to meet any material claims against Directors.

The Board is of the opinion that the Group currently complies with all the significant requirements incorporated in the Code of Corporate Practices and Conduct, as set out in the second King Report and the Listings Requirements of the JSE Securities Exchange South Africa.

Members have unlimited access to the Group Secretary, who acts as an advisor to the Board and its committees on issues including compliance with Group rules and procedures, statutory regulations and the King Report on Corporate Governance for South Africa 2002. Furthermore, in appropriate circumstances, any Board member may obtain the advice of independent professionals, at the expense of the Group. The name and address of the Group Secretary is on the inside back cover.

The introduction during the year of self-assessment checklists for the Board and the Board committees enhances their functioning. Due care is taken by the Directors and committee members to ensure that the self-assessment exercise adds value by promoting compliance with the Board and committee charters.

## Board Committees

Specific responsibilities have been delegated to Board committees with defined terms of reference set out in their respective Charters. The current Board committees are:

### Audit and Risk Committee

In terms of its approved Charter, the Audit and Risk Committee continuously evaluates the Group’s exposure and response to significant risks; reviews the effectiveness of risk management processes; reviews the appropriateness and adequacy of the systems of internal financial and operational control; reviews and evaluates accounting policies and financial information issued to the public; ensures effective communication between Directors, management and internal and external auditors; reviews the performance of the internal and external auditors; recommends the appointment of the external auditors and determines their fees. The Risk Management Workgroup, chaired by the Chief Executive – Group Services, assists the Audit and Risk Committee with its risk management function. The Committee is satisfied that its Charter is appropriate.

The Audit and Risk Committee comprises three non-executive Directors, whose details are provided on page 81. Mr P L Wilmot chairs the Committee and the other members are Messrs W S MacFarlane and A J Aaron. The Chief Executive Officer and the Chief Executive – Group Services are required to attend all meetings of the Committee as invitees. The Group Financial Director, external auditors, the head of Group Internal Audit and the Group Secretary also attend meetings.

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 Board is provided with regular reports on the Committee’s activities.

## Corporate Governance Report continued

The Committee's Charter also prescribes that separate meetings must be held with management, the external auditors and the head of Group Internal Audit, to ensure that matters are considered without undue influence. The head of Group Internal Audit and the external auditors have unlimited access to the Chairman.

In line with its Charter, the Committee met three times during the year. Based on the review of substantial management and audit reports, and on appropriate discussion and probing enquiry by the members, the Committee believes that it was able to, and did, duly perform its chartered functions satisfactorily.

### **Remuneration and Nominations Committee**

This Committee's function is to approve a broad remuneration strategy for the Group and to ensure that Directors and senior executives are adequately remunerated for their contribution to Edcon's operating and financial performance, in terms of base pay as well as short and long term incentives. The Committee also recommends the fees to be paid to non-executive Directors. In fulfilling its duties, consideration is given to industry and local benchmarks and international trends and at all time due attention is paid to succession plans and the retention of key executives.

Mr A J Aaron, who was appointed to the Board in 1978, chairs the Committee. Although he is not an independent non-executive Director (he is a director and shareowner of Werksmans Inc., Edcon's attorneys), in view of his long service and his knowledge of the Group's remuneration policy, he is regarded by the Board as its most suitable member to chair this Committee. The members of the Committee are Mr W S MacFarlane and Ms Z B Ebrahim. In compliance with its Charter, the Committee met twice during the year. Invitees to the Committee's meetings are the Chief Executive Officer, the Chief Executive – Group Services, the Group Human Resources Director and the Group Secretary.

The Remuneration and Nominations Committee is responsible for the identification, assessment and nomination of potential new Directors. During the year it nominated Mr S D M Zungu as a new independent non-executive Director.

New Directors are provided with suitable induction material designed to familiarise, particularly non-executive Directors, with all aspects of the business.

The Committee members are detailed on page 81. The Directors' emoluments are fully disclosed in note 6.2 to the financial statements and share options granted to each Director are detailed in note 6.3.

### **Customer Service Committee**

This Committee was established in 2000 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. Clear terms of reference have been documented in a Charter approved by the Board. The Committee 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 after evaluating the results of the various survey reports it has commissioned. As prescribed by its Charter, the Committee met twice during the year under the chairmanship of the Chief Executive Officer. The other members of the Committee are Ms T B Eboka (non-executive Director) and Mr R L Scott (senior executive manager). This composition brings an informed and balanced business approach to the Committee’s effective functioning. The Directors who are Committee members are detailed in the table below.

### Transformation Committee

This is a recently established Committee, consisting of three non-executive Directors and two Executive Directors, one of whom is the Chief Executive Officer. It will be chaired by one of the Executive Directors, will have its own Charter and will meet twice a year.

The Committee will monitor, review and evaluate the Group’s progress on the four primary pillars of transformation; employment equity, community involvement, procurement that promotes Black Economic Empowerment and Black share ownership. The first meeting of the Committee is scheduled to take place in August 2004.

Members of Board committees as at 27 March 2004 were as follows:

		Meeting attendance		
		1st	2nd	3rd
<b>Audit and Risk Committee</b>	P L Wilmot* (Chairman)	Yes	Yes	Yes
	W S MacFarlane*	Yes	Yes	Yes
	A J Aaron*	Yes	Yes	Yes
<b>Remuneration and Nomination Committee</b>	A J Aaron* (Chairman)	Yes	Yes	Not applicable
	Z B Ebrahim*	Yes	Yes	
	W S MacFarlane*	Yes	Yes	
<b>Customer Service Committee</b>	S M Ross (Chairman)	Yes	Yes	Not applicable
	T N Eboka*	Yes	Yes	
	R L Scott	Yes	Yes	
<b>Transformation Committee</b>	Dr U Ferndale (Chairman) S M Ross Z B Ebrahim* J D M G Koolen* S D M Zungu*	Newly formed committee (First meeting to be held in August 2004)		

\*Non-executive Director

# Corporate Governance Report continued

## Other Committees

### Central Executive Forum

The Committee comprises the Chief Executive Officer, all Executive Directors and the heads of certain key business divisions.

The role of this management committee, which meets on a weekly basis, is to formulate strategies, policies and objectives directed toward the Group achieving its goals, for submission to the Board, and to monitor performance against goals approved by the Board.

### Employment Equity Committee

The role of the Employment Equity Committee is to formulate, review, evaluate and implement the Group’s employment equity strategy and to measure achievement of targets. The Group’s Employment Equity plan has been developed, updated 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 the Committee’s activities. The Committee, which consists of elected and appointed members, holds quarterly meetings with representatives from management and labour, and is chaired by the Chief Executive Officer.

<b>Employment Equity Committee members</b>	<p>S M Ross (Chairman)</p> <p><b>Designated Group:</b> Perk Nxumalo, Dion Dalais, Terry Sivpersad, Eugene Rossouw, Johannah Bopape, Inge Fisher, Sharon Naidoo, Penny van den Berg</p> <p><b>Management Representatives:</b> Urin Ferndale, Mark Bower, Jon Spotts, Adriaan Boshoff</p> <p><b>SACCAWU representatives:</b> Felix Dyomfana, Shalock Molefi, Aaron Tshabalala, Lee Modiga, Piet Manjela, Neo Khalieyane, Esther Mashinini</p>
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### Risk Management Workgroup

The Chief Executive – Group Services chairs the Risk Management Workgroup, which meets quarterly to identify and monitor Group risks and to measure the efficacy of steps taken to mitigate such risks. The Risk Management Workgroup reports regularly to the Audit and Risk Committee.

During the year, the Workgroup championed the establishment of Divisional Risk Management Committees, which individually identify and manage significant risks facing the Group’s major divisions. Representatives from these Committees report into the Risk Management Workgroup to enable the Workgroup to consider the impact of divisionally identified risks on the Group.

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, but 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 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, where appropriate, by the comprehensive use of advanced computer hardware and software technologies.

Directors and employees are required to maintain the highest ethical standards as outlined in the Group’s updated Code of Ethics, to ensure 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, divisional managers and the internal and 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 division, is designed to assess, maintain and improve controls on an ongoing basis.

The above reviews indicated that the systems of internal control were appropriate and satisfactory. Furthermore no material loss, exposure or misstatement arising from a material breakdown in the functioning of the systems has been reported to the Directors in respect of the year under review.

Internal Audit

Edcon Group Internal Audit operates in terms of the Audit and Risk Committee’s approved Charter to provide management with an independent, objective consulting and assurance service that reviews matters relating to control, risk management, corporate governance and operational efficiency. The function’s responsibility is independently to assess and appraise the systems of internal control and the policies and procedures of the Group, in order to monitor how adequate and effective they are in ensuring the achievement of organisational objectives; the relevance, reliability and integrity of management and financial information; whether resources are being used economically, effectively and efficiently; the safeguarding of assets; compliance with relevant policies, procedures, laws and regulations; and prevention of waste, extravagance and fraud.

The Internal Audit Department reports directly to the Audit and Risk Committee but is responsible to the Group Financial Director on day-to-day matters. Its significant reports are copied to the Chief Executive

## Corporate Governance Report continued

Officer as well as the Chairman of the Audit and Risk Committee and there is regular two-way communication between the Chief Executive Officer and the head of Group Internal Audit.

All Edcon business operations and support functions are subject to internal audit. The Audit and Risk Committee approves the function's yearly plan of audits, which is based on an annually conducted group-wide risk assessment. Internal audits are conducted in accordance with the Institute of Internal Auditors' professional standards.

In addition to the above, Group Internal Audit provides a risk management facilitation role which aims to maintain a high profile for the Group's risk management process without assuming responsibility for risk management, the latter remaining the responsibility of relevant line management.

Group Internal Audit also conducts independent investigations into fraud or other similar acts of dishonesty. Edcon has a Dishonesty Hotline, which allows any internal or external callers confidentiality and anonymity with regards to matters they wish to report.

### External Audit

The external auditors provide an independent assessment of Edcon's systems of internal financial control and express an independent opinion on the annual financial statements. The external audit function offers reasonable, but not absolute assurance, on the accuracy of financial disclosures.

There is close cooperation between the internal and external auditors, with the aim of ensuring appropriate combined audit coverage and minimisation of duplicated effort.

The external auditors' plan is reviewed by the Audit and Risk Committee to ensure that significant areas of concern are covered, without infringing on the external auditors' independence and right to audit. The Audit and Risk Committee also monitors the ongoing ratio between fees paid to the external auditors for statutory audit purposes versus those paid for other professional services rendered by the external auditors.

### Risk Management

The Board is responsible for the total process of risk management in Edcon. At each of its meetings, the Board's Audit and Risk Committee considers the Edcon Risk Monitor, a substantial document that reports on the effectiveness in relation to the management of the top ten significant risks facing the Group. This document is also considered at the Board meeting immediately following the relevant Audit and Risk Committee meeting.

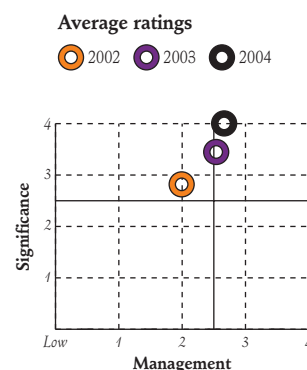
Prior to being presented to the Audit and Risk Committee, the Risk Monitor is discussed and duly considered at operational level by the Risk Management Workgroup. Due to its composition of senior operational management, as well as the fact that its input is received from various Divisional Risk Management Committees, the Workgroup is well qualified to provide the Audit and Risk Committee with relevant insight into the risks and the development of appropriate management actions to mitigate these risks.

Edcon's significant ten risks have not changed in nature over the past year but, as is reflected in the comparative graphs below, there has been some movement in the average of top management's ratings of the significance of the risks versus the effectiveness of management's actions in mitigating these risks. It is important to note that ratings that appear in the top right hand quadrant of each graph indicate that the particular risk is being adequately managed.

## Risk

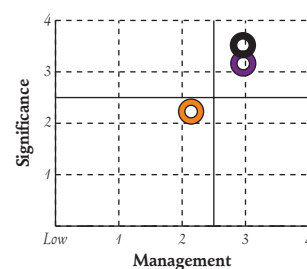
### 1. People skills

Edcon believes that talented people with the right skills will provide it with sustainable strategic advantage and will enhance the control environment. The Group's Employer of Choice programme is aimed at attracting and retaining skills. During the past year, further strides were made in developing staff through initiatives such as the introduction of training and leadership programmes and a talent management programme.



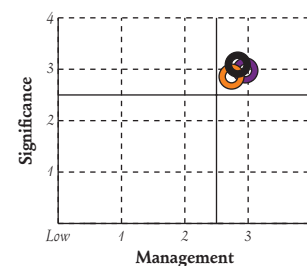
### 2. Supplier base decline

The relatively strong Rand makes importing a more viable option. Some local suppliers have been able to react quickly to emerging trends and have remained internationally competitive but the surge in imports from China puts further pressure on local suppliers. Even though imports as a percentage of total purchases have risen, units purchased from local suppliers have increased substantially in the past year. Management has also signed an agreement with SACTWU in terms of which Edcon will use its best endeavours to support local suppliers where possible. Edcon will also play a role in developing local BEE suppliers.



### 3. Market behaviour

In spite of lower interest rates and the strong Rand, customers remained price conscious and relative value, particularly in the discount channel, continued to drive sales performances in what is still a highly competitive market. In its mission to be "value leaders" Edcon maintained a focus on deriving efficiencies from internal processes. Updated market segmentation, an in-depth knowledge of customer behaviour and economies of scale gives Edcon a competitive advantage. Sustainable growth through acquisitions strengthens the Group's position in the market place.





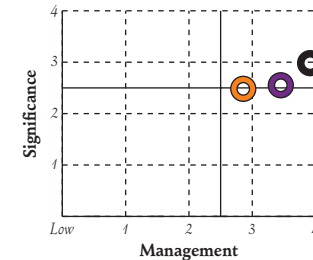
## Corporate Governance Report continued

### 4. Credit management

Various socio-economic factors can lead to customers being unable to meet their financial obligations with Edcon. The Group has state-of-the-art systems and credit management disciplines to monitor and limit this risk. In addition, the majority of customer accounts are insured against death and retrenchment, while the securitisation of a large portion of the debtors' book has limited the risk associated with this book to R370 million (being Edcon's investment in OntheCards). The increase in the significance of this risk relates to the rise in debtors, in line with credit sales growth.

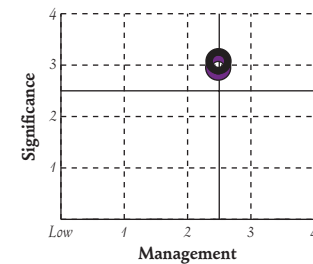
Average ratings

○ 2002 ● 2003 ● 2004



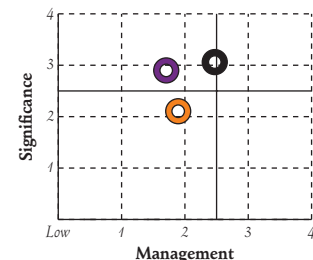
### 5. Acquisition management

Focus and management attention on new acquisitions can dilute its impact on other parts of the business. Edcon had the financial resources to finance all recent acquisitions and is confident that its seasoned management team has the capacity to integrate these newly acquired businesses. Acquisitions remain well focused, all being within the retail sector. Appropriate feasibility studies and due diligence exercises are conducted prior to all acquisitions.



### 6. HIV/AIDS

AIDS will not only have an impact on Edcon staff, with a concomitant cost to Edcon, but will also negatively affect its customer base, with a resultant decline in spending in Edcon stores. During October 2003, the Health Monitor Group produced a revised assessment of the potential impact of HIV/AIDS on Edcon's staff, based on in-house experience and demographic data. The prevalence of HIV/AIDS for the 2005 calendar year is estimated at 9,0% of permanent staff and the associated annual cost to the Group is estimated at R5,6 million. The impact on sales is indeterminable as deceased customer spends could be replaced by currently unemployed people who gain employment as a consequence.



## 7. Information technology

This risk receives constant top and senior management attention and due to this, although the significance remains high, the exposure is reduced. Edcon's Information Technology Services has have played a significant role in the Group's business success. Information systems costs are declining as a percentage of sales, even after the systems costs for the newly acquired businesses. A major focus on improving IT security has reaped just rewards and will continue to do so.

## 8. Black Economic Empowerment (BEE)

The Group is focused on improving its contribution to BEE, with a draft strategy having been compiled and a high level coordinator appointed. Management is conducting BEE supplier education and has introduced Group utilisation metrics to ensure attainment of BEE objectives, in line with the Department of Trade and Industries' BEE scorecard. A Board Transformation Committee was recently formed to accelerate and monitor, inter alia, Edcon's BEE progress.

## 9. Treasury management

Edcon will be impacted by the following aspects:

**Prime interest rates:** An increase in borrowing rates is probable in the year ahead.

**Usury rates:** If prime increases, there could be a lag in the increase in the Usury rate.

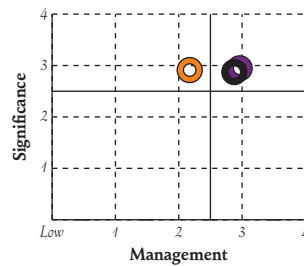
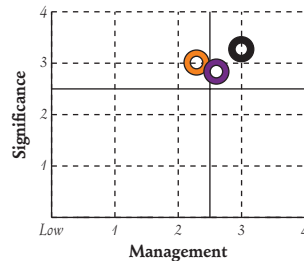
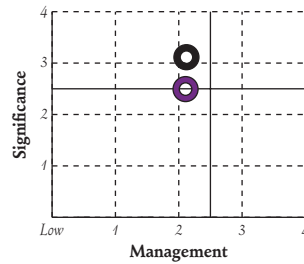
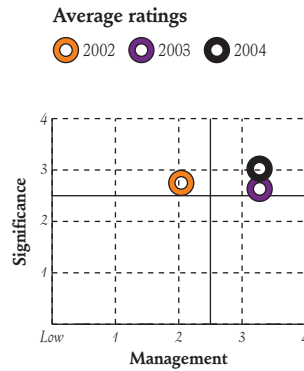
The Rand, which is expected to be less volatile in the coming year.

**Liquidity management:** Funding options are reviewed by the treasury department which reports into the Treasury Risk Workgroup where recommendations are considered and approved.

These risks are managed through hedging mechanisms and monitored by a Treasury Risk Committee which operates in terms of formally approved policies and procedures.

## 10. Crime

Acts of crime continue to be identified and investigated within the Group, specifically syndicated identification fraud. There is strong management focus on fighting and preventing commercial crime, including close cooperation with the South African Police Services. Edcon does not tolerate crime, with internal aggressors being shown no mercy. The situation is well in hand, hence the stable significance rating.



# Corporate Governance Report continued

## Relationships and Reporting

### Employer of Choice

The Employer of Choice initiative has delivered good results, with Edcon being positioned number 19 in the Deloitte and Financial Mail “Best Company To Work For in South Africa” listing. Edcon was also included in the Corporate Research Foundation’s “Best Company To Work For in South Africa” publication. Employees remain our full partners in the business. The importance placed on maintaining this position of strength is evidenced by the new initiatives to enhance leadership in the organisation. All management members are being exposed to externally presented leadership programmes and the effective application of the skills and knowledge gained through these programmes is measured as a significant part of relevant management members’ performance objectives.

Employee participation is still achieved through employee fora, the conclusion of mutually beneficial agreements between labour and the Group, a continuing high focus on training, employee participation as trustees on the medical aid and retirement funds and regular communication with employees through newsletters, the internal radio station in stores and videos. During the year, an employee perception survey was again conducted throughout the Group and, when compared with previous surveys, perceptions have again improved meaningfully.

Edcon’s excellent financial results for 2004 are attributed largely to the positive efforts of all employees and the Board demonstrated its recognition and appreciation of the employees’ role in achieving the quite unique 2003 results (up 153%) by awarding them a special cash bonus in May 2003. This was well received by the employees and cemented the positive relationship between Edcon’s leadership and employees.

### Employment Equity

Edcon has a clearly defined employment equity strategy and a comprehensive employment equity plan agreed to by labour. Details of the Group’s progress in this and other employee related areas are included in the report on Human Resources on pages 45 to 54.

## Public and Shareowners

The principles of balanced reporting, understandability, openness and substance over form remain the foundation for communication to the public and shareowners. Positive and negative aspects of both financial and non-financial information are provided. Edcon meets regularly with institutional shareowners and investment analysts and does presentations to investors and analysts bi-annually, after the release of Group results. The Investor Relations Executive maintains unbiased liaison with current and potential investors, analysts and the media.

Going Concern

The annual financial statements set out on pages 95 to 147 have been prepared on the going concern basis since the Directors, after due deliberation at the last meeting of the Board, have every reason to believe that the company and Group have adequate resources in place to continue in operation for the foreseeable future.

Ethical behaviour

Over the past year, focus has been placed on launching the Group’s core values of people, integrity, performance and professionalism. This process involved all employees acknowledging, in writing, their acceptance of and commitment to upholding the principles of Edcon’s revised Code of Ethics, which was introduced during the past year. The Code of Ethics includes the Group’s vision, mission statement, set of values and Code of Conduct. The Code of Conduct succinctly describes the following:

- |                              |                                    |
|------------------------------|------------------------------------|
| • Edcon and its employees    | • Using Edcon’s resources          |
| • Personal conduct           | • Crime prevention                 |
| • Corporate governance       | • Conflicts of interest            |
| • Dealing with colleagues    | • Gifts and favours                |
| • Dealing with customers     | • External communication           |
| • Dealing with the community | • Competition                      |
| • Dealing with suppliers     | • Political or religious interests |

Employees, including top management and Directors, are expected to act in terms of the Code of Ethics at all times, and failure to do so results in disciplinary action. Employees of outsourced functions as well as suppliers are required to comply with the principles of the Code of Ethics.

Employees with access to confidential financial information are prohibited from disclosing this to outsiders and from trading in Edcon shares during the closed periods after the year end and half year end, until 24 hours after the final or interim results are published, as well as during any periods when the Group has issued a cautionary trading statement to shareowners.

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.

The Code of Ethics emphasises that Edcon has played, and is willing to play, a significant role in developing and improving the South African community. Information regarding Edcon’s social investment programmes can be found in the Chief Executive – Group Service’s report on page 54.

## Corporate Governance Report continued

### Environmental and Occupational Health and Safety

Edcon influences environmental issues indirectly as follows:

- **Property development:** Edcon is a significant tenant in the retail property market. The Group will only enter into rental agreements where developers have conducted appropriate environmental impact assessments, which have consequently been approved by the relevant authorities. All stakeholders, including employees and neighbours, are consulted before stores are opened, closed or relocated. An Operational Development Committee guides the opening, closing and/or revamping of stores.
- **Wastage:** Various professional wastage disposal companies are charged with reselling or recycling Edcon's wastage, which relates mainly to consumables such as stationery and paper.
- **Product:** Edcon's quality assurance department conducts ad-hoc tests to check whether merchandise contains any genetically modified organisms or items such as ivory or fur, which will negatively impact the environment. Should this be the case, relevant orders are cancelled.
- **Non-exploitative behaviour:** Acquisitions of new businesses are concluded only after due consideration and then, where appropriate, with the approval of the competition authorities. Edcon has a standard agreement all suppliers are required to sign, in which exploitative behaviour such as using child labour, is forbidden. The Group's Code of Ethics also prohibits such behaviour.
- **Recycling of water:** Research is scheduled at Edcon's manufacturing sites to establish the feasibility of channelling surplus water for sewage drainage purposes.
- **Fuel consumption:** The transportation of merchandise between Edcon's various distribution centres and stores is done by contracted experts, who focus on the optimisation of relevant fuel consumption by, for example, ensuring that their vehicles operate efficiently and that they limit their amount of travel by maximising the number of cartons delivered per kilometre travelled.

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. Activities of our stores, factories and our suppliers are reviewed regularly to ensure that they comply with all relevant legislation. Further detail is provided on page 48.

Edcon recognises its responsibility to the state and community to pay all applicable taxes and duties. Detail is provided on page 97.

The Group has a comprehensive HIV/AIDS Policy in relation to staff and continually evaluates the current and prospective impact of HIV/AIDS on consumer spending as well as on the employee base. More detail is provided on page 48.

Directors’ responsibilities for financial reporting

The annual financial statements for the year ended 27 March 2004 incorporate the results for the fifty-two weeks ended 27 March 2004 (2003: fifty-two weeks ended 29 March 2003). 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 Financial Reporting 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 judgments 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.

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

## Corporate Governance Report continued

### Certificate by Group Secretary

In my capacity as Group Secretary, I confirm, in terms of the Companies Act, 1973, that for the year ended 27 March 2004, 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.



**E A Bagley**

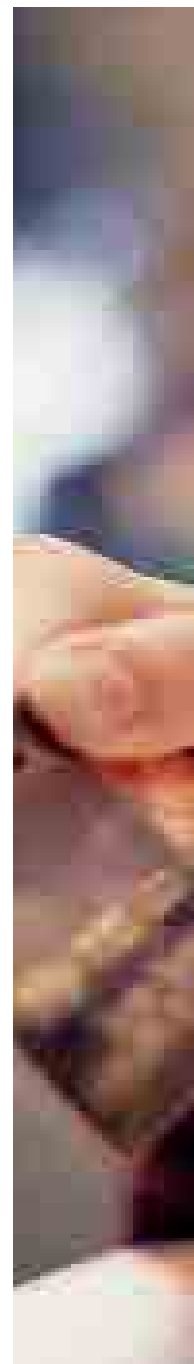
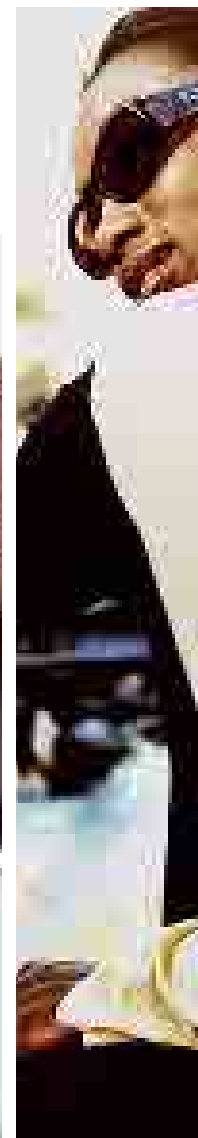
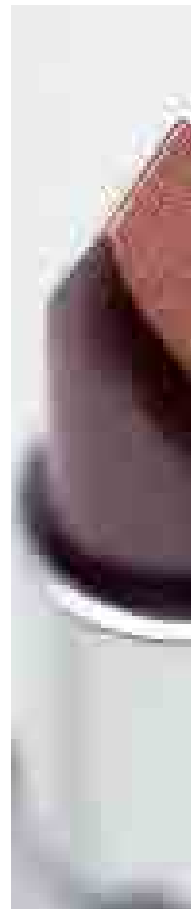
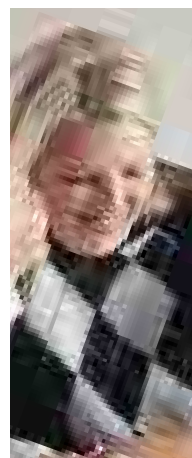
Group Secretary

11 May 2004

### Board attendance

Director's name	May 2003	August 2003	November 2003	February 2004
W S MacFarlane	Yes	Ill	Yes	Yes
S M Ross	Yes	Yes	Yes	Yes
S R Binnie	Yes	Yes	Yes	Yes
A v A Boshoff	Yes	Yes	Yes	Yes
M R Bower	Yes	Yes	Yes	Yes
U Ferndale	Yes	Yes	Yes	Yes
J L Spotts	Yes	Yes	Yes	Yes
A J Aaron	Yes	Yes	Yes	Yes
T N Eboka	Yes	Yes	Yes	Yes
Z B Ebrahim	Yes	Yes	Yes	Yes
J D M G Koolen	Yes	Yes	Yes	Yes
P L Wilmot	Yes	Yes	Yes	Yes
S D M Zungu (appointed 23 March 2004)	Not applicable	Not applicable	Not applicable	Not applicable





# Creating value

## Group Annual Financial Statements

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### Currency of Annual Financial Statements

The presentation and measurement currency of the annual financial statements is South African Rand (R).

The approximate rand cost of a unit of the following currencies at year end was:

	2004	2003
US dollar	6,57	7,99
Sterling	11,89	12,55
Botswana pula	1,37	1,54
Euro	7,95	8,56

### Key indicators in US Dollar terms

	2004 US\$m	2003 US\$m (Restated)
Revenue – retail sales <sup>1</sup>	1 467	856
Retail trading profit <sup>1</sup>	132	57
Cash EBITDA <sup>1</sup>	188	93
Earnings attributable to ordinary shareowners <sup>1</sup>	94	35
Cash flow from operations <sup>1</sup>	28	74
Total assets	776	528
Net assets	459	290
Market capitalisation	1 117	324
Attributable earnings per share (cents)	214	74
Dividends declared for the financial year (cents) <sup>2</sup>	115	39

<sup>1</sup>. Translated at an average rate of R7,18 (2003: R9,71).

<sup>2</sup>. Translated at an average rate of R6,66 (2003: R7,94).

## Report of the Independent Auditors

### To the members of Edgars Consolidated Stores Limited

We have audited the annual financial statements set out on pages 95 to 147 for the year ended 27 March 2004. 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

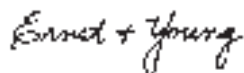
We conducted our audit in accordance with Statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- 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 27 March 2004, 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 Financial Reporting Standards and in the manner required by the Companies Act in South Africa.



**Ernst & Young**

Chartered Accountants (SA)

Registered Accountants and Auditors

Johannesburg

11 May 2004

## Income Statements

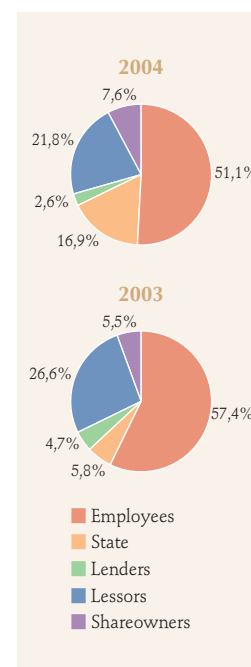
Company			Note	Group	
2003 Rm	2004 Rm			2004 Rm	2003 Rm (Restated)
8 452,5	<b>10 328,8</b>	<b>Total revenues</b>	3	<b>11 514,5</b>	9 189,1
7 678,8	<b>9 475,2</b>	<b>Revenue – retail sales</b>		<b>10 530,0</b>	8 313,7
4 797,7	<b>5 943,1</b>	Cost of sales		<b>6 423,3</b>	5 107,0
2 881,1	<b>3 532,1</b>	<b>Gross profit</b>		<b>4 106,7</b>	3 206,7
1 514,4	<b>1 813,8</b>	Store costs		<b>1 914,4</b>	1 595,9
1 030,4	<b>1 070,1</b>	Other operating costs		<b>1 247,6</b>	1 053,3
336,3	<b>648,2</b>	<b>Trading profit</b>		<b>944,7</b>	557,5
(41,4)	<b>(28,8)</b>	Credit and financial services profit/(loss)	4	<b>136,8</b>	51,7
294,9	<b>619,4</b>	<b>Operating profit</b>	5	<b>1 081,5</b>	609,2
115,0	<b>201,4</b>	Dividend income	7		
67,1	<b>50,4</b>	Interest received	8	<b>15,4</b>	38,8
477,0	<b>871,2</b>	<b>Profit before financing costs</b>		<b>1 096,9</b>	648,0
65,9	<b>49,4</b>	Financing costs	8	<b>66,1</b>	83,0
411,1	<b>821,8</b>	<b>Profit before taxation</b>		<b>1 030,8</b>	565,0
146,0	<b>196,9</b>	Taxation	9	<b>354,6</b>	223,2
265,1	<b>624,9</b>	<b>Earnings attributable to ordinary shareowners</b>		<b>676,2</b>	341,8
		<b>Earnings per ordinary share (cents)</b>	11		
		attributable earnings basis		<b>1 535,9</b>	720,2
		headline earnings basis		<b>1 597,0</b>	786,0
		<b>Diluted earnings per share (cents)</b>	11		
		attributable earnings basis		<b>1 314,7</b>	659,5
		headline earnings basis		<b>1 366,7</b>	719,3
		<b>Dividends per ordinary share (cents)</b>			
		<b>declared for the financial year</b>	10	<b>768,0</b>	308,0

## Cash Flow Statements

<b>Company</b>			<b>Group</b>	
2003 Rm	2004 Rm	Note	2004 Rm	2003 Rm (Restated)
		<b>Cash retained from operating activities</b>		
294,9	<b>619,4</b>	Operating profit	<b>1 081,5</b>	609,2
249,8	<b>203,8</b>	Depreciation 5.3	<b>222,9</b>	265,2
34,6	<b>15,3</b>	Amortisation and impairment 5.1	<b>46,5</b>	39,3
(13,7)	<b>1,5</b>	Non-cash items 12.1	<b>0,2</b>	(12,9)
105,0	<b>196,8</b>	Dividends received 12.2		
670,6	<b>1 036,8</b>	<b>Cash “EBITDA”</b> 2.8	<b>1 351,1</b>	900,8
138,0	<b>(434,3)</b>	Working capital movement 12.3	<b>(676,7)</b>	(38,2)
808,6	<b>602,5</b>	<b>Cash generated from operating activities</b>	<b>674,4</b>	862,6
67,1	<b>50,4</b>	Interest received	<b>15,4</b>	38,8
(65,9)	<b>(49,4)</b>	Financing costs paid 8.1	<b>(66,1)</b>	(83,0)
(89,1)	<b>(274,9)</b>	Taxation paid 12.4	<b>(422,5)</b>	(103,2)
720,7	<b>328,6</b>	<b>Cash inflow from operations</b>	<b>201,2</b>	715,2
(115,8)	<b>(223,3)</b>	Dividends paid 12.5	<b>(190,8)</b>	(98,4)
604,9	<b>105,3</b>	<b>Net cash retained</b>	<b>10,4</b>	616,8
		<b>Cash utilised in investment activities</b>		
(69,6)	<b>(134,7)</b>	Investment to maintain operations 12.6	<b>(180,8)</b>	(92,6)
281,2	<b>(274,0)</b>	Investment to expand operations 12.7	<b>(156,3)</b>	273,7
211,6	<b>(408,7)</b>	<b>Net cash invested</b>	<b>(337,1)</b>	181,1
		<b>Cash effects of financing activities</b>		
(319,1)	<b>—</b>	Increase in shareowner funding 12.8	<b>43,4</b>	(312,9)
(412,9)	<b>223,6</b>	Increase in interest bearing debt 12.9	<b>183,1</b>	(393,4)
(732,0)	<b>223,6</b>	<b>Net cash inflow from financing activities</b>	<b>226,5</b>	(706,3)
84,5	<b>(79,8)</b>	<b>Decrease in cash and cash equivalents</b> 12.10	<b>(100,2)</b>	91,6
108,0	<b>192,5</b>	<b>Cash and cash equivalents at the beginning of the year</b>	<b>298,0</b>	215,5
		Cash and cash equivalents on acquisition of subsidiaries 12.10	<b>—</b>	6,2
		Currency adjustments	<b>(2,7)</b>	(15,3)
192,5	<b>112,7</b>	<b>Cash and cash equivalents at the end of the year</b>	<b>195,1</b>	298,0
		<b>Attributable cash flow per ordinary share (cents)</b> 11	<b>2 433,2</b>	2 314,4
		<b>Attributable cash equivalent earnings per ordinary share (cents)</b> 11	<b>2 246,3</b>	1 061,1
		<b>Cash realisation rate (%)</b> 2.4	<b>108</b>	218

## Cash Value Added Statements

	Group		
	2004 Rm	2003 Rm (Restated)	Change %
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.			
<b>Cash generated</b>			
Cash derived from customers	9 665,4	8 765,7	
Cash payments outside the Group to suppliers of materials, merchandise, facilities and services	(7 150,6)	(6 376,0)	
<b>Wealth created through cash value added</b>	<b>2 514,8</b>	<b>2 389,7</b>	<b>5</b>
<b>Cash utilised to:</b>			
Remunerate employees for their services	1 279,3	1 017,0	
Pay direct taxes to the state			
South Africa	411,0	92,2	
Elsewhere	11,5	11,0	
Provide lenders with a return on monies borrowed	66,1	83,0	
Provide lessors with a return for the use of their premises	545,7	471,3	
Provide shareowners with cash dividends	190,8	98,4	
<b>Cash disbursed among stakeholders</b>	<b>2 504,4</b>	<b>1 772,9</b>	<b>41</b>
<b>Net cash retained</b>	<b>10,4</b>	<b>616,8</b>	
<b>Reconciliation with cash generation</b>			
Cash value added (above)	2 514,8	2 389,7	
Less: Remunerate employees for their services	(1 279,3)	(1 017,0)	
Provide lessors with a return for the use of their premises	(545,7)	(471,3)	
Interest received	(15,4)	(38,8)	
<b>Cash generated from operating activities (per cash flow statement)</b>	<b>674,4</b>	<b>862,6</b>	
<b>State taxes summary:</b>			
Direct taxes (as above)	422,5	103,2	
Net value added tax	259,5	195,4	
Employee tax	141,5	121,7	
Regional services council levies	22,0	17,8	
Municipal assessment rates and services	103,7	87,2	
Channelled through the Group	949,2	525,3	
Paid in			
South Africa	889,1	497,9	
Elsewhere	60,1	27,4	
	<b>949,2</b>	<b>525,3</b>	



## Balance Sheets

Company			Group	
2003	2004		2004	2003
Rm	Rm	Note	Rm	Rm (Restated)
		<b>Assets</b>		
		<b>Non-current assets</b>		
573,1	584,5	Properties, fixtures, equipment and vehicles	13 738,2	689,2
4,5	3,5	Goodwill and trademarks	14 54,1	103,6
987,2	954,5	Investments	15 400,0	400,0
79,6	128,2	Loans	16	
1 644,4	1 670,7	<b>Total non-current assets</b>	<b>1 192,3</b>	1 192,8
		<b>Current assets</b>		
1 009,6	1 093,3	Inventories	17 1 231,0	1 186,6
1 356,6	2 151,7	Accounts receivable and prepayments	18 2 477,5	1 539,6
192,5	112,7	Cash and cash equivalents	19 195,1	298,0
2 558,7	3 357,7	<b>Total current assets</b>	<b>3 903,6</b>	3 024,2
4 203,1	5 028,4	<b>Total assets</b>	<b>5 095,9</b>	4 217,0
		<b>Equity and liabilities</b>		
		<b>Capital and reserves</b>		
274,1	274,1	Share capital and premium	20 109,1	71,1
9,0	9,0	Non-distributable reserves	21 24,1	28,9
1 675,2	2 076,7	Retained surplus	22 2 516,6	2 031,2
1 958,3	2 359,8	Ordinary shareowners' equity	2 649,8	2 131,2
0,3	0,3	Preference share capital	20 0,3	0,3
		Minority interest	—	0,3
1 958,6	2 360,1	<b>Total shareowners' funds</b>	<b>2 650,1</b>	2 131,8
		<b>Interest bearing debt</b>		
38,2	—	Long and medium term	23 0,1	38,8
145,3	407,1	Short term	24 366,4	144,6
183,5	407,1	<b>Total interest bearing debt</b>	<b>366,5</b>	183,4
2 142,1	2 767,2	<b>Total capital employed</b>	<b>3 016,6</b>	2 315,2
		<b>Interest free liabilities</b>		
266,8	347,0	Owing to subsidiaries	15	
23,8	60,0	Deferred taxation	25 86,4	42,3
163,1	49,0	Current taxation	86,9	192,4
1 607,3	1 805,2	Accounts payable	26 1 906,0	1 667,1
2 061,0	2 261,2	<b>Total interest free liabilities</b>	<b>2 079,3</b>	1 901,8
4 203,1	5 028,4	<b>Total equity and liabilities</b>	<b>5 095,9</b>	4 217,0
		<b>Net equity per ordinary share (cents)</b>	2.17 5 897,1	4 917,5

## Statements of Changes in Shareowners' Equity

Company					Group			
Share capital and premium Rm	Non-distributable reserves Rm	Retained surplus Rm	Total Rm		Share capital and premium Rm	Non-distributable reserves Rm	Retained surplus Rm	Total Rm
593,2	7,6	1 526,0	2 126,8	Balance at 30 March 2002	451,7	57,3	1 787,8	2 296,8
				Change in accounting policy effect at 30 March 2002	(68,0)			(68,0)
593,2	7,6	1 526,0	2 126,8	<b>Restated balance at 30 March 2002</b>	383,7	57,3	1 787,8	2 228,8
		265,1	265,1	Earnings attributable to ordinary shareowners			341,8	341,8
		(115,9)	(115,9)	Ordinary dividends (note 10)			(98,4)	(98,4)
				Foreign currency translation reserve		(32,2)		(32,2)
				Increase in tax reserve relating to life adjustment		1,2		1,2
	1,4		1,4	Derivative valuation adjustment		1,4		1,4
				Reversal of deferred taxation on revaluation reserve		1,2		1,2
(319,1)			(319,1)	Share buy back	(324,0)			(324,0)
				Change in accounting policy	11,4			11,4
274,1	9,0	1 675,2	1 958,3	<b>Restated balance at 29 March 2003</b>	71,1	28,9	2 031,2	2 131,2
		624,9	624,9	Earnings attributable to ordinary shareowners			676,2	676,2
		(223,4)	(223,4)	Ordinary dividends (note 10)			(190,8)	(190,8)
				Foreign currency translation reserve		(3,9)		(3,9)
				Decrease in tax reserve relating to life adjustment		(0,9)		(0,9)
				Net movement in treasury shares	38,0			38,0
<b>274,1</b>	<b>9,0</b>	<b>2 076,7</b>	<b>2 359,8</b>	<b>Balance at 27 March 2004</b>	<b>109,1</b>	<b>24,1</b>	<b>2 516,6</b>	<b>2 649,8</b>
20	21	22	Note		20	21	22	



# Notes to the Annual Financial Statements

## 1. Significant accounting policies and basis 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 Financial Reporting Standards. The measurement currency of the entities in the Group is the currency of the country in which that entity is incorporated. Accordingly the measurement currency of the company is the South African Rand.

These policies are consistent in all material respects with those applied in the previous year except for the change in accounting policy noted below.

### 1.1 Change in accounting policy

During the year, the Group changed its accounting policy with respect to the consolidation of the Edgars Stores Limited Staff Share Trust (the "Staff Share Trust"). In order to conform with the requirements issued by the JSE Securities Exchange South Africa, the Group now consolidates the Staff Share Trust. The major effect of this change was to eliminate a dividend received from the Trust and decrease the weighted average number of shares in issue.

The impact on the previously reported 2003 Group results was as follows:

- Earnings attributable to ordinary shareowners and headline earnings decreased by R5,7 million.
- Dividends paid decreased by R5,7 million.
- The weighted average number of ordinary and diluted shares outstanding decreased by 2 870 000 and 1 013 000 shares respectively.
- Attributable earnings per share increased from 690,5 cents to 720,2 cents.
- Headline earnings per share increased from 752,6 cents to 786,0 cents.
- Diluted earnings per share on the attributable earnings basis increased from 647,5 cents to 659,5 cents.
- Diluted earnings per share on the headline earnings basis increased from 705,2 cents to 719,3 cents.

Comparative amounts have been appropriately restated throughout these Financial Statements.

### 1.2 Basis of consolidation

The Group annual financial statements comprise those of the parent company (Edgars Consolidated Stores Limited), its subsidiaries and jointly controlled operations, presented as a single economic entity. The effects of intra-group transactions are eliminated in preparing the Group financial statements. Subsidiaries, which are directly or indirectly controlled by the Group, are included in the consolidated financial statements as from the date of acquisition and until the date of disposal where control is 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. Equity and net profit attributable to minority interests are shown separately in the balance sheet and income statement respectively. Foreign subsidiaries, which operate under severe long term restrictions that significantly impair their ability to repatriate income to the Group, are not consolidated. In these circumstances income from such investments will be brought to account only as and when received in cash.

The company carries its investments in subsidiaries at cost less accumulated impairment losses (refer to note 1.5.2), with the exception of non-consolidated subsidiaries, which are treated as available-for-sale assets in terms of AC133 and IAS 39 and classified as investments in the balance sheet.

### 1.3 Foreign currency translations

#### 1.3.1 Foreign subsidiaries

Foreign subsidiaries are classified as either foreign entities or foreign operations for the purposes of foreign currency translation.

##### *Foreign entities*

When preparing consolidated financial statements, assets and liabilities of foreign entities are translated into South African Rand at exchange rates at the balance sheet date. Income and expense items are translated at weighted average exchange rates for the period. Differences resulting from the use of closing and weighted average exchange rates are recognised directly in a foreign currency translation reserve within shareowners' equity.

##### *Foreign operations*

Integrated foreign operations are operations of which the activities are an integral part of the Group. Non-monetary assets and liabilities of these operations are translated into South African Rands at exchange rates ruling at the transaction date. Monetary assets and liabilities of these operations are translated into South African Rands at exchange rates ruling at the balance sheet date. Income and expenditure of integrated foreign operations are translated into South African Rands at the weighted average exchange rate for the period. Differences arising on translation are recognised in the income statement, in the year in which the difference arises and included in financing costs.

# Notes to the Annual Financial Statements continued

## 1. Significant accounting policies and basis of preparation *(continued)*

### 1.3 Foreign currency translations *(continued)*

#### 1.3.2 Foreign currency transactions and balances

Foreign currency transactions are recorded at the exchange rate ruling at the date of the transaction.

At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into South African Rand at exchange rates ruling at the balance sheet date. Exchange differences arising on the settlement of transactions at rates different from those at the date of transaction, and unrealised foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognised in the income statement and included in financing costs.

### 1.4 Goodwill and intangible assets

#### 1.4.1 Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of the Group's share of the net identifiable assets of the acquired entity at the date of acquisition. Goodwill is capitalised as an asset and amortised using the straight-line basis over its estimated useful life, not exceeding 5 years. Any excess in the fair values of the net identifiable assets and liabilities acquired over the purchase consideration at the date of acquisition is recognised as negative goodwill. The amount of negative goodwill remaining that does not exceed the fair value of acquired identifiable non-monetary assets is recognised as income on a systematic basis over the remaining weighted average useful life of the identifiable assets acquired. The amount of negative goodwill in excess of the fair value of acquired identifiable non-monetary assets is recognised in income immediately.

At each balance sheet date, goodwill is reviewed for indications of impairment or changes in estimated future benefits. If such indications exist an analysis is performed to assess whether the carrying amount of goodwill is fully recoverable. An impairment is made if the carrying amount exceeds the recoverable amount.

#### 1.4.2 Trademarks and brand names

Where payments are made for the acquisition of trademarks and brands, the amounts are capitalised and amortised on a straight-line basis over their anticipated useful lives, currently estimated to be between 5 and 10 years. At each balance sheet date, trademarks and brands are reviewed for indications of impairment or changes in estimated future benefits. If such indications exist an analysis is performed to assess whether the carrying amount of trademarks and brands is fully recoverable. An impairment is made if the carrying amount exceeds the recoverable amount.

No valuation is made of internally developed and maintained trademarks or brand names. Expenditure incurred to maintain brand names is charged in full to the income statement as incurred.

### 1.5 Financial instruments

Financial instruments recognised on the balance sheet include investments, derivative instruments, investments in debt securities, accounts receivable, cash and cash equivalents, accounts payable, and interest bearing debt. Financial instruments are initially measured at cost, including transaction costs, when the Group becomes a party to their contractual arrangements. The subsequent measurement of financial instruments is dealt with in the subsequent notes. Where the Group can legally do so and the Group intends to settle on a net basis, or simultaneously, related positive and negative values of financial instruments are offset within the balance sheet amounts.

#### 1.5.1 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.

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 the profit for the period.

Gains and losses on effective cash flow hedging instruments in respect of firm commitments or forecast 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 in the period in which the hedged firm commitment or forecast transaction affects profit.

# Notes to the Annual Financial Statements continued

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## 1. Significant accounting policies and basis of preparation *(continued)*

### 1.5 Financial instruments *(continued)*

#### 1.5.2 Investments

Investments consist of subsidiaries not consolidated and debt securities.

Where foreign entities are not consolidated (refer to note 1.2) and are treated as available-for-sale assets and where such investments are not actively traded in organised financial markets, fair value is based on the net asset value of the entity translated into South African Rand at exchange rates ruling at the balance sheet date. Gains or losses are recognised directly in equity until the investment is sold, collected, or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the income statement.

Debt securities held by the Group classified as held to maturity investments are initially recorded at cost, which is the fair value of the cash given to acquire the debt securities and are subsequently measured at amortised cost using the effective interest rate method. Interest received on debt securities is included in the income statement as interest received and is recognised on an accrual basis.

#### 1.5.3 Trade and other receivables

Trade and other receivables are stated at cost less an allowance for doubtful debts. The allowance raised is the amount needed to reduce the carrying value to the expected future cash flows.

#### 1.5.4 Cash and cash equivalents

Cash and cash equivalents are measured at fair value.

#### 1.5.5 Financial liabilities

Financial liabilities, other than derivatives, are amortised at their original debt value less principal payments and amortisation. Derivatives are subsequently measured at fair value, and gains and losses are included in profit for the period.

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.

#### 1.5.6 Impairment of financial assets

At each balance sheet date an assessment is made of whether there is any objective evidence of impairment of financial assets. If there is evidence then the recoverable amount is estimated and an impairment loss is recognised in accordance with AC133 and IAS 39.

### 1.6 Inventories

Retail trading inventories are valued at the lower of cost, using the weighted average cost, and net realisable value, less an allowance for slow moving items. 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 an allowance for slow moving items.

# Notes to the Annual Financial Statements continued

## 1. Significant accounting policies and basis of preparation *(continued)*

### 1.7 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. 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.

### 1.8 Properties, fixtures, equipment and vehicles

#### 1.8.1 Properties

Properties comprise a building held by the Group for retail space and general-purpose land and buildings for use by employees. Properties are initially valued at cost and subsequently revalued every 3 years, by recognised professional valuers, to net realisable open market value using the alternative or existing use basis as appropriate. Depreciation is provided on buildings over 50 years. Properties are periodically reviewed for impairment.

#### 1.8.2 Lease premiums and leasehold improvements

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

Leasehold improvements for leasehold land and buildings are depreciated over the lease periods or such shorter periods as may be appropriate.

#### 1.8.3 Fixtures, equipment and vehicles

Fixtures, equipment and vehicles are carried at cost less accumulated depreciation, and depreciated on a straight-line basis to their expected residual values over the estimated useful lives as follows:

Fixtures and fittings    8 years

Computer equipment   5 years

Computer software    3 years

Machinery               10 years

Vehicles                 5 years

Fixtures, equipment and vehicles are periodically reviewed for impairment.

### 1.9 Software costs

Packaged software and the direct costs associated with the development and installation thereof are capitalised and included in accounts receivable and prepayments until commissioned. Once commissioned, the total cost capitalised to date, is transferred to computer software and depreciated in accordance with 1.8.3 above.

# Notes to the Annual Financial Statements continued

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## 1. Significant accounting policies and basis of preparation *(continued)*

### 1.10 Income taxes

Income tax payable on profits, based on the applicable tax laws, is recognised as an expense in the period in which profits arise.

Deferred tax liabilities are recognised for temporary differences arising between the carrying amounts of assets and liabilities in the balance sheet and their amounts as measured for tax purposes, which will result in taxable amounts in future periods, unless the deferred tax liability arises from goodwill, for which amortisation is not deductible for tax purposes. Deferred tax assets are recognised for all temporary differences which will result in deductible amounts in future periods, but only to the extent it is probable that sufficient taxable profits will be available against which these differences can be utilised, unless the deferred tax asset arises from negative goodwill which is treated as deferred income. Neither a deferred tax asset or liability is recognised where it arises from a transaction, which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit or tax loss.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realised or the liability will be settled, based on enacted rates.

Current and deferred tax assets and liabilities are offset when they arise from the same tax reporting entity, and relate to the same tax authority, and when the legal right to offset exists.

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

### 1.11 Financing costs

Financing costs are recognised in the income statement in the period in which they are incurred.

### 1.12 Joint ventures

The Group's interest in the jointly controlled operation is accounted for by recognising the assets and liabilities the Group controls and the expenses it incurs and its share of the income.

### 1.13 Accounting for insurance activities

The profits of the insurance activity, conducted through an independent insurance company, 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 cancellations and future deaths in terms of the life cover provided. Net income not received as a dividend is reflected in receivables.

### 1.14 Revenue recognition

Revenue from all sales of merchandise through retail outlets is brought to account when delivery takes place to the customer. Revenue from manufacturing and other operations is recognised when the sale transactions giving rise to such revenue 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.

# Notes to the Annual Financial Statements continued

## 1. Significant accounting policies and basis of preparation *(continued)*

### 1.15 Business and geographical segments

The principal segments of the Group have been identified on a primary basis by chain and division, 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 revenue – retail sales reflect sales to third parties including arm's length inter-segment revenue recorded at fair value. The segment result is presented as segment operating 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.

### 1.16 Employee benefits

The Group operates a number of retirement benefit plans for its employees. These plans include both defined benefit and defined contribution provident funds and other retirement benefits such as medical aid benefit plans. Current contributions are charged against income when incurred.

The Group uses the projected unit credit actuarial method to determine the present value of its defined benefit plans and the related current service cost and, where applicable, past service costs. The portion of actuarial gains and losses recognised is the excess over the greater of 10% of the present value of the defined benefit obligation at the end of the previous reporting period before deducting plan assets and 10% of the fair value of any plan assets at the same date, divided by the expected average remaining working lives of the employees participating in the fund. 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 only brought to account in the Group's financial statements when it is clear that economic benefits will be available to the Group.

#### 1.16.1 Equity participation plans

The Group provides equity participation plans in the form of stock option plans. No expense is currently recognised in the income statement for such awards.

### 1.17 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 ordinary shareowners' equity. Dividends declared subsequent to the year end are included in total shareowners' equity at the balance sheet date. 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.

### 1.18 Treasury shares

Shares in Edgars Stores Consolidated Limited held by the Group are classified in shareowners' equity as treasury shares. These shares are treated as a deduction from the issued and weighted average numbers of shares and the cost price of the shares is deducted from share capital and premium in the balance sheet. Dividends received on treasury shares are eliminated on consolidation.

## Notes to the Annual Financial Statements continued

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### 2. Definitions

#### 2.1 Attributable cash flow per ordinary share

Attributable cash flow from operations after adjusting for trade accounts receivable, which are available for securitisation, minority interests and preference dividends paid, divided by the weighted average number of ordinary shares in issue during the year.

#### 2.2 Capital employed

Shareowners' funds including minority interests in subsidiaries and interest bearing debt.

#### 2.3 Cash and cash equivalents

Comprise cash on hand and demand deposits together with any highly liquid investments readily convertible to known amounts of cash.

#### 2.4 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.

#### 2.5 Cost of credit

The cost of administering the debtors book.

#### 2.6 Cost of sales

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

#### 2.8 Cash "EBITDA"

Cash earnings before interest, taxation, depreciation and amortisation charges.

#### 2.9 Dividend cover

Earnings per ordinary share divided by dividends per ordinary share.

#### 2.10 Dividend yield

Dividends declared per ordinary share divided by the closing share price on the JSE Securities Exchange South Africa.

#### 2.11 Earnings per ordinary share

##### 2.11.1 Attributable earnings basis

Earnings attributable to ordinary shareowners divided by the weighted average number of ordinary shares in issue during the year.

##### 2.11.2 Cash equivalent basis

Earnings attributable to ordinary shareowners adjusted for non-cash items in attributable earnings, divided by the weighted average number of ordinary shares in issue during the year.

##### 2.11.3 Diluted earnings basis

Earnings attributable to ordinary shareowners adjusted for interest after taxation on the compulsorily convertible debentures, 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 dilutive options and dilutive compulsorily convertible debentures.



# Notes to the Annual Financial Statements continued

## 2. Definitions *(continued)*

### 2.11 Earnings per ordinary share *(continued)*

#### 2.11.4 Headline earnings basis

Earnings attributable to ordinary shareowners, 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 Circular 7 of 2002 issued by the South African Institute of Chartered Accountants.

### 2.12 Earnings yield

Earnings per ordinary share divided by the closing share price on the JSE Securities Exchange South Africa.

### 2.13 Financing cost cover

Operating profit divided by net financing costs.

### 2.14 Gearing ratio

Interest bearing debt, reduced by cash and cash equivalents, divided by shareowners' funds.

### 2.15 Net assets

Total assets less interest free liabilities.

### 2.16 Net asset turn

Retail sales divided by closing net assets.

### 2.17 Net equity per ordinary share

Ordinary shareowners' equity divided by the number of ordinary shares in issue at the year end.

### 2.18 Price earnings ratio

The closing share price on the JSE Securities Exchange South Africa divided by earnings per ordinary share.

### 2.19 Retail sales

Represent sales of merchandise through retail outlets and exclude value added and general sales tax, fees, rental income and intra-group transactions.

### 2.20 Return on ordinary shareowners' equity

Earnings attributable to ordinary shareowners as a percentage of average ordinary shareowners' equity.

### 2.21 Revenue

Comprises retail sales, manufacturing sales, club fees, financial services income, dividends, interest and finance charges accrued to the Group and company.

### 2.22 Weighted average number of ordinary shares in issue

The number of ordinary shares in issue at the beginning of the year excluding treasury shares, increased by shares issued during the year, and decreased by share repurchases 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.

### 2.23 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 South Africa.

## Notes to the Annual Financial Statements continued

	Group		Company	
	2004 R000	2003 R000	2004 R000	2003 R000
<b>3. Revenues</b>				
Retail sales	10 529 993	8 313 731	9 475 169	7 678 824
Administration fees			48 555	32 924
Club fees	220 661	188 719	220 661	188 719
Dividend income		5 747	201 421	115 011
Change in accounting policy		(5 747)		
Finance charges	412 577	331 841	332 583	315 501
Financial services division income	224 495	188 512		54 437
Interest received	15 443	38 777	50 432	67 078
Manufacturing sales to third parties	111 292	127 514		
	<b>11 514 461</b>	<b>9 189 094</b>	<b>10 328 821</b>	<b>8 452 494</b>
<b>4. Total cost of financing</b>				
Cost of credit <sup>1</sup>	(5 766)	(37 931)	(28 816)	(41 386)
Financial services profit	142 538	89 606		
Credit and financial services profit/(loss)	136 772	51 675	(28 816)	(41 386)
Notional financing costs allocated on own debtors <sup>2</sup>	(238 639)	(223 482)		
Total cost of credit	(101 867)	(171 807)		
Net financing costs (note 8)	(50 692)	(44 213)		
Notional financing receipts allocated <sup>2</sup>	238 639	223 482		
Group net financing receipts	187 947	179 269		
Total profit from financing	86 080	7 462		
<sup>1</sup> Includes OntheCards net income of R32 million (2003: R80 million loss, with R47 million being an initial discount).				
<sup>2</sup> Being a market related charge on the balance sheet assets within the credit area.				
<b>5. Operating profit</b>				
This is stated after taking account of the following items:				
<b>5.1 Amortisation of goodwill and trademarks</b>				
Charge for the year	29 660 <sup>3</sup>	8 097	1 000	1 500
Impairment of goodwill	16 813	31 199	14 311	33 123
	<b>46 473</b>	<b>39 296</b>	<b>15 311</b>	<b>34 623</b>
<sup>3</sup> During the year the estimated useful life of goodwill which arose on the acquisition of Super Mart was revised from 7 years to 3 years. This had the effect of increasing the amortisation charge for the current year by R13 403 895 (no tax effect). This was revised as a result of the early settlement of the earn-out agreement. Refer to note 12.11.				
<b>5.2 Auditors' remuneration</b>				
Audit fees	4 475	4 095	4 094	3 522
Fees for consulting and other services	737	579	674	531
Expenses	103	106	103	106
Prior year under-provision	201	(461)	201	(417)
	<b>5 516</b>	<b>4 319</b>	<b>5 072</b>	<b>3 742</b>

## Notes to the Annual Financial Statements continued

		Group		Company	
		2004	2003	2004	2003
		R000	R000	R000	R000
<b>5.</b>	<b>Operating profit</b> <i>(continued)</i>				
<b>5.3</b>	<b>Depreciation of properties, fixtures, equipment and vehicles</b>				
	Buildings	992	1 105	77	95
	Leasehold improvements	13 347	11 679	11 408	10 838
	Fixtures and fittings	100 087	95 354	90 659	89 167
	Computer equipment and software	102 845	150 491	98 602	146 631
	Machinery and vehicles	5 675	6 651	3 054	3 063
		<b>222 946</b>	<b>265 280</b>	<b>203 800</b>	<b>249 794</b>
<b>5.4</b>	<b>Fees payable</b>				
	Managerial, technical, administrative and secretarial fees paid outside the Group	53 381	46 016	52 595	44 886
	Outsourcing of IT function	172 878	152 177	172 878	151 888
		<b>226 259</b>	<b>198 193</b>	<b>225 473</b>	<b>196 774</b>
<b>5.5</b>	<b>Operating lease expenses</b>				
	Properties				
	Minimum lease payments	510 069	451 942	454 842	412 243
	Turnover clause payments	35 647	19 352	44 232	27 238
	Sublease rental income	(19 236)	(19 183)	(19 260)	(19 183)
	Furniture, equipment and vehicles	153 574	135 922	150 427	132 850
		<b>680 054</b>	<b>588 033</b>	<b>630 241</b>	<b>553 148</b>
<b>5.6</b>	<b>Net loss on disposal of properties, fixtures, equipment and vehicles</b>	<b>1 416</b>	<b>17 268</b>	<b>1 485</b>	<b>15 231</b>
<b>6.</b>	<b>Directors and employees</b>				
<b>6.1</b>	<b>Employees</b>				
	The aggregate remuneration and associated cost of permanent and casual employees including Directors was:				
	Salaries and wages	1 148 148	903 097	989 076	788 695
	Retirement benefit costs	101 190	85 208	95 323	79 171
	Medical aid contributions				
	Current	26 152	22 631	23 602	20 282
	Post-retirement	3 786	6 042	3 417	5 415
		<b>1 279 276</b>	<b>1 016 978</b>	<b>1 111 418</b>	<b>893 563</b>
	<b>Edcon Pension Fund (Group and company)</b>				
	Actuarially determined:				
	Current service cost	(693)	(2 182)		
	Interest cost	(32 089)	(31 581)		
	Return on assets	71 931	74 080		
	Unrecognised gain	—	644		
	Net gain recognised in the year	<b>39 149</b>	<b>40 961</b>		
	Company contributions	<b>1 261</b>	<b>1 008</b>		
	Increase in plan assets	<b>40 410</b>	<b>41 969</b>		
	Estimated return on pension fund assets	<b>30 852</b>	<b>11 711</b>		

## Notes to the Annual Financial Statements continued

	Group and Company	
	2004	2003
	R000	R000

### 6. Directors and employees (continued)

#### 6.1 Employees (continued)

##### Edcon Medical Aid (Group and company)

Actuarially determined:

Current service cost

Interest cost

Net gain recognised in the year

Expected employer benefit payments

Increase in post-retirement medical aid liability

2 751	2 647
11 013	9 032
(6 682)	(5 637)
(6 007)	—
1 075	6 042

Separate funds, independent of the Group, provide retirement and other benefits for all permanent employees and their dependants. For the full year there were five defined contribution funds of significance, namely Edcon Provident Fund, Super Mart – Elixer FEDCRAW, Super Mart – Elixer ORION, SACCAWU National Provident Fund and FEDCRAW Provident Fund. A defined contribution fund is available to employees in Namibia, Edcon Namibia Retirement Fund. The Group has two defined benefit funds namely Edcon Pension Fund and the CNA Pension Fund. The CNA Pension Fund and CNA Provident Fund are closed to new entrants and currently are in the process of being wound down.

A statutory valuation of the Edcon 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 9% per annum after taxation, that salary increases will be 6,5% per annum plus merit increases, a discount rate of 9,5% and a post-retirement interest rate of 4,78% per annum. The 31 December 2002 statutory pension valuation has not been finalised due to delays in the distribution of the surplus (see details below).

As reported last year proposals were submitted to the Financial Services Board (FSB) to offer pensioners an enhanced pension in exchange for assuming all their medical aid liabilities. Similarly, a portion of the surplus was to be utilised to pay the lump sum to medical aid members' provident fund accounts to meet the company's existing post-retirement medical aid liability for service rendered to date. Initially approval was received from the FSB to transfer for active members and pensioners to alternative arrangements and annuity policies. These members' and pensioners' accrued actuarial liabilities were enhanced by 25%. The surplus detailed below is adequate to cover the estimated consequence of this transaction which is estimated to be R91 million and the balance of the surplus will be transferred to the Edcon Provident Fund. Subsequently, however, the FSB reneged on their approval and requested a determination of the surplus available for distribution to former members prior to the utilisation of the surplus for current members. As a result, during the year the fund's actuaries have calculated the possible liability to former members. Records are only available for withdrawals from the fund from 1 January 1990 to the present and the liability for these former members has been calculated at R100 million. The remaining surplus will be utilised for members who resigned from the fund between 1980 and 1990. The actuaries and the Edcon directors are confident that the liability for these members will be limited and that the remaining surplus should be more than adequate. In the event of the surplus not being sufficient to meet the liability, Edcon intends confirming with the FSB its intention to meet the obligation. The liability to former members' will be reduced for any deceased members as no liability is due to an estate.

Contributions to the Group's significant defined contribution 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.

The funded status of the Edcon Pension Fund determined in terms of AC116 and IAS 19 is as follows:

	Company	
	2004	2003
	R000	R000
Benefit obligation	303 569	285 931
Fair value of assets	637 619	644 201
Funded benefit plan asset	334 050	358 270
Unrecognised net loss	70 044	5 414
Plan asset	404 094	363 684
To be utilised to fund the post-retirement medical aid obligations (note 18)	88 017	86 942
Unrecognised net asset	316 077	276 742

No asset has been recognised pending claims from former members in terms of the Pension Funds Second Amendment Act.

## Notes to the Annual Financial Statements continued

### 6. Directors and employees (continued)

#### 6.1 Employees (continued)

Membership of and employer contributions to each of the funds at 27 March were:

	Pensioners	Members	Contributions R000
<b>2004</b>			
Edcon Pension Fund	915	48	374
Edcon Provident Fund	—	11 950	87 926
Edcon Namibia Retirement Fund	13	168	636
Super Mart – Elixer FEDCRAW	—	821	2 262
Super Mart – Elixer ORION	—	90	1 166
SACCAWU National Provident Fund	—	1 189	4 248
FEDCRAW Provident Fund	—	430	1 673
	<b>928</b>	<b>14 696</b>	<b>98 285</b>
<b>2003</b>			
Edcon Pension Fund	1 025	65	951
Edcon Provident Fund	—	10 601	70 172
CNA Pension Fund	—	39	114
CNA Provident Fund	—	938	3 816
Edcon Namibia Retirement Fund	13	147	580
SACCAWU National Provident Fund	—	1 123	4 000
FEDCRAW Provident Fund	—	446	1 560
	<b>1 038</b>	<b>13 359</b>	<b>81 193</b>

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 Edcon funds above as at 27 March 2004 was R1 228,4 million (2003: R1 068,4 million).

#### 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 R26 million (2003: R23 million). Membership of the Group's medical aid scheme is voluntary for lower income earners. Total membership currently stands at 4 097 principal members in South Africa. In terms of employment contracts and the rules of the schemes, certain post-retirement medical benefits are provided to 3 374 current and 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 AC116 and IAS 19 and the charge against income for the year was R4 million (2003: R6 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 R88 million (2003: R87 million). The actuarial valuation was based on the main assumptions of a 9,0% per annum discount rate, a future rate of consumer price inflation of 4,5% per annum and an allowance for general future salary inflation in line with CPI has been applied.

The status of the Edcon Medical Aid Fund determined in terms of AC116 and IAS 19 is as follows:

	Group	
	2004 R000	2003 R000
Recognised benefit obligation (note 26)	88 017	86 942
To be funded from pension fund actuarial surplus	88 017	86 942
	—	—

## Notes to the Annual Financial Statements continued

### 6. Directors and employees (continued)

#### 6.2 Directors' emoluments paid

Directors' emoluments paid									Company	
									2004	2003
									R000	R000
Name	Fees		Remun- eration	Retire- ment, medical, accident and death benefits	Per- form- ance bonus <sup>1</sup>	Loyalty bonus	Other bene- fits	Total	Total	
	R000	R000								R000
Non-executive Directors										
W S MacFarlane	195							195	125	
A J Aaron	120							120	85	
Z B Ebrahim	75							75	55	
T N Eboka	75							75	55	
J D M G Koolen	60							60	45	
P L Wilmot	120							120	80	
S D M Zungu (Appointed 23 March 2004)	—							—	—	
Total								645	445	
Executive Directors										
Months paid										
2004			2003							
S M Ross	12	12	—	6 549 <sup>2</sup>	59	3 254	—	—	9 862	7 626
S R Binnie	12	—	—	927	149	450	—	—	1 526	—
A v A Boshoff	12	7	—	1 182	216	1 809	171	75	3 453	769
M R Bower	12	12	—	1 665	238	2 041	1406	13	5 363	2 432
Dr U Ferndale	12	12	—	1 127	137	1 340	770	2	3 376	1 619
J L Spotts	12	12	—	1 558	243	2 092	692 <sup>2</sup>	122	4 707	2 960
K C van Aardt	—	3	—	—	—	—	—	—	—	318
Total								28 287	15 724	
								28 932	16 169	
Pension for past managerial services										
Retired ex Directors									175	156
Total emoluments								29 107	16 325	

<sup>1</sup> Determined on performance for year to 30 March 2003.

<sup>2</sup> Includes US dollar payments.

## Notes to the Annual Financial Statements continued

### 6. Directors and employees *(continued)*

#### 6.3 Staff share incentive scheme

In terms of the staff share incentive scheme (the “Option Plan”), shares are offered on a combined option and deferred sale basis. Options vest over a period of 1 to 7 years depending on the option type. An agreement of deferred sale is automatically constituted on acceptance of the offer. The initial qualifying period after which purchase of the shares and delivery may be effected i.e. shares taken up, varies between 1 and 10 years. The exercise price of the option is not less than the market value of the ordinary shares on the day following the date of grant and are exercisable provided Executives and Directors remain in the Group’s employ until the option vests.

In the event of death or retirement, options may be exercised within 2 years of such event. In the event of resignation, those share options which may be exercised, must be taken up and paid for within 90 days of termination.

In terms of a shareowners’ 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 staff share incentive scheme. The maximum number of Edcon shares to which any eligible participant is entitled shall not exceed 1,5% of the shares then in issue.

The Group has not recognised any compensation expense related to options granted under the Option Plan. For information purposes the current expense for options granted post 7 November 2002 is estimated at R3 785 000 on 671 344 options (2003: R38 000 on 80 000 options). The expense has been estimated in accordance with IFRS 2, Share-Based Payments.

The fair value of options granted under the Option Plan was estimated at the date of the grant using the Black-Scholes option-pricing model.

The following assumptions were used in valuing the various grants:

	2004	2003
Expected volatility	82%	39%
Risk free interest rate	9,58%	10,42%
Expected dividend yield	5%	3%
Expected life (years)	3 to 5	3 to 5

For details of options granted to Directors refer to later in the note.



## Notes to the Annual Financial Statements continued

### 6. Directors and employees (continued)

#### 6.3 Staff share incentive scheme (continued)

Movements in the number of share options held by eligible participants including executive directors are as follows:

	2004 Number of share options	2003 Number of share options
Balance at the beginning of the year	8 970 410	8 096 523
Options granted	591 344	3 167 550
Options taken up	(2 046 104)	(693 301)
Options forfeited	(12 765)	(1 600 362)
Balance at the end of the year	7 502 885	8 970 410
Details of share options exercised during the period:		
Average subscription price per share	R 31,21	R 23,67
Average market price per share	113,48	45,46
The options outstanding at 27 March 2004 become unconditional between the following dates:		
	Subscription price (R)	
4 August 1999 and 4 August 2008	29,50	2 500
1 September 1999 and 1 September 2008	20,61	150 000
10 March 2000 and 10 March 2009	27,30	120 000
22 July 2000 and 22 July 2009	46,70	—
4 August 2000 and 4 August 2008	29,50	97 800
23 November 2000 and 23 November 2010	21,80	100 000
22 May 2001 and 22 May 2011	23,55	—
4 August 2001 and 4 August 2008	29,50	93 500
4 February 2002 and 4 February 2004	17,80	—
11 March 2002 and 11 March 2009	29,00	12 000
5 May 2002 and 5 May 2009	30,20	1 200
30 September 2002 and 1 March 2006	26,00	550 000
5 November 2002 and 5 November 2009	63,00	8 000
19 January 2003 and 19 January 2010	69,00	13 000
5 June 2003 and 5 June 2010	21,80	472 688
27 November 2003 and 27 November 2010	21,80	523 739
22 May 2004 and 22 May 2011	23,55	1 865 307
17 September 2004 and 17 September 2011	29,60	4 604
12 June 2004 and 12 June 2011	24,95	10 000
13 November 2004 and 13 November 2011	26,00	20 000
4 January 2005 and 4 January 2012	25,30	—
18 February 2005 and 18 February 2012	24,00	205 000
23 May 2005 and 23 May 2012	31,00	2 357 136
29 August 2005 and 29 August 2012	39,90	200 000
1 October 2005 and 1 October 2012	38,20	50 000
29 October 2005 and 29 October 2012	39,90	8 654
14 November 2005 and 14 November 2012	47,00	30 000
19 March 2006 and 19 March 2013	48,98	50 000
7 April 2006 and 7 April 2013	49,50	20 000
22 May 2006 and 22 May 2013	58,00	27 000
22 May 2005 and 22 May 2013	58,00	445 757
14 November 2006 and 14 November 2013	110,80	10 000
20 January 2007 and 20 January 2014	118,00	25 000
4 February 2007 and 4 February 2014	119,50	10 000
9 March 2007 and 9 March 2014	124,00	20 000
	7 502 885	8 970 410

Should the optionholder 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

### 6. Directors and employees (continued)

#### 6.3 Staff share incentive scheme (continued)

Share options granted to executive Directors are as follows:

	2004 Number of share options	2003 Number of share options
Balance at the beginning of the year	2 208 382	1 935 397
Directors appointed during the year	—	293 545
Options granted	181 259	154 085
Options taken up	(832 299)	(106 000)
Transfers out	—	(68 645)
Balance at the end of the year	1 557 342	2 208 382

The options outstanding for directors at 27 March 2004 become unconditional between the following dates:

	Subscription price (R)	
4 August 1999 and 4 August 2008	29,50	—
1 September 1999 and 1 September 2008	20,61	150 000
10 March 2000 and 10 March 2009	27,30	100 000
4 August 2000 and 4 August 2008	29,50	—
23 November 2000 and 23 November 2010	21,80	100 000
22 May 2001 and 22 May 2011	23,55	—
4 August 2001 and 4 August 2008	29,50	—
4 February 2002 and 4 February 2004	17,80	—
11 March 2002 and 11 March 2009	29,00	12 000
30 September 2002 and 1 March 2006	26,00	550 000
5 November 2002 and 5 November 2009	63,00	8 000
23 November 2003 and 23 November 2010	21,80	48 657
18 February 2005 and 18 February 2012	24,00	100 000
23 May 2005 and 23 May 2012	31,00	57 426
21 August 2005 and 21 August 2012	39,90	200 000
1 October 2005 and 1 October 2012	38,20	50 000
22 May 2005 and 22 May 2013	58,00	181 259
	1 557 342	2 208 382

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 24 hours after publication of the half year and year end results respectively and during any closed periods during which the company is trading under a cautionary announcement.

#### Options granted to executive Directors as at 27 March 2004

Executive Director

S R Binnie	63 405	50 000
A v A Boshoff	214 313	187 545
M R Bower	182 917	341 006
U Ferndale	172 060	206 489
S M Ross	800 000	1 154 000
J L Spotts	124 647	269 342
	1 557 342	2 208 382

## Notes to the Annual Financial Statements continued

### 6. Directors and employees (continued)

#### 6.3 Staff share incentive scheme (continued)

##### Details of directors' share options per executive director:

2004	Movement date	Sub- scription price	Market price	Number of share options	Remaining vesting period
<b>S R Binnie</b>					
Balance at the beginning of the period				50 000	
Offered	21 May 2003	58,00		13 405	
Balance at the end of the period				63 405	
<b>Comprising</b>		<b>38,20</b>		<b>50 000</b>	<b>October 2005 through October 2007</b>
		<b>58,00</b>		<b>13 405</b>	<b>May 2005 through May 2007</b>
				<b>63 405</b>	
<b>A v A Boshoff</b>					
Balance at the beginning of the period				187 545	
Options taken up	19 June 2003	21,80	70,69	(2 792)	
Options taken up	19 November 2003	29,50	114,68	(16 000)	
Offered	21 May 2003	58,00		45 560	
Balance at the end of the period				214 313	
<b>Comprising</b>		<b>21,80</b>		<b>6 515</b>	<b>November 2004 through November 2005</b>
		<b>24,00</b>		<b>50 000</b>	<b>February 2005 through February 2007</b>
		<b>31,00</b>		<b>12 238</b>	<b>May 2005 through May 2007</b>
		<b>39,90</b>		<b>100 000</b>	<b>August 2005 through August 2007</b>
		<b>58,00</b>		<b>45 560</b>	<b>May 2005 through May 2007</b>
				<b>214 313</b>	
<b>M R Bower</b>					
Balance at the beginning of the period				341 006	
Options taken up	25 November 2003	29,50	119,00	(105 000)	
Options taken up	25 November 2003	17,80	119,00	(104 000)	
Offered	21 May 2003	58,00		50 911	
Balance at the end of the period				182 917	
<b>Comprising</b>		<b>21,80</b>		<b>14 138</b>	<b>November 2004 through November 2005</b>
		<b>27,30</b>		<b>100 000</b>	<b>Fully vested</b>
		<b>31,00</b>		<b>17 868</b>	<b>May 2005 through May 2007</b>
		<b>58,00</b>		<b>50 911</b>	<b>May 2005 through May 2007</b>
				<b>182 917</b>	

## Notes to the Annual Financial Statements continued

### 6. Directors and employees (continued)

#### 6.3 Staff share incentive scheme (continued)

##### Details of directors' share options per executive director:

2004	Movement date	Sub- scription price	Market price	Number of share options	Remaining vesting period
<b>U Ferndale</b>					
Balance at the beginning of the period				206 489	
Options taken up	5 December 2003	17,80	124,30	(24 000)	
Options taken up	5 December 2003	21,80	124,30	(6 507)	
Options taken up	5 December 2003	29,00	124,30	(18 000)	
Options taken up	5 December 2003	63,00	124,30	(12 000)	
Offered	21 May 2003	58,00		26 078	
Balance at the end of the period				172 060	
<b>Comprising</b>		<b>29,00</b>		<b>12 000</b>	<b>Fully vested</b>
		<b>63,00</b>		<b>8 000</b>	<b>Fully vested</b>
		<b>21,80</b>		<b>15 183</b>	<b>November 2004 through November 2005</b>
		<b>31,00</b>		<b>10 799</b>	<b>May 2005 through May 2007</b>
		<b>39,90</b>		<b>100 000</b>	<b>August 2005 through August 2007</b>
		<b>58,00</b>		<b>26 078</b>	<b>May 2005 through May 2007</b>
				<b>172 060</b>	
<b>S M Ross</b>					
Balance at the beginning of the period				1 154 000	
Options taken up	6 June 2003	20,61	65,89	(50 000)	
Options taken up	20 November 2003	17,80	116,00	(104 000)	
Options taken up	5 March 2004	20,61	121,65	(200 000)	
Balance at the end of the period				800 000	
<b>Comprising</b>		<b>20,61</b>		<b>150 000</b>	<b>Fully vested</b>
		<b>21,80</b>		<b>100 000</b>	<b>Fully vested</b>
		<b>26,00</b>		<b>550 000</b>	<b>September 2003 through March 2006</b>
				<b>800 000</b>	
<b>J L Spotts</b>					
Balance at the beginning of the period				269 342	
Options taken up	30 January 2004	17,80	120,00	(80 000)	
Options taken up	30 January 2004	27,30	119,79	(30 000)	
Options taken up	30 January 2004	23,55	119,79	(80 000)	
Offered	21 May 2003	58,00		45 305	
Balance at the end of the period				124 647	
<b>Comprising</b>		<b>21,80</b>		<b>12 821</b>	<b>November 2004 through November 2005</b>
		<b>24,00</b>		<b>50 000</b>	<b>February 2005 through February 2007</b>
		<b>31,00</b>		<b>16 521</b>	<b>May 2005 through May 2007</b>
		<b>58,00</b>		<b>45 305</b>	<b>May 2005 through May 2007</b>
				<b>124 647</b>	

## Notes to the Annual Financial Statements continued

### 6. Directors and employees (continued)

#### 6.3 Staff share incentive scheme (continued)

##### Details of directors' share options per executive director:

2003	Movement date	Sub- scriptio price	Market price	Number of share options	Remaining vesting period
<b>S R Binnie</b>					
Balance at the beginning of the period				—	
Offered	30 September 2002	38,20		50 000	
Balance at the end of the period				50 000	
Comprising		38,20		50 000	October 2005 through October 2007
				50 000	
<b>A v A Boshoff</b>					
Balance at the beginning of the period				131 307	
Offered	20 May 2002	31,00		12 238	
Options taken up	11 July 2002	20,47	40,50	(56 000)	
Offered	19 August 2002	39,90		100 000	
Balance at the end of the period				187 545	
Comprising		29,50		10 000	August 2003
		29,50		6 000	August 2003
		21,80		9 307	November 2003 through November 2005
		24,00		50 000	February 2005 through February 2007
		31,00		12 238	May 2005 through May 2007
		39,90		100 000	August 2005 through August 2007
				187 545	
<b>M R Bower</b>					
Balance at the beginning of the period				323 138	
Offered	20 May 2002	31,00		17 868	
Balance at the end of the period				341 006	
Comprising		29,50		30 000	Fully vested
		29,50		75 000	August 2003
		21,80		14 138	November 2003 through November 2005
		17,80		104 000	Fully vested
		27,30		100 000	Fully vested
		31,00		17 868	May 2005 through May 2007
				341 006	

## Notes to the Annual Financial Statements continued

### 6. Directors and employees (continued)

#### 6.3 Staff share incentive scheme (continued)

##### Details of directors' share options per executive director:

2003	Movement date	Sub- scription price	Market price	Number of share options	Remaining vesting period
<b>U Ferndale</b>					
Balance at the beginning of the period				95 690	
Offered	20 May 2002	31,00		10 799	
Offered	19 August 2002	39,90		100 000	
Balance at the end of the period				206 489	
Comprising		29,00		30 000	March 2004
		17,80		24 000	Fully vested
		63,00		20 000	November 2003 through November 2004
		21,80		21 690	November 2003 through November 2005
		31,00		10 799	May 2005 through May 2007
		39,90		100 000	August 2005 through August 2007
				206 489	
<b>S M Ross</b>					
Balance at the beginning of the period				1 204 000	
Options taken up	13 December 2002	20,61	54,84	(50 000)	
Balance at the end of the period				1 154 000	
Comprising		20,61		400 000	Fully vested
		17,80		104 000	Fully vested
		21,80		100 000	Fully vested
		26,00		550 000	September 2003 through March 2006
				1 154 000	
<b>J L Spotts</b>					
Balance at the beginning of the period				252 821	
Offered	20 May 2002	31,00		16 521	
Balance at the end of the period				269 342	
Comprising		17,80		80 000	Fully vested
		27,30		30 000	Fully vested
		21,80		12 821	November 2003 through November 2005
		23,55		80 000	Fully vested
		24,00		50 000	February 2005 through February 2007
		31,00		16 521	May 2005 through May 2007
				269 342	

## Notes to the Annual Financial Statements continued

		Group		Company	
		2004 R000	2003 R000	2004 R000	2003 R000
<b>7.</b>	<b>Income from subsidiaries and jointly controlled entities</b>				
	Administration fees (included in operating profit)			<b>48 555</b>	32 924
	Dividend income		5 747	<b>201 421</b>	115 011
	Change in accounting policy		(5 747)		
	Interest received			<b>25 302</b>	32 280
				<b>275 278</b>	180 215
<b>8.</b>	<b>Financing costs and interest received</b>				
<b>8.1</b>	<b>Financing costs</b>				
	Interest paid to independent third parties	<b>46 022</b>	49 756	<b>43 140</b>	46 208
	Interest paid to subsidiaries			<b>1 103</b>	1 253
	Foreign currency losses	<b>20 113</b>	33 234	<b>5 126</b>	18 449
		<b>66 135</b>	82 990	<b>49 369</b>	65 910
<b>8.2</b>	<b>Interest received</b>				
	Interest received from independent third parties	<b>15 443</b>	38 777	<b>25 130</b>	34 798
	Interest received from subsidiaries			<b>25 302</b>	32 280
		<b>15 443</b>	38 777	<b>50 432</b>	67 078
<b>8.3</b>	<b>Net financing costs/(income)</b>	<b>50 692</b>	44 213	<b>(1 063)</b>	(1 168)
<b>9.</b>	<b>Taxation</b>				
<b>9.1</b>	<b>Taxation charge</b>				
	Current taxation – this year	<b>282 854</b>	283 653	<b>150 085</b>	202 599
	– prior years	<b>(2 754)</b>	32 064	<b>(3 160)</b>	37 963
	Secondary taxation on companies – this year	<b>23 807</b>	37 349	<b>11 602</b>	37 349
	– prior years	<b>12 658</b>	—		
	Withholding taxes – this year	<b>—</b>	—	<b>—</b>	(2 298)
	– prior years	<b>442</b>	—	<b>2 185</b>	—
	Total current taxation	<b>317 007</b>	353 066	<b>160 712</b>	275 613
	Capital gains tax transferred to share premium on the sale of treasury shares	<b>(5 549)</b>	—		
	Deferred taxation – this year	<b>37 512</b>	(103 771)	<b>36 192</b>	(107 380)
	– prior years	<b>5 627</b>	(26 111)	<b>—</b>	(22 225)
	Total deferred taxation	<b>43 139</b>	(129 882)	<b>36 192</b>	(129 605)
	Total	<b>354 597</b>	223 184	<b>196 904</b>	146 008



## Notes to the Annual Financial Statements continued

		Group		Company	
		2004	2003	2004	2003
		R000	R000	R000	R000
<b>9. Taxation</b> <i>(continued)</i>					
<b>9.1 Taxation charge</b> <i>(continued)</i>					
Comprising:					
South African normal taxation		292 190	178 866	183 117	109 123
Secondary taxation on companies		36 465	37 496	11 602	39 183
Withholding taxes		442	—	2 185	(2 298)
Foreign taxes		25 500	6 822		
		<b>354 597</b>	<b>223 184</b>	<b>196 904</b>	<b>146 008</b>
<b>9.2 Reconciliation of rate of taxation</b>					
	%	%	%	%	%
Standard rate – South Africa	30,0	30,0	30,0	30,0	30,0
Adjusted for:					
Dividend income	(0,8)	(1,1)	(7,3)	(9,6)	(9,6)
Change in accounting policy		0,4			
Disallowable expenditure	1,6	3,7	(0,1)	3,3	3,3
Foreign tax rate variations	(0,3)	0,3			
Prior years	0,3	1,1	(0,1)	2,3	2,3
Secondary taxation on companies	3,5	6,5	1,4	9,5	9,5
Deferred tax asset not raised	0,8	0,1			
Joint venture rate differential	(0,7)	(1,5)			
Effective tax rate	34,4	39,5	23,9	35,5	35,5
<b>9.3 Tax losses</b>					
Estimated tax losses available for set-off against future taxable income		52 318	47 702		
Less amount on which deferred tax asset was raised		—	26 105		
		<b>52 318</b>	<b>21 597</b>		
Less amount attributable to temporary differences		634	3 997		
Estimated tax losses available to reduce future tax charge		<b>51 684</b>	<b>17 600</b>		
<b>10. Dividends</b>					
Ordinary shares					
No. 111 of 81 cents declared on 16 May 2002 and paid 28 June 2002			46 530		46 530
No. 112 of 123 cents declared on 12 November 2002 and paid 30 December 2002			69 292		69 292
No. 113 of 185 cents declared on 20 May 2003 and paid 30 June 2003		95 645		95 645	
No. 114 of 247 cents declared on 11 November 2003 and paid 29 December 2003		127 699		127 699	
Dividends received on treasury shares held through					
– fellow subsidiary		(23 397)	(11 719)		
– share trust		(9 132)	(5 747)		
Total ordinary dividends		<b>190 815</b>	<b>98 356</b>	<b>223 344</b>	<b>115 822</b>
Dividends paid outside the Group		—	71		
6% preference shares – for the year		18	18	18	18
Total dividends paid		<b>190 833</b>	<b>98 445</b>	<b>223 362</b>	<b>115 840</b>

No. 115 of 521 cents (total dividends for the year 768 cents (2003: 308 cents)) declared on 11 May 2004 and payable 5 July 2004. This will give rise to secondary taxation on companies of R29,3 million.

## Notes to the Annual Financial Statements continued

		Group		Group	
	2004	2003	2003	2004	2003
	Cents	Cents	Cents	R000	R000
		(Restated)	(Previously reported)		
<b>11. Earnings and cash flow per ordinary share</b>					
The weighted average number of shares used in calculating the earnings per ordinary share statistics is 44 025 894 (2003: restated 47 461 123, previously reported 50 330 562).					
<b>11.1 Attributable earnings basis</b>					
Calculated on attributable earnings of R676 191 000 (2003: restated R341 802 000, previously reported R347 549 000)	1 535,9	720,2	690,5		
The potential dilution in earnings per ordinary share arising from the conversion of the compulsorily convertible debentures and the possible exercise of a weighted 7 974 083 share options is 14,4% (2003: restated 8,4%, previously reported 6,2%) and is derived as follows:					
Earnings attributable to ordinary shareowners				676 191	347 549
Change in accounting policy					(5 747)
				676 191	341 802
Adjusted for:					
Interest on compulsorily convertible debentures net of taxation				3 089	2 868
Earnings attributable to ordinary shareholders for diluted earnings per share				679 280	344 670
Weighted average number of ordinary shares				44 026	50 331
Change in accounting policy					(2 870)
				44 026	47 461
Effect of dilution:					
Share options				5 500	1 646
Change in accounting policy					1 013
Compulsorily convertible debentures				2 144	2 144
Adjusted weighted average number of ordinary shares for diluted earnings per share				51 670	52 264
Diluted earnings per share	1 314,7	659,5	647,5		
Percentage dilution	14,4	8,4	6,2		

## Notes to the Annual Financial Statements continued

		Group		Group	
	2004 Cents	2003 Cents (Restated)	2003 Cents (Previously reported)	2004 R000	2003 R000
<b>11. Earnings and cash flow per ordinary share</b> <i>(continued)</i>					
<b>11.2 Headline earnings basis</b>					
Calculated on headline earnings of R703 099 000 (2003: restated R373 062 000, previously reported R378 809 000)	<b>1 597,0</b>	786,0	752,6		
This basis is a measure of the trading performance and excludes profits and losses of a capital nature. It is derived as follows:					
Earnings attributable to ordinary shareowners				<b>676 191</b>	347 549
Change in accounting policy					(5 747)
				<b>676 191</b>	341 802
Adjusted for:					
Loss on disposal of properties, fixtures, equipment and vehicles				<b>1 416</b>	17 268
Recognition of discount on acquisition of RAG assets				<b>(21 993)</b>	(29 618)
Goodwill amortised and impaired				<b>45 455</b>	38 405
Taxation				<b>2 030</b>	5 205
Headline earnings				<b>703 099</b>	373 062
The potential dilution in headline earnings per ordinary share arising from the conversion of the compulsorily convertible debentures and the possible exercise of share options (note 11.1) is 14,4% (2003: restated 8,5%, previously reported 6,3%) and is derived as follows:					
Headline earnings as calculated				<b>703 099</b>	378 809
Change in accounting policy					(5 747)
				<b>703 099</b>	373 062
Adjusted for:					
Interest on compulsorily convertible debentures net of taxation				<b>3 089</b>	2 868
Headline earnings for diluted headline earnings per share				<b>706 188</b>	375 930
Adjusted weighted average number of ordinary shares for diluted headline earnings per share (note 11.1)				<b>51 670</b>	52 264
Diluted earnings per share	<b>1 366,7</b>	719,3	705,2		
Percentage dilution	<b>14,4</b>	8,5	6,3		

## Notes to the Annual Financial Statements continued

		Group		Group	
	2004 Cents	2003 Cents (Restated)	2003 Cents (Previously reported)	2004 R000	2003 R000
<b>11. Earnings and cash flow per ordinary share</b> <i>(continued)</i>					
<b>11.3 Attributable cash equivalent earnings basis</b>					
Calculated on attributable cash equivalent earnings of R988 933 000 (2003: restated R503 609 000, previously reported R509 356 000)	2 246,3	1 061,1	1 012,0		
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:					
Earnings attributable to ordinary shareowners				676 191	347 549
Change in accounting policy					(5 747)
				676 191	341 802
Adjusted for:					
Non-cash items (note 12.1)				184	(12 887)
Depreciation and amortisation (notes 5.3 and 5.1)				269 419	304 576
Deferred taxation (note 9.1)				43 139	(129 882)
Attributable cash equivalent earnings				988 933	503 609
<b>11.4 Attributable cash flow basis</b>					
Calculated on attributable cash inflow of R1 071 231 000 (2003: restated R1 098 437 000, previously reported R727 082 000)	2 433,2	2 314,4	1 444,6		
This basis focuses on the cash stream actually achieved in the year under review. It is derived as follows:					
Cash flow from operations				201 144	727 100
Change in accounting policy					(21 408)
Reclassification of staff loans					9 524
				201 144	715 216
Adjusted for:					
Trade accounts receivable cash outflows (note 12.3)				870 105	383 239
Preference dividends paid				(18)	(18)
Attributable cash flow				1 071 231	1 098 437

## Notes to the Annual Financial Statements continued

	Group		Company	
	2004 R000	2003 R000	2004 R000	2003 R000
<b>12. Cash flow</b>				
<b>12.1 Non-cash items</b>				
Net loss on disposal of properties, fixtures, equipment and vehicles (note 5.6)	1 416	17 268	1 485	15 231
Recognition of discount on acquisition of RAG assets	—	(29 618)	—	(29 618)
Other	(1 232)	(537)	—	636
	184	(12 887)	1 485	(13 751)
<b>12.2 Dividends received</b>				
Dividends receivable at the beginning of the year			26 014	15 965
Dividends received (note 7)		5 747	201 421	115 011
Change in accounting policy		(5 747)		
Dividends receivable at end of year			(30 636)	(26 014)
		—	196 799	104 962
<b>12.3 Working capital movement</b>				
Increase in inventories	(31 039)	(39 437)	(70 304)	(6 752)
Increase in trade accounts receivable	(870 105)	(383 239)	(808 611)	(335 242)
Increase in other receivables	(67 555)	(53 961)	13 458	(42 287)
Increase in accounts payable	291 955	438 426	233 707	473 718
Increase in amount owing to subsidiaries			197 457	48 467
	(676 744)	(38 211)	(434 293)	137 904
<b>12.4 Taxation paid</b>				
Taxation liability at the beginning of the year	(192 387)	26 469	(163 141)	23 315
Taxation liability relating to subsidiaries	—	(1 824)		
Taxation receivable transferred from subsidiary company			—	16
Current taxation provided (note 9.1)	(317 007)	(353 066)	(160 712)	(275 613)
Taxation relating to joint venture	—	32 834		
Taxation liability at the end of the year	86 863	192 387	48 950	163 141
	(422 531)	(103 200)	(274 903)	(89 141)
<b>12.5 Dividends paid</b>				
<b>By the company</b>				
Dividends declared and paid (note 10)	(190 833)	(104 121)	(223 362)	(115 840)
Change in accounting policy		5 747		
<b>By subsidiaries</b>				
Paid by subsidiaries	—	(71)		
	(190 833)	(98 445)	(223 362)	(115 840)

## Notes to the Annual Financial Statements continued

	Group		Company	
	2004 R000	2003 R000	2004 R000	2003 R000
<b>12. Cash flow</b> <i>(continued)</i>				
<b>12.6 Investment to maintain operations</b>				
Replacement of properties, fixtures, equipment and vehicles	(182 420)	(120 916)	(135 701)	(97 339)
Proceeds on disposal of properties, fixtures, equipment and vehicles	1 612	28 323	1 004	27 752
	(180 808)	(92 593)	(134 697)	(69 587)
<b>12.7 Investment to expand operations</b>				
Additions to leased premises	(21 723)	(13 229)	(17 297)	(8 793)
Additions to properties, fixtures, equipment and vehicles	(68 504)	(7 969)	(62 006)	(255)
Net investment in subsidiaries and other assets (note 12.11)	(66 054)	294 925	(146 054)	294 925
Increase in loan	—	4 883	(48 636)	(4 126)
Change in accounting policy		4 641		
Loans reclassified as receivables		(9 524)		(515)
	(156 281)	273 727	(273 993)	281 236
<b>12.8 Increase in shareowner funding</b>				
Share buy back by subsidiary	—	(4 902)		
Change in accounting policy		11 116		
Movement in treasury shares	43 472	—		
Repurchase and cancellation of 10% of issued capital	—	(319 087)	—	(319 087)
	43 472	(312 873)	—	(319 087)
<b>12.9 Increase in interest bearing debt</b>				
Long and medium term repaid	(619)	(20 095)	—	(19 222)
Net increase in short term	183 672	(375 271)	223 624	(391 639)
Derivative valuation adjustment	—	(2 008)	—	(2 008)
Acquisitions	—	3 898		
	183 053	(393 476)	223 624	(412 869)
<b>12.10 Decrease in cash and cash equivalents</b>				
Cash on hand	(43 516)	10 977	(25 010)	(5 539)
Cash on deposit	(59 463)	71 580	(54 801)	90 000
Acquisitions	—	(6 203)		
Currency adjustments	2 731	15 272		
	(100 248)	91 626	(79 811)	84 461

## Notes to the Annual Financial Statements continued

	Group		Company	
	2004 R000	2003 R000	2004 R000	2003 R000
<b>12. Cash flow</b> <i>(continued)</i>				
<b>12.11 Net investment in subsidiaries and other assets</b>				
<b>Acquisition of Elixer Marketing (Pty) Limited (trading as Super Mart)</b>				
With effect from 1 October 2002, the Group acquired 100% of the shares of Elixer Marketing (Pty) Limited (trading as Super Mart), a general discount retailer. The conditions of sale included an earn-out agreement that was due to be completed in 2006. The settlement has been accelerated and a discounted value offer for the balance of the business was concluded in December 2003.				
The fair value of the net assets acquired and subsequent adjustment to the purchase price was as follows:				
Net assets acquired	—	33 824		
Goodwill prior year	106 673			
Goodwill arising on acquisition		106 673		
Adjustment to goodwill on settlement of vendors	(17 329)			
Total goodwill	89 344	106 673		
Consideration prior year	140 497			
Adjustment to consideration (interest free liabilities)	(9 669)			
Total consideration	130 828	140 497	130 828	140 497
Settled by way of:				
– cash and cash equivalents 2003	86 326	86 326	86 326	86 326
– cash and cash equivalents 2004	44 502		44 502	
– included in interest free liabilities	—	54 171	—	54 171

## Notes to the Annual Financial Statements continued

	Group		Company	
	2004 R000	2003 R000	2004 R000	2003 R000
<b>12. Cash flow</b> <i>(continued)</i>				
<b>12.11 Net investment in subsidiaries and other assets</b> <i>(continued)</i>				
<b>Acquisition of ThisDay stores</b>				
With effect from 3 November 2003, the Group acquired certain ThisDay store assets.				
The fair value of the net assets acquired was as follows:				
Fixtures and fittings	2 737		2 737	
Inventories	13 323		13 323	
Interest free liabilities	(9 319)		(9 319)	
Net assets acquired	6 741		6 741	
Goodwill arising on acquisition	3 632		3 632	
Consideration	10 373		10 373	
Settled by way of cash and cash equivalents	10 373		10 373	
<b>Acquisition of CNA stores</b>				
With effect from 21 October 2002, the Group acquired certain South African CNA store assets.				
The fair value of the net assets acquired was as follows:				
Net assets acquired	—	91 486	—	91 486
Trademark	—	5 000	—	5 000
Goodwill prior year	33 123		33 123	
Goodwill arising on acquisition		33 123		33 123
Adjustment to goodwill	10 679		10 679	
Total goodwill	43 802	33 123	43 802	33 123
Consideration prior year	129 609		129 609	
Adjustment to consideration	7 611		7 611	
Total consideration	137 220	129 609	137 220	129 609
Settled by way of cash and cash equivalents 2003	126 541	126 541	126 541	126 541
Settled by way of cash and cash equivalents 2004	10 679		10 679	
Costs associated with the acquisition	—	3 068	—	3 068



## Notes to the Annual Financial Statements continued

	Group		Company	
	2004 R000	2003 R000	2004 R000	2003 R000
<b>12. Cash flow</b> (continued)				
<b>12.11 Net investment in subsidiaries and other assets</b> (continued)				
<b>Acquisition of CNA foreign companies</b>				
With effect from 21 October 2002, the Group acquired 100% of the shares of CNA foreign companies.				
The fair value of the net assets acquired was as follows:				
Net assets acquired	—	10 091		
Negative goodwill on acquisition	—	(1 924)		
Consideration	—	8 167	—	8 167
Settled by way of cash and cash equivalents	—	8 167	—	8 167
<b>Net proceeds of securitisation</b>				
Proceeds from the sale of accounts receivable to OntheCards	—	1 198 329	—	1 198 329
Investment in debt securities (note 15.3)	—	(400 000)	—	(400 000)
	—	798 329	—	798 329
<b>Additional capital invested in subsidiaries</b>				
Smiley's Wearhouse (Pty) Limited			30 000	—
VOC Investments Limited			50 000	—
			80 000	—
<b>Acquisition of Retail Apparel Group (RAG) assets</b>				
With effect from July 2002, RAG's retail brands, debtors book, customer database and a number of its retail stores were integrated into United Retail.				
The fair value of assets acquired	—	284 877	—	284 877
Negative goodwill on acquisition	—	(29 618)	—	(29 618)
Consideration	—	255 259	—	255 259
Settled by way of cash and cash equivalents	—	252 259	—	252 259
Additional cost associated with acquisition	500	—	500	—
Amount still to be paid included in interest free liabilities	—	3 000	—	3 000
Goodwill recognised in the income statement	500	(29 618)	500	(29 618)
<b>Acquisition of FNB/Jet branded book</b>				
Settled by way of cash and cash equivalents	—	27 043	—	27 043
<b>Cash utilised:</b>				
Elixer Marketing (Pty) Limited	44 502	86 326	44 502	86 326
ThisDay stores	10 373	—	10 373	—
CNA Stores	10 679	129 609	10 679	129 609
CNA foreign companies	—	8 167	—	8 167
Securitisation proceeds	—	(798 329)	—	(798 329)
Smiley's Wearhouse (Pty) Limited			30 000	—
VOC Investments Limited			50 000	—
RAG	500	252 259	500	252 259
FNB/Jet branded book	—	27 043	—	27 043
<b>Cash utilised in investment activities</b> (note 12.7)	<b>66 054</b>	<b>(294 925)</b>	<b>146 054</b>	<b>(294 925)</b>

## Notes to the Annual Financial Statements continued

	Group		Company	
	2004 R000	2003 R000	2004 R000	2003 R000
<b>13. Properties, fixtures, equipment and vehicles</b>				
<b>Historic cost except for revalued land and buildings</b>				
Land and buildings				
Historic cost	15 896	15 896	2 278	2 278
Revaluation surplus	36 435	36 890	4 232	4 232
Leasehold improvements	171 171	154 426	156 859	144 547
Fixtures and fittings	1 148 971	1 014 931	1 031 272	940 216
Computer equipment and software	879 129	811 726	836 830	773 915
Machinery and vehicles	79 068	75 656	55 580	52 938
Capitalised leased assets	9 219	9 317	15 557	15 654
	<b>2 339 889</b>	<b>2 118 842</b>	<b>2 102 608</b>	<b>1 933 780</b>
<b>Accumulated depreciation</b>				
Buildings	3 012	2 038	263	186
Leasehold improvements	86 509	77 149	81 127	73 781
Fixtures and fittings	732 218	659 718	688 498	624 805
Computer equipment and software	721 045	632 883	692 965	607 776
Machinery and vehicles	49 694	48 522	39 718	38 532
Capitalised leased assets	9 207	9 304	15 545	15 642
	<b>1 601 685</b>	<b>1 429 614</b>	<b>1 518 116</b>	<b>1 360 722</b>
<b>Net carrying value</b>	<b>738 204</b>	<b>689 228</b>	<b>584 492</b>	<b>573 058</b>
Comprising				
Land and buildings	49 319	50 748	6 247	6 324
Leasehold improvements	84 662	77 277	75 732	70 766
Fixtures and fittings	416 753	355 213	342 774	315 411
Computer equipment and software	158 084	178 843	143 865	166 139
Machinery and vehicles	29 374	27 134	15 862	14 406
Capitalised leased assets	12	13	12	12
	<b>738 204</b>	<b>689 228</b>	<b>584 492</b>	<b>573 058</b>

## Notes to the Annual Financial Statements continued

	Group		Company	
	2004 R000	2003 R000	2004 R000	2003 R000
<b>13. Properties, fixtures, equipment and vehicles</b>				
<b>Historic cost except for revalued land and buildings</b> (continued)				
<b>Opening net carrying value</b>	<b>689 228</b>	825 865	<b>573 058</b>	740 341
<b>Movements for the year</b>				
Capital expenditure				
Leasehold improvements	<b>21 723</b>	13 229	<b>17 279</b>	8 793
Fixtures and fittings	<b>159 852</b>	73 044	<b>116 470</b>	54 471
Computer equipment and software	<b>82 402</b>	48 969	<b>76 549</b>	40 397
Machinery and vehicles	<b>8 670</b>	6 872	<b>4 688</b>	2 726
	<b>272 647</b>	142 114	<b>214 986</b>	106 387
<b>Fair value of acquisitions</b> (note 12.11)				
Land and buildings	—	1 850	—	1 850
Leasehold improvements	—	1 723	—	—
Fixtures and fittings	<b>2 737</b>	26 538	<b>2 737</b>	16 978
Computer equipment and software	—	3 722	—	129
Machinery and vehicles	—	1 093	—	150
	<b>2 737</b>	34 926	<b>2 737</b>	19 107
Other				
Currency adjustments	<b>(434)</b>	(2 806)		
	<b>274 950</b>	174 234	<b>217 723</b>	125 494
<b>Disposals</b>				
Leasehold improvements	<b>819</b>	4 502	<b>905</b>	3 930
Fixtures and fittings	<b>1 253</b>	8 404	<b>1 247</b>	6 989
Computer equipment and software	<b>168</b>	31 074	<b>155</b>	30 701
Machinery and vehicles	<b>788</b>	1 610	<b>182</b>	1 361
Capitalised leased assets	—	1	—	2
	<b>3 028</b>	45 591	<b>2 489</b>	42 983
Depreciation (note 5.3)	<b>222 946</b>	265 280	<b>203 800</b>	249 794
<b>Closing net carrying value</b>	<b>738 204</b>	689 228	<b>584 492</b>	573 058

Land and buildings were revalued at 1 April 2001 to open market value based on the open market net rentals and current replacement cost of each property. If these assets had not been revalued the carrying amount of all assets at 27 March would have been R701,8 million, (2003: R652,3 million). Deferred taxation has been raised out of the revaluation surplus. The independent valuations were carried out by professional valuers. It is the Group's policy to carry out such valuations every 3 years with the next valuation to be performed during June 2004. No other categories of assets were 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 to the secretary, to any member of the public.

At 27 March 2004 the properties, fixtures, equipment and vehicles have an estimated replacement cost and insurance value of R5 031,7 million (2003: R2 887,8 million) which excludes input value added tax where appropriate.

At 27 March 2004 the Group had no idle fixed assets.

The gross cost of fully depreciated fixtures, equipment and vehicles at 27 March 2004 amounts to R23,5 million (2003: R121,6 million).

## Notes to the Annual Financial Statements continued

	Group		Company	
	2004 R000	2003 R000	2004 R000	2003 R000
<b>14. Goodwill and trademarks</b>				
Goodwill represents the excess of the purchase consideration over the fair value of the identifiable assets at the date of acquisition. Trademarks represent registered rights to the exclusive use of certain trademarks and brand names.				
Balance at the beginning of the year	103 576	—	4 500	1 000
Current year movements				
Additions:				
Goodwill on acquisition of ThisDay stores (note 12.11)	3 632	—	3 632	—
Goodwill on acquisition of Super Mart (note 12.11)	—	106 673		
Adjustment to Super Mart goodwill (note 12.11)	(17 329)	—		
Goodwill and trademarks on acquisition of CNA stores (note 12.11)	10 679	36 199	10 679	38 123
Amortisation				
Charge for the year (note 5.1)	(29 660) <sup>1</sup>	(8 097)	(1 000)	(1 500)
Impairment of goodwill (note 5.1)	(16 813)	(31 199)	(14 311)	(33 123)
Balance at the end of the year	54 085	103 576	3 500	4 500
<sup>1</sup> During the year the estimated useful life of goodwill, which arose on the acquisition of Super Mart, was revised from 7 years to 3 years. This was revised as a result of the early settlement of the earn-out agreement. Refer to note 12.11. This had the effect of increasing the amortisation charge for the current year by R13 403 895 (no tax effect).				
Comprising:				
Cost				
Goodwill	134 831	137 849	47 434	33 123
Trademarks	28 008	28 008	20 000	20 000
Accumulated amortisation and impairment				
Goodwill	84 251	38 796	47 434	33 123
Trademarks	24 503	23 485	16 500	15 500
	54 085	103 576	3 500	4 500

The impairment loss of R16 813 000, represents the write down of subsequent goodwill that arose on the acquisition of CNA stores in the prior year and ThisDay stores in the current year. The impairment review that was conducted in the prior year was updated using revised estimates of future growth and taking into account the estimated costs in restoring the CNA business to profitability. Our view in this regard has not changed and it is considered prudent that this additional goodwill be impaired as well.

## Notes to the Annual Financial Statements continued

	Group		Company	
	2004 R000	2003 R000	2004 R000	2003 R000
<b>15. Investments</b>				
(Annexure 1; page 147)				
<b>15.1 Subsidiaries not consolidated</b>				
Shares at cost	319	319		
Post-acquisition retained earnings	13 561	13 561		
Impairment in value of investment (note 21)	(13 880)	(13 880)		
Carrying amount at fair value	—	—		
Directors' valuation of shares	—	—		
As there are currently severe long term restrictions on the repatriation of dividends from Zimbabwe, the results of Edgars Stores Limited Zimbabwe have not been consolidated in the year under review.				
Additional disclosure is given in note 15.5.				
<b>15.2 Consolidated subsidiaries</b>				
Shares at cost			263 726	203 557
Indebtedness			290 776	383 676
Total interests in subsidiaries			554 502	587 233
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.				
<b>15.3 Investment in debt securities</b>				
Promissory notes earning a fixed interest, payable quarterly, of 12,22%, redeemable in quarterly instalments to 30 June 2005	66 646	119 000	66 646	119 000
Preference shares earning a fixed dividend, payable at the end of the term, of 10,10%, redeemable 30 June 2005	235 000	235 000	235 000	235 000
Accumulated promissory note interest and preference share dividends	68 354	16 000	68 354	16 000
Deposit related to OntheCards Limited back-up service agreement, earning variable interest adjusted quarterly presently at 7,65%, redeemable 30 June 2005	30 000	30 000	30 000	30 000
	400 000	400 000	400 000	400 000
The promissory notes and preference shares are pledged as security for a credit default swap which secures First Rand Bank's subordinated loan to OntheCards.				
Total investments	400 000	400 000	954 502	987 233
<b>15.4 Owing to subsidiaries</b>			346 980	266 876

## Notes to the Annual Financial Statements continued

		Group		Company	
		2004	2003	2004	2003
		R000	R000	R000	R000
<b>15.</b>	<b>Investments</b> <i>(continued)</i>				
<b>15.5</b>	<b>Aggregate income statement and balance sheet of subsidiary not consolidated</b>				
The following is as per the latest audited results for the 52 weeks ended 3 January 2004. The historical income and balance sheet amounts have been translated at the parallel exchange rate – ZAR 1: Z\$ 824,00; average rate ZAR 1: Z\$ 691,83 (2003: ZAR 1: Z\$ 54,95; average rate ZAR 1: Z\$ 54,95).					
<b>Income statement</b>					
Sales		103 231	235 558		
Operating profit		54 909	85 274		
Interest received		4 754	(764)		
Profit before tax		50 155	86 038		
Attributable earnings		31 168	54 921		
<b>Balance sheet</b>					
Non-current assets		2 937	11 045		
Current assets		71 912	175 436		
Total assets		74 849	186 481		
Interest free liabilities		33 262	85 339		
Net assets		41 587	101 142		
Interest bearing debt		7 921	20 304		
Ordinary shareowners' equity		33 666	80 838		
Portion attributable to shareowners outside the Group		(15 150)	(36 377)		
Group's interest		18 516	44 461		
Included in ordinary shareowners' equity is R30 534 000 (2003: R73 714 000) distributable reserves.					
There was no goodwill relating to the Zimbabwe subsidiary.					
<b>15.6</b>	<b>Aggregate profits/losses of subsidiaries</b>				
Profits		349 559	158 187		
Losses		21 895	17 577		
		327 664	140 610		

## Notes to the Annual Financial Statements continued

	Group		Company	
	2004 R000	2003 R000	2004 R000	2003 R000
<b>16. Loans</b>				
Staff share trust		79 561	128 197	79 561
Secured staff loans		34		33
Unsecured staff loans		1 021		582
Change in accounting policy		(79 561)		
Staff loans re-classified as receivables		(1 055)		(615)
		—	128 197	79 561
The loan to the Staff Share Trust is interest free and is secured by 1 595 966 (2003: 2 616 809) shares in Edgars Consolidated Stores Limited. It will be repaid when the shares held by the Trust are sold.				
<b>17. Inventories</b>				
Merchandise	1 194 529	1 135 323	1 092 924	1 009 629
Raw materials	9 977	17 912		
Work in progress	26 107	33 348		
Consumable stores	352	20	352	20
	1 230 965	1 186 603	1 093 276	1 009 649
Estimated replacement cost	1 230 965	1 186 603	1 093 276	1 009 649
<b>18. Accounts receivable and prepayments</b>				
Trade accounts receivable	2 260 555	1 401 223	2 084 907	1 283 822
Allowance for doubtful debts	(143 536)	(154 479)	(133 320)	(140 846)
Pension fund asset (note 6)	88 017	86 942	88 017	86 942
Software	3 067	7 510	3 067	7 510
Joint venture investment	10 577	23 003		
Value added taxation receivable	8 738	16 887	21 517	22 414
Staff loans	683	1 055	719	615
Other accounts receivable and debit balances, including payments in advance	249 376	157 507	86 836	96 133
	2 477 477	1 539 648	2 151 743	1 356 590
<b>19. Cash and cash equivalents</b>				
Cash on hand	80 899	124 415	77 478	102 488
Cash on deposit	114 211	173 674	35 199	90 000
	195 110	298 089	112 677	192 488

## Notes to the Annual Financial Statements continued

		Group		Company	
		2004 R000	2003 R000	2004 R000	2003 R000
<b>20.</b>	<b>Share capital and premium</b>				
<b>20.1</b>	<b>Authorised</b>				
	72 000 000 (2003: 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
		<b>7 500</b>	7 500	<b>7 500</b>	7 500
<b>20.2</b>	<b>Number of ordinary shares in issue</b>				
	Number of shares at the beginning of the year	43 338 871	51 837 724	51 700 140	57 444 600
	Change in accounting policy		(2 616 809)		
		43 338 871	49 220 915	51 700 140	57 444 600
	Cancellation of 10% of issued capital	—	(5 744 460)	—	(5 744 460)
	Treasury shares	1 595 289	(137 584)		
	Number of shares at the end of the year	44 934 160	43 338 871	51 700 140	51 700 140
<b>20.3</b>	<b>Issued ordinary shares and premium</b>				
	Balance at the beginning of the year	71 137	451 698	274 147	593 243
	Cancellation of 10% of issued capital – share capital and premium	—	(319 087)	—	(319 087)
	Net movement of treasury shares – share capital and premium	37 925	(4 902)		
	Change in accounting policy – share capital and premium		(56 563)		
	Reallocation of allotment costs	—	(9)	—	(9)
	Balance at the end of the year	109 062	71 137	274 147	274 147
	Comprising				
	Share capital	4 494	4 596	5 170	5 170
	Change in accounting policy		(262)		
		4 494	4 334	5 170	5 170
	Share premium	104 568	123 104	268 977	268 977
	Change in accounting policy		(56 301)		
		104 568	66 803	268 977	268 977
	Total	109 062	71 137	274 147	274 147
	In terms of a shareowners' resolution on 16 July 2003 the directors have unconditional authority until the next Annual General Meeting to issue 7 374 900 unissued ordinary shares.				
<b>20.4</b>	<b>Issued preference share capital</b>				
	150 000 6% preference shares of R2 redeemable at the option of the company	300	300	300	300



## Notes to the Annual Financial Statements continued

	Group		Company	
	2004 R000	2003 R000	2004 R000	2003 R000
<b>21. Non-distributable reserves</b>				
Balance at the beginning of the year comprising:				
Equity accounted reserves of Edgars Stores Limited (Zimbabwe) prior to consolidation	—	13 880	—	(1 382)
Derivative valuation adjustment	—	(1 382)	—	(1 382)
Revaluation reserve	27 325	26 165	2 962	2 962
Foreign currency translation reserve	(9 797)	8 442	—	—
Share premium	6 041	6 041	6 041	6 041
Tax reserve relating to lifo adjustment in foreign subsidiaries	5 349	4 156	—	—
	<b>28 918</b>	<b>57 302</b>	<b>9 003</b>	<b>7 621</b>
<b>Movements</b>				
Impairment in value of Edgars Stores Limited (Zimbabwe)	—	(13 880)	—	—
Derivative valuation adjustment	—	1 382	—	1 382
Reversal of deferred taxation on revaluation reserve	—	1 160	—	—
Foreign currency translation reserve	(3 901)	(18 239)	—	—
Decrease in tax reserve relating to lifo adjustment	(912)	1 193	—	—
Balance at the end of the year	<b>24 105</b>	<b>28 918</b>	<b>9 003</b>	<b>9 003</b>
Comprising				
Revaluation reserve net of deferred taxation	27 325	27 325	2 962	2 962
Foreign currency translation reserve	(13 698)	(9 797)	—	—
Share premium	6 041	6 041	6 041	6 041
Tax reserve relating to lifo adjustment in foreign subsidiaries	4 437	5 349	—	—
	<b>24 105</b>	<b>28 918</b>	<b>9 003</b>	<b>9 003</b>
<b>22. Retained surplus</b>				
Comprising				
Company	2 076 721	1 675 041	—	—
Consolidated subsidiaries	439 883	356 188	—	—
	<b>2 516 604</b>	<b>2 031 229</b>	—	—
Distributions by certain foreign subsidiaries will give rise to withholding taxes of R11,1 million (2003: R5,1 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 11 May 2004 (20 May 2003) (note 10)			269 358	95 645

## Notes to the Annual Financial Statements continued

	Group		Company	
	2004 R000	2003 R000	2004 R000	2003 R000
<b>23. Long and medium term interest bearing debt</b>				
Secured loan in respect of assets with a net book value of R657 244 (2003: R1 286 447) held under an instalment sale agreement bearing interest payable monthly in arrears at a prime linked rate of 11%, redeemable in monthly instalments to June 2005	589	1 030	—	—
Secured loan in respect of assets with a net book value of R70 403 260 held under a suspensive sale agreement bearing interest payable six-monthly in arrears at a linked variable rate presently of 14,7% redeemable in bi-annual instalments to 30 June 2004	—	94 241	—	94 241
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%. As this rate is sufficiently close to market rates, the equity component is not material. 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	38 163	38 163	38 163	38 163
Unsecured loan bearing interest payable six-monthly in arrears at a fixed rate of 12,38%, redeemable February 2004	—	50 000	—	50 000
	38 752	183 434	38 163	182 404
Current portion repayable within one year transferred to short term interest bearing debt	38 631	144 652	38 163	144 241
	121	38 782	—	38 163
Summary of interest bearing debt redemption by financial year				
2004	—	144 652	—	144 241
2005	38 631	38 648	38 163	38 163
Thereafter	121	134	—	—
	38 752	183 434	38 163	182 404

## Notes to the Annual Financial Statements continued

	Group		Company	
	2004 R000	2003 R000	2004 R000	2003 R000
<b>24. Short term interest bearing debt</b>				
Current portion of long and medium term interest bearing debt	38 631	144 652	38 163	144 241
Unsecured bank overdrafts, acceptances and call funds	327 730	—	368 952	1 087
	<b>366 361</b>	144 652	<b>407 115</b>	145 328
<b>25. Deferred taxation</b>				
Balance at the beginning of the year	42 315	174 533	23 783	153 388
Balances at acquisition of subsidiary companies	—	350	—	—
Income statement (note 9.1)	43 139	(129 882)	36 192	(129 605)
Foreign currency translation	10	(333)	—	—
Revaluation reserve	—	(1 160)	—	—
Tax reserve relating to lifo adjustment in foreign subsidiaries (note 21)	912	(1 193)	—	—
Balance at the end of the year	<b>86 376</b>	42 315	<b>59 975</b>	23 783
Comprising				
Properties, fixtures, equipment and vehicles and other net temporary differences	12 467	4 874	(3 346)	2 523
Net temporary differences on accounts receivable	62 892	24 747	62 052	24 554
Foreign currency translation	1 108	(678)	—	—
Revaluation reserve	9 909	10 103	1 269	1 269
Other	—	8 918	—	(4 563)
At acquisition fair value adjustment	—	2 182	—	—
Assessed losses created	—	(7 831)	—	—
	<b>86 376</b>	42 315	<b>59 975</b>	23 783
<b>26. Accounts payable</b>				
Trade accounts payable	1 208 078	1 044 677	1 161 069	1 000 128
Medical aid obligation (note 6.1)	88 017	86 942	88 017	86 942
Foreign exchange derivative fair value (note 31.2)	1 598	6 376	1 598	6 376
Sundry accounts payable and accrued expenses	608 355	529 110	554 552	513 866
	<b>1 906 048</b>	1 667 105	<b>1 805 236</b>	1 607 312

## Notes to the Annual Financial Statements continued

	Group		Company	
	2004 R000	2003 R000	2004 R000	2003 R000
<b>27. Future capital expenditure</b>				
Contracted:				
Properties, fixtures, equipment and vehicles	36 475	67 941	22 325	54 859
Authorised by the directors but not yet contracted:				
Properties, fixtures, equipment and vehicles	575 287	297 850	573 787	294 753
	<b>611 762</b>	365 791	<b>596 112</b>	349 612
All the expenditure will be incurred during the next financial year and is to be financed from free cash flows.				
<b>28. Leases</b>				
The Group leases the majority of its properties and computer equipment 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 27 March 2004 the future minimum property operating lease commitments are	2 595 455	2 345 127		
Due as follows:				
Within one year	507 361	464 012		
Between two and five years	1 546 260	1 353 931		
In more than five years	541 834	527 184		
The Group also leases certain computer equipment. The agreement provides for minimum annual rental payments and additional payments depending on usage.				
At 27 March 2004, the future minimum computer equipment operating lease commitments are	322 568	382 301		
Due as follows:				
Within one year	121 252	105 907		
Between two and five years	201 316	276 394		
<b>29. Contingent liabilities</b>				
Guarantees in respect of staff loans and certain pensions	1 289	134	289	134

There is no litigation, current or pending, which is considered likely to have a material adverse effect on the Group.

## Notes to the Annual Financial Statements continued

### 30. Post balance sheet events

#### 30.1 Boardmans acquisition

Effective 1 April 2004, Edcon acquired the business of Boardmans for the purchase price of approximately R80 million. The Boardmans product range complements Edcon's current homewares offering.

#### 30.2 Securitisation

In terms of an option granted during the first debtors securitisation negotiated in 2002, the Group has resolved to securitise a further R1 billion of its receivables book during June 2004. Net cash generated from the disposal of the securitised assets will be used to repay debt and fund future expansion opportunities.

### 31. Financial risk management

#### 31.1 Treasury risk management

A treasury workgroup consisting of senior executives meet on a quarterly basis to update treasury policies and objectives, analyse currency and interest rate exposures and re-evaluate treasury management strategies against revised economic forecasts. Compliance with Group Treasury policies and objectives of the Board and exposure limits is reviewed at quarterly meetings of the Risk Management Workgroup.

#### 31.2 Foreign currency management

Material forward exchange contracts at 27 March 2004 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 12 months.

	Foreign currency 000	Derivative fair value R000	Contract equivalent R000	Average rate
<b>Foreign currency against Rand hedged import forward orders</b>				
<b>2004</b>				
US dollar	6 550	(1 598)	45 361	6,93
<b>2003</b>				
US dollar	9 369	(6 305)	83 859	8,95
Euro	57	(71)	564	9,90

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 to the US dollar at 27 March 2004 amounted to R6,1 million (2003: Nil). The Group policy is to restrict the net aggregate cover to between 80% and 125% of total foreign order exposure.

## Notes to the Annual Financial Statements continued

### 31. Financial risk management (continued)

#### 31.3 Interest rate management

As part of the process of managing the Group's fixed and floating rate interest bearing debt and cash and cash equivalents mix, the interest rate characteristics of new and the refinancing of existing loans are positioned according to expected movements in interest rates. The interest rate repricing profile at 27 March 2004 is summarised as follows:

	Floating rate	1 – 6 months	7 – 12 months	Total interest bearing debt
<b>2004</b>				
Interest bearing debt (R000)	366 361	—	—	366 361
% of total interest bearing debt	100,0	—	—	100,0
<b>2003</b>				
Interest bearing debt (R000)	1 030	94 241	88 163	183 434
% of total interest bearing debt	0,6	51,4	48,0	100,0

	Total	Floating rate	0 – 6 months	Fixed rate
<b>Cash on deposit and investments by currency</b>				
<b>2004 (000)</b>				
US dollar	5 051	2 598	2 453	—
Sterling	2 278	(414)	2 692	—
Euro	1 712	1 712	—	—
Botswana Pula	1 080	1 080	—	—
South African Rand	428 168	428 168	—	—

	Notional amount		Fixed interest % payable		Fair value	
	2004	2003	2004	2003	2004	2003
<b>Interest rate swaps (R000)</b>						
Pay fixed/received floating						
Interest rate swaps<1 year	—	97 590	—	13,46	—	460
Interest rate swaps>1 year	470 000	370 000	10,38	10,87	(16 159)	(8 067)
<b>Other swaps (R000)</b>						
Usury/Usury star swap <sup>1</sup>	1 665 000 <sup>2</sup>	1 665 000 <sup>2</sup>				
Credit default swap	370 000	370 000				

<sup>1</sup> Receive Usury, pay Usury star (133% of prime rate plus 6%).

<sup>2</sup> Nominal amount variable as asset base movements occur.

## Notes to the Annual Financial Statements continued

### 31. Financial risk management (continued)

#### 31.3 Interest rate management (continued)

Edcon classifies interest rate swaps and other derivatives as held for trading because hedge accounting has not been adopted. Hedge accounting is applied where the hedge is expected to be highly effective and reliably measurable. The interest rate swap less than 1 year in 2003 was considered and accounted for as a cash flow hedge.

The Usury/Usury star swap has not been revalued at year end due to the number of variables and the difficulty in predicting the time lag between changes in the prime lending rate and the Usury rate.

The credit default swap was not revalued due to the number of variables and the difficulty in predicting the conditions upon which interest will be earned and bad debt incurred.

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.

#### 31.4 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 financial institutions of high quality credit standing. Credit limits per financial institution are established at the treasury quarterly meeting and are approved at the Audit and Risk Workgroup. 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 27 March 2004, the Group did not consider there to be any significant concentration of credit risk, which had not been insured or adequately provided for.

#### 31.5 Liquidity risk

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

##### Unutilised banking facilities

Total banking and loan facilities

Actual interest bearing debt (notes 23 and 24)

Unutilised banking facilities

##### 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 shareowners' funds.

Maximum permissible year end interest bearing debt

Actual interest bearing debt (notes 23 and 24)

Cash and cash equivalents (note 19)

Unutilised borrowing capacity

Group	
2004	2003
R000	R000
1 028 163	1 048 404
(366 482)	(183 434)
661 681	864 970
1 987 559	1 598 913
(366 482)	(183 434)
1 621 077	1 415 479
195 110	298 089
1 816 187	1 713 568

## Notes to the Annual Financial Statements continued

		Group	
		2004	2003
		R000	R000
<b>31. Financial risk management</b> <i>(continued)</i>			
<b>31.5 Liquidity risk</b> <i>(continued)</i>			
<b>Sustainable liabilities</b>			
The unutilised liability capacity is based on the estimated capacity of each asset investment to sustain liabilities.			
	Liability capacity		
Properties, fixtures, equipment and vehicles	50%	369 104	344 614
Inventories	80%	984 769	949 282
Accounts receivable	80%	1 981 976	1 231 718
Cash, cash equivalents and taxation receivable	100%	195 110	298 089
		3 530 959	2 823 703
Liabilities		(2 079 266)	(1 901 808)
Permissible year end interest bearing debt		1 451 693	921 895
Actual interest bearing debt (notes 23 and 24)		(366 482)	(183 434)
Unutilised liability capacity		1 085 211	738 461

### 31.6 Fair value of financial instruments

All financial instruments have been recognised in the balance sheet and there is no difference between their fair values and carrying values.

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 27 March 2004. Forward rate agreements and swaps are entered into mainly to hedge interest rate exposure of investments, interest bearing debt and fair values are determined using money market derivative rates at 27 March 2004.



## Notes to the Annual Financial Statements continued

	Group		Company	
	2004	2003	2004	2003
	Beneficial	Beneficial	Non-beneficial	Non-beneficial
<b>32. Interests of Directors and managers in share capital and contracts</b>				
The interests, direct and indirect, of the Directors and executives in office at the date of this report, and their families, aggregated as to beneficial interest and non-beneficial interest, are as follows:				
<b>Ordinary shares</b>				
Non-executive Directors				
W S MacFarlane	10 000	5 000	11 003	11 003
A J Aaron	20 000	20 200	200	—
Z B Ebrahim	—	—	1 000	1 000
Executive Directors				
S M Ross	58 500	4 500	—	—
M R Bower	105 000	—	—	—
U Ferndale	40 000	5 000	—	—
Executives	154 063	10 797	—	13 500
Balance at 27 March 2004 (29 March 2003) and 11 May 2004 (20 May 2003)	387 563	45 497	12 203	25 503

Disclosures by the Directors indicate that at 27 March 2004 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.

# Notes to the Annual Financial Statements continued

## 33. 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:

	2004		2003	
	Edcon	Amounts owed by Edcon	Edcon	Amounts owed by Edcon
	purchases from		purchases from	
VOC Investments Limited	R115,3 million	R17,0 million	R111,8 million	R16,5 million

Mr A J Aaron (non-executive Director) is a director of Werksmans Inc. Edcon incurred R2,5 million (2003: R3,5 million) of legal costs with Werksmans Inc. during 2004. The transactions were concluded at arm’s length.

## 34. 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 – Group Services report and the 7 Year Group 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 15.2)	
		2004 R	2003 R	2004 %	2003 %	2004 R	2003 R	2004 R	2003 R
Bookwise (Pty) Limited	P	4	4	100	100				
Cannon Clothing (Pty) Limited	D	100	100	100	100				
Celrose Clothing (Pty) Limited	D	100 000	100 000	100	100				
Celrose Jeans Company (Pty) Limited	D	50 000	50 000	100	100				
Cuthberts (Bophuthatswana) (1990) (Pty) Limited	D	100 000	100 000	100	100				
CNA Properties (Pty) Limited	P	500 000	500 000	100	100				
Dale Retail Property Services (Pty) Limited	D	36 000	36 000	100	100				
E-Corporate Travel Solution (Pty) Limited (In liquidation)	T	100	100	50	50				
Edcon Sourcing (Pty) Limited	R	1 000	1 000	100	100	256 369	256 369		
Edcon Sourcing (Pty) Limited – preference shares	R					50 000 000	50 000 000		
Elixer Marketing (Pty) Limited	R	1 000	1 000	100	100	120 666 452	140 497 332	64 435 870	22 000 188
Ellesse SA (Pty) Limited	D	100	100	100	100				
Lauré Fashions (Pty) Limited	M	1 000	1 000	100	100			3 541 688	4 326 610
National Security Corporation Limited	G	2 000	2 000	100	100	1 800	1 800		
Peoples Stores (Bophuthatswana) (Pty) Limited	D	250 000	250 000	100	100	250 000	250 000		
R22 Properties (Pty) Limited	P	1	1	100	100		1		
Reactor Clothing (Pty) Limited	M	100	100	100	100			49 285	40 394
Shoecorp Shoe Stores (Pty) Limited	R	33 752	33 752	100	100				
Smiley's Wearhouse (Pty) Limited	R	3 120	120	100	100	31 726 762	1 726 762	—	27 665 823
Studio Clothing (Pty) Limited	D	100	100	100	100				
Supermart (Pty) Limited	D	100	100	100	100	100	100		
United Retail Limited	D	6 000	6 000	100	100	6 000	6 000	90 149 320	141 790 049
VOC Investments Limited	M	950 050	950 000	100	100	50 950 000	950 000	—	57 733 086
W M Cuthbert & Company Limited	D	12 200	12 200	100	100				
<b>Incorporated in Botswana</b>		<b>P</b>	<b>P</b>						
Central News Agency (Botswana) (Pty) Limited	R	2	2	100	100	2 556 106	2 556 106	7 422 537	6 550 627
Jet Supermarkets Botswana (Pty) Limited	R	300 000	300 000	100	100			65 653 823	49 070 186
<b>Incorporated in Lesotho</b>		<b>M</b>	<b>M</b>						
Central News Agency (Lesotho) (Pty) Limited	R	2	2	100	100	270 427	270 427		
Easy Rider Clothing (Pty) Limited	D	1 000	1 000	85	85				
Edgars Stores (Lesotho) (Pty) Limited	R	200 000	200 000	100	100	200 000	200 000		
Jet Supermarkets (Lesotho) (Pty) Limited	D	100	100	100	100	100	100		
Celrose Jeans Company (Lesotho) (Pty) Limited	D	4 000	4 000	100	100				
Sales House (Lesotho) (Pty) Limited	D	1 000	1 000	100	100	1 000	1 000		
<b>Incorporated in Namibia</b>		<b>N\$</b>	<b>N\$</b>						
Central News Agency (Pty) Limited	R	200 000	200 000	100	100	4 615 430	4 615 430		
Edgars Stores (Namibia) Limited	R	1 050 000	1 050 000	100	100			14 889 303	30 833 881
<b>Incorporated in Swaziland</b>		<b>E</b>	<b>E</b>						
Central News Agency (Swaziland) (Pty) Limited	R	10 000	10 000	100	100	725 085	725 085		
Edgars Stores Swaziland Limited	R	1 500 000	1 500 000	100	100	1 500 000	1 500 000	44 105 206	43 136 475
Jet Supermarkets Swaziland (Pty) Limited	D	100	100	100	100	100	100		
<b>Incorporated in Zimbabwe</b>		<b>Z\$</b>	<b>Z\$</b>						
Edgars Stores Limited†	R	46 146 000	46 146 000	55	55				
<b>Incorporated in Guernsey</b>		<b>£</b>	<b>£</b>						
Bellfield Limited	G	41	41	100	100	75	75	529 146	529 146
Interest in subsidiaries						263 725 806	203 556 687	290 776 178	383 676 465

\* 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 2003.

# Shareholders' Information

## Financial calendar

<b>Financial year end</b>	27 March
<b>Annual general meeting</b>	July
<b>Reports</b>	
Interim report	November
Preliminary announcement of annual results	May
Annual report	June
<b>Dividends payable</b>	
Ordinary shares – interim and final	December and July
6% preference shares	December and June

## Analysis of holdings of ordinary shares at 27 March 2004

Size of holding	Number of members			Number of shares		
	Individuals	Other	% of total	Individuals	Other	% of total
1 – 500	2 087	617	67,91	323 057	113 253	0,84
501 – 2 500	382	326	17,78	423 712	424 798	1,64
2 501 – 5 000	67	96	4,09	250 092	357 337	1,17
5 001 – 50 000	47	257	7,63	559 161	4 363 798	9,52
50 001 – 100 000	3	40	1,08	177 284	3 077 461	6,30
Over 100 000	2	58	1,51	227 005	41 403 182	80,53
Total	2 588	1 394	100,00	1 960 311	49 739 829	100,00

Shareholder spread	% of total
Non-public shareowner	35,50
Group Directors	0,71
Associates of Group Directors	0,06
Trustee of the company's share and retirement funding schemes	3,09
Shareowners who, by virtue of an agreement, have a right to nominate Board members	—
Shareowners interested in 10% or more of the issued ordinary shares	31,64
Public shareowners	64,50
Total	100,00

## Shareholder with a holding of greater than 5% of issued ordinary shares

South African Breweries Limited	11 188 344	21,64
United Retail Limited (SA)	5 170 014	10,00
Public Investment Commissioners	4 487 387	8,68
Liberty Life Association of Africa (SA) (Holdings and Funds)	3 934 211	7,61
Allan Gray (Holdings and Funds)	2 686 131	5,20

## Shareholder by manager with a holding of greater than 5% of issued ordinary shares (including shares above)

Stanlib Asset Management (SA)	6 352 212	12,29
Allan Gray Asset Management (SA)	4 122 843	7,97
RMB Asset Management (SA)	2 866 670	5,54

# Notice of Annual General Meeting

Notice is hereby given that the fifty-eighth 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 Wednesday, 14 July 2004 at 09:00 for the following purposes:

1. To receive and adopt the financial statements for the year ended 27 March 2004;
2. To approve:
  - 2.1 the remuneration for the Directors for 2004 as reflected in note 6 to the annual financial statements;
  - 2.2 the proposed fees payable to non-executive directors for 2005:
    - 2.2.1 Chairman of the Board R250 000 per annum;
    - 2.2.2 Chairman of the Audit and Risk Committee R100 000 per annum;
    - 2.2.3 Chairman of the Remuneration and Nominations Committee R50 000 per annum;
    - 2.2.4 Member of the Board R90 000 per annum;
    - 2.2.5 Member of the Audit and Risk Committee R40 000 per annum;
    - 2.2.6 Member of the Remuneration and Nominations Committee R20 000 per annum;
    - 2.2.7 Member of the Customer Service Committee R20 000 per annum;
    - 2.2.8 Member of the Transformation Committee R20 000 per annum.
3. To elect Directors in place of those retiring in accordance with the provisions of the company's articles of association:
  - 3.1 Mesdames Z B Ebrahim and T N Eboka and Messrs A J Aaron, P L Wilmot and J L Spotts retire by rotation and, being eligible, offer themselves for re-election.
  - 3.2 During the year Mr S D M Zungu was appointed an independent non-executive Director. In terms of the company's articles, Mr Zungu retires and, being eligible, offers himself for re-election.  
*(Abbreviated biographical details of the Directors are set out on pages 8 to 9.)*
4. To consider and, if deemed fit, to pass with or without modification the following ordinary and special resolutions:
  - 4.1 **Ordinary Resolution**

"That 7 374 900 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 originally given by members to the Directors on 14 July 1999 and renewed on 16 July 2003.
  - 4.2 **Special Resolution Number 1**

"Article 53 of the company's articles of association be and is hereby amended by the deletion of the existing article in its entirety and the replacement thereof with the following new article –

'53. Unless otherwise determined by the company in general meeting, or by a meeting of the Directors (at which all the Directors are present), the quorum necessary for the transaction of the business of the Directors shall be seven Directors, a majority of whom must be non-executive Directors and one of whom must be the Chief Executive Officer of the company for the time being or another executive Director designated by such Chief Executive Officer.'

## Notice of Annual General Meeting continued

The effect of special resolution number 1 is that the quorum necessary for the transaction of the business of the Directors will be increased from three Directors to seven Directors. In addition, the majority of the number needed to constitute a quorum will be non-executive Directors, but the Chief Executive Officer or another executive Director designated by the Chief Executive Officer will have to be present for any business of the Directors to be transacted. The reason for the resolution is that the Directors believe that three Directors is too small a number to constitute a quorum, in view of the size of the Board of Directors which consists of 13 Directors.

### 4.3 Special Resolution Number 2

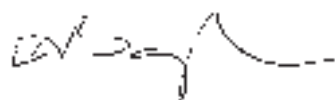
“Article 54 of the company’s articles of association be and is hereby amended by the deletion of the existing article in its entirety and the replacement thereof with the following new article –

‘54. Immediately following each annual general meeting of the company the Directors shall elect a Chairman of the Directors from their number for the ensuing year until the next annual general meeting of the company. The Directors may also elect a Deputy Chairman or Deputy Chairmen of the Directors and determine the period for which each is to hold office. If more than one Deputy Chairmen are elected, the Directors shall, upon their election, determine the order of their seniority. At any meeting of Directors, the Chairman of the Directors, or if he is not present or willing to act as such, the most senior Deputy Chairman present and willing to act as such, shall act as Chairman. If no Chairman or Deputy Chairman has been elected, or is present and willing to act as such, the Directors present at any Directors’ meeting shall choose one of their number to be Chairman of the meeting.’”

The effect of special resolution number 2 is that the Chairman of the Directors will only hold office for a period of one year at a time, but may be re-elected on an annual basis. The reason for the resolution is that the Directors believe that the holder of the office of Chairman should be adjudicated annually.

A member, including a member who has dematerialised his shares through a Central Securities Depository Participant (CSDP) and has elected to have those shares registered in his own name, 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. A member who has dematerialised his shares through a CSDP or broker should provide the CSDP or broker with his voting instruction.

By order of the Board



**E A Bagley**

Group Secretary

PO Box 100  
Crown Mines  
2025

11 May 2004



# Edgars Consolidated Stores Limited

("the Company")

(Registration number 1946/022751/06)

## FORM OF PROXY

for use by members at the annual general meeting of the company to be held on Wednesday, 14 July 2004 at 09h00.

I/We

being the holder/s of ordinary shares in the company, appoint (see Note 1)

1 or failing him

2 or failing him

3 the chairman of the annual general meeting:

as my/our proxy to act for me/us at the annual general meeting, which will be held at the registered office of the company, Edgardale, Press Avenue, Crown Mines, Johannesburg on **Wednesday, 14 July 2004 at 09h00** for the purpose of considering, and if deemed fit, passing with or without modification, the resolutions to be proposed thereat and at each adjournment thereof, to vote for or against the resolutions with or without modification, or to abstain from voting thereon in respect of the ordinary shares in the issued capital of the company registered in my/our name/s in accordance with the following instruction (see note 2).

Each member is entitled to appoint one or more proxies (whether a member/s of the company or not) to attend, speak and to vote at the meeting in his/her stead.

(NOTE: ON A POLL A MEMBER IS ENTITLED TO ONE VOTE FOR EACH SHARE HELD)

	For No of votes poll	Against No of votes poll	Abstain No of votes poll
<b>Ordinary Resolution No. 1</b> (Receipt and adoption of the annual financial statements for the year ended 27 March 2004)			
<b>Ordinary Resolution No. 2</b> To approve the fees for non-executive directors for 2005:			
– Chairman of the Board R250 000 per annum;			
– Chairman of the Audit and Risk Committee R100 000 per annum;			
– Chairman of the Remuneration and Nominations Committee R50 000 per annum;			
– Member of the Board R90 000 per annum;			
– Member of the Audit and Risk Committee R40 000 per annum;			
– Member of the Remuneration and Nominations Committee R20 000 per annum;			
– Member of the Customer Service Committee R20 000 per annum;			
– Member of Transformation Committee R20 000 per annum.			
<b>Ordinary Resolution No. 3</b> (election of directors)			
– Ms Z B Ebrahim			
– Ms T N Eboka			
– Mr A J Aaron			
– Mr P L Wilmot			
– Mr J L Spotts			
– Mr S D M Zungu			
<b>Ordinary Resolution No. 4</b> (Placing of unissued shares under the control of the directors)			
<b>Special Resolution No. 1</b> Increase of quorum from three to seven directors for purposes of transacting the business of the directors			
<b>Special Resolution No. 2</b> Annual re-election of Chairman			

Signed at on 2004

Signature

(ASSISTED BY ME WHERE APPLICABLE)

## Instructions for signing and lodging this Proxy

### Notes:

1. Each member is entitled to appoint one or more proxies (who need not be a member(s) of the company) to attend, speak and vote (either on a poll or by show of hands) in place of that member at the annual general meeting.
2. A member may insert the name of a proxy or the names of two alternative proxies of the member's choice in the space provided, with or without deleting the words "the Chairman of the annual general meeting". All deletions must be individually initialled by the member, failing which they will not have been validly effected. The person whose name appears first on the form of proxy and who is present at the annual general meeting shall be entitled to act as proxy to the exclusion of the persons whose names follow.
3. Voting instructions for each of the resolutions must be completed by filling the number of votes (one per ordinary share) under the "For", "Against" or "Abstain " headings on the Proxy Form. If no instructions are filled in on the Proxy Form, the Chairman of the annual general meeting, if the Chairman is the authorised proxy, or any other proxy shall be authorised to vote in favour of, against or abstain from voting as he/she deems fit.
4. A member or his/her proxy is entitled but not obliged to vote in respect of all the ordinary shares held by the member. The total number of votes for or against the ordinary and special resolutions and in respect of which any abstention is recorded may not exceed the total number of shares held by the member.
5. If this form has been signed by a person in a representative capacity, the document authorising that person to sign must be attached, unless previously recorded by the company's transfer secretaries or waived by the Chairman of the annual general meeting.
6. The Chairman of the annual general meeting may reject or accept any form of proxy that is completed and/or received other than in accordance with these instructions and notes.
7. Any alterations or corrections to this form of proxy have to be initialled by the signatory(ies).
8. The completion and lodging of this form of proxy does not preclude the relevant member from attending the annual general meeting and speaking and voting in person to the exclusion of any proxy appointed by the member.
9. Forms of proxy have to be lodged with or posted to the company, c/o Computershare Limited (formerly Mercantile Registrars Limited), 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), to be received by not later than 09h00 on Monday, 12 July 2004.
10. This proxy form is to be completed only by those members who either still hold shares in a certificated form, or whose shares are recorded in their own name in electronic form in the sub-register.
11. Shareowners whose dematerialised shares are held in the name of a nominee and wish to attend the annual general meeting must contact their Central Securities Depository Participant (CSDP) or broker who will furnish them with the necessary letter of authority to attend the annual general meeting. Alternatively they have to instruct their CSDP or broker as to how they wish to vote. This has to be done in terms of the agreement between the shareowner and the CSDP or the broker.
12. Shareowners who wish to attend and vote at the meeting must ensure that their letters of authority from their CSDP or broker reach the transfer secretaries not later than 09h00 on Monday, 12 July 2004.



# Corporate Information

## **Edgars Consolidated Stores Limited**

Incorporated in the Republic of South Africa

Registration number 1946/0222751/06

### **Group Secretary**

E A Bagley

### **Registered office**

Edgardale, Press Avenue

Crown Mines, Johannesburg 2092

Telephone

(011) 495-6000

Fax

(011) 837-5019

### **Postal address**

PO Box 100, Crown Mines 2025

### **Transfer Secretaries**

Computershare Limited

70 Marshall Street, Johannesburg 2001

PO Box 61051, Marshalltown 2107

Telephone (011) 370-5000

Fax (011) 370-5487

### **Auditors**

Ernst & Young

Wanderers Office Park

52 Corlett Drive, Illovo 2196

PO Box 2322, Johannesburg 2000

Telephone (011) 772-3000

### **Sponsors**

Cazenove South Africa (Pty) Limited

First Floor, Moorgate, Dunkeld Park

6 North Road, Dunkeld West

PO Box 412468, Craighall 2024

Telephone (011) 280-7900

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