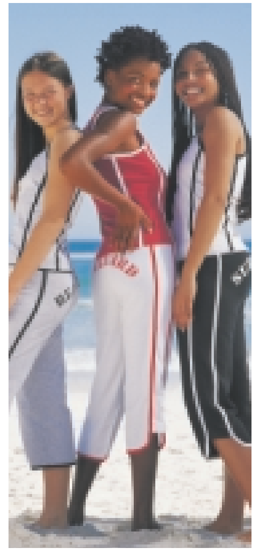
Edcon

Edcon We make it happen

Edgars Consolidated Stores Limited.
Registration number: 1946/022751/06.
Incorporated in the Republic of South Africa.
ISIN number: ZAE 000018388. Share code: ECO.

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

BASTION GRAPHICS

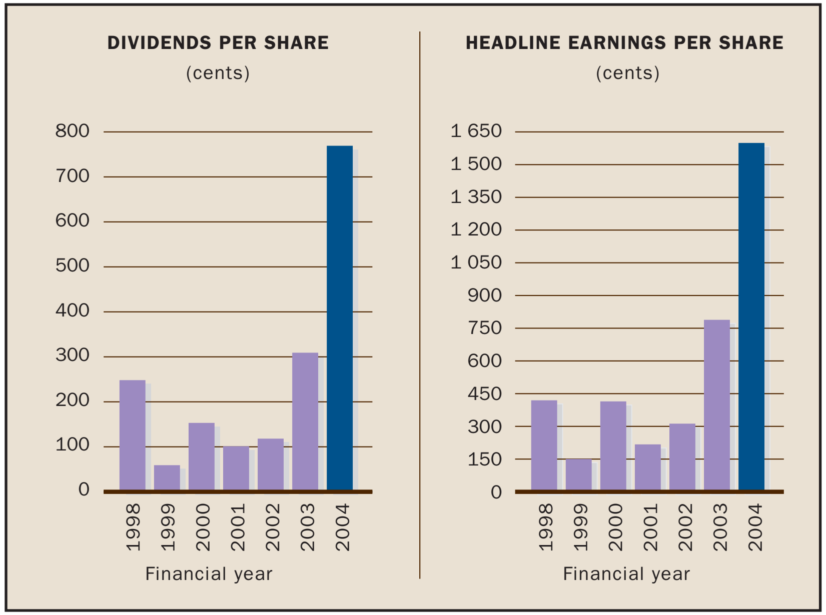


Edcon

Creating value

Audited Financial Report for the year ended March 2004

Salient Features



- 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%)

THE RETAIL ENVIRONMENT

During the past year, the South African economy was characterised by a deterioration in the overall GDP growth rate, as the strong Rand impacted negatively on production sectors, including manufacturing, mining and agriculture. In contrast, conditions for retailers improved considerably. The 550 basis point reduction in the prime interest rate and a sharp deceleration in inflation enhanced the purchasing power of consumers. Further personal tax cuts boosted household finances and consumer confidence amongst high and middle-income earners rose significantly.

Against this background, retail sales of semi-durable goods remained buoyant. South African Reserve Bank data confirms that real growth in semi-durable goods was 8% in the current year. Retailers' Liaison Committee (RLC) statistics reveal that national clothing, footwear and textile (CFT) sales have increased by 11,5% in nominal terms in the year under review, with no inflation in the sector.

GROUP RESULTS

The Board is delighted to report another year of record sales and earnings performance, culminating in a return on shareowners' equity of 28% and an increase of 149% in total dividends. Edcon continues to cement its position as the leading CFT retailer in South Africa and the sustainability of the Group's strategy is reinforced by these exceptional results.

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.

Another accomplishment has been the improvement in gross profit margin of 40 basis points to 39,0% brought about by the Group's strength in merchandise procurement and efficient supply chain processes. This was achieved despite the inclusion of CNA, which worked through distressed inventory, and the nature of Super Mart, being a general merchandise discount business.

At the individual chain level, Edgars, with 1% less average trading space and its selling price inflation at 4%, still grew sales by a strong 16%. The chain achieved unprecedented success across all key performance indicators. The most significant sales gains were in the jewellery, footwear, activewear, kidswear and menswear businesses, but all major merchandise groups recorded increases. Particularly pleasing was the acceleration of sales momentum in the second half of the year. Enhanced trading densities, due to improved replenishment processes, and benefits of disciplined expense management, contributed towards the growth in trading profit of 43%. Stockturn increased from 4,8 to 5,2 times as the chain continued to benefit from the Retek merchandise system and effective inventory control.

The 127% rise in trading profit for the Jet chain, incorporating Jet, Sales House, Cuthberts and Legit, was a truly remarkable performance for the Group's discount channel. 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%. This, combined with focused inventory management and controlled store expenses, ensured the success of the chain. RLC statistics indicate that Jet gained market share across most CFT merchandise categories. The star performers included menswear, intimatewear, footwear, kidswear and ladieswear. Another significant achievement has been the ability to report such large sales growths from average stock holdings some 3% below those of last year. Consequently, Jet improved its stockturn from 5,8 times last year to a world class 7,2 times.

The CNA chain is operating efficiently on all Edcon's systems and platforms, with an appropriate management team and staff structure now in place. The process of redeveloping the merchandise offering and overhauling the store operational environment is well advanced. 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. Particularly pleasing has been the performance of books and interactive merchandise, as customers took advantage of the enhanced product offering. With stockturns at only 2,7 times, there is still scope for significant improvements in the year ahead.

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. This allowed the Jet executive team, with its extensive experience in multi store management and Retek knowledge, to take over the complete control of the day-to-day operational management of this general merchandise discount cash retailer chain. 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, while stockturn increased to 4,6 times from 3,7 last year. The Group is pleased with the progress being made and is confident of further advances in the new year.

Total cellular phone and contract sales, which are now managed centrally by the Group, recorded a 40% rise to R802 million.

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, while volumes delivered to local customers increased satisfactorily in the last six months.

Increases in store expenses continue to be extremely 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. Costs of the new businesses, including chain management expenses, system integration costs and goodwill amortisation, accounted for the rise in other operating costs.

The quality of the debtors' book improved yet further and 88% of customers are now current and able to purchase – a result regarded as exceptional by world standards. The performance of the book was a major factor in the excellent results of the Credit and Financial Services businesses, which lifted their earnings by 165% to R137 million. An additional R22 million has been realised from better than anticipated collections on the debtors' book purchased from the Retail Apparel Group (but excluded from headline earnings). Another major success factor in the division has been the accelerating pace of development in the Financial Services division with its innovative customer insurance offerings. Cash sales now account for 38% of total sales, assisted by the addition of the CNA and Super Mart cash chains.

As a consequence of interest costs associated with the rise in debtors and investment activities, the net financing costs increased to R51 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. The effective tax rate decreased from 39,5% to 34,4%, as the prior year figures included a secondary tax on companies charge resulting from the repurchase of shares.

CASH FLOWS AND FINANCIAL POSITION

The significant rise in profitability is reflected in the increase in cash "EBITDA". Efficient working capital management remains a priority for Edcon. In terms of the securitisation agreement with OntheCards, only customers on our books prior to November 1999 were sold, and the increased investment in accounts receivable is an indication of the growth in new accounts, all of which have been funded by Edcon. Total debtors now managed by the Credit division amount to R4,7 billion, an increase of 25% over the prior year, but 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. Attributable cash flow per share, excluding the effect of the investment in the proposed securitisation of trade accounts receivable, referred to under post balance sheet events, rose by 5% to 2 433 cents per share.

The larger tax and dividend payments, a direct consequence of the higher earnings, reduced the net cash retained from operating activities to R10 million for the year. In line with our longer term financing plans, the further securitisation transaction will boost cash flow in the new year.

Focus on improving the store environment for customers has necessitated an extensive store refurbishment programme within Edgars and Jet. Investing activities also include costs of the CNA integration and the Super Mart accelerated buy-out.

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, some 50% of which has been utilised for employee remuneration. Edcon, with a closing gearing ratio of 6%, remains in an extremely strong financial position to continue to provide a contribution of this magnitude into the future. Flexibility is enhanced by the existence of R662 million in unutilised borrowing facilities.

POST BALANCE SHEET EVENTS

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

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. The transaction will be income enhancing for Edcon as it lowers the Group's funding costs, reinforced by Moody's positive re-rating of the OntheCards B class notes, which occurred earlier this year. Cash generated from the disposal of the securitised assets will be used to repay debt and to fund future internal and external expansion opportunities. Further details of the transaction will be issued later in a separate circular to investors.

ACCOUNTING POLICIES AND COMPARATIVES

In accordance with the recommendation issued by the JSE Securities Exchange South Africa (JSE), the Group's Staff Share Trust has been consolidated in the Group results.

In order to achieve compliance with AC103, 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.

DIVIDEND

In terms of the Group's policy of covering dividends twice by attributable earnings, the Board has declared a record 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.

CORPORATE GOVERNANCE

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 complying with the JSE requirements. It continues to ensure that business is conducted with discipline, integrity, transparency and social responsibility.

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.

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.115) of 521 cents per share in respect of the 52 weeks ended 27 March 2004 has been declared payable to the holders of ordinary shares appearing in the records of the company at the close of business on Friday, 2 July 2004. The dividend is declared payable in the currency of the Republic of South Africa and, in compliance with the requirements of STRATE, the following dates are applicable:

Last day to trade cum the dividend	Friday, 25 June 2004
Date trading commences ex the dividend	Monday, 28 June 2004
Record date	Friday, 2 July 2004
Date of payment	Monday, 5 July 2004

Certificated shareholders may not dematerialise or rematerialise their share certificates between Monday, 28 June 2004 and Friday, 2 July 2004, both dates inclusive.

On behalf of the Board

E A Bagley, *Group Secretary*

Johannesburg
11 May 2004

Income Statements

	52 weeks to March 2004 (audited) Rm	52 weeks to March 2003 (audited & restated) Rm	Change %
Revenue – retail sales	**10 530,0**	8 313,7	27
Cost of sales	**6 423,3**	5 107,0	
Gross profit	**4 106,7**	3 206,7	
Store costs	**1 914,4**	1 595,9	
Other operating costs	**1 247,6**	1 053,3	
Trading profit	**944,7**	557,5	69
Credit and financial services profit	**136,8**	51,7	
Operating profit before financing costs	**1 081,5**	609,2	
Net financing costs	**50,7**	44,2	
Profit before taxation	**1 030,8**	565,0	82
Taxation	**354,6**	223,2	
Earnings attributable to ordinary shareowners	**676,2**	341,8	98
Number of ordinary shares (000)			
in issue	**44 934**	43 339	
weighted average	**44 026**	47 461	
Earnings per ordinary share (cents)			
attributable earnings basis	**1 536**	720	113
headline earnings basis	**1 597**	786	103
cash equivalent basis	**2 246**	1 061	112
Diluted earnings per ordinary share (cents) (note 2)			
attributable earnings basis	**1 315**	660	99
headline earnings basis	**1 367**	719	90
Dividends per ordinary share (cents)			
interim (paid)	**247**	123	101
final (proposed)	**521**	185	182
total	**768**	308	149
cover (times)	**2,0**	2,3	
Return on shareowners' equity (%)	**28,3**	15,7	

NOTES:

Note 1
The accounting policies adopted for the purpose of this report comply with South African Statements of Generally Accepted Accounting Practice and International Financial Reporting Standards, and are consistent with those of the previous year except the policy relating to the treatment of the Edgars Stores Limited Staff Share Trust (the "Staff Share Trust"). To comply with the requirements of the JSE Securities Exchange South Africa, the Group results include the effects of consolidating the Staff Share Trust. The 2003 comparatives have been appropriately restated.

Note 2
Dilution on possible exercise of share options.

Note 3
These statements have been audited by Ernst & Young and the audit certificate is available for inspection at the company's registered office.

Income Statements *(continued)*

	52 weeks to March 2004 (audited) Rm	52 weeks to March 2003 (audited & restated) Rm	Change %
Reconciliation of headline earnings			
Group attributable earnings	**676,2**	341,8	
Plus: Loss on disposal of fixtures, equipment and vehicles	**1,4**	17,3	
Less: Recognition of discount on acquisition of RAG receivables and assets	**(22,0)**	(29,6)	
Plus: CNA and Super Mart acquisition write-offs (incl. amortisation)	**45,5**	38,4	
Taxation	**2,0**	5,2	
Headline earnings	**703,1**	373,1	
SEGMENTAL ANALYSIS			
Retail sales			
Edgars	**5 595,8**	4 817,5	16
Jet	**3 599,9**	2 924,2	23
CNA	**874,3**	389,5	124
Super Mart	**460,0**	182,5	152
	10 530,0	8 313,7	27
Trading profit			
Edgars	**603,8**	421,4	43
Jet	**395,3**	174,4	127
CNA	**1,4**	(2,4)	
Super Mart	**8,5**	10,2	(17)
Manufacturing	**(17,3)**	(7,7)	(125)
Amortisation of goodwill and intangibles	**(47,0)**	(38,4)	
	944,7	557,5	69
Average retail space (000 m²)			
Edgars	**379**	383	(1)
Jet	**283**	286	(1)
CNA	**82**	81	1
Super Mart	**50**	30	67
	794	780	2
Closing retail space (000 m²)			
Edgars	**386**	375	3
Jet	**287**	280	3
CNA	**88**	80	10
Super Mart	**57**	40	43
	818	775	6
Number of stores			
Edgars	**155**	151	
Jet	**283**	279	
CNA	**186**	151	
Super Mart	**17**	12	
	641	593	

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Cash Flow Statements

	52 weeks to March 2004 (audited) Rm	52 weeks to March 2003 (audited & restated) Rm
Cash retained from operating activities		
Operating profit	**1 081,5**	609,2
Depreciation, amortisation and impairment	**269,4**	304,5
Other non-cash items	**0,2**	(12,9)
Cash "EBITDA"	**1 351,1**	900,8
Investment in working capital	**(676,7)**	(38,2)
Inventories	**(31,0)**	(39,4)
Trade accounts receivable*	**(870,1)**	(383,2)
Other debtors	**(67,6)**	(54,0)
Accounts payable	**292,0**	438,4
Cash generated from operating activities	**674,4**	862,6
Net financing costs paid	**(50,7)**	(44,2)
Taxation paid	**(422,5)**	(103,2)
Cash inflow from operations	**201,2**	715,2
Dividends paid	**(190,8)**	(98,4)
Net cash retained	**10,4**	616,8
Cash utilised in investment activities		
Investment in fixtures, equipment and vehices	**(271,0)**	(113,8)
Acquisitions	**(66,1)**	(503,4)
Net proceeds of securitisation	**—**	798,3
Net cash invested	**(337,1)**	181,1
Cash effects of financing activities		
Increase in shareowner funding	**43,4**	(312,9)
Increase in interest bearing debt	**183,1**	(393,4)
Net cash inflow from financing activities	**226,5**	(706,3)
Decrease in cash and cash equivalents	**(100,2)**	91,6
Cash and cash equivalents at the beginning of the year	**298,0**	215,5
Acquisitions during the year	**—**	6,2
Currency adjustments	**(2,7)**	(15,3)
Cash and cash equivalents at the end of the year	**195,1**	298,0
Attributable cash flow per ordinary share (cents)*	**2 433**	2 314
Cash realisation rate (%)	**108**	218

*This includes trade accounts receivable, which are available for securitisation. The increase of R870 million has, accordingly, been regarded as an investing activity for the calculation of attributable cash flow per ordinary share.

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Balance Sheets

	March 2004 (audited) Rm	March 2003 (audited & restated) Rm
ASSETS		
Non-current assets		
Properties, fixtures, equipment and vehicles	**738,2**	689,2
Goodwill and trademarks	**54,1**	103,6
Investments	**400,0**	400,0
Total non-current assets	**1 192,3**	1 192,8
Current assets		
Inventories	**1 231,0**	1 186,6
Accounts receivable and prepayments	**2 477,5**	1 539,6
Cash and cash equivalents	**195,1**	298,0
Total current assets	**3 903,6**	3 024,2
Total assets	**5 095,9**	4 217,0
EQUITY AND LIABILITIES		
Capital and reserves		
Ordinary shareowners' equity	**2 649,8**	2 131,2
Preference share capital	**0,3**	0,3
Minority interests	**—**	0,3
Total shareowners' funds	**2 650,1**	2 131,8
Interest bearing debt	**366,5**	183,4
Total capital employed	**3 016,6**	2 315,2
Interest free liabilities		
Current payables	**1 992,9**	1 859,5
Deferred taxation	**86,4**	42,3
Total interest free liabilities	**2 079,3**	1 901,8
Total equity and liabilities	**5 095,9**	4 217,0
Gearing ratios		
Net interest bearing debt/total shareowners' funds	**0,06**	(0,05)
Total liabilities/total shareowners' funds	**0,92**	0,98
Future capital expenditure	**Rm**	Rm
Contracted	**36,5**	67,9
Authorised but not contracted	**575,3**	297,9
Net equity per ordinary share (cents)	**5 897**	4 918

Statement of Changes in Ordinary Shareowners' Equity

	Share capital and premium Rm	Non-distributable reserves Rm	Retained surplus Rm	Total Rm
Ordinary shareowners' equity at 29 March 2003 (Restated)	71,1	28,9	2 031,2	**2 131,2**
Net movement in treasury shares	38,0			**38,0**
Earnings attributable to ordinary shareowners			676,2	**676,2**
Ordinary dividends paid			(190,8)	**(190,8)**
Foreign currency translation reserve		(3,9)		**(3,9)**
Decrease in tax reserve relating to lifo adjustment		(0,9)		**(0,9)**
Balance at 27 March 2004	109,1	24,1	2 516,6	**2 649,8**

Cash Value Added Statements

	52 weeks to March 2004 (audited) Rm	52 weeks to March 2003 (audited & restated) Rm	Change %
Cash generated			
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)	
Wealth created through cash value added	**2 514,8**	2 389,7	5
Cash utilised to:			
Remunerate employees for their services	**1 279,3**	1 017,0	
Pay direct taxes to the state	**422,5**	103,2	
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	
Cash disbursed among stakeholders	**2 504,4**	1 772,9	41
Net cash retained	**10,4**	616,8	

Directors

NON-EXECUTIVE DIRECTORS:
WS MacFarlane (Chairman), AJ Aaron, TN Eboka, ZB Ebrahim, JDMG Koolen#, PL Wilmot,
SDM Zungu (appointed 23 March 2004)
#Netherlands

EXECUTIVE DIRECTORS:

SM Ross** (Chief Executive), SR Binnie*, AvA Boshoff, MR Bower, Dr U Ferndale, JL Spotts**
**USA *UK

GROUP SECRETARY:
EA Bagley (appointed 5 January 2004)

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SPONSORS:
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ISIN number: ZAE 000018388. Share code: ECO

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