FINANCIAL REPORT FOR THE YEAR ENDED 31 MARCH 2001

Edcon

Edgars Consolidated Stores Limited

SALIENT FEATURES

- *Edcon retail sales rise 6,6%*
- *Reallocation and rationalisation of space and store brands continue*
- *Headline earnings in line with expectations at interim stage – down 34%*
- *Final dividend 64 cents per share compared with 97 cents last year*
- *Gearing ratio remains low at 0,25*
- *Net asset value per share exceeds R40*
- *The board proposes a limited share buy-back*

Turnaround gains momentum . . .

Edgars | abc | United Retail | Sales House | Jet | Cuthberts | Smileys | Manufacturing Division

Income Statement

		2001 March 52 weeks Rm (audited)	2000 March 52 weeks Rm (audited)	Change %
Retail sales		**6 844,8**	6 423,6	7
Cost of sales		**4 498,3**	4 100,7	
Gross profit		**2 346,5**	2 322,9	
Expenses		**2 026,2**	1 892,3	
Trading profit		**320,3**	430,6	(26)
Net financing costs		**76,8**	77,4	
Profit before taxation		**243,5**	353,2	
Taxation		**75,3**	108,3	
Profit after taxation		**168,2**	244,9	
Attributable to outside shareholders		**18,1**	18,4	
Earnings attributable to ordinary shareholders		**150,1**	226,5	(34)
Divisional analysis				
Retail sales	Edgars	**3 899,9**	3 675,8	
	United Retail	**2 657,5**	2 535,3	
	Zimbabwe	**287,4**	212,5	
	Total retail sales	**6 844,8**	6 423,6	
Trading profit	Edgars	**228,7**	223,8	
	United Retail	**110,5**	175,5	
	Zimbabwe	**62,3**	46,9	
	Credit and Financial Services	**(93,7)**	(14,9)	
	Other	**12,5**	(0,7)	
	Group trading profit	**320,3**	430,6	
Reconciliation of headline earnings				
Group attributable earnings		**150,1**	226,5	
Plus: loss on disposal of fixed assets and trademarks net of taxation		**3,6**	7,5	
Headline earnings		**153,7**	234,0	
Weighted average number of ordinary shares in issue (000)		**57 445**	57 376	
Earnings per ordinary share (cents)				
attributable earnings basis		**261**	395	(34)
headline earnings basis		**268**	408	(34)
cash equivalent basis		**712**	780	(9)
Dividends per ordinary share (cents)				
interim		**36**	55	
final		**64**	97	
Total		**100**	152	

This report has been prepared in accordance with the group's published and consistently applied accounting policies except for the change in the treatment of dividends with the adoption of AC 107 (revised) and IAS 10. Dividends to shareholders are now accounted for on the date of declaration. As a result retained earnings have been restated in the comparatives.

Cash Flow Statement

	2001 March 52 weeks Rm (audited)	2000 March 52 weeks Rm (audited)
Cash retained from operating activities		
Trading profit	**320,3**	430,6
Depreciation	**207,4**	218,0
Other non-cash items	**4,7**	7,3
Working capital requirements	**(249,2)**	(334,9)
Cash generated from operating activities	**283,2**	321,0
Interest received	**14,7**	11,2
Financing costs paid	**(91,5)**	(88,6)
Taxation paid	**(101,1)**	(36,2)
Cash inflow from operations	**105,3**	207,4
Dividends paid	**(79,9)**	(60,6)
Net cash retained	**25,4**	146,8
Cash utilised in investment activities	**(120,4)**	(137,5)
Cash effects of financing activities		
Increase in shareholder funding	**2,1**	0,6
Increase in interest bearing debt	**189,5**	27,8
Net cash inflow from financing activities	**191,6**	28,4
Increase in cash and cash equivalents	**96,6**	37,7
Cash and cash equivalents at the beginning of the year	**118,5**	81,4
Currency adjustments	**4,5**	(0,6)
Cash and cash equivalents at the end of the year	**219,6**	118,5

Comment

THE RETAIL ENVIRONMENT

A significant shift in spending patterns, coupled with a decline in consumer confidence – particularly amongst lower income consumers – impacted negatively on clothing sales during the year under review. Higher fuel and transport costs, the proliferation of gambling establishments, the novelty of the state lottery and disproportionate spending on cellphone communication, depleted already strained discretionary incomes. Consequently, clothing, footwear and textile sales are estimated by the Retailers' Liaison Committee to have increased by less than 5% in the year to March 2001, compared with the 10% rise reported for the same period last year. Of importance too, in an overtraded market, is the reality that most clothing retailers have had to lower their margins in an attempt to maintain their share of their customers' dwindling clothing spend. The entire sector, as a result, experienced marginal deflation in prices over the period.

GROUP RESULTS

In the interim announcement in November 2000, the board advised that it expected the results for the full year to be similar to the 6,5% sales increase and 33% earnings decrease reported at the halfway mark. In spite of particularly difficult trading conditions over the past six months, this projection has been delivered and group sales rose by 6,6%, while with the continuation of lower gross margins, earnings declined by 34%, after increasing by an impressive 164% last year.

At the individual chain level, Edgars – with 36 fewer stores and 8% less trading space – grew sales by 6%. The turnaround programme has continued apace in Edgars. Service levels have improved, merchandise ranges were further enhanced and an increasing number of middle to upper income families now recognise Edgars as the destination for value-priced clothing, footwear, textiles and accessories, as well as for bona fide brands and appropriate fashion. Following the introduction of cellular products into Edgars, Edcon group sales of cellphones and airtime rose by 31% to now represent 9% of group sales in South Africa.

United Retail had a disappointing second half. Although clothing sales rose strongly by 9% for the full year, cellular sales declined by 14%. In response to customer demands and in order to align prices at Sales House and Cuthberts with those offered by competitors in the discount channel, margins had to be lowered. This, together with the cost of rationalising the property portfolio and absorbing 22 stores from Edgars, impacted negatively on the division's trading profit. United Retail comprising Jet, Sales House, Cuthberts and Smiley's Wearhouse, continues to strive, through extremely competitive pricing and convenient locations, to be the leader in providing the average South African with the most desired quality fashion, normally only available to the more affluent sections of the consumer market.

The results from Edgars Zimbabwe were remarkable, given the concerning deterioration in the socio-political and economic environment and contributed 17% to group attributable earnings. During the year all dividends due from this investment have been received.

After increasing by R68 million in the first half, the year-on-year increase in the cost of credit for the second half was limited to R11 million. Although the total cost of R94 million was in line with original budgets, the increase in this cost over the previous year can be ascribed chiefly to the legislated decline in interest rates, chargeable in terms of the Usury Act, on customer accounts. Based on an average rate of 30% last year and 25% for the full year under review, gross interest revenue from customers fell by R103 million. Bad debt on Edcon's in-house book declined marginally to an acceptable 3,8% of credit transactions.

In terms of the group's long-standing policy of covering dividends 2,6 times, a final dividend of 64 cents per ordinary share has been declared bringing the total dividend for the full year to 100 cents.

FINANCIAL POSITION

Despite lower trading profitability, the decision was taken to self fund all new debtor accounts, and the net financing required for the year was R95 million. Gearing closed at 0,25, well below the group's self-imposed constraint of 0,50. Particularly noteworthy, in the area of working capital management, has been the minimal growth in inventories. This bears testimony to meaningful improvements in merchandise planning and efficiencies in the enhanced supply chain.

Total accounts receivable and prepayments, including debtors owned by Nedbank, declined; as the Nedbank book – closed to new accounts – decreased by R340 million over the year. The doubtful debt provision, calculated on a basis consistent with that used last year, remained at 6,6% of debtors and is considered by management to be adequate in the light of the steady improvement in the quality of the book.

SHARE BUY-BACK

The investor community has been predictably harsh on the retail sector and the Edcon share has not been immune to this. At year end, Edcon's share at 2 105 cents was trading at a 48% discount to its net asset value of 4 064 cents, more than discounting the current poor macro retail environment. Consequently, the opportunity to turn this situation to good account has convinced the board to request shareholders to give approval, at the Annual General Meeting in July, for a limited share buy-back. Details, with the required special resolutions, will be included in the Annual Report to be mailed to shareholders in June.

PROSPECTS

Stringent monetary and fiscal policies in the recent past have ensured that economic fundamentals in South Africa remain sound. However, with the export-led growth of the previous year, following an anticipated downturn in economic activity in our major trading partners, further growth in 2001 will primarily be dependent upon improved domestic demand.

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

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

For and on behalf of the board

W S MacFarlane — *Chairman*

S M Ross — *Chief Executive Officer*

FINAL CASH DIVIDEND

Notice is hereby given that the final ordinary dividend (No. 109) of 64 cents per share in respect of the year ended 31 March 2001 has been declared payable to the holders of ordinary shares registered in the books of the company at the close of business on Friday, 1 June 2001. The dividend is declared payable in the currency of the Republic of South Africa and dividend cheques will be posted on or about 29 June 2001.

On behalf of the board

D J Viviers — *Group Secretary*

Johannesburg
17 May 2001

Balance Sheet

	2001 March Rm (audited)	2000 March Rm (audited)
ASSETS		
Non-current assets		
Operating assets	**735,0**	851,5
Trademarks	**4,0**	8,2
Other	**48,0**	19,2
Total non-current assets	**787,0**	878,9
Current assets		
Inventories	**1 214,6**	1 204,7
Accounts receivable and prepayments	**2 188,4**	1 902,9
Cash and cash equivalents	**219,6**	118,5
Total current assets	**3 622,6**	3 226,1
Total assets	**4 409,6**	4 105,0
EQUITY AND LIABILITIES		
Capital and reserves		
Ordinary shareholders' equity	**2 334,5**	2 253,0
Minority interest	**51,9**	42,4
Total shareholders' funds	**2 386,4**	2 295,4
Interest bearing debt	**820,9**	627,8
Total capital employed	**3 207,3**	2 923,2
Interest free liabilities		
Accounts payable	**1 038,3**	1 062,5
Deferred taxation	**164,0**	119,3
Total interest free liabilities	**1 202,3**	1 181,8
Total equity and liabilities	**4 409,6**	4 105,0
Gearing ratios		
Net interest bearing debt/total shareholders' funds	**0,25**	0,22
Total liabilities/total shareholders' funds	**0,85**	0,79
Future capital expenditure	**Rm**	Rm
Contracted	**5,7**	38,1
Authorised but not contracted	**173,5**	219,1
Net equity per ordinary share (cents)	**4 064**	3 927

Statements of Changes in Ordinary Shareholders' Equity

	Share capital and premium Rm	Non-distributable reserves Rm	Retained surplus Rm	Total Rm
Restated balance at 31 March 2000	591,2	37,5	1 624,3	2 253,0
Earnings attributable to ordinary shareholders			150,1	150,1
Ordinary dividends paid			(76,3)	(76,3)
Foreign currency translation reserve		6,3		6,3
Increase in reserve relating to lifo adjustment		1,1		1,1
Derivative valuation adjustment		(3,0)		(3,0)
Executive share incentive scheme issues	2,0			2,0
Reversal of deferred taxation			1,3	1,3
Balance at 31 March 2001	593,2	41,9	1 699,4	2 334,5

Cash Value Added Statement

	2001 March 52 weeks Rm (audited)	2000 March 52 weeks Rm (audited)
Cash generated		
Cash derived from customers	**6 645,3**	6 145,6
Cash payments outside the group to suppliers of materials, merchandise, facilities and services	**(4 998,0)**	(4 497,6)
Cash value added	**1 647,3**	1 648,0
Cash utilised to:		
Remunerate employees for their services	**963,5**	943,3
Pay direct taxes to the state	**101,1**	36,2
Provide lenders with a return on monies borrowed	**91,5**	88,6
Provide lessors with a return for the use of their premises	**385,9**	372,5
Provide shareholders with cash dividends	**79,9**	60,6
Cash disbursed among stakeholders	**1 621,9**	1 501,2
Net cash retained	**25,4**	146,8

Edcon
Edgars Consolidated Stores Limited
Registration number: 1946/022751/06
Incorporated in the Republic of South Africa

Non-executive directors: W S MacFarlane *(Chairman)* A J Aaron W F de la H Beck T N Eboka Z B Ebrahim J D M G Koolen† M I Wyman* († Netherlands) (*UK)
Executive directors: S M Ross** *(Chief Executive)* M R Bower J A Day G R Evans Dr U Ferndale K C van Aardt (**USA)
Group secretary: D J Viviers
Transfer secretaries: Mercantile Registrars Limited 11 Diagonal Street, Johannesburg 2001 PO Box 1053, Johannesburg 2000 Fax: (011) 370-5271 Telephone: (011) 370-5000
Registered office: Edgardale, Press Avenue, Crown Mines, Johannesburg 2092 PO Box 100, Crown Mines 2025 Fax: (011) 837-5019 Telephone: (011) 495-6000
Auditors: Ernst & Young
Sponsors: Cazenove South Africa (Pty) Ltd First Floor, Moorgate, Dunkeld Park, 6 North Road, Dunkeld West PO Box 412468, Craighall 2024

These results can be viewed on the internet at: http://www.edcon.co.za

BASTION GRAPHICS