"The roll-out of the Clicks Essentials small-store format is being boosted by the trend to convenience shopping."

Trading Brands

Health, Beauty and Lifestyle Brands

Clicks (SA)

Sales (R'000)	2 692 620
Sales growth (%)	15.4
Operating profit before interest and after allocation of net costs of support structures (R'000):	262 192
Number of stores at year end	
Company owned	248
Franchised	13
Number of full-time permanent employees at year end	2 865
Trading area (m²) at year end	137 854
Net increase in trading area during the year (%)	5.4
Weighted annual sales per m² (R)	19 940
www.clicks.co.za	

Positioning

The Clicks brand is South Africa's leading specialist retailer of health, beauty and lifestyle products, servicing the middle to upper income market under the banner 'Live Life Beautifully'. Our mission is to be the pre-eminent health, beauty and lifestyle retailer in southern Africa by 2006.

Growth

It has been a decisive year that has seen a return to strong real growth in the brand. Total sales were up 15.4%. Existing-store growth increased by 8.2%. Operating profit showed an increase of 23.7% – the result of holding the expense line below sales growth, and further reductions in shrinkage.

We opened 22 new stores and closed three stores. The roll-out of the Clicks Essentials small-store format is being boosted by the trend to convenience shopping. In high-density areas – parts of Johannesburg for example – we have been able to open stores within several kilometres of each other.

Live Life Beautifully

In April 2002 we launched Live Life Beautifully, a holistic and vibrant marketing concept which moves Clicks from a purely functional positioning (You Pay Less) to a more emotional positioning *vis-à-vis* its predominantly female customer. The effect of the campaign has been dramatic. In the period since the launch, the number of transactions by non-ClubCard customers has risen by 15% and the average spend of ClubCard members by 17%.

Merchandise Strategy

The health category is an important focus as we move in the direction of wellness and preventative healthcare in line with the group's healthcare initiatives. The recently-launched Clicks healthcare offering takes vitamins and supplements to a new level with 500 niche alternative-health products.

In cosmetics, we have signed up exclusive international product ranges such as Kiss (Australian) and Miners (UK), and we will be adding premium fragrances in selected stores.

We are carefully examining the lifestyle category, which is becoming increasingly competitive in the SA market. We plan to roll out a new-look lifestyle offering in the top 50 stores in the coming year.

Private label, with its margin enhancing benefits, now stands at around 13% of total Clicks

merchandise. We aim to grow this by 25% per annum over the next few years.

Customer Relationship Management
ClubCard grows from strength to strength, with membership at the end of August at 3.5 million. In November and December we will relaunch ClubCard to our top 1.5 million members, each of whom will receive a new card with exciting offers and fresh benefits. The youth market will be an important focus going forward.

We have further enhanced our datamining techniques and capabilities through the Oracle mining tool, Darwin, with some recent pleasing successes. The power of the tool lies in its ability to do predictive modelling. Whereas in the past we were able to target customers merely on a psychographic and demographic basis, we can now predict buying trends, and tailor our communications and promotional activity accordingly. We have 24 separate campaigns planned for the coming year.

We have launched an aggressive store upgrade in line with customer feedback. We plan to open 24 new stores in the coming calendar year. Most of these will be in the new look. We will also retrofit selected stores so that a total of some 60 stores out of 270 will have elements of the new look by the end of 2003. The cost of this refurbishment is expected to be around R26 million.

We continue to work hard at our service ethic to improve relationships with the customer in the store.

Outlook
We will continue to build efficiencies through stockturn improvements in the year ahead. Sales will benefit from all the initiatives described above, which build on Clicks' 34-year reputation as one of South Africa's most popular brands. We are confident of continued growth for many years to come.

Discom (SA)

Sales (R'000)	720 895
Sales growth (%)	12.1
Operating loss before interest and after allocation of net costs of support structures (R'000)	17 193
Number of stores at year end	
Company owned	180
Franchised	2
Number of full-time permanent employees at year end	1 298
Trading area (m^2) at year end	49 430
Net decrease in trading area during the year (%)	8.6
Weighted annual sales per m^2 (R)	13 790

Discom was founded in 1972, and acquired by The Clicks Group in 1984. In recent years the brand underperformed, which led to a major repositioning, started in November 2001. The repositioning is well underway, but the brand is still in the transition phase.

Mission
The Discom mission is to be the leading urban South African brand of African Beauty, Home and Health by providing affordable quality for our customers in a vibrant, passionate, and proud culture. We are an afrocentric brand with a variety of store profiles and degrees of store design and ranges. 'Urban' describes the brand's spirit and personality, which is fun, vibrant, and contemporary; it is not a geographic descriptor.

We will be first to market in our chosen destination categories, taking calculated risks in setting the trends. Our target customers are mainly female, between the ages of 16 and 24. They are predominantly black, but not exclusively so. They are aspirational and well informed. Looking good and feeling good at an affordable price is important to them.

Sales and Margin

Total sales for the brand increased by 12.1%, while the sales growth for existing stores was 10.9%. A loss of R17.2 million was incurred during the year, as the brand absorbed a number of one-off costs associated with the repositioning exercise.

There are signs that the turnaround has started. The second half-year saw a strong improvement, with existing-store sales growth up 21.6%, compared to 3.5% in the first half. All-store growth in the second half was 14.3%, compared to 9.5% in the first half. This second-half performance was achieved notwithstanding the closure of a number of stores. Furthermore, stripping out the allocation of shared services costs, Discom achieved a profit, albeit small, of R6 million in the second half, compared to a loss of R4.4 million in the first half.

Repositioning – a Year of Action

The period under review could be viewed as a year of transformation, change, and restructuring. We have developed an entire new market positioning and business strategy, and processed this throughout the company, and we are pleased to say there is a real sense of forward momentum among our people.

We have rebranded 160 stores to the new-look Discom. Nine Modisons stores have been converted to Discom, and we have remerchandised and re-arranged 160 stores, with a greater focus on the African Beauty category.

We closed 32 underperforming stores based mainly in rural areas, and we opened 10 new stores in urban areas. In addition, we restructured the operations division by removing a layer of management. The scanning project has continued, with 80% of stores now scanning.

Merchandise Strategy

Our merchandise strategy is focused on a few key areas. In African Beauty our focus is ethnic hair- and skincare. We are the largest retailer in the ethnic haircare category in southern Africa, reaching R100 million worth of sales in ethnic haircare for the first time in the period under review. After the year end, in October, we opened our first hair salon in Mitchells Plain, Cape Town. If successful, this pilot will lead to further sites being identified and the concept being rolled out with suitable partners.

In Lifestyle/Home, our destination category is tableware. We are also capitalising on the opportunity that electrification of many South African households offers us through expanding our ranges of small appliances.

In Health we are aware of the challenge that HIV/AIDS brings and are focusing our merchandising efforts in this area in line with the group's healthcare initiatives. In partnership with our healthcare division, we are exploring a new primary health statement in-store.

Other key categories include cellular communications, stationery and confectionery.

Outlook

We see the coming year as a year of consolidation and return to profitability. In this we will focus on enhancing the margin mix. We will be testing new margin-enhancing ranges, such as cosmetics and music and continue our private label initiatives.

A reduction in expenses will materialise in the wake of the store closures and management restructuring that we effected in the year under review. We will continue to re-engineer the store processes to further reduce inventories. We intend to close an additional 10 stores and open seven new stores. The ground has been laid, there is a motivated team in place, and we are confident that we will start to see the effects of our repositioning in the 2002/2003 financial year.

Priceline (Australia)

Sales (R'000)	1 574 694 (A$283 788)
Sales Growth (%)	52.8 (in A$: 13.4)
Operating profit before interest and after allocation of net costs of support structures (R'000)	44 690 (A$8 054)
Number of company owned stores at year end	126
Number of full-time permanent employees at year end	607
Trading area (m^2) at year end	59 493
Net increase in trading area during the year (%)	6.3
Weighted annual sales per m^2 (R)	27 180
www.priceline.com.au	

Priceline was founded in 1982 and built on similar foundations to the Clicks brand in South Africa. It was acquired by New Clicks Holdings in July 1998, and has since become a truly national retailer with a prominent position within health, beauty and lifestyle. Priceline caters to the middle to upper income market segment.

Results

Measured in Australian dollars, Priceline achieved an all-store sales increase of 13.4%, and existing-store increase of 6.5% in a highly competitive marketplace. We opened nine stores during the period, fewer than planned, but we are nonetheless confident that our objectives for the year ahead will be met. Structural changes have been completed within the brand and the ramping up and completion of the shared services platform in New Clicks Australia means we are now able to leverage all our professional services across a multiple-brand format.

Competition

Our reaction to intense competition has been threefold. We have repositioned the lifestyle category, moving to more of a 'for me' statement, from which we should see a margin improvement in the year ahead. We have sought to differentiate the brand through our imports and private label programmes. And, most significantly, we have aggressively expanded our Priceline ClubCard loyalty programme, with a very positive outcome.

Loyalty

Loyalty is having a rejuvenating effect. We launched Priceline ClubCard in May 2001, in Victoria where our comparative store growth was traditionally 2% to 3%; over the past year this has grown in excess of 8%. Basket values have grown too, from around AU$12 to a current AU$23. Most encouragingly, 57% of customers receiving redemption vouchers spend these in our stores. The loyalty programme is now national, with the membership base standing at 890 000 and growing at 25 000 per month. Priceline is acknowledged as one of the best customer-service offerings in Australia and this is a major competitive advantage.

Beauty

Synergies with Price Attack will enhance Priceline's dominance in the Australian beauty market, giving us around a 10% share of the local haircare market. Our association with the Sunday Australia Group (previous owners of Price Attack) has given us access to around 1 800 haircare formulations, and we are working at bringing private label salon haircare products into Priceline. This, together with joint buying opportunities, should enhance margins.

Positioning

With the advent of Priceline Pharmacy, the team is tackling the challenge of managing a franchise and compliant model simultaneously. Based on our entry into the pharmacy market, the Priceline team have resolved a new positioning statement and vision for the brand: 'We will be the dominant drugstore brand in Australasia, passionately enhancing our customers' quality of life through a consistent, value-for-money experience.'

Outlook

We aim to open 16 new Priceline stores in the coming year. Margins should improve as a result of loyalty, differentiation, and leverage with Price Attack. There will be continued focus on margins and stockturn.

Health Brands

Priceline Pharmacy (Australia)

(franchised brand)

Priceline Pharmacy was launched in September 2002. It is currently being serviced by the Priceline brand team and the shared services platform of New Clicks Australia.

Our Objective

There are approximately 4 900 pharmacies in the AU$6.5-billion pharmaceutical industry in Australia, of which around 1 900 belong to one or other of the major banner groups supplied by three main wholesalers. Our objective is to grow a compliant franchise network of stores under the Priceline Pharmacy banner. We believe this network could eventually encompass some 500 stores. We aim to build a quality franchise system that will deliver a sustainable pharmacy model, enabling pharmacists to compete successfully against the threat of supermarkets and the erosion of front-of-shop market share and the reducing margins in the back of shop.

A Compelling Offering

Priceline Pharmacy is being offered to pharmacists as a franchising opportunity, based on a simple franchise agreement, with the theme: ‘Look good to your customers. Feel good about your future’.

We believe our offering is highly compelling when compared to competitor banner groups. These are generally very loose, with pharmacists paying a fee for services that are restricted in the main to marketing. In contrast, our model is more compliant, offering increased benefits for a fee. The most significant of these benefits is brand equity – Priceline is by far the best front shop in Australia and we can increase pharmacist franchisees’ sales and margin through our skills in category management. Franchisees will be linked to a common IT platform and to our marketing programme, including ClubCard. We will provide retail services in merchandising and space management, and operational focus to enhance shopfloor productivity.

The Model

We see scope to grow Priceline Pharmacy in three ways:

- Convert existing pharmacies to the Priceline model;
- Convert Priceline stores to pharmacies through a franchise arrangement where appropriate;
- Secure new locations and acquire approval numbers through a relationship with pharmacists.

Approval numbers are granted by the Australian Pharmacy Guild and are a prerequisite for a pharmacist to practise.

The Launch

The first Priceline Pharmacy concept is in Pakenham, Victoria, which was chosen as the test market for the new pharmacy formula. Pakenham is located in a high-growth suburban corridor, some 50 kilometres from downtown Melbourne.

The store, an existing pharmacy, was expanded to 500m^2 from 300m^2. In the period since its rebranding, the pharmacy has increased sales dramatically, moving the front-shop: back-shop ratio from 30:70 to 45:65 during promotional periods, and boosting turnover by an average of 30%. Interestingly, the prescription business in the store has also grown, increasing by 15%.

Pharmacists have shown their reaction to the launch of Priceline Pharmacy through the some 200 requests we have received in the three months since the launch. We will be selective in handling requests to join the franchise, as we do not wish to grow by more than 14 to 20 stores in this first year.

Link, LinkMax (SA)

56% interest in Link Investment Trust (LIT)	
Link – number of franchise stores	298
LinkMax – number of franchise stores	26
www.linkpharmacy.co.za	

Link is South Africa's leading national pharmacy brand and a household name. New Clicks acquired a 30% stake in LIT in 1999, which was increased to 56% in 2001. New Clicks' intention is to add value to the franchisees through a suite of services, such as IT development and implementation, improving supply chain efficiencies, and other administrative services.

The total number of franchisees at the end of August 2002 was 324, of which 73 are stores owned by PM&A.

The Past Year

For the year to August 2002, LIT produced an operating loss of R2.8 million on turnover of R16 million. This is as a result of increased activities and expenses to drive the various projects needed to turn Link into a successful and profitable franchise. Over the past year, we have implemented a common information technology platform in 220 Link and LinkMax pharmacies which are now being connected to a wide area network. This means there are now common systems, policies, procedures and branding in place.

This common network opens the door to a more scientific application of data and information and an overall improvement in the efficiency of the Link operations. A centralised IT platform will also lead to efficiencies in accounts payable, accounts receivable, financial reporting, interfacing to medical-aid funds, loyalty/customer response programmes, drug utilisation and review applications.

The New Clicks healthcare team has added additional value to the Link franchisees through marketing and advertising support. The Link brand is being considerably strengthened through formative and thought-provoking marketing and promotional campaigns, which emphasise the role of the Link pharmacist as a healthcare provider.

A compelling offering to franchisees:

- We have sponsored the establishment of a pharmacy training academy, which is registered with the South African Pharmacy Council. The academy is currently training 150 pharmacist assistants and it is envisaged that this training will improve and enhance professional standards within Link pharmacies. It will free up Link pharmacists to conduct more intensive one-on-one interactions with patients and customers and generally to perform a more strategic function in the growth and development of their pharmacies.
  The academy is also making its course material available to various state health departments in order to improve training and efficiencies in the public sector.
- We are currently making know-how and expertise available to Link in respect of store design and layout, product ranges and other retail aspects.
- Our plan with Link is to co-sponsor pharmacy ownership in under-serviced areas, in conjunction with the Industrial Development Corporation.

- We are busy implementing a dedicated drug utilisation and review and disease-management service in order to support the Link pharmacies and raise the level of advice given to customers/patients.
- The acquisition of UPD will enable us to improve procurement and distribution for Link members and other pharmacists.
- We have re-energised the private label and generic programme, which will result in improvements to Link pharmacies. Generic drugs will play an important role in bringing down the cost of medication and a large network such as Link is essential to this programme.

Outlook

The pharmacy market is in flux and pharmacists are feeling the financial strain as margins and volumes come under increasing pressure. The relationship between LIT and New Clicks has the potential to provide significant value to these pharmacists and thereby grow the Link franchise.

The announcement of the proposed acquisition of UPD was generally well received and LIT has subsequently had a large number of applications to join the Link franchise. The objective for the new financial year is to assist the Link franchise to grow significantly through a focused recruitment drive and reach break-even by the financial year-end.

A considerable effort is going into converting PM&A into a successful retail pharmacy chain, and we remain optimistic that in the year ahead this chain will generate sufficient profits to enable it to service its debt to us.

Intercare (SA)

80% interest

In May 2002 the first Intercare facility was opened in Pretoria as a pilot project. The complex provides quality healthcare services under one roof, including routine family medicine, specialist medical care, dental health services, radiology and sonar, pathology, physiotherapy, audiology, speech therapy, optometry, physiology, dietetics and bio-kinetics. A LinkMax pharmacy is situated in close proximity to the facility.

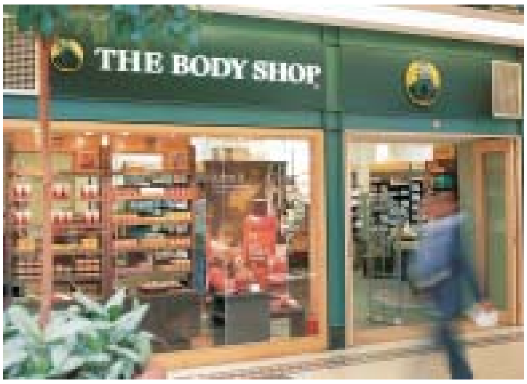
This pilot model is aimed at exploiting efficiencies and issues of convenience in respect of the provision of healthcare services. There are obviously synergies for pharmacy.

The intention is to roll out further Intercare facilities depending on the success of the pilot project.

Specialist Beauty Brands

The Body Shop (SA)

Sales (R'000)	27 161
Operating profit before interest and after allocation of net costs of support structures (R'000)	3 446
Number of company owned stores at year end	11
Number of full-time permanent employees at year end	69
Trading area (m²) at year end	737
www.the-body-shop.com	



The Body Shop is one of the world's most trusted brands, famous for creating a market niche for naturally-inspired toiletry and beauty products as well as for its values- and ethics-driven approach to business.

We are delighted to have made a profit in our first year of trading. Operating profit amounted to R3.4 million on sales of R27 million. There are as yet no comparative year-on-year figures, as the first store opened only on 15 October 2001.

We opened 11 stores in the year under review, and a further nine are planned to open in the next financial year. The plan is to grow to a total of 30 stores over the next two years. All these will be small-store formats of around $80m^2$.

The innovative product range of Body Butters has been our best-seller, both in volume and value. Our staff offer a high level of service and are driving sales through an interactive approach to in-store make-overs and product demonstrations.

At the international level, work is being done to revitalise the 25-year-old brand which some perceive to be maturing. In this market, however, The Body Shop continues to generate a sense of novelty and excitement. We are confident of years of growth ahead.

Price Attack (Australia)

(franchised brand)	
Number of franchised stores at year end	95
www.priceattack.com.au	

Started in 1987 by entrepreneur Gary Jackson, Price Attack has grown steadily to a current total of 95 stores. New Clicks acquired the business in July 2002.

Positioning

Each Price Attack store is essentially a speciality retail store/hair salon. The target customer is female, between the ages of 18 and 35. Stores carry a comprehensive range of haircare products and a large range of associated accessories influenced by the hair and beauty industry. There are in excess of 3 000 product lines and key brands include Wella, Schwarzkopf, L'Oréal, Gresham, De Lorenzo, Goldwell and Matthew James International.

Results

The average annual turnover per store is A$1 million. Franchise fees are extracted by New Clicks Australia on the basis of 5% of sales, and an advertising fee of 3% of sales plus a further 1% for local area marketing. In the period since the acquisition, franchise income amounted to over R2.5 million, but was offset by non-recurring management and legal costs incurred to develop a compelling franchise model.

The brand has been fully integrated into the New Clicks Australia structure and is operating from Melbourne. An enormous amount of work has been completed by the brand team, including building relationships with the franchisees, securing new legal arrangements and enhancing the look of the store.

Opportunities

We believe there is potential to expand the franchise to around 150 stores, by leveraging off the New Clicks Australia shared services platform with minimal additional investment. The franchise model, with a low-cost 80m^2 store format and product supply that is available globally, is easily transportable and we foresee growth into other geographies within the next five years.

The model is attractive for franchisees as it is a fiercely industry-protected business, with access to products that are only available in salons.

The salon accounts for around 18% of sales in each store, with the balance being front of shop. This is where sales are currently being driven and where the benefits of synergies with New Clicks Australia will be felt. Our arrangements with the Sunday Group will further enhance sales throughput. They have recently developed two private-label products for us, Alonzo and Matthew James. It is anticipated that Matthew James will be available in Clicks stores in South Africa by the first quarter of next year.

A new store model will open before December of this year, and the intention is to convert some 39 stores over the year ahead.

Specialist lifestyle brands

House (Australia)

(franchised brand)	
Number of franchised stores at year end	80
www.house-homewares.com.au	

Positioning
House was founded 24 years ago and became a franchise business when Alan and Bradley Wein bought the business in 1984. It is Australia's only national dedicated kitchenware and giftware brand.

First Full Year in the Group
The results reflect the first full year of trading since New Clicks acquired the brand in December 2000. In the past 12 months we have opened 10 new stores. Operating income for the year amounted to R7.3 million. We are particularly pleased with this performance, given the increasingly competitive nature of the homeware market over the past 18 months since the government launched a home loan scheme for first-time buyers. The grant not only had a positive impact on the category in general, but it also resulted in a number of new entrants and competitors into the market.

Differentiation
Our response to the competition has been to differentiate ourselves further and provide a better margin opportunity for franchisees. This we have achieved through a combination of private label product – such as the Epicure brand – which is available exclusively at House and a direct import programme. The imports have affected the stock levels in New Clicks Australia for the period under review. The home loan scheme is drawing to a close, but we are confident that our category spread is such that we will cater for the secondary phase of homeware purchases by new home owners.

We have made several appointments to our buying team, with the result that this team is probably the strongest of its kind in the country. We have also made a few changes to the operational team and in the process released Alan Wein and Brad Wein to use their strengths in franchising to help us develop our other franchise formats to their full potential.

Shared Services
The efficiencies that come from working off a shared services structure have just started to be realised, particularly in the areas of marketing, logistics, and accounting. The benefits from many of the other functional areas will materialise in the year ahead. The House business was moved from its previous offices and successfully transferred to the New Clicks facility. This has presented the brand teams with the opportunity to explore leverage and efficiencies not previously possible.

Outlook
We plan to open 10 new stores in Australia in the year ahead. Regarding our plans to expand into the New Zealand market, we commissioned a feasibility study, which revealed that importing directly out of Australia to New Zealand could lead to supply chain complications and impact negatively on margins. Accordingly, these plans have been postponed until we are able to set up buying structures directly out of the Far East.

We have been working on a comprehensive customer relationship programme that can be implemented and applied to the franchise model. Much work has been done on the components of the programme, and we are currently sourcing the best possible technology to implement this. The final model will be presented to franchisees in 2003.

Music Division (SA)

Musica & The Compact Disc Wherehouse

Sales (R'000)	439 333
Sales Growth (%)	24.9
Operating profit before interest and after allocation of net costs of support structures (R'000)	22 705
Number of company owned stores at year end	135
Number of full-time permanent employees at year end	496
Trading area (m^2) at year end	16 439
Net increase in trading area during the year (%)	10.9
Weighted annual sales per m^2 (R)	26 717
www.musica.co.za	

Musica was founded in 1962 and acquired by The Clicks Group in 1992. It is southern Africa's largest retail distributor of compact discs, tapes and allied products. The brand appeals to a diverse customer base in the mainly young, middle to upper income market. Compact Disc Wherehouse was founded in 1964 and acquired by New Clicks Holdings in 1997. It is a specialist destination store offering a 50 000-range of titles to music lovers.

Results

The Music Division once again bucked international trends and performed exceptionally well. Total-store sales growth was up 24.9%, with existing-store growth up 12%. Operating profit growth was in excess of 100%. In a flat international music market, part of the key to this success was growth in the local repertoire. Sales of music by local artists increased from 13% to 18% of total sales over the period, which we achieved through careful profiling and ranging on a store-by-store basis, innovative marketing and competitive pricing.

Musica

A store refurbishment programme was continued at an estimated cost of R4 million for the period under review, and we expect to invest roughly the same amount in the programme over the coming year. Musica is expanding into southern Africa, with two stores opening in Gabarone, Botswana in the coming year. In South Africa, a further four to six stores will be opened.

CD Wherehouse

Strong future growth is likely to come from the specialised, wide-range Compact Disc Wherehouse 1200m^2 format, which has the potential to grow off a relatively low current contribution to total Music Division sales. A new store was opened in the Gateway Shopping Centre in Durban in October and another site is under negotiation in Pretoria for 2003.

The aim is to grow the brand to around 10 stores over the next five years.

Outlook

The challenge is to maintain the strong performance off a high base. We have the advantage of a strong group infrastructure off which to leverage value-added services, such as a soon-to-be-launched customer loyalty programme. Efficiencies will be enhanced through an ongoing project to integrate our stores with group systems, in terms of which we plan to add EPOS to a further 60 stores this year. The goal is for brand-wide scanning by April 2004, which will act as an enabler for a customer loyalty programme.