NEW CLICKS HOLDINGS LIMITED

Annual Report 2004

Contents

Highlights

- Turnover from continuing operations up 29%
- Headline earnings from continuing operations up 19%
- Diluted headline earnings per share increased by 13%
- Dividends per share up 35%
- Enhanced capital management programme
- Turnaround in homeware category in Clicks
- Clicks Pharmacy launched
- Discom returns to profitability
- Strong performance from UPD

Financial Summary

			Group 2004	Group 2003	Continuing operations 2004	Continuing operations 2003
Income Statement						
Turnover		R'000	8 048 802	7 367 739	7 394 151	5 747 958
Gross profit		R'000	1 747 350	1 756 190	1 537 609	1 212 159
Headline earnings		R'000	270 634	221 296	248 068	207 715
Balance Sheet						
Ordinary shareholders' interest		R'000	1 372 697	1 608 510	1 372 697	1 230 618
Non-current loans payable		R'000	259 730	343 273	259 730	333 414
Total assets		R'000	3 133 634	3 453 830	3 133 634	2 803 690
Cash Flow						
Net cash effects of operating activities		R'000	218 962	337 208	149 347	259 417
Net interest paid		R'000	59 778	84 117	54 470	57 450
Capital expenditure		R'000	160 349	203 005	139 767	141 159
Depreciation and amortisation		R'000	109 021	103 726	100 425	79 820
Performance						
Turnover growth		%	9.2	34.3	28.6	47.5
Comparable stores turnover growth – southern Africa		%	8.1	8.0	8.1	8.0
Gross profit growth		%	(0.5)	12.9	26.8	20.2
Gross profit margin		%	21.7	23.8	20.8	21.1
Inventory turn		times	5.6	5.3	5.6	5.1
Return on total assets		%	8.2	7.5	8.4	9.1
Return on shareholders' interest		%	18.2	15.6	19.1	21.3
Net interest bearing debt to shareholders' funds at year end		%	25.4	27.7	25.4	25.0
Net interest bearing debt, including cash, to shareholders' funds at year end		%	-4.5	16.6	-4.5	15.4
Statistics						
Number of permanent employees			9 011	7 973	9 011	6 995
Number of stores	– company owned		681	729	681	593
	– franchised		15	213	15	15
Weighted trading area	– company owned	m^2	231 037	273 636	231 183	207 526
Share Statistics						
Headline earnings per share	– undiluted	cents	76.5	65.6	70.2	61.5
	– diluted	cents	74.5	64.5	68.3	60.6
Dividend per share	– interim	cents	12.5	10.9		
	– final	cents	22.5	15.1		
Dividend cover		times	2.2	2.5		
Net asset value per share		cents	380	454	380	348
Net tangible asset value per share		cents	351	388	352	315
Share price	– closing	cents	770	665		
	– high	cents	799	715		
	– low	cents	660	501		
Number of shares in issue		'000	361 205	354 118		
Number of shares in issue (net of treasury shares)		'000	345 391	354 118		
Weighted average number of shares in issue (net of treasury shares)		'000	353 571	337 587		
Weighted average diluted number of shares in issue (net of treasury shares)		'000	363 046	342 906		
Market capitalisation		R'000	2 781 279	2 354 885		
Market capitalisation (net of treasury shares)		R'000	2 659 511	2 354 885		
Price earnings ratio			10.1	10.1		
Volume of shares traded		'000	163 031	156 283		
Percentage of shares traded		%	46.1	46.3		
Free float		%	98.8	92.7		

Group Profile

Overview

New Clicks Holdings is a specialist retail group listed in the general retailers sector of the JSE Securities Exchange South Africa. The group is the country's leading provider of health, beauty and lifestyle merchandise through its network of more than 680 stores nationally. The group's trading brands are:

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

"Our vision is to dominate specialist lifecare retailing"

Our 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

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 aspirational and relates to the individual, his/her home, life and wellbeing;

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

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

The board and management are confident that the current strategy is appropriate and is realising benefits. The pharmacy strategy has been adapted to take account of changes in the legislative environment.

The main areas of focus to optimise the strategy are:

- Improving return on equity through:
  - efficient capital management,
  - ongoing improvement in margin and mix,
  - continued turnaround in core retail brands, and
  - rigorous expense management;
- Integrating pharmacy as a merchandise category into Clicks;
- Focusing on improved stock distribution and financial management systems;
- Adapting to the challenges of operating in a low-inflationary environment; and
- Transforming the business to reflect South African society.

Brand strategy

New Clicks has adopted a multi-brand marketing strategy to accommodate the range of specialist brands and store formats in the health, beauty and lifestyle categories. Flagship brand, Clicks, provides a consolidated retail offering across all categories of merchandise, other brands straddle two or three categories, while brands such as Musica and The Body Shop specialise in one specific category.

Group Structure

New Clicks Holdings Limited
Listed on the JSE Securities Exchange South Africa

- New Clicks South Africa (Pty) Ltd
- • Safeway (Swaziland) (Pty) Ltd
  • Clicks Stores (Lesotho) (Pty) Ltd
  • The Clicks Organisation (Botswana) (Pty) Ltd
  • Safeway (Namibia) (Pty) Ltd
- Clicks Stores Holdings (Pty) Ltd
- The Clicks Group Finance Company (Pty) Ltd
- • Purchase Milton & Associates (Pty) Ltd
  • Milton & Associates (Pty) Ltd
  • J & G Purchase & Associates (Pty) Ltd
  • Leon Katz (Pty) Ltd
- New United Pharmaceutical Distributors (Pty) Ltd
  - Multicare Health Centres (Pty) Ltd

- New Clicks International Holdings NV
- Property companies
- 56% The Link Investment Trust

History

1968 – August	Jack Goldin opens the first Clicks store in Cape Town
1979 – March	Clicks Stores Limited is listed on the JSE with a market capitalisation of R10 million
1983 – October	Clickdin Limited incorporated and listed on the JSE, holding 50% of the issued share capital of Clicks Stores Limited
1984 – March	Acquisition of Diskom (later rebranded Discom)
1988 – July	Jack Goldin sells control of the company to Score Food Group
1992 – April	Acquisition of Musica, the country's leading retail music brand
1992 – July	Premier Group acquires control of the group
1995 – November	The assets of The Clicks Group Limited are sold to Malbak subsidiary, New Clicks Holdings Limited
1996 – March	New Clicks Holdings listed on the JSE with a market capitalisation of R880 million
1997 – April	Malbak unbundles and the group has no controlling shareholder for the first time
1997 – September	Acquisition of specialist music brand, Compact Disc Wherehouse
1998 – July	New Clicks expands to Australia with the acquisition of Priceline
1999 – August	Acquisition of a stake in the Link Investment Trust
2000 – December	Acquisition of homeware franchise brand, House, in Australia
2001 – October	New Clicks opens The Body Shop through a franchise agreement with The Body Shop International plc
2002 – July	Acquisition of hair care franchise brand, Price Attack, in Australia
2002 – July	Acquisition of wholesale distributor, New United Pharmaceutical Distributors (UPD)
2003 – April	Legislation passed enabling corporate pharmacy ownership in SA for the first time

Year at a Glance

2003

16 October	The group reports results for the 2003 financial year, with turnover up 34% to R7.4 billion and headline earnings per share up 26% to 65.6 cps
27 October	Shareholders are advised that the group is in discussions to sell its Australian assets

2004

5 January	New Clicks Australia (NCA) sold for Aus$107 million
16 January	Draft medicine pricing regulations issued by Department of Health
27 January	Lucia Swartz appointed as an independent non-executive director
11 February	Group Strategic Forum established to determine strategic direction of the group
	Group Operations Forum created to manage operational performance of the business
13 February	Disposal of NCA becomes unconditional. Jeff Sher resigns as an executive director following completion of the sale
23 February	Hyperpharm, the group's discount pharmacy brand, is launched with 11 stores in Gauteng
4 March	Approval granted for transfer of first 32 pharmacy licences to Clicks, clearing the way for the formation of Clicks Pharmacy
5 March	First Clicks Pharmacy opens in Cape Town
1 April	Musica adapts strategy to make music more affordable, selling top 20 CDs for R99.95
22 April	Interim results released, with core brands of Clicks and Discom showing early signs of recovery in performance
23 April	Robert Lumb appointed as an independent non-executive director
23 April	Minister of Health issues medicine pricing regulations
26 May	New Clicks institutes legal proceedings against Minister of Health to overturn the medicine pricing regulations
15 June	Michael Harvey, brand leader of Discom, appointed to newly created position of head of retail
17 June	Cape High Court hears New Clicks' application for suspension of medicine pricing regulations
18 June	Share repurchase programme instituted
28 June	Launch of first pilot store for Style Studio, the professional hair care and salon brand
19 July	Group announces repurchase of 3% of shares in issue for R82 million
27 August	In a split judgment, the Cape High Court dismisses the application by New Clicks to overturn medicine pricing regulations
31 August	New Clicks announces intention to appeal the ruling of the Cape High Court

Chairman's Statement

DAVID NUREK

Introduction

General economic conditions over the past year have proved favourable for most segments of the retail sector, with lower interest rates and lower inflation stimulating consumer spending. FMCG retailers, in particular, have had to adapt to operating within an environment of low and, at times, even negative inflation.

Against this background, the group produced a reasonable performance for the year. Group headline earnings increased by 22.3% to R271 million, with diluted headline earnings per share growing 15.5% to 74.5 cents per share. Shareholders received a total dividend of 35 cents per share for the year, an increase of 34.6% over the previous year.

The focus on enhancing the core retail brands is yielding positive results. Clicks showed encouraging signs of a turnaround, despite a poor sales performance in the last month of the year; Discom returned to profitability; and the Entertainment division's transformation from a music-only offering started paying off in the second half of the year. While we are not under any illusions that a great deal of work lies ahead, we are confident that the foundations for improved brand performance are firmly in place.

It is important to note that several aspects of the group's activities are currently in a state of transition and in varying stages of progress. All of the brands and several of the group's support structures are being transformed and the full benefits will be seen in the years ahead.

The group's trading performance is covered in Trevor Honneysett's Group Leader's Report and a detailed analysis of the financial performance is contained in the Finance Report.

New Clicks Australia

In January this year the group concluded the sale of its Australian business interests to a private equity consortium. The rationale for the disposal was to allow the group to focus on its local operations where pharmacy implementation and growth opportunities in the core brands required more focused attention.

This decision was not taken lightly, given the resources that have been applied to the Australian business over the past few years. However, we could not afford to lose focus and commit resources to addressing the challenges in the Australian market at the expense of our domestic strategies. Given the capital requirement and the management resource needed to grow the businesses in Australia, we felt that we could no longer pursue growth strategies in both geographies. We elected to sell the Australian business, apply the proceeds to our South African operations and enable management to give dedicated attention to implementing our growth strategies.

With the benefit of hindsight, our decision was fortuitous as the challenges in the pharmacy arena over the past year – some of them unforeseen – have proved extremely demanding.

Capital management

An area of increasing focus is capital management, where the group's return on equity (ROE) is not yet at the desired level. This position was exacerbated after the inflow of funds from the sale of the Australian assets and the resultant reduction in the group's gearing. Specific plans have been implemented to address this issue. The group embarked on a share buy-back programme which has continued in the new financial year and we have adopted a more liberal policy in relation to dividend cover, reducing this from 2.5 to 2.2 times earnings. The group has adequate capital to meet its operational requirements for the foreseeable future and we will accordingly continue to pursue the buy-back programme and assess the dividend policy.

Pharmacy legislation

New Clicks has long advocated a transparent pricing mechanism in relation to medicines in order to eliminate the anomalies that have existed in the system. We are also fully committed to reducing medicine prices in line with the National Drug Policy in order to make medicine more affordable and more accessible as well as to improving the quality of pharmacy delivery. This is the core of our strategy of combining a pharmacy offering into the value-based Clicks brand.

The publication of the medicine pricing regulations by the Department of Health created substantial disarray in the retail pharmacy sector. In our view, retail pharmacy has been made to bear a disproportionate share of the burden of the reduction in medicine pricing.

The pricing regulations introduced a capped dispensing fee to be levied on a statutory single exit price of all medication. The net result was a decline of approximately 44% in the gross profit of pharmacies. This threatens the viability of smaller pharmacies, in particular.

The uncertainty around the pricing regulations has resulted in the group writing off the goodwill of R258 million relating to the acquisition of Purchase Milton & Associates (PM&A). This issue is outlined in further detail in the Finance Report.

New Clicks was left with little option but to challenge the regulations in court in order to defend the rights of retail pharmacy. Regrettably, in a split judgment, the Cape High Court ruled against us and we continue to follow all legal avenues to have the regulations in their present form overturned.

The board is fully committed to the pharmacy strategy and remains firmly of the view that pharmacy is integral to the future of the group. We have adapted our strategy in line with these legislative changes and our response is outlined in Trevor Honneysett's Report.

Corporate governance

In line with our commitment to continually enhance governance practices across the group, during the year we adopted a board charter; formally constituted a board risk committee; expanded the role of the nominations committee; and increased the number of independent non-executives serving on the board. Voting by means of the ballot system was introduced at our last annual general meeting for the first time.

While the group complies in all material respects with King II, we are committed to an ongoing improvement of governance standards to ensure that the interests of the group and its stakeholders are upheld at all times.

Our governance practices and policies are detailed in the Corporate Governance Report on page 33.

Board of directors

Following the sale of our business interests in Australia, Jeff Sher resigned as an executive director of the group. Jeff played a major role in the group's expansion in that region and I would like to acknowledge the substantial contribution that he made in leading New Clicks Australia.

We have also increased the non-executive component of our board with the appointment during the year of Lucia Swartz and Robert Lumb. Lucia, who has previously served on the board, has extensive experience in the corporate human resources field, while Robert is a recently retired partner of one of the big four accounting firms. Both are very highly respected in the business community. They are already adding considerable insight and counsel to the board and the board sub-committees on which they serve.

Chairman's Statement (continued)

Our board now consists of six non-executive directors (five of whom are independent) and two executive directors, reflecting the balance required in terms of sound governance practice.

Outlook

In the absence of any significant changes in the macro-economic environment, the recent strong performance of the retail sector is expected to continue in the short to medium term.

Despite the challenges, our core brands have demonstrated the ability to grow turnover in the face of fierce competition. Our challenge is to not only maintain – but also to increase – market share by creating even more compelling offerings for our customer base.

We remain confident that pharmacy within the Clicks store format will ultimately prove to be the catalyst for sustained enhanced performance into the future.

After reviewing the financial forecasts for the group, the directors believe that shareholders can expect continued real growth in earnings and dividends in the year ahead.

Thanks

We would like to thank our shareholders for their support during the past year. Your ongoing investment in the group reflects a belief in our business model and the strategic direction we are pursuing. Our customers, suppliers, advisers and business associates play an invaluable role and we express our thanks to all of the group's external stakeholders.

My thanks are also due to my fellow directors for their guidance and leadership during the year as well as to Trevor Honneysett and the management team for their enthusiasm, energy and tireless commitment to improving the performance of the group's businesses. Finally, I would like to acknowledge the contribution of the close to 9 000 people who work for the group and thank you all for a job well done.

DAVID NUREK
Independent non-executive chairman

Board of Directors

From left to right: David Nurek, Robert Lumb, Allen Zimbler, Raymond Godfrey, Eliot Osrin, Lucia Swartz, Trevor Honneysett, Peter Swartz.

Non-executive directors

David Nurek (54) DIP LAW, GRAD DIP ADV COMPANY LAW Independent non-executive chairman. Chairman of the Governance, Nominations and Remuneration committees. Appointed June 1997.

Prior to joining Investec in 2000, David practised as an attorney with Sonnenberg Hoffman Galombik for 32 years, including 23 years as a partner. Non-executive chairman of Distell Group and Lewis Group, 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 and Trencor.

Peter Swartz (63) ADV DIP ED Independent non-executive deputy chairman. Appointed June 1997.

Executive director of Peter Swartz Properties (Pty) Ltd. Chairman of Sunwest International and a non-executive director of Absa Group, Distell Group, Ellerine Holdings and Sun International.

Robert Lumb (61) ADV DIP TAX LAW, CA (SA) Independent non-executive director. Chairman of the Audit and Risk Management committees. Appointed April 2004.

Robert recently retired as a 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 and Ziegler.

Eliot Osrin (72) Independent non-executive director. Appointed March 1996.

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

Lucia Swartz (46) 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 Zimbler (55) 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 a former professor of business administration at the Wits Business School.

Executive directors

Trevor Honneysett (56) Executive director and group leader. 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 (56) Executive director. Appointed March 1996.

Raymond joined the group in 1970 and was appointed managing director of Clicks Stores in 1995. He was appointed joint country leader of New Clicks South Africa in 2001 and to his current position as group merchandise leader in 2002.

Group Leader's Report

TREVOR HONNEYSETT

Introduction

It is pleasing to report to shareholders that the group is in a finer financial and operational state than it was a year ago.

The structure of the group has undergone change during this period. We said farewell to the brands of New Clicks Australia when the business was sold and heralded the eventual arrival of Clicks Pharmacy after more than 35 years. We believe the Clicks Pharmacy brand will become synonymous with affordable healthcare in this country as the dispensary is introduced as a merchandise category into Clicks.

We have had to rise to the challenge of growing profits in a low inflation and deflationary environment, a somewhat unique situation, even for seasoned retailers.

We acknowledge that we are not yet performing to our full potential, and realise that we need to improve our returns to shareholders. However, the building blocks of our strategy are now firmly cemented across the organisation and the young leadership team is focused on implementation and delivery.

Trading performance

Our retail trading brands collectively increased turnover by 10.5% over last year, and while this was below our expectations, it was a creditable performance in a low inflationary climate. The results were impacted by setbacks late in the year, including a disappointing performance from Clicks in August when sales declined by 12% over the previous year. After holding steady for 11 months, Clicks was unable to repeat the sales growth recorded in August last year when the brand celebrated its 35th anniversary. Owing to the relative contribution of the Clicks brand, this impacted the overall performance of the group.

The Clicks brand also experienced higher than expected shrinkage of some R7.5 million, mainly relating to cellular airtime. These factors contributed to turnover growth in Clicks being restricted to 9% for the year. The turnaround strategy of the higher margin homewares category is paying dividends and this contributed to lifestyle merchandise growing to 41% of total sales.

Discom lifted turnover by 13.9%, with strong growth in the core FMCG category and a pleasing comeback in homeware merchandise. This resulted in Discom reversing an operating loss of R5.6 million in 2003 and recording an operating profit of R5.7 million. The brand continues to entrench its dominant position in the African beauty and hair care market.

The Entertainment division, comprising Musica and CD Wherehouse, recorded strong growth in the second half of the year through an aggressive price promotion, and increased turnover for the year by 12.8%. This bold strategy has gone a long way to change customer perceptions of the pricing of Musica as well as the compact disc (CD) format. However, operating profit declined 19.8% to R20.6 million, mainly as a result of the poor first half results. The repositioning to a broader entertainment offering is realising benefits and sales of DVDs, gaming and lifestyle merchandise have increased from 11% to 18% of turnover.

Turnover in The Body Shop grew by 12.0%. Operating profit rose by only 2.4% to R10.3 million, with a poor performance in the second half of the year reversing the profit growth of the first six months. The brand was impacted by high expense growth relating mainly to new stores and marketing expenditure, including the costs of becoming a ClubCard affinity partner.

UPD increased turnover strongly during the year to R2.3 billion, and posted an operating profit of R75.6 million, an increase of 21% over the previous 12 months. The wholesale distributor has entrenched its overall position and is key to the group's integrated channel to market. UPD has continued to grow turnover from PM&A stores, independent pharmacies and single channel distributors. Costs were tightly managed and the business generated strong cash flows.

The performance of the retail trading brands and the distribution operations are covered in detail in the Operational Reviews on pages 20 to 32.

Pharmacy strategy

As we have formulated our healthcare and pharmacy strategy over the past few years, the group has not been without its detractors. While many have shown their support for our strategy, there have been those who believe that our business model is flawed. This group has been particularly vocal in recent months as the impact of the Government's pricing regulations have started to take effect.

In his Chairman's Statement, David Nurek has outlined the legislative landscape and the group's response, and I would like to elaborate on the strategic issues. In developing the broad healthcare strategy there were certain issues that the board and management were aware of and factored into our planning, notably that:

- the Government needed to allow corporate ownership of retail pharmacy if it were to achieve the affordability and accessibility objectives of the National Drug Policy and reduce the price of medicines;
- retail pharmacy was stagnating and the pharmacy network needed to be invigorated;
- the introduction of pharmacy as a merchandise category into Clicks would achieve efficiencies and enhance our overall performance; and
- changes were contemplated to the Medicines Act aimed at eliminating the perversities in the pricing system and reducing margins at manufacturer, wholesale and retail level.

There were other issues that we did not know about and could not have reasonably been expected to know about, specifically that:

- the Department of Health would take up to 18 months to consider and grant applications for the transfer of existing pharmacy licences;
- the Pricing Committee would recommend a dispensing fee and pricing formula which undermined retail pharmacy and reduced gross profit levels to approximately 16%, while increasing prices from manufacturers through the single exit pricing mechanism; and
- the courts would take so long to resolve the application we brought to set aside the pricing regulations and decide whether to allow an appeal, despite a strong dissenting judgment in our favour.

While we remain committed to reducing medicine prices, we cannot agree with the regulations in their present form and have continued to apply pressure in ways which we believe have been productive and responsible, including both legal action and dialogue with the Department of Health and professional pharmacy bodies.

We acknowledge that the unknown elements in the macroenvironment have caused the group some temporary setbacks. However, this does not detract from the strategy and we remain resolute to implement our plans, and accelerate them where possible.

Pharmacy integration

It was a momentous day indeed when the first Clicks Pharmacy opened in early March this year in Cape Town. Following the eventual approval of licence transfers, we were able to convert 21 PM&A stores to the Clicks brand during the second half of the year. This included the opening of dispensaries in three large-format Clicks stores.

The pricing regulations have undoubtedly resulted in a reduction in gross profit in the dispensary across these converted stores. However, based on three months of actual trading in the three Clicks stores with dispensaries, the increased footfall through the stores resulted in improved turnover which reduces employment and occupancy costs relative to turnover.

Group Leader's Report (continued)

This supports the business model that both front and back shop sales will increase once a dispensary is introduced into a Clicks store, with a resultant uplift in profit.

However, it has become apparent that the smaller pharmacies are not able to compensate for the shortfall in gross profit in the dispensary, despite the increased front and middle shop sales post the conversion to Clicks.

Our integration strategy therefore focuses on introducing dispensaries into existing and new Clicks stores and no longer pursuing the small format pharmacy.

Leadership

Following the decision to move out of Australia and refocus our energies on the local business, the leadership structure of the group was aligned to focus more actively on operational performance and the strategic direction of the group.

The group operations forum, which consists of the brand leaders and the heads of shared services portfolios, has a mandate from the board to manage the ongoing performance of the business.

This leadership team has developed a mutually supportive spirit among themselves. It has been inspiring to see the way the younger members combine their energy, passion and enthusiasm with the experience of the older members. The team has grown immeasurably in the past months and is more than capable of capitalising on the opportunities for expanding the business.

The team has also shown the maturity to select succession candidates, identifying Michael Harvey and Kevin Vyvyan-Day to assume increased leadership roles into the future. As part of this process Michael was appointed head of retail, and given additional responsibility for the retail brands and pharmacy integration.

As a means of identifying and developing the next tier of leadership in the group, we also formed a strategic forum consisting of some 30 executives. This provides a development opportunity for the leaders of the future to be exposed to the strategic thinking and direction of the group.

Outlook

Despite trading in a deflationary environment, the group remains committed to the strategy and value proposition of the Clicks brand. Steps have been taken to address shrinkage and the short-term decline in sales. The outlook for the other retail brands is encouraging, with improved performances expected from all of them.

Pharmacy is now a reality and we will move to integrate the pharmacy offering into the larger format Clicks stores. Based on the performance of the stores that had been converted by the financial year-end, the prospects for increased turnover in both the front shop and the dispensary are positive.

UPD is well positioned to increase volumes and capitalise on rationalisation in the pharmaceutical market.

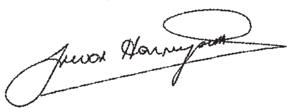
The group remains committed to improving expense control and focusing on stock distribution and financial management systems to create a scalable, low-cost platform from which to manage the trading activities of the group. This will be facilitated by the re-engineering of the enterprise-wide information systems which will be completed by the end of 2005.

Thanks

Our people have been through another year where the true value of their efforts and energies have not been fully reflected in the results. Your contribution has not gone unnoticed and we thank you for your commitment to make the group succeed.

I would like to thank our chairman, David Nurek, and my fellow directors for the support and guidance during the year. Our leadership team – the group operations forum – has applied itself commendably to the tough task at hand and I am constantly amazed at the talent in this group. Thanks and well done to all of you.

Finally, I wish to thank Jeff Sher, his management team and staff of NCA for their contribution to the group and wish them every success in their new venture.



TREVOR HONNEYSETT
Group Leader

Finance Report

The group measures its performance against the achievement of the following five-year financial targets:

Five-year financial targets

- A return on equity of 30%
- A net gearing ratio of between 25% and 30%
- An operating profit margin of 5.5%
- Inventory turns in excess of 7 times

The Chairman's Statement highlighted the favourable economic conditions experienced by the retail sector this year, particularly as it relates to discretionary spend. Homewares and certain other fashion items such as beauty products have performed extremely well, while other non-discretionary areas of fast moving consumer goods (FMCG) have not grown as much. Purchase price inflation for the group has reduced from low levels at the beginning of the year to marginally negative levels at the end of the year. This presents a significant challenge in the face of continuing pressure on cost inflation in areas such as wages and rentals.

Considering the above, the group had a satisfactory year. The results, however, were impacted by lower than anticipated turnover growth in August and higher than expected shrinkage from cellular airtime card sales from the Clicks brand, as well as a loss from the pharmacy division for the six months that it was included in the group results.

- Group headline earnings increased by 22.3% to R270.6 million, with diluted headline earnings per share showing a 15.5% increase to 74.5 cents per share.
- Turnover from continuing operations increased by 28.6% to R7.4 billion, with the core retail brands growing by 10.5% to R4.7 billion.
- The group increased profit before capital items, interest and taxation from continuing operations by 20.4% from R333.6 million to R400.8 million.
- The ongoing uncertainty around the implementation of the medicine pricing regulations and single exit pricing has resulted in the group writing off the goodwill of R258.2 million relating to the acquisition of PM&A.
- Return on equity (RoE) increased from 15.6% to 18.2%, benefiting from the write-off of goodwill in PM&A.

During the year the group disposed of New Clicks Australia (NCA), its Australian operations, and also sold its interest in Intercare. The financial statements have been compiled reflecting both discontinued and continuing operations. PM&A, the pharmacy chain previously financed by the group, was consolidated with effect from 1 March 2004. The group's wholesale distributor, UPD, was included for the full year this year, compared to eight months in the comparatives. These disposals and acquisitions make comparisons more complex and the group has endeavoured to disclose sufficient detail to enable readers of this report to understand the components of the group.

Capital management

Capital is managed centrally by the finance division, and 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, both with the objective of enhancing the return on shareholders' equity.

Post the sale of NCA, the group has dramatically reduced its net gearing ratio to well below its target of between 25% and 30%. During the year the group initiated a share repurchase programme, buying back 13 million shares for R99.5 million at an average price of R7.65 per share. The gross gearing ratio, before cash, at the year-end was 25.4% (net interest bearing debt to shareholders' funds). The group has a negative net gearing ratio, including cash

Finance Report (continued)

of 4.5% (net interest bearing debt net of cash to shareholders' funds).

Cash generated from operations during the 2005 year is expected to cover additional capital expenditure requirements. Management, therefore, aims to continue the repurchase programme during 2005 and will seek shareholder approval at the annual general meeting to do so. The board has also taken a decision to revise the dividend policy and reduce dividend cover from 2.5 to 2.2 times earnings.

Financial results – income statement

The trading performance of the brands has been set out in more detail in the Group Leader's Report and in the operational reviews.

Turnover

Turnover from continuing retail brands increased by 10.5%. Clicks showed a lower growth of 9.0% due to the lower than expected August sales. UPD increased sales on a comparable basis by 8.0%, well ahead of their expense growth, and Pharmacy contributed R523 million in sales for the six-month period.

Income drivers

R'000	2004	2003		2004	2003
Turnover	8 048 802	7 367 739			
Cost of merchandise	6 301 452	5 611 549			
Gross profit	1 747 350	1 756 190	Gross margin	21.7%	23.8%
				multiply	multiply
Other revenue	540 318	528 261	Other revenue	1.31	1.30
				=	=
Net revenue before operating expenditure	2 287 668	2 284 451		28.4%	31.0%
				less	less
Operating expenditure	1 844 632	1 902 448	Operating expenditure/turnover	22.9%	25.8%
				=	=
Operating profit	443 036	382 003	Operating margin	5.5%	5.2%
				less	less
Net interest paid	59 778	84 117	Net interest/turnover	0.7%	1.1%
				=	=
Headline profit before taxation	383 258	297 886		4.8%	4.0%
				multiply	multiply
Taxation on headline profit before taxation	112 624	76 590	1–Effective taxation rate	0.71	0.74
				=	=
				3.4%	3.0%
Headline earnings (excluding PM&A impairment)	270 634	221 296			
Average inventory	1 406 200	1 228 099	Average inventory turn	5.72	6.00
				divide multiply	divide multiply
Average other assets	1 592 726	1 643 502	Other net assets	1.13	1.40
				=	=
Average non-interest bearing liabilities	1 405 731	1 153 739	Average net asset turn	5.05	4.29
Average total non-cash assets less non-interest bearing liabilities	1 593 195	1 717 862	Return on total non-cash assets	17.0%	12.9%
Average interest bearing current liabilities	95 897	70 794			
Average interest bearing non-current liabilities	301 502	321 539	Debt ratio	24.9%	22.8%
				less divide	less divide
Average interest bearing liabilities	397 398	392 333	Cash to other assets	18.5%	5.2%
				=	=
Average cash on hand	294 807	89 605	Net debt ratio	6.4%	17.6%
Average total interest bearing liabilities	102 592	302 729	1–net debt ratio	93.6%	82.4%
Average capital	1 490 604	1 415 134	Return on equity	18.2%	15.6%

Turnover

R'm	2004	2003	% change
Clicks	**3 266**	2 997	9.0
Discom	**879**	772	13.9
Entertainment	**544**	482	12.8
The Body Shop	**51**	46	12.0
Shared Services	**6**	–	–
Total South African – Retail	**4 746**	4 297	10.5
UPD	**2 310**	1 451*	
Pharmacy	**523****	–	
Intragroup elimination	**(185)**	–	
Total continuing operations	**7 394**	5 748	28.6
NCA	**655*****	1 620	
Total group	**8 049**	7 368	9.2

* UPD included for 8 months in 2003 (comparatively up by 8.0%)
** Pharmacy included for 6 months in 2004
*** NCA only included for 4 months in 2004

Gross profit margin

Gross profit margins for continuing operations were maintained with overall margins reducing slightly, as expected, as UPD is now included in the results for a full year. Owing to the nature of its activities, UPD trades at a lower gross margin.

Operating expenses

Operating expenses growth was held below turnover growth, the exceptions being Clicks (which was impacted by the lower than expected August sales) and The Body Shop, which opened six new stores during the year and started a more formal marketing campaign. UPD had particularly low expense growth with only a 4.8% increase from year to year. Shared Services expenses include retrenchment costs of R7 million. Expenses across all the retail brands were impacted by the investment in information systems resulting in additional depreciation and other information technology operating costs of R25 million.

Operating expenses

R'm	2004	2003	% change
Clicks	**794**	714	11.3
Discom	**256**	237	7.8
Entertainment	**194**	178	9.2
The Body Shop	**21**	16	26.2
Shared Services	**7**	7	–
Total South African – Retail	**1 272**	1 152	10.4
UPD	**189**	128*	
Pharmacy	**138****	–	
Total continuing operations	**1 599**	1 280	24.9
Intercare	**8**	8	
NCA	**237*****	614	
Total group	**1 844**	1 902	(3.0)

* UPD included for 8 months in 2003 (comparatively up by 4.8%)
** Pharmacy included for 6 months in 2004
*** NCA only included for 4 months in 2004

Headline profit before interest and taxation

Headline profit before interest and taxation (gross profit plus other revenue less operating expenses) increased by 17.7% across the retail brands (excluding pharmacy). UPD increased comparable profit by 21.3%, with overall profits including discontinued operations increasing by 16.0%.

Headline profit before interest and taxation

R'm	2004	2003	% change
Clicks	**304.2**	259.3	17.3
Discom	**5.7**	(5.6)	
Entertainment	**20.6**	25.7	(19.8)
The Body Shop	**10.3**	10.0	2.4
Style Studio	**(0.2)**	–	
Total South African – Retail	**340.6**	289.4	17.7
UPD	**75.6**	51.6*	
Pharmacy	**(5.5)****	–	
Intragroup elimination and Shared Services	**(9.9)**	(7.4)	
Total continuing operations	**400.8**	333.6	20.1
Intercare	**(1.4)**	(1.0)	
NCA	**43.6*****	49.4	
Total group	**443.0**	382.0	16.0

* UPD included for 8 months in 2003 (comparatively up 21.3%)
** Pharmacy included for 6 months in 2004
*** NCA only included for 4 months in 2004

Finance Report (continued)

Interest

The group continues to have a relatively high interest charge, mainly because of fixed rate debt taken out at the time when interest rates were high. The variable interest income and expense is driven by intra-month cash flows, which have improved from the sale of NCA.

Taxation

The group's normal taxation rate remains below 30% mainly as a result of tax effective finance deals, which result in a slightly higher interest charge as indicated above, but which reduce the average taxation paid by the group. The charge for secondary taxation on companies (STC) has increased this year as the group has discontinued its policy of awarding capitalisation shares with a cash alternative and now pays cash dividends only.

Goodwill

The acquisition of PM&A with effect from 1 March 2004 gave rise to goodwill of R420.4 million. Of this amount, R162.2 million had been impaired prior to 1 March 2004 in the form of an impairment of the loan advanced from the group and interest on this loan.

At the time of acquisition, an indication of impairment existed as a result of historic trading losses as well as the imminent implementation of single exit pricing legislation which was expected to negatively impact margins. An impairment test was therefore performed on the remaining goodwill of R258.2 million.

In determining the extent of the impairment, a value in use approach was taken to determine the recoverable amount of the PM&A group as a cash-generating unit. Future operating cash flows were forecast based on the most recent budgets adjusted for the legislative environment as it stood at year-end. These cash flows were discounted at a risk adjusted weighted average cost of capital. The result of this calculation indicated that the full remaining goodwill of R258.2 million should be impaired at 1 March 2004. In addition, certain items of property, plant and equipment acquired as part of the PM&A group were impaired to the extent of R13.5 million.

Financial results – balance sheet

Apart from capital management, the group's other key focus for the balance sheet is on inventory. Inventory turns in each of the brands improved marginally with the exception of Clicks (which was adversely affected by the lower than expected sales in August) and UPD. UPD has extremely good inventory turns in excess of 11 times, but was affected marginally as a result of single exit pricing forcing retail pharmacies to carry less stock, as they are able to rely, in the main, on UPD for same/next day delivery. Inventory turns in the retail brands are expected to improve gradually as benefits from the information systems enhancements mentioned below become effective.

Accounts receivable has become an increasingly larger balance. These arise from UPD and the pharmacy operations. UPD and the pharmacy operations have a very efficient accounts receivable management process and closed the year with debtors' days at 26 days and 19 days respectively. Pharmacy debtors comprise mainly accounts receivable from medical aids.

Cash flow

Cash generated by the group arose from operating activities (R317 million), the sale of NCA (R317 million), from the issue of shares under the option scheme and various other funding and investing activities (R41 million). This cash was used to pay dividends to shareholders (R98 million), for store refurbishment and the conversion of pharmacy into Clicks (R83 million), for part of the information systems enhancements outlined below (R60 million), other fixed asset purchases (R17 million), loan repayments (R62 million) and the buy back of shares (R100 million). This left the group with R402 million of cash balances at the year-end, an increase of R255 million for the year.

In the 2005 financial year the group plans to invest approximately R95 million in store refurbishments and new stores, R95 million on finalising the information systems enhancements and R36 million on other fixed asset purchases. Cash will also be utilised in the continued share buy-back programme and through higher dividends as a result of the group reducing the level of the dividend cover.

Discontinued operations

In January 2004 New Clicks sold its interest in NCA to a consortium of private equity funders.

The sale proceeds were Australian $107 million. Out of these proceeds, New Clicks retired certain bank debts and financial lease liabilities as at 28 December 2003, amounting to Australian $19.7 million; and the consortium and NCA redeemed redeemable preference shares held by New Clicks for a redemption consideration of Australian $67.2 million.

New Clicks received Australian $87.3 million as net sales proceeds from the disposal, including the redemption consideration in respect of the preference shares, and a preference dividend of Australian $1.5 million, which was declared and paid prior to the completion date of 13 February 2004. This represents a surplus over the ungeared tangible net assets as at 31 August 2003. These proceeds were received on 17 February 2004, realising a profit on sale of R1.7 million.

The results of the NCA operations were incorporated in the New Clicks results until 31 December 2003, and have been disclosed separately in the income statement as discontinued operations.

With effect from 1 March 2004 the group disposed of its 80% holding in Intercare. A profit of R0.6 million was realised on the disposal. The results of Intercare were incorporated in the New Clicks results until 29 February 2004, and have been disclosed separately in the income statement as discontinued operations.

Information systems and financial reporting

The group has begun a process of re-engineering its enterprise-wide information systems. The expected project completion date is end of 2005, and it is expected to deliver significant benefits to the group.

The finance division is focused on improving its systems and financial reporting, both internally to management and the board, and to external stakeholders.

Selected SAP financial modules were implemented during the year to improve internal financial systems, controls and reporting. These modules will be integrated into the enterprise-wide resources platform (ERP II) in the year ahead. Once fully implemented, these systems should allow for quicker reporting and the enhanced ability to efficiently manage stock levels, shrinkage and other working capital items.

Significant steps have already been taken to enhance disclosure. A comprehensive investor relations programme, an upgrade to the group website and improved reporting and disclosure within these financial statements contributed towards enhancing external stakeholder reporting.

Expensing of share options

In terms of the International Financial Reporting Standard 2 (IFRS 2) relating to share-based payments, the group will be obligated, commencing with its financial year ending 31 August 2006, to expense the cost of share options granted to employees through its income statement. Had IFRS 2 been applicable in the current financial year, an amount of approximately R4 million would have been expensed through the income statement for the year.

Conclusion

The introduction of the new ERP II systems remains a challenge. Capital and working capital management remains a key objective for the finance division. The group is focused on creating a scaleable technology platform to enable the brands to seamlessly grow their business and to speed up the integration of pharmacy into Clicks stores. All these initiatives will help the group move closer to its longer-term financial targets set out above.

ANDRÉ VERMEULEN
Chief Financial Officer

Clicks

Financial highlights and statistics

		2004	2003
Sales	R'm	3 266.1	2 997.2
Sales growth	%	9.0	11.3
Comparable store sales growth	%	6.6	7.1
Operating profit before interest and after allocation of net costs of support structures	R'm	304.2	259.3
Inventory at cost (at stores)	R'm	595.3	509.8
Property, plant and equipment	R'm	147.7	128.6
Number of stores at year-end			
Company owned		264	260
Franchised		14	14
Number of full-time permanent employees		3 897	3 552
Weighted trading area	m^2	144 916	140 099
Net increase in trading area during the year	%	3.4	4.7
Weighted annual sales per m^2	R	22 538	21 394

Positioning

Clicks is a contemporary, accessible retailer that understands women and has a strong value proposition. The brand aims to be "South African women's favourite shopping experience". The core Clicks customer is a woman between the ages of 25 and 49, who appreciates good value-for-money and sound advice, and keeps up to date with the latest beauty, health and home trends.

Review of the year

The brand's performance was impacted by lower than anticipated sales in August. After holding steady for the first 11 months, sales in August fell by 12% as the strong growth recorded in the 35th birthday promotion in August 2003 could not be repeated. Sales for the first half increased by 11.2% and the poor sales in August reduced the increase for the second half to 6.6%, giving the brand a 9.0% turnover increase for the year.

A further setback was an increase in shrinkage of some R7.5 million, mainly relating to card-based cellular airtime sales.

Expense growth exceeded sales growth, partly attributable to the slowdown in sales in August.

The steadily declining inflation rate proved a challenge and at year-end local purchase price inflation was 0%, while import purchase price inflation was minus 7%.

However, despite these disappointments, profit increased by 17.3% to R304.2 million.

The lifestyle merchandise category, which includes homeware, kitchenware, tableware, bathroom, electrical goods, cellular communications, confectionery and stationery, grew sales by 12.2%. When the categories of cellular, confectionery and stationery are excluded, lifestyle increased by 23.7%. This higher margin category has increased its share of total sales to 41%.

Growth in the health and beauty category, which accounts for 59% of overall sales, was limited to 6.9% for the year, and was the major area impacted by the lower August sales.

The Clicks ClubCard continues to drive sales, with customers of this loyalty programme generating over 70% of sales. The brand has over 2.1 million active ClubCard members and more than 80 000 new customers joined this year. Active Gold ClubCard holders total some 700 000.

In order to counteract the shrinkage in cellular airtime sales, Clicks is converting from the card-based system to selling virtual airtime on a KwikPay system which will reduce the risk of shrinkage.

Particular emphasis was placed on the sales and profitability of the top 50 stores in the brand. These stores represent 18% of the total stores and accounted for 40% of the Clicks performance in the year.

The store refurbishment programme has continued and 77 of the 266 stores will have been completed by the end of 2004.

Strategy

The Clicks strategy remains unchanged, with an increased focus on the integration of pharmacy into the brand. The pharmacy integration strategy is covered in the section on Pharmacy on page 22.

Lara Bryant – Brand Leader (34) BA (INDUSTRIAL PSYCHOLOGY)
11 years' service. Lara joined the group in 1993 as a buyer for Musica, later assuming responsibility for the brand's marketing and in 2001 was appointed brand leader of the Music Division, which included Musica and CD Wherehouse. In April 2002 Lara was appointed to head the merchandise and marketing portfolio for the South African operations of New Clicks and was appointed brand leader of Clicks in January 2003.

The aggressive price and product promotional programme will focus on driving sales volumes in the FMCG categories to counter the effects of low inflation. The margin is being enhanced by increased sales of the higher margin lifestyle merchandise.

A further 23 stores have been earmarked for refurbishment in the year ahead, and the focus on the top performing stores continues.

Owing to margin pressure on airtime sales, Clicks is refocusing on cellular contract business which offers an annuity income stream. Free-standing cellular kiosks will be installed in larger stores and cellular promotions will be upweighted.

The Storeline component of the ERP system has been completed, while the merchandise management system will be implemented in 2005. A further ERP module, the perpetual counting system, will be installed in January 2005 which will provide greater control over inventory and provide early warning signals of shrinkage in each merchandise category.

Prospects

The prospects for Clicks will be greatly enhanced by the inclusion of dispensaries in stores and the ongoing turnaround in homewares merchandise. Shrinkage levels will be reduced through tighter controls and enhanced systems, while expenses are expected to be reduced to below the growth in sales.

STORE LOCATIONS

LOCATION	STORES
Gauteng	
Johannesburg	44
Pretoria	30
Other	20
Mpumalanga	11
Limpopo	9
North West	12
Free State	14
KwaZulu-Natal	
Durban	26
Pietermaritzburg	4
Other	11
Eastern Cape	
Port Elizabeth	12
East London	4
Other	4
Western Cape	
Cape Town	42
Stellenbosch	1
Other	12
Northern Cape	2
Namibia	4
Swaziland	2
Zimbabwe	14*
Total	**278**

* Franchise stores

Pharmacy

Financial highlights and statistics

		Hyperpharm	Integrated Clicks stores	PM&A stores	Total 2004
Sales	R'm	160.9	164.8	197.5	**523.2**
Operating profit before interest and allocation of net costs of support structures	R'm	1.8	6.2	3.8	**11.8**
Operating loss before interest and after allocation of net costs of support structures	R'm				**(5.5)**
Inventory at cost (at stores)	R'm				**140.0**
Property, plant and equipment	R'm				**34.0**
Number of stores at year-end Company owned		12	21	47	**80**
Number of full-time permanent employees					**1 365**
Weighted trading area	m^2	4 102	6 660	7 132	**17 894**
Weighted annual sales per m^2	R	39 215	24 745	27 692	**29 241**

Review of the year

The New Clicks pharmacy strategy was finally translated into an implementation plan when the PM&A network of 80 pharmacies was incorporated into the group with effect from 1 March 2004.

Following regulatory approval to acquire PM&A and the eventual approval of the transfer of pharmacy licences, the first five Clicks Pharmacies were opened in March. A further 16 stores were opened during the remainder of the financial year. This included 10 small pharmacies that were converted to Clicks Pharmacy, a further eight that incorporated a pharmacy dispensary into a small format Clicks store, as well as three dispensaries that were installed into conventional Clicks stores offering the full health, home and beauty ranges.

In response to intense competitive pressure in Gauteng, a strategy was adopted to introduce Hyperpharm as the group's value-based pharmacy chain and 12 PM&A stores were converted to this brand.

At year-end the pharmacy group had 21 Clicks-branded stores, 12 Hyperpharm stores and 47 were trading under the PM&A banner.

Sales for the six-month period totalled R523 million and the pharmacy operation posted an operating loss of R5.5 million for the period.

Retail pharmacy was severely hampered by the introduction of the medicine pricing regulations which have been covered in detail in both the Chairman's Statement and the Group Leader's Report. The introduction of a capped dispensing fee impacted margin and profitability in the latter stages of the year.

Clicks Chronic Direct was launched as a courier-based service to take advantage of increased volumes from the expected pharmacy closures. By centralising the processing of chronic medication prescriptions, this service can benefit from economies of scale and does not require the overhead structure of a regular pharmacy. This pilot project is expected to be fully functional by February 2005.

Strategy

The drastic reduction in gross profit following the new pricing legislation has resulted in a change of focus in the pharmacy conversion and integration process. It has become evident that the smaller stores, despite having increased sales volumes in the front and middle shop following the conversion to Clicks, have not achieved the expected levels of profitability.

The emphasis will be placed on incorporating dispensaries into Clicks stores, where pharmacy will operate effectively as a category alongside the health, beauty and lifestyle merchandise, even in a low-margin environment.

The trading experience in the three Clicks stores that have introduced dispensaries to date indicate that the increased footfall in the stores has resulted in improved turnover, despite operating at a lower gross profit. Staff and occupancy costs, the two largest overhead expenses, are reduced relative to turnover. This model is expected to result in a significant uplift in profit.

It is anticipated that 90 pharmacies will be operating by December 2005, with dispensaries being incorporated into a further 61 Clicks stores. The number of smaller pharmacies will only be increased from the existing 18 to 20.

Prospects

There is still widescale uncertainty around legislation and the fee structure that can be charged by pharmacists. This remains the biggest challenge to the group's pharmacy aspirations. As the business moves away from a traditional pharmacy network and transforms into a retail chain store, sales and profitability are expected to increase strongly.

STORE LOCATIONS

LOCATION	STORES
Clicks Pharmacy	
Gauteng	
Johannesburg	5
Pretoria	4
North West	3
Free State	3
KwaZulu-Natal	
Durban	1
Eastern Cape	
East London	1
Western Cape	
Cape Town	3
Stellenbosch	1
	21
Hyperpharm	
Gauteng	
Johannesburg	4
Pretoria	8
	12
Other	
Gauteng	
Johannesburg	8
Pretoria	13
Other	1
Mpumalanga	2
North West	1
Free State	8
Eastern Cape	
Port Elizabeth	2
East London	4
Western Cape	
Cape Town	7
Stellenbosch	1
	47
Total	**80**

PROJECTED STORES BY DECEMBER 2005:

Conventional Clicks with dispensary	64
Smaller Clicks with dispensary	8
Clicks Pharmacy	12
Hyperpharm	6
Total	**90**

Discom

Financial highlights and statistics

		2004	2003
Sales	R'm	878.7	771.4
Sales growth	%	13.9	7.0
Comparable store sales growth	%	11.0	8.7
Operating profit/(loss) before interest and after allocation of net costs of support structures	R'm	5.7	(5.6)
Inventory at cost (at stores)	R'm	134.8	124.7
Property, plant and equipment	R'm	62.3	55.0
Number of stores at year-end			
Company owned		173	177
Franchised		1	1
Number of full-time permanent employees		1 792*	1 335
Weighted trading area	m^2	49 638	49 351
Net increase/(decrease) in trading area during the year	%	0.6	(4.8)
Weighted annual sales per m^2	R	17 702	15 632

* During the period, a number of part-time employees became full-time employees, in terms of the new Labour Relations Act.

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, while the decorative homewares is driven by homeware merchandise and small appliances. Discom's positioning in this niche differentiates the brand from Clicks which has an increased emphasis on the health offering.

Price is a key factor in Discom's target market and the brand's success is dependent on providing quality at the lowest possible cost.

Review of the year

Sales for the year increased by 13.9% to R879 million, with comparable store growth at 11%. The increased sales were driven by robust growth in the FMCG business and an improved performance in lifestyle and imported merchandise.

Discom posted a profit for the first time in several years, reversing last year's loss of R5.6 million into a profit of R5.7 million. This is evidence that the African beauty, hair care strategy and homewares are delivering the desired results.

Four new stores were opened, eight closed and five relocated, and the brand was trading out of 174 stores at year-end, four less than the previous year. Trading densities improved by 13.2%. Leasing space in mainstream urban shopping centres and malls remains a challenge for the brand.

Sales have traditionally been stronger in the coastal regions and a drive was initiated to increase volumes in the inland consumer markets. This has proved successful, with sales in these regions growing by 19% during the year.

As an extension of the hair care strategy, Discom has hair salons in four of its stores. Sales of retail hair care products have shown greater uplift in stores with hair salons. A limited range of professional hair care products has been introduced into the salons and the initial customer response has been highly positive.

Staff training continues to be a priority, and during the year extensive training took place, mainly in product knowledge, marketing and technology. The new point of sale scanning technology has been implemented in all stores and this was supported by a training drive at store level to ensure optimum benefit from the system.

On the marketing front, the new store design will be implemented in all new stores from the new year, while themed promotions have added value to the brand not only through sales growth but also by enhancing the image and perception of the brand.

Michael Harvey – Brand Leader (35) STRATEGIC RETAIL MANAGEMENT (UCT), EXECUTIVE DEVELOPMENT PROGRAMME (USB), ADVANCED MANAGEMENT PROGRAMME (INSEAD)

16 years' service. 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.

Strategy

Discom plans to further entrench its position as the largest retailer of African beauty and ethnic hair products, with a major emphasis being placed on the higher margin 'dry hair' category which includes hair extensions and braids.

Margin will be enhanced through improved trading, mainly around African beauty and increased imports of electrical and homewares merchandise.

The focus on growing sales in the inland regions will be enhanced, and the majority of the 12 new stores that will be opened during 2005 will be in these inland areas.

Securing sites in prime shopping malls remains a priority, while stores will continue to be relocated or closed in line with market moves.

Hair salons will be introduced only in areas where consumer demand warrants and retail space is available in existing stores. Plans are afoot to open a fifth hair salon in one of the Durban stores.

Following the appointment of brand leader Michael Harvey to the position of head of retail for the group, a new brand leader will be appointed for Discom during the first half of 2005.

Prospects

The brand will seek to deliver sustainable profit growth through improved gross margins, expense management and reduced shrinkage. The current buoyant spending patterns in the emerging mass market together with enhanced store locations should boost sales growth.

STORE LOCATIONS

LOCATION	STORES
Gauteng	
Johannesburg	14
Pretoria	7
Other	9
Mpumalanga	8
Limpopo	15
North West	10
Free State	9
KwaZulu-Natal	
Durban	9
Pietermaritzburg	2
Other	20*
Eastern Cape	
Port Elizabeth	6
East London	5
Other	8
Western Cape	
Cape Town	24
Stellenbosch	1
Other	17
Northern Cape	6
Namibia	1
Swaziland	2
Lesotho	1
Total	**174**

* Includes one franchise store

COMPACT DISC WHEREHOUSE

Entertainment Division

Financial highlights and statistics

		2004	2003
Sales	R'm	544.2	482.3
Sales growth	%	12.8	9.8
Comparable store sales growth	%	11.9	9.6
Operating profit before interest and after allocation of net costs of support structures	R'm	20.6	25.7
Inventory at cost (at stores)	R'm	114.0	110.9
Property, plant and equipment	R'm	42.5	45.3
Number of stores at year-end Company owned		138	138
Number of full-time permanent employees		592	545
Weighted trading area	m^2	17 349	17 134
Net increase in trading area during the year	%	1.3	6.1
Weighted annual sales per m^2	R	31 369	28 148

Positioning

The division, which comprises Musica and CD Wherehouse, has been rebranded to reflect the strategic shift from a music-only offering to broader entertainment merchandise, including gaming, DVD and lifestyle product. In line with this repositioning, the business model has changed from a high margin to a lower margin/high volume driven model.

This division is the largest music retailer in the country, with a 45% share of the CD market, and aims to be the "first choice popular entertainment experience". CD Wherehouse's vision is to be the "most respected entertainment retailer".

Review of the year

An aggressive promotional strategy adopted in the second half of the year, which saw the price of the top selling CDs reduced to R99.95, reversed the fortunes of the Entertainment division.

After disappointing sales growth of 6.1% in the first six months, the top 20 promotion lifted sales by 21.3% in the second half. Sales for the year grew by 12.8% to R544 million, with comparable store growth at 11.9%.

The strong comeback in the latter stages of the year was, however, not sufficient to reverse the poor first half performance and operating profit declined 19.8% to R20.6 million.

The strategy behind the top 20 promotion was not only to boost sales but also to increase traffic into stores to cross-sell non-discounted product. A further spin-off of the promotion was the marked change in customer perceptions of Musica's pricing.

The benefits of the repositioning of the brand are being realised, with sales of gaming, DVD and lifestyle product growing from 11.3% to 18.2% of total sales. DVD sales have grown from 7% to 13% of sales.

Musica's margin contracted slightly, both as a result of the volume-driven strategy of the promotion and the change in the margin mix of the non-CD merchandise.

Expense growth was maintained below the level of sales growth, while shrinkage showed a marginal improvement.

The merchandise management system was implemented on schedule and the interface with the finance SAP system will be completed early in 2005.

Seven new Musica stores were opened and seven closed during the year.

Strategy

Following the success of the pricing and promotional strategy, the Entertainment division will continue to drive

Colin Robb – Brand Leader (45)
13 years' service. Colin joined the group in 1991, gaining experience in store management before being appointed regional director of Musica in the Western Cape. He spent seven years as merchandise director for Musica and CD Wherehouse and was appointed brand leader of the Music division in May 2002.

down retail music prices in the year ahead. Based on the massive growth of the DVD format, the division will be testing the viability of DVD-only stores and will open the first trial store in Cape Town early in 2005.

Enormous potential still exists in gaming, DVD and lifestyle and the target is to increase non-CD sales to 35% of overall sales by the end of 2005.

A further 5 to 7 stores are planned for 2005 and the urban stores will be upgraded with more aggressive promotions.

The division continues to be at the forefront of entertainment and has signed an exclusive agreement to provide digital downloading of music, a first for the South African market. This will provide a legal alternative to the current illegal downloading activity and customers will have access to over 1.2 million titles. This project will launch in December 2004 and while this is not expected to be a major source of revenue, it will enhance the division's status as the first choice entertainment retailer.

Prospects

Musica has been rejuvenated and the brand can expect to benefit from strong consumer spending patterns in the current low interest rate environment. The sales growth of the second half of 2004 is likely to be maintained into 2005, driven by the promotional pricing strategy. DVD sales are expected to increase strongly.

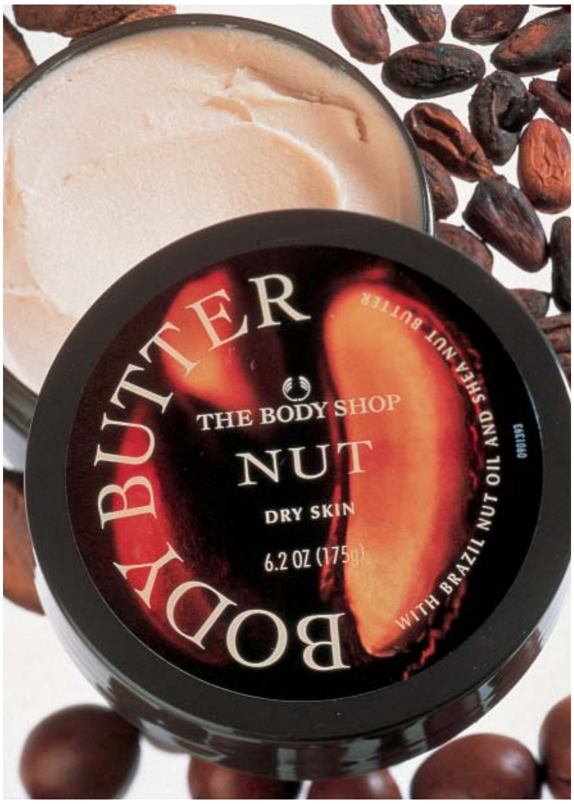
STORE LOCATIONS

LOCATION	MUSICA	CDW
Gauteng		
Johannesburg	12	2
Pretoria	14	
Other	11	
Mpumalanga	6	
Limpopo	5	
North West	6	
Free State	7	
KwaZulu-Natal		
Durban	9	1
Pietermaritzburg	2	
Other	6	
Eastern Cape		
Port Elizabeth	6	
East London	4	
Other	4	
Western Cape		
Cape Town	23	1
Stellenbosch	1	
Other	9	
Northern Cape	3	
Namibia	4	
Botswana	2	
Total	134	4

The Body Shop

Financial highlights and statistics

		2004	2003
Sales	R'm	51.3	45.8
Sales growth	%	12.0	68.6
Operating profit before interest and after allocation of net costs of support structures	R'm	10.3	10.0
Inventory at cost (at stores)	R'm	2.2	2.4
Property, plant and equipment	R'm	8.9	9.3
Number of stores at year-end Company owned		24	18
Number of full-time permanent employees		76	75
Weighted trading area	m^2	1 214	942
Net increase in trading area during the year	%	28.9	173.8
Weighted annual sales per m^2	R	42 237	48 600



Positioning

The Body Shop is a well-known global brand marketing a range of naturally-inspired beauty products. The brand has been well accepted since its launch in South Africa in 2001, and focuses primarily on the middle to upper income groups.

Community-traded material is used extensively in the products, with much of the natural ingredient being sourced from local communities around the world which helps to sustain their existence.

New Clicks is the only corporate internationally to manage a franchise operation for The Body Shop.

Review of the year

Sales for the year were up 12.0% to R51.3 million. The brand experienced a disappointing second half which reversed the profit growth in the first six months. Profit for the full year improved marginally to R10.3 million.

Expenses grew by 37% as a result of increased marketing expenditure and store growth, without the anticipated increase in sales from both these sources. Despite the increased number of stores, staff costs declined as the number of permanent staff per store has been reduced and fewer casual staff employed.

Six new stores were opened, bringing the total number of stores to 24. Store numbers have more than doubled in the past two years.

The Clicks ClubCard was introduced into the brand in May, enabling customers to earn points on purchases in The Body Shop.

Promotional activity in stores was increased and supported with advertising in regional newspapers, radio, satellite television, mailing to ClubCard members and product advertorials in women's interest magazines.

The margin improved over last year, although it did come under pressure from this increased promotional activity.

Stocks have been well managed and the critical mass of 24 stores enables the brand to predict sales more accurately and operate on lower store stocks.

The Body Shop International presents annual values awards for the best contribution to communities in need. South Africa received an award for service to children based on the promotion with Childline which raised over R100 000.

An international campaign for AIDS awareness will raise funds for two local organisations which support AIDS victims.

Strategy

Five new stores, including two concept stores, are scheduled to be opened in the forthcoming year. The brand's target market means that it is only suited to prime retail locations.

The longer-term strategy is to grow the number of stores to around 30 before achieving market saturation.

The concept store format within Clicks stores presents a further profitable growth opportunity and two concept stores are planned for the new year.

The global and local product strategy for The Body Shop is to be "best in body and skincare and famous for gifts". Two new body ranges and two skincare ranges will be launched during the year. In response to consumer demand, gifting ranges will be available for all occasions during 2005. Fragrance is also an important category in the brand and several new product lines will be introduced.

Prospects

The new product ranges and enhanced national store footprint are expected to restore sales growth levels. Together with tighter cost control and improved margin, this should lead to a stronger profit growth in the year ahead.

STORE LOCATIONS

LOCATION	STORES
Gauteng	
Johannesburg	7
Pretoria	2
Mpumalanga	1
Free State	1
KwaZulu-Natal	
Durban	3
Pietermaritzburg	1
Eastern Cape	
Port Elizabeth	1
East London	1
Western Cape	
Cape Town	6
Other	1
Total	24

New United Pharmaceutical Distributors (UPD)

Financial highlights and statistics

		2004	2003*
Sales	R'm	2 309.5	1 451.2
Sales growth (full year)	%	8.0	
Operating profit before interest and after allocation of net costs of support structures	R'm	75.6	51.6
Inventory at cost	R'm	210.3	179.8
Inventory turn	times	11.0	11.9
Property, plant and equipment	R'm	72.2	74.8
Trade debtors' days	days	26.0	30.4
Number of full-time permanent employees		519	604

* 8 Months

Introduction

UPD is the largest national pharmaceutical wholesaler in the country and its customer base includes retail pharmacies, private hospitals, dispensing doctors and health stores. The business is of strategic importance to New Clicks' healthcare plans as it provides the distribution capability for the group's integrated channel to market.

Review of the year

UPD posted a strong operating performance amid the widespread changes in the pharmaceutical distribution industry. Sales on a comparable basis grew by 8% to R2.3 billion, reflecting real growth in the business as this increase was above the medical inflation rate for the year.

The key focus has been on volume growth owing to the lower margins on the logistics fees which were introduced during the year, and this was particularly evident in the last quarter under the new medicine price regime.

Costs were well managed and the increase restricted to 4.8%, well below the turnover growth of 8%. Staff numbers showed a reduction of 14% over the previous year.

Profit for the year was up 21% and the wholesale distributor contributed R75.6 million to the group's earnings, making it the second-largest profit generator in the group after the Clicks brand.

The stock turn of 11 times reflects the efficient management of the business.

Kevin Vyvyan-Day – Chief Executive (39)
2 years' service with the New Clicks group. Kevin joined UPD in 1995 and was appointed chief executive in 1996. Prior to this he spent three years as a consultant with Gemini consulting.

The debtors' book continues to be tightly controlled in an uncertain medical and pharmacy environment, and debtors' days were reduced to 26 days.

UPD has grown turnover from the PM&A group and its independent pharmacy base, as well as increasing sales from single channel distributors following the implementation of single exit pricing. Logistics fees have been negotiated with all principals in line with the new medicine pricing regulations.

Service levels and value-added services are proving to be a differentiator in the regulated market in which UPD is now operating.

The bulk of UPD's distribution is handled by self-employed drivers from disadvantaged backgrounds who have their own vehicles. The drivers are assisted in obtaining finance and guaranteed a minimum workload. This innovative black empowerment has now been operating within UPD for eight years.

The Link Investment Trust (LIT), which has 218 independent franchisees, is managed by UPD and this allows a closer working relationship between the distribution arm of the group and the retail pharmacies in the franchise. New Clicks holds a 56% interest in LIT. The results of LIT have now been combined with UPD for reporting purposes.

Strategy

UPD's strategy remains unchanged and the business will be aiming to further increase volumes and capitalise on opportunities as the industry undergoes inevitable rationalisation.

The focus on customer service and the delivery of value-added services will be maintained, and the debtors' book will continue to be tightly managed.

Further changes in legislation remain a threat, notably around the capping of distribution fees.

Prospects

UPD is a well-managed business, evidenced by its sound capital utilisation, cost management and strong cash generation. The business is well positioned to increase sales volumes and grow its market share, and is expected to show an increase in profit in the year ahead.

Shared Services

From left to right: André Vermeulen, Monica Goertz, Simon Kilner, Errol Gray.

Financial statistics

		2004	2003
Operating loss before interest and after allocation of net costs to brands	R'm	(7.4)	(7.4)
Inventory at cost held at the distribution centres	R'm	217.2	197.0
Property, plant and equipment	R'm	291.3	294.0
Number of full-time permanent employees		755	884

The retail trading and wholesale distribution activities of New Clicks are supported by a Shared Services operation which manages:

- Logistics and distribution
- Supply chain management
- Information technology
- Finance and administration
- Merchandise services
- Property management
- Procurement
- Organisational development
- Advertising

André Vermeulen (45) CA (SA), FCMA, MBA
Chief Financial Officer
2 years' service. André joined the group in 2002 as chief financial officer for the South African operations. He spent eight years in financial management roles in the Barlows group and gained operations management experience as operations director of Gilbeys Distillers and Vintners (now Guinness UDV). Prior to joining New Clicks, André was financial director of National Brands Limited, a subsidiary of Anglovaal Industries.

Monica Goertz (39) B SC, MBA
Organisational Development
2 years' service. Monica gained extensive experience in business and systems consulting at Andersen Consulting and as an independent consultant. After consulting to the group for some two years, she joined full time in 2002 to drive the implementation of the pharmacy strategy. In July 2004 Monica assumed an organisational development role to manage the people implications of the pharmacy integration process.

Simon Kilner (46) B SC (COMPUTER SCIENCE)
Shared Services Leader
6 years' service. Simon spent 15 years with the Foschini group before joining New Clicks in May 1998 to head up the information technology (IT) operations. His responsibilities have expanded to cover the Shared Services portfolio, which includes IT, supply chain management, distribution, property, procurement and advertising.

Errol Gray (57) BACHELOR OF THEOLOGY
Strategic Development Leader
16 years' service. After completing his theology studies, Errol spent 17 years as a minister before joining New Clicks in 1988 to manage the organisational development of the group. In 2002 he was appointed joint leader of New Clicks South Africa and then assumed full responsibility for the region in the following year. He was appointed to his current position in August 2003.

Corporate Governance

New Clicks Holdings is committed to the principles and practice of sound corporate governance to ensure that the interests of the company and its shareholders are given priority. In accordance with its values, the group subscribes to the principles of integrity, transparency and accountability in its interactions with stakeholders.

The board believes that the group complies in all material respects with the King II Code on Corporate Governance and the JSE Securities Exchange SA Listings Requirements. It also recognises that corporate governance practices and procedures need to be continually reviewed and enhanced. This function is undertaken by the governance committee of the board.

During the year a board charter was adopted, the risk committee formally constituted, the role of the nominations committee expanded and voting by ballot introduced at the annual general meeting. The board believes that areas where the group is not yet fully compliant with King II do not impact on the overall effectiveness of the governance process.

The group also acknowledges its role as a responsible corporate citizen and accordingly measures not only financial performance, but also non-financial performance to determine the long-term sustainability of the business. The relationship with stakeholders on social, economic and environmental issues is outlined in the Corporate Citizenship Report on page 41.

Board of directors

Board Charter

The board charter adopted during the year confirms that the board of directors of New Clicks Holdings retains overall responsibility and accountability for the company, 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, the Group Operations Forum, the Group Strategic Forum 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 regular reporting at board meetings.

Board composition and features

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

- The board is a unitary body comprising two executive directors and six non-executive directors. Five of the non-executive directors, including the chairman and deputy chairman, are considered independent in terms of the King II definition. The remaining non-executive director, Allen Zimbler, provides professional services to the group on a contractual basis and is therefore not classified as independent. Biographical details and credentials of the directors appear on page 11.
- The composition of the board has been reviewed to align the group more closely with best practice in corporate governance. Two further independent non-executive directors, Lucia Swartz and Robert Lumb, were appointed during the year and the board comprises a majority of independent non-executive directors as required by King II. Following the group's sale of New Clicks Australia (NCA), the country leader of NCA, Jeff Sher, resigned as an executive director of the group.
- The independent non-executive chairman, David Nurek, and the chief executive officer, Trevor Honneysett, have clearly defined and separate roles.
- The board 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.
- 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. 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.
- Directors are insured against certain liabilities, including legal costs, that may be incurred in the execution of their duties on behalf of the group.
- An annual self-assessment review process has been implemented for the board, individual directors and board sub-committees to benchmark performance against best practice.
- The board meets at least four times a year in Cape Town, and additional meetings can be convened at short notice to consider specific business. During the year the board met seven times.

Company secretary

All directors have unrestricted access to the advice and services of the company secretary, Allan Scott. 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 are 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.

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 which are all chaired by independent non-executive directors. In addition to the audit, remuneration and governance committees, a risk management committee was formally constituted and the role of the nominations committee expanded during the year. Each board sub-committee has a clearly-defined mandate and the directors confirm that the committees have operated in accordance with these written terms of reference.

Audit committee

Members: Robert Lumb (chairman), David Nurek, Eliot Osrin and Peter Swartz.

Meeting frequency: Twice annually

Meetings in 2004: Two

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

The committee consists of four independent non-executive directors. Besides the formal meetings of the audit committee, an internal audit committee meets quarterly, and members of the audit committee participate in these meetings.

Executive management, internal audit staff and the external audit partners and staff attend meetings at the invitation of the committee. The internal audit manager has unrestricted access to the chairman of the audit committee.

The primary roles of the audit committee are to:

- review and approve the appropriateness of accounting and disclosure policies in the annual financial statements;
- assess the effectiveness of internal controls;
- review action taken on major accounting issues; and
- ensure that management imposes no limitation on the scope of all audits.

Remuneration committee

Members: David Nurek (chairman), Lucia Swartz, Peter Swartz and Allen Zimbler.

Meeting frequency: At least twice annually

Meetings in 2004: Three

Composed of three independent non-executive directors and one non-executive director, the committee determines the broad remuneration philosophy for the group, as well as determining the remuneration of executive directors and senior management. It proposes fees for non-executive directors, which are then tabled for approval at the annual general meeting.

The committee also assesses and reviews remuneration policies, employee share incentive schemes, performance bonuses and service contracts.

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.

Governance committee

Members: David Nurek (chairman), Trevor Honneysett, André Vermeulen (chief financial officer) and Allan Scott (company secretary)

Meeting frequency: Ad hoc

Meetings in 2004: One

The committee's role is to ensure compliance in both substance and form with the recommendations of the King Report and to monitor governance practices throughout the group.

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

Risk management committee

Members: Robert Lumb (chairman), Eliot Osrin, Allen Zimbler, Trevor Honneysett and members of senior management.

Meeting frequency: At least twice annually

Meetings in 2004: Three

The mandate of the committee is to ensure material compliance with the principles of risk management as outlined in King ll.

The committee is tasked to develop and formalise the risk management process, including:

- identifying the major risk areas;
- reviewing the risk management processes;
- assessing the risk appetite of the business;
- reviewing the risk philosophy, strategies and policies;
- reviewing the basis and adequacy of insurance cover; and
- identifying emerging areas of risk.

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

Nominations committee

Members: David Nurek (chairman), Robert Lumb, Eliot Osrin and Lucia Swartz.

Meeting frequency: Ad hoc

Meetings in 2004: One

The committee is mandated by the board to identify suitable candidates for directorships, and make recommendations to the board. It also advises on the composition of the board, the balance between executive and non-executive directors and succession planning, particularly in relation to the chief executive and senior executive management.

The role of the committee was expanded during the year to include responsibility for the evaluation process of the board, individual board members and the board sub-committees. The composition of the committee was also expanded to include additional non-executive directors. No meetings of the reconstituted committee were held within the financial year.

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

Management committees

Following the sale of the group's assets in Australia, the leadership structures were reviewed and two new forums established:

- the 10-member Group Operations Forum is responsible and accountable for the operational performance of the group, including implementation of strategy and review of the brands and shared services performance. This forum includes the chief executive, chief financial officer, brand leaders and heads of shared services divisions; and
- the Group Strategic Forum is responsible for determining the strategic direction of the group and proposing the strategy to the board. The forum consists of 30 senior leaders representing all areas of the business, and includes the members of the Group Operations Forum.

Board attendance

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

Number of meetings	Board 7	Audit 2	Remuneration 3	Risk 3	Governance 1	Nominations 1
David Nurek [1,2,4,5]	7/7	0/2****	3/3	–	1/1	1/1
Peter Swartz [1,2]	6/7	2/2	2/3	–	–	–
Robert Lumb* [1,3,5]	3/3	1/1	–	2/2	–	#
Eliot Osrin [1,3,5]	7/7	2/2	–	3/3	–	#
Lucia Swartz** [2,5]	5/5	–	1/2	–	–	#
Allen Zimbler [2,3]	7/7	–	1/3	1/3	–	–
Trevor Honneysett [4]	7/7	–	–	–	1/1	–
Raymond Godfrey	6/7	–	–	–	–	–
Jeff Sher***	1/2	–	–	–	–	–

[1] Member of the audit committee
[2] Member of the remuneration committee
[3] Member of the risk committee
[4] Member of the governance committee
[5] Member of the nominations committee

* Appointed on 23 April 2004
** Appointed on 27 January 2004
*** Resigned on 13 February 2004
**** David Nurek attended the pre-audit committee meetings with the chairman of the audit committee for both these meetings but was unable to attend the audit committee meetings
\# No meetings were held after being appointed to the nominations committee

Corporate Governance (continued)

Board remuneration

Group remuneration policy

The 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 the group and it strives to develop, attract, retain and motivate executives of a high calibre. The remuneration package of the senior executives, which seeks to be competitive in the South African retail market and to align the incentive schemes with group performance in relation to the agreed short- and long-term targets and objectives, comprises:

- guaranteed remuneration package including benefits;
- short-term incentive EVA bonus scheme; and
- long-term share incentive scheme.

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 market and aim at rewarding the directors fairly for the time, services and expertise provided.

The directors' fees are subject to the approval of shareholders at the annual general meeting.

Directors' emoluments

2004 Executive directors' remuneration

R'000	Salary	Bonus	Pension fund contributions	Expense allowance	Other benefits (note 6)	Australia	Total
Trevor Honneysett							
Remuneration	3 004	660	488	113	555	–	**4 820**
Leave converted to cash	–	–	–	–	771	–	**771**
New Clicks Australia payment scheme (refer below)	–	–	–	–	–	1 016	**1 016**
	3 004	660	488	113	1 326	1 016	**6 607**
Raymond Godfrey							
Remuneration	1 671	366	294	–	426	–	**2 757**
New Clicks Australia payment scheme (refer below)	–	–	–	–	–	1 016	**1 016**
	1 671	366	294	–	426	1 016	**3 773**
Jeff Sher							
Remuneration (note 1)	983	216	124	–	142	–	**1 465**
	5 658	1 242	906	113	1 894	2 032	**11 845**
Payments to former directors							
Peter Green (note 2)							
New Clicks Australia payment scheme (refer below)	–	–	–	–	–	3 535	**3 535**
David Danziger							
New Clicks Australia payment scheme (refer below)	–	–	–	–	–	2 387	**2 387**
	–	–	–	–	–	5 922	**5 922**
Total							
Remuneration	5 658	1 242	906	113	1 123	–	**9 042**
Leave converted to cash	–	–	–	–	771	–	**771**
New Clicks Australia payment scheme (refer below)	–	–	–	–	–	7 954	**7 954**
	5 658	1 242	906	113	1 894	7 954	**17 767**

Directors' emoluments (continued)

2004 Non-executive directors' emoluments

R'000	Directors' fees	Consultancy fees	Australia	Total
David Nurek	240	–	–	**240**
Peter Swartz	170	–	–	**170**
Robert Lumb (note 3)	45	–	–	**45**
Eliot Osrin	172	–	–	**172**
Lucia Swartz (note 4)	47	–	–	**47**
Allen Zimbler (note 5)	115	780	–	**895**
New Clicks Australia payment scheme (refer below)	–	–	3 918	**3 918**
	115	780	3 918	**4 813**
	789	780	3 918	**5 487**
2004 Total directors' emoluments				**23 254**

Notes

1. Jeff Sher resigned from the board on 13 February 2004.
2. Peter Green resigned from the board on 17 June 2003.
3. Robert Lumb was appointed to the board on 23 April 2004.
4. Lucia Swartz was appointed to the board on 27 January 2004. Her fees are paid to Sappi Limited.
5. Allen Zimbler, a non-resident director, provides strategic planning consultancy services to the group on a contractual basis with Investec Bank. Dr Zimbler is employed by Investec in the capacity of Chief Integration Officer. The fees for these services of £64 000 (R780 000), as well as his fees, are paid to Investec Bank.
6. Includes the value of interest-free loans to directors from the New Clicks Holdings Share Trust.
7. The remuneration reflected in the 2003 annual report was understated by R62 000 as Trevor Honneysett's car allowance was not accurately reflected. The comparative for 2003 has been adjusted in this report.

New Clicks Australia payment scheme

As disclosed in the Note 23.2 to the Financial Statements in the 2003 annual report, in 1999 the company entered into agreements with certain executives and a consultant (the participants) in relation to the establishment of a scheme in terms of which the participants were to be incentivised for their contributions to the growth of New Clicks Australia (NCA). In terms of the scheme, the participants were given the right to subscribe for shares in the capital of NCA on a preferential basis in the event that NCA was listed prior to 30 October 2003.

In the event that no such listing occurred, the participants would be paid a cash alternative based on the value of NCA shares as at 30 October 2003, subject to certain conditions. As NCA was not listed, in terms of the scheme, the participants were due a cash alternative payment.

Based on a negotiated settlement calculated on the value of NCA, the following amounts were due to the participants in the scheme (which included two executives who had subsequently left the group):

Paid in South Africa (ZAR):

Peter Green	R3.535 million
Raymond Godfrey	R4.063 million (refer below)
Trevor Honneysett	R4.063 million (refer below)

Paid in Australia (A$):

David Danziger	A$495 040 (R2.387 million)
Allen Zimbler	A$812 539 (R3.918 million) (refer below)

Executive directors Trevor Honneysett and Raymond Godfrey agreed to defer payment of portions of the amount to receive four instalments at six-monthly intervals on the condition that they remain with the group during this period. The first of these payments of R1.016 million were made to these directors during the financial year. The balance of R6.1 million will be paid over the next two years.

Allen Zimbler provided strategic consultancy services to NCA from 1999 and over the duration of the scheme. His payment was in recognition of these services.

Corporate Governance (continued)

Directors' emoluments (continued)

2003 Executive directors' remuneration

R'000	Salary	Bonus	Pension fund contributions	Other benefits (note 6)	Total
Trevor Honneysett – remuneration (note 7)	2 483	152	436	703	3 774
Raymond Godfrey – remuneration	1 428	190	269	482	2 369
Jeff Sher – remuneration	2 707	32	382	250	3 371
	6 618	374	1 087	1 435	9 514
Peter Green (note 2)					
Remuneration	1 325	169	205	485	2 184
Amounts payable on resignation	–	–	–	7 500	7 500
	1 325	169	205	7 985	9 684
Total					
Remuneration	7 943	543	–	1 920	11 698
Amounts payable on resignation	–	–	–	7 500	7 500
	7 943	543	1 292	9 420	19 198

2003 Non-executive directors' emoluments

R'000	Directors' fees	Consultancy fees	Total
David Nurek	220	–	220
Peter Swartz	165	–	165
Eliot Osrin	155	–	155
Allen Zimbler (note 5)	125	500	625
	665	500	1 165
2003 Total directors' emoluments			**20 363**

Directors' fees

The fee structure for directors has been adjusted with effect from September 2004 and is subject to approval of shareholders at the annual general meeting:

Board position	Fees – Sept 2004	Fees – July 2003
Chairman of the board	**250 000**	150 000
Deputy chairman of the board	**106 000**	100 000
Member of the board	**80 000**	75 000
Chairman: Audit committee	**64 000**	60 000
Member: Audit committee	**32 000**	30 000
Chairman: Remuneration committee	**42 500**	40 000
Member: Remuneration committee	**21 000**	20 000
Chairman: Risk committee	**42 500**	–
Member: Risk committee	**21 000**	–

Directors' shareholdings

The direct and indirect holdings of the directors of New Clicks Holdings at 31 August 2004 are set out opposite.

Accountability and audit

External audit

A formal policy on the provision of non-audit services by the external auditors is being developed for approval by the audit committee and the board. However, guidelines were applied during the year and all non-audit services were approved by the audit committee prior to being undertaken.

A total of R259 000 was paid to the external auditors, KPMG and Ernst & Young, for non-audit services (refer to note 18 in the financial statements), equating to 7.8% of the total fee of R3.33 million. The non-audit services included tax consulting and services relating to the disposal of New Clicks Australia. 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 committee is responsible for setting risk policies, risk tolerance and risk management processes in the group. Details of foreign exchange, credit and interest risk appear in note 29 on page 83 of the financial statements.

Shareholdings

Director	Held through share trust	Direct	Indirect	Total
Trevor Honneysett	701 525	5 280	2 262 840	**2 969 645**
Raymond Godfrey	545 937	2 209	416 318	**964 464**
David Nurek	–	29 682	–	**29 682**
Peter Swartz	–	–	–	**–**
Robert Lumb	–	–	–	**–**
Eliot Osrin	–	135 413	–	**135 413**
Lucia Swartz	–	–	–	**–**
Allen Zimbler	75 000	–	–	**75 000**
TOTAL	1 322 462	172 584	2 679 158	**4 174 204**
Issued shares				**361 204 732**
Percentage of issued share capital				**1.2%**

Share options

Issue Date	Issue Price	Trevor Honneysett	Raymond Godfrey	Allen Zimbler	David Nurek	Peter Swartz	Total
October 1998	R3.50	450 000	300 000	99 300	–	–	**849 300**
January 1999	R5.35	3 150 000	2 100 000	481 700	1 000 000	750 000	**7 481 700**
July 1999	R7.80	600 000	400 000	–	–	–	**1 000 000**
September 2000	R9.30	750 000	500 000	250 000	500 000	–	**2 000 000**
April 2001	R7.40	750 000	500 000	150 000	–	–	**1 400 000**
Total		5 700 000	3 800 000	981 000	1 500 000	750 000	**12 731 000**

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. The internal audit manager reports directly 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 and 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. A number of key systems are currently being implemented to enhance the accuracy and timeousness of management information.

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 South African Auditing Standards.

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 55 to 96 have accordingly been 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 prohibitions contained in the Insider Trading Act.

While there were no share transactions by directors during the year, it is company policy that directors 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. It is also mandatory to notify the company secretary of any dealings in the company's shares and this information is then disclosed to the Listings Division of the JSE Securities Exchange SA within 48 hours of the trade being made. These dealings are also disclosed at the quarterly board meetings.

Ethics and values

All employees are required to maintain the highest ethical standards of business practice. The group has adopted a set of values and behavioural principles (outlined on page 3) which require staff to display integrity, mutual respect, 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 give an undertaking to abide by the values. When staff act outside of the spirit of these values, the matter is investigated and dealt with by an appropriate executive who is empowered to recommend disciplinary action depending on the transgression.

Corporate Citizenship

The King II Report encourages South African companies to enhance disclosure on non-financial issues and to provide shareholders with an assessment of the factors that impact on the long-term sustainability of the business.

Sustainability reporting addresses the economic, social and environmental impact of a company's performance and its relationship with stakeholders in these areas. Stakeholders of the New Clicks group include shareholders, customers, staff, suppliers, industry regulators, government, labour, company advisers and beneficiaries of the social investment programme.

In order to fulfil the needs of these diverse stakeholders, companies must create a balance between achieving short-term profitability targets while at the same time meeting the longer term demands of society.

This report details the progress that New Clicks has made in addressing these needs and the group plans to continually enhance non-financial reporting in subsequent years.

Staff

Permanent staff	
Number at August 2003	7 973
Plus: Recruitments	3 591
Acquisition of new businesses	1 381
Less: Resignations	(2 518)
Deaths	(51)
Dismissals	(281)
Retirements	(19)
Retrenchments	(87)
Disposal of businesses	(978)
Number at August 2004	**9 011**
Gender Splits:	
Males	3 579
Females	5 432
	9 011
Non-Management by gender	
Males	2 270
Females	3 703
Management by gender	
Males	1 309
Females	1 729
	9 011
Race Splits:	
Black	7 415
White	1 596
	9 011
Non-Management by race	
Black	5 536
White	876
Management by race	
Black	1 879
White	720
	9 011
Age Distribution:	
Below 30	3 827
30–39	3 216
40–49	1 394
above 50	574
	9 011
Casual staff	
Number at August 2003	2 888
Number at August 2004	**3 157**

Corporate Citizenship (continued)

Employment equity

New Clicks is committed to addressing the social and economic imbalances of the past through the empowerment and advancement of previously disadvantaged people. Employment equity is therefore a corporate imperative and the group has made notable progress in improving the representivity of staff and moving towards gender equity. The table on the previous page provides detailed statistics on the group's employees. In summary,

- Black staff account for 82% of the total staff complement;
- Women comprise 60% of the staff;
- 72% of management are black and 57% are women; and
- The group has a 25% black representation on the board of directors.

The group's policy is to favour previously disadvantaged individuals for employment opportunities to ensure a more representative staff profile. During the past year, black staff accounted for 90% of new appointments and 66% of management level appointments. Women accounted for 52% of new appointments.

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

Staff development

New Clicks has adopted an increased focus on skills development and has increased investment in training. All training-related functions are co-ordinated by the Skills Development Unit (SDU) which is registered with both the Wholesale and Retail SETA and the Pharmaceutical SETA. The SDU is a fully accredited training provider.

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

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

- During the year, staff members participated in training courses at a cost of R8.5 million.
- A further R1.2 million was invested in management, business and technical skills courses undertaken by staff at the group's request.
- A study scheme enables staff to enrol for approved courses and 180 people completed degrees, diplomas and short courses with registered institutions at a cost to the group of R1.1 million.

Retail Business School

An innovative training programme has been developed for the middle to executive management level of the group. The Retail Business School combines academic learning 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 week-long courses were presented during the year – with 30 to 40 delegates attending each course – and four are planned for 2005.

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

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

Total membership of the funds at year-end was 7 120.

The funds are managed by boards of trustees, with 50% of the trustees being elected by members and 50% 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 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.

The total assets of the funds at year-end on 31 August 2004 amounted to R417.6 million. The assets of the Clicks Group Retirement Fund are managed by Investment Solutions, while the management of the assets of the two other Clicks funds are done by Old Mutual and Metropolitan. The assets of the New UPD Corporate Selection Pension Fund are managed by Stanlib Asset Management.

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

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, which are not operated by the group. PM&A employees can choose to join the Rainmaker Pension Fund or the Rainmaker Provident Fund.

Medical aid

Membership of the Clicks Group Medical Scheme is

Corporate Citizenship (continued)

compulsory for 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 2 380 at year-end and the solvency ratio of the scheme was 45%.

Staff welfare

Housing assistance

The housing assistance programme has enabled many employees to own homes for the first time and improve their living standards. More than R8.3 million has been made available through low-interest loans to staff through this programme.

Occupational healthcare

A pilot occupational healthcare project has been initiated at the group's distribution centre in Gauteng. Qualified nursing staff provide basic healthcare services, including counselling, family planning, health education and occupational health management. The effectiveness of this project will be evaluated before extending the services to other areas in the group.

Fraud management

The group subscribes to the Tip-Offs Anonymous whistle blowing facility which allows any staff member to report

suspected fraudulent or unethical behaviour via a toll-free hotline. Every reported incident is investigated and during the year 37.5% of the tip-offs proved valid, which resulted in disciplinary action including formal warnings, corrective behaviour and dismissal.

HIV/AIDS management

New Clicks acknowledges the serious threat that HIV/AIDS poses to its staff, their families, the group's customers and the broader society. The group is committed to managing HIV/AIDS-related issues in the workplace, with education and training functions being managed on a decentralised basis by the brands and support services. Responsibility for the development of training materials and counselling has been managed internally in conjunction with external consultants.

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.

The strategy is to limit new infections through education and guidance, extend the life expectancy of HIV-positive employees, and eliminate discrimination and prejudice towards infected employees.

Infected employees do not present a risk to the health or safety of colleagues or customers as HIV/AIDS cannot be transmitted through casual personal contact.

Employees are encouraged to know their status, but 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.

Owing to the confidential nature of employee's HIV/AIDS status, accurate figures of prevalence rates are not available but are estimated to be below the published national and provincial averages.

Employees with HIV/AIDS can continue with employment until they are certified as being medically unfit to work. The group will pay for triple anti-retroviral therapy and counselling for employees in the case of reported rape.

Although no formal assessment has been commissioned on the impact of HIV/AIDS on the group's business and its markets, 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.

A total of R250 000 was spent on HIV/AIDS-related training during the year, and this is forecast to increase to more than R450 000 in the forthcoming year.

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 group and the environment.

This includes ensuring the safety of the products sold through 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 the three New Clicks distribution centres in Cape Town, Johannesburg and Durban. 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. The National Occupational Safety Association (NOSA) conducted safety, health and environmental audits at the three distribution centres in August and September

Corporate Citizenship (continued)

2004. All three received ratings above 90%, with two receiving five star ratings and the third a four star rating.

Compliance certificates have been issued by the Automatic Sprinkler Inspection Bureau for the three distribution centres confirming that the fire protection systems are in sound condition.

The safety, health and environmental 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.

Corporate social investment

The New Clicks Foundation manages the group's corporate social investment programme and all grants are channelled through the Foundation.

New Clicks is committed to investing funds in projects which lead to community upliftment and personal empowerment as a means of bringing about sustainable development in the country.

The Foundation is managed by an internal board of trustees who determine the funding criteria and meet regularly to assess the progress of current programmes, monitor the appropriate usage of funds and evaluate requests for funding.

In the past year over R500 000 was invested in social programmes, bringing the total disbursement since the formation of the New Clicks Foundation in 2002 to R2.5 million.

In addition to the grants from the Foundation, Clicks stores are allocated a budget to respond to requests from their local communities. A further budget is administered at the national store support centre (head office) for small, community-focused requests for financial assistance.

The Foundation has identified three main areas of support: brand-led support, social projects and community-based funding. The major projects supported by the Foundation during the year include:

Brand-led support

- Clicks is supporting the Cancer Association of South Africa (CANSA) to promote skin cancer awareness. The SunSmart campaign highlights the dangers of excessive exposure to the sun and advocates preventative measures to avoid sunburn that could lead to skin cancer. South Africa has one of the highest incidences of skin cancer in the world, with more than 10 000 new cases reported annually. Skin cancer is, however, preventable and curable if detected early. The Foundation has committed R330 000 to the project, and the first R50 000 was paid during the year. Clicks stores are participating in various initiatives to educate customers, with pharmacists and skin care consultants promoting advice to clients on skin and sun care products.
- One of the other major areas of funding is the Living Music Workshop series, a grassroots music education project co-ordinated by CD Wherehouse, one of the brands in the New Clicks Entertainment division. The workshop series was started in August 2002 in partnership with Paul Bothner's Music, music development company New World Productions, and Tomecy (Township Music Education for Children and Youth) in Guguletu. Workshops are held every month in community centres, aimed at developing the local music industry and nurturing young black talent.

Social project support

- The group has invested more than R700 000 in the Big Issue project over the last four years. This social development and upliftment project is aimed at assisting homeless people to earn a living and integrating them back into the formal job market. The funding has been used to run workshops for vendors of the Big Issue, staff training workshops, a mobile distribution unit and the development of a poverty alleviation and empowerment centre.

- The Red Cross Children's Hospital is the only specialist paediatric facility of its kind in southern Africa, and serves children throughout the continent. The hospital's trauma unit caters for the increasing number of victims of accidental and non-accidental injury, treating more than 10 000 children annually. The Foundation has contributed towards the upgrading of the trauma unit.
- Casual Day has become an institution in many schools and businesses, with people paying R5.00 to wear casual clothing and show their support for those living with disabilities. Epilepsy South Africa co-ordinates the annual project and funds raised from Casual Day are distributed to a range of institutions providing services and assistance to the disabled. The New Clicks Foundation has supported this campaign since 1998 and this year donated R55 000.

Community support

- The New Clicks national store support centre is located in the Cape Town suburb of Woodstock and the group has been one of the main supporters of a programme to address the social challenges facing this community. The Woodstock Upliftment Project (WUP) brings together all community role players to discuss crime prevention, education, old age care, waste management, environmental and social issues. The WUP runs a holiday programme for school children living in the area and more than 200 children attended the most recent programme each day.

Political contributions

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

Investor relations

New Clicks has a formalised market disclosure policy which outlines its commitment to regular and transparent dialogue with shareholders and investment analysts, as well as the obligation to disclose accurate and timely information to the market.

The group's investor relations programme is managed by an external consultancy on an outsourced basis. Key elements of this programme include:

- Regular meetings between the chief executive/chief financial officer and local and international shareholders and analysts, with over 90 meetings taking place during the year.
- Presentations to investors in Johannesburg and Cape Town on the interim and final results, as well as around major group or industry developments.
- Presentations are webcast to ensure simultaneous dissemination of information to shareholders globally, and are archived on the corporate website for ongoing access.
- Most meetings are attended by more than one person from the group and/or the external investor relations consultants to ensure consistency of information and to ensure that sensitive information is not shared on a selective basis.
- Participation in industry and broker conferences.
- Site visits to expose investors to the business operations of the group.
- All information released on SENS is also distributed to an extensive database of contacts in the investment community.

Investec Bank is the appointed sponsor to New Clicks, in compliance with the JSE Securities Exchange Listings Requirements.

Seven Year Review

		5 year CAGR (%)	2004	2003
Income Statement				
Turnover	R'000	18.8%	8 048 802	7 367 739
Gross profit	R'000	14.5%	1 747 350	1 756 190
Headline earnings	R'000	18.0%	270 634	221 296
Balance Sheet				
Ordinary shareholders' interest	R'000	13.4%	1 372 697	1 608 510
Non-current loans payable	R'000	22.4%	259 730	343 273
Property, plant and equipment	R'000	14.4%	659 347	747 263
Inventories	R'000	16.2%	1 411 339	1 401 061
Total assets	R'000	15.5%	3 133 634	3 453 830
Cash Flow				
Net cash effects of operating activities	R'000	(2.9%)	218 962	337 208
Net interest paid	R'000	51.6%	59 778	84 117
Capital expenditure	R'000	14.5%	160 349	203 005
Depreciation and amortisation	R'000	18.4%	109 021	103 726
Performance				
Turnover growth	%		9.2	34.3
Comparable stores turnover growth – southern Africa	%		8.1	8.0
Gross profit growth	%		(0.5)	12.9
Gross profit margin	%		21.7	23.8
Inventory turn	times		5.6	5.3
Current ratio	times		1.5	1.3
Return on total assets	%		8.2	7.5
Return on shareholders' interest	%		18.2	15.6
Net interest bearing debt to shareholders' funds at year end	%		25.4	27.7
Effective taxation rate	%		113.2	28.1
Exchange rates				
Rand/US dollar				
– average rate	R/US$		6.65	8.55
– closing rate	R/US$		6.68	7.36
Statistics				
Number of permanent employees		7.1%	9 011	7 973
Number of stores				
– company owned		3.1%	681	729
– franchised		4.6%	15	213
Weighted trading area – company owned	m^2	1.0%	231 037	273 636
Share statistics				
Number of shares in issue	'000	4.8%	361 205	354 118
Number of shares in issue (net of treasury shares)	'000		345 391	354 118
Weighted average number of shares (net of treasury shares)	'000	4.5%	353 571	337 587
Weighted average diluted number of shares (net of treasury shares)	'000	4.4%	363 046	342 906
Headline earnings per share				
– undiluted	cents	12.9%	76.5	65.6
– diluted	cents	13.0%	74.5	64.5
Dividend per share	cents	19.8%	35.0	26.0
Dividend cover	times		2.2	2.5
Share price				
– closing	cents	(2.1%)	770	665
– high	cents	(3.0%)	799	715
– low	cents	13.5%	660	501
Net asset value per share	cents	8.2%	380	454
Net tangible asset value per share	cents	6.6%	351	388
Market capitalisation	R'000	2.6%	2 781 279	2 354 885
Market capitalisation (net of treasury shares)	R'000		2 659 511	2 354 885
Price earnings ratio	times		10.1	10.1
Volume of shares traded	'000		163 031	156 283
Percentage of shares traded	%		46.1	46.3
Shareholders' return	cents		140	41
Increase/(decrease) in share price	cents		105	15
Distribution per share	cents		35	26
Other information				
Inflation rate (CPI)	%		1.0	5.1
Interest rates				
Prime overdraft rate				
– closing	%		11.0	14.5
– average	%		11.9	16.6
R153				
– closing	%		8.9	9.5
– average	%		9.4	10.4
JSE Securities Exchange share indices				
All Share Index		10.8%	11 160	9 226
General Retail Index		4.4%	13 344	9 584

2002	2001	2000	1999	1998
5 487 791	4 365 203	3 997 525	3 394 426	2 342 177
1 555 401	1 219 004	1 103 491	888 135	588 798
157 546	171 666	160 221	118 110	77 033
1 221 757	1 015 533	827 555	730 659	617 070
230 546	242 398	178 386	94 669	98 213
612 537	530 261	491 581	336 485	304 782
1 055 137	897 348	742 010	666 028	568 611
2 468 580	1 991 740	1 743 929	1 524 056	1 221 437
213 665	121 585	75 521	253 830	86 388
67 220	19 997	11 721	7 461	11 801
158 005	109 669	232 933	81 448	67 488
97 075	75 982	58 025	46 791	30 229
25.7	9.2	17.8	44.9	26.3
9.2	4.7	11.5	9.4	14.1
27.6	10.5	24.2	50.8	31.0
28.3	27.9	27.6	26.2	25.1
5.2	5.2	5.4	5.1	4.1
1.3	1.4	1.4	1.5	1.5
7.1	9.3	9.9	8.6	7.2
14.1	18.6	20.3	17.3	14.2
27.8	27.2	27.5	13.0	15.9
29.6	32.4	30.1	30.8	26.9
10.49	7.84	6.47	6.03	5.16
10.64	8.33	6.67	6.25	6.25
6 364	6 338	6 279	6 388	5 763
699	684	628	584	524
192	86	12	12	12
261 539	256 280	236 614	220 021	200 749
305 172	298 541	288 399	285 572	281 717
305 172	298 541	288 399	285 572	281 717
301 772	293 200	286 900	283 600	258 800
317 272	312 900	305 200	292 100	258 800
52.2	58.6	55.8	41.6	29.7
49.7	54.9	52.5	40.4	29.7
24.0	19.8	18.0	14.2	11.4
2.1	2.8	2.9	2.9	2.6
650	909	1 200	855	430
930	1 230	1 285	930	950
555	650	770	350	415
400	340	287	256	219
341	314	287	256	219
1 983 618	2 713 738	3 460 788	2 441 641	1 211 383
1 983 618	2 713 738	3 460 788	2 441 641	1 211 383
12.5	15.5	21.5	20.5	14.5
180 585	107 819	120 058	120 501	79 894
59.8	36.8	41.8	42.5	30.9
(235)	(271)	363	439	(129)
(259)	(291)	345	425	(140)
24	20	18	14	11
10.3	4.6	6.7	3.3	7.6
16.0	13.5	14.5	16.5	25.5
14.3	14.3	15.0	21.1	20.0
11.6	10.8	13.5	15.3	19.6
11.5	12.2	14.2	15.6	14.3
9 677	8 887	8 362	6 673	4 480
6 439	6 682	10 849	10 762	6 237

Currency Adjusted Balance Sheet

at 31 August 2004

	Notes	2004 R'000	2003 R'000	2004 US$'000
Assets				
Non-current assets		859 687	1 452 501	128 696
Property, plant and equipment	1	659 347	747 263	98 705
Trademark	2	3 930	4 580	588
Goodwill	3	98 280	235 288	14 713
Deferred taxation assets	4	71 676	81 363	10 730
Loans	6	26 454	384 007	3 960
Current assets		2 273 947	2 001 329	340 411
Inventories	7	1 411 339	1 401 061	211 278
Accounts receivable	8	443 762	417 305	66 431
Taxation prepaid		8 442	3 754	1 264
Cash on hand		410 404	179 209	61 438
Total assets		3 133 634	3 453 830	469 107
Equity and liabilities				
Capital and reserves		1 372 697	1 608 510	205 494
Non-current liabilities		278 500	358 525	41 690
Loans payable	12	259 730	343 273	38 881
Deferred taxation liabilities	4	18 770	15 252	2 809
Current liabilities		1 482 437	1 486 795	221 923
Short-term borrowings	13	8 710	33 005	1 304
Accounts payable	15	1 390 084	1 373 743	208 097
Loans payable	12	80 819	69 259	12 099
Taxation payable		2 824	10 788	423
Total equity and liabilities		3 133 634	3 453 830	469 107
Rates used for currency conversion				R
Closing rate				6.68

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 converted to US dollars and UK pounds, using the closing spot rates of those currencies.

Currency Adjusted Cash Flow Statement

for the year ended 31 August 2004

	2004 R'000	2003 R'000	2004 US$'000
Cash generated by operations	478 296	552 713	71 924
Net interest paid	(59 778)	(84 117)	(8 989)
Taxation paid	(101 732)	(87 145)	(15 298)
Cash effects of operating activities	316 786	381 451	47 637
Distributions to ordinary shareholders	(97 824)	(44 243)	(14 710)
Net cash effects of operating activities	218 962	337 208	32 927
Net cash effects of investing activities	164 523	(267 501)	24 740
Net cash effects of financing activities	(128 115)	188 949	(19 265)
Net increase in cash and cash equivalents	255 370	258 656	38 402
Rates used for currency conversion			R
Average rate			6.65

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 converted to US dollars and UK pounds, using the average spot rates of those currencies for the year.

2003 US$'000	**2004 £'000**	2003 £'000
197 350	**71 642**	126 304
101 530	**54 946**	64 979
622	**328**	398
31 968	**8 190**	20 460
11 055	**5 973**	7 075
52 175	**2 205**	33 392
271 920	**189 496**	174 028
190 362	**117 612**	121 832
56 699	**36 980**	36 287
510	**704**	326
24 349	**34 200**	15 583
469 270	**261 138**	300 332
218 548	**114 391**	139 870
48 712	**23 208**	31 176
46 640	**21 644**	29 850
2 072	**1 564**	1 326
202 010	**123 539**	129 286
4 484	**726**	2 870
186 650	**115 843**	119 455
9 410	**6 735**	6 023
1 466	**235**	938
469 270	**261 138**	300 332
R	**R**	R
7.36	**12.00**	11.50

2003 US$'000	**2004 £'000**	2003 £'000
64 645	**40 568**	40 551
(9 838)	**(5 070)**	(6 171)
(10 192)	**(8 629)**	(6 394)
44 615	**26 869**	27 986
(5 175)	**(8 297)**	(3 246)
39 440	**18 572**	24 740
(31 287)	**13 954**	(19 626)
22 099	**(10 866)**	13 863
30 252	**21 660**	18 977
R	**R**	R
8.55	**11.79**	13.63

Currency Adjusted Income Statement

for the year ended 31 August 2004

	Notes	2004 R'000	2003 R'000
Continuing operations			
Turnover		7 394 151	5 747 958
Cost of merchandise		5 856 542	4 535 799
Gross profit		1 537 609	1 212 159
Other revenue		462 383	401 143
Other expenditure		1 883 808	1 287 443
Depreciation and amortisation	1, 2	100 425	79 820
Occupancy costs	16	236 701	202 275
Employment costs	17	719 870	565 310
Other operating costs	18	542 229	432 279
Impairment of property, plant and equipment	1	13 496	–
Loss on disposal of property, plant and equipment		1 920	141
Goodwill amortisation	3	10 971	7 618
Goodwill impairment	3	258 196	–
Profit before interest and taxation		116 184	325 859
Net interest paid		(54 470)	(57 450)
Net interest paid – normal operations	19	(54 470)	(57 450)
Interest accrued – PM&A		24 986	59 265
Provision against interest accrued – PM&A		(24 986)	(59 265)
Profit before taxation		61 714	268 409
Taxation	20	93 604	68 411
Net (loss)/profit from continuing operations		(31 890)	199 998
Discontinued operations			
Turnover		654 651	1 619 781
Profit before interest and taxation		38 932	56 269
Net interest paid		(5 308)	(26 667)
Profit before taxation		33 624	29 602
Taxation		14 287	15 332
Net profit from discontinued operations		19 337	14 270
Reconciliation of headline earnings			
(Loss)/profit attributable to ordinary shareholders		(12 553)	214 268
Adjustment for			
Impairment of property, plant and equipment		9 447	–
Profit on sale of stores (net of taxation)		–	(18 518)
Profit on sale of Australian operations		(1 738)	–
Profit on sale of Intercare		(587)	–
Loss on disposal of property, plant and equipment (net of taxation)		1 597	1 827
Goodwill amortisation		16 272	23 719
Goodwill impairment		258 196	–
Headline earnings		270 634	221 296
Rates used for currency conversion			
Average rate			

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 converted to US dollars and UK pounds, using the average spot rates of those currencies for the year.

2004 US$'000	2003 US$'000	2004 £'000	2003 £'000
1 111 902	672 276	627 154	421 714
880 683	530 503	496 738	332 781
231 219	141 773	130 416	88 933
69 531	46 917	39 218	29 431
283 279	150 578	159 782	94 455
15 102	9 336	8 518	5 856
35 594	23 658	20 076	14 840
108 251	66 118	61 058	41 475
81 538	50 559	45 991	31 715
2 029	–	1 145	–
289	16	163	10
1 650	891	931	559
38 826	–	21 900	–
17 471	38 112	9 852	23 909
(8 191)	(6 719)	(4 620)	(4 215)
(8 191)	(6 719)	(4 620)	(4 215)
3 757	6 932	2 119	4 348
(3 757)	(6 932)	(2 119)	(4 348)
9 280	31 393	5 232	19 694
14 076	8 001	7 939	5 019
(4 796)	23 392	(2 707)	14 675
98 444	189 448	55 526	118 839
5 854	6 581	3 302	4 128
(798)	(3 119)	(450)	(1 956)
5 056	3 462	2 852	2 172
2 148	1 793	1 212	1 125
2 908	1 669	1 640	1 047
(1 888)	25 061	(1 067)	15 722
1 421	–	801	–
–	(2 166)	–	(1 359)
(261)	–	(147)	–
(88)	–	(50)	–
240	214	135	134
2 447	2 774	1 380	1 740
38 826	–	21 900	–
40 697	25 883	22 952	16 237
R	R	R	R
6.65	8.55	11.79	13.63

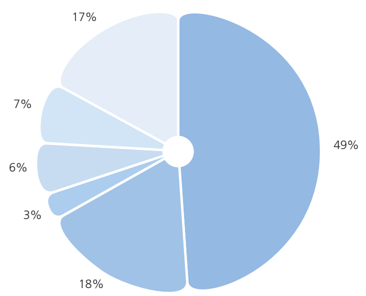
Value Added Statement

for the year ended 31 August 2004

	2004		2003	
	R'000	%	R'000	%
Turnover	8 048 802		7 367 739	
Other revenue	540 318		528 261	
Paid to suppliers for goods and services	(6 893 760)		(6 094 821)	
Value added	1 695 360		1 801 179	
Applied as follows:				
Employees – salaries, wages and other benefits	830 511	49.0%	869 402	48.3%
Lessors for use of premises	299 555	17.7%	398 875	22.1%
Lenders for monies borrowed	59 778	3.5%	84 117	4.7%
Providers of capital – cash dividends	97 824	5.8%	44 243	2.5%
Taxation	123 028	7.3%	99 628	5.5%
Corporate taxation	105 639	6.2%	85 599	4.7%
Property taxes	3 838	0.2%	3 123	0.2%
RSC levies	13 551	0.8%	10 906	0.6%
Reinvested in the group	284 664	16.8%	304 914	16.9%
Depreciation and amortisation	109 021	6.4%	103 726	5.7%
Goodwill amortisation	16 272	1.0%	23 719	1.3%
Deferred taxation	2 252	0.1%	(1 856)	(0.1%)
Goodwill impairment	258 196	15.2%	–	0.0%
Scrip distributions	–	0.0%	37 362	2.1%
Retained income	(101 077)	(5.9%)	141 963	7.9%
Distribution of value added	1 695 360	100.0%	1 801 179	100.0%

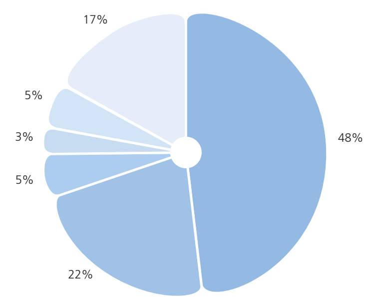
Distribution of value added

2004



- Employees – salaries, wages and other benefits
- Lessors for use of premises
- Lenders for monies borrowed
- Providers of capital – cash dividends
- Taxation
- Reinvested in the group

2003



Group Balance Sheet

at 31 August 2004

	Notes	2004 R'000	2003 R'000
Assets			
Non-current assets		859 687	1 452 501
Property, plant and equipment	1	659 347	747 263
Trademark	2	3 930	4 580
Goodwill	3	98 280	235 288
Deferred taxation assets	4	71 676	81 363
Loans	6	26 454	384 007
Current assets		2 273 947	2 001 329
Inventories	7	1 411 339	1 401 061
Accounts receivable	8	443 762	417 305
Taxation prepaid		8 442	3 754
Cash on hand		410 404	179 209
Total assets		3 133 634	3 453 830
Equity and liabilities			
Capital and reserves		1 372 697	1 608 510
Ordinary share capital	9	3 612	3 541
Share premium	9	907 107	874 153
Treasury shares	10	(122 981)	–
Non-distributable reserves	11	28 942	73 722
Distributable reserve		556 017	657 094
Non-current liabilities		278 500	358 525
Loans payable	12	259 730	343 273
Deferred taxation liabilities	4	18 770	15 252
Current liabilities		1 482 437	1 486 795
Short-term borrowings	13	8 710	33 005
Accounts payable and accruals	15	1 390 084	1 373 743
Loans payable	12	80 819	69 259
Taxation payable		2 824	10 788
Total equity and liabilities		3 133 634	3 453 830

Group Income Statement

for the year ended 31 August 2004

	Notes	Continuing operations 2004 R'000	2003 R'000
Turnover		7 394 151	5 747 958
Cost of merchandise		5 856 542	4 535 799
Gross profit		1 537 609	1 212 159
Other revenue		462 383	401 143
Other expenditure		1 883 808	1 287 443
Depreciation and amortisation	1, 2	100 425	79 820
Occupancy costs	16	236 701	202 275
Employment costs	17	719 870	565 310
Other operating costs	18	542 229	432 279
Impairment of property, plant and equipment	1	13 496	–
Profit on sale of stores		–	–
Profit on sale of Australian operations	33.5	–	–
Profit on sale of Intercare	33.5	–	–
Loss on disposal of property, plant and equipment		1 920	141
Goodwill amortisation	3	10 971	7 618
Goodwill impairment	3	258 196	–
Profit before interest and taxation		116 184	325 859
Net interest paid		(54 470)	(57 450)
Net interest paid – normal operations	19	(54 470)	(57 450)
Interest accrued – PM&A		24 986	59 265
Provision against interest accrued – PM&A		(24 986)	(59 265)
Net profit before taxation		61 714	268 409
Taxation	20	93 604	68 411
(Loss)/profit attributable to shareholders		(31 890)	199 998
Adjustment for:			
Impairment of property, plant and equipment		9 447	–
Profit on sale of stores (net of taxation)		–	–
Profit on sale of Australian operations		–	–
Profit on sale of Intercare		–	–
Loss on disposal of property, plant and equipment (net of taxation)		1 344	99
Goodwill amortisation		10 971	7 618
Goodwill impairment		258 196	–
Headline earnings		248 068	207 715
Headline earnings per share (cents)			
– undiluted	21	70.2	61.5
– diluted	21	68.3	60.6
(Loss)/earnings per share (cents)			
– undiluted	21	(9.0)	59.2
– diluted	21	(8.8)	58.3
Dividend per share (cents)			
Paid – December	22		
Paid – July	22		
Payable – December			

Discontinued operations		Group	
2004	2003	**2004**	2003
R'000	R'000	**R'000**	R'000
654 651	1 619 781	**8 048 802**	7 367 739
444 910	1 075 750	**6 301 452**	5 611 549
209 741	544 031	**1 747 350**	1 756 190
77 935	127 118	**540 318**	528 261
248 744	614 880	**2 132 552**	1 902 323
8 596	23 906	**109 021**	103 726
62 854	196 600	**299 555**	398 875
110 641	304 092	**830 511**	869 402
63 316	98 166	**605 545**	530 445
–	–	**13 496**	–
–	(26 454)	**–**	(26 454)
(1 738)	–	**(1 738)**	–
(587)	–	**(587)**	–
361	2 469	**2 281**	2 610
5 301	16 101	**16 272**	23 719
–	–	**258 196**	–
38 932	56 269	**155 116**	382 128
(5 308)	(26 667)	**(59 778)**	(84 117)
(5 308)	(26 667)	**(59 778)**	(84 117)
–	–	**24 986**	59 265
–	–	**(24 986)**	(59 265)
33 624	29 602	**95 338**	298 011
14 287	15 332	**107 891**	83 743
19 337	14 270	**(12 553)**	214 268
–	–	**9 447**	–
–	(18 518)	**–**	(18 518)
(1 738)	–	**(1 738)**	–
(587)	–	**(587)**	–
253	1 728	**1 597**	1 827
5 301	16 101	**16 272**	23 719
–	–	**258 196**	–
22 566	13 581	**270 634**	221 296
6.3	4.1	**76.5**	65.6
6.2	3.9	**74.5**	64.5
5.4	4.3	**(3.6)**	63.5
5.3	4.2	**(3.5)**	62.5
		15.1	14.1
		12.5	10.9
		22.5	

Group Changes in Equity Statement

for the year ended 31 August 2004

	Number of shares '000	Share capital (Note 9) R'000	Share premium (Note 9) R'000	Treasury shares (Note 10) R'000	Non–distributable reserves (Note 11) R'000	Distributable reserve R'000	**Total R'000**
Balance at 1 September 2002	305 172	3 052	534 455	–	169 119	515 131	1 221 757
Capitalisation awards	6 165	62	37 300	–	–	–	37 362
Shares issued in respect of options	1 933	19	9 753	–	–	–	9 772
Share issue expenses written-off	–	–	(1 053)	–	–	–	(1 053)
Acquisition of UPD	40 848	408	293 698	–	–	–	294 106
Foreign currency translation reserve	–	–	–	–	(86 097)	–	(86 097)
Deferred tax on write-off of intangible assets	–	–	–	–	(9 300)	9 300	–
Net profit for the year	–	–	–	–	–	214 268	214 268
Distributions (note 22)	–	–	–	–	–	(81 605)	(81 605)
Balance at 31 August 2003	**354 118**	**3 541**	**874 153**	**–**	**73 722**	**657 094**	**1 608 510**
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 on disposal of subsidiary	**–**	**–**	**–**	**–**	**(35 726)**	**–**	**(35 726)**
Foreign currency translation reserve	**–**	**–**	**–**	**–**	**246**	**–**	**246**
Deferred tax on write-off of intangible assets	**–**	**–**	**–**	**–**	**(9 300)**	**9 300**	**–**
Net loss for the year	**–**	**–**	**–**	**–**	**–**	**(12 553)**	**(12 553)**
Dividends (note 22)	**–**	**–**	**–**	**–**	**–**	**(97 824)**	**(97 824)**
Balance at 31 August 2004	**345 391**	**3 612**	**907 107**	**(122 981)**	**28 942**	**556 017**	**1 372 697**

Group Cash Flow Statement

for the year ended 31 August 2004

	Notes	2004 R'000	2003 R'000
Cash effects of operating activities			
Cash generated by operations	33.1	478 296	552 713
Net interest paid	33.2	(59 778)	(84 117)
Taxation paid	33.3	(101 732)	(87 145)
Cash inflow from operating activities before distributions		316 786	381 451
Dividends paid to ordinary shareholders	22	(97 824)	(44 243)
Net cash effects of operating activities		218 962	337 208
Cash effects of investing activities			
Investment in property, plant and equipment to maintain and expand operations	1	(160 349)	(203 005)
Acquisition of subsidiaries and businesses	33.4	13 310	(4 141)
Acquisition of additional goodwill	3	(203)	–
Proceeds from disposal of subsidiaries and businesses	33.5	310 356	–
Proceeds from disposal of property, plant and equipment		4 760	4 411
Increase in loans		(3 351)	(64 766)
Net cash effects of investing activities		164 523	(267 501)
Cash effects of financing activities			
Shareholders' funds raised	33.6	33 025	8 719
Purchase of treasury shares		(99 523)	–
Long-term borrowings – raised		809	180 230
Long-term borrowings – repaid		(62 426)	–
Net cash effects of financing activities		(128 115)	188 949
Net increase in cash and cash equivalents		255 370	258 656
Adjustment for foreign exchange fluctuation		120	(3 869)
Cash and cash equivalents at beginning of the year		146 204	(108 583)
Cash and cash equivalents at end of the year	33.7	401 694	146 204

Operational Segmental Analysis

Balance Sheet at 31 August 2004

	Retail 2004 R'000	Retail 2003 R'000	SOUTHERN AFRICA UPD 2004 R'000	SOUTHERN AFRICA UPD 2003 R'000
Assets				
Non-current assets	1 295 240	1 111 721	73 772	43 721
Property, plant and equipment	553 166	538 767	72 178	74 803
Trademark	3 930	4 580	–	–
Goodwill	14 330	15 225	83 950	94 025
Deferred taxation assets	25 146	82 996	1 152	(1 633)
Intragroup loans	672 214	(173 729)	(83 508)	173 729
Loans	26 454	643 882	–	(297 203)
Current assets	1 593 444	1 222 058	475 580	426 190
Inventories	1 061 111	944 778	210 267	179 750
Accounts receivable	139 475	127 067	261 424	236 576
Taxation prepaid	7 518	3 468	924	286
Cash on hand	385 340	146 745	2 965	9 578
Total assets	2 888 684	2 333 779	549 352	469 911
Equity and liabilities				
Capital and reserves	1 763 386	1 237 366	(374)	(6 748)
Ordinary share capital	3 612	3 541	–	–
Preference share capital	–	(393 034)	–	–
Share premium	907 107	874 153	–	–
Treasury shares	(122 981)	–	–	–
Non-distributable reserves	28 942	149 885	–	–
Distributable reserve	946 706	602 821	(374)	(6 748)
Non-current liabilities	252 353	278 014	26 147	70 652
Loans payable	236 560	262 762	23 170	70 652
Deferred taxation liabilities	15 793	15 252	2 977	–
Current liabilities	872 945	818 399	523 579	406 007
Short-term borrowings	–	–	8 710	3 525
Accounts payable	792 068	741 356	512 103	400 502
Loans payable	78 053	67 279	2 766	1 980
Taxation payable	2 824	9 764	–	–
Total equity and liabilities	2 888 684	2 333 779	549 352	469 911
Segmental cash flow information for the year ended 31 August 2004				
Capital expenditure	(125 103)	(145 784)	(2 966)	–
Depreciation and amortisation	91 818	75 929	5 299	3 891
Non-cash items:				
Foreign exchange (profit)/loss	(5 361)	1 637	–	–
Impairment of property, plant and equipment	–	–	–	–
Profit on sale of Australian operations	–	–	–	–
Profit on sale of Intercare	(587)	–	–	–
Loss/(profit) on disposal of property, plant and equipment	422	141	(98)	–
Goodwill amortisation	896	546	10 075	7 072
Goodwill impairment	258 196	–	–	–

Pharmacy	Total		AUSTRALIA		TOTAL	
2004	2004	2003	2004	2003	2004	2003
R'000	R'000	R'000	R'000	R'000	R'000	R'000
(509 325)	859 687	1 155 442	–	297 059	859 687	1 452 501
34 003	659 347	613 570	–	133 693	659 347	747 263
–	3 930	4 580	–	–	3 930	4 580
–	98 280	109 250	–	126 038	98 280	235 288
45 378	71 676	81 363	–	–	71 676	81 363
(588 706)	–	–	–	–	–	–
–	26 454	346 679	–	37 328	26 454	384 007
204 923	2 273 947	1 648 248	–	353 081	2 273 947	2 001 329
139 961	1 411 339	1 124 528	–	276 533	1 411 339	1 401 061
42 863	443 762	363 643	–	53 662	443 762	417 305
–	8 442	3 754	–	–	8 442	3 754
22 099	410 404	156 323	–	22 886	410 404	179 209
(304 402)	3 133 634	2 803 690	–	650 140	3 133 634	3 453 830
(390 315)	1 372 697	1 230 618	–	377 892	1 372 697	1 608 510
–	3 612	3 541	–	–	3 612	3 541
–	–	(393 034)	–	393 034	–	–
–	907 107	874 153	–	–	907 107	874 153
–	(122 981)	–	–	–	(122 981)	–
–	28 942	149 885	–	(76 163)	28 942	73 722
(390 315)	556 017	596 073	–	61 021	556 017	657 094
–	278 500	348 666	–	9 859	278 500	358 525
–	259 730	333 414	–	9 859	259 730	343 273
–	18 770	15 252	–	–	18 770	15 252
85 913	1 482 437	1 224 406	–	262 389	1 482 437	1 486 795
–	8 710	3 525	–	29 480	8 710	33 005
85 913	1 390 084	1 141 858	–	231 885	1 390 084	1 373 743
–	80 819	69 259	–	–	80 819	69 259
–	2 824	9 764	–	1 024	2 824	10 788
(304 402)	3 133 634	2 803 690	–	650 140	3 133 634	3 453 830
(11 069)	(139 138)	(145 784)	(21 211)	(57 221)	(160 349)	(203 005)
3 845	100 962	79 820	8 059	23 906	109 021	103 726
–	(5 361)	1 637	–	–	(5 361)	1 637
13 496	13 496	–	–	–	13 496	–
–	–	–	(1 738)	–	(1 738)	–
–	(587)	–	–	–	(587)	–
1 596	1 920	141	361	2 469	2 281	2 610
–	10 971	7 618	5 301	16 101	16 272	23 719
–	258 196	–	–	–	258 196	–

Operational Segmental Analysis (continued)

Income Statement for the year ended 31 August 2004

SOUTHERN AFRICA

	Retail		UPD	
	2004	2003	**2004**	2003
	R'000	R'000	**R'000**	R'000
Turnover	**4 746 090**	4 296 735	**2 309 539**	1 451 223
Cost of merchandise	**3 539 276**	3 212 363	**2 105 518**	1 323 436
Gross profit	**1 206 814**	1 084 372	**204 021**	127 787
Other revenue	**404 513**	356 719	**61 050**	51 892
Other expenditure	**1 538 417**	1 160 714	**199 448**	135 159
Depreciation and amortisation	**91 818**	75 929	**5 299**	3 891
Occupancy costs	**207 676**	195 736	**9 981**	6 539
Employment costs	**564 910**	506 422	**88 991**	58 888
Other operating costs	**415 086**	381 940	**85 200**	58 769
Impairment of property, plant and equipment	**–**	–	**–**	–
Profit on sale of stores	**–**	–	**–**	–
Profit on sale of Australian operations	**–**	–	**–**	–
Profit on sale of Intercare	**(587)**	–	**–**	–
Loss/(profit) on disposal of property, plant and equipment	**422**	141	**(98)**	–
Goodwill amortisation	**896**	546	**10 075**	7 072
Goodwill impairment	**258 196**	–	**–**	–
Profit/(loss) before interest and taxation	**72 910**	280 377	**65 623**	44 520
Net interest (paid)/received	**(27 503)**	(61 359)	**(26 998)**	3 909
Net interest paid – normal operations	**(27 503)**	(61 359)	**(26 998)**	3 909
Interest accrued – PM&A	**24 986**	59 265	**–**	–
Provision against interest accrued – PM&A	**(24 986)**	(59 265)	**–**	–
Net profit/(loss) before taxation	**45 407**	219 018	**38 625**	48 429
Taxation	**82 217**	51 980	**14 691**	16 431
(Loss)/profit attributable to ordinary shareholders	**(36 810)**	167 038	**23 934**	31 998
Reconciliation of headline earnings				
(Loss)/profit attributable to ordinary shareholders	**(36 810)**	167 038	**23 934**	31 998
Adjustment for				
Impairment of property, plant and equipment	**–**	–	**–**	–
Profit on sale of stores (net of taxation)	**–**	–	**–**	–
Profit on sale of Australian operations	**–**	–	**–**	–
Profit on sale of Intercare	**(587)**	–	**–**	–
Loss/(profit) on disposal of property, plant and equipment (net of taxation)	**295**	99	**(68)**	–
Goodwill amortisation	**896**	546	**10 075**	7 072
Goodwill impairment	**258 196**	–	**–**	–
Headline earnings/(loss)	**221 990**	167 683	**33 941**	39 070

	Pharmacy	Intragroup elimination	Total		AUSTRALIA		TOTAL	
	2004	2004	2004	2003	2004	2003	2004	2003
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
	523 242	(184 720)	7 394 151	5 747 958	654 651	1 619 781	8 048 802	7 367 739
	393 968	(182 220)	5 856 542	4 535 799	444 910	1 075 750	6 301 452	5 611 549
	129 274	(2 500)	1 537 609	1 212 159	209 741	544 031	1 747 350	1 756 190
	3 477	–	469 040	408 611	71 278	119 650	540 318	528 261
	153 369		1 891 234	1 295 873	241 318	606 450	2 132 552	1 902 323
	3 845	–	100 962	79 820	8 059	23 906	109 021	103 726
	20 926	–	238 583	202 275	60 972	196 600	299 555	398 875
	68 723	–	722 624	565 310	107 887	304 092	830 511	869 402
	44 783	–	545 069	440 709	60 476	89 736	605 545	530 445
	13 496	–	13 496	–	–	–	13 496	–
	–	–	–	–	–	(26 454)	–	(26 454)
	–	–	–	–	(1 738)	–	(1 738)	–
	–	–	(587)	–	–	–	(587)	–
	1 596	–	1 920	141	361	2 469	2 281	2 610
	–	–	10 971	7 618	5 301	16 101	16 272	23 719
	–	–	258 196	–	–	–	258 196	–
	(20 618)	(2 500)	115 415	324 897	39 701	57 231	155 116	382 128
	40	–	(54 461)	(57 450)	(5 317)	(26 667)	(59 778)	(84 117)
	40	–	(54 461)	(57 450)	(5 317)	(26 667)	(59 778)	(84 117)
	–	–	24 986	59 265	–	–	24 986	59 265
	–	–	(24 986)	(59 265)	–	–	(24 986)	(59 265)
	(20 578)	(2 500)	60 954	267 447	34 384	30 564	95 338	298 011
	(2 554)	(750)	93 604	68 411	14 287	15 332	107 891	83 743
	(18 024)	(1 750)	(32 650)	199 036	20 097	15 232	(12 553)	214 268
	(18 024)	(1 750)	(32 650)	199 036	20 097	15 232	(12 553)	214 268
	9 447	–	9 447	–	–	–	9 447	–
	–	–	–	–	–	(18 518)	–	(18 518)
	–	–	–	–	(1 738)	–	(1 738)	–
	–	–	(587)	–	–	–	(587)	–
	1 117	–	1 344	99	253	1 728	1 597	1 827
	–	–	10 971	7 618	5 301	16 101	16 272	23 719
	–	–	258 196	–	–	–	258 196	–
	(7 460)	(1 750)	246 721	206 753	23 913	14 543	270 634	221 296

Southern African Trading Segmental Analysis

for the year ended 31 August 2004

		Total SA		Clicks		Discom		Entertainment Division	
		2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
		R'000	R'000	**R'000**	R'000	**R'000**	R'000	**R'000**	R'000
Balance Sheet									
Property, plant and equipment		**659 347**	613 570	**147 684**	128 562	**62 324**	54 966	**42 533**	45 310
Inventories		**1 411 339**	1 124 528	**595 316**	509 817	**134 827**	124 650	**113 981**	110 898
Other assets		**1 062 948**	1 065 592	**–**	–	**–**	–	**–**	–
Total assets		**3 133 634**	2 803 690	**743 000**	638 379	**197 151**	179 616	**156 514**	156 208
Income Statement									
Turnover		**7 394 151**	5 747 958	**3 266 065**	2 997 226	**878 703**	771 441	**544 221**	482 287
Operating profit/(loss) (before allocation)*		**399 411**	332 656	**357 260**	344 865	**17 292**	15 429	**36 775**	43 666
Shared Services allocation		**–**	–	**53 085**	85 584	**11 559**	21 000	**16 181**	17 991
Operating profit/(loss) (after allocation)		**399 411**	332 656	**304 175**	259 281	**5 733**	(5 571)	**20 594**	25 675
Ratios									
Operating profit margin (after allocation)	%	**5.4**	5.8	**9.3**	8.7	**0.7**	(0.7)	**3.8**	5.3
Product price inflation (local product only)	%	**–**	–	**0.3**	5.0	**(0.9)**	5.9	**–**	–
Number of stores									
– company owned		**681**	593	**264**	260	**173**	177	**138**	138
– franchised		**15**	15	**14**	14	**1**	1	**–**	–
Weighted trading area	m^2	**231 037**	207 526	**144 916**	140 099	**49 638**	49 351	**17 349**	17 134
Weighted annual sales per m^2	R	**22 784**	20 705	**22 538**	21 394	**17 702**	15 632	**31 369**	28 148
Number of permanent employees		**9 011**	6 995	**3 897**	3 552	**1 792**	1 335	**592**	545

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

The Body Shop		Style Studio	Intercare		UPD		Pharmacy	Shared Services		Intragroup elimination	
2004	2003	2004	2004	2003	2004	2003	2004	2004	2003	2004	2003
R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
8 872	9 323	502	–	6 643	72 178	74 803	34 003	291 251	293 963	–	–
2 226	2 370	25	–	–	210 267	179 750	139 961	217 236	197 043	(2 500)	–
–	–	–	–	–	266 907	215 358	(478 366)	1 274 407	850 234	–	–
11 098	11 693	527	–	6 643	549 352	469 911	(304 402)	1 782 894	1 341 240	(2 500)	–
51 276	45 781	358	–	–	2 309 539	1 451 223	523 242	5 467	–	(184 720)	–
10 081	10 435	(211)	(1 356)	(962)	75 600	51 592	(5 526)	(88 004)	(132 369)	(2 500)	–
(177)	418	–	–	–	–	–	–	(80 648)	(124 993)	–	–
10 258	10 017	(211)	(1 356)	(962)	75 600	51 592	(5 526)	(7 356)	(7 376)	(2 500)	–
20.0	21.9	–	–	–	3.3	3.6	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
24	18	2	–	–	–	–	80	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
1 214	942	26	–	–	–	–	17 894	–	–	–	–
42 237	48 600	13 903	–	–	–	–	29 241	–	–	–	–
76	75	15	–	–	519	604	1 365	755	884	–	–

Accounting Policies

Basis of preparation

The financial statements and group financial statements are prepared in accordance with the requirements of 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 accounting for subsidiaries (refer below). 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.

During the year, the group changed its accounting policy in respect of the Share Incentive Trust in order to comply with JSE Securities Exchange Listings Requirements and AC132 – Consolidated financial statements. The group previously only consolidated companies which were controlled by the group. The group now consolidates all entities over whose financial and operating policies the group has the power to exercise control. The change was effected in order to provide more appropriate presentation. The group now consolidates the Share Incentive Trust and the shares owned by the trust are accounted for as treasury shares. The change in policy has not been applied retrospectively as the changes required to comparative financial information are not material.

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 instruments 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 company 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 financial year-end; and
- Income, expenditure and cash flow items are translated at weighted average exchange rates for the period.

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 period. Monetary items are translated at the ruling exchange rates at the balance sheet dates. Translation gains and losses are taken to income for the period.

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.

Accounting Policies (continued)

Depreciation is provided on the straight-line basis over the estimated useful lives 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 stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged in the income statement on the straight-line basis so as to write off the asset over its economic life, not exceeding 20 years. 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 of a subsidiary 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 amortisation and accumulated impairment losses. Goodwill is amortised on a straight-line basis over its estimated useful life, not exceeding 20 years. The useful life of goodwill is assessed for each acquisition and is detailed in note 3.

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

Impairment of assets

Assets (including goodwill) 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 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.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have 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. For goodwill, a recognised impairment loss is not reversed, unless the impairment loss was caused by a specific external event of an exceptional nature that is not expected to recur and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event. The reversal is recorded as income in the income statement.

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. 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 to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Secondary Taxation on Companies (STC) paid on 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.

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

Accounting Policies (continued)

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 and annual 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 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.

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 declared. 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 detailed geographical segment information.

Segment profit/(loss) before interest and taxation 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 23.

Notes to the Financial Statements

for the year ended 31 August 2004

		Group					
		2004			2003		
		Cost R'000	Accumulated depreciation R'000	Book value R'000	Cost R'000	Accumulated depreciation R'000	Book value R'000
1	**Property, plant and equipment**						
	Land and buildings – freehold and leasehold	299 451	21 098	278 353	295 997	15 996	280 001
	Furniture, equipment and vehicles	781 329	400 335	380 994	856 207	388 945	467 262
		1 080 780	421 433	659 347	1 152 204	404 941	747 263

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

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

Finance lease property is encumbered in terms of a liability under a capitalised finance lease.

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

	Land and buildings – freehold and leasehold R'000	Furniture, equipment and vehicles R'000	Total R'000
Carrying amount at 1 September 2002	209 824	402 713	612 537
Additions	15 387	187 618	203 005
Acquisition of subsidiaries and businesses (see note 33.4)	59 473	9 704	69 177
Disposals	–	(7 376)	(7 376)
Exchange rate adjustment	–	(27 004)	(27 004)
Depreciation	(4 683)	(98 393)	(103 076)
Carrying amount at 31 August 2003	280 001	467 262	747 263
Additions	555	159 794	160 349
Acquisition of subsidiaries and businesses (see note 33.4)	2 823	27 112	29 935
Disposals	–	(7 041)	(7 041)
Disposal of subsidiaries and businesses (see note 33.5)	–	(153 105)	(153 105)
Impairment (see note 3)	–	(13 496)	(13 496)
Exchange rate adjustment	–	3 813	3 813
Depreciation	(5 026)	(103 345)	(108 371)
Carrying amount at 31 August 2004	278 353	380 994	659 347

		Group	
		2004 R'000	2003 R'000
2	**Trademark**		
	Balance at the beginning of the year	4 580	5 230
	Amortisation	(650)	(650)
	Balance at the end of the year	3 930	4 580
	Comprising:		
	Cost	6 880	6 880
	Accumulated amortisation	2 950	2 300
	Balance at the end of the year	3 930	4 580

The trademark relates to The Link Investment Trust. The estimated remaining useful life is six years.

		Group 2004 R'000	Group 2003 R'000
3 Goodwill			
Balance at the beginning of the year		**235 288**	182 502
Acquisition of subsidiaries and businesses (see note 33.4)		**420 447**	106 685
Goodwill on franchise acquisition		**203**	–
Impairment of loan prior to acquisition		**(162 251)**	–
Exchange rate adjustment		**7 849**	(30 180)
Disposal of subsidiaries and businesses (see note 33.5)		**(128 788)**	–
Amortisation		**(16 272)**	(23 719)
Impairment		**(258 196)**	–
Balance at the end of the year		**98 280**	235 288
Net goodwill comprises:	Estimated remaining useful life (years)		
The Link Investment Trust	16	**14 330**	15 225
House		**–**	55 820
Price Attack		**–**	70 218
UPD	8	**83 950**	94 025
Balance at the end of the year		**98 280**	235 288

During the year, the group consolidated PM&A with effect from 1 March 2004. The acquisition gave rise to goodwill of R420.4 million. The group had impaired R162.2 million prior to the date of acquisition in the form of a loan impairment on an intragroup loan that is now eliminated on consolidation.

At the time of acquisition, an indication of impairment existed as a result of recent losses incurred by PM&A as well as the imminent implementation of single exit pricing legislation at the date of acquisition which gave rise to a degree of uncertainty regarding future realisable margins on dispensary product. An impairment test was therefore performed on the remaining goodwill of R258.2 million.

In determining the extent of the impairment, a value in use approach was taken to determine the recoverable amount of PM&A as a cash generating unit. The cash generating unit comprised all individual stores as well as shared corporate assets and liabilities.

Future operating cash flows for a period of five years were forecast using the most recent budgets as a base. A steady growth in cash flows was forecast in perpetuity after the five year period. These cash flows were discounted at a rate of 24.7% being the group's before tax weighted average cost of capital adjusted for a risk premium given the uncertainty of future single exit pricing legislation.

The result of the value in use calculation indicated that the full remaining goodwill of R258.2 million was impaired at 1 March 2004. In addition, items of property, plant and equipment included in the cash generating unit were considered to be impaired to the extent of R13.5 million.

		Company		Group	
		2004	2003	**2004**	2003
		R'000	R'000	**R'000**	R'000
4	**Deferred taxation**				
	Deferred taxation assets	**–**	6 644	**71 676**	81 363
	Deferred taxation liabilities	**–**	–	**(18 770)**	(15 252)
		–	6 644	**52 906**	66 111
	Balance at the beginning of the year	**6 644**	5 000	**66 111**	63 110
	Trademark	**–**	–	**(9 300)**	(9 300)
	Impairment of loan to PM&A	**–**	–	**11 941**	13 334
	Reversal of impairment of loan to PM&A	**–**	–	**(48 675)**	–
	Property, plant and equipment	**–**	–	**(20 774)**	(4 405)
	Income and expense accrual	**–**	–	**28 433**	527
	Tax losses	**(1 644)**	1 644	**40 929**	6 284
	Capital gains tax	**–**	–	**(4 806)**	(4 584)
	Acquisition of subsidiaries and businesses (see note 33.4)	**–**	–	**2 065**	1 145
	Disposal of subsidiaries and businesses (see note 33.5)	**(5 000)**	–	**(14 803)**	–
	Exchange rate adjustment	**–**	–	**1 785**	–
	Balance at the end of the year	**–**	6 644	**52 906**	66 111
	Arising as a result of:				
	Trademark	**–**	–	**27 900**	37 200
	Capital gains tax	**–**	5 000	**(9 390)**	(4 584)
	Impairment of loan to PM&A	**–**	–	**–**	36 734
	Income and expense accrual	**–**	–	**14 342**	(4 568)
	Tax losses	**–**	1 644	**46 928**	6 284
	Acquisition of subsidiaries and businesses	**–**	–	**–**	1 145
	Property, plant and equipment	**–**	–	**(26 874)**	(6 100)
	Balance at the end of the year	**–**	6 644	**52 906**	66 111
5	**Unlisted investment**				
	2 600 redeemable cumulative non-participating preference shares at 9.32% in Sechold Finance Services (Pty) Ltd	**260 000**	260 000	**–**	–

The directors' valuation of the investment at 31 August 2004 is R260 million.

Unrecognised financial asset

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

New Clicks Holdings 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 New Clicks Holdings' preference share investment, the finance company referred to in note 28 has pledged its loan receivable from a subsidiary of New Clicks Holdings in the event of a default in terms of the preference share arrangement. For security of the subsidiary company's loan, New Clicks Holdings 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 12.

Notes to the Financial Statements

(continued) for the year ended 31 August 2004

			Group	
		Notes	2004 R'000	2003 R'000
6	**Loans**			
	Amount owing by PM&A		–	432 772
	Provision against interest accrued		–	(104 790)
	Impairment		–	(32 475)
	Net amount owing by PM&A		–	295 507
	Amount owing by Franchisees		–	37 328
	Amount owing by New Clicks Foundation	6.1	5 021	5 000
	Amount owing by the Share Trust	6.2	–	46 172
	Amount owing by Intercare	6.3	21 433	–
			26 454	384 007

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

6.2 The group now consolidates its Share Trust. The change was effected in order to comply with JSE Securities Exchange Listings Requirements and AC132 – Consolidated financial statements. The change in policy has not been applied retrospectively as the changes required to comparative financial information are not material. The loan is eliminated on consolidation in the current year.

6.3 The loan to Intercare is unsecured and bears interest at prime. Repayment terms are mutually agreed from time to time.

		2004 R'000	2003 R'000
7	**Inventories**		
	Goods for resale – cost	1 409 124	1 398 321
	Goods in transit – cost	1 122	2 340
	Consumables	1 093	400
		1 411 339	1 401 061
8	**Accounts receivable**		
	The following are included in accounts receivable:		
	Trade debtors	282 757	221 136
	Derivative instruments		
	Balance at the beginning of the year	–	–
	Unrealised gain on forward exchange contracts	1 654	–
	Unrealised gain on interest rate swap contracts	768	–
	Balance at the end of the year	2 422	–

In the prior year the valuation of derivative instruments resulted in a liability at year end, which was included in accounts payable and accruals per note 15.

		Group 2004 R'000	Group 2003 R'000
9	**Ordinary share capital and share premium – group and company**		
	Authorised		
	600 million (2003: 600 million) ordinary shares of one cent each	6 000	6 000
	Issued ordinary shares and premium		
	361.205 million (2003: 354.118 million) ordinary shares of one cent each	3 612	3 541
	Share premium – group	907 107	874 153
	Share premium – company	909 227	876 273
	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.		
10	**Treasury shares**		
	Of the shares in issue, the group holds the following as treasury shares:		
	Shares purchased by a subsidiary – 13.005 million ordinary shares of one cent each – cost	100 177	–
	Shares held by the Share Trust – 2.809 million ordinary shares of one cent each – cost	22 804	–
		122 981	–
11	**Non-distributable reserves**		
	Non-distributable reserves comprise:		
	Deferred taxation on write-off of trademark	27 900	37 200
	Unrealised gain on the translation of assets and liabilities denominated in foreign currencies	1 042	36 522
		28 942	73 722
12	**Loans payable**		
	Secured loans bearing interest at fixed rates		
	Interest rate — *Date repayable*		
	16.15% per annum — February 2006	20 414	27 569
	16.92% per annum — February 2006	3 281	5 094
	18.45% per annum — October 2006	15 554	21 004
	15.41% per annum — August 2010	68 856	75 452
	Total secured loans	108 105	129 119
	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	19 630	19 507
	This loan is secured by mortgage over certain property.		
	Non-current portion of finance leases, repayable over the next four years	4 944	9 859
	Unsecured loan – bearing interest at JIBAR plus 2.2% per annum, repayable by August 2006	37 618	52 447
	Unsecured loan – bearing interest at a fixed 11.65% per annum, repayable by August 2008	170 252	201 600
	Total loans payable	340 549	412 532
	Short-term portion included in current liabilities	80 819	69 259
	Non-current loans payable	259 730	343 273

Notes to the Financial Statements

(continued) for the year ended 31 August 2004

	Group 2004 R'000	Group 2003 R'000
12 Loans payable (continued)		
Unrecognised financial liability		
In terms of the group's accounting policy for financial instruments, the group has not recognised the following financial liability:		
A subsidary 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.		
13 Short-term borrowings		
Bank overdrafts	8 710	3 524
Loans	–	29 481
	8 710	33 005
14 Borrowing powers		
In terms of the articles of association, the borrowing powers of the company are unlimited.		
15 Accounts payable and accruals		
The following accruals are included in accounts payable:		
Leave pay accrual		
Balance at the beginning of the year	39 855	32 418
Disposal of subsidiaries and businesses	(18 721)	–
Acquisition of subsidiaries and businesses	6 129	–
Income statement charge	5 639	7 437
Balance at the end of the year	32 902	39 855
Post-retirement medical benefit liability (see note 27)		
Balance at the beginning of the year	16 900	15 457
Income statement charge	1 431	1 443
Balance at the end of the year	18 331	16 900
Derivative instruments (see note 8)		
Balance at the beginning of the year	4 272	–
Income statement charge	(4 272)	4 272
Balance at the end of the year	–	4 272
16 Occupancy costs		
Lease charges		
Operating leases	299 555	398 875

	Continuing operations 2004	Continuing operations 2003	Discontinued operations 2004	Discontinued operations 2003
Lease charges				
Operating leases	236 701	202 275	62 854	196 600

	Group 2004 R'000	Group 2003 R'000
17 Employment costs		
Directors' emoluments	23 254	20 363
Non-executive	5 487	1 165
Fees	789	665
Consulting services	780	500
Other – Australia	3 918	–
Executive	17 767	19 198
Salary and bonus	6 900	8 486
Other benefits	2 913	10 712
Other – Australia	7 954	–
Deducted from proceeds from sale of NCA	(11 872)	–
	11 382	20 363
Other staff remuneration	819 129	849 039
	830 511	869 402

For further detail refer to the Corporate Governance Report on page 36.

	Group 2004 R'000	Group 2003 R'000
18 Other operating costs		
Auditors' remuneration	3 330	4 084
Audit fees	3 071	3 242
Other services and expenses	259	842
Fees paid for outside services		
Technical services	10 405	10 355
Net foreign exchange losses – realised	9 498	2 087
Net foreign exchange (gain)/losses – unrealised	(1 654)	3 742
Loss on foreign exchange options	–	4 247
Other expenses	583 966	505 930
	605 545	530 445

	Continuing operations 2004 R'000	Continuing operations 2003 R'000	Discontinued operations 2004 R'000	Discontinued operations 2003 R'000
Auditors' remuneration	2 992	3 015	338	1 069
Audit fees	2 878	2 833	193	409
Other services and expenses	114	182	145	660
Fees paid for outside services				
Technical services	9 818	9 552	587	803
Net foreign exchange losses – realised	9 498	2 087	–	–
Net foreign exchange (gain)/losses – unrealised	(1 654)	3 742	–	–
Loss on foreign exchange options	–	4 247	–	–
Other expenses	521 575	409 636	62 391	96 294
	542 229	432 279	63 316	98 166

Notes to the Financial Statements

(continued) for the year ended 31 August 2004

	Group 2004 R'000	Group 2003 R'000
19 Net interest paid		
Interest received	**18 308**	4 643
Interest paid	**(78 086)**	(88 760)
	(59 778)	(84 117)

	Continuing operations 2004 R'000	Continuing operations 2003 R'000	Discontinued operations 2004 R'000	Discontinued operations 2003 R'000
Interest received	**16 911**	3 285	**1 397**	1 358
Interest paid	**(71 381)**	(60 735)	**(6 705)**	(28 025)
	(54 470)	(57 450)	**(5 308)**	(26 667)

	Company 2004 R'000	Company 2003 R'000	Group 2004 R'000	Group 2003 R'000
20 Taxation				
South African taxation				
Normal taxation				
Current year	**1 360**	–	**78 252**	63 383
Prior year	**1 748**	–	**757**	(1 661)
Secondary taxation on companies				
Current year	**9 325**	3 462	**9 325**	3 462
Prior year	**–**	(2 128)	**–**	(2 128)
Deferred taxation				
Current year	**1 568**	(1 644)	**4 802**	2 380
Prior year	**76**	–	**(1 993)**	–
Foreign taxation				
Normal taxation				
Current year	**–**	–	**16 451**	21 591
Prior year	**–**	–	**390**	(1 155)
Withholding taxation				
Current year	**464**	2 107	**464**	2 107
Deferred taxation				
Current year	**–**	–	**(557)**	(5 391)
Prior year	**–**	–	**–**	1 155
	14 541	1 797	**107 891**	83 743

	Company 2004 R'000	Company 2003 R'000	Group 2004 R'000	Group 2003 R'000
20 **Taxation** (continued)				
Reconciliation of rate of taxation (%)				
Standard rate – South Africa	30.00	30.00	30.00	30.00
Adjusted for:				
Exempt income and allowances	(28.82)	(31.79)	(27.78)	(6.69)
Disallowable expenditure	0.04	0.09	56.36	0.63
Goodwill amortisation and impairment	–	–	86.57	2.39
Prior year underprovision	0.76	–	(0.89)	(0.56)
Recognition of computed tax losses not previously recognised	–	–	(52.90)	–
Foreign taxation rate variations	–	–	0.05	0.09
Foreign withholding taxation	0.19	2.18	0.49	0.71
Secondary taxation on companies	3.89	1.38	9.78	0.45
Capital gains taxation	–	–	5.65	1.54
Taxation losses carried forward/(utilised)	–	–	0.15	(0.46)
Other	–	–	5.69	–
Effective taxation rate	6.06	1.86	113.17	28.10

	Continuing operations 2004 R'000	Continuing operations 2003 R'000	Discontinued operations 2004 R'000	Discontinued operations 2003 R'000
South African taxation				
Normal taxation				
Current year	78 252	63 383	–	–
Prior year	757	(1 661)	–	–
Secondary taxation on companies				
Current year	9 325	3 462	–	–
Prior year	–	(2 128)	–	–
Deferred taxation				
Current year	4 802	2 380	–	–
Prior year	(1 993)	–	–	–
Foreign taxation				
Normal taxation				
Current year	1 722	1 042	14 729	20 549
Prior year	390	–	–	(1 155)
Withholding taxation				
Current year	464	2 107	–	–
Deferred taxation				
Current year	(115)	(174)	(442)	(5 217)
Prior year	–	–	–	1 155
	93 604	68 411	14 287	15 332

Subsidiaries of the group have estimated computed tax losses of R158.2 million available for set-off against future taxable income of those subsidiaries. A deferred taxation asset of R46.9 million has been raised in respect of these losses.

2004	Headline earnings per share Undiluted	Headline earnings per share Diluted	Attributable earnings per share Undiluted	Attributable earnings per share Diluted
21 Earnings per share				
Earnings (R'000)				
Net loss for the year	(12 553)	(12 553)	(12 553)	(12 553)
Adjusted for capital items	283 187	283 187	–	–
	270 634	270 634	(12 553)	(12 553)
Shares ('000)				
Weighted average number of ordinary shares	353 571	353 571	353 571	353 571
Adjusted for value of share options	–	9 475	–	9 475
	353 571	363 046	353 571	363 046
Earnings/(loss) per share (cents) – group	76.5	74.5	(3.6)	(3.5)
Earnings/(loss) per share (cents) – continuing operations	70.2	68.3	(9.0)	(8.8)

2003	Headline earnings per share Undiluted	Headline earnings per share Diluted	Attributable earnings per share Undiluted	Attributable earnings per share Diluted
Earnings (R'000)				
Net profit for the year	214 268	214 268	214 268	214 268
Adjusted for capital items	7 028	7 028	–	–
	221 296	221 296	214 268	214 268
Shares ('000)				
Weighted average number of ordinary shares	337 587	337 587	337 587	337 587
Adjusted for value of share options	–	5 319	–	5 319
	337 587	342 906	337 587	342 906
Earnings per share (cents) – group	65.6	64.5	63.5	62.5
Earnings per share (cents) – continuing operations	61.5	60.6	59.2	58.3

	2004 R'000	2003 R'000
22 Dividends paid to ordinary shareholders		
Final cash only dividend of 15.1 cents declared (2003: final capitalisation of 2.313281 shares for every 100 shares held, with cash dividend alternative)	53 515	43 073
Cash dividend – 15.1 cents per share paid 8 December 2003 (2003: 14.1 cents per share paid 9 December 2002)	53 515	8 596
Capitalisation share alternative not given (2003: capitalisation shares allotted 9 December 2002)	–	34 477
Interim cash only dividend of 12.5 cents declared (2003: interim capitalisation of 1.920302 shares for every 100 shares held, with cash dividend alternative)	45 084	38 532
Cash dividend elected – 12.5 cents per share paid 5 July 2004 (2003: 10.9 cents per share paid 7 July 2003)	45 084	35 647
Capitalisation share alternative not given (2003: capitalisation shares allotted 7 July 2003)	–	2 885
Total distributions to ordinary shareholders	98 599	81 605
Dividends on treasury shares	(775)	–
	97 824	81 605

Dividend Policy

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

23 **Restatement of comparatives**

23.1 An amount of R34.7 million has been reallocated from other expenses to gross profit in 2003. This amount relates to discounts granted by UPD which were previously included in operating expenses.

This has resulted in cost of merchandise increasing from R5 576.9 million to R5 611.6 million, gross profit decreasing from R1 790.9 million to R1 756.2 million and other operating costs decreasing from R565.1 million to R530.4 million. The reallocation was necessary in order to correctly state the group's realised gross profit.

23.2 An amount of R69.3 million has been reallocated from loans payable classified as non-current liabilities to loans payable classified as current liabilities in 2003. This amount relates to the current portion of long-term liabilities.

This has resulted in loans payable classified as non-current liabilities being reduced from R412.5 million to R343.2 million and loans payable classified as current liabilities being increased from nil to R69.3 million. The reallocation was necessary in order to correctly reflect the maturity profile of the group's borrowings.

23.3 For segmental reporting purposes, LIT and UPD, which were previously reported as separate segments, have been combined into a single segment referred to as UPD. Comparatives have been restated accordingly.

	Group	
	2004 R'000	2003 R'000
24 **Lease commitments**		
The group leases all its retail premises under operating leases. The lease agreements for the group provide for minimum annual payments together with further annual payments determined on the basis of turnover.		
Future minimum lease payments under non-cancellable operating leases		
– Not later than 1 year	**229 739**	405 748
– Later than 1 year not later than 5 years	**818 829**	1 052 721
– Later than 5 years	**108 813**	286 434
	1 157 381	1 744 903
25 **Contingent liabilities**		
The company and a subsidiary company have furnished guarantees to bankers for normal business commitments of subsidiary companies.		
A subsidiary has guaranteed amounts owing by its employees in respect of a motor vehicle scheme. The net amount owing by employees is R6.5 million.		
26 **Capital commitments**		
Capital expenditure approved by the directors		
Contracted	**65 729**	7 302
Not contracted	**159 940**	278 881
	225 669	286 183

To be financed from borrowings and internally generated funds.

Notes to the Financial Statements

(continued) for the year ended 31 August 2004

27 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.

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 R18.3 million (2003: R16.9 million) (see note 15).

28 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:

Director	*Entity*
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 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. Refer to note 5.

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.

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 of this annual report.

29 Financial instruments

29.1 *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 (refer note 8).

29.2 *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 2004, the group had open forward exchange contracts to purchase US$6.7 million within three months after year end at rates varying between R6.27 and R6.82 to the US dollar.

The group also had open forward exchange contracts to sell US$0.9 million within a one month period after year end at rates varying from R6.52 to R6.78 to the dollar. The group has fair valued these contracts and included the value in accounts receivable (note 8).

29.3 *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 25.

29.4 *Interest rate risk*

	Maturity of interest-bearing asset/liability			Non–	
	1 year	1 to	Over	interest	
	or less	5 years	5 years	bearing	Total
2004	R'000	R'000	R'000	R'000	R'000
Assets					
Accounts receivable	–	–	–	443 762	443 762
Loans	–	21 433	–	5 021	26 454
Cash on hand	410 404	–	–	–	410 404
Total financial assets	410 404	21 433	–	448 783	880 620
Liabilities					
Accounts payable and accruals	–	–	–	1 390 084	1 390 084
Short-term borrowings	8 710	–	–	–	8 710
Loans payable – short-term portion	80 819	–	–	–	80 819
Loans payable – long-term portion	–	243 600	16 130	–	259 730
Total financial liabilities	89 529	243 600	16 130	1 390 084	1 739 343
Net financial assets/(liabilities)	**320 875**	**(222 167)**	**(16 130)**	**(941 301)**	**(858 723)**

29.5 *Fair values of financial instruments*

At 31 August 2004, the carrying amounts of cash on hand, accounts receivable, short-term borrowings and accounts payable approximate their fair values due to their short-term maturities.

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

Notes to the Financial Statements

(continued) for the year ended 31 August 2004

30 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.

Number of shares	2004 '000	2003 '000
Shares and share options available for allocation to employees		
Balance at the beginning of the year	83 856	72 756
Increase as a result of capitalisation issues during the year	–	1 233
(Decrease)/increase as a result of net number of share options (forfeited)/granted during the year	(94)	1 697
Increase as a result of net number of shares issued as consideration for the UPD acquisition	–	8 170
Balance at the end of the year	83 762	83 856
Shares allocated and options granted to employees		
Shares		
Balance at the beginning of the year	4 921	6 769
Shares forfeited by participants	–	(468)
Delivered to participants	(1 775)	(1 380)
Balance at the end of the year	3 146	4 921
Options		
Balance at the beginning of the year	65 157	58 607
Granted to participants	500	9 709
Delivered to participants	(7 086)	(1 933)
Options forfeited by participants	(970)	(1 226)
Balance at the end of the year	57 601	65 157
Total shares allocated and options granted	60 747	70 078

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	4 570 753	–	(2 569 350)	–	2 001 403
January 1999	R5.35	23 462 450	–	(4 491 950)	–	18 970 500
July 1999	R7.80	5 220 000	–	(25 000)	(110 000)	5 085 000
September 2000	R9.30	8 160 000	–	–	(250 000)	7 910 000
April 2001	R7.40	7 975 000	–	–	(310 000)	7 665 000
July 2002	R6.70	6 060 000	–	–	(50 000)	6 010 000
October 2002	R5.70	250 000	–	–	–	250 000
January 2003	R6.50	3 300 000	–	–	(250 000)	3 050 000
June 2003	R5.90	20 000	–	–	–	20 000
August 2003	R6.30	6 139 000	–	–	–	6 139 000
October 2003	R7.10	–	500 000	–	–	500 000
Total		65 157 203	500 000	(7 086 300)	(970 000)	57 600 903

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.

In terms of the International Financial Reporting Standard 2 (IFRS2) relating to share-based payments, the group will be obligated, commencing with its financial year ending 31 August 2006, to expense the cost of share options granted to employees through its income statement. Had IFRS2 been applicable in the current financial year, an amount of approximately R4 million would have been expensed through the income statement for the year.

			2004	2003
31	**Employee statistics**			
	Number of permanent employees		9 011	7 973
	Headline earnings per employee (R)		30 034	27 756
	Staff turnover:			
	Total employees at the beginning of the year		7 973	6 364
	Add:	Recruitments	3 591	2 208
		Acquisition of subsidiaries and businesses	1 381	576
			12 945	9 148
	Less:	Resignations	(2 518)	(820)
		Deaths	(51)	(47)
		Dismissals	(281)	(226)
		Retirements	(19)	(3)
		Retrenchments	(87)	(79)
		Disposal of subsidiaries and businesses	(978)	–
	Total employees at the end of the year		9 011	7 973

32 **Events subsequent to balance sheet date**

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 96 for more details).

Notes to the Financial Statements

(continued) for the year ended 31 August 2004

	2004 R'000	2003 R'000
33 Cash flow information		
33.1 *Cash generated by operations*		
Profit before interest and taxation	155 116	382 128
Adjustment for:		
Depreciation	108 371	103 076
Amortisation of trademark	650	650
Foreign exchange (gain)/loss	(5 361)	1 637
Impairment of property, plant and equipment	13 496	–
Profit on sale of Australian operations	(1 738)	–
Profit on sale of Intercare	(587)	–
Loss on disposal of property, plant and equipment	2 281	2 610
Goodwill amortisation	16 272	23 719
Goodwill impairment	258 196	–
	546 696	513 820
Increase in inventories	(206 200)	(204 926)
(Increase)/decrease in accounts receivable	(63 577)	97 770
Increase in accounts payable and accruals	201 377	146 049
	478 296	552 713
33.2 *Net interest paid*		
Interest paid	(78 086)	(88 760)
Interest received	18 308	4 643
	(59 778)	(84 117)
33.3 *Taxation paid*		
Taxation (liability)/prepaid at beginning of the year	(7 034)	1 533
Current taxation provided	(105 639)	(85 599)
Exchange rate adjustment	(440)	(1 965)
Acquisition of subsidiaries and businesses (see note 33.4)	(337)	(8 148)
Disposal of subsidiaries and businesses (see note 33.5)	17 336	–
Taxation (prepaid)/liability at end of the year	(5 618)	7 034
	(101 732)	(87 145)

	2004 R'000	2003 R'000
33 Cash flow information (continued)		
33.4 *Acquisition of subsidiaries and businesses*		
The group acquired a 100% interest in Purchase Milton & Associates (Proprietary) Limited, Milton & Associates (Proprietary) Limited, Leon Katz (Proprietary) Limited and J & G Purchase and Associates (Proprietary) Limited (collectively referred to as the PM&A group) with effect from 1 March 2004.		
The entities involved are in the retail pharmacy business, operating 80 retail pharmacies located throughout South Africa. 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)	–

Notes to the Financial Statements

(continued) for the year ended 31 August 2004

	2004 R'000	2003 R'000
33 Cash flow information (continued)		
33.4 *Acquisition of subsidiaries and businesses (continued)*		
During the 2003 year, the group acquired UPD and a Price Attack franchise holder.		
The fair values of assets acquired and liabilities assumed were as follows:		
Property, plant and equipment	–	(69 177)
Investments	–	(9)
Deferred taxation	–	(2 748)
Inventories	–	(200 297)
Accounts receivable	–	(333 343)
Cash	–	(6 670)
Outside shareholders' interest	–	2 182
Long-term loans	–	22 582
Accounts payable and accruals	–	381 100
Taxation	–	8 148
Total assets acquired	–	(198 232)
Goodwill on acquisition	–	(106 685)
Purchase consideration	–	(304 917)
Paid for by the issue of share capital	–	294 106
Cash acquired on acquisition	–	6 670
Net cash flow on acquisition	–	(4 141)
Net cash flow on acquisitions of subsidiaries and businesses	13 310	(4 141)

33.5 *Proceeds from disposal of subsidiaries and businesses*

It was announced on 5 January 2004 that the group had entered into an agreement to dispose of New Clicks' interest in NCA.

The sale proceeds were Australian $107 million. Out of these proceeds, New Clicks retired certain bank debts and financial lease liabilities as at 28 December 2003, amounting to Australian $19.7 million; and the purchaser and NCA redeemed redeemable preference shares held by New Clicks for a redemption consideration of Australian $67.2 million.

New Clicks received Australian $87.3 million as net sale proceeds from the disposal, including the redemption consideration in respect of the preference shares, and a preference dividend of Australian $1.5 million, which was declared and paid prior to the completion date of 13 February 2004. This represents a surplus over the ungeared tangible net assets as at 31 August 2003. These proceeds were received on 17 February 2004, realising a profit on sale of R1.7 million.

The results of the NCA operations were incorporated in the New Clicks results until 31 December 2003, and have been disclosed in the income statement as part of discontinued operations.

	2004 R'000	2003 R'000
33 **Cash flow information** (continued)		
33.5 ***Proceeds from disposal of subsidiaries and businesses*** *(continued)*		
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 year the group disposed of its 80% holding in Intercare. 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	–

Notes to the Financial Statements

(continued) for the year ended 31 August 2004

	2004 R'000	2003 R'000
33 **Cash flow information** (continued)		
33.5 ***Proceeds from disposal of subsidiaries and businesses*** *(continued)*		
The group consolidated 100% of the post acquisition losses of Intercare as these losses were not guaranteed by the minority shareholders. The sale agreement provided for the purchaser to reimburse the group for 20% of the post acquisition losses on loan account. This resulted in a profit on sale of R0.6 million.		
During the year the discontinued operations had cash inflows from operating activities of R69.6 million (2003: R77.8 million), cash outflows from investing activities of R10.3 million (2003: R25.0 million) and cash inflows from financing activities of R7.8 million (2003: outflow of R53.9 million).		
33.6 ***Shareholders' funds raised***		
Shares issued	33 220	9 772
Share issue expenses	(195)	(1 053)
	33 025	8 719
33.7 ***Cash and cash equivalents***		
Cash on hand and at bank	410 404	179 209
Short-term borrowings	(8 710)	(33 005)
	401 694	146 204

Company Balance Sheet

at 31 August 2004

	Notes	2004 R'000	2003 R'000
Assets			
Non-current assets		1 052 113	1 023 319
Deferred taxation assets	4	–	6 644
Interest in subsidiary companies (see page 94)		792 113	756 675
Unlisted investment	5	260 000	260 000
Current assets			
Taxation prepaid		9 515	2 845
Total assets		1 061 628	1 026 164
Equity and liabilities			
Capital and reserves		1 061 628	1 026 164
Ordinary share capital	9	3 612	3 541
Share premium	9	909 227	876 273
Non-distributable reserve		–	124 364
Distributable reserve		148 789	21 986
Total equity and liabilities		1 061 628	1 026 164

Company Income Statement

for the year ended 31 August 2004

	Notes	2004 R'000	2003 R'000
Dividends received from subsidiaries		130 295	102 677
Operating costs		(1 398)	(6 669)
Profit on disposal of Australian operations		100 188	–
Profit before interest and taxation		229 085	96 008
Net interest received		10 858	887
Profit before taxation		239 943	96 895
Taxation	20	14 541	1 797
Profit attributable to ordinary shareholders		225 402	95 098

Company Changes in Equity Statement

for the year ended 31 August 2004

	Number of shares '000	Share capital (Note 9) R'000	Share premium (Note 9) R'000	Non-distributable reserve R'000	Distributable reserve R'000	Total R'000
Balance at 1 September 2002	305 172	3 052	536 575	124 429	8 493	672 549
Capitalisation awards	6 165	62	37 300	–	–	37 362
Shares issued in respect of options	1 933	19	9 753	–	–	9 772
Share issue expenses written off	–	–	(1 053)	–	–	(1 053)
Acquisition of UPD	40 848	408	293 698	–	–	294 106
Foreign currency translation reserve	–	–	–	(65)	–	(65)
Net profit for the year	–	–	–	–	95 098	95 098
Distributions (see note 22)	–	–	–	–	(81 605)	(81 605)
Balance at 31 August 2003	**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)**
Net profit for the year	**–**	**–**	**–**	**–**	225 402	**225 402**
Dividends (see note 22)	**–**	**–**	**–**	**–**	(98 599)	**(98 599)**
Balance at 31 August 2004	**361 205**	**3 612**	**909 227**	**–**	**148 789**	**1 061 628**

Company Cash Flow Statement

for the year ended 31 August 2004

	2004 R'000	2003 R'000
Cash effects of operating activities		
Cash generated by operations	128 897	96 008
Net interest received	10 858	887
Taxation paid	(19 567)	(7 348)
Cash inflow from operating activities before distributions	120 188	89 547
Distributions to ordinary shareholders	(98 599)	(44 244)
Net cash effects of operating activities	21 589	45 303
Cash effects of investing activities		
Proceeds on disposal of subsidiary	378 194	–
Increase in loans	(432 808)	(54 022)
Net cash effects of investing activities	(54 614)	(54 022)
Cash effects of financing activities		
Shares issued	33 220	9 772
Share issue expenses	(195)	(1 053)
Net cash effects of financing activities	33 025	8 719
Net decrease 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 2004

	2004 R'000	2003 R'000
Cash generated by operations		
Profit before interest and taxation	229 805	96 008
Adjustment for:		
Profit on disposal of Australian operations	100 188	–
	128 897	96 008
Taxation paid		
Taxation prepaid/(liability) at the beginning of the year	2 845	(1 062)
Current taxation provided	(12 897)	(3 441)
Taxation prepaid at the end of the year	(9 515)	(2 845)
	(19 567)	(7 348)
Proceeds on disposal of subsidiary		
Carrying value of investment	397 370	–
Profit per income statement	100 188	–
Non cash flow items	(119 364)	–
Proceeds on disposal	378 194	–

Costs of R7.1 million relating to this disposal were paid by a subsidiary company. The group net proceeds on disposal were reduced by these costs.

Interest in Subsidiary Companies

Name of company and nature of business	Country of incorporation	Ordinary issued share capital	Shares at cost less amounts written off 2004 R'000	2003 R'000	Amount owing by/(to) subsidiaries 2004 R'000	2003 R'000
Directly held						
(i) *Trading*						
New Clicks South Africa (Pty) Ltd	South Africa	R500	272 439	272 439	476 916	(29 443)
The Link Investment Trust	South Africa		14 790	14 790	15 000	15 000
(ii) *Property owning*§						
Elsdon 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
(iii) *Holding*						
New Clicks International Holdings NV	Belgium	BEF607.7 million	–	4 331	–	–
New Clicks Australia (Proprietary) Limited	Australia	*A$67.2 million‡	–	393 039	–	–
Indirectly held						
(i) *Trading*						
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	†	†	–	–
Price Attack Franchising (Proprietary) Limited	Australia	A$103‡	–	†	–	–
New Clicks Australia Services (Proprietary) Limited	Australia	A$1‡	–	†	–	–
The Priceline Unit Trust and The Second Priceline Unit Trust	Australia	‡	–	†	–	–
The House Unit Trust	Australia	‡	–	†	–	–
The Clicks Group Finance Company (Proprietary) Limited	South Africa	R1	†	†	–	–
New United Pharmaceutical Distributors (Proprietary) Limited	South Africa	R10	†	†	–	37 199
Multicare Pharmaceutical Benefits Management (Proprietary) Limited	South Africa	R4 000	†	†	–	–
Multicare Western Cape (Proprietary) Limited	South Africa	R100	†	†	–	–
Intercare Managed Healthcare (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	†	–	–	–
(ii) *Name protection and dormant*						
22 companies (2003 – 22 companies)			†	†	–	–
(iii) *Holding*						
Musica (Africa) Holdings Limited	South Africa	R246 029	†	†	–	–
Clicks Stores Holdings (Proprietary) Limited	South Africa	R68	†	†	–	–
Multicare Health Centres (Proprietary) Limited	South Africa	R1 000	†	†		
New Clicks Australia (Proprietary) Limited	Australia	A$28.2 million‡	–	†	–	36 352
			291 197	688 567	500 916	68 108
Shares at cost less amounts written off			291 197	688 567		
Amounts owing by subsidiary companies			500 916	68 108		
Net interest in subsidiaries			792 113	756 675		

All subsidiary companies are wholly-owned, other than Intercare which was 80% owned. The company was disposed of with effect from 29 February 2004.

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.

* Cumulative redeemable preference shares
† Values less than R1 000
‡ Sold during the year
§ Shares of these companies have been pledged as security for certain property loans – refer to note 12

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 2004.

Nature of business

The company is an investment holding company. Its trading subsidiaries are engaged in the retailing of health, beauty and lifestyle products and services on a predominantly cash basis in southern Africa.

Its wholly-owned subsidiary, UPD, is engaged in the buying and distribution of pharmaceutical products.

Certain subsidiaries operate as franchisors. In addition, the company is the sole shareholder of property owning subsidiaries.

Acquisitions

Purchase Milton & Associates, J & G Purchase & Associates, Milton & Associates and Leon Katz (PM&A)

These four pharmacy companies are collectively known as PM&A, and were acquired with effect from 1 March 2004, following the approval of transfer of pharmacy licences to the New Clicks group. New Clicks had provided funding of R474 million at the time of acquisition and the PM&A group had net liabilities, after fair value adjustments, of R420 million. Each of the companies in the PM&A group was acquired for R1 each.

After adjusting for the impairment of loans and interest already taken in previous years, the acquisition resulted in a goodwill amount of R258 million.

This goodwill has been fully impaired – as dealt with in detail in note 3 to the financial statements.

Disposals

New Clicks Australia (Pty) Ltd (NCA)

It was announced on 5 January 2004 that New Clicks Holdings Limited and its wholly-owned subsidiary New Clicks International Holdings NV ("New Clicks") had entered into an agreement to dispose of New Clicks' interest in NCA to Synapse Holdings (Proprietary) Limited, a company owned by a consortium of private equity funders (the "consortium").

The sale proceeds were Australian $107 million. Out of these proceeds, New Clicks retired certain bank debts and financial lease liabilities as at 28 December 2003, amounting to Australian $19.7 million; and the consortium and NCA redeemed redeemable preference shares held by New Clicks for a redemption consideration of Australian $67.2 million.

New Clicks received Australian $87.3 million as net sale proceeds from the disposal, including the redemption consideration in respect of the preference shares, and a preference dividend of Australian $1.5 million, which was declared and paid prior to the completion date of 13 February 2004. This represents a surplus over the ungeared tangible net assets as at 31 August 2003. These proceeds were received on 17 February 2004, realising a profit on sale of R1.7 million.

The results of the NCA operations were incorporated in the New Clicks results until 31 December 2003, and have been disclosed in the income statement as part of discontinued operations.

Intercare Managed Healthcare (Proprietary) Limited (Intercare)

With effect from 29 February 2004 the group disposed of its 80% holding in Intercare. A profit of R0.6 million was realised on the disposal. The results of Intercare were incorporated in the New Clicks results until 29 February 2004, and have been disclosed in the income statement as part of discontinued operations.

Group financial results

The results of operations for the year are set out in the group income statement on pages 56 and 57. The loss attributable to ordinary shareholders for the year is R13 million (2003: profit of R214 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:

2 569 350	issued at various dates between 10 November 2003 and 24 August 2004 at a premium of 349 cents per share, pursuant to the company's obligations to deliver ordinary shares to the Share Trust participants in respect of share options granted in October 1998.
4 491 950	issued at various dates between 10 November 2003 and 24 August 2004 at a premium of 534 cents per share, pursuant to the company's obligations to deliver ordinary shares to the Share Trust participants in respect of share options granted in January 1999.
25 000	issued on 15 January 2004 at a premium of 779 cents per share pursuant to the company's obligations to deliver ordinary shares to the Share Trust participants in respect of share options granted in July 1999.
7 086 300	

Directors' Report (continued)

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:

10 771 390	in respect of the general repurchases announced on 19 July 2004
2 233 906	in respect of general repurchases between 16 July 2004 and 31 August 2004
13 005 296	

Distributions to shareholders

Interim

The directors declared an interim cash dividend of 12.5 cents per share to shareholders registered on 2 July 2004. The dividend was paid on 5 July 2004.

Final

The directors have declared a final cash dividend of 22.5 cents per share to shareholders registered on 17 December 2004. The dividend will be paid on 20 December 2004.

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 page 11, and the company secretary's details are given on page 111. On 13 February 2004, Mr JC Sher resigned as a director, following the sale of the Australian operations. Ms LA Swartz was appointed as independent non-executive director on 27 January 2004 and Mr RL Lumb was appointed as independent non-executive director on 23 April 2004. In accordance with the company's articles of association, Messrs DM Nurek, E Osrin and RL Lumb, Dr A Zimbler 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 39.

Details of the share options granted to directors are given on page 39.

Share incentive scheme

Information relating to the share incentive scheme is set out in note 30 on page 84.

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, their countries of incorporation and financial information appear on page 94. The interest of the company in the aggregate income after taxation before goodwill amortisation and impairment of its subsidiaries is R166 million (2003: R246 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 32 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 55 to 96 were approved by the board of directors and are signed on its behalf by:

DM NUREK
Chairman

TC HONNEYSETT
Group Leader

Cape Town
10 December 2004

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
10 December 2004

Report of the Independent Auditors

TO THE MEMBERS OF NEW CLICKS HOLDINGS LIMITED

We have audited the annual financial statements and group annual financial statements of New Clicks Holdings Limited and its subsidiaries as at 31 August 2004 and for the year then ended, set out on pages 55 to 96. 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.

Scope

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

– examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;

– assessing the accounting principles used and significant estimates made by management; and

– evaluating the overall financial statement presentation.

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

Audit Opinion

In our opinion, the financial statements and group financial statements fairly present, in all material respects, the financial position of the company and of the group at 31 August 2004 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.

KPMG Inc
Registered Accountants and Auditors
Chartered Accountants (SA)

Cape Town
10 December 2004

Analysis of Shareholders

at 31 August 2004

Public and non-public shareholders	Number of holders	Percentage of holders	Number of shares	Percentage of shares
Public shareholders	4 197	99.9%	339 619 390	94.0%
Non-public shareholders				
Shares held by directors	5	0.1%	4 174 204	1.2%
The New Clicks Holdings Share Trust (excluding directors)	1	0.0%	4 405 842	1.2%
Treasury stock held by New Clicks South Africa (Pty) Limited	1	0.0%	13 005 296	3.6%
Total non-public shareholders	7	0.1%	21 585 342	6.0%
Total shareholders	4 204	100.0%	361 204 732	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 2004:

Major beneficial shareholders	Number of shares	Percentage of shares
Trakprops 141 (Pty) Limited	20 836 659	5.8%
Public Investment Commissioner (SA)	19 402 094	5.4%
Investment Solutions	18 116 499	5.0%
	58 355 252	16.2%

Major institutional managers/direct holders	Number of shares	Percentage of shares
Allan Gray Limited	97 216 336	26.9%
RMB Asset Management	63 667 401	17.6%
Coronation Fund Managers	54 406 762	15.1%
Sanlam Investment Managers	30 258 155	8.4%
Oasis Asset Management	20 753 572	5.7%
Metropolitan Asset Management	19 556 964	5.4%
Stanlib Asset Management	17 557 591	4.9%
	303 416 781	84.0%

Distribution of registered shareholdings	Number of holders	Percentage of holders	Number of shares	Percentage of shares
1 - 1 000	2 004	47.7%	599 329	0.2%
1 001 - 10 000	1 516	36.0%	4 940 440	1.4%
10 001 - 100 000	364	8.7%	11 715 605	3.2%
100 001 - 1 000 000	252	6.0%	88 090 198	24.4%
1 000 001 shares and over	68	1.6%	255 859 160	70.8%
	4 204	100.0%	361 204 732	100.0%

Classification of registered shareholdings	Number of holders	Percentage of holders	Number of shares	Percentage of shares
Pension funds	215	5.1%	130 164 351	36.0%
Mutual funds	139	3.3%	103 637 641	28.7%
Private companies	109	2.6%	47 800 566	13.2%
Insurance companies	30	0.7%	22 051 755	6.1%
Investment companies	24	0.6%	17 299 087	4.8%
Banks	86	2.0%	10 746 823	3.0%
Private investors	2 940	69.9%	10 126 962	2.8%
Trusts and nominee companies	504	12.0%	7 875 624	2.2%
Other	157	3.8%	11 501 923	3.2%
	4 204	100.0%	361 204 732	100.0%

Shareholders' Diary

Dates for 2004/5

2004 Annual General Meeting	24 January 2005
Preliminary profit announcements	
Interim to February 2005	April 2005
Final to August 2005	October 2005
Publication of 2005 annual report	December 2005
Distributions	
2004 Final dividend	
Last day to trade to be eligible	9 December 2004
Date of distribution	20 December 2004
2005 Interim dividend	
Last day to trade to be eligible	June 2005
Date of distribution	June 2005
2005 Final dividend	
Last day to trade to be eligible	December 2005
Date of distribution	December 2005

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.

Notice to Shareholders

Notice is hereby given that the ninth 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, 24 January 2005 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 2004.

2. Election of directors

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

David Nurek, aged 54, is the independent non-executive chairman, chairman of the governance, nominations and remuneration committees and a member of the audit committee. He was appointed to the board in June 1997.

David is non-executive chairman of Distell Group Ltd and Lewis Group Ltd, non-executive deputy chairman of Foschini Ltd and Business Connexion Group Ltd, and, *inter alia*, non-executive director of Allan Gray Property Trust, Aspen Pharmacare Holdings Ltd, Pick 'n Pay Stores Ltd, Sun International Ltd and Trencor Ltd. Prior to joining Investec in June 2000, he practised as an attorney with Sonnenberg Hoffmann Galombik for 32 years, including 23 years as a partner.

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

Eliot Osrin, aged 72, is an independent non-executive director and a member of the audit, risk management and nominations committees. He was appointed to the board in March 1996.

Eliot is the non-executive chairman of Foschini Ltd and is a non-executive director of Atlas Properties Ltd and Allan Gray Property Trust, as well as other unlisted companies.

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

Allen Zimbler, aged 55, is a non-executive director and a member of the risk management and remuneration committees. He was appointed to the board in October 2001.

Allen joined the Investec Group in 2001, where he is Chief Integration Officer of the group, based in London. Prior to joining Investec, he was a Strategic Management consultant and previously a Professor of Business Administration at the Wits Business School.

Allen provides professional services to the New Clicks group on a contractual basis and is therefore not classified as independent. The fees for these services are paid to Investec Bank.

2.4 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 46, 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.

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

Robert Lumb, aged 61, is an independent non-executive director and is chairman of the audit and risk management committees and a member of the nominations committee. He was appointed to the board in April 2004.

Robert recently retired as a partner in the Cape Town office of Ernst & Young, having been the managing partner in the Western Cape from 1989 to 2002 and a member of the firm's executive committee from 1984 to 2002. He has also chaired the Company Law Committee of the Institute of Chartered Accountants in South Africa. He is a non-executive director of Metje & Ziegler Ltd.

3. To approve fees paid to directors, as disclosed on page 37 and 38, for the year to 31 August 2004.

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:

Notice to Shareholders (continued)

"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 Securities Exchange South Africa ("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 counter party;

– 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 percent) of the initial number of ordinary shares, and for each 3% (three percent) 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 percent) of the company's issued share capital of the class of the repurchased shares from the date of the grant of this general authority;

– 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 percent) 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 Requirement of the JSE) the price of the derivative shall be subject to the limits set out in section 5.84(a) of the Listing 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 aforegoing 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 page 11 and 20 to 32 of the annual report;

– Major beneficial shareholders – see page 99 of the annual report;

– Directors' interests in ordinary shares – see page 39 of the annual report; and

– Share capital of the company – see page 75 of the annual report.

Litigation statement

In terms of section 11.26 of the JSE Listings Requirements, the directors, whose names appear on page 11 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 page 11 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 Securities Exchange South Africa'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 one vote per ordinary share.

By order of the Board

AA SCOTT
Company Secretary

10 December 2004

NEW
CLICKS HOLDINGS
LIMITED

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, 24 January 2005 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, 24 January 2005 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 DM Nurek			
2.2 Mr E Osrin			
2.3 Dr A Zimbler			
2.4 Ms LA Swartz			
2.5 Mr RL Lumb			
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 with the company secretary 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 neither financing nor 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 year.
Continuing operations	The operations of the group excluding the Australian operations and excluding the results of Intercare.
Current ratio	Current assets at year end divided by current liabilities at year end.
Discontinued operations	The Australian operations, which were sold with effect from 28 December 2003, and Intercare, which was sold with effect from 29 February 2004.
Dividend cover	Headline earnings for the year divided by the dividends for the year.
Dividend per share	Dividend per share is the actual interim cash dividend paid and the final cash dividend declared expressed as cents per share.
Earnings per share	
Attributable 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.
Employee benefits	Employee benefits include all forms of consideration given by the group in exchange for services rendered by employees.
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 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 interest bearing debt to shareholders' funds 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.

Definitions (continued)

Net interest bearing debt, including cash, to shareholders' funds at year end or net gearing ratio	Interest bearing debt, including cash, 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 number of shares in issue.
Price earnings ratio	The market price per share at year end divided by headline earnings per share.
Return on shareholders' interest	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.
Triple bottom line	Triple bottom line refers to sustainability in three dimensions: the economic, environmental, and social aspects of a company's activities. It is an approach which has been brought to the forefront by the second King Report on Corporate Governance.
Weighted average number of shares	The number of shares in issue, increased by shares issued during the period and decreased by treasury shares acquired during the period, 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 tax 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

Index

Corporate Information

New Clicks Holdings Limited

Registration number:	1996/000645/06
JSE share code:	NCL
ISIN code:	ZAE000014585

Registered address

Cnr Searle and Pontac Streets

Cape Town 8001

Website

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

Attorneys

Sonnenberg Hoffmann Galombik

Auditors

KPMG Inc.

Principal bankers

The Standard Bank of South Africa

JSE Securities Exchange South Africa sponsor

Investec Bank Limited

Transfer secretaries

Computershare Investor Services 2004 (Proprietary) Ltd

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

Investor relations contacts

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CLICKS HOLDINGS
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