NEW CLICKS HOLDINGS LIMITED

Reviewed Group Results for the year ended 31 August 2005

Consolidated Income Statement

	Year to 31 August 2005 (reviewed) R'000	Year to 31 August 2004 (restated) R'000	% change
Continuing operations			
Revenue	9 257 116	7 831 855	18.2
Turnover	8 714 338	7 369 472	18.2
Cost of merchandise	7 004 862	5 831 863	20.1
Gross profit	1 709 476	1 537 609	11.2
Other revenue	542 778	462 383	17.4
Expenditure	1 910 781	1 892 342	1.0
Operating expenditure	1 893 697	1 607 759	17.8
Impairment of property, plant and equipment	–	13 496	
Loss on disposal of property, plant and equipment	270	1 920	
Goodwill amortised	–	10 971	
Goodwill impaired	16 814	258 196	
Profit before interest and tax	341 473	107 650	
Net interest paid	(49 086)	(54 470)	(9.9)
Net interest paid – normal operations	(49 086)	(54 470)	
Interest accrued – Purchase Milton & Associates (PM&A)	–	24 986	
Provision against interest accrued – PM&A	–	(24 986)	
Net profit before taxation	292 387	53 180	
Taxation	87 754	91 044	(3.6)
Net profit/(loss) from continuing operations	204 633	(37 864)	
Discontinued operations			
Turnover	–	654 651	
Profit before interest and tax	–	38 932	
Net interest paid	–	(5 308)	
Net profit before taxation	–	33 624	
Taxation	–	14 287	
Net profit from discontinued operations	–	19 337	
Net profit/(loss) attributable to ordinary shareholders	204 633	(18 527)	
Adjustments for			
Impairment of property, plant and equipment	–	9 447	
Profit on sale of Australian operations	–	(1 738)	
Profit on sale of Intercare	–	(587)	
Loss on disposal of property, plant and equipment	191	1 597	
Goodwill amortised	–	16 272	
Goodwill impaired	16 814	258 196	
Headline earnings	221 638	264 660	(16.3)
Comprises:			
Headline earnings from continuing operations	221 638	242 094	(8.4)
Headline earnings from discontinued operations	–	22 566	
Undiluted headline earnings per share (cents)			
All operations	65.2	74.9	(13.0)
Continuing operations	65.2	68.5	(4.9)
Diluted headline earnings per share (cents)			
All operations	63.2	72.9	(13.3)
Continuing operations	63.2	66.7	(5.3)
Undiluted earnings per share (cents)			
All operations	60.2	(5.2)	
Continuing operations	60.2	(10.7)	
Diluted earnings per share (cents)			
All operations	58.4	(5.1)	
Continuing operations	58.4	(10.4)	
Distributions per share (cents)			
Paid – June/July	11.2	12.5	
Proposed/paid – December	18.5	22.5	
	29.7	35.0	(15.1)

Consolidated Balance Sheet

	As at 31 August 2005 (reviewed) R'000	As at 31 August 2004 (restated) R'000
Assets		
Non-current assets	951 117	883 486
Property, plant and equipment	708 895	659 347
Trademarks	3 280	3 930
Goodwill	83 950	98 280
Deferred taxation assets	102 264	95 475
Loans	52 728	26 454
Current assets	2 239 058	2 273 947
Inventories	1 621 880	1 411 339
Accounts receivable	494 515	443 762
Taxation prepaid	37 903	8 442
Cash on hand	70 315	410 404
Derivatives	14 445	–
Total assets	3 190 175	3 157 433
Equity and liabilities		
Capital and reserves		
Ordinary shareholders' interest	1 340 223	1 319 155
Non-current liabilities	277 939	355 841
Loans payable	167 683	259 730
Deferred taxation liabilities	24 750	19 623
Other non-current liabilities	85 506	76 488
Current liabilities	1 572 013	1 482 437
Short-term borrowings	13 903	8 710
Accounts payable	1 451 713	1 390 084
Loans payable	93 024	80 819
Taxation payable	13 373	2 824
Total equity and liabilities	3 190 175	3 157 433

Consolidated Cash Flow Statement

	Year to 31 August 2005 (reviewed) R'000	Year to 31 August 2004 (restated) R'000
Net cash flow from operations	479 416	546 696
Movement in working capital	(221 751)	(68 400)
Net interest paid	(49 086)	(59 778)
Taxation paid	(109 258)	(101 732)
Cash effects of operating activities	99 321	316 786
Distributions to ordinary shareholders	(112 465)	(97 824)
Net cash effects of operating activities	(13 144)	218 962
Net cash effects of investing activities	(182 660)	164 523
Net cash effects of financing activities	(149 478)	(128 115)
Net (decrease)/increase in cash and cash equivalents	(345 282)	255 370

Consolidated Changes in Equity

	Year to 31 August 2005 (reviewed) R'000	Year to 31 August 2004 (restated) R'000
Increase in share capital and premium	57 061	33 025
Increase in treasury shares held	(126 697)	(122 981)
Decrease in non-distributable reserve	(1 464)	(35 480)
Net profit/(loss) for the year	204 633	(18 527)
Distributions to shareholders	(112 465)	(97 824)
Net increase/(decrease) in shareholders' funds	21 068	(241 787)
Opening shareholders' interest	1 319 155	1 560 942
Closing shareholders' interest	1 340 223	1 319 155
Percentage increase in closing shareholders' interest	1.6	

Supplementary Information

	31 August 2005	31 August 2004
Number of ordinary shares in issue ('000)	370 260	361 205
Number of ordinary shares in issue (net of treasury shares) ('000)	340 519	345 391
Weighted average number of shares in issue ('000)	339 914	353 571
Weighted average diluted number of shares in issue ('000)	350 433	363 046
Net asset value per share (cents)	394	382
Net tangible asset value per share (cents)	368	352
Depreciation and amortisation (R'000)	104 734	109 021
Capital expenditure (R'000)	170 106	160 349
Capital commitments (R'000)	164 034	225 669

Segmental Analysis

The split per brand of turnover and profit is as follows:

	Year to 31 August 2005 R'000	Year to 31 August 2004 R'000	% change
Turnover			
Clicks	4 469 078	3 789 307	17.9
Discom	975 223	878 703	11.0
Entertainment	662 293	544 221	21.7
The Body Shop	58 442	51 276	14.0
United Pharmaceutical Distributors	3 045 934	2 284 860	33.3
Shared Services	8 475	5 825	45.5
Intragroup elimination	(505 107)	(184 720)	
Continuing operations	8 714 338	7 369 472	18.2
Discontinued operations – Australia	–	654 651	
Total	8 714 338	8 024 123	8.6
Profit before interest and tax			
Clicks	209 712	293 472	(28.5)
Discom	28 926	4 156	596.0
Entertainment	27 607	19 025	45.1
The Body Shop	9 522	10 047	(5.2)
United Pharmaceutical Distributors	89 137	75 600	17.9
Shared Services unallocated	(5 954)	(7 567)	
Capital items	(17 084)	(284 583)	
Intragroup elimination	(393)	(2 500)	
Continuing operations	341 473	107 650	
Australia	–	43 625	
Intercare	–	(1 356)	
Capital items	–	(3 337)	
Discontinued operations	–	38 932	
Total	341 473	146 582	

Notes

Accounting policies

These reviewed financial results have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice, and the accounting policies used are consistent with those applicable for the 2004 annual financial statements except in the case of accounting for goodwill (which is no longer amortised but is subject to an annual impairment test), operating leases and obligations to employees in terms of share appreciation rights as described below. These results have been reviewed by KPMG Inc. and their unqualified review report is available for inspection at the company's registered office.

On 2 August 2005 the South African Institute of Chartered Accountants issued Circular 7/2005 dealing with the requirements of AC105 – Leases, in respect of operating leases which include fixed rental increases. AC105 states that lease expense/income should be recognised on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit. It is now considered that the definition of a "user's benefit" is only affected by factors that impact the physical usage of the property. The straight-line method results in an equal charge in the income statement in each reporting period irrespective of the fact that the cash payments for rent differ.

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

	2005 R'000	2004 R'000
Effect on opening distributable reserves	(53 542)	(47 568)
Effect on current year net profit before taxation	(9 018)	(8 534)
Taxation	2 615	2 560
Effect on current year net profit/(loss)	(6 403)	(5 974)
Effect on earnings and headline earnings per share (cents per share)	(1.9)	(1.7)
Effect on diluted earnings and diluted headline earnings per share (cents per share)	(1.8)	(1.6)

The effects disclosed are net of deferred taxation at the rates prevailing during the relevant year. Comparatives have been restated.

The group issued share appreciation rights to certain employees during the year in terms of an incentive programme. The value of the obligation in terms of the share appreciation rights is expensed over the vesting period of the rights and the related liability raised. Any change in the fair value of the liability is recognised in profit/(loss) for the period. A hedge was acquired to limit the group's exposure in respect of this obligation. The derivative acquired to serve as the hedge is fair valued in accordance with AC133, with changes in fair value being recognised in profit/loss for the period.

Change in comparatives

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

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

Commentary

The business of New Clicks has continued to undergo transformation over the past year with the group addressing several strategic issues which are expected to deliver long-term benefits. These include

- the ongoing integration of pharmacy into Clicks, which is providing evidence that the group's pharmacy model is effective as the volume of customer activity increases significantly in stores that have opened dispensaries;
- the successful implementation of an enterprise-wide information systems platform which will transform business processes; and
- several senior appointments and changes to the group's leadership structure to enhance the depth and experience of the management team.

Financial performance

While the group's overall results are disappointing, having been impacted by the poor results from Clicks, it is pleasing to note that Clicks has started to show the initial signs of an improvement in performance during the second half. There were, however, strong performances from Discom, the Entertainment division (Musica and CD Wherehouse) and wholesale distributor, New United Pharmaceutical Distributors (UPD).

The group increased turnover from continuing operations by 18.2% to R8.7 billion for the year, bolstered by the inclusion of the pharmacy operations for the full financial year compared to only six months in the 2004 results.

However, a 28.5% decline in the operating profit (gross profit plus other revenue less operating expenditure) of Clicks from R293.5 million to R209.7 million adversely affected the group's results. This decline resulted mainly from a loss of approximately R70 million in the pharmacy business for the year, the continued high level of shrinkage in the brand and a proportionately higher allocation of central costs.

An estimated R48 million of the pharmacy losses can be attributed to the impact of the lower margin on dispensing fees adopted by Clicks to meet competitive pressures.

Owing to the relative size of the Clicks brand within the group, there has been a 8.6% decline in the operating profit from continuing operations to R358.6 million.

Diluted headline earnings per share from continuing operations reduced by 5.3% to 63.2 cents per share (refer to Notes: Accounting policies). Diluted basic earnings per share at 58.4 cents per share (2004: 5.1 cents loss per share) were lower than diluted headline earnings per share owing to an impairment of the Link Investment Trust goodwill as well as various other capital items which together totalled R17.0 million.

Working capital management remains an opportunity and therefore a key area of focus. Net cash flow from operations amounted to R479 million, which was applied to capital formation in stores, improved information technology, loan repayments, dividend payments, share repurchases and working capital funding.

The group had a negative cash flow of R345 million for the year.

The results reported are in line with the trading statement issued on 11 October 2005.

Trading performance

Retail brands

The retail sector continues to experience strong growth considering the low inflation rates currently being experienced in the country. However, sales of fast moving consumer goods (FMCG) have not experienced the same growth rates as the fashion goods sold mainly by credit-based retailers.

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

The performance of the brand stabilised in the second half of the year and Clicks has started to show the early signs of a turnaround. The shrinkage trend has continued, while the margin was negatively impacted when Clicks adopted the medicine pricing regulations. Expense control improved in the second six months.

Clicks has significantly advanced the implementation of its strategy following the integration of pharmacy into the brand. The brand aims to be the "best discount drugstore in South Africa" by dominating mass market pharmacy health and beauty products and services. This core health and beauty range will continue to be supported by a homeware offering.

Following the Constitutional Court's judgment on the medicine pricing regulations, Clicks will continue to charge a dispensing fee of R26/26% in the interim period while a more workable pricing model is being sought. Clicks will continue to adopt a competitive pricing stance, supporting its value proposition of "You Pay Less at Clicks".

The performance of the integrated Clicks stores with dispensaries is proving the model that front shop sales will increase from the higher footfall through stores from pharmacy customers. Front shop sales from the integrated stores have increased 15.9% since being converted to include pharmacy.

Discom increased turnover by 11% to R975.2 million and lifted operating profit seven-fold to R28.9 million. The benefits of the brand's restructuring over the past few years are becoming increasingly evident, with continued improvement in margin, shrinkage and expense management.

An aggressive pricing strategy and increased sales of entertainment merchandise contributed to a 21.7% sales growth in the Entertainment division. In line with diversifying the income stream, sales of DVD, gaming and lifestyle merchandise now account for 39% of total turnover (2004: 29%). Operating profit increased 45.1% to R27.6 million.

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

New Clicks has grown its store base by a net 12 stores over the year to 663. An aggressive store expansion programme is planned for 2006 with a further 30 stores scheduled to be opened across Clicks (13), Discom (9) and Entertainment (8).

Wholesale distribution

UPD increased turnover by 33.3% to R3.0 billion for the year, driven by strong growth in sales to independent pharmacies. Growth in turnover from Clicks Pharmacy has increased as the rate of pharmacy integration increases, while sales to private hospitals is a major growth area. Margins were impacted by the lower logistics fee owing to the introduction of single exit pricing, but this was compensated by the increased sales volumes. Expenses were well managed at 6.6% of turnover (2004: 8.3%).

Prospects

The performance of Clicks is critical to the overall success of the group and the turnaround in Clicks remains management's main priority. While the brand showed an improved trading performance in the second half of the year and this upward trend is expected to continue, management considers that the full benefits of the recovery are realistically not likely to be achieved in the short term.

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

UPD will continue to target volume growth. While the regulatory environment remains challenging with the expected capping of logistics fees and uncertainty on the retail pharmacy dispensing fee, UPD is well positioned for strong profit growth.

Following the migration to the enterprise systems platform, the group will focus on leveraging the benefits of the system and adapting to this new way of managing the business. The new systems will ultimately provide daily sales, margin and stock information, more timeous performance information, stock take results within 48 hours and also facilitate efficient end-to-end processing in the supply chain.

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

Dividend declaration

The Board of Directors has declared a final cash dividend of 18.5 cents per share payable on Monday, 19 December 2005 to shareholders recorded in the books of the company at the close of business on Thursday, 15 December 2005. The last day to trade ("cum" the dividend) in order to participate in the dividend will be Thursday, 8 December 2005 and the shares will trade "ex dividend" from the commencement of business on Friday, 9 December 2005. The record date will be Thursday, 15 December 2005.

Share certificates may not be dematerialised or rematerialised between Friday, 9 December 2005 and Thursday, 15 December 2005, both dates inclusive.

By order of the Board

ALLAN SCOTT
Company Secretary

25 October 2005

Registered address Cnr Searle and Pontac Streets, Cape Town 8001, PO Box 5142, Cape Town 8000 **Directors** D.M. Nurek* (Chairman), T.C. Honneysett, R.B. Godfrey, E. Osrin*, R.L. Lumb*, L.A. Swartz*, P.E.I. Swartz*, A. Zimbler* * non-executive
Transfer Secretaries Computershare Investor Services 2004 (Proprietary) Limited, 70 Marshall Street, Johannesburg 2001, PO Box 61051, Marshalltown 2107 **Sponsor** Investec Bank Limited
This information, together with additional detail is available on the New Clicks Holdings website: http://www.newclicks.co.za

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