CLICKS GROUP LIMITED

Reviewed Preliminary Group Results

for the year ended 31 August 2010

Retail turnover up	Diluted headline EPS up	Total distribution of	Return on equity increases to
14.7%	27.4%	106.2 cents	50.8%

Commentary

Overview

Clicks Group produced another strong performance for the year and entrenched its leadership position across the health and beauty markets.

The Clicks chain continued to deliver excellent real growth in an overall retail environment that remained challenging throughout the year, with little sign of any turnaround in consumer spending.

Diluted headline earnings per share increased by 27.4% to 211.4 cents per share through improved trading and efficient margin management.

Return on shareholders' equity (ROE) exceeded 50% for the first time, increasing from 42.3% to 50.8% for the year. Management has set a revised medium-term target for ROE of 50% – 60%.

Financial performance

Retail turnover increased by 14.7% to R9.7 billion, driven mainly by the performance of Clicks stores which grew turnover by 16.7%. Along with the tough economic climate, there was also a marked decline in selling price inflation which measured 5.4% for the retail businesses compared to 8.6% in 2009.

UPD increased turnover by 5.2% (and by 12.2% on a comparable basis as distribution agency sales generated by UPD are no longer reflected in turnover). Price inflation was 5.5%.

Group turnover rose by 9.0% to R13.3 billion.

Total income, comprising gross profit and other income, increased by 14.5% to R3.5 billion.

Operating expenses increased by 14.1%. Retail costs were 14.6% higher, impacted by the continued investment in stores and dispensaries and higher performance-related costs which were partially off-set by the increase in the valuation of the share incentive hedge. Excluding these costs, underlying retail cost growth was 10.0%.

Operating margin improved from 5.8% to 6.2%, translating into a 16.1% increase in operating profit to R823 million.

Headline earnings increased 20.3% to R576 million. Diluted headline earnings per share continued to benefit from the share buy-back programme and increased 27.4% to 211.4 cents per share. Diluted HEPS has grown at a compound rate of 29.8% over the past five years.

A final distribution of 75.7 cents per share has been declared, resulting in a total distribution of 106.2 cents for the year, an increase of 26.4% over the previous year. Distribution cover has been maintained at two times headline earnings.

Inventory days in stock were 55 (2009: 54) and inventory levels were 10.5% higher at year-end owing mainly to the earlier buying of Christmas stock in Clicks.

The group generated normalised cash flow from operations of R744 million, with R231 million invested in capital expenditure and R567 million returned to shareholders in distributions and share buy-backs.

Trading performance

Clicks increased turnover by 16.7% and recorded market share gains across all core merchandise categories. Comparable store sales grew by 12.8%. Clicks expanded its pharmacy network to 251 following the opening of 44 dispensaries during the year. A net 23 stores were opened, bringing the store base to 369. The Clicks ClubCard loyalty programme passed the 3 million customer mark during the year. Operating profit increased by 27.3% due to continued improvements in both supply chain and shrink and waste management.

UPD grew wholesale turnover by 12.2%, with strong increases in sales to Clicks and Link pharmacies. Operating profit declined by 7.2% owing to the lower increase granted on the single exit price of medicines in 2010 compared to 2009. UPD has maintained its leadership position in the private pharmaceutical wholesale and distribution market with a share of 23.7%.

Musica increased turnover by 0.5% as discretionary spending in the entertainment market remained muted. The brand remains the country's leading music and entertainment retailer with commanding market shares in CDs and DVDs. Operating margin improved by 20 basis points to 5.5%.

The Body Shop benefited from new store openings and increased turnover by 5.2%. The strengthening of the Rand contributed to a 21.6% growth in operating profit.

Prospects

Management remains cautious on the outlook for the recovery in consumer spending in the year ahead. Trading for the first seven weeks of the new financial year has continued in line with the performance in the second half of the 2010 financial year.

Selling price inflation is expected to remain in mid-single digits during the new financial year. The group will continue to invest for longer term growth and capital expenditure of R250 million has been committed for 2011, with trading space planned to increase by 4% to 5%.

The strategic objectives of pre-eminence in health and beauty retailing and pre-eminence in healthcare supply and pharmacy management remain core to the future of the business. The group is well positioned for growth through the expansion of the Clicks store and pharmacy network, new revenue opportunities in UPD and organic growth in the health and beauty markets.

The group's medium-term operating margin target has been increased to 6.0% – 7.0% to reflect improved performance and prospects.

Shareholder distribution

The board of directors has approved a final distribution of 75.7 cents per share (2009: 59.5 cents per share). The source of the distribution will be a capital reduction out of share premium as per the approval given by shareholders at the annual general meeting held on Monday, 18 January 2010.

The table below sets out the unaudited *pro forma* financial effects of the final distribution on the Clicks Group, based on the assumptions set out below. The final distribution will only have an effect on the Clicks Group net asset value and tangible net asset value. Because of the basis of this calculation, the net asset value and net tangible asset value may not necessarily provide a fair reflection of the group's net asset value and net tangible asset value after the implementation of the final distribution. The *pro forma* financial effects are the responsibility of the board and have been prepared for illustrative purposes only.

	As at 31 August 2010 (reviewed)	*Pro forma* adjustment[1]	*Pro forma* after the final distribution	Change (%)
Net asset value per share (cents)	429.0	(75.7)	353.3	(17.6)
Net tangible asset value per share (cents)	271.0	(75.7)	195.3	(27.9)
No. of shares in issue (net of treasury shares) ('000)	266 283	–	266 283	–

[1] Adjustments to the net asset value per share and the net tangible asset value per share have been made on the assumption that the final distribution of 75.7 cents per share was paid on 31 August 2010.

Shareholders are advised of the following salient dates relating to the distribution:

Last day to trade "cum" the distribution	Friday, 21 January 2011
Shares trade "ex" the distribution	Monday, 24 January 2011
Record date	Friday, 28 January 2011
Payment to shareholders	Monday, 31 January 2011

Share certificates may not be dematerialised or rematerialised between Monday, 24 January 2011 and Friday, 28 January 2011, both days inclusive.

By order of the board

David Janks
Company Secretary

21 October 2010

Condensed statement of comprehensive income

R'000	Year to 31 August 2010 (reviewed)	Year to 31 August 2009 (audited) (restated)*	% change
Revenue	13 912 673	12 754 202	9.1
Turnover	13 276 277	12 175 312	9.0
Cost of merchandise sold	(10 372 685)	(9 657 930)	7.4
Gross profit	2 903 592	2 517 382	15.3
Other income	626 092	564 482	10.9
Expenses	(2 706 412)	(2 372 694)	14.1
Depreciation and amortisation	(128 095)	(113 665)	12.7
Occupancy costs	(389 746)	(338 786)	15.0
Employment costs	(1 399 378)	(1 156 928)	21.0
Other costs	(789 193)	(763 315)	3.4
Operating profit	823 272	709 170	16.1
Loss on disposal of property, plant and equipment	(6 476)	(7 177)	
Impairment of intangible assets	(7 685)	–	
Profit before financing costs	809 111	701 993	15.3
Net financing costs	(38 751)	(54 773)	(29.3)
Financial income	10 304	14 408	
Financial expense	(49 055)	(69 181)	
Profit before taxation	770 360	647 220	19.0
Income tax expense	(206 550)	(174 619)	18.3
Profit for the year	563 810	472 601	19.3
Other comprehensive loss:			
Exchange differences on translation of foreign subsidiaries	(1 368)	(285)	
Other comprehensive loss for the year, net of tax	(1 368)	(285)	
Total comprehensive income for the year	562 442	472 316	
Profit attributable to:			
Equity holders of the parent	565 413	472 387	
Non-controlling interest	(1 603)	214	
	563 810	472 601	
Total comprehensive income attributable to:			
Equity holders of the parent	564 045	472 102	
Non-controlling interest	(1 603)	214	
	562 442	472 316	
Earnings per share (cents)	208.6	165.6	26.0
Diluted earnings per share (cents)	207.7	163.8	26.8
Distributions per share (cents)			
Interim paid	30.5	24.5	24.5
Final declared/paid	75.7	59.5	27.2
	106.2	84.0	26.4

* Comparative figures have been restated for the reclassification of certain expenses between occupancy costs and other costs within the UPD business. Refer to note 1.2.

Headline earnings reconciliation

R'000	Year to 31 August 2010 (reviewed)	Year to 31 August 2009 (audited)	% change
Total profit for the year attributable to equity holders of the parent	565 413	472 387	
Adjusted for:			
Loss on disposal of property, plant and equipment	4 663	6 100	
Impairment of intangible assets	5 533	–	
Headline earnings	575 609	478 487	20.3
Headline earnings per share (cents)	212.3	167.7	26.6
Diluted headline earnings per share (cents)	211.4	165.9	27.4

Condensed consolidated statement of changes in equity

R'000	Year to 31 August 2010 (reviewed)	Year to 31 August 2009 (audited)
Opening balance	1 125 263	1 141 604
Acquisition of subsidiary – non-controlling interest	–	1 925
Acquisition of additional interest in subsidiary/(option in subsidiary)	4 987	(4 987)
Share cancellation expenses written off	–	(99)
Net cost of own shares purchased	(306 704)	(295 114)
Total comprehensive income for the year	562 442	472 316
Share-based payment reserve movement	51	717
Distributions to shareholders	(244 711)	(191 099)
Total	1 141 328	1 125 263

Condensed consolidated statement of financial position

R'000	As at 31 August 2010 (reviewed)	As at 31 August 2009 (audited)
Non-current assets	1 383 175	1 361 915
Property, plant and equipment	888 053	829 513
Intangible assets	314 473	302 313
Goodwill	105 335	96 124
Deferred tax assets	51 907	88 243
Loans receivable	23 407	45 722
Current assets	2 726 963	2 819 291
Inventories	1 571 248	1 421 496
Trade and other receivables	869 279	908 398
Loans receivable	15 149	11 342
Cash and cash equivalents	152 052	409 754
Derivative financial assets	119 235	68 301
Total assets	4 110 138	4 181 206
Equity and liabilities		
Total equity	1 141 328	1 125 263
Non-current liabilities	296 723	317 753
Interest-bearing borrowings	16 579	37 428
Employee benefits	96 274	91 134
Deferred tax liabilities	68 559	83 351
Operating lease liability	115 311	105 840
Current liabilities	2 672 087	2 738 190
Trade and other payables	2 290 883	2 408 117
Employee benefits	202 569	240 596
Provisions	6 244	6 254
Interest-bearing borrowings	116 592	29 877
Income tax payable	46 808	33 316
Derivative financial liabilities	8 991	20 030
Total equity and liabilities	4 110 138	4 181 206

Condensed consolidated statement of cash flows

R'000	Year to 31 August 2010 (reviewed)	Year to 31 August 2009 (audited)
Operating profit before working capital changes	836 994	825 407
Working capital changes	(203 492)	489 583
Net interest paid	(25 475)	(28 337)
Taxation paid	(174 930)	(229 158)
Cash inflow from operating activities before distributions	433 097	1 057 495
Distributions paid to shareholders	(244 711)	(191 099)
Net cash effects of operating activities	188 386	866 396
Net cash effects of investing activities	(210 715)	(218 630)
Acquisition of businesses	(25 189)	(9 924)
Capital expenditure	(206 478)	(224 625)
Other investing activities	20 952	15 919
Net cash effects of financing activities	(235 373)	(339 151)
Purchase of treasury shares	(321 862)	(337 501)
Other financing activities	86 489	(1 650)
Net (decrease)/increase in cash and cash equivalents	(257 702)	308 615

Registered address: Cnr Searle and Pontac Streets, Cape Town 8001
PO Box 5142, Cape Town 8000

Directors: F Abrahams*, JA Bester*, BD Engelbrecht, MJ Harvey, F Jakoet*, DA Kneale# (Chief Executive Officer), N Matlala*, DM Nurek* (Chairman), M Rosen*, KDM Warburton (Chief Financial Officer) * Independent non-executive # British

Company secretary: DW Janks

Transfer secretaries: Computershare Investor Services (Proprietary) Limited
70 Marshall Street, Johannesburg 2001. PO Box 61051, Marshalltown 2107

Sponsor: Investec Bank Limited **Registration number:** 1996/000645/06

Share code: CLS **ISIN:** ZAE000134854

This information, together with additional detail is available on the Clicks Group Limited website: **www.clicksgroup.co.za**

Segmental analysis

The group has adopted IFRS 8 "Operating Segments" with effect from 1 September 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the group that are regularly reviewed by the board of directors (identified as the chief operating decision-maker of the group in terms of IFRS 8 requirements) in order to allocate resources to the segments and to assess their performance. The group's reportable segments under IFRS 8 are therefore as follows:

Clicks (including Clicks Direct Medicines), Musica, The Body Shop and United Pharmaceutical Distributors (UPD).

R'000	Turnover	Profit before taxation	Total assets	Capital expenditure	Total liabilities
Year to 31 August 2010 (reviewed)					
Clicks	8 664 788	596 719	2 062 360	148 034	1 465 247
Musica	952 133	52 495	223 701	17 180	137 613
The Body Shop	110 948	19 871	20 718	3 146	11 228
United Pharmaceutical Distributors	5 298 670	162 200	1 541 676	18 200	1 366 090
Inter-segmental	(1 750 262)	(8 013)	(669 925)	–	(655 071)
Total reportable segmental balance	13 276 277	823 272	3 178 530	186 560	2 325 107
Non-reportable segmental balance	–	(52 912)	931 608	19 918	643 703
Total group balance	13 276 277	770 360	4 110 138	206 478	2 968 810
Year to 31 August 2009 (reviewed)					
Clicks	7 424 362	468 875	1 684 468	128 882	1 153 545
Musica	947 773	50 422	219 748	16 068	128 372
The Body Shop	105 432	16 338	22 079	1 548	13 414
United Pharmaceutical Distributors	5 037 215	174 775	1 741 220	37 432	1 732 311
Inter-segmental	(1 339 470)	(1 240)	(765 850)	–	(759 008)
Total reportable segmental balance	12 175 312	709 170	2 901 665	183 930	2 268 634
Non-reportable segmental balance	–	(61 950)	1 279 541	40 695	787 309
Total group balance	12 175 312	647 220	4 181 206	224 625	3 055 943

R'000	As at 31 August 2010 (reviewed)	As at 31 August 2009 (audited)
Non-reportable segmental profit before taxation consists of:		
Loss on disposal of property, plant and equipment	(6 476)	(7 177)
Impairment of intangible assets	(7 685)	–
Financial income	10 304	14 408
Financial expense	(49 055)	(69 181)
	(52 912)	(61 950)

Supplementary information

	As at 31 August 2010 (reviewed)	As at 31 August 2009 (audited)
Number of ordinary shares in issue (gross) ('000)	284 007	302 841
Number of ordinary shares in issue (net of treasury shares) ('000)	266 283	276 306
Weighted average number of shares in issue (net of treasury shares) ('000)	271 073	285 249
Weighted average diluted number of shares in issue (net of treasury shares) ('000)	272 277	288 349
Net asset value per share (cents)	429	407
Net tangible asset value per share (cents)	271	263
Depreciation and amortisation (R'000)	136 775	121 917
Capital expenditure (including acquisition of business) (R'000)	231 667	234 549
Capital commitments (R'000)	249 833	224 455

Notes

Auditor's preliminary report

1.1 KPMG Inc., the group's independent auditor has reviewed the preliminary financial statements contained in this preliminary report, and has expressed an unmodified conclusion on the preliminary financial statements. Their review report is available for inspection at the company's registered office. These preliminary financial statements for the year ended 31 August 2010 have been prepared in accordance with accounting policies that comply with International Financial Reporting Standards ("IFRS") and the disclosure requirements of IAS 34, and have been consistently applied with those adopted for the year ended 31 August 2009 with the following exception:

During the year, the group adopted the following new and amended IFRS to the extent that they are applicable to its activities:

- IAS 1 "Presentation of Financial Statements"
- IAS 23 "Borrowing Cost"
- IAS 27 "Consolidated and Separate Financial Statements"
- IFRS 3 "Business Combinations"
- IFRS 7 "Financial Instruments"
- IFRS 8 "Operating Segments"
- Annual improvements to IFRS (2008 and 2009)

1.2 The results for the year ended 31 August 2009 have been restated for the reclassification of certain expenses between occupancy costs and other costs within the UPD business. The impact on the statement of comprehensive income for the year ended 31 August 2009 is a R13.3 million decrease in occupancy costs and a corresponding increase of R13.3 million in other costs. There is a nil net impact on the statement of comprehensive income and statement of financial position for the year ended 31 August 2009.