

NEW  
CLICKS HOLDINGS  
L I M I T E D



ANNUAL REPORT 2005

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- **Pharmacy** integration continues to gather momentum, providing evidence that the group's pharmacy model is effective
  - After a disappointing performance, the core **Clicks** brand has started to show the early signs of a turnaround
- **UPD** produced an outstanding performance, despite a challenging regulatory environment

## Review of the Year

- **Discom** recorded its best operating profit performance for the past five years, and continues its strong presence in the ethnic hair care market
- The **Entertainment** division performed strongly, with its pricing strategy and the diversification into entertainment merchandise proving a success
  - The conversion to an **enterprise-wide information systems platform** which will transform business processes was successfully completed
- Senior appointments and changes to the group's **leadership** structure have enhanced the depth and experience of the management team



# Retail Store Locations

	Clicks	Non-integrated pharmacies	Discom	Musica	CD Wherehouse	The Body Shop	Style Studio	Total
<b>Gauteng</b>								
Johannesburg	50	10	21	13	2	8		104
Pretoria	34	7	7	14		4	1	67
Other	21		10	8				39
<b>Mpumalanga</b>	14		10	6		1		31
<b>Limpopo</b>	8	1	13	6				28
<b>North West</b>	14		7	7				28
<b>Free State</b>	16	4	11	7		1		39
<b>KwaZulu-Natal</b>								
Durban	26		10	9	1	3		49
Pietermaritzburg	4		2	2		1		9
Other	11		17‡	6				34
<b>Eastern Cape</b>								
Port Elizabeth	12		6	6		1		25
East London	4	3	5	4		1		17
Other	4		8	4				16
<b>Western Cape</b>								
Cape Town	46	4	24	24	1	6	2	107
Stellenbosch	1		1	1		1		4
Other	12		17	9				38
<b>Northern Cape</b>	3		7	3				13
<b>Botswana</b>				2				2
<b>Lesotho</b>			1					1
<b>Namibia</b>	4		1	4				9
<b>Swaziland</b>	2		2					4
<b>Zimbabwe</b>	14*							14
<b>Total</b>	<b>300</b>	<b>29</b>	<b>180</b>	<b>135</b>	<b>4</b>	<b>27</b>	<b>3</b>	<b>678</b>

\* Franchise stores  
‡ Includes 1 franchise store

# Financial Summary

		Group 2005	Continuing operations 2004	Group 2004
<b>Income Statement</b>				
Turnover	R'000	<b>8 714 338</b>	7 369 472	8 024 123
Gross profit	R'000	<b>1 709 476</b>	1 537 609	1 747 350
Headline earnings	R'000	<b>221 638</b>	242 094	264 660
<b>Balance Sheet</b>				
Shareholders' interest	R'000	<b>1 340 223</b>	1 319 155	1 319 155
Loans payable	R'000	<b>260 707</b>	340 549	340 549
Total assets	R'000	<b>3 190 175</b>	3 157 433	3 157 433
<b>Cash Flow</b>				
Net cash inflow from operating activities before dividends	R'000	<b>99 321</b>	247 171	316 786
Net interest paid	R'000	<b>49 086</b>	54 470	59 778
Capital expenditure	R'000	<b>170 106</b>	139 767	160 349
Depreciation and amortisation	R'000	<b>104 734</b>	100 425	109 021
<b>Performance</b>				
Turnover growth	%	<b>8.6</b>	28.2	8.9
Comparable stores turnover growth – southern Africa	%	<b>8.9</b>	8.1	8.1
Gross profit growth	%	<b>(2.2)</b>	26.8	(0.5)
Gross profit margin	%	<b>19.6</b>	20.9	21.8
Inventory turn	times	<b>5.4</b>	5.6	5.6
Return on total assets	%	<b>7.0</b>	7.3	8.0
Return on shareholders' interest	%	<b>16.7</b>	19.4	18.4
Net interest-bearing debt to shareholders' interest	%	<b>20.5</b>	26.5	26.5
Net interest-bearing debt, including cash, to shareholders' interest	%	<b>15.2</b>	(4.6)	(4.6)
<b>Statistics</b>				
Number of permanent employees		<b>8 947</b>	9 011	9 011
Number of stores – company owned		<b>663</b>	681	681
– franchised		<b>15</b>	15	15
Weighted trading area – company owned	m <sup>2</sup>	<b>249 417</b>	231 037	231 037
<b>Share Statistics</b>				
Headline earnings per share – undiluted	cents	<b>65.2</b>	68.5	74.9
– diluted	cents	<b>63.2</b>	66.7	72.9
Dividends per share – interim	cents	<b>11.2</b>		12.5
– final	cents	<b>18.5</b>		22.5
Dividend cover	times	<b>2.2</b>		2.1
Net asset value per share	cents	<b>394</b>		382
Net tangible asset value per share	cents	<b>368</b>		352
Share price – closing	cents	<b>810</b>		770
– high	cents	<b>990</b>		799
– low	cents	<b>690</b>		660
Number of shares in issue (gross)	'000	<b>370 260</b>		361 205
Number of shares in issue (net of treasury shares)	'000	<b>340 519</b>		345 391
Weighted average number of shares in issue	'000	<b>339 914</b>		353 571
Weighted average diluted number of shares in issue	'000	<b>350 433</b>		363 046
Market capitalisation (gross) at 31 August	R'000	<b>2 999 106</b>		2 781 279
Market capitalisation (net of treasury shares) at 31 August	R'000	<b>2 758 204</b>		2 659 511
Price earnings ratio at 31 August	times	<b>12.4</b>		10.3
Volume of shares traded for the year	'000	<b>131 882</b>		163 031
Percentage of shares traded during the year	%	<b>38.8</b>		46.1
Free float (including treasury shares)	%	<b>98.3</b>		98.8

# Profile and Strategy

## Overview

New Clicks Holdings is a specialist retail group listed in the Cyclical Services: General Retailers sector of the JSE Limited. The group is the country's leading provider of health, beauty and lifestyle merchandise through its network of more than 660 stores nationwide. The group's healthcare interests span the entire pharmaceutical supply chain, from wholesale distribution to retail pharmacy.

The trading brands of New Clicks are:

- Clicks
- Clicks Pharmacy
- Discom
- Musica
- CD Warehouse
- The Body Shop
- Style Studio
- New United Pharmaceutical Distributors (UPD)

## Background

New Clicks Holdings traces its roots back to 1968 when entrepreneurial retailer Jack Goldin opened the first Clicks store in Cape Town. By 1979 when Clicks Stores was listed on the

stock exchange, the group had expanded its store base nationally and was operating 30 stores.

Goldin sold control of the company to Score Food Group in July 1988 and four years later the Clicks Group was acquired by the Premier Group. The assets of the Clicks Group were then sold to Malbak subsidiary New Clicks Holdings in November 1995.

New Clicks Holdings was listed on the JSE in March 1996, with a market capitalisation of R880 million. After the unbundling of Malbak in 1997 the company no longer had a controlling shareholder.

The group has been acquisitive over the past two decades as it expanded beyond the Clicks offering to include a broader component of lifestyle merchandise, bringing prominent brands like Discom (1984), Musica (1992) and CD Warehouse (1997) into the fold.

July 1998 saw the group expand its operations into Australia with the acquisition of the 70-store Priceline chain and the consequent formation of New Clicks Australia. This was followed by the purchase of homeware franchise brand House (2000) and hair care brand Price Attack (2002). Following the changes in the healthcare and pharmacy

## The group's values

- We are truly passionate about our customers
- We believe in integrity, honesty and openness
- We cultivate understanding through respect and dialogue
- We are disciplined in our approach
- We deliver on our goals

landscape in South Africa the group sold the Australian operations in January 2004 to focus on its pharmacy implementation strategy locally.

In anticipation of regulatory reforms in the healthcare sector, New Clicks embarked on a strategy in the late 1990s to position the business to capitalise on the expected changes. The group acquired a majority stake in Link Investment Trust which operated over 300 pharmacies, funded the 80-store Purchase Milton & Associates (PM&A) pharmacy chain and purchased UPD in 2002.

The long-awaited changes came about in 2003 when legislation was passed enabling corporate ownership of retail pharmacies for the first time. This cleared the way for Clicks to integrate dispensaries into its stores. The first Clicks Pharmacy was opened in March 2004 and by the end of the 2005 financial year Clicks was operating a national network of 60 pharmacies.

### Strategy

New Clicks' strategy is to dominate the **retail** spend in the **lifecare** market in southern Africa through multiple **specialist** healthcare, beauty and lifestyle brands and store formats. This

will be delivered off an integrated, low-cost business platform.

**Lifecare** defines the niche products and services offered by the group, covering the fields of healthcare, home, personal and beauty care, entertainment and leisure, gifting and fashionable accessories. Lifecare is an aspirational concept and relates to an individual's life, home and well-being;

**Specialist** denotes the high degree of differentiation and the compelling way in which the group selects, ranges and presents its merchandise offering;

**Retail** is about adding value to the customer experience by selling the right products at the right price through the right channel.

In the year ahead, the main areas of focus to optimise and operationalise the strategy will be:

- addressing the turnaround in the performance of the Clicks brand, particularly in managing shrinkage, as the brand continues its move to a specialist health and beauty retailer;
- accelerating the integration of pharmacy into the Clicks brand and expanding the dispensary roll-out programme;

- maintaining the momentum in the performance of UPD, Discom and the Entertainment division;
- leveraging synergies and operating efficiencies from the new enterprise-wide information systems platform;
- aligning the complementary skills of the new leadership team to ensure the business is structured to deliver improved performance;
- improving the group's return on equity through
  - efficient capital management,
  - ongoing improvement in margin and mix,
  - enhanced performance, and
  - rigorous expense management; and
- transforming the business to reflect South African society.

The business strategy necessitates a multi-brand marketing strategy to accommodate the range of specialist brands and store formats in the health, beauty and lifestyle categories. Clicks and Discom provide a consolidated retail offering across all categories of merchandise, while brands such as Musica and The Body Shop specialise in one specific category.

# Chairman's Statement

## Business in transition

In last year's annual report we commented that "several of the group's activities are currently in a state of transition and in varying stages of progress". This statement still holds true and over the past year we have seen some of the businesses moving towards sustainable performance while others like the Clicks brand are in the early stages of this transition.

Clicks endured a difficult year as it absorbed pharmacy chain Purchase Milton & Associates (PM&A) into the business; continued integrating pharmacy into the brand; faced the uncertainty around the new medicine pricing regulations, while at the same time being challenged by operational issues of high shrinkage and poor inventory management. Inevitably, profitability in the brand declined.

The group has taken decisive action to address this underperformance and we are encouraged by the early signs of a recovery in Clicks towards the end of the financial year and heartened by the financial proof that our pharmacy model is starting to deliver.

The management team of Clicks has been upweighted to meet these challenges and the board has every faith in Michael Harvey leading the brand back to its former pre-eminent position in the health and beauty sectors. The management team are committed to positioning the brand as a health and beauty focused drugstore, underpinned by the value proposition of "You Pay Less at Clicks". In order to achieve the recovery and implement the brand's vision and strategy, the management team will now have the added support of David Kneale and Keith Warburton and be able to draw on their wealth of experience.

The Discom brand has started to realise its true potential and we are encouraged by the improved returns from the brand. The business has been well managed through its transition period and we have seen an

improvement in all the key financial metrics.

The structural changes that have taken place in the economy over the past decade have stimulated the growth of the middle class in our country. The growth and collective buying power of this market is highly appealing to retailers and we believe that Discom is ideally positioned to address this market.

Another business which has moved through a transitional phase to a more robust performance is the Entertainment division (Musica and CD Wherehouse). The division has transformed itself into a broader-based retail entertainment destination and in three years has grown its non-music revenue from nil to 39% of total turnover. Despite the technological risks which challenge the music industry, this business has demonstrated a strong resilience and delivered a very pleasing performance.

After rapidly growing its store base over the past few years, The Body Shop is reaching market saturation and will now consolidate its store base and look to grow revenue from its existing stores.

UPD has produced outstanding results. It too is a business in transition as it adapts to a high volume, lower margin business model which has been necessitated by the introduction of single exit pricing. The prospect of further regulatory changes in the wholesale distribution sector cannot be ignored.

One of the group's major areas of transition has been on the technology front where the enterprise-wide information systems platform was successfully implemented at year-end. This will change business processes fundamentally and over the next few years many roles in the group will be redefined as we adapt to this new technology. Significant benefits are expected to flow from the new systems.

## Financial performance

The group's overall financial performance has been disappointing, impacted by the poor results from Clicks. While there were strong performances from Discom, the Entertainment division and UPD, this was not sufficient to prevent an 8.6% decline in the operating profit from continuing operations to R358.6 million owing to the relative size of the Clicks brand.

Headline earnings from continuing operations declined by 8.5% from R242.1 million to R221.6 million, with diluted headline earnings per share reducing by 5.3% to 63.2 cents per share. Shareholders received a total dividend of 29.7 cents per share for the year (2004: 35.0 cents per share).

The group's trading performance is covered in the Chief Executive's Report while a detailed analysis of the financial performance is contained in the Chief Financial Officer's Report.

## Board and management

The recent appointments of Keith Warburton as chief financial officer and



DAVID NUREK  
CHAIRMAN



David Kneale as deputy chief executive, which are detailed in the Chief Executive's Report, will significantly strengthen our senior management resources and ensure that we once again have the top talent to restore the group's performance. Both come with impressive credentials in their areas of expertise and their appointments also create succession management opportunities for the future.

While we have always invested in our own talent and promoted from within our ranks wherever possible, it has been necessary to attract external executives to add depth to our senior executive team. The board believes that the team of Keith, David, Trevor Honneysett and Michael Harvey has the energy, experience, expertise and ability to rejuvenate all of the businesses in the group and, in particular, the Clicks brand.

The group has also acknowledged the need to be more competitive in attracting and retaining senior executives and during the year an incentive programme was introduced which closely aligns executive performance with the creation of shareholder value.

Six million share appreciation rights have been made available and the group is required to exceed exacting share price targets before executives benefit from this scheme; by year-end, a total of 3.8 million rights were granted to nine senior employees, excluding executive directors. Additional rights will also be granted to the newly-appointed members of the group executive.

One of our longest serving directors, Raymond Godfrey, has decided to take early retirement from the group after 35 years' service. We thank him for his contribution both as a director and as an executive where he served in various leadership positions, including managing director of Clicks, country leader of New Clicks South Africa and group merchandise leader.

The board has also approved the establishment of a transformation committee to formulate a black economic empowerment strategy for the group and drive transformation into the business.

### Corporate governance

The group complies in all material respects with the governance requirements of King II. We regularly review our structures and processes to ensure that the group adheres to best practice in corporate governance. During the year the board evaluation process was extended to include reviews of individual directors by the chairman as well as reviews of the board sub-committees.

### Prospects

While the strong retail markets are expected to continue in the short term, the downward inflationary pressures on FMCG retailers will make it increasingly difficult to achieve top-line growth. Meaningful growth is therefore likely to be achieved primarily through market share gains from improved trading.

As outlined earlier in this report, our businesses are all in a state of transition. In the year ahead, we anticipate

continued strong growth from Discom, the Entertainment division and UPD, and expect Clicks to show an improved performance off a low base. However, the full benefits of the turnaround in Clicks will only be realised in the medium term.

The directors and management believe that the group now has a clearer focus, a more experienced senior management team and a stronger platform for growth which is expected to contribute to improved profitability and earnings in the year ahead.

### Thanks

We would like to thank our shareholders for your continued support and loyalty during a difficult period for the group. We trust that your investment will yield satisfactory returns over the medium term as the group strives to deliver to its true potential. Thank you to our customers, suppliers and business associates for your support.

In closing, I would like to express my gratitude to my fellow directors, chief executive Trevor Honneysett and the senior management team for their capable leadership of the group in a challenging year. The contribution of our staff of almost 9 000 people does not go unnoticed and I extend my thanks to every one of you.

A handwritten signature in black ink, appearing to read 'David Nurek', written over a light blue horizontal line.

DAVID NUREK

Independent non-executive chairman

# Board of Directors

## Non-executive directors



**David Nurek** (55) Dip Law, Grad Dip Adv Company Law  
Independent non-executive chairman  
Chairman of the Governance, Nominations and Remuneration committees  
Appointed June 1997

David practised as an attorney with Sonnenberg Hoffmann Galombik for 32 years, including 23 years as a partner, before joining Investec in 2000.

Non-executive chairman of Distell Group, Lewis Group, JCI and Randgold & Exploration, non-executive deputy chairman of Foschini and Business Connexion Group, and non-executive director of Allan Gray Property Trust, Aspen Pharmacare, Pick 'n Pay Stores, Sun International, Trenchor and Western Areas.



**Peter Swartz** (64) Adv Dip Ed  
Independent non-executive deputy chairman  
Appointed June 1997

Executive director of Peter Swartz Properties and Southern Pumps

Chairman of Sunwest International and a non-executive director of the Absa Group, Distell Group and Sun International.



**Robert Lumb** (62) Adv Dip Tax Law, CA (SA)  
Independent non-executive director  
Chairman of the Audit and Risk management committees  
Appointed April 2004

Rob is a former partner of Ernst & Young. He served as managing partner of the firm's Western Cape practice from 1989 to 2002 and was a member of the national executive committee for 18 years.

He is a non-executive director of Metje & Ziegler.



**Eliot Osrin** (73)  
Independent non-executive director  
Appointed March 1996

Eliot practised as an attorney with Sonnenberg Hoffmann Galombik for 27 years, including 22 years as a partner.

Non-executive chairman of Foschini and Atlas Properties and a non-executive director of Allan Gray Property Trust.



**Lucia Swartz (48) BA**  
Independent non-executive director  
Appointed January 2004

Group human resources director of Sappi

Lucia has extensive experience in human resources and previously served as a non-executive director of New Clicks Holdings between 1997 and 2000 before relocating to New York for three years.



**Allen Zimble (56) BA (Hons), MBA, PhD**  
Non-executive director  
Appointed October 2001

Chief integration officer of the Investec Group

Prior to joining Investec in 2001, Allen was a strategic management consultant and is a former professor of business administration at the Wits Business School.



## Executive directors

**Trevor Honneysett (57)**  
Chief executive officer  
Appointed March 1996

Trevor joined the group in 1971. He was appointed managing director of Clicks Stores in 1987 and chief executive of the Clicks Group the following year. When New Clicks Holdings was listed in 1996 he was appointed chief executive of the group.



**Raymond Godfrey (57)**  
Executive director  
Appointed March 1996

Raymond joined the group in 1970 and was appointed managing director of Clicks Stores in 1995. He was appointed country leader of New Clicks South Africa in 2001 and group merchandise leader in 2002. He has resigned from the board with effect from 31 December 2005 as he is taking early retirement from the group.

# Chief Executive's Report

## Introduction

The group's overall performance has been disappointing and we continue to acknowledge that we are not delivering to our true potential. Our retail brands Discom, the Entertainment division of Musica and CD Warehouse and wholesale distributor, UPD, performed strongly, but the reality is that when Clicks underperforms, the group underperforms.

We made significant progress in several operational areas of the business, including the successful implementation of an enterprise-wide information systems platform which will transform business processes, the continued integration of pharmacy into Clicks as well as restructuring the group's leadership team to enhance the depth and experience of management.

All these developments have created a stronger foundation for the business and will contribute towards improving performances within Clicks, while continuing to extract strong performances from the other brands.

## Trading environment

The consumer spending boom, which has been stimulated by low interest rates, low inflation and the growing middle class, is showing little sign of slowing down. We believe this momentum will be maintained into the year ahead, although probably not at the same high growth rates of the past year. The interest rate increase which many market commentators are predicting for the first half of 2006 is unlikely to impact the group as the brands in our stable are not particularly interest rate sensitive.

We are conscious of the market perception that New Clicks may have been left behind in the retail boom, based on the underperformance of the Clicks brand and the subdued growth in the New Clicks share price.

However, we believe the group has been part of this upswing, reflected in our growth in retail space where we opened 46 new stores across the five retail trading brands during the year, bringing the total store base to 678 at year-end.

We have committed to opening another 30 new stores in the year ahead and will probably exceed this figure as attractive opportunities arise during the year, which will take our store tally past the 700 mark.

## Trading performance

Clicks has experienced one of its most troublesome years and the brand was faced with declining sales, an unacceptably high level of shrinkage, low staff morale, an uncertain pharmacy environment and a change of leadership during the year.

As the year progressed the new management team started to make an impact and there are early signs that performance has bottomed out and the brand has started to turn around. Clicks

increased turnover by 17.9% to R4.5 billion, inflated by the inclusion of the pharmacy results for the full financial year as opposed to only six months in the previous year. When the turnover from the pharmacy operations is excluded, the core Clicks brand increased turnover by 9%.

Operating profit, which was impacted by a loss of approximately R70 million in the pharmacy business, the continued high shrinkage and a higher allocation of central costs, declined by 28.5% to R209.7 million. An estimated R48 million of the pharmacy losses relate to the impact of the lower margin on dispensing fees prescribed by the Department of Health and which we adopted half way through the year to meet increasing pressure from competitors.

Discom performed well ahead of expectations and continued on its path to sustained profitability. The brand increased turnover by 11% to R975.2 million and lifted operating profit seven-fold to R28.9 million. The benefits of the brand's repositioning as an African beauty and hair care specialist over the past few years are becoming increasingly evident.

TREVOR HONNEYSETT  
CHIEF EXECUTIVE OFFICER



The Entertainment division brands of Musica and CD Warehouse performed strongly, with an aggressive pricing strategy and increased sales of entertainment merchandise contributing to a 21.7% sales growth. The strategy of diversifying the income stream away from music has seen sales of DVD, gaming and lifestyle merchandise growing to 39% of total turnover (2004: 29%). Operating profit increased 45.1% to R27.6 million.

The Body Shop increased turnover 14.0% to R58.4 million, although comparable store growth declined by 1.5%. The brand experienced a stronger performance in the second half, but this was not sufficient to overcome the disappointing first six months and profit declined 5.2% to R9.5 million for the year.

UPD has continued its impressive performance and increased turnover by 33.3% to R3.0 billion for the year, driven by strong growth in sales to independent pharmacies. Growth in turnover from Clicks Pharmacy has increased as the rate of pharmacy integration increases, while sales to private hospitals is proving to be a further growth area. The challenging regulatory environment saw margins

being impacted by the lower logistics fee following the introduction of single exit pricing. However, the increased sales volumes more than compensated for the lower margin. Expenses were well managed at 6.6% of turnover (2004: 8.3%).

The performance of the retail trading brands and the distribution operations are covered in further detail in the Operational Reviews from page 20 to 29.

### Pharmacy environment

Our protracted legal battle over the medicine pricing regulations has been well documented and culminated in the judgment by the Constitutional Court in September requiring a revision of the regulations. While our decision to go to court was vindicated by this ruling, we welcome the opportunity afforded to all stakeholders in the healthcare sector to collectively develop a workable pricing model. We believe that all the uncertainty and pressure placed on the retail pharmacy sector over the past year could have been averted if a more consultative process had been followed upfront in developing the original regulations.

Contrary to popular belief, our decision to take a legal stand against the Department of Health has not affected our pharmacy integration plans or hampered the granting of pharmacy licences. We continue to engage with government and it is encouraging to see that our views in principle are aligned.

The bold decision by Clicks to adopt the prescribed dispensing fee of R26 or 26% earlier this year after challenging the legislation in court, confounded our critics and competitors alike. This move was made to meet the mounting competition in the retail pharmacy sector.

Following the Constitutional Court ruling Clicks has continued to levy the R26/26% fee during the interim period while a more sustainable pricing structure is being developed. Clicks is committed to being price competitive once the amended regulations are published to reinforce the brand's customer promise of "You Pay Less at Clicks". We will continue to adopt a competitive pricing policy which will drive sales volumes, but also enhance margin.

The pharmacy integration process started in 2004 was elevated to a higher level during the year and it is most

## Chief Executive's Report (continued)

rewarding to see Clicks finally fulfilling its destiny by transforming into a drugstore. We have taken the lead with dispensaries in our stores and already have the largest chain of retail pharmacies in the country.

The performance of the Clicks stores with a pharmacy are proving that our business model is appropriate and on average are reporting front shop turnover increases of 16% as opposed to 6% in the non-integrated stores.

We are also mindful that dispensary sales will take a while to build up momentum as customers will need time to develop a relationship of trust with a pharmacist. The clinics in our stores will not only differentiate us from other corporates entering retail pharmacy, but play a role in making healthcare more accessible and more affordable.

Our healthcare strategy has always been predicated on creating an integrated channel to market – spanning wholesale distribution through to retail pharmacy within Clicks stores – and extracting margin along the supply chain. We are starting to realise the benefits of this strategy, with Clicks now being one of UPD's largest customers, and this trend will continue as the pharmacy integration accelerates and Clicks grows its share of the retail pharmacy market.

We believe that rationalisation is inevitable in the local wholesale distribution sector as our market cannot sustain the current number of operators. We cannot rule out the possibility of multinational drug manufacturers leaving the country if the

ownership requirements of the health-care sector charter become too onerous. We have positioned UPD to capitalise on opportunities that may arise through rationalisation as their high volume, lower margin business model is proving most successful.

### Leadership

Our leadership team has undergone widespread changes during the past year, with Michael Harvey being appointed leader of Clicks, Grant Heynes succeeding Michael as the leader of the Discom brand and Lynda van Niekerk assuming responsibility for UPD. All three have acquitted themselves admirably.

Keith Warburton was appointed chief financial officer in September to bolster the group's financial management capability and address some of the strategic challenges facing the business. His financial acumen and experience gained in senior roles in other listed retailers is already benefiting the group.

We were also pleased to attract the services of international retail specialist, David Kneale, who has been appointed deputy chief executive of the group from January 2006, subject to immigration approval.

David was until recently the chief commercial officer and an executive committee member of listed health and beauty retailer, Boots Group plc, in the UK. He is widely regarded as one of the top health and beauty specialists in the UK market and his appointment is indeed a coup for New Clicks and the

local retail industry. He will assume overall responsibility for the Discom, Entertainment and The Body Shop retail brands as well as UPD.

The appointment of these two senior external executives forms part of a restructuring of the New Clicks leadership team.

The restructuring also recognises the importance of the recovery in Clicks to the overall success of the group. Michael Harvey will now dedicate his energy to the turnaround in Clicks and lead its transformation to a health and beauty-focused drugstore. Michael is an inspirational leader and the most suitable executive to reverse the fortunes of the Clicks brand.

David, Keith, Michael and I will now form the group executive. We have disbanded our larger group operations forum which was previously responsible for the operational performance of the group. The new team has a range of complementary skills and talents, backed by extensive experience in the retail sector.

The leadership changes and appointments add a dimension to our business that has been lacking for some time and we are confident that this new partnership has the ability and passion to realise the potential within the New Clicks business.

### Outlook

The performance of Clicks is critical to the overall success of the group and the turnaround in Clicks remains management's main priority. While the

brand started to show an improved trading performance in the latter part of the year and this upward trend is expected to continue, the full benefits of the recovery are only likely to be realised in the medium term.

Discom will build on its recent success and expand into the health and wellness market, while the Entertainment division will focus on growing gaming, DVD, lifestyle merchandise and local music, as well as exploring opportunities in the cellular market.

UPD will continue to target volume growth. While the regulatory environment remains challenging with the expected capping of logistics fees and uncertainty on the retail pharmacy

dispensing fee, UPD is well positioned for strong profit growth.

Following the migration to the enterprise-wide information systems platform, the group will focus on leveraging the benefits of the system and adapting to this new way of managing the business.

The performance for the first two months of the new financial year has been encouraging and with the focus on the turnaround in Clicks, the group will look to an improved performance in 2006.

### Thanks

Our people have once again experienced a year of constant change

in the business and continually show their ability to accept any challenge they face. Thanks and well done to all our staff in the stores throughout the country and at head office for your commitment and efforts.

Thank you to our chairman, David Nurek, and my fellow directors for sharing your wisdom and experience in guiding the group, as well as the leadership team for the role you have played in the group's performance over the past year.



**TREVOR HONEYSETT**  
Chief Executive Officer



# Chief Financial Officer's Report

The Chief Executive's Report outlines the favourable economic conditions experienced by the retail sector over the past year. However, fast moving consumer goods (FMCG), which comprise the majority of the product sold by the group, have not shown the same growth rates. Purchase inflation for the group continued at low levels throughout the year which presents an ongoing challenge in the face of continuing pressure on cost inflation in areas such as employee remuneration and occupation costs.

Against this background, the group showed satisfactory turnover growth, but a disappointing operating performance from the Clicks brand negatively impacted the overall performance. Most of the other brands delivered strong earnings growth in 2005.

Year-on-year comparison of the group's performance is complicated by the sale of New Clicks Australia (NCA) and the group's interest in Intercare Managed Healthcare last year as well as the consolidation of Purchase Milton & Associates (PM&A) following its acquisition in March 2004. To assist in a review of the results, the financial statements have been compiled to reflect both discontinued and continuing operations and the group has endeavoured to disclose sufficient other detail to enable shareholders to more fully understand the various income and expenditure components of the group.

- The group increased turnover from continuing operations by 18.2% to R8.7 billion for the year, bolstered by the inclusion of the pharmacy operations for the full financial year compared to only six months in the 2004 results.
- However, a 28.5% decline in the operating profit (gross profit plus other revenue less operating

expenditure) of Clicks from R293.5 million to R209.7 million adversely affected the group's results. This decline resulted mainly from a loss of approximately R70 million in the pharmacy business for the year and a high level of shrinkage in the brand.

- Owing to the relative size of the Clicks brand, there has been an 8.6% decline in the group operating profit from continuing operations to R358.6 million.
- Diluted headline earnings per share from continuing operations reduced by 5.3% to 63.2 cents per share. Diluted basic earnings per share at 58.4 cents per share was lower than diluted headline earnings per share owing to an impairment of the Link Investment Trust goodwill as well as various other capital items which together totalled R17.0 million.
- Return on equity (RoE) decreased from 18.4% to 16.7%, principally due to the decline in operating performance.

Working capital management remains an opportunity and therefore a key area of focus in the year ahead.

## Capital management

Capital is managed centrally by the finance division, and the brands report

results on an economic value-added (EVA) basis. While brands are incentivised to grow profits on an EVA basis, the finance division manages capital to optimise the gearing effect with the objective of enhancing the return on shareholders' interest.

Following the sale of NCA in January 2004, the group reduced its net gearing ratio to well below its then target of between 25% and 30%. It therefore initiated a share repurchase programme, buying back 13 million shares for R99.5 million to August 2004 and a further 13.9 million shares for R126.7 million during the current financial year until 20 December 2004 (shares were bought back at an average price of R8.37).

While this programme was RoE enhancing, the group has decided not to purchase any further shares until the cash flow trend is more positive. The group will then also use this opportunity to establish new gearing targets as well as determining optimal capital structures.

## Financial results – income statement

The trading performance of the brands has been set out in more detail in the Chief Executive's Report and in the brand reviews.



**Keith Warburton – Chief financial officer (47) B Com, CA (SA)**

After qualifying as a chartered accountant in 1985, Keith gained experience in corporate finance and financial management before being appointed financial director of Metro Cash and Carry in 1990. Following the acquisition of Metro Cash and Carry by the Premier Group in 1991, he was appointed financial director and deputy managing director of Score Supermarkets. He led the management buyout of Score in November 1992 and served the retailing chain until 1997 when it was acquired by Pick 'n Pay. Keith was appointed financial director of Truworths in 1997 and two years later joined Homechoice Holdings as chief operating officer. He left the company in 2001 to establish a business consultancy. He joined New Clicks as chief financial officer in September 2005.



**Income drivers**

R'000	2005	2004		2005	2004
Turnover	8 714 338	8 024 123			
Cost of merchandise	7 004 862	6 276 773			
Gross profit	1 709 476	1 747 350	Gross profit margin	19.6%	21.8%
Other revenue	542 778	540 318	Other revenue	1.32	1.31
Net revenue before operating expenditure	2 252 254	2 287 668	Operating expenditure/turnover	25.8%	28.5%
Operating expenditure	1 893 697	1 853 166	Operating margin	4.1%	5.4%
Operating profit	358 557	434 502	Net interest/turnover	0.6%	0.7%
Net interest paid	49 086	59 778	Headline profit before taxation	3.6%	4.7%
Headline profit before taxation	309 471	374 724	1- Effective taxation rate	0.72	0.71
Taxation on headline profit before taxation	87 833	110 064	Average inventory turn	5.75	5.71
<b>Headline earnings</b>	<b>221 638</b>	264 660	Other net assets	1.08	1.31
Average inventory	1 516 610	1 406 200	Average net asset turn	5.31	4.37
Average other assets	1 657 195	1 899 432	Return on total non-cash assets	13.5%	14.4%
Average non-interest-bearing liabilities	1 532 181	1 468 185	Net debt ratio	19.0%	21.6%
Average total assets less non-interest-bearing liabilities	1 641 624	1 837 447	1- net debt ratio	81.0%	78.4%
Average interest-bearing current liabilities	98 228	95 897	Return on equity	16.7%	18.4%
Average interest-bearing non-current liabilities	213 707	301 502			
Average total interest-bearing liabilities	311 935	397 398			
<b>Average capital</b>	<b>1 329 689</b>	1 440 049			

## Chief Financial Officer's Report (continued)

### Turnover

While the growth in Clicks turnover benefited particularly from pharmacy being included for a full year in 2005 as opposed to six months in the previous year, this growth was, however, impacted negatively by the introduction of the R26/26% pricing regulations introduced into pharmacy earlier this calendar year.

Clicks' turnover was also impacted by the conversion and closure of a number of PM&A stores and the opening of dispensaries in Clicks stores, and year-on-year comparison needs to be seen in this context. Clicks' turnover (excluding pharmacies) increased by 6.9% on a like-for-like basis.

For the first time in a number of years Discom had a net increase in the number of stores, which assisted turnover growth. The brand also showed strong same store turnover growth of 9.2%.

Entertainment's very pleasing turnover growth reflects the benefits of the new wider product offering. This wider offering also means the brand is now less exposed to the vagaries of the music industry.

The Body Shop turnover increase is mainly from the growth in new stores opened this year. Same store growth was down by 1.5% owing to some extent to the cannibalisation of turnover from other The Body Shop stores in surrounding areas.

UPD continues to show very strong turnover growth. The implementation of single exit pricing (SEP) in August 2004 reduced selling prices by approximately 15%, but has driven volumes towards UPD from single channel operators because of UPD's wider offering. UPD's fine distribution capability also allows pharmacies to minimise their inventory holdings by receiving more frequent deliveries.

### Gross profit margin

Gross profit margin has been negatively affected by:

- a higher than expected level of shrinkage in Clicks (addressed in more detail in the Operational Review);
- Clicks adopting the R26/26% medicine pricing model earlier this year;
- Musica's strategy of lower priced CDs and the changing mix, with a larger proportion of turnover coming from DVDs and gaming which are at lower margins than CDs;
- a drop in margins in The Body Shop coming mainly from the Clicks ClubCard offering that was trialled in the brand during the financial year, but subsequently discontinued shortly before year-end; and
- the effects of SEP on UPD's margin.

This was offset to some extent by better margins in Discom from improved shrinkage and refinements to the product mix.

### Operating expenses

Comparisons in operating expenditure year-on-year are again affected by the fact that pharmacy is included for only six months in 2004 and NCA which was included for only part of last year. We have therefore also presented pro forma amounts in the accompanying table which has the effect of showing pharmacy expenses for a full year in 2004 as well as reflecting NCA

Turnover			
(R'm)	2005	2004	% change
Clicks	4 469	3 789*	17.9
Discom	975	879	11.0
Entertainment	662	544	21.7
The Body Shop	58	51	14.0
Other	9	6	
Total SA – Retail	6 173	5 269	17.2
UPD	3 046	2 285	33.3
Intragroup elimination	(505)	(185)	
Total continuing operations	8 714	7 369	18.2
NCA	–	655**	
Total group	8 714	8 024	8.6

\* PM&A included for six months in 2004  
 \*\* NCA only included for four months in 2004

## Operating expenses

(R'm)	2005	2004*	Pharmacy		% change
			H1 2004	Pro forma 2004***	
Depreciation and amortisation	105	100	13	113	(7.1)
Occupancy costs	291	245	21	266	9.4
Employment costs	847	720	78	798	6.1
Other operating costs	651	542	38	580	12.2
Total continuing operations	1 894	1 607	150	1 757	7.8
NCA**	–	237	–	237	
Other	–	9	–	9	
Total group	1 894	1 853	150	2 003	(5.4)

\* PM&A included for six months in 2004

\*\* NCA only included for four months in 2004

\*\*\* Including pharmacy costs for the full year in 2004

separately, in order to assist the reader with a further basis of comparison.

The depreciation and amortisation charge benefited from a number of assets becoming fully depreciated during the year and the closure and

conversion of 29 PM&A stores. We do, however, expect that as a result of the new systems implemented in August 2005 (as detailed on page 18), depreciation will increase to around R120 million for 2006.

The increase in occupancy costs reflects the growth in trading space and the annual rental escalation in terms of lease agreements.

Employment costs were reasonably well controlled and within acceptable levels of increases.

Other operating costs were largely impacted by:

- costs associated with the higher sales volumes such as credit card commissions, advertising, bank charges, communication costs and distribution centre-related transport to the stores; and
- shared services costs, which increased as a result of the implementation costs of the new systems.

## Operating profit

(R'm)	2005	2004	% change
Clicks	209.7	293.5*	(28.5)
Discom	28.9	4.2	596.0
Entertainment	27.6	19.0	45.1
The Body Shop	9.5	10.0	(5.2)
Other	(6.2)	(10.0)	
Total SA – Retail	269.5	316.7	(14.9)
UPD	89.1	75.6	17.9
Total continuing operations	358.6	392.3	(8.6)
NCA	–	43.6**	
Other	–	(1.4)	
Total group	358.6	434.5	(17.5)

\* PM&A included for six months in 2004

\*\* NCA only included for four months in 2004

## Operating profit

Operating profit from continuing operations decreased by 8.6%, impacted mainly by the performance of the Clicks brand.

Generally the other brands in the group showed strong operating profit growth.

## Interest

The group continues to have a relatively high interest charge, largely attributed to the fixed-rate debt negotiated at a time when interest rates were significantly higher than current rates. The remaining interest expense is mainly related to the monthly working capital needs of the group. The net expense in 2005 has, however, reduced from that reported in the prior year owing mainly to the inclusion of interest received on the Intercare loan.

## Goodwill

The group impaired the Link Investment Trust goodwill by R16 million. However, we expect to dispose of this trademark in the near future and anticipate recovering part of our investment.

## Financial results – balance sheet

Apart from capital management, the group's other key focus for the balance sheet is on inventory levels, where an improved inventory turn can be achieved. Inventory turns – based on sales at selling prices and inventory at cost – declined marginally in the current period.

This can be attributed partly to the extra inventory of about R30 million held at year-end to ensure continued inventory

availability when the group migrated to new systems. UPD also had a slightly worsening trend as SEP reduced the average value of items sold by some 15%. In reality, inventory turns at UPD remain very efficient.

The group now has improved systems and management will be exploring ways of using the information more effectively to extract synergies in the form of lower inventory levels where possible.

Accounts receivable largely arise from UPD and the pharmacy operations. UPD and the pharmacy operations closed the year with debtor's days at 28.9 days and 23.2 days respectively. Pharmacy debtors comprise mainly accounts receivable from medical aids. The remaining debtors are largely attributed to amounts owed by trade suppliers in respect of co-operative income relating to group purchases.

## Cash flow

The group utilised a further R345 million of cash during the year. Any comparison to 2004, however, needs to recognise that the proceeds on the sale of NCA of R317 million were included in that year. During the year cash was absorbed mainly by:

- increased inventory of R211 million, which was not supported to the same extent by supplier funding;
- store refurbishments and pharmacy conversions of R70 million;
- R75 million spent on the information technology systems;

- other capital expenditure of R25 million;
- the movement on loans payable and receivable of R106 million in the current year;
- dividends comprising the final dividend from 2004 of R75 million and the 2005 interim dividend of R37 million which were paid during the financial year; and
- the share repurchases, mentioned on page 14, of R127 million.

We will continue to invest in the development of our stores in the year ahead and plan to further expand the UPD facility in Johannesburg to enhance its offering and capability. In addition, various other capital expenditure requirements of R72 million are anticipated. A total amount of R164 million has been budgeted for the 2005 year.

## Information systems and financial reporting

The group began a process of re-engineering its enterprise-wide information systems some 30 months ago and the systems were successfully implemented in August 2005.

The new systems, based on an Enterprise Resource Planning 2 (ERP 2) platform, will introduce a very different way of measuring and managing the business and it will therefore take time for the group to extract the full benefits from the systems. The focus for the next two years will be on adapting the business and adding to the systems and

processes to allow us to optimise the benefits of ERP 2.

The group now has a new daily sales and cash management system in place, greatly improving the speed, accuracy, control and detail of transactions in stores down to a till point level.

Supplier invoice matching at store level is also now in place, another significant improvement on the past, which similarly will greatly reduce the amount of time spent on inaccuracies, reconciliations, follow-ups and the discrepancies that largely existed in the old paper-based systems.

Currently, continuous inventory counts are being conducted in a pilot phase, which will prove to be a significant enhancement to inventory counts and related control and is due for full implementation during 2006.

The systems will continue to be developed to allow the group to achieve a more efficient end-to-end processing system within the supply chain process with an ability to more effectively track product profitability thereby creating a further refinement to the demand-driven supply network.

### International Financial Reporting Standards

In line with the requirements of the JSE Limited, the group will adopt International Financial Reporting Standard (IFRS) with effect from 1 September 2005. The areas affecting the group's results will be, inter alia:

#### *Share-based payments*

IFRS 2 applies to equity-settled and cash-settled share-based payments. It

requires that equity-settled share-based payments, which would include the share options granted to employees within the New Clicks group, be accounted for by a value being attributed to the options on the grant date and expensed over the vesting period of the options. The treatment prescribed by IFRS 2 in respect of cash-settled share-based payments is consistent with the policy adopted in the current year (refer to the accounting policy on employee benefits and to note 17.1 in the annual financial statements).

#### *Property, plant and equipment – material component approach*

IFRS requires an annual reassessment of useful lives and residual values of all property, plant and equipment. IFRS will also require material components of property, plant and equipment to be separately identified and depreciated over the appropriate periods.

Further detail of the impact of IFRS on the group's results will be disclosed with the group's interim results in April 2006.

### Conclusion

Key financial focus areas for the year ahead will be:

- improving working capital management and in particular looking at ways of leveraging the benefits that can be obtained from the ERP 2 systems and thereby enhancing cash flow management;
- expense management as we continue to focus on cost efficiencies and using the ERP 2 systems to allow the extraction of these synergies;
- enhancement of controls for management of inventory;

- looking at ways of improving the speed and effectiveness of management information across the group; and
- finally, optimising capital structures and gearing levels once the group displays an ability to generate, rather than consume, cash.

While the group has considerable challenges, given the favourable impact of the above initiatives, I believe it can achieve more acceptable returns for shareholders in the medium term.



KEITH WARBURTON  
Chief Financial Officer



## Clicks

### Positioning

Clicks aims to be the best discount drugstore in South Africa by dominating mass market pharmacy and being customers' first and most trusted choice for health and beauty products and services. This is underpinned by the strong value-for-money statement of "You Pay Less at Clicks".

### Review of the year

Clicks delivered a disappointing financial performance, although the brand started to stabilise in the latter stages of the year and showed an improved trading performance in the second half.

The 17.9% increase in turnover to R4.5 billion was inflated by the inclusion of the pharmacy results for the full financial year as opposed to six months in the previous year. When the turnover from the pharmacy operations is excluded, the core Clicks brand increased turnover by 9.0%. Comparable store sales growth was 6.9%.

Sales of health and beauty merchandise increased 14.5% over the past year and together with dispensary and over-the-counter drugs account for

approximately 60% of the brand's sales. This is expected to increase as Clicks continues to transform into a fully-fledged drugstore.

Operating profit declined by 28.5% to R209.7 million, impacted mainly by a loss of R70 million in the pharmacy operations, the continued high level of shrinkage in the brand and a higher allocation of central costs. An estimated R48 million of the pharmacy losses are attributable to the impact of the lower margin on dispensing fees adopted by Clicks to meet competitive pressures.

The ongoing integration of pharmacy into the Clicks brand has provided encouraging evidence that the strategy is effective. The performance of the integrated Clicks stores with dispensaries is proving that front shop sales increase from the higher footfall through stores from pharmacy customers. Front shop sales showed a 15.9% increase since being converted to include pharmacy, which is 10% higher than other Clicks stores without a dispensary.

An analysis of sales in the converted stores indicates that dispensary accounts for an estimated 17% of total store sales, which is moving towards the anticipated 80/20 ratio of front shop to dispensary sales.

The brand met its target of 60 pharmacies by the end of the financial year and plans to reach the 100 mark during the first quarter of 2006.

The Clicks management team was bolstered by new internal and external appointments and restructured to deliver the strategy.

### Strategy

As the integration of pharmacy has gathered momentum, the newly-appointed management team has refined the strategy and positioned the Clicks brand as a health and beauty specialist retailer.

The comprehensive health and beauty offering is expected to differentiate Clicks and give customers a compelling reason to shop at Clicks. The homeware offering will support the core focus on health and beauty. The traditional front shop will be integrated with pharmacy and be a combined offering.

### Financial highlights and statistics

Includes Pharmacy for full year in 2005 and six months in 2004		2005	2004
Sales	R'm	<b>4 469.1</b>	3 789.3
Sales growth	%	<b>17.9</b>	26.4
Comparable stores sales growth	%	<b>6.9</b>	6.6
Inventory at stores	R'm	<b>738.9</b>	735.3
Property, plant and equipment	R'm	<b>174.6</b>	181.7
Operating profit before interest and after allocation of net costs of support structures	R'm	<b>209.7</b>	293.5
Number of stores (including pharmacies)			
Company owned		<b>315</b>	344
Franchised		<b>14</b>	14
Full-time permanent employees		<b>5 179</b>	5 262
Weighted trading area	m <sup>2</sup>	<b>179 330</b>	162 810
Net increase in weighted trading area for the year	%	<b>10.1</b>	16.2
Weighted annual sales per m <sup>2</sup>	R	<b>24 921</b>	23 274

The introduction of pharmacists, nursing sisters and pharmacy assistants into stores will elevate customers' perceptions of Clicks' healthcare offering, while it will be essential for the pharmacist and retail store manager to form a close partnership.

The incorporation of dispensaries into Clicks stores has provided the opportunity to enhance the ClubCard benefits and customers are now able to accumulate ClubCard points on dispensary purchases. The brand is also exploring datamining opportunities to increase healthcare sales to ClubCard members.

Arresting the shrinkage trend is a priority for Clicks and management only realistically expect to start seeing improvements in the second half of the 2006 financial year. The action plans include reducing management spans of control in the business which is expected to improve in-store disciplines and controls. The implementation of the enterprise-wide information systems platform will enable cash and inventory to be more tightly managed, but these benefits will only be realised in the

medium term. Improving staff morale is a critical component in addressing shrinkage.

The Constitutional Court delivered its judgment on the medicine pricing regulations after year-end. Clicks has continued to charge the R26/26% dispensing fee to remain competitive during the interim period while the pricing regulations are being revised. Clicks will continue to adopt a competitive pricing policy once the amended regulations have been published, reinforcing the value proposition of "You Pay Less at Clicks".

Clicks ultimately plans to operate a dispensary and clinic in most stores, although this is dependent on licences being granted by the Department of Health and the brand's ability to attract quality pharmacy professionals. Currently not all Clicks stores are large enough to accommodate a dispensary and this is being addressed by sourcing additional space and adapting the pharmacy model to smaller format stores.

The remaining 29 PM&A stores are scheduled to be integrated, closed or sold by early 2006, depending on the necessary transfer of licences and approvals.

Customers will have access to clinics with qualified nursing staff and this service is expected to differentiate Clicks Pharmacy from the other corporates that have entered the pharmacy market.

Clicks aims to achieve a 30% share of the retail pharmacy market in South Africa within the next five years.

#### Prospects

Shrinkage and inventory management are being addressed as priorities. Pharmacy integration will be accelerated based on the early signs that the model is working and the outlook for improved margin from the revised medicine pricing regulations is positive. While the brand showed an improved trading performance in the second half of the year and this upward trend is expected to continue, the full benefits of the turnaround are only likely to be realised in the medium term.

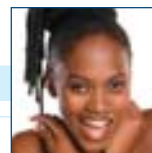


**Michael Harvey – Managing Director (36) Strategic Retail Management (UCT), Executive Development Programme (USB), Advanced Management Programme (INSEAD)**

17 years' service.

Michael joined Clicks as a management trainee in 1989, later managing stores and assuming responsibility for regional operations in the Gauteng area and over time in the Eastern and Western Cape. He was appointed marketing director of Clicks in 2000 and the following year moved to Discom where he was appointed brand leader in 2002. Michael was appointed head of retail for the New Clicks group in June 2004 and managing director for the combined Clicks and pharmacy operations in February 2005.





## Discom

### Positioning

Discom aims to be the country's leading urban lifestyle brand specialising in African beauty and decorative homewares. The African beauty component focuses on ethnic hair care, which is supported by homeware merchandise and small electrical appliances. Discom's niche differentiates the brand from Clicks, which is positioned as a health and beauty-focused drugstore. Price continues to be a key factor in Discom's market and the brand strives to provide value for money through quality merchandise and constant innovation.

### Review of the year

Sales increased by 11.0% to R975 million, driven by strong growth in higher margin merchandise categories of toiletries, electrical appliances and

audio/video equipment. Comparable store growth was 9.2%.

The brand continues to be well managed, evidenced by improved margin, reduced shrinkage and expense growth being contained below sales growth.

This resulted in Discom recording its best operating profit performance for the past five years, lifting earnings from R4.2 million to R28.9 million.

The ongoing growth of higher margin categories, together with a decline in low-margin categories, has resulted in a shift in the mix and contributed to a higher overall margin.

The declining shrinkage trend in Discom is the result of several years of actively managing the challenge. This has included tightening front shop access to

stores, heightened staff accountability, stricter employment screening and a concerted effort to build staff morale in the brand. Electronic article surveillance has been installed in some 60% of stores and this should be increased to around 90% in 2006.

Discom's strategy of dominating the ethnic hair care market continues to pay dividends. In the wet product segment, the brand offers the most extensive range of products in the market while in the dry hair market, which includes hair extensions, braids and wigs, Discom not only leads in size, but also fashionability, innovation and customer experience.

One of the major marketing campaigns undertaken during the year in support of the hair care positioning was the Discom Hair Africa Extravaganza at the Sandton Convention Centre, which

### Financial highlights and statistics

		2005	2004
Sales	R'm	975.2	878.7
Sales growth	%	11.0	13.9
Comparable stores sales growth	%	9.2	11.0
Operating profit before interest and after allocation of net costs of support structures	R'm	28.9	4.2
Inventory at stores	R'm	153.9	134.8
Property, plant and equipment	R'm	61.5	62.3
Number of stores			
Company owned		179	173
Franchised		1	1
Full-time permanent employees		1 835	1 792
Weighted trading area	m <sup>2</sup>	50 957	49 638
Net increase in weighted trading area for the year	%	2.7	0.6
Weighted annual sales per m <sup>2</sup>	R	19 138	17 702



once again received a highly favourable response from consumers and suppliers.

Discom showed a net increase in trading space for the first time in several years, opening 20 new stores and closing 14, including the relocation of four stores to improved quality trading space. Securing sites in mall stores remains a challenge for Discom, although some progress was made in these locations over the past year.

The growth in spending power of the middle market in South Africa has resulted in Discom's market segment becoming increasingly appealing to other national retailers, and competition continues to intensify.

### Strategy

The Discom brand has been rejuvenated and the focused strategy is ensuring that the business is realising its true

potential. In the year ahead, Discom plans to further differentiate its core merchandise categories, as well as enhancing the product mix in new locations, which include mall stores.

Colour cosmetics and cosmetic accessories continue to offer attractive growth opportunities and the strategy includes extending the cosmetics offering to a larger number of stores in the year ahead as well as introducing private label brands and upgrading store displays. The customer experience in-store will also be upweighted with the introduction of African beauty consultants in the top 60 stores.

Growth in electrical appliances, electrical grooming and audio and video equipment is expected to continue, with the revamped private label electrical brand due for relaunch in December 2005.

Discom will also be enhancing its range of health and wellness products, which includes vitamins and food supplements.

The inland region, which accounts for 48% of sales but over 60% of operating profit, will be further expanded, with six new stores planned for the region in the 2006 financial year.

### Prospects

Discom is expected to continue on its strong growth trend and realise further benefits from the brand's restructuring, while seeking to improve margin in order to enhance profitability in the year ahead.



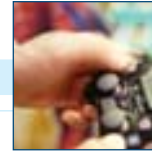
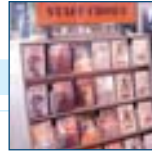
### Grant Heynes – Brand Leader (39) Management Development Programme (USB), Executive Development Programme (USB)

16 years' service.

Grant joined the group in 1989 as a management trainee in Clicks and gained experience in store management and category buying in both Clicks and Discom. In 2002 he was appointed head of the FMCG merchandise category in Discom and was promoted to brand leader in March 2005.



## COMPACT DISC WHEREHOUSE



### Entertainment Division

#### Positioning

The Entertainment division, which comprises Musica and CD Wherehouse, is the largest retailer of music and related entertainment merchandise in the country. The division has expanded beyond its traditional core music business to a broader range of entertainment products, including DVDs (music and movies), gaming (including computer games), lifestyle accessories (clothing, figurines, novelty goods) and online entertainment. Musica aims to be the "first choice popular entertainment experience" while CD Wherehouse is positioned as "the destination experience for people obsessed with music and movies".

#### Review of the year

The Entertainment division showed a strong comeback after a disappointing performance in 2004 to record sales growth of 21.7% to R662 million.

Comparable store sales growth was 21.1%.

The strategy adopted by Musica some three years ago to diversify its income stream in anticipation of the slowdown in CD sales continues to reap rewards. The entertainment merchandise categories have shown strong growth, with DVD sales up 92%, gaming 160% and lifestyle up 45%. Non-CD categories now account for 39% of the division's total sales (2004: 29%).

Musica's pricing strategy has proved a success, not only driving increased sales volumes but also increasing customer traffic into stores which has benefited sales of other products.

Sales growth year-on-year was expected to slow down after the anniversary of the introduction of the top 20 CD pricing strategy in April 2004. While sales growth was softer in the second half, the brand continued to perform well.

Musica's margin declined slightly over the previous year in line with the change in the business model from a high margin to a lower margin/high volume model. The margin was impacted by the CD pricing strategy and the increasing proportion of turnover generated from lower margin DVDs and gaming.

Shrinkage showed a slight improvement and expense growth of 12.9% was maintained well below turnover growth.

The strong overall operating and trading performance is reflected in a 45.1% increase in operating profit to R27.6 million.

Owing to the strong growth in the DVD market, Musica opened its first specialist DVD store in Canal Walk in Cape Town in November 2004. Based on customer response, a further stand-alone DVD store was opened in Tygervalley in October 2005. The performance of

#### Financial highlights and statistics

		2005	2004
Sales	R'm	<b>662.3</b>	544.2
Sales growth	%	<b>21.7</b>	12.8
Comparable stores sales growth	%	<b>21.1</b>	11.9
Operating profit before interest and after allocation of net costs of support structures	R'm	<b>27.6</b>	19.0
Inventory at stores	R'm	<b>136.6</b>	114.0
Property, plant and equipment	R'm	<b>34.0</b>	42.5
Number of stores		<b>139</b>	138
Full-time permanent employees		<b>621</b>	592
Weighted trading area	m <sup>2</sup>	<b>17 365</b>	17 349
Net increase in weighted trading area for the year	%	<b>0.1</b>	1.3
Weighted annual sales per m <sup>2</sup>	R	<b>38 140</b>	31 369

these stores will determine the extent to which the concept is extended.

A further 18 stores were converted to the urban format which has a strong focus on local ethnic music. The 38% growth in local music was generated mainly from Musica's urban stores.

### Strategy

Following the success of the past year, the Entertainment division plans to continue with its aggressive pricing strategy as well as capitalise on the potential growth in the DVD, gaming and lifestyle markets. The target is to increase sales of these non-CD categories to 49% of total sales for the 2006 financial year.

The division continues to seek creative solutions to remain at the leading edge of the entertainment industry and is exploring opportunities to take advantage of the continued growth in

the cellular phone market. The technology offering will also be enhanced, including the digital downloading of music via the Musica website.

Musica plans to open a further eight new stores and convert 10 existing stores to the urban format.

### Prospects

The Entertainment division has proved its ability to adapt to changes in the broader music and entertainment sector, and is expected to show continued growth in sales and profitability. The performance is dependent on repeating the strong festive season sales of the past year while the challenge remains to increase volumes and bolster the merchandise mix with higher margin products.



### Colin Robb – Brand Leader (46)

14 years' service.

Colin joined the group in 1991 and after gaining experience in store management, was appointed regional manager of Musica in the Western Cape. He spent seven years as merchandise director of Musica and CD Warehouse and was appointed brand leader of the Entertainment division in May 2002.



## The Body Shop

### Positioning

The Body Shop is a high-profile global brand which markets naturally-inspired beauty products, focusing primarily on the middle to upper income groups. New Clicks manages The Body Shop under a franchise arrangement in South Africa.

Over the past two years the brand has been repositioned internationally to the "masstige" sector of the consumer market. This positioning differentiates The Body Shop by combining a comprehensive range of personal care products that offer performance and indulgence as well as value.

The naturally-inspired product positioning remains core to the brand with extensive use of community-traded ingredients sourced from local communities around the world.

### Review of the year

Sales for the year increased 14% to R58.4 million, although existing stores continued to show negative sales growth for the period. New product launches, particularly in the body care category, contributed to sales growth while gifting ranges doubled in sales volumes. Skin care and make-up sales were muted.

The brand experienced a stronger second half but this was not sufficient to overcome the disappointing first six months and profit declined 5.2% to R9.5 million for the year.

Expense management showed an improvement over the previous year, with the 12% increase in expenses driven mainly by higher occupancy costs and depreciation. Advertising costs

were curtailed in the second half of the year and staff expenses well contained.

The margin remained steady over 2004, assisted by a retail price increase in May 2005 and lower inventory markdowns. The margin came under pressure with the introduction of the Clicks ClubCard which enabled customers to earn points on purchases in The Body Shop. The arrangement with ClubCard was discontinued late in the financial year.

Two new stores were opened in Gauteng, namely Woodlands Mall in Pretoria and Clearwater Mall on the West Rand, bringing the total number of stand-alone stores to 25 and an additional two capsule stores within Clicks.

The Body Shop has a strong commitment to the well-being of fellow humans and continues to support The

### Financial highlights and statistics

		2005	2004
Sales	R'm	<b>58.4</b>	51.3
Sales growth	%	<b>14.0</b>	12.0
Comparable stores sales growth	%	<b>(1.5)</b>	8.0
Operating profit before interest and after allocation of net costs of support structures	R'm	<b>9.5</b>	10.0
Inventory	R'm	<b>2.7</b>	2.2
Property, plant and equipment	R'm	<b>11.4</b>	8.9
Number of stores		<b>27</b>	24
Full-time permanent employees		<b>76</b>	76
Weighted trading area	m <sup>2</sup>	<b>1 513</b>	1 214
Net increase in weighted trading area for the year	%	<b>24.6</b>	28.9
Weighted annual sales per m <sup>2</sup>	R	<b>38 627</b>	42 237

Big Issue project in the Western Cape (refer to the Corporate Citizenship Report on page 45). Stores also support local communities through voluntary assistance programmes and the inland region received an award from The Body Shop International for their role in raising funds for the St Vincent's Home for deaf children.

### Strategy

The key objectives for the year ahead are to grow sales from existing stores, rigorous expense management, implement global marketing strategies of The Body Shop International and relaunch the make-up category early in 2006.

The global strategies will include the introduction of the "Love Your Body" loyalty programme, the launch of a new

brand identity under the umbrella of "Made with Passion", increased in-store activity, more intensive staff training and continuous product launches across all merchandise categories.

Store growth will be consolidated as the brand approaches its market saturation level of around 30 stores nationally. New stores opened over the past few years have negatively affected turnover of stores in nearby locations and the brand has been impacted by a lack of awareness in outlying areas. The Body Shop will only pursue more strategic sites in the future.

The expansion plans for the capsule stores within Clicks have been halted owing to space constraints following the introduction of pharmacy dispensaries into Clicks.

### Prospects

Sales growth is expected to be enhanced by the adoption of the global marketing strategies, while expense growth is anticipated to level off as fewer new stores are opened. These factors, together with an enhanced margin, should assist profit growth in the year ahead.







## New United Pharmaceutical Distributors (UPD)

### Introduction

UPD is the largest full-line pharmaceutical wholesaler in the country and supplies retail pharmacies, private hospitals, dispensing doctors and retail health stores. The business forms a strategic element of the New Clicks healthcare strategy as it provides the distribution capability for the group's integrated channel to the healthcare market.

### Review of the year

UPD has continued its strong growth of recent years, increasing sales 33.3% to R3.0 billion, which was driven mainly by a strong growth in pharmacy sales. UPD has enjoyed increasing levels of support from independent retail pharmacies that have switched their business from single channel distributors, while turnover from Clicks continues to grow as the

group's pharmacy integration process gathers momentum. Sales to dispensing doctors has declined over the past year following the introduction of more stringent licensing legislation.

In line with expectations, trading margins were negatively impacted by the lower logistics fees which came into effect in August 2004 following the introduction of single exit pricing. However, the increased sales volumes have more than compensated for this lower margin.

Costs were well managed to 6.6% of turnover (2004: 8.3%), which allowed the benefit of the increased volumes to boost profitability.

Operating profit grew 17.8% from R75.6 million to R89.1 million, with UPD contributing 25% of the group's profits.

UPD was awarded the contract by the Life Healthcare private hospital group (formerly Afrox Hospital Group) to channel all their purchases through UPD. The contract, which will generate an estimated R350 million in turnover, was finalised in August 2005 and the benefits will be reflected in the new financial year.

This strategic alignment with a hospital group supports UPD's belief that there are administrative and logistical synergies for pharmacy when purchases are channelled through a full-line wholesaler.

### Strategy

UPD has been successful in attracting high volume sales contracts and will continue to pursue volume growth as it attempts to capitalise on the

### Financial highlights and statistics

		2005	2004
Sales	R'm	<b>3 045.9</b>	2 284.9
Sales growth	%	<b>33.3</b>	8.0
Operating profit before interest	R'm	<b>89.1</b>	75.6
Inventory	R'm	<b>292.0</b>	210.3
Inventory turn		<b>10.4</b>	10.9
Property, plant and equipment	R'm	<b>72.8</b>	72.2
Trade debtors	R'm	<b>316.2</b>	240.7
Trade debtors' days		<b>28.9</b>	26.0
Full-time permanent employees		<b>507</b>	519

consolidation which is expected to occur in the wholesale pharmaceutical distribution sector.

Value-added services are proving to be a differentiator in the regulated environment in which UPD operates. These services include the training of pharmacists and pharmacy assistants on supplier products, disease state management training, product categorisation in pharmacy to promote supplier product sales as well as the marketing of supplier products through the UPD call centre. Based on these value-added services, UPD will be seeking to negotiate increased logistics fees from suppliers in the year ahead.

The business faces several challenges on the legislative front and at the time of this report was awaiting the outcome of

the revised pricing regulations from the Department of Health following the ruling by the Constitutional Court in September 2005. It is widely expected that distribution fees will be capped in the near future. In submissions to the Department of Health, UPD has argued for this logistics fee to be split between fine and bulk distribution.

The role of wholesalers also needs to be clarified by the Department of Health, as several quasi-wholesalers have entered the market over the past year which has negatively impacted legitimate wholesalers like UPD.

Retail pharmacy forms a major component of UPD's business and the revised dispensing fee needs to be set at an appropriate level to sustain and

ensure the long-term survival of the retail pharmacy industry.

The Link Investment Trust (LIT), which has 194 independent franchisees, is managed by UPD and this facilitates a close working relationship between the distribution arm of the group and the retail pharmacies in the franchise. New Clicks holds a 56% interest in LIT.

### Prospects

The high volume, lower margin model is currently delivering positive results for UPD and the group. The focus on private hospital business, together with increased sales from independent pharmacies, should result in continued strong sales and market share growth in the year ahead. Despite the uncertain regulatory environment, UPD is well-positioned for strong profit growth.



### Lynda van Niekerk – Chief Executive (34) B Com (Acc) (Hons), CA (SA)

Three years' service with the New Clicks group. Lynda completed her articles and was an audit manager at KPMG before a brief working stint abroad. She joined UPD in January 1999 as a projects accountant and was promoted to financial director in August of the same year. Lynda was appointed chief executive of UPD in August 2005.

# Corporate Governance Report

New Clicks Holdings subscribes to the principles of sound corporate governance to promote and protect the interests of the company and its shareholders. In order to achieve the highest governance standards, the group embraces the principles of integrity, transparency and accountability in its dealings with stakeholders and seeks to incorporate appropriate governance practices into every aspect of its business.

The board is satisfied that the group complies in all material respects with the provisions and spirit of the Code of Corporate Practices and Conduct recommended by the second King Report (King II) and the JSE Limited Listings Requirements.

The group believes that corporate governance is far more than a "tick box" exercise to meet minimum formal standards. An effective governance structure is a working system which in substance encompasses the development of an appropriate strategy, determining achievable targets, empowered decision-making and the monitoring of compliance and performance.

The Governance committee of the board is responsible for ensuring compliance with King II and monitors governance practices throughout the group. Governance structures and processes are regularly reviewed to take account of changes within the group and best practices in the corporate governance arena.

During the year the governance process was enhanced with the board evaluation being extended to include reviews of individual directors by the chairman as well as reviews of the board sub-committees. A policy was developed on the provision of non-audit services by the external auditors.

New Clicks is also committed to ensuring the long-term sustainability of the business and acknowledges its broader role in community upliftment. The Corporate Citizenship Report on page 39 outlines the progress that has been made on non-financial performance and the group's relationship with its stakeholders on social, economic and environmental issues.

## BOARD OF DIRECTORS

### Board Charter

The board has a formal, documented charter which states that the directors of New Clicks Holdings retain overall responsibility and accountability for the group, its strategic direction, the annual business plan and budget. It is also ultimately responsible for legal and regulatory compliance, risk management, accounting policies and practices, performance measurement, transparency and communication with stakeholders.

A clear division of responsibility is embedded in the board charter. Authority has been delegated to the chief executive and the senior leadership team for the implementation of the strategy and the ongoing management of the business. The directors are apprised of progress through both regular reporting at board meetings and ongoing communications.

### Board composition and features

Key features of the board and its composition are as follows:

- New Clicks has a unitary board structure comprising eight directors, including two executive directors and six non-executive directors. Raymond Godfrey, an executive director, has resigned from the board with effect from 31 December 2005 as he is taking early retirement from the group. Biographical details of the directors appear on pages 8 and 9.
- Five of the six non-executive directors, including the chairman and deputy chairman, are independent in terms of the King II classification. The remaining non-executive director, Allen Zimble, provides professional consulting services to the group on a contractual basis and is therefore not classified as independent. The majority of independent non-executive directors provide the necessary objectivity for the effective functioning of the board.
- The roles of the independent non-executive chairman, David Nurek, and the chief executive officer, Trevor Honneysett, are separate and clearly defined. The division of responsibilities at the helm of the company ensures a balance of authority and power, with no one individual having unrestricted decision-making powers.



- The company has no controlling shareholder or group of shareholders, and there is no shareholder representation on the board.
- The non-executive directors have extensive business experience across a diverse range of sectors, enabling them to provide balanced and independent advice and judgement in the decision-making process. Non-executive directors have direct access to management and may meet with management independently of the executive directors.
- The board meets at least four times a year in Cape Town, and additional meetings are convened at short notice to consider specific business issues. During the year the board met five times.

### Board appointment and evaluation

- Newly-appointed directors are required to undergo a formal induction programme which outlines their fiduciary duties and provides them with an in-depth understanding of the company and its operations.
- Directors do not have a fixed term of appointment, although executive directors are subject to a 12-month notice period. One-third of the directors are required to retire by rotation each year and are eligible for re-election by shareholders at the annual general meeting. Executive directors retire from the board at the age of 65, while there is no prescribed retirement age for non-executive directors.

- The directors believe that the effective functioning of the board is a cornerstone of sound governance and therefore undertake an annual self-assessment review of the board and its sub-committees, assessment of individual directors by their peers and senior management and an evaluation of the chief executive to benchmark performance against best practice. The chairman discusses the results of these reviews with each director and chairman of each sub-committee.

### Company secretary

All directors have unrestricted access to the advice and services of the company secretary. They are entitled to seek independent professional advice at the company's expense after consultation with the chairman of the board. No directors availed themselves of this right during the year. Directors also have unrestricted access to all company information, records, documents and property.

The company secretary ensures that board papers and other relevant documentation is circulated timeously to the directors, giving them sufficient time to consider the issues on the agenda, and enable them to make informed decisions at board meetings. He is also responsible for co-ordinating the induction programme for newly appointed directors and the board assessment process.

The appointment and removal of the company secretary is a matter for the board and not executive management.

### BOARD COMMITTEES

The board of directors has delegated specific responsibilities to five sub-committees to assist the board in the discharge of its duties and responsibilities:

- Audit committee;
- Remuneration committee;
- Governance committee;
- Nominations committee; and
- Risk management committee.

These committees are all chaired by independent non-executive directors and have clearly-defined mandates. The directors confirm that the committees have operated in accordance with these written terms of reference during the financial year.

#### Audit committee

##### Role:

The board entrusts the Audit committee to ensure that management has created and maintained an effective control environment in the group.

##### Function:

- Reviews and approves the appropriateness of accounting and disclosure policies in the annual financial statements;
- Assesses the effectiveness of internal controls;
- Reviews action taken on major accounting issues;
- Ensures that management imposes no limitation on the scope of the audits; and
- Monitors the independence of the external auditors, including the determination of a policy for the provision of non-audit services by the external auditors.

## Corporate Governance Report (continued)

### *Composition:*

The committee consists of four independent non-executive directors. Executive management, internal audit staff and the external audit partners and staff attend meetings at the invitation of the committee. The committee also meets privately with the external auditors.

### *Members:*

- Robert Lumb (chairman)
- David Nurek
- Eliot Osrin
- Peter Swartz

*Meeting frequency: Meetings in 2005:*  
Twice annually      Two

Besides the formal meetings of the Audit committee, an internal audit committee meets quarterly, and members of the Audit committee participate in these meetings. The internal audit manager has direct access to the chairman of the Audit committee. During the year, an independent evaluation of the internal audit function was conducted by an external consultant. The report and recommendations were considered and adopted by the group.

### Remuneration committee

#### *Role:*

The committee ensures that the remuneration philosophy of the group is aligned with the group strategy and performance goals.

#### *Function:*

- Assesses and reviews remuneration policies, employee share incentive schemes, performance bonuses and service contracts;
- Approves the remuneration of executive directors and senior management;

- Proposes fees for non-executive directors, which are tabled for approval at the annual general meeting; and
- Determines the award of share options to executives and staff.

### *Composition:*

The committee consists of three independent non-executive directors and one non-executive director. The chief executive attends meetings at the invitation of the committee but is not entitled to vote on any issues and does not participate in discussions regarding his own remuneration.

### *Members:*

- David Nurek (chairman)
- Lucia Swartz
- Peter Swartz
- Allen Zimble

*Meeting frequency: Meetings in 2005:*  
At least twice      Two  
annually

### Governance committee

#### *Role:*

The committee's role is to ensure compliance in both substance and form with the recommendations of King II and to incorporate best governance practice into the business.

#### *Function:*

- Monitors governance practices throughout the group.

### *Composition:*

The committee comprises the chairman of the board and the chief executive officer, together with the chief financial officer and the company secretary.

### *Members:*

- David Nurek (chairman)
- Trevor Honneysett
- Allan Scott (company secretary)

*Meeting frequency: Meetings in 2005:*  
Ad hoc      One

### Risk management committee

#### *Role:*

The committee assists the board in ensuring material compliance with the principles of risk management as outlined in King II.

#### *Function:*

- Reviews the risk management processes;
- Assesses the risk appetite of the business;
- Reviews the risk philosophy, strategies and policies;
- Reviews the basis and adequacy of insurance cover; and
- Identifies emerging areas of risk.

### *Composition:*

The committee consists of two independent non-executive directors and a non-executive director, together with the chief executive and key members of operational management.

### *Members:*

- Robert Lumb (chairman)
- Eliot Osrin
- Allen Zimble
- Trevor Honneysett

*Meeting frequency: Meetings in 2005:*  
At least twice      Two  
annually

### Nominations committee

#### *Role:*

The committee ensures that the board functions optimally, overseeing the composition of the board, the appointment of directors and succession planning.

## BOARD ATTENDANCE

The attendance of the directors at board meetings and sub-committee meetings for the year was as follows:

	Board	Audit	Remuneration	Risk	Governance	Nominations
<b>Number of meetings</b>	<b>5</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>2</b>
David Nurek <sup>1,2,4,5</sup>	5	1	2	–	1	2
Peter Swartz <sup>1,2</sup>	5	2	2	–	–	–
Robert Lumb <sup>1,3,5</sup>	5	2	–	2	–	2
Eliot Osrin <sup>1,3,5</sup>	5	2	–	–	–	1
Lucia Swartz <sup>2,5</sup>	3	–	2	–	–	2
Allen Zimble <sup>2,3</sup>	5	–	2	1	–	–
Trevor Honneysett <sup>4</sup>	5	–	–	–	1	–
Raymond Godfrey	3	–	–	–	–	–
1. Member of the Audit committee						
2. Member of the Remuneration committee						
3. Member of the Risk management committee						
4. Member of the Governance committee						
5. Member of the Nominations committee						

### Function:

- Oversees the evaluation process of the board, individual board members and sub-committees;
- Identifies suitable candidates for directorships, and makes recommendations to the board;
- Advises on the composition of the board, reviewing the board structure and size; and
- Ensures effective succession planning for senior management.

### Composition:

The committee consists of the chairman of the board and three other independent non-executive directors. The chief executive attends by invitation.

### Members:

- David Nurek (chairman)
- Robert Lumb
- Eliot Osrin
- Lucia Swartz

### Meeting frequency: Meetings in 2005:

Ad hoc Two

## GROUP EXECUTIVE

The board has delegated authority to the chief executive and he is supported by the group executive which is responsible for the operational performance of the group, including implementation of strategy and review of the brands and shared services performance. The members of the group executive are Trevor Honneysett (chief executive), David Kneale (deputy chief executive with effect from 1 January 2006), Keith Warburton (chief

financial officer) and Michael Harvey (managing director of Clicks).

## REMUNERATION Remuneration policy

The remuneration policy of the group is to remunerate employees fairly in relation to the services provided and to reward them for performance at or above targeted levels through the payment of economic value-added (EVA) performance bonuses.

The executive level of management is key to the performance of New Clicks and the group strives to develop, attract, retain and motivate executives of a high calibre. The remuneration package of the senior executives seeks to be competitive in the local retail sector and to align the incentive schemes with group performance in

## Corporate Governance Report (continued)

relation to the agreed short and long-term targets and objectives.

The packages of senior executives are structured as follows:

- a basic remuneration package including benefits (pension, medical aid, long-service awards, housing loans, education loans, disability and funeral benefits under the pension fund, and an additional week's leave after five years' service);
- a short-term incentive EVA bonus scheme (based on the year-on-year improvement in profits relative to the asset employed. The bonus is calculated for the full year with an interim payment being made at half-year. All permanent employees participate in the scheme, excluding UPD staff who participate in a company-specific bonus scheme); and

- long-term share/phantom share incentive schemes.

During the year the group introduced an incentive programme for senior executives which is directly linked to share price performance and therefore aligns executive performance with the creation of shareholder value. Six million share appreciation rights have been made available under the scheme, with 50% vesting after three years and 50% after five years. The "exercise price" of the rights depends on the performance of the share price. If the share price appreciates by 15% to 20% per annum, the exercise price of the rights will be R8.36 (the price on the date of commencement of the scheme), a 20% to 25% per annum growth will reduce the exercise price to R4.16 while the

exercise price for a share price rise of more than 25% per annum will be R0.01 (refer to note 17.1 for further details on the target share price and exercise prices). A total of 3.8 million rights had been granted by year-end to nine employees.

Non-executive directors are paid fees for their services as directors as well as for serving on board committees. These fees are set in relation to the retail sector and aim to reward the directors fairly for the time, services and expertise provided. The non-executive directors no longer participate in the company share incentive scheme, although three of the non-executive directors still hold share options which were allocated under a previous share incentive scheme.

### Directors' emoluments

#### 2005 Executive directors' remuneration

R'000	Salary	EVA bonus	Australian bonus*	Pension fund	Other benefits**	Severance payment«	Total
Trevor Honneysett	3 224	–	2 217	610	640	–	6 691
Raymond Godfrey	1 942	–	2 217	343	382	5 411	10 295
<b>Total</b>	<b>5 166</b>	<b>–</b>	<b>4 434</b>	<b>953</b>	<b>1 022</b>	<b>5 411</b>	<b>16 986</b>

#### 2005 Non-executive directors' remuneration

R'000	Directors' fees	Consultancy fees	Total
David Nurek	324	–	324
Peter Swartz	159	–	159
Robert Lumb	187	–	187
Eliot Osrin	133	–	133
Lucia Swartz ¶	101	–	101
Allen Zimble #	122	875	997
<b>Total</b>	<b>1 026</b>	<b>875</b>	<b>1 901</b>

Total directors' remuneration		
R'000		
	<b>2005</b>	2004
Executive directors	<b>16 986</b>	17 767
Non-executive directors	<b>1 901</b>	5 487
<b>Total directors' remuneration</b>	<b>18 887</b>	23 254

2004 Executive directors' remuneration						
R'000	Salary	EVA bonus	Australian bonus*	Pension fund	Other benefits**	Total
Trevor Honneysett	3 004	660	1 016	488	1 439	6 607
Raymond Godfrey	1 671	366	1 016	294	426	3 773
Jeff Sher««	983	216	–	124	142	1 465
Peter Green‡	–	–	3 535	–	–	3 535
David Danziger§	–	–	2 387	–	–	2 387
<b>Total</b>	<b>5 658</b>	<b>1 242</b>	<b>7 954</b>	<b>906</b>	<b>2 007</b>	<b>17 767</b>

2004 Non-executive directors' remuneration				
R'000	Directors' fees	Consultancy fees	Australian bonus*	Total
David Nurek	240	–	–	240
Peter Swartz	170	–	–	170
Robert Lumb	45	–	–	45
Eliot Osrin	172	–	–	172
Lucia Swartz ¶	47	–	–	47
Allen Zimble #	115	780	3 918	4 813
<b>Total</b>	<b>789</b>	<b>780</b>	<b>3 918</b>	<b>5 487</b>

#### Notes

\* As disclosed on page 37 of the 2004 annual report, a scheme was established to incentivise certain executives for their contribution to the growth of New Clicks Australia (NCA). Based on the value of NCA after five years, payments were due to the participants of the scheme. Executive directors Trevor Honneysett and Raymond Godfrey agreed to defer payment and receive four equal instalments of R1.016 million at six-monthly intervals on condition that they remain with the group during the period. The final payment to these two directors was made on 1 September 2005.

\*\* Includes the value of interest-free loans to directors from the New Clicks Holdings Share Trust, company contributions to medical aid and the benefit of the use of a company car.

« Raymond Godfrey will be taking early retirement from the group with effect from 31 December 2005 after 35 years' service with the group. In terms of his service contract, he is subject to a 12-month notice period. The board, on the recommendation of the Remuneration committee, has agreed that he will receive salary in lieu of serving out his notice period. In addition, Mr Godfrey will receive a gratuity in accordance with company policy which will be paid on 1 January 2007. The full present value of these benefits is included in the table opposite.

«« Resigned from the board on 13 February 2004

‡ Resigned from the board on 17 June 2003

§ Resigned from the board on 31 August 2000

¶ Lucia Swartz's directors' fees are paid to Sappi Limited

# Allen Zimble provides strategic planning consultancy services to the group on a contractual basis with Investec Bank. Dr Zimble is employed by Investec in the capacity of chief integration officer. The fees for these services are paid to Investec Bank.

Board position	Fees – 2005/06	Fees – 2004/05
Chairman of the board	280 000	250 000
Deputy chairman	120 000	106 000
Board member	90 000	80 000
Chairman: Audit committee	72 000	64 000
Audit committee member	36 000	32 000
Chairman: Remuneration committee	48 000	42 500
Remuneration committee member	23 500	21 000
Chairman: Risk management committee	48 000	42 500
Risk management committee member	23 500	21 000

### Directors' fees

The fee structure for directors has been adjusted with effect from September 2005 and is subject to approval by shareholders at the annual general meeting.

### Directors' shareholdings

The beneficial interests of the directors of New Clicks Holdings at 31 August 2005 are set out below.

Director	Held through		Direct		Indirect		Total	
	share trust		beneficial interest		beneficial interest			
	2005 & 2004	2005	2004	2005	2004	2005	2004	
<i>Executive</i>								
Trevor Honneysett	701 525	5 280	5 280	–	2 262 840	<b>706 805</b>	2 969 645	
Raymond Godfrey	545 937	2 209	2 209	416 318	416 318	<b>964 464</b>	964 464	
<i>Non-executive</i>								
David Nurek	–	29 682	29 682	–	–	<b>29 682</b>	29 682	
Peter Swartz	–	–	–	–	–	–	–	
Robert Lumb	–	–	–	–	–	–	–	
Eliot Osrin	–	135 413	135 413	–	–	<b>135 413</b>	135 413	
Lucia Swartz	–	–	–	–	–	–	–	
Allen Zimble	75 000	–	–	–	–	<b>75 000</b>	75 000	
<b>Total</b>	<b>1 322 462</b>	<b>172 584</b>	<b>172 584</b>	<b>416 318</b>	<b>2 679 158</b>	<b>1 911 364</b>	<b>4 174 204</b>	

Issued shares = 370 260 332

Percentage of issued share capital held by directors is 0.52% (2004: 1.2%). There has been no change since year-end.

Share options							
	Issue	Trevor	Raymond	Allen	David	Peter	
Issue Date	Price	Honneysett	Godfrey	Zimble	Nurek	Swartz	<b>Total</b>
October 1998	3.50	450 000	300 000	99 300	–	–	<b>849 300</b>
January 1999	5.35	3 150 000	2 100 000	481 700	500 000	750 000	<b>6 981 700</b>
July 1999	7.80	600 000	400 000	–	–	–	<b>1 000 000</b>
September 2000	9.30	750 000	500 000	250 000	500 000	–	<b>2 000 000</b>
April 2001	7.40	750 000	500 000	150 000	–	–	<b>1 400 000</b>
<b>Total</b>		<b>5 700 000</b>	<b>3 800 000</b>	<b>981 000</b>	<b>1 000 000</b>	<b>750 000</b>	<b>12 231 000</b>

## ACCOUNTABILITY AND AUDIT

### External audit

The group's external auditors are KPMG Inc. A policy on the provision of non-audit services by the external auditors was adopted by the Audit committee and the board during the year. Non-audit services with fees under R100 000 may be approved by the chief financial officer and any services above this amount require the approval of the Audit committee chairman. The policy also requires KPMG to satisfy the Audit committee that appropriate safeguards to maintain the independence of the external auditors are in place when providing non-audit services.

An amount of R12 000 of the total audit fee of R3.01 million was paid to KPMG for non-audit services (refer to note 20 in the financial statements). The non-audit services related to an accounting opinion required by the group. The Audit committee is satisfied that the provision of these non-audit services did not compromise the independence of the auditors.

### Risk management

The board, through the Risk management committee, is responsible for setting risk policies and risk tolerance and for ensuring that management has risk management processes in place. Details of foreign exchange, credit and interest rate risk appear in note 31 on page 84 of the financial statements.

### Internal audit

Internal audit is an independent, objective appraisal and assurance function and forms a core element of the group's corporate governance structures.

Internal audit includes the review of the effectiveness of the systems of internal control, the means of safeguarding assets, the reliability and integrity of financial and operating information, the efficient management of the group's resources and the efficient conduct of its operations.

The internal audit function reports to the Audit committee and has the support of the board and management. Operationally, the internal audit manager reports to the chief financial officer, who in turn reports to the chief executive officer. The internal audit manager has direct access to the chairman of the Audit committee. The procedure for the appointment and dismissal of the internal audit manager is in line with other executive positions, and is subject to the approval of the Audit committee.

### Internal control

The board is responsible for the group's systems of internal control which are designed to provide reasonable, but not absolute, assurance of the accuracy of financial reporting and the safeguarding of assets. The Audit committee has reviewed the effectiveness of the systems of internal control.

In August 2005 the group implemented new systems in a number of key areas, particularly those relating to sales control and reporting, inventory management and shrinkage, as dealt with in more detail in the Chief Financial Officer's Report on page 18. These have been areas of concern and it is anticipated that the new systems will significantly enhance controls.

The board has been satisfied that management has established a system of controls and procedures of a high standard to ensure the accuracy and integrity of the accounting records and to effectively monitor the group's businesses and their performance.

Besides the concerns over sales and inventory systems, which are being addressed in the implementation of new systems referred to above, no incidents have come to the attention of the board that would indicate any material breakdown in these internal controls during the year.

### Financial statements

The directors accept ultimate responsibility for the preparation of the financial statements and related financial information that fairly represent the state of affairs and the results of the group.

The financial statements have been prepared by management in accordance with South African Statements of Generally Accepted Accounting Practice. They incorporate full and reasonable disclosure and are based on appropriate accounting policies that are supported by reasonable and prudent judgements and estimates.

The external auditors are responsible for independently auditing and reporting on these financial statements in conformance with statements of International Standards on Auditing.

### GOING CONCERN

The directors are satisfied that the group has adequate resources to continue operating for the next 12 months and into the foreseeable future. The financial statements presented on pages 53 to 94 have accordingly been

## Corporate Governance Report (continued)

prepared on a going concern basis. The board is apprised of the group's going concern status at board meetings.

### PERSONAL SHARE DEALINGS

Directors and staff are restricted from trading in the shares of New Clicks Holdings during two formalised closed periods. These closed periods run from the end of the interim and annual reporting periods until the financial results are announced on the Securities Exchange News Service (SENS).

Embargoes are also placed on share dealings when the group is involved in corporate activity which results in the directors and executives having access to price sensitive information. The company secretary advises all directors and employees prior to the start of the closed periods of the restrictions on share dealings.

Directors and members of senior management are required to obtain written clearance from the chairman

prior to dealing in the company's shares. The chairman in turn is required to obtain approval from the deputy chairman prior to any share dealings. It is also mandatory for directors and senior executives to notify the company secretary of any dealings in the company's shares. This information is then disclosed to the Listings Division of the JSE Limited and published on SENS within 48 hours of the trade being made. These dealings are also disclosed at the quarterly board meetings.

### ETHICAL BEHAVIOUR AND VALUES

The group subscribes to the highest ethical standards of business practice. A set of values and behavioural principles require staff to display integrity, mutual respect and openness, and affords them the right and obligation to challenge others who are not adhering to these values. These values are shared with all new staff as part of the formal induction

programme and staff undertake to abide by the values.

The group has adopted a firm stance against fraud and the prosecution of offenders. A fraud policy has been developed which outlines the group's response to fraud, theft and corruption committed by staff and external parties against the company. The internal audit department has appointed a forensic auditor to manage the legal processes relating to fraud cases and to ensure the highest possible level of recovery for the group from any fraudulent activity.

Whistle blowing is encouraged and staff can report suspected fraudulent or unethical behaviour via a toll-free hotline. Every reported incident is investigated and during the year 42% of the tip-offs uncovered unethical conduct, which resulted in disciplinary action ranging from formal warnings to corrective behaviour and dismissal.



# Corporate Citizenship Report

Business globally faces the challenge of achieving a balance between meeting short-term profitability targets and generating returns to shareholders, while at the same time contributing to the longer term sustainability needs of society.

Stakeholders	Rationale for building relationships
Staff	• Motivation
	• Retention
	• Performance
Customers	• Loyalty
	• Retention
	• Increased sales • Future income stream
Suppliers	• Uninterrupted supply of inventory
	• Preferential treatment
	• Collaborative promotions
Shareholders, analysts	• Access to capital
	• Long-term retention
	• Fair share rating on stock market
	• Increased understanding of business • Two-way flow of information
Media	• Balanced coverage
	• Enhance reputation
	• Power to influence other stakeholders
	• Favourable reception in times of crisis
Government	• Insight into legislative framework
	• Catalyst for change
	• Understanding of sector issues
Industry regulators	• Sound corporate governance
	• Legislative compliance
Communities	• Responsible corporate citizen
	• Long-term sustainability of business
	• Emerging customer base
	• Potential future employees

New Clicks recognises that good citizenship contributes to the long-term sustainability of the business and seeks to develop mutually constructive and beneficial relationships with its broad stakeholder base.

Sustainability reporting measures a company's non-financial performance and addresses the economic, social and environmental issues affecting the business and the relationship with stakeholders in these areas.

Primary stakeholders of the group include shareholders, customers, staff, suppliers, industry regulators, government, labour, media and communities.

As sustainability reporting is in its relative infancy within New Clicks, there are no formalised management systems to monitor or measure non-financial performance. This, however, does not lessen the group's commitment and the directors acknowledge that issues of corporate citizenship need to be afforded a higher priority within New Clicks. These issues will be addressed in a more proactive manner into the future.



## Corporate Citizenship Report (continued)

### STAFF

Staff are central to the sustainability of any organisation and the success of New Clicks is dependent on the motivation, capability and performance of its staff. The group therefore strives to create a business environment that attracts, develops and retains high-quality staff.

Over the past year the group's vision, mission and values were widely communicated to staff across the country to create an understanding of how the vision and values should influence behaviour and translate into an improved business performance.

The integration of pharmacy into the Clicks brand and the implementation of the enterprise-wide information systems platform are two strategic projects which have had far-reaching implications for staff. The inclusion of pharmacy dispensaries in Clicks has created a new people dynamic with the introduction of professional pharmacy staff into stores for the first time. The brand has focused on creating integrated teams to provide a seamless service to customers.

As the new systems platform will change business processes fundamentally, the roles and responsibilities of many staff members have been redefined. These changes and the related restructuring of specific areas of the group have understandably created uncertainty and a higher staff turnover.

Management recognised the challenges within the business environment and provided extensive human resources and change management support aimed at motivating staff and focusing on enhanced performance.

#### Permanent staff

No. of staff at 31 August 2004	9 011
Plus: Recruitments	1 727
Less: Resignations	(1 354)
Deaths	(27)
Dismissals	(294)
Retirements	(25)
Retrenchments	(91)

No. of staff at 31 August 2005 8 947

Staff turnover = 27%

#### Casual staff

No. of staff at 31 August 2004 3 157

No. of staff at 31 August 2005 2 719

### Employment equity

New Clicks continues to address the social and economic imbalances of the past through the empowerment and advancement of previously disadvantaged people. The group has made progress in improving the representivity of staff and moving towards gender equity. The main challenge remains in meeting employment equity targets at senior management and executive levels.

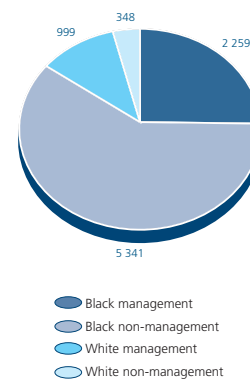
The group's policy is to provide employment opportunities for previously disadvantaged individuals to ensure a more representative staff profile. During the past year, black staff accounted for 82% of new appointments and 13% of management level appointments. Women accounted for 56% of new appointments.

Progress towards meaningful employment equity is reflected in the following statistics:

- Black staff account for 85% of the total staff complement (2004: 82%);
- Women comprise 61% of the staff (2004: 60%);

- 69% of management are black (2004: 72%);
- 59% of management are women (2004: 57%);
- 25% of the directors are black (2004: 25%), with one female director.

The group has complied with the requirements of all staff-related legislation, including the Basic Conditions of Employment Act, Labour Relations Act, Employment Equity Act and the Skills Development Act.



Staff by race

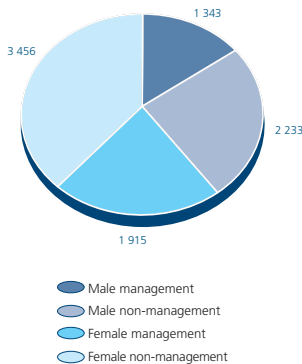
## Staff development

New Clicks continues to place increasing emphasis on training and invested 2% of the basic payroll cost on skills development over the past year. All training-related functions are co-ordinated by the New Clicks Skills Development Unit (SDU) which is registered with both the Wholesale and Retail Sector Education and Training Authority (SETA) and the Health and Welfare SETA. The SDU is a fully-accredited training provider.

The group once again qualified for a full refund under the Skills Development Levy administered by the Wholesale and Retail SETA and the Health and Welfare SETA, based on the compliance with the Act. All refunds are reinvested in training.

Staff are encouraged to further their education and enhance job-related and technical skills.

The group operates a study scheme which enables staff to enrol for approved courses. Study loans are provided to staff and repaid over the duration of the course. On the successful completion of the course, staff are reimbursed for the total cost. Over the past year 98 people completed



## Staff by gender

degrees, diplomas and short courses with registered institutions at a cost to the company of R1.1 million.

## Leadership development

New Clicks presents two formal programmes aimed at developing the leadership structures of the group:

- *Management Development Programme*

Ten courses were presented during the year, attended by 85 trainees. The group plans to host 16 courses in the forthcoming year.

- *Retail Business School*

The Retail Business School has been operating for the past two years and is targeted at middle to executive management. The innovative training programme combines academic learnings with business disciplines relevant to the New Clicks group, with guest lecturers including academics, industry experts and professional retailers.

Course material covers organisation and strategy, marketing, merchandising, supply chain management, accounting and the economy. Two five-day courses were presented during the year and attended by 60 delegates. Three courses are planned for 2006.

## Employee benefits

### Retirement funds

The group has four retirement funds which are registered in terms of the Pension Funds Act (No 24 of 1956) and it is a condition of employment that all permanent staff join one of these funds:

- Clicks Group Retirement Fund (administered by Alexander Forbes)
- Clicks Group Negotiated Pension Fund (administered by Metropolitan Employee Benefits)

- Clicks Group Negotiated Provident Fund (administered by Metropolitan Employee Benefits)

- The New UPD Corporate Selection Pension Fund (administered by Liberty Corporate Benefits).

The funds are defined contribution schemes and are actuarially valued each year. Total membership of the funds at year-end was 7 600 and total assets of the funds amounted to R391.6 million.

The funds are managed by boards of trustees, with 50% of the trustees being elected by members and 50% being appointed by management. The member-elected trustees serve for a three-year period and are then eligible for re-election. Training of newly-elected trustees is provided by the group and the trustees are not remunerated for their services. The boards of trustees meet at least twice a year, while sub-committees appointed by the trustees meet more frequently to discuss issues relating to investments and benefits.

All funds provide a death benefit of five times annual salary and a disability benefit of 75% of annual salary. Funeral benefits are provided under the Negotiated Pension and Provident Funds.

In addition to these four retirement funds, employees of UPD can elect to join the SACCAWU National Provident Fund or Chemical Industries National Provident Fund. Employees of the former Purchase Milton & Associates (PM&A), the retail pharmacy chain which was acquired by the group and integrated into Clicks, have membership of the Rainmaker Pension or Provident Funds. None of these funds is operated by the group.

### Medical aid

Membership of the Clicks Group Medical Scheme is compulsory for

## Corporate Citizenship Report (continued)

management, unless they are covered by another scheme, and voluntary for all other staff. The scheme is administered on behalf of New Clicks by Old Mutual Healthcare and is fully compliant with the Medical Schemes Act.

The fund is managed by a board of trustees, which includes three representatives of management and three member representatives. The trustees are not remunerated for their services.

The fund had a total membership of 2 171 at year-end and the solvency ratio of the scheme was 13%. The trustees of the fund are obligated to ensure a solvency ratio of 25%. Measures have been implemented to achieve the required solvency ratio by the end of the 2006 financial year.

UPD operates a medical scheme with Discovery Health and while membership is not compulsory, staff are encouraged to join the scheme.

### HIV/AIDS management

New Clicks has acknowledged the need to be more proactive in managing the well-being of employees and particularly the vital role it has to play in the fight against HIV/AIDS. While no formal assessment has been commissioned on the impact of HIV/AIDS on the group's business and its markets, it is clear that the disease will impact the group on several fronts.

New Clicks is exposed to a wide range of socio-economic groups given the diversity of its operations and the target markets served by the different brands. It is therefore assumed that the published national and provincial figures of HIV/AIDS infections apply to staff and customers alike. Accurate figures of HIV/AIDS prevalence rates among staff are not available owing to the confidential nature of employees' status.

The group has a documented policy that provides consistent guidelines for dealing with HIV/AIDS and addresses the issues around confidentiality and disclosure, employee benefits, education and prevention programmes, counselling, support and the management of infected employees.

While employees are encouraged to know their HIV status and take appropriate action, they have a common law right to privacy and are under no obligation to disclose their status to the group. No pre-employment medical testing is conducted for any positions in the group, while no one will be refused employment or promotion on the basis of their HIV status. Employees with HIV/AIDS can continue with employment until they are certified as being medically unfit to work.

In summary, the New Clicks HIV/AIDS strategy will aim to limit new infections through education and guidance, extend the life expectancy of HIV-positive employees, support AIDS-diseased employees and eliminate discrimination and prejudice towards infected employees.

In line with the group's commitment to managing employee wellness and HIV/AIDS-related issues in the workplace, a comprehensive strategy has been developed for 2006 and a budget has been committed to the programme for the year ahead. The inseparability of HIV/AIDS with other employee health problems like substance abuse, domestic violence and opportunistic infections has been recognised and will be included in this long-term strategy.

UPD has been operating a wellness programme for the past two years which incorporates the management of HIV/AIDS in the workplace. This programme includes the provision of

primary health care to staff not covered by medical aid through a clinic at the UPD head office in Gauteng. The cost of HIV/AIDS testing is covered by the company, while anti-retroviral medication is provided to HIV-positive staff based on their financial means. The company also has a job support programme which seeks to employ family members when a staff member becomes too sick to continue working.

### Environment

New Clicks is committed to meeting the needs of its customers and staff in an environmentally sound and sustainable manner. The group has adopted an environmental policy which will be integrated into the business operations to achieve maximum benefit for customers, the company and the environment.

This includes ensuring the safety of the products sold through the retail outlets, complying with environmental legislation and regulations, as well as developing solutions with suppliers to reduce the level of environmental impact on packaging and materials.

The policy also covers ways to minimise waste, conserve energy, optimise water usage and explore recycling opportunities. The group will assess the environmental impact of its business activities and develop systems of environmental management.

Communication forms a key element of the environmental management programme, including advising customers of the safe use and disposal of products, creating awareness among staff and liaising with industry bodies, government agencies and business partners to enhance environmental care.

## Occupational health and safety

The group's compliance with the Occupational Health and Safety Act focuses predominantly on the operations of New Clicks' retail and pharmaceutical distribution centres across the country. A safety, health and environmental (SHE) policy has been implemented, as required by King II.

All employees and contractors have undergone a SHE induction and safety representatives have been appointed in all distribution centres. Emergency teams have also been appointed, and fire and emergency drills take place regularly.

The distribution centres are also subject to external scrutiny. Compliance certificates have been issued by the Automatic Sprinkler Inspection Bureau confirming that the fire protection systems are in sound condition.

The SHE programme needs to be extended to all other areas of the business, notably the group head office and the store network, to move towards complete compliance with King II and assist in the reduction of incidents and costs.

## CUSTOMERS

Customers are the lifeblood of the business and the group engages with its customers in line with its values of passion, integrity, openness and honesty. As a value-oriented retailer, New Clicks aims to be price competitive for customers while at the same time being mindful of the need to provide an attractive return to shareholders.

The retail trading brands of the group are highly accessible to customers, with Clicks, Discom and Musica having extensive, countrywide store networks, while the select locations of The Body Shop and CD Warehouse reflect the

specialist nature of their merchandise offering.

Clicks has been at the forefront of customer loyalty in South Africa, having developed the Clicks ClubCard programme more than ten years ago. ClubCard has grown its membership base to more than two million and today accounts for over 70% of Clicks sales.

## SUPPLIERS

The group deals with a range of suppliers both locally and internationally to source inventory across its brands, as well as sourcing non-merchandise services for managing its business. Sound relationships with suppliers are paramount to ensure that the brands receive an uninterrupted supply of inventory to meet customer needs.

## Black empowerment procurement

The group is currently developing a black economic empowerment (BEE) strategy for non-merchandise procurement which includes shop fitting, security services, cleaning services, motor vehicles and stationery. In the past year the group's non-merchandise procurement contracts totalled approximately R500 million.

The group's top 30 non-merchandise suppliers were requested to complete a questionnaire outlining their BEE credentials in terms of policy, ownership, employment equity, procurement and social responsibility.

The process of implementing an effective BEE procurement programme has been hampered by the lack of a scorecard for the retail industry in the absence of a BEE charter for the sector.

It is expected that this BEE procurement programme will be effected during the forthcoming year.



UPD has outsourced the bulk of its distribution to self-employed drivers from disadvantaged backgrounds who operate their own vehicles. Through this innovative black empowerment programme, these owner/drivers are guaranteed a minimum workload each month and account for between 70% and 80% of UPD's total distribution volume. At year-end 75 owner/drivers were contracted directly to UPD and these drivers in turn sub-contracted a further 43 drivers.

UPD has operated this programme successfully for the past fifteen years in Cape Town and six years in Johannesburg, Bloemfontein and Port Elizabeth.

## SHAREHOLDERS AND MEDIA

Timeous, accurate and relevant reporting is fundamental to sound corporate governance. The group has a formalised market disclosure policy which outlines its commitment to regular and transparent dialogue with the investment community and financial media. Information is provided equally to all shareholders and market participants.

## Corporate Citizenship Report (continued)



The group's investor relations programme is managed by an external consultancy on an outsourced basis.

The board recognises the role of shareholders as owners of the company and encourages dialogue and engagement. Shareholders are urged to attend the annual general meeting where the group provides an update on developments within the company and its trading performance.

Senior executives meet regularly with local and international shareholders and analysts, and over 60 meetings were held with existing and prospective investors during the year. All investor meetings are attended by more than one person from the group or the investor relations consultancy to ensure consistency of information and to avoid information being disclosed on a selective basis. There are currently seven sell-side analysts who actively analyse and disseminate research on New Clicks Holdings.

Relationships are forged with the financial media on an ongoing basis to ensure balanced coverage of the group's performance and operations. The media has the ability to influence the group's stakeholders and it is critical that the corporate reputation is enhanced through effective use of both print and electronic media. An open and accessible relationship with key journalists covering the retail sector is also important in times of adversity when the group would expect a favourable reception from the media.

The group's interim and final results are presented to investors and media in Cape Town and Johannesburg, and these presentations are followed by roadshows to sell-side analysts and institutional shareholders in both centres.

Presentations are webcast to ensure that information is released simultaneously to all investors, and are archived on the corporate website for ongoing access.

All information released on SENS is also distributed to an extensive database of investors globally. The group strives to go beyond prescribed disclosure requirements in order to create a greater understanding of the business and financial disclosure is continually enhanced.

### GOVERNMENT AND REGULATORS

The group engages with government and industry regulators to ensure compliance and sound corporate governance, while at the same time seeking to gain an insight into the legal framework and potential legislation facing the sector.

Following the release of the draft charter for the healthcare sector by the Department of Health in June, the group provided a written submission outlining its views and concerns with the proposed charter.

The Constitutional Court has handed down its judgment in the group's legal dispute with the Department of Health relating to the dispensing fee applied in the medicine pricing regulations.

While New Clicks is supportive of the democratic system in the country, the group has adopted an impartial stance on party politics. It does not contribute funds to any political parties, politicians or candidates for public office.

### CORPORATE SOCIAL INVESTMENT

New Clicks is committed to sustainable change in the country and contributes to this ideal by investing in social projects which can improve the lives of disadvantaged communities and lead to personal empowerment. The group's corporate social investment programme is managed by the New Clicks Foundation.

Since the formation of the New Clicks Foundation in 2002, R2.4 million has been invested in social upliftment and development, with R660 000 being committed over the past year.

The activities of the Foundation are co-ordinated by a board of trustees which includes representatives of senior management and staff. The trustees determine funding policy, evaluate requests for support, assess progress of current programmes and monitor the effective usage of funds.

The Foundation is increasingly focusing on social investment projects which can be aligned with the group's business activities. The objective is to link each brand with a major project and to build a long-term partnership between the brand and a non-profit organisation.

All Clicks stores are allocated a budget to assist local communities with product donations. A further budget is administered at the national store support centre (head office) for small, community-focused requests for financial assistance.

The major projects supported by the Foundation during the year include:

#### *Brand-aligned programmes*

- Clicks has continued to support the SunSmart campaign in partnership with the Cancer Association of South Africa (CANSA) to promote skin cancer awareness and reduce



incidence of the disease. SunSmart highlights the dangers of excessive exposure to the sun and advocates preventative measures to avoid sunburn that could lead to skin cancer. The first campaign over the summer of 2004/2005 proved highly successful, with customer education programmes, awareness campaigns in schools, beach clinics and in-store promotions being used to carry the message of skin cancer prevention. More than 160 Clicks pharmacists and beauty consultants were trained on skin and sun care products. Clicks has committed a further R200 000 to the SunSmart campaign in the year ahead.

- The Body Shop is aligned with the Big Issue, a social development and upliftment project which assists homeless people to earn a living and integrates them into the formal job market. This project also embodies the social philosophy of the The Body Shop International which is aimed at enhancing self-esteem of people from disadvantaged backgrounds. The New Clicks Foundation has invested more than R800 000 in the Big Issue over the last six years, including R125 000 in the past year to fund a vehicle and staff costs to extend the distribution network of the Big Issue to other areas in the Western Cape.
- The Foundation has continued its relationship with The Red Cross War Memorial Children's Hospital in Cape Town. The hospital is the only specialist paediatric facility of its kind in southern Africa, and treats over 250 000 children each year. In conjunction with Clicks Pharmacy, the Foundation donated four specialist fridges valued at R94 000 to the hospital's pharmacy for the storage of medication.

- Musica has partnered Deaf South Africa (DeafSA) since 1994, supporting the brand's market positioning as *The Soul Store* by aiding people who are unable to experience the pleasures of listening to music. Musica undertakes an annual marketing campaign aimed at promoting deaf awareness and also has collection tins in stores to raise funds for DeafSA. In the past year the New Clicks Foundation provided R75 000 to DeafSA for Deaf Awareness Week and Musica plans to strengthen this relationship further in the year ahead.

#### Social projects

- The New Clicks Foundation has supported the annual Casual Day run by Epilepsy South Africa since 1998. Thousands of businesses, schools and organisations throughout the country participate in this project and people contribute money to wear casual clothing to show their support for those living with disabilities. Funds are distributed to a range of institutions providing services and assistance to the disabled.
- Childline/Lifeline provides child abuse treatment programmes, counselling and support groups for children who have been abused or raped. The Foundation has been an active supporter of the organisation in the Western Cape.

#### Community support

- New Clicks has been one of the main supporters of a programme to address the social challenges facing the community of Woodstock, Cape Town, where the group's head office is located. Through the Woodstock Upliftment Project (WUP), New Clicks and other organisations have created a forum to bring all

community role players together to discuss crime prevention, education, old age care, waste management, environmental and social issues. The efforts of the WUP are having a positive effect on the social landscape in the area, with poverty alleviation, child protection, skills development and senior citizen programmes gaining momentum and crime rates decreasing. The New Clicks Foundation has been instrumental in co-ordinating the holiday programmes for school-children living in the area which are attended by over 100 children each day.

- UPD's social responsibility programme is mainly focused on healthcare training and HIV/AIDS support. The company provides R30 000 each year to the South African Pharmacy Council for a bursary fund which covers the training of five Bachelor of Pharmacy students. UPD provides medication, clothing and equipment to a number of AIDS clinics in Gauteng and the Western Cape.



# Seven-year Review

		6 year CAGR (%)	2005	2004
<b>Income Statement</b>				
Turnover	R'000	17.02%	8 714 338	8 024 123
Gross profit	R'000	11.53%	1 709 476	1 747 350
Headline earnings	R'000	11.06%	221 638	264 660
<b>Balance Sheet</b>				
Shareholders' interest	R'000	10.64%	1 340 223	1 319 155
Loans payable	R'000	18.39%	260 707	340 549
Property, plant and equipment	R'000	13.22%	708 895	659 347
Inventories	R'000	15.99%	1 621 880	1 411 339
Total assets	R'000	13.10%	3 190 175	3 157 433
<b>Cash Flow</b>				
Net cash effects of operating activities	R'000		(13 144)	218 962
Net interest paid	R'000	36.89%	49 086	59 778
Capital expenditure	R'000	13.06%	170 106	160 349
Depreciation and amortisation	R'000	14.37%	104 734	109 021
<b>Performance</b>				
Turnover growth	%		8.6	8.9
Comparable stores turnover growth – southern Africa	%		8.9	8.1
Gross profit growth	%		(2.2)	(0.5)
Gross profit margin	%		19.6	21.8
Inventory turn	times		5.4	5.6
Current ratio	times		1.4	1.5
Return on total assets	%		7.0	8.0
Return on shareholders' interest	%		16.7	18.4
Net interest-bearing debt to shareholders' interest	%		20.5	26.5
Effective taxation rate	%		30.0	121.3
<b>Exchange Rates</b>				
Rand/US Dollar – average rate	R/US\$		6.23	6.65
– closing rate	R/US\$		6.48	6.68
<b>Statistics</b>				
Number of permanent employees		5.78%	8 947	9 011
Number of stores – company owned		2.14%	663	681
– franchised		3.79%	15	15
Weighted trading area – company owned	m <sup>2</sup>	2.11%	249 417	231 037
<b>Share Statistics</b>				
Number of shares in issue (gross)	'000	4.42%	370 260	361 205
Number of shares in issue (net of treasury shares)	'000	2.98%	340 519	345 391
Weighted average number of shares (net of treasury shares)	'000	3.06%	339 914	353 571
Weighted average diluted number of shares (net of treasury shares)	'000	3.08%	350 433	363 046
Headline earnings per share – undiluted	cents	7.76%	65.2	74.9
– diluted	cents	7.73%	63.2	72.9
Distribution per share	cents	13.09%	29.7	35.0
Distribution cover	times		2.2	2.1
Share price – closing	cents		810	770
– high	cents		990	799
– low	cents		690	660
Net asset value per share	cents	7.45%	394	382
Net tangible asset value per share	cents	6.24%	368	352
Market capitalisation (gross) at 31 August	R'000	3.49%	2 999 106	2 781 279
Market capitalisation (net of treasury shares) at 31 August	R'000	2.05%	2 758 204	2 659 511
Price earnings ratio at 31 August	times		12.4	10.3
Volume of shares traded for the year	'000		131 882	163 031
Percentage of shares traded during the year	%		38.8	46.1
Shareholders' return	cents		70	140
Increase/(decrease) in share price	cents		40	105
Distribution per share	cents		30	35
<b>Other Information</b>				
Inflation rate (CPI)	%		3.9	1.0
<b>Interest rates</b>				
Prime overdraft rate – closing	%		10.5	11.0
– average	%		10.8	11.9
R153 – closing	%		7.7	8.9
– average	%		8.0	9.4
<b>JSE share indices</b>				
All Share Index		14.97%	15 414	11 160
General Retailers Index		12.79%	22 163	13 344



2003	2002	2001	2000	1999
7 367 739	5 487 791	4 365 203	3 997 525	3 394 426
1 756 190	1 555 401	1 219 004	1 103 491	888 135
221 296	157 546	171 666	160 221	118 110
1 608 510	1 221 757	1 015 533	827 555	730 659
442 013	230 546	242 398	178 386	94 669
747 263	612 537	530 261	491 581	336 485
1 401 061	1 055 137	897 348	742 010	666 028
3 453 830	2 468 580	1 991 740	1 743 929	1 524 056
337 208	213 665	121 585	75 521	253 830
84 117	67 220	19 997	11 721	7 461
203 005	158 005	109 669	232 933	81 448
103 726	97 075	75 982	58 025	46 791
34.3	25.7	9.2	17.8	44.9
8.0	9.2	4.7	11.5	9.4
12.9	27.6	10.5	24.2	50.8
23.8	28.3	27.9	27.6	26.2
5.3	5.2	5.2	5.4	5.1
1.3	1.3	1.4	1.4	1.5
7.5	7.1	9.3	9.9	8.6
15.6	14.1	18.6	20.3	17.3
27.7	27.8	27.2	27.5	13.0
28.1	29.6	32.4	30.1	30.8
8.55	10.49	7.84	6.47	6.03
7.36	10.64	8.33	6.67	6.25
7 973	6 364	6 338	6 279	6 388
729	699	684	628	584
213	192	86	12	12
273 636	261 539	256 280	236 614	220 021
354 118	305 172	298 541	288 399	285 572
354 118	305 172	298 541	288 399	285 572
337 587	301 772	293 200	286 900	283 600
342 906	317 272	312 900	305 200	292 100
65.6	52.2	58.6	55.8	41.6
64.5	49.7	54.9	52.5	40.4
26.0	24.0	19.8	18.0	14.2
2.5	2.1	2.8	2.9	2.9
665	650	909	1 200	855
715	930	1 230	1 285	930
501	555	650	770	350
454	400	340	287	256
388	341	314	287	256
2 354 885	1 983 618	2 713 738	3 460 788	2 441 641
2 354 885	1 983 618	2 713 738	3 460 788	2 441 641
10.1	12.5	15.5	21.5	20.5
156 283	180 585	107 819	120 058	120 501
46.3	59.8	36.8	41.8	42.5
41	(235)	(271)	363	439
15	(259)	(291)	345	425
26	24	20	18	14
5.1	10.3	4.6	6.7	3.3
14.5	16.0	13.5	14.5	16.5
16.6	14.3	14.3	15.0	21.1
9.5	11.6	10.8	13.5	15.3
10.4	11.5	12.2	14.2	15.6
9 226	9 677	8 887	8 362	6 673
9 584	6 439	6 682	10 849	10 762

**Notes:**

1. These are group results which include the results of the Australian operations from prior to 1999 to 28 December 2003 and Intercare Managed Healthcare (Proprietary) Limited from 2002 to 1 March 2004.
2. The results of the Purchase Milton & Associates group of pharmacies have been consolidated since 1 March 2004.
3. New United Pharmaceutical Distributors was acquired with effect from 1 January 2003.
4. The operating lease accrual detailed in note 25 and the changes to comparatives detailed in note 24 have been applied to the 2005 and 2004 results only.
5. For an explanation of terms used, please refer to the Definitions section on page 105 of this report.

# Currency Adjusted Balance Sheet

<b>at 31 August 2005</b>		<b>2005</b>	<b>2004</b>	<b>2005</b>
	Notes	R'000	R'000	US\$'000
<b>Assets</b>				
Non-current assets				
		<b>951 117</b>	883 486	<b>146 776</b>
Property, plant and equipment	1	<b>708 895</b>	659 347	<b>109 397</b>
Trademark	2	<b>3 280</b>	3 930	<b>506</b>
Goodwill	3	<b>83 950</b>	98 280	<b>12 955</b>
Deferred taxation assets	4	<b>102 264</b>	95 475	<b>15 781</b>
Loans	6	<b>52 728</b>	26 454	<b>8 137</b>
Current assets				
		<b>2 239 058</b>	2 273 947	<b>345 533</b>
Inventories	7	<b>1 621 880</b>	1 411 339	<b>250 290</b>
Accounts receivable	8	<b>494 515</b>	443 762	<b>76 314</b>
Taxation prepaid		<b>37 903</b>	8 442	<b>5 849</b>
Cash on hand		<b>70 315</b>	410 404	<b>10 851</b>
Derivative	9	<b>14 445</b>	–	<b>2 229</b>
<b>Total assets</b>				
		<b>3 190 175</b>	3 157 433	<b>492 309</b>
<b>Equity and liabilities</b>				
Capital and reserves				
		<b>1 340 223</b>	1 319 155	<b>206 823</b>
Non-current liabilities				
		<b>277 939</b>	355 841	<b>42 891</b>
Loans payable	13	<b>167 683</b>	259 730	<b>25 877</b>
Deferred taxation liabilities	4	<b>24 750</b>	19 623	<b>3 819</b>
Operating lease accrual	14	<b>85 506</b>	76 488	<b>13 195</b>
Current liabilities				
		<b>1 572 013</b>	1 482 437	<b>242 595</b>
Short-term borrowings	15	<b>13 903</b>	8 710	<b>2 146</b>
Accounts payable and accruals	17	<b>1 451 713</b>	1 390 084	<b>224 029</b>
Loans payable	13	<b>93 024</b>	80 819	<b>14 356</b>
Taxation payable		<b>13 373</b>	2 824	<b>2 064</b>
<b>Total equity and liabilities</b>				
		<b>3 190 175</b>	3 157 433	<b>492 309</b>
Rates used for currency conversion				
				<b>R</b>
Closing rate				<b>6.48</b>

# Currency Adjusted Cash Flow Statement

<b>for the year ended 31 August 2005</b>		<b>2005</b>	<b>2004</b>	<b>2005</b>
		R'000	R'000	US\$'000
Cash generated by operations		<b>257 665</b>	478 296	<b>41 359</b>
Net interest paid		<b>(49 086)</b>	(59 778)	<b>(7 879)</b>
Taxation paid		<b>(109 258)</b>	(101 732)	<b>(17 537)</b>
Cash inflow from operating activities before dividends				
		<b>99 321</b>	316 786	<b>15 943</b>
Distributions to ordinary shareholders		<b>(112 465)</b>	(97 824)	<b>(18 052)</b>
Net cash effects of operating activities				
		<b>(13 144)</b>	218 962	<b>(2 109)</b>
Net cash effects of investing activities		<b>(182 660)</b>	164 523	<b>(29 319)</b>
Net cash effects of financing activities		<b>(149 478)</b>	(128 115)	<b>(23 993)</b>
Net (decrease)/increase in cash and cash equivalents				
		<b>(345 282)</b>	255 370	<b>(55 421)</b>
Rates used for currency conversion				
				<b>R</b>
Average rate				<b>6.23</b>

2004 US\$'000	2005 £'000	2004 £'000
132 259	<b>82 181</b>	73 625
98 705	<b>61 252</b>	54 946
588	<b>283</b>	328
14 713	<b>7 254</b>	8 190
14 293	<b>8 836</b>	7 956
3 960	<b>4 556</b>	2 205
340 411	<b>193 465</b>	189 496
211 278	<b>140 138</b>	117 612
66 431	<b>42 728</b>	36 980
1 264	<b>3 275</b>	704
61 438	<b>6 076</b>	34 200
–	<b>1 248</b>	–
472 670	<b>275 646</b>	263 121
197 478	<b>115 801</b>	109 930
53 268	<b>24 016</b>	29 653
38 881	<b>14 489</b>	21 644
2 937	<b>2 139</b>	1 635
11 450	<b>7 388</b>	6 374
221 924	<b>135 829</b>	123 538
1 304	<b>1 201</b>	726
208 098	<b>125 435</b>	115 842
12 099	<b>8 038</b>	6 735
423	<b>1 155</b>	235
472 670	<b>275 646</b>	263 121
R	<b>R</b>	R
6.68	<b>11.57</b>	12.00

In order to give users of these financial statements an indication of the relative values in foreign currencies, the group balance sheet in South African rands has been translated to US dollars and UK pounds, using the closing spot rates of those currencies.

2004 US\$'000	2005 £'000	2004 £'000
71 924	<b>22 406</b>	40 568
(8 989)	<b>(4 268)</b>	(5 070)
(15 298)	<b>(9 501)</b>	(8 629)
47 637	<b>8 637</b>	26 869
(14 710)	<b>(9 780)</b>	(8 297)
32 927	<b>(1 143)</b>	18 572
24 740	<b>(15 883)</b>	13 954
(19 265)	<b>(12 998)</b>	(10 866)
38 402	<b>(30 024)</b>	21 660
R	<b>R</b>	R
6.65	<b>11.50</b>	11.79

In order to give users of these financial statements an indication of the relative values in foreign currencies, the group cash flow statement in South African rands has been translated to US dollars and UK pounds, using the average spot rates of those currencies for the year.

# Currency Adjusted Income Statement

for the year ended 31 August 2005

	Notes	2005 R'000	2004 R'000
<b>Continuing operations</b>			
Turnover		8 714 338	7 369 472
Cost of merchandise		7 004 862	5 831 863
Gross profit		1 709 476	1 537 609
Other revenue		542 778	462 383
Other expenditure		1 910 781	1 892 342
Depreciation and amortisation	1,2	104 734	100 425
Occupancy costs	18	291 409	245 235
Employment costs	19	846 782	719 870
Other operating costs	20	650 772	542 229
Impairment of property, plant and equipment	1	–	13 496
Loss on disposal of property, plant and equipment		270	1 920
Goodwill amortisation	3	–	10 971
Goodwill impairment	3	16 814	258 196
Profit before interest and taxation		341 473	107 650
Net interest paid		(49 086)	(54 470)
Net interest paid – normal operations		(49 086)	(54 470)
Interest received – PM&A		–	24 986
Provision against interest received – PM&A		–	(24 986)
Profit before taxation		292 387	53 180
Taxation	21	87 754	91 044
Profit/(loss) attributable to shareholders – continuing operations		204 633	(37 864)
<b>Discontinued operations</b>			
Turnover		–	654 651
Profit before interest and taxation		–	38 932
Net interest paid		–	(5 308)
Profit before taxation		–	33 624
Taxation	21	–	14 287
Profit attributable to shareholders – discontinued operations		–	19 337
<b>Reconciliation of headline earnings</b>			
Profit/(loss) attributable to shareholders		204 633	(18 527)
Adjustment for:			
Impairment of property, plant and equipment		–	9 447
Profit on sale of Australian operations		–	(1 738)
Profit on sale of Intercare		–	(587)
Loss on disposal of property, plant and equipment		191	1 597
Goodwill amortisation		–	16 272
Goodwill impairment		16 814	258 196
Headline earnings		221 638	264 660
Rates used for currency conversion			
Average rate			

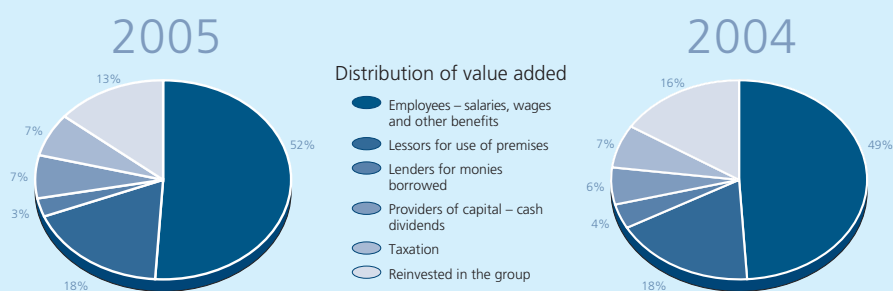
	2005 US\$'000	2004 US\$'000	2005 £'000	2004 £'000
	<b>1 398 770</b>	1 108 191	<b>757 769</b>	625 061
	<b>1 124 376</b>	876 972	<b>609 118</b>	494 645
	<b>274 394</b>	231 219	<b>148 651</b>	130 416
	<b>87 123</b>	69 531	<b>47 198</b>	39 218
	<b>306 706</b>	284 562	<b>166 154</b>	160 506
	<b>16 811</b>	15 102	<b>9 107</b>	8 518
	<b>46 775</b>	36 877	<b>25 340</b>	20 800
	<b>135 920</b>	108 251	<b>73 633</b>	61 058
	<b>104 458</b>	81 538	<b>56 589</b>	45 991
	-	2 029	-	1 145
	<b>43</b>	289	<b>23</b>	163
	-	1 650	-	931
	<b>2 699</b>	38 826	<b>1 462</b>	21 900
	<b>54 811</b>	16 188	<b>29 695</b>	9 128
	<b>(7 879)</b>	(8 191)	<b>(4 268)</b>	(4 620)
	<b>(7 879)</b>	(8 191)	<b>(4 268)</b>	(4 620)
	-	3 757	-	2 119
	-	(3 757)	-	(2 119)
	<b>46 932</b>	7 997	<b>25 427</b>	4 508
	<b>14 086</b>	13 691	<b>7 631</b>	7 722
	<b>32 846</b>	(5 694)	<b>17 796</b>	(3 214)
	-	98 444	-	55 526
	-	5 854	-	3 302
	-	(798)	-	(450)
	-	5 056	-	2 852
	-	2 148	-	1 212
	-	2 908	-	1 640
	<b>32 846</b>	(2 786)	<b>17 796</b>	(1 574)
	-	1 421	-	801
	-	(261)	-	(147)
	-	(88)	-	(50)
	<b>31</b>	240	<b>17</b>	135
	-	2 447	-	1 380
	<b>2 699</b>	38 826	<b>1 462</b>	21 900
	<b>35 576</b>	39 799	<b>19 275</b>	22 445
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
	<b>6.23</b>	6.65	<b>11.50</b>	11.79

In order to give users of these financial statements an indication of the relative values in foreign currencies, the group income statement in South African rands has been translated to US dollars and UK pounds, using the average spot rates of those currencies for the year.

# Value Added Statement

for the year ended 31 August 2005

	2005		2004	
	R'000	%	R'000	%
Turnover	8 714 338		8 024 123	
Other revenue	542 778		540 318	
Paid to suppliers for goods and services	(7 627 551)		(6 869 081)	
<b>Value added</b>	<b>1 629 565</b>		<b>1 695 360</b>	
Applied as follows:				
Employees – salaries, wages and other benefits	846 782	52.0%	830 511	49.0%
Lessors for use of premises	291 409	17.9%	308 089	18.2%
Lenders for monies borrowed	49 086	3.0%	59 778	3.5%
Providers of capital – cash dividends	112 465	6.9%	97 824	5.8%
Taxation	109 709	6.7%	123 028	7.2%
Corporate taxation	90 346	5.5%	105 639	6.2%
Property taxes	3 779	0.2%	3 838	0.2%
RSC levies	15 584	1.0%	13 551	0.8%
Reinvested in the group	220 114	13.5%	276 130	16.3%
Deferred taxation	(2 592)	(0.2%)	(308)	0.0%
Depreciation and amortisation	104 734	6.4%	109 021	6.4%
Goodwill amortisation	–	0.0%	16 272	1.0%
Goodwill impairment	16 814	1.0%	258 196	15.2%
Retained income	101 158	6.2%	(107 051)	(6.3%)
<b>Distribution of value added</b>	<b>1 629 565</b>	<b>100.0%</b>	<b>1 695 360</b>	<b>100.0%</b>



# Group Balance Sheet

at 31 August 2005

	Notes	2005 R'000	2004 R'000
<b>Assets</b>			
Non-current assets		<b>951 117</b>	883 486
Property, plant and equipment	1	<b>708 895</b>	659 347
Trademark	2	<b>3 280</b>	3 930
Goodwill	3	<b>83 950</b>	98 280
Deferred taxation assets	4	<b>102 264</b>	95 475
Loans	6	<b>52 728</b>	26 454
Current assets		<b>2 239 058</b>	2 273 947
Inventories	7	<b>1 621 880</b>	1 411 339
Accounts receivable	8	<b>494 515</b>	443 762
Taxation prepaid		<b>37 903</b>	8 442
Cash on hand		<b>70 315</b>	410 404
Derivative	9	<b>14 445</b>	–
<b>Total assets</b>		<b>3 190 175</b>	3 157 433
<b>Equity and liabilities</b>			
Capital and reserves		<b>1 340 223</b>	1 319 155
Share capital	10	<b>3 703</b>	3 612
Share premium	10	<b>964 077</b>	907 107
Treasury shares	11	<b>(249 678)</b>	(122 981)
Non-distributable reserves	12	<b>18 488</b>	28 942
Distributable reserve		<b>603 633</b>	502 475
Non-current liabilities		<b>277 939</b>	355 841
Loans payable	13	<b>167 683</b>	259 730
Deferred taxation liabilities	4	<b>24 750</b>	19 623
Operating lease accrual	14	<b>85 506</b>	76 488
Current liabilities		<b>1 572 013</b>	1 482 437
Short-term borrowings	15	<b>13 903</b>	8 710
Accounts payable and accruals	17	<b>1 451 713</b>	1 390 084
Loans payable	13	<b>93 024</b>	80 819
Taxation payable		<b>13 373</b>	2 824
<b>Total equity and liabilities</b>		<b>3 190 175</b>	3 157 433

# Group Income Statement

for the year ended 31 August 2005

	Notes	Continuing operations	
		2005 R'000	2004 R'000
Turnover		<b>8 714 338</b>	7 369 472
Cost of merchandise		<b>7 004 862</b>	5 831 863
Gross profit		<b>1 709 476</b>	1 537 609
Other revenue		<b>542 778</b>	462 383
Other expenditure		<b>1 910 781</b>	1 892 342
Depreciation and amortisation	1,2	<b>104 734</b>	100 425
Occupancy costs	18	<b>291 409</b>	245 235
Employment costs	19	<b>846 782</b>	719 870
Other operating costs	20	<b>650 772</b>	542 229
Impairment of property, plant and equipment	1	–	13 496
Profit on sale of Australian operations	35.4	–	–
Profit on sale of Intercare	35.4	–	–
Loss on disposal of property, plant and equipment		<b>270</b>	1 920
Goodwill amortisation	3	–	10 971
Goodwill impairment	3	<b>16 814</b>	258 196
Profit before interest and taxation		<b>341 473</b>	107 650
Net interest paid		<b>(49 086)</b>	(54 470)
Interest received – normal operations		<b>7 878</b>	16 911
Interest paid – normal operations		<b>(56 964)</b>	(71 381)
Interest received – PM&A		–	24 986
Provision against interest received – PM&A		–	(24 986)
Net profit before taxation		<b>292 387</b>	53 180
Taxation	21	<b>87 754</b>	91 044
Profit/(loss) attributable to shareholders		<b>204 633</b>	(37 864)
Adjustment for:			
Impairment of property, plant and equipment		–	9 447
Profit on sale of Australian operations		–	–
Profit on sale of Intercare		–	–
Loss on disposal of property, plant and equipment (net of taxation)		<b>191</b>	1 344
Goodwill amortisation		–	10 971
Goodwill impairment		<b>16 814</b>	258 196
Headline earnings		<b>221 638</b>	242 094
Headline earnings per share (cents)			
– undiluted	22	<b>65.2</b>	68.5
– diluted	22	<b>63.2</b>	66.7
Basic earnings/(loss) per share (cents)			
– undiluted	22	<b>60.2</b>	(10.6)
– diluted	22	<b>58.4</b>	(10.4)
Dividend per share (cents)			
Paid – December	23		
Paid – June/July	23		
Payable – December	23		



Discontinued operations		Group
2004	2005	2004
R'000	R'000	R'000
654 651	<b>8 714 338</b>	8 024 123
444 910	<b>7 004 862</b>	6 276 773
209 741	<b>1 709 476</b>	1 747 350
77 935	<b>542 778</b>	540 318
248 744	<b>1 910 781</b>	2 141 086
8 596	<b>104 734</b>	109 021
62 854	<b>291 409</b>	308 089
110 641	<b>846 782</b>	830 511
63 316	<b>650 772</b>	605 545
-	-	13 496
(1 738)	-	(1 738)
(587)	-	(587)
361	<b>270</b>	2 281
5 301	-	16 272
-	<b>16 814</b>	258 196
38 932	<b>341 473</b>	146 582
(5 308)	<b>(49 086)</b>	(59 778)
1 397	<b>7 878</b>	18 308
(6 705)	<b>(56 964)</b>	(78 086)
-	-	24 986
-	-	(24 986)
33 624	<b>292 387</b>	86 804
14 287	<b>87 754</b>	105 331
19 337	<b>204 633</b>	(18 527)
-	-	9 447
(1 738)	-	(1 738)
(587)	-	(587)
253	<b>191</b>	1 597
5 301	-	16 272
-	<b>16 814</b>	258 196
22 566	<b>221 638</b>	264 660
6.4	<b>65.2</b>	74.9
6.2	<b>63.2</b>	72.9
5.4	<b>60.2</b>	(5.2)
5.3	<b>58.4</b>	(5.1)
	<b>22.5</b>	15.1
	<b>11.2</b>	12.5
	<b>18.5</b>	

# Group Changes in Equity Statement

for the year ended 31 August 2005

	Number of shares '000	Share capital (Note 10) R'000	Share premium (Note 10) R'000	Treasury shares (Note 11) R'000	Non- distributable reserves (Note 12) R'000	Distributable reserve R'000	Total R'000
<b>Opening Balance at 1 September 2003</b>							
<b>restated</b>	354 118	3 541	874 153	–	73 722	609 526	1 560 942
<b>Balance at 1 September 2003 as previously stated</b>	–	3 541	874 153	–	73 722	657 094	1 608 510
Change in interpretation – operating lease accrual (see note 25)	–	–	–	–	–	(47 568)	(47 568)
Shares issued in respect of options	7 087	71	33 149	–	–	–	33 220
Share issue expenses written off	–	–	(195)	–	–	–	(195)
Consolidation of Share Trust	(2 809)	–	–	(22 804)	–	–	(22 804)
Treasury shares purchased	(13 005)	–	–	(100 177)	–	–	(100 177)
Foreign currency translation reserve realised	–	–	–	–	(35 726)	–	(35 726)
Foreign currency translation reserve	–	–	–	–	246	–	246
Deferred taxation on write-off of intangible assets	–	–	–	–	(9 300)	9 300	–
Loss attributable to shareholders restated	–	–	–	–	–	(18 527)	(18 527)
Loss attributable to shareholders as previously stated	–	–	–	–	–	(12 553)	(12 553)
Change in interpretation – operating lease accrual (see note 25)	–	–	–	–	–	(5 974)	(5 974)
Dividends (see note 23)	–	–	–	–	–	(97 824)	(97 824)
<b>Balance at 31 August 2004 restated</b>	<b>345 391</b>	<b>3 612</b>	<b>907 107</b>	<b>(122 981)</b>	<b>28 942</b>	<b>502 475</b>	<b>1 319 155</b>
<b>Balance at 31 August 2004 as previously stated</b>	<b>–</b>	<b>3 612</b>	<b>907 107</b>	<b>(122 981)</b>	<b>28 942</b>	<b>556 017</b>	<b>1 372 697</b>
Change in interpretation – operating lease accrual (see note 25)	–	–	–	–	–	(53 542)	(53 542)
Shares issued in respect of options	9 055	91	57 243	–	–	–	57 334
Share issue expenses written off	–	–	(273)	–	–	–	(273)
Treasury shares purchased	(13 927)	–	–	(126 697)	–	–	(126 697)
Foreign currency translation reserve	–	–	–	–	(534)	–	(534)
Change in taxation rate	–	–	–	–	(930)	–	(930)
Deferred taxation on write-off of intangible assets	–	–	–	–	(8 990)	8 990	–
Profit attributable to shareholders	–	–	–	–	–	204 633	204 633
Dividends (see note 23)	–	–	–	–	–	(112 465)	(112 465)
<b>Balance at 31 August 2005</b>	<b>340 519</b>	<b>3 703</b>	<b>964 077</b>	<b>(249 678)</b>	<b>18 488</b>	<b>603 633</b>	<b>1 340 223</b>

# Group Cash Flow Statement

for the year ended 31 August 2005

	Notes	2005 R'000	2004 R'000
<b>Cash effects of operating activities</b>			
Cash generated by operations	35.1	257 665	478 296
Interest paid		(56 964)	(78 086)
Interest received		7 878	18 308
Taxation paid	35.2	(109 258)	(101 732)
Cash inflow from operating activities before dividends		99 321	316 786
Dividends paid to shareholders	23	(112 465)	(97 824)
Net cash effects of operating activities		(13 144)	218 962
<b>Cash effects of investing activities</b>			
Investment in property, plant and equipment to maintain and expand operations	1	(170 106)	(160 349)
Acquisition of subsidiaries and businesses	35.3	–	13 310
Acquisition of additional goodwill	3	(2 484)	(203)
Proceeds from disposal of subsidiaries and businesses	35.4	–	310 356
Proceeds from disposal of property, plant and equipment		16 204	4 760
Loans advanced		(26 274)	(3 351)
Net cash effects of investing activities		(182 660)	164 523
<b>Cash effects of financing activities</b>			
Shareholders' funds raised	35.5	57 061	33 025
Purchase of treasury shares		(126 697)	(99 523)
Long-term borrowings – raised		–	809
Long-term borrowings – repaid		(79 842)	(62 426)
Net cash effects of financing activities		(149 478)	(128 115)
Net (decrease)/increase in cash and cash equivalents		(345 282)	255 370
Adjustment for foreign exchange fluctuation		–	120
Cash and cash equivalents at beginning of the year		401 694	146 204
<b>Cash and cash equivalents at end of the year</b>	35.6	<b>56 412</b>	401 694

# Operational Segmental Analysis

## Balance Sheet at 31 August 2005

	2005 R'000	Retail 2004 R'000
<b>Assets</b>		
Non-current assets	<b>862 024</b>	809 714
Property, plant and equipment	<b>636 069</b>	587 169
Trademark	<b>3 280</b>	3 930
Goodwill	–	14 330
Deferred taxation assets	<b>101 306</b>	94 323
Intragroup loans	<b>68 641</b>	83 508
Loans	<b>52 728</b>	26 454
Current assets	<b>1 605 151</b>	1 798 367
Inventories	<b>1 329 861</b>	1 201 072
Accounts receivable	<b>156 004</b>	182 338
Taxation prepaid	<b>37 903</b>	7 518
Cash on hand	<b>66 938</b>	407 439
Derivative	<b>14 445</b>	–
<b>Total assets</b>	<b>2 467 175</b>	2 608 081
<b>Equity and liabilities</b>		
Capital and reserves	<b>1 300 999</b>	1 319 529
Share capital	<b>3 703</b>	3 612
Share premium	<b>964 077</b>	907 107
Treasury shares	<b>(249 678)</b>	(122 981)
Non-distributable reserves	<b>18 488</b>	28 942
Distributable reserve	<b>564 409</b>	502 849
Non-current liabilities	<b>254 843</b>	329 694
Loans payable	<b>146 210</b>	236 560
Deferred taxation liabilities	<b>23 127</b>	16 646
Operating lease accrual	<b>85 506</b>	76 488
Current liabilities	<b>911 333</b>	958 858
Short-term borrowings	–	–
Accounts payable and accruals	<b>810 275</b>	877 981
Loans payable	<b>89 399</b>	78 053
Taxation payable	<b>11 659</b>	2 824
<b>Total equity and liabilities</b>	<b>2 467 175</b>	2 608 081

	UPD		Group total	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
	<b>89 093</b>	73 772	<b>951 117</b>	883 486
	<b>72 826</b>	72 178	<b>708 895</b>	659 347
	-	-	<b>3 280</b>	3 930
	<b>83 950</b>	83 950	<b>83 950</b>	98 280
	<b>958</b>	1 152	<b>102 264</b>	95 475
	<b>(68 641)</b>	(83 508)	-	-
	-	-	<b>52 728</b>	26 454
	<b>633 907</b>	475 580	<b>2 239 058</b>	2 273 947
	<b>292 019</b>	210 267	<b>1 621 880</b>	1 411 339
	<b>338 511</b>	261 424	<b>494 515</b>	443 762
	-	924	<b>37 903</b>	8 442
	<b>3 377</b>	2 965	<b>70 315</b>	410 404
	-	-	<b>14 445</b>	-
	<b>723 000</b>	549 352	<b>3 190 175</b>	3 157 433
	<b>39 224</b>	(374)	<b>1 340 223</b>	1 319 155
	-	-	<b>3 703</b>	3 612
	-	-	<b>964 077</b>	907 107
	-	-	<b>(249 678)</b>	(122 981)
	-	-	<b>18 488</b>	28 942
	<b>39 224</b>	(374)	<b>603 633</b>	502 475
	<b>23 096</b>	26 147	<b>277 939</b>	355 841
	<b>21 473</b>	23 170	<b>167 683</b>	259 730
	<b>1 623</b>	2 977	<b>24 750</b>	19 623
	-	-	<b>85 506</b>	76 488
	<b>660 680</b>	523 579	<b>1 572 013</b>	1 482 437
	<b>13 903</b>	8 710	<b>13 903</b>	8 710
	<b>641 438</b>	512 103	<b>1 451 713</b>	1 390 084
	<b>3 625</b>	2 766	<b>93 024</b>	80 819
	<b>1 714</b>	-	<b>13 373</b>	2 824
	<b>723 000</b>	549 352	<b>3 190 175</b>	3 157 433

## Operational Segmental Analysis (continued)

### Income Statement for the year ended 31 August 2005

	SOUTHERN AFRICA			
	2005 R'000	Retail 2004 R'000	2005 R'000	UPD 2004 R'000
Turnover	6 173 511	5 269 332	3 045 934	2 284 860
Cost of merchandise	4 706 071	3 933 244	2 803 505	2 080 839
Gross profit	1 467 440	1 336 088	242 429	204 021
Other revenue	493 974	407 990	48 804	61 050
Other expenditure	1 708 813	1 700 320	201 968	199 448
Depreciation and amortisation	99 911	95 663	4 823	5 299
Occupancy costs	281 142	237 136	10 267	9 981
Employment costs	750 277	633 633	96 505	88 991
Other operating costs	560 271	459 869	90 501	85 200
Impairment of property, plant and equipment	–	13 496	–	–
Profit on sale of Australian operations	–	–	–	–
Profit on sale of Intercare	–	(587)	–	–
Loss/(profit) on disposal of property, plant and equipment	398	2 018	(128)	(98)
Goodwill amortisation	–	896	–	10 075
Goodwill impairment	16 814	258 196	–	–
Profit/(loss) before interest and taxation	252 601	43 758	89 265	65 623
Net interest paid	(20 354)	(27 463)	(28 732)	(26 998)
Net interest paid – normal operations	(20 354)	(27 463)	(28 732)	(26 998)
Interest received – PM&A	–	24 986	–	–
Provision against interest received – PM&A	–	(24 986)	–	–
Net profit/(loss) before taxation	232 247	16 295	60 533	38 625
Taxation	70 285	77 103	17 583	14 691
Profit/(loss) attributable to shareholders	161 962	(60 808)	42 950	23 934
<b>Reconciliation of headline earnings</b>				
Profit/(loss) attributable to shareholders	161 962	(60 808)	42 950	23 934
Adjustment for:				
Impairment of property, plant and equipment	–	9 447	–	–
Profit on sale of Australian operations	–	–	–	–
Profit on sale of Intercare	–	(587)	–	–
Loss/(profit) on disposal of property, plant and equipment	282	1 412	(91)	(68)
Goodwill amortisation	–	896	–	10 075
Goodwill impairment	16 814	258 196	–	–
Headline earnings/(loss)	179 058	208 556	42 859	33 941
<b>Segmental cash flow information for the year ended 31 August 2005</b>				
Capital expenditure	(164 985)	(136 172)	(5 121)	(2 966)
Depreciation and amortisation	99 911	95 663	4 823	5 299
Non-cash items:				
Fair value adjustment – derivative	3 945	–	–	–
Fair value adjustment – share appreciation rights	662	–	–	–
Foreign exchange loss/(profit)	2 500	(5 361)	–	–
Goodwill amortisation	–	896	–	10 075
Goodwill impairment	16 814	258 196	–	–
Impairment of property, plant and equipment	–	13 496	–	–
Loss/(profit) on disposal of property plant and equipment	398	2 018	(128)	(98)
Operating lease accrual	9 018	8 534	–	–
Profit on sale of Australian operations	–	–	–	–
Profit on sale of Intercare	–	(587)	–	–

SOUTHERN AFRICA			Total	AUSTRALIA		GROUP TOTAL	
Intragroup Elimination 2005 R'000	2004 R'000	2005 R'000		2004 R'000	2004 R'000	2005 R'000	2004 R'000
<b>(505 107)</b> <b>(504 714)</b>	(184 720) (182 220)	<b>8 714 338</b> <b>7 004 862</b>	7 369 472 5 831 863	654 651 444 910	<b>8 714 338</b> <b>7 004 862</b>	8 024 123 6 276 773	
<b>(393)</b> – –	(2 500) – –	<b>1 709 476</b> <b>542 778</b> <b>1 910 781</b>	1 537 609 469 040 1 899 768	209 741 71 278 241 318	<b>1 709 476</b> <b>542 778</b> <b>1 910 781</b>	1 747 350 540 318 2 141 086	
–	–	<b>104 734</b>	100 962	8 059	<b>104 734</b>	109 021	
–	–	<b>291 409</b>	247 117	60 972	<b>291 409</b>	308 089	
–	–	<b>846 782</b>	722 624	107 887	<b>846 782</b>	830 511	
–	–	<b>650 772</b>	545 069	60 476	<b>650 772</b>	605 545	
–	–	–	13 496	–	–	13 496	
–	–	–	–	(1 738)	–	(1 738)	
–	–	–	(587)	–	–	(587)	
–	–	<b>270</b>	1 920	361	<b>270</b>	2 281	
–	–	–	10 971	5 301	–	16 272	
–	–	<b>16 814</b>	258 196	–	<b>16 814</b>	258 196	
<b>(393)</b> –	(2 500) –	<b>341 473</b> <b>(49 086)</b>	106 881 (54 461)	39 701 (5 317)	<b>341 473</b> <b>(49 086)</b>	146 582 (59 778)	
–	–	<b>(49 086)</b>	(54 461)	(5 317)	<b>(49 086)</b>	(59 778)	
–	–	–	24 986	–	–	24 986	
–	–	–	(24 986)	–	–	(24 986)	
<b>(393)</b> <b>(114)</b>	(2 500) (750)	<b>292 387</b> <b>87 754</b>	52 420 91 044	34 384 14 287	<b>292 387</b> <b>87 754</b>	86 804 105 331	
<b>(279)</b>	(1 750)	<b>204 633</b>	(38 624)	20 097	<b>204 633</b>	(18 527)	
<b>(279)</b>	(1 750)	<b>204 633</b>	(38 624)	20 097	<b>204 633</b>	(18 527)	
–	–	–	9 447	–	–	9 447	
–	–	–	–	(1 738)	–	(1 738)	
–	–	–	(587)	–	–	(587)	
–	–	<b>191</b>	1 344	253	<b>191</b>	1 597	
–	–	–	10 971	5 301	–	16 272	
–	–	<b>16 814</b>	258 196	–	<b>16 814</b>	258 196	
<b>(279)</b>	(1 750)	<b>221 638</b>	240 747	23 913	<b>221 638</b>	264 660	
		<b>(170 106)</b>	(139 138)	(21 211)	<b>(170 106)</b>	(160 349)	
		<b>104 734</b>	100 962	8 059	<b>104 734</b>	109 021	
		<b>3 945</b>	–	–	<b>3 945</b>	–	
		<b>662</b>	–	–	<b>662</b>	–	
		<b>2 500</b>	(5 361)	–	<b>2 500</b>	(5 361)	
		–	10 971	5 301	–	16 272	
		<b>16 814</b>	258 196	–	<b>16 814</b>	258 196	
		–	13 496	–	–	13 496	
		<b>270</b>	1 920	361	<b>270</b>	2 281	
		<b>9 018</b>	8 534	–	<b>9 018</b>	8 534	
		–	–	(1 738)	–	(1 738)	
		–	(587)	–	–	(587)	

# Trading Segmental Analysis

for the year ended 31 August 2005

	Total SA		Clicks		Discom		Entertainment Division		
	2005 R'000	2004 R'000	2005 R'000	2004 R'000	2005 R'000	2004 R'000	2005 R'000	2004 R'000	
<b>Balance Sheet</b>									
Property, plant and equipment	708 895	659 347	174 638	181 687	61 481	62 324	33 993	42 533	
Inventories	1 621 880	1 411 339	738 880	735 277	153 938	134 827	136 596	113 981	
Other assets	859 400	1 086 747	–	–	–	–	–	–	
<b>Total assets</b>	<b>3 190 175</b>	<b>3 157 433</b>	<b>913 518</b>	<b>916 964</b>	<b>215 419</b>	<b>197 151</b>	<b>170 589</b>	<b>156 514</b>	
<b>Income Statement</b>									
Turnover	8 714 338	7 369 472	4 469 078	3 789 307	975 223	878 703	662 293	544 221	
Operating profit/(loss) (before allocation)*	358 557	390 877	300 700	346 557	37 989	15 715	45 617	35 206	
Shared Services allocation	–	–	(90 988)	(53 085)	(9 063)	(11 559)	(18 010)	(16 181)	
Operating profit/(loss) (after allocation)	358 557	390 877	209 712	293 472	28 926	4 156	27 607	19 025	
<b>Ratios</b>									
Operating profit margin (after allocation)	%	4.1	5.3	4.7	7.7	3.0	0.5	4.2	3.5
Product price inflation (local product only)	%	–	–	0.0	1.7	(0.3)	1.8	–	–
Number of stores									
– company owned		663	681	315	344	179	173	139	138
– franchised		15	15	14	14	1	1	–	–
Weighted trading area	m <sup>2</sup>	249 417	231 037	179 330	162 810	50 957	49 638	17 365	17 349
Weighted annual sales per m <sup>2</sup>	R	24 739	22 784	24 921	23 274	19 138	17 702	38 140	31 369
Number of permanent employees		8 947	9 011	5 179	5 262	1 835	1 792	621	592

\* Operating profit/(loss) before capital items, interest and taxation



The Body Shop		Style Studio			Intercare		UPD		Shares Services		Intragroup elimination	
2005 R'000	2004 R'000	2005 R'000	2004 R'000	2004 R'000	2005 R'000	2004 R'000	2005 R'000	2004 R'000	2005 R'000	2004 R'000	2005 R'000	2004 R'000
<b>11 377</b>	8 872	<b>1 296</b>	502	–	<b>72 826</b>	72 177	<b>353 284</b>	291 252	–	–	–	–
<b>2 658</b>	2 226	<b>1 200</b>	25	–	<b>292 019</b>	210 267	<b>299 482</b>	217 236	<b>(2 893)</b>			(2 500)
–	–	–	–	–	<b>426 796</b>	350 415	<b>432 604</b>	736 332	–	–	–	–
<b>14 035</b>	11 098	<b>2 496</b>	527	–	<b>791 641</b>	632 859	<b>1 085 370</b>	1 244 820	<b>(2 893)</b>			(2 500)
<b>58 442</b>	51 276	<b>5 337</b>	358	–	<b>3 045 934</b>	2 284 860	<b>3 138</b>	5 467	<b>(505 107)</b>			(184 720)
<b>11 169</b>	9 870	<b>(340)</b>	(211)	(1 356)	<b>89 137</b>	75 600	<b>(125 322)</b>	(88 004)	<b>(393)</b>			(2 500)
<b>(1 647)</b>	177	–	–	–	–	–	<b>119 708</b>	80 648	–	–	–	–
<b>9 522</b>	10 047	<b>(340)</b>	(211)	(1 356)	<b>89 137</b>	75 600	<b>(5 614)</b>	(7 356)	<b>(393)</b>			(2 500)
<b>16.3</b>	19.6	–	–	–	<b>2.9</b>	3.3	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–
<b>27</b>	24	<b>3</b>	2	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–
<b>1 513</b>	1 214	<b>252</b>	26	–	–	–	–	–	–	–	–	–
<b>38 627</b>	42 237	<b>21 179</b>	13 903	–	–	–	–	–	–	–	–	–
<b>76</b>	76	<b>14</b>	15	–	<b>507</b>	519	<b>715</b>	755	–	–	–	–

# Accounting Policies

## Basis of preparation

The financial statements and group financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice and the requirements of the South African Companies Act on the basis that the group is a going concern. The measurement basis used is the historical cost basis unless otherwise stated.

The financial statements incorporate the following significant accounting policies, which are consistent in all material respects with those applied in the previous year except in the case of goodwill (which is no longer amortised, but is subject to an annual impairment test), operating leases (see note 25), intangible assets and obligations to employees in terms of share appreciation rights as described on page 68 (see also note 17.1). The accounting policies of subsidiaries are consistent with those of the holding company.

## Basis of consolidation

The group financial statements include the financial statements of the company and its subsidiaries.

Subsidiaries are those entities over whose financial and operating policies the group has the power to exercise control, so as to obtain benefits from their activities.

The group consolidates the share incentive trust and the shares owned by the trust are accounted for as treasury shares.

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

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

All intragroup transactions and balances, including any unrealised gains arising from intragroup transactions, are eliminated on consolidation.

## Financial instruments Measurement

Financial instruments are initially measured at cost, which is the fair value of the consideration given (in the case of an asset) or received (in the case of a liability) for the instrument. The initial cost includes transaction costs. Subsequent to initial recognition, these instruments are classified according to their nature and are measured as set out below.

### Held-to-maturity investments

Held-to-maturity investments are financial assets with fixed or determinable payments and a fixed maturity that the group has the positive intent and ability to hold to maturity. These investments are carried at amortised cost.

### Held for trading financial instruments

A financial asset or financial liability held for trading is one that upon initial recognition is designated by the group as held for trading. It includes financial instruments that are acquired or incurred principally for the purpose of selling or repurchasing in the near term and derivatives.

Financial instruments included in this category are options and derivatives, and cash and bank balances.

These financial instruments are subsequently measured at fair value. Where fair value cannot be determined, and there is no fixed or determinable future cash flows or maturity, the financial assets are subsequently measured at cost.

### Loans and receivables originated by the group

Loans and receivables originated by the group are financial assets that are created by the group by providing money, goods, or services directly to a debtor.

Financial assets included in this classification are loans and accounts receivable.

These financial instruments are subsequently measured at amortised cost less provision for doubtful debts or impairment losses as appropriate.

### Available-for-sale financial assets

Available-for-sale financial assets are those financial assets that are not classified as loans and receivables originated by the group, held-to-maturity investments, or held for trading.

Financial assets included in this category are purchases of preference shares in subsidiary companies for future delivery included in investments in subsidiary companies.

These financial instruments are subsequently measured at fair value. Where fair value cannot be determined, and there is no fixed or determinable future cash flows or maturity, the financial assets are subsequently measured at cost.

### Other financial liabilities

Other financial liabilities are those financial liabilities that are not included in held for trading financial instruments.

Financial instruments classified as other financial liabilities include non-current

loans payable, accounts payable and short-term payables.

Other financial liabilities are subsequently measured at amortised cost.

#### *Amortised cost*

Amortised cost of a financial asset or financial liability is the amount at which the financial asset or liability was measured at initial recognition less principal repayments, adjusted for the cumulative amortisation of any difference between that initial amount and the maturity amount.

#### *Gains and losses on subsequent measurement*

Gains and losses arising from a change in the fair value of financial instruments are included in net profit or loss in the period in which the change arises except in the case of available-for-sale financial assets.

Gains and losses arising from a change in the fair value of available-for-sale financial assets are recognised directly in equity. The cumulative gain or loss so recognised is included in net profit or loss in the period in which the asset is realised.

Gains and losses arising from the change in the fair values of hedging instruments and the related hedged items that are part of a fair value hedge arrangement are included in net profit or loss in the period in which the change arises.

Gains and losses arising from the change in the fair values of hedging instruments that are part of a cash flow hedge arrangement are recognised in equity. Where the hedged transaction results in the recognition of an asset or liability, the cumulative amount recognised in equity is adjusted against the initial cost of that asset or liability when that asset or liability is recognised. For other cash flow hedges, the cumulative amount recognised in equity

is reversed to income when the hedged transaction occurs.

#### *Offset*

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when the group has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### *Translation of foreign currencies*

Transactions in foreign currencies are translated at rates of exchange ruling at the transaction date. Gains and losses arising from the settlement of such transactions are recognised in the income statement.

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date.

Unrealised net gains and losses arising on the translation of foreign denominated assets and liabilities are reflected in income for the year unless the underlying asset or liability, in substance, forms part of the group's net investment in a foreign entity, in which case the gain or loss is reflected in non-distributable reserves. Only on the disposal of the net investment are the gains or losses reflected in income for the year.

#### *Foreign subsidiaries Foreign entities*

A foreign entity is a foreign subsidiary, the activities of which are not integral to the activities of the local group.

The financial statements of foreign entities are translated into the reporting currency as follows:

- assets and liabilities are translated at rates of exchange ruling at the balance sheet date; and

- income and expenditure are translated at weighted average exchange rates for the year.

Goodwill arising on the acquisition of a foreign entity is treated as an asset of the subsidiary and translated at the exchange rate at the balance sheet date.

Exchange differences arising from the translation of foreign entities are taken directly to non-distributable reserves.

#### *Integrated foreign operations*

An integrated foreign operation is a foreign subsidiary which carries on its business as if it were an extension of the local group.

Where a foreign subsidiary is determined to be an integrated foreign operation, transactions and resulting non-monetary items are translated at the exchange rates ruling when the transactions occurred. Income statement items are translated at the appropriate weighted average exchange rates for the year. Monetary items are translated at the ruling exchange rates at the balance sheet date. Translation gains and losses are taken to income for the year.

#### *Property, plant and equipment*

All of the group's properties are owner-occupied properties. Land is stated at cost less impairment losses. Owner-occupied buildings are carried at cost less accumulated depreciation and accumulated impairment losses.

Other items of property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Installation and other costs, which comprise materials and labour costs necessarily incurred in order to derive benefit from property, plant and equipment, are included in cost.

Depreciation is provided on the straight-line basis over the estimated useful lives

## Accounting Policies (continued)

of the assets in order to reduce the cost of the asset to its residual value. Residual value is the net amount expected to be recovered from disposal of the asset at the end of its estimated useful life.

The expected useful lives are as follows:

Buildings	50 years
Computer equipment	3 to 7 years
Furniture and fittings	5 to 10 years
Motor vehicles	5 years
Permanent fixtures	20 years

Subsequent expenditure relating to an item of property, plant and equipment is capitalised when it is probable that future economic benefits from the use of the asset will be increased. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Surpluses or deficits on the disposal of property, plant and equipment comprising the difference between the net disposal proceeds and the carrying amount of the asset are recognised in the income statement.

Borrowing costs are expensed as incurred.

Assets subject to finance lease agreements are capitalised.

### Intangible assets

Intangible assets are initially recognised at cost if acquired separately or internally generated or at fair value if acquired as part of a business combination. If assessed as having an indefinite useful life, they are not amortised but are tested for impairment annually and impaired if necessary. If assessed as having a finite useful life, they are amortised over their useful lives using a straight-line basis and tested for impairment if there is an indication that they may be impaired.

No value is attached to internally developed and maintained trademarks or brand names. Expenditure incurred to

maintain trademarks and brand names is charged against the income statement as incurred.

### Goodwill

Goodwill is the premium on acquisition arising from the difference between the purchase price paid and the group's interest in the fair value of the net assets acquired at the date of the transaction.

Goodwill is carried at cost less accumulated impairment losses and is not amortised. Goodwill acquired in a business combination for which the agreement date was before 31 March 2004 was previously amortised on a systematic basis over its estimated useful life. The accumulated amortisation previously raised has been netted against the cost.

The calculation of the gain or loss on disposal of a subsidiary includes the balance of the goodwill relating to the subsidiary disposed of.

### Impairment of assets

Assets (other than goodwill and intangible assets with indefinite useful lives) are reviewed at each balance sheet date to determine whether there is any indication of impairment. Where such an indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the higher of its net selling price and its value in use. Recoverable amounts are estimated for individual assets or, if this is not possible, for a cash-generating unit. A cash-generating unit is the smallest collection of assets capable of generating cash flows independent of other assets or cash-generating units. The net selling price is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset or cash-generating unit and from its disposal at the end of its

useful life. The expected future cash flows are discounted using a pre-taxation discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

As goodwill is not capable of generating cash flows independently of other assets, in assessing the recoverable amount of goodwill, the goodwill is allocated to cash-generating units on a reasonable and consistent basis. Where appropriate, corporate assets are also allocated to cash-generating units on a reasonable and consistent basis. The recoverable amount of the cash-generating unit (including an allocation of goodwill and corporate assets) is assessed with reference to the future cash flows of the cash-generating unit. Where an impairment is identified for a cash-generating unit, the impairment is applied first to the goodwill allocated to the cash-generating unit and then to other assets comprising the cash-generating unit provided that each identifiable asset is not reduced to below its recoverable amount.

Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised as an expense in the income statement.

A reversal of an impairment loss recognised in prior years is recorded when there is an indication that the impairment loss recognised for the asset no longer exists or has decreased. The carrying amount of the affected asset is not increased to an amount higher than the carrying amount that would have been determined had no impairment loss been recognised in prior years. The reversal is recorded as income in the income statement. An impairment loss in respect of goodwill is never reversed.

### Inventories

Merchandise for resale has been valued on the first-in-first-out (FIFO) basis and is stated at the lower of cost and net

realisable value. The cost of inventories comprises all costs of purchase, conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and costs necessary to make the sale. Obsolete, redundant and slow-moving inventories are identified on a regular basis and are written down to their estimated net realisable values.

### Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, and investments in money market instruments, net of bank overdrafts, all of which are available for use by the group unless otherwise stated.

Outstanding cheques are included in accounts payable.

### Treasury shares

Ordinary shares in New Clicks Holdings Limited which have been acquired by a group company in terms of an approved share repurchase programme or are held by the Share Incentive Trust are classified as treasury shares. The cost of these shares is deducted from equity and the number of shares is deducted from the weighted average number of shares. Dividends received on treasury shares are eliminated on consolidation.

### Provisions

A provision is recognised when the group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is

material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

A provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting the obligations under the contract.

### Taxation

Current taxation comprises taxation payable calculated on the basis of the expected taxable income for the year, using the taxation rates enacted at the balance sheet date, and any adjustment of taxation payable for previous years.

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

The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using taxation rates enacted or substantively enacted at the balance sheet date. Deferred taxation is charged to the income statement except to the extent that it relates to a transaction that is recognised directly in equity, or a business combination that is an acquisition.

Deferred taxation assets are recognised for all deductible temporary differences and taxation losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and taxation losses can be utilised.

Secondary Taxation on Companies (STC) paid on net dividends paid is recognised as a taxation charge in the year it is incurred.

### Leases

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the group are classified as finance leases. Assets acquired in terms of finance leases are capitalised at the lower of fair value and the present value of the minimum lease payments at inception of the lease. The capital element of future obligations under the leases is included as a liability in the balance sheet. Lease payments are allocated using the effective interest rate method to determine the lease finance cost, which is charged against income over the lease period, and the capital repayment, which reduces the liability to the lessor.

A finance lease gives rise to depreciation expense for the asset as well as a finance expense for each accounting period. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned.

Leases of assets under which substantially all of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

### Revenue

#### Turnover

Turnover comprises net sales to customers, excluding value-added and general sales tax. Sales are recognised when significant risks and rewards of ownership are transferred to the buyer, costs can be measured reliably, and receipt of the future economic benefits is probable.

#### Investment income

Interest is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is probable that such income will accrue to the group.

## Accounting Policies (continued)

Dividend income is recognised when the right to receive payment is established.

### *Service revenue*

Revenue in respect of services rendered is recognised in income as the services are rendered.

### *Rebate, franchise fee and other recovery income*

Rebate, franchise fee and other recovery income is recognised in income when the group becomes contractually entitled to the income or when it is virtually certain that the conditions required to be fulfilled before payment is received will be fulfilled.

## Employee benefits

### *Short-term employee benefits*

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service.

The accruals for employee entitlements to wages, salaries, bonuses, and annual and sick leave represent the amount which the group has a present obligation to pay as a result of employees' services provided to the balance sheet date. The accruals have been calculated at undiscounted amounts based on current wage and salary rates.

### *Long-term employee benefits*

Liabilities for employee benefits which are not expected to be settled within twelve months are discounted using the market yields, at the balance sheet date, on high-quality bonds with terms which most closely match the terms of maturity of the related liabilities.

### *Retirement funds*

The group operates a retirement scheme comprising a number of defined contribution funds in South Africa. The retirement scheme is funded by payments from employees and the relevant group company.

Contributions to these funds are charged to the income statement as incurred.

### *Equity-settled compensation benefits*

The group grants share options to certain employees under an employee share plan. Other than costs incurred in administering the schemes, which are expensed as incurred, the scheme does not result in any expense to the group.

### *Cash-settled share-based compensation benefits*

The group grants share appreciation rights to certain employees in terms of an incentive programme. These share appreciation rights are valued at fair value at each reporting date. The value of the obligation in terms of the share appreciation rights is expensed over the vesting period of the rights and the related liability is raised. Any change in the fair value of the liability is recognised in profit or loss for the period.

### *Medical aid*

Where the group has an obligation to provide post-retirement medical aid benefits to employees, the group recognises the costs of those benefits in the year in which the employees render the service determined using the Projected Unit Credit Method.

Actuarial gains or losses are recognised in full in the income statement in the year they are determined.

Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested, past service costs are recognised immediately.

### *Capitalisation share awards/cash distributions*

The full value of capitalisation share awards and cash dividends are recorded as a deduction from equity in the statement of changes in equity when the shareholder's right to receive payment is established. Upon allotment of shares in terms of a capitalisation

award, the election amounts are transferred to the share capital account and share premium account.

Cash dividends and the related STC charge are recorded in the year of declaration.

## Segmental reporting

The group is organised into trading brands which in turn are categorised broadly between distribution and retail. The group now operates exclusively within the southern African region and has therefore not presented geographical segment information.

Segment operating profit includes revenue and expenses directly attributable to a segment and the relevant portion of enterprise revenue and expenses that can be allocated on a reasonable basis to a segment, whether from external transactions or from transactions with other group segments. Inter-segment transfer pricing is based on cost plus an appropriate margin.

Segment assets and liabilities comprise those assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

## Inflation accounting

The group recognises that the financial statements, which are prepared on an historical cost basis, do not take into consideration the impact of inflation on the results and the financial position. However, until an acceptable method of accounting for inflation is developed, the group will continue to disclose the financial information on an historical cost basis.

## Comparative figures

Where necessary, comparative figures have been restated to accord with current year classifications. Where comparative figures have been restated, details of these reclassifications are included in note 24.

# Notes to the Financial Statements

for the year ended 31 August 2005

	Group					
	2005			2004		
	Cost R'000	Accumulated depreciation R'000	Book value R'000	Cost R'000	Accumulated depreciation R'000	Book value R'000
<b>1 Property, plant and equipment</b>						
Land and buildings – freehold	299 080	26 121	272 959	299 451	21 098	278 353
Furniture, equipment and vehicles	917 994	482 058	435 936	781 329	400 335	380 994
	<b>1 217 074</b>	<b>508 179</b>	<b>708 895</b>	1 080 780	421 433	659 347

A register of land and buildings containing the required statutory information is available for inspection on request at the registered office of the company.

All group property is owner-occupied and there are no significant investment properties held.

Land and buildings with a carrying value of R42.5 million are encumbered under a mortgage loan as detailed in note 13.

Furniture, equipment and vehicles with a carrying value of R4.5 million are encumbered under a finance lease arrangement as detailed in note 13.

The carrying amount of the group property, plant and equipment can be reconciled as follows:

	Land and buildings – freehold R'000	Furniture, equipment and vehicles R'000	Total R'000
Carrying amount at 1 September 2003	280 001	467 262	747 263
Additions	555	159 794	160 349
Acquisition of subsidiaries and businesses (see note 35.3)	2 823	27 112	29 935
Disposals	–	(7 041)	(7 041)
Disposal of subsidiaries and businesses (see note 35.4)	–	(153 105)	(153 105)
Impairment	–	(13 496)	(13 496)
Exchange rate adjustment	–	3 813	3 813
Depreciation	(5 026)	(103 345)	(108 371)
Carrying amount at 31 August 2004	<b>278 353</b>	<b>380 994</b>	<b>659 347</b>
Additions	–	<b>170 106</b>	<b>170 106</b>
Disposals	<b>(350)</b>	<b>(16 124)</b>	<b>(16 474)</b>
Depreciation	<b>(5 044)</b>	<b>(99 040)</b>	<b>(104 084)</b>
<b>Carrying amount at 31 August 2005</b>	<b>272 959</b>	<b>435 936</b>	<b>708 895</b>

## Notes to the Financial Statements (continued)

for the year ended 31 August 2005

	Group	
	2005	2004
	R'000	R'000
<b>2 Trademark</b>		
Balance at the beginning of the year	3 930	4 580
Amortisation	(650)	(650)
Balance at the end of the year	3 280	3 930
Comprising:		
Cost	6 880	6 880
Accumulated amortisation	3 600	2 950
Balance at the end of the year	3 280	3 930
The trademark relates to The Link Investment Trust. The estimated remaining useful life is five years.		
<b>3 Goodwill</b>		
Balance at the beginning of the year	98 280	235 288
Acquisition of subsidiaries and businesses (see note 35.3)	–	420 447
Additional goodwill payments	2 484	–
Amortisation	–	(16 272)
Disposal of subsidiaries and businesses (see note 35.4)	–	(128 788)
Exchange rate adjustment	–	7 849
Goodwill on franchise acquisition	–	203
Impairment	(16 814)	(258 196)
Impairment of loan prior to acquisition	–	(162 251)
Balance at the end of the year	83 950	98 280
Net goodwill comprises:		
The Link Investment Trust	–	14 330
UPD	83 950	83 950
	83 950	98 280

The additional goodwill acquired during the year related to further payments made to the sellers of two pharmacies acquired by PM&A in earlier years. The payments were made in accordance with the original sale agreements.



	Company		Group	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
<b>4 Deferred taxation</b>				
Deferred taxation assets	<b>557</b>	–	<b>102 264</b>	95 475
Deferred taxation liabilities	–	–	<b>(24 750)</b>	(19 623)
	<b>557</b>	–	<b>77 514</b>	75 852
Balance at the beginning of the year	–	6 644	<b>75 852</b>	86 497
Acquisition of subsidiaries and businesses (see note 35.3)	–	–	–	2 065
Capital gains taxation – revaluation of shares	–	–	<b>(8 054)</b>	(4 806)
Disposal of subsidiaries and businesses (see note 35.4)	–	(5 000)	–	(14 803)
Exchange rate adjustment	–	–	–	1 785
Impairment of loan to PM&A	–	–	–	11 941
Income and expense accrual	–	–	<b>1 135</b>	28 433
Operating lease accrual	–	–	<b>1 860</b>	2 560
Property, plant and equipment	–	–	<b>(4 656)</b>	(20 774)
Reversal of impairment of loan to PM&A	–	–	–	(48 675)
Taxation losses	<b>557</b>	(1 644)	<b>20 367</b>	40 929
Trademark	–	–	<b>(8 990)</b>	(9 300)
Balance at the end of the year	<b>557</b>	–	<b>77 514</b>	75 852
Arising as a result of:				
Capital gains taxation – revaluation of shares	–	–	<b>(17 444)</b>	(9 390)
Income and expense accrual	–	–	<b>15 477</b>	14 342
Operating lease accrual	–	–	<b>24 806</b>	22 946
Property, plant and equipment	–	–	<b>(31 530)</b>	(26 874)
Taxation losses	<b>557</b>	–	<b>67 295</b>	46 928
Trademark	–	–	<b>18 910</b>	27 900
Balance at the end of the year	<b>557</b>	–	<b>77 514</b>	75 852

The capital gains deferred taxation liability arises on the revaluation of forward purchases of shares by certain subsidiary companies in other subsidiary companies.

Deferred taxation assets of R73.7 million relating to four subsidiary companies, Purchase Milton & Associates (Proprietary) Limited, Milton & Associates (Proprietary) Limited, J&G Purchase & Associates (Proprietary) Limited and Leon Katz (Proprietary) Limited are included in total deferred taxation assets. These subsidiary companies incurred losses for the year. Included in the deferred taxation assets relating to these subsidiary companies, is an amount of R65.6 million in respect of aggregate computed taxation losses of R226.2 million. The group is in the process of restructuring the operations of certain of its subsidiary companies in order to comply with Pharmacy Regulations. The directors consider that, consequent on this restructuring, sufficient future taxable income will be generated by these subsidiary companies to utilise the deferred taxation assets recognised.

In respect of the deferred taxation assets raised relating to other subsidiary companies, the directors consider that sufficient future taxable income will be generated by those subsidiary companies to utilise the deferred taxation assets recognised.

## Notes to the Financial Statements (continued)

for the year ended 31 August 2005

		Company	
		2005	2004
		R'000	R'000
5	<b>Unlisted investment</b>		
	2 600 redeemable cumulative non-participating preference shares at 9.32% in Sechold Finance Services (Proprietary) Limited	260 000	260 000

The directors' valuation of the investment at 31 August 2005 is R260 million.

### **Unrecognised financial asset**

In the group financial statements, in terms of the accounting policy for financial instruments, the group has not recognised the following financial asset:

New Clicks Holdings Limited ("NCH") purchased a R260 million preference share investment which carries a 9.32% dividend coupon rate and is redeemable on 22 August 2008. For security of NCH's preference share investment, the finance company referred to in note 30 has pledged its loan receivable from a subsidiary of NCH in the event of a default in terms of the preference share arrangement. For security of the subsidiary company's loan, NCH has pledged its preference share investment to the finance company in the event of default of the loan.

This unrecognised financial asset is offset by the unrecognised financial liability reflected in note 13.

The dividend received of R24.2 million (2004: R24.2 million) has been offset against interest paid on the unrecognised financial liability reflected in note 13.

		Group	
		2005	2004
		R'000	R'000
6	<b>Loans</b>		
	Amount owing by New Clicks Foundation (see note 6.1)	5 021	5 021
	Amount owing by Intercare Managed Healthcare (Proprietary) Limited (see note 6.2)	47 707	21 433
		<b>52 728</b>	26 454

6.1 The loan to New Clicks Foundation is unsecured, interest free and no fixed date for repayment has been determined.

6.2 The loan to Intercare Managed Healthcare (Proprietary) Limited ("Intercare") is partially secured by way of a general notarial bond over moveable assets and bears interest at the prime overdraft interest rate as charged by the group's bankers from time to time. Repayments are made from time to time.

Intercare is a former subsidiary of the group engaged in the business of providing facilities and support services for medical and dental practitioners and currently operates out of five separate locations. In terms of the sale agreement, the group was committed to fund certain financial commitments existing at the time of the disposal.

In addition to the loan, the group leases certain properties which are in turn sub-leased to Intercare. These commitments are included in the lease commitments disclosed in note 26.

		Group	
		2005	2004
		R'000	R'000
<b>7</b>	<b>Inventories</b>		
	Goods for resale – cost	1 617 685	1 409 124
	Goods in transit – cost	4 195	1 122
	Consumables	–	1 093
		<b>1 621 880</b>	<b>1 411 339</b>
<b>8</b>	<b>Accounts receivable</b>		
	The following are included in accounts receivable:		
	Trade debtors		
	Gross trade debtors	422 340	326 478
	Provision for doubtful debts	(51 063)	(43 721)
	Total trade debtors	371 277	282 757
	Short-term derivative instruments		
	Balance at the beginning of the year	2 422	–
	Realised gain on forward exchange contracts	(1 654)	–
	Realised gain on interest rate swap contracts	(768)	–
	Unrealised gain on forward exchange contracts	–	1 654
	Unrealised gain on interest rate swap contracts	304	768
	Total short-term derivative instruments	304	2 422
	Share Trust loans with participants	15 414	17 281
	Prepayments	28 247	31 427
	Other income accruals	69 423	80 315
	Other	9 850	29 560
		<b>494 515</b>	<b>443 762</b>
	The Share Trust loans with participants are interest free and secured by the shares in NCH issued to participants, delivery of which is delayed in terms of the rules of the scheme (see note 32).		
	Prepayments include payments to foreign suppliers in advance of import purchases being received and payments in respect of certain capital items not yet completed and capitalised.		
<b>9</b>	<b>Derivative</b>		
	Balance at the beginning of the year	–	–
	Purchase of hedging instrument	18 390	–
	Change in fair value recognised in income	(3 945)	–
	Balance at the end of the year	14 445	–

The derivative serves as a partial hedge in respect of the group's obligation in terms of share appreciation rights granted and available to be granted to employees as more fully described in note 17.1.

The derivative has been valued by an independent external valuator.

## Notes to the Financial Statements (continued)

for the year ended 31 August 2005

	Group	
	2005	2004
	R'000	R'000
<b>10 Share capital and share premium – group and company</b>		
Authorised		
600 million (2004: 600 million) ordinary shares of one cent each	<b>6 000</b>	6 000
Issued ordinary shares and premium		
370.260 million (2004: 361.205 million) ordinary shares of one cent each	<b>3 703</b>	3 612
Share premium – group	<b>964 077</b>	907 107
Share premium – company	<b>966 197</b>	909 227
The unissued shares are under the control of the directors until the next annual general meeting, subject to an undertaking by the directors that such authority will only be used to issue shares in terms of the company's obligations under the staff share option scheme.		
Preliminary expenses of R2.1 million were written off against the share premium of a subsidiary company on the acquisition of certain businesses in 1996.		
<b>11 Treasury shares</b>		
Of the shares in issue, the group holds the following as treasury shares:		
Shares purchased by a subsidiary – 26.932 million (2004: 13.005 million) ordinary shares of one cent each – cost	<b>226 874</b>	100 177
Shares held by the Share Trust – 2.809 million (2004: 2.809 million) ordinary shares of one cent each – cost	<b>22 804</b>	22 804
	<b>249 678</b>	122 981
<b>12 Non-distributable reserves</b>		
Non-distributable reserves comprise:		
Deferred taxation on write-off of trademarks	<b>17 980</b>	27 900
Unrealised gain on the translation of assets and liabilities denominated in foreign currencies	<b>508</b>	1 042
	<b>18 488</b>	28 942
<b>13 Loans payable</b>		
Secured loans bearing interest at fixed rates		
<i>Interest rate</i>		<i>Date repayable</i>
16.15% per annum		February 2006
	<b>11 561</b>	20 414
16.92% per annum		February 2006
	<b>1 164</b>	3 281
18.45% per annum		October 2006
	<b>9 053</b>	15 554
15.41% per annum		August 2010
	<b>61 200</b>	68 856
Total secured loans bearing interest at fixed rates	<b>82 978</b>	108 105
These loans are secured by a pledge of shares in certain property-owning subsidiaries.		
Loan – bearing interest at prime less 1% per annum, repayable by August 2010	<b>18 709</b>	19 630
This loan is secured by a mortgage over certain property (see note 1).		
Non-current portion of finance leases, repayable over the next three years	<b>3 997</b>	4 944
These lease liabilities are secured by the related leased items (see note 1).		
Unsecured loan – bearing interest at JIBAR plus 2.2% per annum, repayable by August 2006	<b>20 278</b>	37 618
Unsecured loan – bearing interest at a fixed 11.65% per annum, repayable by August 2008	<b>134 745</b>	170 252
Total loans payable	<b>260 707</b>	340 549
Short-term portion included in current liabilities	<b>(93 024)</b>	(80 819)
Non-current loans payable	<b>167 683</b>	259 730

	Group	
	2005 R'000	2004 R'000
<b>13 Loans payable (continued)</b>		
<b>Unrecognised financial liability</b>		
In the group financial statements, in terms of the accounting policy for financial instruments, the group has not recognised the following financial liability: A subsidiary has entered into a loan arrangement with a finance company in terms of which the subsidiary borrowed R260 million. The loan is repayable in August 2008 and interest is payable at 11.65% nominal rate per annum, compounded monthly. This unrecognised financial liability is offset by the unrecognised financial asset reflected in note 5. Interest paid of R24.2 million (2004: R24.2 million) has been offset against dividends received on the unrecognised financial asset reflected in note 5.		
<b>14 Operating lease accrual</b>		
Balance at the end of the year	<b>85 506</b>	76 488
The operating lease accrual is raised in accordance with AC105 as detailed in note 25, and represents the difference between operating lease cash payments and the operating lease expense recognised in the income statement on the straight-line basis.		
<b>15 Short-term borrowings</b>		
Bank overdrafts	<b>13 903</b>	8 710
<b>16 Borrowing powers</b>		
In terms of the articles of association, the borrowing powers of the company are unlimited.		
<b>17 Accounts payable and accruals</b>		
The following are included in accounts payable and accruals:		
Trade creditors	<b>1 321 101</b>	1 200 268
Leave pay accrual		
Balance at the beginning of the year	<b>32 902</b>	39 855
Acquisition of subsidiaries and businesses	-	6 129
Disposal of subsidiaries and businesses	-	(18 721)
Income statement movement	<b>2 567</b>	5 639
Balance at the end of the year	<b>35 469</b>	32 902
Post-retirement medical benefit liability (see note 29)		
Balance at the beginning of the year	<b>18 331</b>	16 900
Income statement movement	<b>1 542</b>	1 431
Balance at the end of the year	<b>19 873</b>	18 331
Short-term derivative instruments		
Balance at the beginning of the year	-	4 272
Realised loss on forward exchange contracts	-	(4 272)
Unrealised loss on forward exchange contracts	<b>2 500</b>	-
Balance at the end of the year	<b>2 500</b>	-
Share appreciation rights obligation (see note 17.1)		
Balance at the beginning of the year	-	-
Income statement movement	<b>662</b>	-
Balance at the end of the year	<b>662</b>	-
Bonus accrual	<b>12 162</b>	10 839
ClubCard discount accrual	<b>18 009</b>	14 306
Gift voucher accrual	<b>4 779</b>	4 543
Other	<b>37 158</b>	108 895
	<b>1 451 713</b>	1 390 084

## Notes to the Financial Statements (continued)

### for the year ended 31 August 2005

#### 17.1 Share appreciation rights obligation

During the year the group implemented an incentive programme whereby six million share appreciation rights were made available to certain employees. Three million of these rights vest after a period of three years and the remaining three million vest after a period of five years. The "exercise price" of the share appreciation rights varies depending on the performance of the share price as detailed below.

	Share price on vesting date (R)	"Exercise price" (R)
Three-year rights	greater than 12.71	8.36
	greater than 14.45	4.18
	greater than 16.33	0.01
Five-year rights	greater than 16.81	8.36
	greater than 20.80	4.18
	greater than 25.51	0.01

At year-end the group had granted 1 900 000 rights for each of the three-year and five-year periods.

As the group's liability in respect of these share appreciation rights is dependent on the future performance of the company's share price, a derivative hedge has been acquired to limit the extent of the exposure. The hedging instrument covers all exposure where the notional exercise price is R4.18 or above. In addition to the cost of the hedge detailed in note 9, in the event that all available rights are granted and the highest target share price is achieved, the group's maximum further exposure in terms of the share appreciation rights is R25.0 million.

	Group			
	2005		2004	
	R'000		R'000	
<b>18 Occupancy costs</b>				
Lease charges				
Operating leases – cash payments	<b>282 391</b>		299 555	
Operating lease accrual (see note 25)	<b>9 018</b>		8 534	
	<b>291 409</b>		308 089	
	Continuing operations		Discontinued operations	
	2005	2004	2005	2004
	R'000	R'000	R'000	R'000
Lease charges				
Operating leases – cash payments	<b>282 391</b>	236 701	–	62 854
Operating lease accrual (see note 25)	<b>9 018</b>	8 534	–	–
	<b>291 409</b>	245 235	–	62 854

	Group	
	2005 R'000	2004 R'000
<b>19 Employment costs</b>		
Directors' emoluments	<b>18 887</b>	23 254
Non-executive	<b>1 901</b>	5 487
Fees	<b>1 026</b>	789
Consulting services	<b>875</b>	780
Other – Australia	<b>–</b>	3 918
Executive	<b>16 986</b>	17 767
Salary and bonus	<b>5 166</b>	6 900
Other benefits	<b>7 386</b>	2 913
Other – Australia	<b>4 434</b>	7 954
Deducted from proceeds from sale of NCA	<b>–</b>	(11 872)
	<b>18 887</b>	11 382
Share appreciation rights obligation (see note 17.1)	<b>662</b>	–
Other staff remuneration	<b>827 233</b>	819 129
	<b>846 782</b>	830 511

	Continuing operations		Discontinued operations	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
Directors' emoluments	<b>18 887</b>	9 917	–	13 337
Non-executive	<b>1 901</b>	1 569	–	3 918
Fees	<b>1 026</b>	789	–	–
Consulting services	<b>875</b>	780	–	–
Other – Australia	<b>–</b>	–	–	3 918
Executive	<b>16 986</b>	8 348	–	9 419
Salary and bonus	<b>5 166</b>	5 701	–	1 199
Other benefits	<b>7 386</b>	2 647	–	266
Other – Australia	<b>4 434</b>	–	–	7 954
Deducted from proceeds from sale of NCA	<b>–</b>	–	–	(11 872)
	<b>18 887</b>	9 917	–	1 465
Share appreciation rights obligation (see note 17.1)	<b>662</b>	–	–	–
Other staff remuneration	<b>827 233</b>	709 953	–	109 176
	<b>846 782</b>	719 870	–	110 641

For further detail of directors' emoluments refer to the Corporate Governance Report on page 34.

## Notes to the Financial Statements (continued)

for the year ended 31 August 2005

	Group			
	2005 R'000	2004 R'000		
<b>20 Other operating costs</b>				
Auditors' remuneration	<b>3 006</b>	3 330		
Audit fees	<b>2 994</b>	3 071		
Other services and expenses	<b>12</b>	259		
Fair value adjustment – derivative (see note 9)	<b>3 945</b>	–		
Fees paid for outside services				
Technical services	<b>13 368</b>	10 405		
Net foreign exchange losses – realised	<b>2 539</b>	9 498		
Net foreign exchange losses/(gains) – unrealised	<b>2 500</b>	(1 654)		
Other expenses	<b>625 414</b>	583 966		
	<b>650 772</b>	605 545		
	Continuing operations		Discontinued operations	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
Auditors' remuneration	<b>3 006</b>	2 992	–	338
Audit fees	<b>2 994</b>	2 878	–	193
Other services and expenses	<b>12</b>	114	–	145
Fair value adjustment – derivatives (see note 9)	<b>3 945</b>	–	–	–
Fees paid for outside services				
Technical services	<b>13 368</b>	9 818	–	587
Net foreign exchange losses – realised	<b>2 539</b>	9 498	–	–
Net foreign exchange losses/(gains) – unrealised	<b>2 500</b>	(1 654)	–	–
Other expenses	<b>625 414</b>	521 575	–	62 391
	<b>650 772</b>	542 229	–	63 316



	Company		Group	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
<b>21 Taxation</b>				
South African normal taxation				
Current taxation				
Current year	–	1 360	<b>76 549</b>	78 252
Prior year underprovision	<b>662</b>	1 748	<b>702</b>	757
Secondary Taxation on Companies				
Current year	<b>10 994</b>	9 325	<b>10 994</b>	9 325
Deferred taxation				
Current year	<b>(557)</b>	1 568	<b>(3 720)</b>	2 281
Prior year under/(over)provision	–	76	–	(1 993)
Change in taxation rate	–	–	<b>1 597</b>	–
Foreign taxation				
Current taxation				
Current year	–	–	<b>2 101</b>	16 451
Prior year underprovision	–	–	–	390
Withholding taxation				
Current year	–	464	–	464
Deferred taxation				
Current year	–	–	<b>(469)</b>	(596)
	<b>11 099</b>	14 541	<b>87 754</b>	105 331
<b>Reconciliation of rate of taxation (%)</b>				
Standard rate – South Africa	<b>29.00</b>	30.00	<b>29.00</b>	30.00
Adjusted for:				
Capital gains taxation	–	–	<b>(2.11)</b>	6.21
Change in taxation rate	–	–	<b>0.55</b>	–
Disallowable expenditure	<b>0.05</b>	0.04	<b>2.57</b>	61.90
Exempt income and allowances	<b>(29.41)</b>	(28.82)	<b>(4.96)</b>	(30.51)
Foreign taxation rate variations	–	–	<b>0.09</b>	0.05
Foreign withholding taxation	–	0.19	–	0.54
Goodwill amortisation and impairment	–	–	<b>1.67</b>	95.08
Prior year under/(over)provision	<b>0.43</b>	0.76	<b>0.02</b>	(0.98)
Recognition of computed taxation losses not previously recognised	–	–	–	(58.10)
Secondary Taxation on Companies	<b>7.13</b>	3.89	<b>3.76</b>	10.74
Taxation losses (utilised)/carried forward	–	–	<b>(0.33)</b>	0.16
Other	–	–	<b>(0.25)</b>	6.25
Effective taxation rate	<b>7.20</b>	6.06	<b>30.01</b>	121.34

## Notes to the Financial Statements (continued)

### for the year ended 31 August 2005

	Continuing operations		Discontinued operations	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
<b>21 Taxation (continued)</b>				
South African normal taxation				
Current taxation				
Current year	<b>76 549</b>	78 252	–	–
Prior year underprovision	<b>702</b>	757	–	–
Secondary Taxation on Companies				
Current year	<b>10 994</b>	9 325	–	–
Deferred taxation				
Current year	<b>(3 720)</b>	2 281	–	–
Prior year overprovision	–	(1 993)	–	–
Change in taxation rate	<b>1 597</b>	–	–	–
Foreign taxation				
Current taxation				
Current year	<b>2 101</b>	1 722	–	14 729
Prior year underprovision	–	390	–	–
Withholding taxation				
Current year	–	464	–	–
Deferred taxation				
Current year	<b>(469)</b>	(154)	–	(442)
	<b>87 754</b>	91 044	–	14 287

Subsidiaries of the group have estimated computed taxation losses of R233.6 million available for set-off against future taxable income of those subsidiaries. A deferred taxation asset has not been raised in respect of R2.0 million of these computed taxation losses.

### 22 Earnings per share

2005	Headline earnings per share		Basic earnings per share	
	Undiluted	Diluted	Undiluted	Diluted
Earnings (R'000)				
Profit attributable to shareholders	<b>204 633</b>	<b>204 633</b>	<b>204 633</b>	<b>204 633</b>
Adjusted for capital items	<b>17 005</b>	<b>17 005</b>	–	–
	<b>221 638</b>	<b>221 638</b>	<b>204 633</b>	<b>204 633</b>
Shares ('000)				
Weighted average number of shares	<b>339 914</b>	<b>339 914</b>	<b>339 914</b>	<b>339 914</b>
Adjusted for share options granted	–	<b>10 519</b>	–	<b>10 519</b>
	<b>339 914</b>	<b>350 433</b>	<b>339 914</b>	<b>350 433</b>
Earnings per share (cents)	<b>65.2</b>	<b>63.2</b>	<b>60.2</b>	<b>58.4</b>

2004	Headline earnings per share		Basic earnings per share	
	Undiluted	Diluted	Undiluted	Diluted
<b>22 Earnings per share (continued)</b>				
Earnings (R'000)				
Loss attributable to shareholders	(18 527)	(18 527)	(18 527)	(18 527)
Adjusted for capital items	283 187	283 187	–	–
	264 660	264 660	(18 527)	(18 527)
Shares ('000)				
Weighted average number of shares	353 571	353 571	353 571	353 571
Adjusted for share options granted	–	9 475	–	9 475
	353 571	363 046	353 571	363 046
Earnings/(loss) per share – group (cents)	74.9	72.9	(5.2)	(5.1)
Earnings/(loss) per share – continuing operations (cents)	68.5	66.7	(10.6)	(10.4)
			<b>2005</b>	2004
			<b>R'000</b>	R'000
<b>23 Dividends paid to shareholders</b>				
Final cash dividend no. 17 – 22.5 cents per share paid 20 December 2004 (2004: dividend no. 15 – 15.1 cents per share paid 8 December 2003)			<b>82 328</b>	53 515
Interim cash dividend no. 18 – 11.2 cents per share paid 27 June 2005 (2004: dividend no. 16 – 12.5 cents per share paid 5 July 2004)			<b>41 312</b>	45 084
Total dividends to shareholders			<b>123 640</b>	98 599
Dividends on treasury shares			<b>(11 175)</b>	(775)
			<b>112 465</b>	97 824

The directors have approved the final proposed dividend of 18.5 cents per share to be paid on 19 December 2005.

#### **Dividend Policy**

The board of directors decided to reduce the dividend cover from 2.5 to 2.2 times, with effect from and including the final dividend for the 2004 financial year.

#### **24 Restatement of comparatives**

For segmental reporting purposes, Clicks and Pharmacy, which were previously reported as separate segments, have been combined into a single segment referred to as Clicks. This reflects the implementation of the strategy to integrate the Clicks and Pharmacy businesses in the Clicks brand. Comparatives have been restated accordingly. The results of the Pharmacy business are therefore included in the comparative results of Clicks for a period of six months.

An amount of R24.7 million has been reallocated from cost of merchandise to turnover in 2004 in respect of UPD. This amount relates to discounts granted by UPD which were previously included in cost of merchandise. This has resulted in turnover reducing from R8 048.8 million to R8 024.1 million and cost of merchandise reducing from R6 301.5 million to R6 276.8 million. The reallocation was necessary in order to correctly state the group's turnover.

## Notes to the Financial Statements (continued)

### for the year ended 31 August 2005

#### 25 Change in interpretation – operating lease accrual

The group previously expensed operating lease charges on a cash payment basis. This was generally accepted practice in South Africa as the contractual payment basis was considered as being the most representative of the time pattern of the group's benefit obtained from the leased properties. On 2 August 2005, the South African Institute of Chartered Accountants issued Circular 7/2005 dealing with the requirements of AC105 – Leases in respect of operating leases with fixed rental increases. AC105 states that lease expense/income should be recognised on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit. The circular clarifies the interpretation of this requirement of the standard, concluding that a "user's benefit" can only be affected by factors that impact the physical usage of the property. This is consistent with the international interpretation of IAS8, AC105's International Financial Reporting Standards' equivalent. Accordingly, the group now recognises rental income and expense in respect of operating leases with fixed increases on a straight-line basis regardless of the actual cash payments made. Comparatives have been restated.

The effect of this change in interpretation on opening distributable reserve and current year performance is set out below:

	Group	
	2005 R'000	2004 R'000
Effect on opening distributable reserve		
Cumulative operating lease expense accrual	(76 488)	(67 954)
Deferred taxation	22 946	20 386
	<b>(53 542)</b>	(47 568)
Effect on profit/(loss) attributable to shareholders		
Operating lease expense accrual	(9 018)	(8 534)
Deferred taxation	2 615	2 560
	<b>(6 403)</b>	(5 974)
Effect on earnings and headline earnings per share (cents)	(1.9)	(1.7)
Effect on diluted earnings and diluted headline earnings per share (cents)	(1.8)	(1.6)
The effects disclosed are net of deferred taxation at the rates prevailing during the relevant year.		
<b>26 Lease commitments</b>		
The group leases all its retail premises under operating leases. The lease agreements for the group provide for minimum payments together, in certain instances, with further annual payments determined on the basis of turnover.		
Future minimum lease payments under non-cancellable operating leases		
– Not later than 1 year	268 374	229 739
– Later than 1 year, not later than 5 years	749 487	818 829
– Later than 5 years	323 190	108 813
	<b>1 341 051</b>	1 157 381

The future minimum lease payments represent cash payment commitments and have not been reduced by the operating lease accrual detailed in note 14.

#### 27 Contingent liabilities

The company has furnished guarantees to bankers in respect of gross liabilities recognised on the balance sheets of certain subsidiary companies of R1 296.5 million. The net liability recognised on the group balance sheet in respect of these liabilities is R238 million.

A subsidiary has provided a guarantee to their bankers, in respect of that subsidiary's owner driver scheme. Should the driver default on repayments of the loan instalments, that subsidiary company will be required to settle any remaining obligation to the banker. The net amount owing by the owner drivers is R4.6 million.

In the opinion of the directors, the possibility of loss arising from these guarantees is remote.

Certain subsidiary companies have concluded agreements with third parties external to the group which may result in future payments giving rise to additional goodwill in respect of certain historic acquisitions. The maximum additional payments amount to R2.5 million. These payments are contingent on various uncertain future events.

	Group	
	2005 R'000	2004 R'000
<b>28 Capital commitments</b>		
Capital expenditure approved by the directors		
Contracted	<b>80 347</b>	65 729
Not contracted	<b>83 687</b>	159 940
	<b>164 034</b>	225 669

To be financed from borrowings and internally generated funds.

## 29 Retirement benefits

### *Pension and provident funds*

Four funds, which are registered and governed in terms of the Pension Funds Act, 24 of 1956, are operated by the group.

These funds are:

- the Clicks Group Retirement Fund;
- the Clicks Group Negotiated Pension Fund;
- the Clicks Group Negotiated Provident Fund; and
- the New UPD Corporate Selection Pension Fund.

The funds are defined contribution funds and are actuarially valued periodically.

The most recent valuations confirmed that all four funds were in a sound financial position.

In addition to the above funds, employees of UPD can elect to join the SACCAWU National Provident Fund or Chemical Industries National Provident Fund, which are not operated by the group. PM&A employees can elect to join either the Rainmaker Pension Fund or the Rainmaker Provident Fund. Neither of these are operated by the group.

All permanent full-time staff members are obliged to join, at their choice, one of the funds.

Employee and company contributions to the above funds are included in employment costs detailed in note 19.

### *Medical benefits*

The group subsidises a portion of the medical aid contributions of certain retired employees.

An actuarial valuation of the Clicks Medical Aid scheme has determined that the unfunded liability in respect of pensioner post-retirement medical benefits amounts to R19.9 million (2004: R18.3 million). Provision has been made for the full unfunded liability (see note 17).

## 30 Related party transactions

### *Transactions between group subsidiaries*

During the year, in the ordinary course of business, certain companies within the group entered into arm's length transactions. These intragroup transactions have been eliminated on consolidation.

### *Directors and key management*

A number of directors of the company hold positions in other entities, where they may have significant influence over the financial or operating policies of these entities. Accordingly, the following is considered to be such an entity:

<i>Director</i>	<i>Entity</i>
DM Nurek	Investec Bank Limited

Transactions between the group and this entity have occurred under terms and conditions that are no more favourable than those entered into with third parties in arm's length transactions.

These transactions include:

- (i) Investec Bank Limited manages certain cash on call on behalf of group companies.
- (ii) Investec Bank Limited has provided funding to group companies.
- (iii) A group company has invested in an Investec Bank Limited group company (see to note 5).
- (iv) A group company has purchased a derivative instrument from Investec Bank Limited (see note 9).

Certain non-executive directors of the group are also non-executive directors of other public companies which transact with the group. Except as disclosed above, the relevant directors do not believe they have significant influence over the financial or operating policies of those companies. Those entities are not disclosed above.

Directors are not bound by service contracts extending beyond 12 months.

## Notes to the Financial Statements (continued)

for the year ended 31 August 2005

### 30 Related party transactions (continued)

#### *Shares held by directors and their related entities*

The percentage of shares held by directors of the company and their related entities at the balance sheet date are disclosed in the Corporate Governance section on page 36 of this annual report.

### 31 Financial instruments

#### 31.1 *Treasury risk management*

Executive management meet on a regular basis to analyse currency and interest rate exposures and re-evaluate treasury management strategies. The group entered into certain interest rate swap agreements in respect of certain fixed rate long-term borrowings. The group has fair valued these contracts and included the value in accounts receivable (see note 8).

#### 31.2 *Foreign exchange risk management*

The group is exposed to foreign currency risk as it imports merchandise. This risk is mitigated by entering into forward foreign exchange contracts. These contracts are matched with anticipated future cash flows in foreign currencies. The group does not use forward foreign exchange contracts for speculative purposes. At 31 August 2005, the group had open forward exchange contracts to purchase US\$10.9 million within three months after year-end at rates varying between R6.51 and R6.84 to the US dollar. The group also had open forward exchange contracts to sell US\$2.8 million within two months after year-end at rates varying from R6.42 to R6.63 to the US dollar. The group has fair valued these contracts and included the value in accounts receivable/accounts payable and accruals (see notes 8 and 17).

#### 31.3 *Credit risk management*

The group is exposed to credit risk in respect of its trade debtors, short-term cash investments and loans to third parties. Management have a formal credit policy in place. In respect of trade debtors, credit limits are assigned based on credit checks. Short-term cash investments are placed with large reputable financial institutions of high credit standing. Loans to third parties are advanced after comprehensive risk assessments have been performed.

The group's maximum exposure to credit risk is represented by the carrying value of its financial assets disclosed in the balance sheet as well as the contingent liabilities referred to in note 27.

#### 31.4 *Interest rate risk*

2005	Interest terms	Maturity of interest-bearing asset/liability			Non-interest bearing	Total
		1 year or less R'000	1 to 5 years R'000	Over 5 years R'000		
<b>Assets</b>						
Accounts receivable		–	–	–	494 515	494 515
Loans	Variable	–	47 707	–	5 021	52 728
Cash on hand	Variable	70 315	–	–	–	70 315
Derivative		–	–	–	14 445	14 445
<b>Total financial assets</b>		<b>70 315</b>	<b>47 707</b>	<b>–</b>	<b>513 981</b>	<b>632 003</b>
<b>Liabilities</b>						
Accounts payable and accruals		–	–	–	1 451 713	1 451 713
Short-term borrowings	Variable	13 903	–	–	–	13 903
Loans payable	Fixed	69 121	148 602	–	–	217 723
Loans payable	Variable	23 903	19 081	–	–	42 984
<b>Total financial liabilities</b>		<b>106 927</b>	<b>167 683</b>	<b>–</b>	<b>1 451 713</b>	<b>1 726 323</b>
<b>Net financial liabilities</b>		<b>(36 612)</b>	<b>(119 976)</b>	<b>–</b>	<b>(937 732)</b>	<b>(1 094 320)</b>

#### 31.5 *Fair values of financial instruments*

At 31 August 2005, the carrying amounts of cash on hand, accounts receivable, short-term borrowings and accounts payable and accruals approximate their fair values due to their short-term maturities.

Derivatives are carried at fair values determined by external, independent experts.

As the terms of other financial instruments are consistent with similar financial instruments concluded at arm's length, the directors consider their carrying amounts to approximate their fair values.

### 32 Share incentive scheme

#### *New Clicks Holdings Share Trust (the Share Trust)*

The aggregate number of shares and share options that may be utilised for the purposes of the Share Trust is 20% of the aggregate of the company's issued share capital and the number of share options in issue.

	<b>2005</b>	2004				
	<b>'000</b>	'000				
Number of shares						
<b>Shares and share options available for allocation to employees</b>						
Balance at the beginning of the year	<b>83 762</b>	83 856				
Increase/(decrease) as a result of net number of share options granted/(forfeited) during the year	<b>183</b>	(94)				
Balance at the end of the year	<b>83 945</b>	83 762				
<b>Shares allocated and options granted to employees</b>						
<i>Shares</i>						
Balance at the beginning of the year	<b>3 146</b>	4 921				
Delivered to participants	<b>(620)</b>	(1 775)				
Balance at the end of the year	<b>2 526</b>	3 146				
<i>Options</i>						
Balance at the beginning of the year	<b>57 601</b>	65 157				
Granted to participants	<b>4 650</b>	500				
Delivered to participants	<b>(9 055)</b>	(7 087)				
Options forfeited by participants	<b>(3 733)</b>	(969)				
Balance at the end of the year	<b>49 463</b>	57 601				
Total shares allocated and options granted	<b>51 989</b>	60 747				
Details of share option allocations:						
Issue date	Price	Balance at beginning of the year	Granted during the year	Delivered during the year	Forfeited during the year	Balance at the end of the year
October 1998	R3.50	2 001 403	–	(498 950)	–	<b>1 502 453</b>
January 1999	R5.35	18 970 500	–	(3 574 650)	–	<b>15 395 850</b>
July 1999	R7.80	5 085 000	–	(1 370 000)	(170 000)	<b>3 545 000</b>
September 2000	R9.30	7 910 000	–	(150 000)	(400 000)	<b>7 360 000</b>
April 2001	R7.40	7 665 000	–	(1 854 500)	(212 500)	<b>5 598 000</b>
July 2002	R6.70	6 010 000	–	(1 107 500)	(800 000)	<b>4 102 500</b>
October 2002	R5.70	250 000	–	–	–	<b>250 000</b>
January 2003	R6.50	3 050 000	–	(500 000)	(500 000)	<b>2 050 000</b>
June 2003	R5.90	20 000	–	–	–	<b>20 000</b>
August 2003	R6.30	6 139 000	–	–	(1 650 000)	<b>4 489 000</b>
October 2003	R7.10	500 000	–	–	–	<b>500 000</b>
June 2005	R7.50	–	3 500 000	–	–	<b>3 500 000</b>
August 2005	R8.32	–	1 150 000	–	–	<b>1 150 000</b>
Total		57 600 903	4 650 000	(9 055 600)	(3 732 500)	<b>49 462 803</b>

The share option scheme operates on a deferred delivery basis, with participants being able to take delivery of 50% after three years and the balance after five years, up to a maximum of 10 years.

Share options granted meet the definition of equity-settled share-based payments. The group has not recognised an expense during the current or prior periods relating to these options.

## Notes to the Financial Statements (continued)

### for the year ended 31 August 2005

	2005 R'000	2004 R'000
<b>33 Employee statistics</b>		
Number of permanent employees	8 947	9 011
Headline earnings per employee (R) – continuing operations	24 772	26 867
Staff turnover:		
Total number of employees at the beginning of the year	9 011	7 973
Add:		
Recruitments	1 727	3 591
Acquisitions of new businesses	–	1 381
	<b>10 738</b>	12 945
Less:		
Resignations	<b>(1 354)</b>	(2 518)
Deaths	<b>(27)</b>	(51)
Dismissals	<b>(294)</b>	(281)
Retirements	<b>(25)</b>	(19)
Retrenchments	<b>(91)</b>	(87)
Disposals of businesses	–	(978)
Total number of employees at the end of the year	<b>8 947</b>	9 011
<b>34 Events subsequent to balance sheet date</b>		
No significant events took place between the end of the financial year under review, and the date of signature of these financial statements with the exception of the declaration of the final dividend (see the Directors' Report on page 94 for more details).		
	<b>2005 R'000</b>	2004 R'000
<b>35 Cash flow information</b>		
<b>35.1 Cash generated by operations</b>		
Profit before interest and taxation	<b>341 473</b>	146 582
Adjustment for:		
Amortisation of trademarks	<b>650</b>	650
Depreciation	<b>104 084</b>	108 371
Fair value adjustment – derivative	<b>3 945</b>	–
Fair value adjustment – share appreciation rights	<b>662</b>	–
Foreign exchange loss/(profit)	<b>2 500</b>	(5 361)
Goodwill amortisation	–	16 272
Goodwill impairment	<b>16 814</b>	258 196
Impairment of property, plant and equipment	–	13 496
Operating lease accrual (see note 25)	<b>9 018</b>	8 534
Loss on disposal of property, plant and equipment	<b>270</b>	2 281
Profit on sale of Australian operations	–	(1 738)
Profit on sale of Intercare	–	(587)
	<b>479 416</b>	546 696
Working capital changes		
Increase in inventories	<b>(210 541)</b>	(206 200)
Increase in accounts receivable	<b>(50 753)</b>	(63 577)
Increase in accounts payable and accruals	<b>57 933</b>	201 377
Increase in derivatives	<b>(18 390)</b>	–
	<b>(221 751)</b>	(68 400)
	<b>257 665</b>	478 296



	2005 R'000	2004 R'000
<b>35.2 Taxation paid</b>		
Taxation prepaid/(liability) at beginning of the year	5 618	(7 034)
Acquisition of subsidiaries and businesses (see note 35.3)	-	(337)
Current taxation provided	<b>(90 346)</b>	(105 639)
Disposal of subsidiaries and businesses (see note 35.4)	-	17 336
Exchange rate adjustment	-	(440)
Taxation prepaid at end of the year	<b>(24 530)</b>	(5 618)
	<b>(109 258)</b>	(101 732)
<b>35.3 Acquisition of subsidiaries and businesses</b>		
During the 2004 year, the group acquired a 100% interest in PM&A. The cost of the acquisition amounted to R1 for each legal entity.		
The fair values of assets acquired and liabilities assumed were as follows:		
Property, plant and equipment	-	(29 935)
Deferred taxation	-	(2 065)
Inventories	-	(132 065)
Accounts receivable	-	(44 227)
Cash	-	(13 435)
Long-term loans	-	7 242
Accounts payable and accruals	-	161 116
Intragroup loans	-	473 816
Total net liabilities assumed	-	420 447
Goodwill on acquisition	-	(420 447)
Purchase consideration	-	-
Cash acquired on acquisition	-	13 435
Net cash flow on acquisition	-	13 435
The group consolidated the Share Trust for the first time with effect from 1 September 2003. The Share Trust holds shares on behalf of certain employees as well as shares that will be utilised to meet the group's commitments in terms of outstanding share options. No consideration was paid for the acquisition.		
The fair values of assets acquired and liabilities assumed were as follows:		
Treasury shares	-	(22 841)
Accounts receivable	-	(25 889)
Cash	-	125
Intragroup loan	-	46 134
Accounts payable and accruals	-	2 134
Taxation	-	337
Total net assets acquired	-	-
Cash acquired on acquisition	-	(125)
Net cash flow on acquisition	-	(125)
Net cash flow on acquisitions of subsidiaries and businesses	-	13 310

## Notes to the Financial Statements (continued)

for the year ended 31 August 2005

	2005 R'000	2004 R'000
<b>35.4 Proceeds from disposal of subsidiaries and businesses</b>		
During the 2004 financial year, the group disposed of its interest in New Clicks Australia (Proprietary) Limited.		
The fair values of the assets and liabilities sold were as follows:		
Property, plant and equipment	–	146 670
Foreign currency translation reserve	–	(46 117)
Goodwill	–	128 788
Deferred taxation	–	14 518
Inventories	–	332 600
Accounts receivable	–	94 501
Cash	–	57 706
Loans receivable	–	876
Loans payable	–	(17 788)
Investment	–	4 331
Accounts payable and accruals	–	(329 354)
Taxation	–	(17 336)
Total net assets disposed of	–	369 395
Profit on sale	–	1 738
Net proceeds	–	371 133
Foreign exchange gain on foreign proceeds	–	3 707
Total cash proceeds	–	374 840
Cash disposed of	–	(57 706)
Net cash flow from disposal	–	317 134
During the 2004 year the group disposed of its 80% holding in Intercare Managed Healthcare (Proprietary) Limited. The fair values of assets and liabilities disposed of were as follows:		
Property, plant and equipment	–	6 435
Inventories	–	399
Accounts receivable	–	13 708
Cash	–	6 778
Loans payable	–	(27 135)
Accounts payable and accruals	–	(1 057)
Deferred taxation	–	285
Total net liabilities disposed of	–	(587)
Profit on sale	–	587
Proceeds	–	–
Cash disposed of	–	6 778
Net cash flow from disposal	–	(6 778)
Net cash flow from disposals of subsidiaries and businesses	–	310 356
During the 2004 year the discontinued operations had cash inflows from operating activities of R69.6 million, cash outflows from investing activities of R10.3 million and cash inflows from financing activities of R7.8 million.		
<b>35.5 Shareholders' funds raised</b>		
Shares issued	<b>57 334</b>	33 220
Share issue expenses	<b>(273)</b>	(195)
	<b>57 061</b>	33 025
<b>35.6 Cash and cash equivalents</b>		
Cash on hand and at bank	<b>70 315</b>	410 404
Short-term borrowings	<b>(13 903)</b>	(8 710)
	<b>56 412</b>	401 694

# Company Balance Sheet

at 31 August 2005

	Notes	2005 R'000	2004 R'000
<b>Assets</b>			
Non-current assets		<b>1 112 023</b>	1 052 113
Deferred taxation assets	4	<b>557</b>	–
Interest in subsidiary companies (see page 92)		<b>851 466</b>	792 113
Unlisted investment	5	<b>260 000</b>	260 000
Current assets		<b>26 110</b>	9 515
Taxation prepaid		<b>13 894</b>	9 515
Dividends receivable		<b>12 216</b>	–
<b>Total assets</b>		<b>1 138 133</b>	1 061 628
<b>Equity and liabilities</b>			
Capital and reserves		<b>1 138 133</b>	1 061 628
Share capital	10	<b>3 703</b>	3 612
Share premium	10	<b>966 197</b>	909 227
Distributable reserve		<b>168 233</b>	148 789
<b>Total equity and liabilities</b>		<b>1 138 133</b>	1 061 628

# Company Income Statement

for the year ended 31 August 2005

	Notes	2005 R'000	2004 R'000
Dividends received from subsidiaries		<b>156 379</b>	130 295
Operating costs		<b>(2 196)</b>	(1 398)
Profit on disposal of Australian operations		–	100 188
<b>Profit before interest and taxation</b>		<b>154 183</b>	229 085
Interest received		–	10 858
<b>Profit before taxation</b>		<b>154 183</b>	239 943
Taxation	21	<b>11 099</b>	14 541
<b>Profit attributable to shareholders</b>		<b>143 084</b>	225 402

# Company Changes in Equity Statement

for the year ended 31 August 2005

	Number of shares '000	Share capital (Note 10) R'000	Share premium (Note 10) R'000	Non- distributable reserve R'000	Distributable reserve R'000	Total R'000
<b>Balance at 1 September 2003</b>	354 118	3 541	876 273	124 364	21 986	1 026 164
Shares issued in respect of options	7 087	71	33 149	–	–	33 220
Share issue expenses written off	–	–	(195)	–	–	(195)
Foreign currency translation reserve realised on disposal of subsidiary	–	–	–	(124 364)	–	(124 364)
Profit attributable to shareholders	–	–	–	–	225 402	225 402
Dividends (see note 23)	–	–	–	–	(98 599)	(98 599)
<b>Balance at 31 August 2004</b>	<b>361 205</b>	<b>3 612</b>	<b>909 227</b>	<b>–</b>	<b>148 789</b>	<b>1 061 628</b>
Shares issued in respect of options	9 055	91	57 243	–	–	57 334
Share issue expenses written off	–	–	(273)	–	–	(273)
Profit attributable to shareholders	–	–	–	–	143 084	143 084
Dividends (see note 23)	–	–	–	–	(123 640)	(123 640)
<b>Balance at 31 August 2005</b>	<b>370 260</b>	<b>3 703</b>	<b>966 197</b>	<b>–</b>	<b>168 233</b>	<b>1 138 133</b>

# Company Cash Flow Statement

for the year ended 31 August 2005

	2005 R'000	2004 R'000
<b>Cash effects of operating activities</b>		
Cash generated by operations	141 967	128 897
Net interest received	–	10 858
Taxation paid	(16 035)	(19 567)
Cash inflow from operating activities	125 932	120 188
Distributions to ordinary shareholders	(123 640)	(98 599)
Net cash effects of operating activities	2 292	21 589
<b>Cash effects of investing activities</b>		
Proceeds on disposal of subsidiary	–	378 194
Loans advanced	(59 353)	(432 808)
Net cash effects of investing activities	(59 353)	(54 614)
<b>Cash effects of financing activities</b>		
Shares issued	57 334	33 220
Share issue expenses	(273)	(195)
Net cash effects of financing activities	57 061	33 025
Net movement in cash and cash equivalents	–	–
Cash and cash equivalents at beginning of the year	–	–
Cash and cash equivalents at end of the year	–	–

## Notes to the Company Cash Flow Statement

for the year ended 31 August 2005

	2005 R'000	2004 R'000
<b>Cash generated by operations</b>		
Profit before interest and taxation	154 183	229 085
Adjustment for:		
Profit on disposal of Australian operations	–	(100 188)
	154 183	128 897
Increase in dividends receivable	(12 216)	–
	141 967	128 897
<b>Taxation paid</b>		
Taxation prepaid at the beginning of the year	9 515	2 845
Current taxation provided	(11 656)	(12 897)
Taxation prepaid at the end of the year	(13 894)	(9 515)
	(16 035)	(19 567)
<b>Proceeds on disposal of subsidiary</b>		
Carrying value of investment	–	397 370
Loss per income statement	–	100 188
Non-cash flow items	–	(119 364)
Proceeds on disposal	–	378 194

In the prior year, costs of R7.1 million relating to this disposal were paid by a subsidiary company. The net group proceeds on disposal were reduced by these costs.

# Interest in Subsidiary Companies

at 31 August 2005

Name of company and nature of business	Country of incorporation	Ordinary issued share capital	Shares at cost less amounts written off		Amount owing by subsidiaries	
			2005 R'000	2004 R'000	2005 R'000	2004 R'000
<b>Directly held</b>						
<b>(i) Trading</b>						
New Clicks South Africa (Proprietary) Limited	South Africa	R500	272 439	272 439	536 269	476 916
The Link Investment Trust	South Africa		14 790	14 790	15 000	15 000
<b>(ii) Property owning</b>						
Eldson Investments (Proprietary) Limited	South Africa	R1	3 911	3 911	–	–
Crantock Investments (Proprietary) Limited	South Africa	R1	44	44	–	–
Optimprops 93 (Proprietary) Limited	South Africa	R100	13	13	–	–
Flamborough Investments (Proprietary) Limited	South Africa	R1	†	†	–	–
Clicks Centurion (Proprietary) Limited	South Africa	R10	†	†	9 000	9 000
<b>Indirectly held</b>						
<b>(i) Trading</b>						
Clicks Stores (Western Cape) (Proprietary) Limited	South Africa	R1 000	†	†	–	–
Safeway (Swaziland) (Proprietary) Limited	Swaziland	E2	†	†	–	–
Clicks Stores (Lesotho) (Proprietary) Limited	Lesotho	M1 000	†	†	–	–
The Clicks Organisation (Botswana) (Proprietary) Limited	Botswana	BWP3 000	†	†	–	–
Safeway (Namibia) (Proprietary) Limited	Namibia	N\$100	†	†	–	–
The Clicks Group Finance Company (Proprietary) Limited	South Africa	R1	†	†	–	–
New United Pharmaceutical Distributors (Proprietary) Limited	South Africa	R10	†	†	–	–
Multicare Pharmaceutical Benefits Management (Proprietary) Limited	South Africa	R4 000	†	†	–	–
Multicare Western Cape (Proprietary) Limited	South Africa	R100	†	†	–	–
Purchase Milton & Associates (Proprietary) Limited	South Africa	R100	†	†	–	–
Milton & Associates (Proprietary) Limited	South Africa	R100	†	†	–	–
Leon Katz (Proprietary) Limited	South Africa	R100	†	†	–	–
J & G Purchase & Associates (Proprietary) Limited	South Africa	R120	†	†	–	–
<b>(ii) Name protection and dormant</b>						
24 companies (2004 – 24 companies)			†	†	–	–
<b>(iii) Holding</b>						
Multicare Health Centres (Proprietary) Limited	South Africa	R1 000	†	†	–	–
			<b>291 197</b>	291 197	<b>560 269</b>	500 916
Shares at cost less amounts written off			<b>291 197</b>	291 197		
Amounts owing by subsidiary companies			<b>560 269</b>	500 916		
Net interest in subsidiaries			<b>851 466</b>	792 113		

All subsidiary companies are wholly-owned.

New Clicks Holdings has a 56% interest in The Link Investment Trust.

The loan to The Link Investment Trust is interest free, unsecured and is repayable in annual instalments, not exceeding 10% of the underlying profit of the entity.

All other loans are interest free, unsecured and no fixed dates of repayment have been determined.

† Values less than R1 000

# Directors' Report

Your directors have pleasure in presenting their report together with the financial statements of the company and of the group for the year ended 31 August 2005.

## Nature of business

The company is an investment holding company. Its trading subsidiaries are engaged in discount retailing of health, beauty and lifestyle products and services on a predominantly cash basis in southern Africa. Its wholly-owned subsidiary, New United Pharmaceutical Distributors, is engaged in the buying and distribution of pharmaceutical products.

Certain subsidiaries operate as franchisors in addition to their retail activity. The company is the sole shareholder of property owning subsidiaries.

## Group financial results

The results of operations for the year are set out in the group income statement on pages 54 and 55. The profit attributable to ordinary shareholders for the year is R205 million (2004: loss of R19 million).

## Share capital

During the year under review the issued share capital of the company was increased by the issue of the following ordinary shares of 1 cent each:

498 950	issued at various dates during the year at a premium of 349 cents per share, pursuant to the company's obligations to deliver ordinary shares to Share Trust participants in respect of share options granted in October 1998.
3 574 650	issued at various dates during the year at a premium of 534 cents per share, pursuant to the company's obligations to deliver ordinary shares to Share Trust participants in respect of share options granted in January 1999.
1 370 000	issued at various dates during the year at a premium of 779 cents per share, pursuant to the company's obligations to deliver ordinary shares to Share Trust participants in respect of share options granted in July 1999.
150 000	issued at various dates during the year at a premium of 929 cents per share, pursuant to the company's obligations to deliver ordinary shares to Share Trust participants in respect of share options granted in September 2000.
1 854 500	issued at various dates during the year at a premium of 739 cents per share, pursuant to the company's obligations to deliver ordinary shares to Share Trust participants in respect of share options granted in April 2001.
1 107 500	issued at various dates during the year at a premium of 669 cents per share, pursuant to the company's obligations to deliver ordinary shares to Share Trust participants in respect of share options granted in July 2002.
500 000	issued at various dates during the year at a premium of 649 cents per share, pursuant to the company's obligations to deliver ordinary shares to Share Trust participants in respect of share options granted in January 2003.

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9 055 600

The following ordinary shares of 1 cent each were repurchased during the year by a subsidiary of the company, and are now held as treasury shares:

11 506 296	in respect of the general repurchases between 21 October and 2 December 2004, announced on 3 December 2004.
2 420 175	in respect of general repurchases between 8 December and 20 December 2004.

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13 926 471

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## Directors' Report (continued)

### Distributions to shareholders

#### Interim

The directors declared an interim cash dividend of 11.2 cents per share to shareholders registered on 24 June 2005. The dividend was paid on 27 June 2005.

#### Final

The directors have declared a final cash dividend of 18.5 cents per share to shareholders registered on 15 December 2005. The dividend will be paid on 19 December 2005.

### Group restructure

The company commenced the process of restructuring the operations of certain of its subsidiary companies. The primary objective of this restructuring is to ensure compliance with current Pharmacy Regulations. As the restructuring is between existing subsidiary companies, the financial position of the group will be unaffected. The restructuring is subject to various regulatory requirements. It is anticipated that the restructuring will be concluded during the 2006 financial year.

### Events subsequent to balance sheet date

No significant events, other than the declaration of the final dividend, as set out above, took place between the end of the financial year under review and the date of this report.

### Directors and secretary

The names of the directors in office at the date of this report are set out on pages 8 and 9, and the company secretary's details are given on the inside back cover.

It was announced on 25 August 2005 that Mr RB Godfrey will be resigning as a director with effect from 31 December 2005.

In accordance with the company's articles of association, Messrs PEI Swartz and TC Honneysett and Ms LA Swartz retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

### Directors' interest in shares

Details of the directors' beneficial interests in the company's issued share capital are given on page 36.

Details of the share options granted to directors are given on page 36.

### Share incentive scheme

Information relating to the share incentive scheme is set out in note 32 on page 85.

### Special resolutions

No special resolutions of a material nature have been passed by the company or its subsidiaries since the last annual general meeting of the company.

### Holding company

The company has no holding company.

### Subsidiary companies

The names of the company's main subsidiaries and financial information relating thereto appear on page 92. The interest of the company in the aggregate income after taxation before goodwill amortisation and impairment of its subsidiaries is R235 million (2004: R161 million).



# Directors' Approval

The directors are responsible for the preparation and integrity of the financial statements and related financial information, and ensuring that the financial statements fairly present the state of affairs of the company and of the group.

The financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practice, and incorporate full and responsible disclosure in line with the accounting policies of the group, supported by reasonable and prudent judgements and estimates.

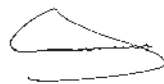
The directors, supported by the audit committee, are of the opinion, based on the information and explanations given by management and the internal auditors and on comment by the independent auditors on the results of their statutory audit, that the group's internal accounting controls are adequate, so that the financial records may be relied upon for preparing the financial statements and maintaining accountability for assets and liabilities. The directors believe that the group's assets are protected and used as intended in all material respects with appropriate authorisation. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year.

The directors believe that the group has adequate resources to continue in operation for the foreseeable future and will therefore continue to prepare the annual financial statements on the going concern basis.

Other than the information given in note 34 of the financial statements, no event, material to the understanding of this report, has occurred between the financial year-end and the date of this report.

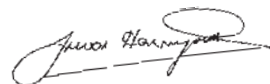
The independent auditors concur with the above statements by the directors.

The audited annual financial statements set out on pages 53 to 94 were approved by the board of directors and are signed on its behalf by:



**DM NUREK**  
Chairman

Cape Town  
25 October 2005



**TC HONNEYSETT**  
Chief Executive Officer

# Certificate by the Company Secretary

I certify that New Clicks Holdings Limited, for the period under review, has lodged with the Registrar of Companies all returns as required by a public company in terms of section 268G(d) of the Companies Act, 1973, as amended, and that such returns are true, correct and up to date.



AA SCOTT

Company Secretary

Cape Town

25 October 2005

# Independent Auditors' Report

## To the members of New Clicks Holdings Limited

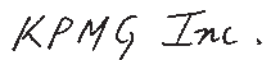
We have audited the annual financial statements and the group annual financial statements of New Clicks Holdings Limited and its subsidiaries set out on pages 53 to 94 for the year ended 31 August 2005. These annual financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with statements of International Standards on Auditing. Those standards

require that we plan and perform the audit to obtain reasonable assurance about whether 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the

financial position of the company and of the group at 31 August 2005 and the results of their operations and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Companies Act in South Africa.



KPMG Inc.

Registered Accountants and Auditors  
Chartered Accountants (SA)

Cape Town  
25 October 2005

# Analysis of Shareholders

at 31 August 2005

	Number of holders	Percentage of holders	Number of shares	Percentage of shares
<b>Public and non-public shareholders</b>				
Public shareholders	3 568	99.9%	337 011 359	91.0%
Non-public shareholders				
Shares held by directors	5	0.1%	1 911 364	0.5%
The New Clicks Holdings Share Trust (excluding directors)	1	0.0%	4 405 842	1.2%
Treasury stock held by New Clicks South Africa (Proprietary) Limited	1	0.0%	26 931 767	7.3%
Total non-public shareholders	7	0.1%	33 248 973	9.0%
Total shareholders	3 575	100.0%	370 260 332	100.0%

According to the company's register of shareholders, read in conjunction with the company's register of disclosure of beneficial interests made by registered shareholders acting in a nominee capacity, the following shareholders held 5% or more of the issued share capital at 31 August 2005:

	Number of shares	Percentage of shares
<b>Major beneficial shareholders</b>		
Treasury stock held by New Clicks South Africa (Proprietary) Limited	26 931 767	7.3%
Corolife Managed Pension Fund	24 718 797	6.7%
Investment Solutions	23 535 664	6.4%
Trakprops 141 (Proprietary) Limited	20 836 659	5.6%
Public Investment Corporation (SA)	19 171 294	5.2%
	115 194 181	31.2%

	Number of shares	Percentage of shares
<b>Major institutional managers/direct holders</b>		
Allan Gray Limited	89 611 100	24.2%
Coronation Fund Managers	73 955 102	20.0%
RMB Asset Management	60 137 609	16.2%
Sanlam Investment Managers	32 275 736	8.7%
Oasis Asset Management	17 887 997	4.8%
Metropolitan Asset Managers	9 300 069	2.5%
	283 167 613	76.4%

	Number of holders	Percentage of holders	Number of shares	Percentage of shares
<b>Distribution of registered shareholdings</b>				
1 – 1 000	1 811	50.7%	521 937	0.1%
1 001 – 10 000	1 124	31.4%	3 704 586	1.0%
10 001 – 100 000	309	8.6%	11 400 700	3.1%
100 001 – 1 000 000	253	7.1%	84 657 528	22.9%
1 000 001 shares and over	78	2.2%	269 975 581	72.9%
	3 575	100.0%	370 260 332	100.0%

	Number of holders	Percentage of holders	Number of shares	Percentage of shares
<b>Classification of registered shareholdings</b>				
Pension funds	227	6.4%	128 377 149	34.7%
Mutual funds	140	3.9%	123 278 924	33.3%
Private companies	100	2.8%	50 151 702	13.6%
Insurance companies	30	0.8%	21 223 086	5.7%
Investment companies	25	0.7%	12 693 283	3.4%
Banks	93	2.6%	11 476 576	3.1%
Private investors	2 525	70.6%	9 396 672	2.5%
Share trusts	3	0.1%	5 004 521	1.4%
Other	432	12.1%	8 658 419	2.3%
	3 575	100.0%	370 260 332	100.0%

# Shareholders' Diary

## Dates for 2005/6

**2005 Annual General Meeting** 23 January 2006

### **Preliminary profit announcements**

Interim to February 2006 April 2006

Final to August 2006 October 2006

**Publication of 2006 annual report** December 2006

### **Distributions**

#### *2005 Final distribution*

Last day to trade to be eligible 8 December 2005

Date of distribution 19 December 2005

#### *2006 Interim distribution*

Last day to trade to be eligible June 2006

Date of distribution June 2006

#### *2006 Final distribution*

Last day to trade to be eligible December 2006

Date of distribution December 2006

## STRATE Charity Shares

Shareholders with small or odd-lot holdings, or those who find the cost of selling their shares exceeds the market value of their shares, may wish to consider donating the shares to charity. An independent non-profit organisation called STRATE Charity Shares has been established to administer this process. In terms of this initiative, investors may donate their holdings, whether or not they have been converted to an electronic record of ownership in STRATE, to one or more nominated charities. The value of any shares donated may be deducted from taxable income, as the scheme is registered under section 18A of the Income Tax Act in South Africa.

For further details, queries and/or donations, contact the STRATE Share Care toll-free helpline on 0800 202 363 or +27 (0)11 373 0038, or e-mail [charityshares@computershare.co.za](mailto:charityshares@computershare.co.za).

# Notice of Annual General Meeting

Notice is hereby given that the tenth annual general meeting of shareholders of New Clicks Holdings Limited will be held at the Auditorium, Investec, 5th floor, 36 Hans Strijdom Avenue, Foreshore, Cape Town on Monday, 23 January 2006 at 11:00 at which the resolutions set out below will be considered and, if deemed fit, passed with or without amendment.

1. To receive and consider for adoption the annual financial statements of the company and the group for the year ended 31 August 2005.

2. Election of directors

2.1 To consider the re-election as a director of the company of PEI Swartz who retires in accordance with the company's articles of association and being eligible, offers himself for re-election.

Peter Swartz, aged 64, is independent non-executive deputy chairman and has been a member of the board since he was first appointed in June 1997. He is a member of the Audit and Remuneration committees and his other directorships include Absa Group Limited, Distell Limited, Ellerine Holdings Limited, Sun International Limited and Sunwest International Limited.

2.2 To consider the re-election as a director of the company of LA Swartz who retires in accordance with the company's articles of association and being eligible, offers herself for re-election.

Lucia Swartz, aged 48, is an independent non-executive director and is a member of the Remuneration and Nominations committees. She was appointed to the board in January 2004. Lucia is the Group Human Resources Director at Sappi Limited and has extensive experience in the human resources field, including three years with Seagram Spirits and Wine Group in New York.

2.3 To consider the re-election as a director of the company of TC Honneysett who retires in accordance with the company's articles of association and being eligible, offers himself for re-election.

Trevor Honneysett, aged 57, is an executive director and is the Chief Executive Officer. He has been a director since March 1996. He joined The Clicks Group Limited, the forerunner of New Clicks Holdings Limited in 1971, and was appointed as Chief Executive of The Clicks Group Limited in 1988.

3. To approve fees paid to directors, as disclosed on page 34, for the year to 31 August 2005.

4. To renew the directors' authority over the unissued share capital of the company until the next annual general meeting subject to this authority being limited to issuing shares in the terms of the company's obligations under the staff share incentive scheme.

## 5. Special resolution number 1

### General authority to repurchase shares

To consider and, if deemed fit, to pass, with or without modification, the following special resolution:

"Resolved that, the company hereby approves, as a general approval contemplated in sections 85 and 89 of the Companies Act, No. 61 of 1973, as amended ("the Companies Act"), the acquisition by the company or any of its subsidiaries from time to time of the issued shares of the company, upon such terms and conditions and in such amounts as the directors of the company may from time to time determine, but subject to the articles of association of the company, the provisions of the Companies Act and the Listings Requirements of the JSE Limited ("JSE") as presently constituted and which may be amended from time to time, and provided that:

- any such repurchase shall be implemented through the order book operated by the JSE trading system, without any prior understanding or arrangement between the company and the counterparty;
- this general authority shall only be valid until the company's next annual general meeting, provided that it shall not extend beyond 15 (fifteen) months from the date of passing of this special resolution;
- a press announcement will be published as soon as the company and/or its subsidiaries has repurchased ordinary shares constituting, on a cumulative basis, 3% (three per cent) of the initial number of ordinary shares, and for each 3% (three per cent) in aggregate of the initial number of shares repurchased thereafter, containing full details of such repurchases;
- acquisitions by the company and its subsidiaries of shares in the capital of the company may not, in the aggregate, exceed in any one financial year 20% (twenty per cent) of the company's issued share capital of the class of the repurchased shares from the date of the grant of this general authority;

## Notice of Annual General Meeting (continued)

- in determining the price at which the company's shares are acquired by the company or its subsidiaries in terms of this general authority, the maximum premium at which such shares may be acquired will be 10% (ten per cent) of the weighted average of the market price at which such shares are traded on the JSE for the 5 (five) business days immediately preceding the date the repurchase transaction is effected;
- in the case of a derivative (as contemplated in the Listings Requirements of the JSE) the price of the derivative shall be subject to the limits set out in section 5.84(a) of the Listings Requirements;
- the company's sponsor has confirmed the adequacy of the company's working capital for purposes of undertaking the repurchase of shares in writing to the JSE upon when the company entered the market to proceed with the repurchase;
- the company remains in compliance with paragraphs 3.37 to 3.41 of the JSE Listings Requirements concerning shareholder spread after such repurchase;
- the company and/or its subsidiaries do not repurchase securities during a prohibited period as defined in paragraph 3.67 of the JSE Listings Requirements; and
- the company only appoints one agent at any point in time to effect repurchases on its behalf."

The directors, having considered the effects of the repurchase of the maximum number of ordinary shares in terms of the foregoing general authority, are of the opinion that for a period of 12 (twelve) months after the date of this notice of the annual general meeting:

- the company will be able, in the ordinary course of business, to pay its debts;
- the consolidated assets of the company, fairly valued in accordance with generally accepted accounting practice, will exceed the consolidated liabilities of the company; and
- the company's ordinary share capital, reserves and working capital will be adequate for ordinary business purposes.

### Reason and Effect of Special Resolution Number 1

The reason for special resolution number 1 is to grant the directors of the company and subsidiaries of the company a general authority in terms of the Companies Act and the JSE Listings Requirements to acquire the company's shares,

subject to the terms and conditions set out in the resolution. The passing and registration of this special resolution will have the effect of authorising the directors of the company and subsidiaries of the company to acquire shares issued by the company.

The following additional information, some of which may appear elsewhere in the annual report of which this notice forms part, is provided in terms of the JSE Listings Requirements for purposes of this general authority:

- Directors and management – see pages 8 and 9, 15 and 20 to 29 of the annual report;
- Major beneficial shareholders – see page 97 of the annual report;
- Directors' interests in ordinary shares – see page 36 of the annual report; and
- Share capital of the company – see page 74 of the annual report.

### Litigation statement

In terms of section 11.26 of the JSE Listings Requirements, the directors, whose names appear on pages 8 and 9 of the annual report of which this notice forms part, are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or had in the recent past, being at least the previous 12 (twelve) months, a material effect on the group's financial position or an appropriate negative statement.

### Directors' responsibility statement

The directors, whose names appear on pages 8 and 9 of the annual report, collectively and individually accept full responsibility for the accuracy of the information pertaining to this special resolution and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the special resolution contains all information.

### Material changes

Other than the facts and developments reported on in the annual report, there have been no material changes in the affairs or financial position of the company and its subsidiaries since the date of signature of the audit report and up to the date of this notice.

6. To transact such other business as may be transacted at an annual general meeting.

All shareholders of ordinary shares in the company ("shares") are entitled to attend, speak and vote at the annual general meeting. If you hold certificated shares (i.e. have not dematerialised your shares in the company) or are registered as an "own name" dematerialised shareholder (i.e. have specifically instructed your Central Securities Depository Participant ("CSDP") to hold your shares in your own name on the company's sub-register), then:

- you may attend and vote at the annual general meeting; alternatively
- you may appoint a proxy to represent you at the annual general meeting by completing the attached form of proxy and return it to the registered office of the company.

Please note that if you are the owner of dematerialised shares (i.e. have replaced the paper share certificates representing the shares with electronic records of ownership under the JSE's electronic settlement system, Share Transactions Totally Electronic ("STRATE")) held through a CSDP or broker and are not registered as an "own name" dematerialised shareholder, you are subject to the mandate between yourself and your CSDP or broker:

- if you wish to attend the annual general meeting you must contact your CSDP or broker, as the case may be, and obtain the relevant letter of representation from it; alternatively
- if you are unable to attend the general meeting but wish to be represented at the meeting, you must contact your CSDP or broker, as the case may be, and furnish it with your voting instructions in respect of the annual general meeting and/or request it to appoint a proxy. You should not complete the attached form of proxy. The instructions must be provided in accordance with the mandate between yourself and your CSDP or broker, as the case may be, within the time period required by your CSDP or broker, as the case may be.

CSDPs, brokers or their nominees, as the case may be, recorded in the company's sub-register as holders of dematerialised shares held on behalf of an investor/beneficial owner in terms of STRATE should, when authorised in terms of their mandate or instructed to do so by the person on behalf of whom they hold the dematerialised shares, vote by either appointing a duly authorised representative to attend and vote at the annual general meeting or by completing the attached form of proxy in accordance with the instructions thereon and returning it to the company's transfer secretaries or registered office of the company not less than 24 hours prior to the time appointed for the holding of the meeting (excluding Saturdays, Sundays and public holidays).

On a poll the holders of ordinary shares are entitled to 1 vote per ordinary share.

**By order of the board**



AA SCOTT

Company Secretary  
25 October 2005





# NEW CLICKS HOLDINGS L I M I T E D

Reg. No. 1996/000645/06  
Share code: NCL ISIN: 000014586

## Form of Proxy

For use by certificated New Clicks shareholders and "own name" dematerialised New Clicks shareholders only, at the annual general meeting of shareholders of the company to be held on Monday, 23 January 2006 at 11:00 at the Auditorium, Investec, 5th Floor, 36 Hans Strijdom Avenue, Foreshore, Cape Town.

I/We (full names – in block letters) \_\_\_\_\_

of (address) \_\_\_\_\_

\_\_\_\_\_

being the registered holder of \_\_\_\_\_ ordinary shares (see note 1) in New Clicks Holdings Limited hereby appoint:

1. \_\_\_\_\_ or failing him/her

2. \_\_\_\_\_ or failing him/her

3. the chairman of the meeting, as my/our proxy to attend, speak and vote on my behalf, as indicated below, at the annual general meeting to be held on Monday, 23 January 2006 at 11:00 and at any adjournment thereof.

	Number of shares		
	For	Against	Abstain
1. Adoption of the financial statements			
2. Election of directors			
2.1 Mr PEI Swartz			
2.2 Ms LA Swartz			
2.3 Mr TC Honneysett			
3. Approval of directors' fees			
4. Directors' control over unissued shares (Limited to shares obligated under the employee share scheme)			
5. General authority to repurchase shares			

Unless otherwise instructed above, my/our proxy may vote as he/she deems fit.

Signed by me/us this \_\_\_\_\_ day of \_\_\_\_\_

\_\_\_\_\_

Signature(s)

# Notes

1. On a poll, a shareholder is entitled to one vote for every share held.
2. Any alteration or correction made on this form must be initialled by the signatory/ies.
3. This proxy form must be lodged with the company's transfer secretaries, Computershare Investor Services 2004 (Proprietary) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107) or at the registered office of the company, Cnr Searle and Pontac Streets, Cape Town, no later than 24 hours before the commencement of the meeting or posted to the company secretary at PO Box 5142, Cape Town 8000, to arrive no later than 24 hours before the commencement of the meeting (excluding Saturdays, Sundays and public holidays).
4. A proxy need not be a shareholder of the company.
5. If this proxy is signed under the power of attorney or on behalf of a company, such powers of authority, unless previously registered with the company, must accompany it.
6. If you are a dematerialised shareholder and are not an own name dematerialised shareholder and you are unable to attend the annual general meeting, you must contact your Central Securities Depository Participant ("CSDP") or broker, as the case may be, and furnish it with your voting instructions in respect of the annual general meeting in accordance with the mandate between yourself and the CSDP or broker, as the case may be. You should not complete the attached form of proxy. If your CSDP or broker does not obtain your voting instructions from you in respect of the annual general meeting, it will be obliged to act in terms of your mandate, or if your mandate is silent, to abstain from voting. The instruction must be provided within the time period required by your CSDP or broker, as the case may be.

# Definitions

CAGR	Compound Annual Growth Rate, the year over year growth rate of a line item over a specified period of time.
Cash flow	
Financing activities	Activities which result in changes to the capital structure of the group.
Investing activities	Activities relating to the acquisition, holding and disposal of property, plant and equipment, and long-term investments.
Operating activities	Activities that are not financing or investing activities that arise from the operations conducted by the group.
Comparable stores sales growth	Sales growth expressed as a percentage of growth for stores that have been operating for the full period during the current and previous financial years.
Continuing operations	The operations of the group excluding New Clicks Australia and excluding the results of Intercare Managed Healthcare (Proprietary) Limited, and including the acquisition of PM&A with effect from 1 March 2004.
Current ratio	Current assets at year-end divided by current liabilities at year-end.
Discontinued operations	New Clicks Australia, which was sold with effect from 28 December 2003, and Intercare Managed Healthcare (Proprietary) Limited, which was sold with effect from 1 March 2004.
Distribution cover	Headline earnings for the year divided by the distributions for the year.
Distribution per share	Distribution per share is the actual interim cash dividend paid and the final cash dividend declared expressed as cents per share.
Earnings per share	
Basic earnings per share	Net profit divided by the weighted average number of ordinary shares in issue for the year.
Headline earnings per share	Headline earnings divided by the weighted average number of shares in issue for the year.
Diluted headline earnings per share	Headline earnings divided by the diluted weighted average number of shares in issue for the year.
Effective taxation rate	The taxation charge in the income statement as a percentage of net profit before taxation.
Gross profit margin	Gross profit expressed as a percentage of turnover.
Headline earnings	Net profit for the year adjusted for the after tax effect of goodwill amortisation, impairment of assets and other items of a capital nature.
Headline earnings per employee	Headline earnings divided by the number of permanent employees in service at the year-end.
Inventory turn	Turnover for the year divided by the closing inventory at year-end.
JIBAR	Johannesburg Inter-Bank Agreement Rate, which is the rate that South African banks charge each other for wholesale money.
Market capitalisation	The market price per share at year-end multiplied by the number of shares in issue at year-end.
Net asset value per share	Net assets at year-end divided by the number of shares in issue at year-end (net of treasury shares).

Net tangible asset value per share	Net assets at year-end, less intangible assets such as goodwill and trademarks, divided by the number of shares in issue at year-end (net of treasury shares).
Net interest-bearing debt to shareholders' interest at the end of the year	Interest-bearing debt at the end of the year divided by shareholders' funds at the end of the year.
Percentage of shares traded	The number of shares traded as a percentage of the weighted average number of shares in issue.
PM&A	The pharmacy business acquired by the group on 1 March 2004, comprising four legal entities, namely Purchase Milton & Associates (Proprietary) Limited, Milton & Associates (Proprietary) Limited, J&G Purchase & Associates (Proprietary) Limited and Leon Katz (Proprietary) Limited.
Price earnings ratio	The market price per share at year-end divided by headline earnings per share for the year.
Product price inflation	The change in the average cost price for the year of a basket of product purchased by the brand in both the current and prior years.
Return on shareholders' interest (or Return on equity)	Headline earnings expressed as a percentage of the average ordinary shareholders' interest for the year.
Return on total assets	Headline earnings expressed as a percentage of the average total assets for the year.
Segmental reporting	
Operational Segment	A distinguishable type of operation within the group.
Trading Segment	A distinguishable trading brand or component of the group.
Shareholders' interest	Ordinary share capital, share premium and reserves.
Treasury shares	Ordinary shares in New Clicks Holdings Limited acquired by a group company in terms of an approved share repurchase programme or held by the Share Incentive Trust.
Weighted average number of shares	The number of shares in issue, increased by shares issued during the year and decreased by treasury shares acquired during the year, weighted on a time basis for the period during which they have participated in the income of the group.
Weighted average diluted number of shares	The weighted average number of shares, adjusted for the effects of all dilutive potential ordinary shares.

# Glossary of Terms

Term used in this annual report	International (UK or US) equivalent or brief description
Accounts payable	Creditors
Accounts receivable	Debtors
Depreciation	Amortisation
Financial statements	Accounts
Freehold	Ownership with absolute rights in perpetuity
Gain	Surplus or profit
Income	Profit
Income statement	Profit and loss account
Interest-bearing borrowings	Long-term debt or loan capital
Inventories	Stocks
Issued	Allotted
Net asset value	Book value
Net income	Attributable profit
Ordinary shares, issued and fully paid	Called-up share capital
Property, plant and equipment	Fixed assets
Retained earnings	Profit and loss account reserve
Secondary Taxation on Companies	No direct international equivalent. Tax paid on net difference between dividends received and paid.
Share capital	Ordinary shares, capital stock or common stock, issued and fully paid
Share premium	Additional paid-up capital or paid-in surplus
Shareholders' interest	Shareholders' equity
Shares in issue	Shares outstanding

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# Corporate Information

## New Clicks Holdings Limited

Registration number: 1996/000645/06  
Share code: NCL  
ISIN: ZAE000014585

## Registered address

Cnr Searle and Pontac Streets  
Cape Town 8001

## Website

[www.newclicks.co.za](http://www.newclicks.co.za)

## Company secretary

AA Scott CA (SA)

Business address: Cnr Searle and Pontac Streets,  
Cape Town 8001  
Postal address: PO Box 5142, Cape Town 8000  
E-mail address: [aas@clicks.co.za](mailto:aas@clicks.co.za)

## Attorneys

Sonnenberg Hoffmann Galombik

## Auditors

KPMG Inc.

## Principal bankers

The Standard Bank of South Africa

## JSE Limited sponsor

Investec Bank Limited

## Transfer secretaries

Computershare Investor Services 2004  
(Proprietary) Limited

Business address: 70 Marshall Street, Johannesburg 2001  
Postal address: PO Box 61051, Marshalltown 2107  
Telephone: +27 (0)11 370 5000

## Investor relations consultants

Tier 1 Investor Relations

Telephone: +27 (0)21 702 3102  
E-mail address: [ir@tier1ir.co.za](mailto:ir@tier1ir.co.za)

NEW  
CLICKS HOLDINGS  
LIMITED



**NEW CLICKS HOLDINGS LIMITED ANNUAL REPORT 2005**

