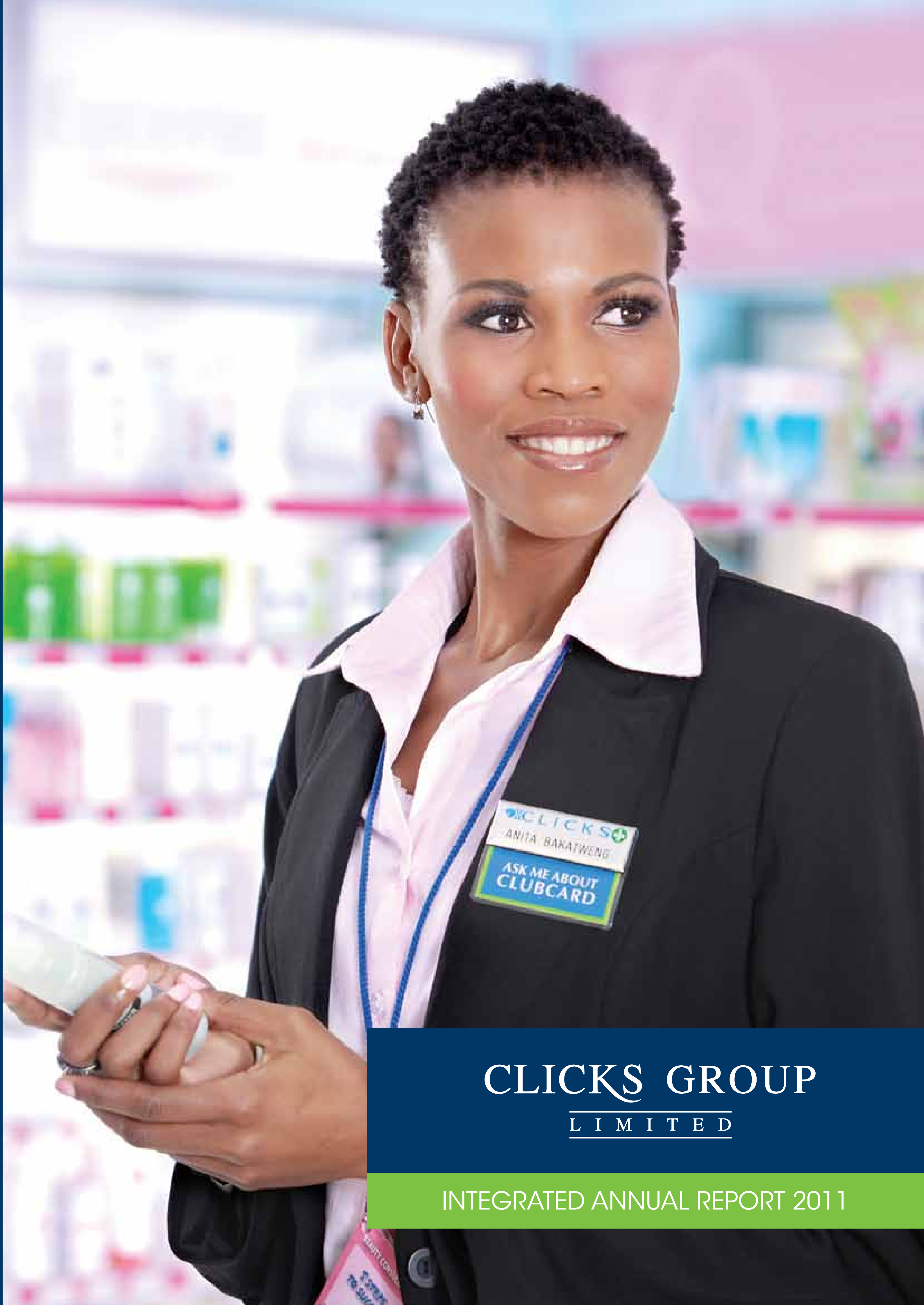
CLICKS GROUP LIMITED INTEGRATED ANNUAL REPORT 2011




# CLICKS GROUP LIMITED

## INTEGRATED ANNUAL REPORT 2011

# CONTENTS



**Cover photograph**

Clicks opened its first store in Botswana in July 2011. Anita Bakatweng is a beauty adviser at the store which is located in Gaborone, the capital of Botswana.


Operating margin up from 6.2% to
**6.6%**

Diluted headline EPS up
**18.1%**

Return on equity increases to
**62.2%**

Total distribution of
**125.0 cents**

Achieved
**level 3**
BBBEE status

## INTRODUCING INTEGRATED REPORTING

Clicks Group welcomes the introduction of integrated reporting as outlined in the King Code of Governance Principles (King III) and has pleasure in presenting its Integrated Annual Report to stakeholders for the 2011 financial year.

**Scope and boundary of the report:** The Integrated Annual Report covers the activities and results of the group and its subsidiaries for the period 1 September 2010 to 31 August 2011. The group operates primarily in South Africa and has operations in Botswana, Namibia and Swaziland. The majority of the group's revenue and profit is generated in South Africa. There have been no changes from last year in the scope and boundary of the report, while the principle of materiality has been applied in determining content and disclosure. The Integrated Annual Report and the annual financial statements have been prepared according to International Financial Reporting Standards (IFRS), the requirements of the Companies Act and the Listings Requirements of the JSE. The group has implemented the recommendations of King III and management has also considered the guidelines published by the Integrated Reporting Committee of South Africa.

**Enhancing disclosure and content:** The 2011 report builds on the enhanced disclosure of recent years and in the spirit of integrated reporting aims to assist stakeholders in their assessment of the group's ability to create and sustain value. This includes the first time analysis of the material sustainability issues and risks impacting the group, a focus on stakeholder engagement and the outcome of this engagement, as well as a report on the group's transformation, a critical element of sustainability in the South African context.

# GROUP PROFILE

Clicks Group is a health and beauty focused retail and supply group which has been listed on the JSE Limited since 1996, in the Food and Drug Retailers sector. Through market-leading retail brands Clicks, Musica and The Body Shop, the group has 590 stores across southern Africa.

Clicks Group is a leader in the healthcare market where Clicks has the largest retail pharmacy chain with 283 in-store dispensaries, as well as a direct-to-patient courier pharmacy service, Clicks Direct Medicines.

Clicks was conceived as a drugstore in 1968 by entrepreneurial retailer, Jack Goldin, but legislation at the time prevented corporate ownership of pharmacies in South Africa. Legislation changed in 2003 to allow corporate pharmacy ownership and the first Clicks pharmacy opened in March 2004.

Clicks also has one of the largest loyalty programmes in South Africa with over 3.4 million active ClubCard members.

United Pharmaceutical Distributors (UPD) is South Africa's only full-range national pharmaceutical wholesaler and was acquired in January 2003 to provide the distribution capability for the group's integrated healthcare strategy.

Musica, the country's leading entertainment retail brand, was acquired in 1992.

The Body Shop has been operated under a franchise arrangement with The Body Shop International since 2001, and the group has extended this contract until 2020.

## 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

## CLICKS GROUP

**Group Executive Committee**

**David Kneale**
Chief Executive Officer

**Bertina Engelbrecht**
Group Human Resources Director

**Michael Fleming**
Chief Financial Officer

**Michael Harvey**
Managing Director, Clicks

## Market share

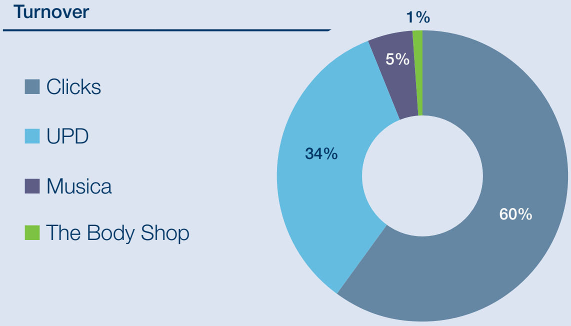
| % | 2011 | 2010 |
|---|---|---|
| **Clicks** | | |
| – Retail pharmacy | **15.4** | 13.1 |
| – Front shop health | **37.9** | 36.8 |
| – Haircare | **29.5** | 28.3 |
| – Skincare | **31.8** | 32.6 |
| – Colour cosmetics | **28.6** | 29.9 |
| – Small household appliances | **21.3** | 20.0 |
| **UPD** | | |
| – Private pharmaceutical market | **23.1** | 22.7 |

## Store footprint

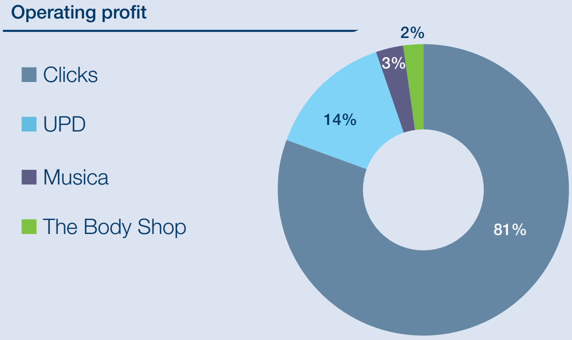
| | 2011 | New/ (closed) | 2010 |
|---|---|---|---|
| Clicks | **400** | 31 | 369 |
| Musica | **148** | (4) | 152 |
| The Body Shop | **42** | 2 | 40 |
| Total | **590** | 29 | 561 |

## Business unit contribution

**Turnover**




**Operating profit**




## CLICKS

**MICHAEL HARVEY**
Managing Director

South Africa's leading health and beauty retailer, targeting consumers in the middle to upper income markets (LSM 6 – 10).

The brand offers value for money in convenient and appealing locations.

Clicks has the largest retail pharmacy footprint in the country, with over 280 in-store dispensaries.

Clicks also has a national direct-to-patient courier pharmacy service, Clicks Direct Medicines.

## UPD

**VIKESH RAMSUNDER**
Managing Director

The country's leading full-range national pharmaceutical wholesaler, supplying the pharmaceutical needs of Clicks and private hospital groups.

Targets independent pharmacies through the Link buying group which has 252 members.

UPD also offers bulk distribution services to pharmaceutical manufacturers.

## MUSICA

**RALPH LORENZ**
Managing Director

The largest retailer of music and entertainment-related merchandise in the country.

## THE BODY SHOP

**SEAN KRISTAFOR**
General Manager

A global brand marketing naturally-inspired beauty products.

# GROUP STRATEGY AND TARGETS

> As a health and beauty retail and supply specialist, Clicks Group is uniquely positioned.

**3.4 million**
Clicks ClubCard active members


Good growth prospects in the health and beauty markets, together with the strength and scale of the group's brands, will allow the business to capitalise on organic growth opportunities to gain market share and ensure sustainable competitive advantage.

Organic growth is complemented by tactical acquisitions to accelerate growth in core markets. This includes acquiring independent pharmacies to attract additional pharmacists into Clicks and, where appropriate, to acquire and convert their premises into a Clicks store.

Owing to the extensive opportunities to expand the current store base and the pharmacy network, South Africa remains the group's primary focus, with a small presence in the neighbouring African countries of Namibia, Swaziland and Botswana.

While the group's music and entertainment brand, Musica, is not considered core to the strategy, the business is the market-leading entertainment retailer in the country and is managed to maximise shareholder value.

## Positioning in growth markets

The country's healthcare market is expected to show sustainable long-term real growth owing to the increasing proportion of the population entering the private healthcare market. Currently close to 8.3 million South Africans are covered by medical aid schemes, with this figure having grown by 1.2 million since 2006 (source: Council for Medical Schemes). The remaining 41.7 million South Africans therefore pay their own medical expenses or are dependent on the state healthcare system. The government is currently considering ways of extending health cover to the majority of the population (refer to the Chief Executive's Report for detail on the proposed National Health Insurance scheme).

The average life expectancy of South Africans has increased from 52.3 years in 2006 to 57.1 years in 2011, and this ageing population will require healthcare services for longer (source: Statistics South Africa).

Higher living standards have resulted in a steady growth in the middle class population and an expansion of the universe of formal retail shoppers. Between 2001 and 2011 the number of South Africans in the LSM 6 to 10 categories grew from 34.9% to 55.7% of the population (source: AMPS). This is creating a growing market for the group's health and beauty products.

An analysis of the LSM groups is contained on page 136.

## Pharmacy market in South Africa

Corporate pharmacy, which covers national chain and supermarket pharmacies, has only been operating in South Africa since 2004 and already accounts for 28.7% of the retail pharmacy market. Independent retail pharmacies comprise 56.7% and courier pharmacy the remaining 14.6% of the market (source: IMS). Clicks has first mover advantage in the corporate pharmacy market in South Africa and has a goal to achieve a 30% market share in retail pharmacy over the longer term.

## Strategic objectives

Management has identified two core strategic objectives to drive the sustainable growth of the business and to achieve the group's targets:

| Pre-eminence in health and beauty retailing | Pre-eminence in healthcare supply and pharmacy management |
|---|---|

**These objectives are supported by two strategic enablers:**

| Enhancing organisational capability to deliver sustained performance | Efficient management of cash and capital |
|---|---|

## Performance against strategic objectives for 2011

In the 2010 annual report the group outlined strategic focus areas and plans for the year ahead and progress against these objectives is outlined below:

### Pre-eminence in health and beauty retailing

| Focus areas and plans for 2011 | Performance against objectives in 2011 |
|---|---|
| • Open 20 to 30 new Clicks stores | • 31 stores opened during the year (2010: 23)<br>• Store base 400 at year-end (2010: 369) |
| • Grow sales from private label and exclusive brands to 20% – 25% | • Private label 18.2% of total Clicks sales (2010: 17.8%)<br>• Front shop private label sales now 24.2% (2010: 23.0%) |
| • Continued product innovation in beauty and electrical merchandise | • 4 138 new products launched in these two merchandise categories |
| • Grow Clicks ClubCard membership base to 3.5 million | • 3.4 million members at year-end (2010: 3.1 million)<br>• Net growth of 300 000 members<br>• 2.4 million cardholders on pharmacy database<br>• BabyClub launched in April 2011 |

### Pre-eminence in healthcare supply and pharmacy management

| | |
|---|---|
| • Open 30 to 40 dispensaries in Clicks stores | • 32 dispensaries opened during the year (2010: 44)<br>• 283 dispensaries at year-end (2010: 251) |
| • Grow Clicks' retail pharmacy market share | • Retail pharmacy market share 15.4% (2010: 13.1%) |
| • Grow UPD export business | • Business impacted by regulatory challenges relating to UPD obtaining an export licence. This resulted in a decline of 9.1% in export turnover |
| • Build distribution agency business in UPD | • R600 million notional turnover from distribution contracts (2010: R553 million) |

# GROUP STRATEGY AND TARGETS continued

## Strategic goals and plans for 2012

The strategic objectives outlined on page 5 remain core to the sustainability of the group and are therefore unchanged for the year ahead. The primary focus will be on maintaining the momentum built in Clicks in recent years while improving performance in UPD and growing its distribution agency business.

The group's longer term strategic goals, together with objectives for the 2012 financial year, are detailed below:

### Pre-eminence in health and beauty retailing

| Longer term strategic goals | Objectives for 2012 |
|---|---|
| • Expand Clicks network to 500 stores | • Open 20 to 30 new Clicks stores |
| • Retail pharmacy market share of 30% | • Open 30 to 40 dispensaries in Clicks stores |
| • Continued product and service innovation | • Increase front shop private label sales to 25% of total sales<br>• Expand private label scheduled medicines range<br>• Pharmacy Blueprint project being implemented<br>• Grow beauty market shares through product innovation |
| • Grow ClubCard membership to 5 million | • Increase ClubCard membership to 4 million<br>• Introduce new affinity partners where members can earn ClubCard points to spend in Clicks |
| • Clicks independently rated No. 1 by consumers for price, range and service | • Maintain pricing parity with food retailers<br>• Improve product availability to 97%<br>• Complete customer service excellence programme in all stores (currently completed in 291 stores)<br>• Increase clinic utilisation, particularly in wellness testing, and mother and baby services |

### Pre-eminence in healthcare supply and pharmacy management

| | |
|---|---|
| • Grow UPD to 30% share of private pharmaceutical wholesale market (target for 2014 is 24.7%) | • Increase Link's buying compliance with UPD to 60%<br>• Improve Clicks' buying compliance to 96%<br>• Grow volume of business with private hospital groups<br>• Broaden range of oncology products |
| • UPD develops combined distribution agency/wholesale business model | • Secure additional distribution agency contracts<br>• Already been awarded R600 million in contracts to commence during 2012 calendar year |
| • Direct-to-patient capability for specialised medicines via Clicks Direct Medicines | • Develop oncology business through Clicks Direct Medicines |

## Enhancing organisational capability to deliver sustained performance

| Performance in 2011 | Target/plans for 2012 |
|---|---|
| Employee turnover improved to 19.4% (2010: 19.8%) | 18 – 20% |
| Employee satisfaction rating increased to 68% (2010: 67%) | 70% |
| BBBEE status improved to level 3 (2010: level 5) | Level 3 |
| Information technology capital expenditure of R59 million | R65 million |

## Efficient management of cash and capital

The group determines medium-term financial targets to be achieved over each rolling three-year cycle. The targets have been revised for the three years to 2014 based on budgeted performance and prospects.

| Financial and operating targets | Medium-term targets 2011 – 2013 | Performance in 2011 | **Medium-term targets 2012 – 2014** |
|---|---|---|---|
| Return on shareholders' interest (ROE) (%) | 50 – 60 | 62.2 | **55 – 65** |
| Shareholders' interest to total assets (%) | 30 – 35 | 22.7 | **27 – 32** |
| Return on total assets (%) | 14 – 18 | 15.7 | **14 – 18** |
| Inventory days | 50 – 55 | 60 | **55 – 60** |
| Operating margin (%) | | | |
| Group | 6.0 – 7.0 | 6.6 | **6.0 – 7.0** |
| Clicks | 6.5 – 7.5 | 7.7 | **7.0 – 8.0** |
| UPD* | 2.7 – 3.0 | 2.4 | **2.5 – 3.0** |
| Musica | 5.0 – 6.0 | 3.5 | **3.0 – 4.0** |
| The Body Shop | 14.0 – 16.0 | 19.1 | **18.0 – 20.0** |

* Margin relates to UPD's wholesale business only.

The following assumptions have been applied in determining these targets:

- No marked change in the trading environment
- No increase in dispensing fees currently charged by Clicks
- No material impact from single exit price (SEP) increases
- No adverse impact from regulatory change.

An analysis of the group's performance relative to the medium-term financial targets is contained in the Chief Financial Officer's Report on pages 22 to 25.

# SHAREHOLDER ANALYSIS

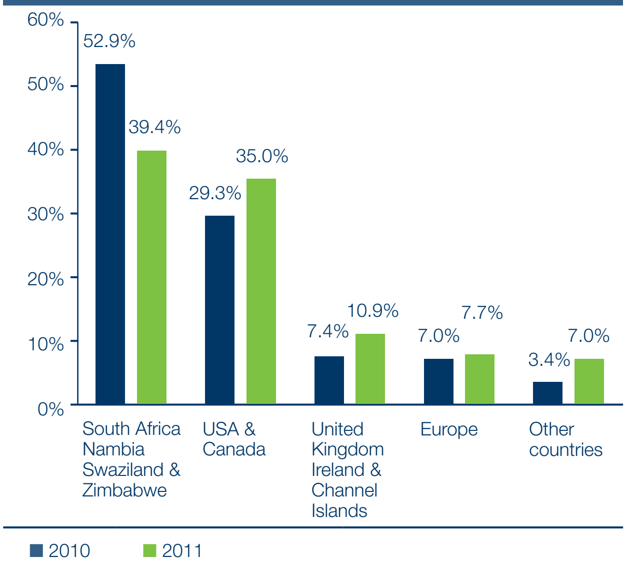
| Public and non-public shareholders | Number of holders | Percentage of holders | Number of shares | Percentage of shares |
|---|---|---|---|---|
| Public shareholders | 4 883 | 99.9% | 252 971 603 | 93.5% |
| Non-public shareholders | | | | |
| Shares held by directors | 6 | 0.1% | 693 194 | 0.2% |
| Treasury stock held by New Clicks South Africa (Proprietary) Limited | 1 | – | 16 493 520 | 6.1% |
| The New Clicks Holdings Share Trust | 1 | – | 493 795 | 0.2% |
| Total non-public shareholders | 8 | 0.1% | 17 680 509 | 6.5% |
| Total shareholders | 4 891 | 100% | 270 652 112 | 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 3% or more of the issued share capital at 31 August 2011:

| Major beneficial shareholders | 2011 Percentage of shares | 2010 Percentage of shares |
|---|---|---|
| Government Employees Pension Fund | 12.6% | 17.6% |
| New Clicks South Africa (Proprietary) Limited | 6.1% | 5.8% |

| Major fund managers managing 3% or more | 2011 Percentage of shares | 2010 Percentage of shares |
|---|---|---|
| Public Investment Corporation (SA) | 12.1% | 16.9% |
| Baillie Gifford & Co (UK) | 5.8% | – |
| Morgan Stanley Investment Management (UK) | 5.6% | 6.0% |
| William Blair Investment Management (US) | 4.6% | 3.1% |
| Oasis Asset Management (SA) | 3.8% | 4.6% |
| Fidelity Management & Research (US)/International (UK) | 3.6% | 12.3% |
| Vontobel Asset Management (US) | 3.2% | 1.6% |

**Geographic distribution of shareholders**




Eight of the **ten largest investors** are based offshore

# INVESTMENT CASE

> Clicks Group offers compelling growth prospects for investors seeking long-term exposure to the retail and healthcare sectors in South Africa.

The following factors motivate an investment case and highlight how the group's business model, strategy and organic prospects in the expanding health and beauty markets are expected to sustain growth.

## Market leadership

All businesses in the group occupy market-leading positions

- Clicks independently rated as South Africa's first choice for health and beauty
- Largest retail pharmacy network with 283 in-store dispensaries
- UPD is the only national full-range pharmaceutical wholesaler in the country
- Increasing sales and profit contribution from core health and beauty business

## Resilient business model

Over 75% of the group's turnover is in non-cyclical merchandise

- Business therefore more resilient to economic downturn
- As a cash retailer Clicks not as interest rate sensitive as its credit-based peers

## Price competitiveness

As a value retailer Clicks is highly price competitive relative to food retailers

## Expanding store base

Clicks plans to grow store base from 400 to 500 in the medium term

- National portfolio of convenient and well-located stores
- Committed to opening 20 – 30 stores each year
- Opportunity to expand well beyond 500 stores in the longer term

## Expanding pharmacy base

Objective is to operate a pharmacy and clinic in every Clicks store

- Opportunity to increase pharmacy base by at least 200
- Clicks has 15.4% retail pharmacy market share and a goal to grow to 30% in the long term
- Dispensaries take at least four years to reach maturity and 29% of pharmacies are less than two years old, showing potential for further sales and profit growth in these stores

## Entrenching customer loyalty

Clicks ClubCard is one of the largest loyalty programmes in the country with 3.4 million active members

- ClubCard holders already generate over 76% of Clicks sales
- Target to achieve 5 million ClubCard members by 2014

## Increasing private label sales

Clicks private label and exclusive brands offer differentiated product at higher margins and engender customer loyalty

- Clicks targeting to grow private label to 25% of sales from the current 18.2%
- Private label medicines will in the longer term become a revenue stream for Clicks and will be distributed by UPD

## UPD growth opportunities

UPD provides the distribution capability for the group's integrated healthcare strategy

- As the country's only national full-range pharmaceutical wholesaler, UPD has scale advantage over its competitors
- Benefit from growth in Clicks Pharmacy, Clicks Direct Medicines and increasing loyalty from the Link pharmacy network
- Positioned to grow third party agency distribution contracts

## Highly cash-generative business

Capital actively managed through share buy-backs, managing distribution cover levels and investing for organic growth

- R3.4 billion returned to shareholders in the past five years through distributions and share buy-backs
- Capital expenditure of over R1 billion in the past five years, mainly on new stores and pharmacies, store refurbishments and information technology

## Sustained financial performance

- ROE more than trebled over past five years from 16.7% to 62.2%
- Diluted headline earnings per share: 28.6% five-year annual compound growth
- Distributions per share: 30.4% five-year annual compound growth

# MATERIAL SUSTAINABILITY ISSUES

Qualified for

JSE SRI Index


## Material sustainability issues and risks

**Through its risk management process the group has identified material issues which could impact on performance and on the sustainability of the business. The following table identifies these material issues, the implications for the business and the strategies which have been implemented to mitigate and manage the impact of these risks. For further detail on the group's risk management process refer to page 48 of the Corporate Governance Report.**

### 1 Proposed capping of logistics fees for pharmaceutical wholesalers

#### Implications

In March 2011 the Department of Health (DoH) published draft regulations to cap the maximum logistics fees that can be earned by pharmaceutical wholesalers. The proposals were opened for industry comment. While the group welcomes the DoH's intention to regulate logistics fees and supports the construct of the regulations, the proposed fee levels are not viable and at this low level would dilute UPD's margin and erode profit.

#### Mitigation plans

- Management has constructively engaged with the DoH and made a formal submission in response to the draft regulations
- The group is confident that a fair solution will be reached
- Regardless of the outcome of this engagement, the capping of fees will accelerate the much-needed consolidation of the pharmaceutical supply chain. As the market leader this is expected to benefit UPD
- At the date of this report there was no finality on these regulations

## 2 Increasing cost of attracting and retaining pharmacy professionals

### Implications

The group is the largest employer of pharmacists in the private sector and employs over 420 permanent and over 1 700 locum pharmacists in Clicks, UPD and Clicks Direct Medicines. The shortage of healthcare professionals is an industry challenge, with South Africa having approximately half of the required pharmacists based on World Health Organisation standards. The shortage of pharmacists could limit the growth of Clicks and increase costs.

### Mitigation plans

- The group recognises the need for a sustainable increase in the number of graduates from pharmacy schools and is working closely with universities to increase capacity
- 80 bursaries to be granted for trainee pharmacists for 2012
- Plan to increase the number of pharmacy interns employed in the group to 60 in 2012
- In-house Pharmacy Healthcare Academy trained 408 learners in the past financial year
- An employee share ownership scheme was introduced this year to attract and retain scarce skills, with a higher allocation to pharmacists. Any pharmacist joining the group during the next three years can participate in the share scheme
- Pharmacist turnover rate has declined to 23%, although the vacancy factor remains high

## 3 Operating in a low inflationary environment

### Implications

The prevailing low inflationary environment in the South African retail sector could negatively impact profitability as volume increases are required to maintain revenue growth. This also creates pressure to remain price competitive. Cost growth ahead of inflation could limit opportunities to enhance margin. In addition, no increase was granted in the single exit price (SEP) of medicines in 2011 and no increase is expected in 2012.

### Mitigation plans

- Focus on growing sales volumes
- Ongoing review of expenses and cost structures across all businesses
- Review pace of store refurbishments and pharmacy roll-out in Clicks

## 4 Increasing competition in retail pharmacy market

### Implications

Aggressive expansion by corporate pharmacy competitors could increase the shortage of pharmacists as well as negatively affect sales and market share growth in Clicks.

### Mitigation plans

- Clicks has the largest retail pharmacy footprint in SA with a market share of 15.4%
- Continued opening of pharmacies, with 30 – 40 planned for 2012
- Ultimately plan to open dispensaries in all Clicks stores (currently 283 out of 400 stores)
- Ongoing improvement in pricing, product offer and customer service
- Continued aggressive promotions strategy to entrench Clicks as a value retailer

## 5 Attracting and retaining skilled staff

### Implications

An inability to attract and retain people in key positions across the group could ultimately compromise service delivery.

### Mitigation plans

- Total rewards remuneration strategy across the group ensures market competitiveness in terms of cash and benefits
- Annual survey introduced to measure and track employee perceptions
- Employee share ownership scheme introduced as a means of incentivising and retaining staff

## 6 Non-compliance with policies, procedures and processes

### Implications

Non-compliance with group policies and processes could impact on shrinkage, cash losses, dispensing errors and sales.

### Mitigation plans

- Comprehensive control self-assessment process followed in each business unit
- Shrinkage actively monitored and audit processes entrenched within business units
- Customer service excellence programme and Pharmacy Blueprint in Clicks to improve standardisation, customer interface and adherence to policies, procedures and processes

## 7 Acquiring suitable store premises with dispensing licences for Clicks

### Implications

Clicks needs to secure additional retail space to meet the aggressive store opening target and increase the store footprint to 500 by 2014. Dispensing licences need to be granted for these premises to enable Clicks to ultimately offer a dispensary in every store.

### Mitigation plans

- Property strategy developed in conjunction with market research capability to ensure suitable sites are identified and evaluated
- Once Clicks reaches its target of 500 stores the brand will still only have a presence in approximately half of the retail centres in the country, providing scope to extend the chain beyond 500 stores in the longer term
- Regular meetings are held with the DoH to expedite the granting of licences and to respond speedily to cases where licence applications have been rejected
- Programme to acquire independent pharmacies and attract pharmacists to join Clicks, and consider buying and converting their premises if appropriate. A total of 102 independent pharmacies have been acquired by Clicks since 2007

## 8 Sourcing and registering quality private label products in Clicks

### Implications

Private label scheduled medicines and front shop products present a major growth opportunity for Clicks and already account for 18.2% of sales. The failure to secure quality products which meet regulatory requirements at the appropriate margin could negatively impact both profitability and reputation.

### Mitigation plans

- Dedicated department created in Clicks to focus on quality front shop private label products
- Unicorn business established to source scheduled private label medicines and ensure regulatory compliance

## 9 Non-compliance with pharmacy and healthcare industry regulations

### Implications

Sanction by the Pharmacy Council or Medicines Control Council for non-compliance could result in fines, penalties or restrictions being imposed on trading, as well as reputational damage.

### Mitigation plans

- Pharmacy practice compliance reviews are conducted by professional services team in Clicks
- Monitoring by group legal compliance officer
- Insurance cover for professional risk of dispensing errors
- Supplier contracts reviewed by in-house legal department for compliance

## 10 Availability of information technology systems

### Implications

Interrupted access to IT systems means that while stores will continue to trade, they will not be able to process certain transactions, including electronic fund transfers or medical aid authorisations.

### Mitigation plans

- Manual in-store procedures cover short periods of interruption
- Network monitoring tool and dedicated IT call centre in place to improve reaction times to systems interruptions
- Disaster recovery and business continuity plans to cover IT systems interruptions are regularly reviewed and tested

# BOARD OF DIRECTORS


David Nurek


Fatima Abrahams


John Bester


Bertina Engelbrecht


Michael Fleming


Michael Harvey


Fatima Jakoet


David Kneale


Dr Nkaki Matlala


Martin Rosen

## David Nurek (61)

Independent non-executive chairman

**Dip Law, Grad Dip Company Law**
**Chairman of the social and ethics committee**
**Member of the audit and risk, and remuneration and nominations committees**
**Appointed June 1997**

David practised as an attorney with Sonnenberg Hoffman Galombik for 32 years, including 23 years as a partner and director. He joined Investec Group in 2000 and is regional chairman of the group's Western Cape businesses and global head of legal risk for the Investec Group. He is non-executive chairman of Distell Group, The Foschini Group and Lewis Group, and a non-executive director of Sun International, Trencor and Mobile Industries.

## Fatima Abrahams (49)

Independent non-executive director

**B Econ (Hons) (cum laude), M Com and D Com**
**Chairperson of the remuneration and nominations committee**
**Member of the social and ethics committee**
**Appointed March 2008**

Professor Abrahams is an academic, experienced company director and a registered industrial psychologist. She is currently a senior professor at the University of the Western Cape, having also served as dean of the Faculty of Economic and Management Sciences. Professor Abrahams is chairperson of TSiBA Education, a non-profit private higher educational institution, and is a non-executive director of The Foschini Group and Lewis Group.

## John Bester (65)

Independent non-executive director

**B Com (Hons), CA (SA), CMS (Oxon)**
**Chairperson of the audit and risk committee**
**Member of the remuneration and nominations committee**
**Appointed October 2008**

John spent 16 years in the accounting profession, including serving as a partner of Ernst & Young for 10 years. He has been involved in commerce and industry for a further 28 years, holding a number of financial directorships during this time. He is a non-executive director of Personal Trust International, HomeChoice Holdings, Sovereign Food Investments and Western Province Rugby (Proprietary) Limited, as well as a trustee of the Children's Hospital Trust.

## Bertina Engelbrecht (48)

Group human resources director

**B Proc, LL M, admitted attorney**
**Member of the social and ethics committee**
**Appointed as a director in March 2008**

An experienced human resources professional, Bertina joined Clicks Group in July 2006. She was previously general manager for Shell SA Energy and regional human resources manager for Shell Oil Products Africa. Prior to this Bertina was director of organisational effectiveness at Sea Harvest, managed her own consultancy practice and spent eight years with Transnet.

### Michael Fleming (44)
Chief financial officer

**B Com, CTA, CA (SA)**
**Appointed as a director in March 2011**

Michael was previously chief financial officer of Tiger Brands Limited. He joined the Tiger Brands group in 2000, was appointed as financial executive of the Tiger Brands consumer brands division in 2005 and promoted to chief financial officer in June 2008. During his tenure as CFO of Tiger Brands, Michael also served as a non-executive director of Oceana Group Limited.

### Michael Harvey (42)
Managing director, Clicks

**Member of the social and ethics committee**
**Appointed as a director in April 2006**

Michael joined Clicks as a management trainee in 1989. After gaining experience in store management he assumed responsibility for regional operations in the Gauteng area and later in the Eastern and Western Cape. He was appointed marketing director of Clicks in 2000 and the following year moved to Discom, then part of the group, where he was appointed managing director in 2002. Michael was appointed managing director of Clicks in February 2005.

### Fatima Jakoet (51)
Independent non-executive director

**B Sc, CTA, CA (SA), Higher certificate in financial markets**
**Member of the audit and risk committee**
**Appointed March 2008**

After spending six years in the auditing profession, Fatima went on to lecture in financial accounting and then spent over a decade in various positions in corporate South Africa. Fatima is a non-executive director of MMI Holdings, Tongaat Hulett and MTN West and Central Africa (WECA) Region.

### David Kneale (57)
Chief executive officer

**BA**
**Member of the social and ethics committee**
**Appointed as a director in April 2006**

David was appointed chief executive officer of Clicks Group in January 2006. He was previously chief commercial officer of health and beauty retailer, Boots Group plc, in the United Kingdom. During his career at Boots David held positions in finance, buying and marketing before being appointed director of merchandise and marketing in 1995 and managing director of international retail development in 1997. After three years as managing director of Waterstone's Booksellers and a director of HMV Group, he returned to Boots in 2002 as director of trading and was appointed chief commercial officer in January 2003.

### Dr Nkaki Matlala (58)
Independent non-executive director

**B Sc, M Sc, M D, M Med (Surgery), FCS**
**Member of the audit and risk, and social and ethics committees**
**Appointed in August 2010**

Dr Matlala is an experienced teacher and surgeon and is currently executive director: government and stakeholder relations at Mediclinic Southern Africa. He was deputy president of the National Medical and Dental Association in the late eighties, and worked for a number of years in academic medicine and private surgical practice before establishing Safika Health in 1999. He joined Mediclinic in 2005. Dr Matlala is chairman of the Hospital Association of South Africa and a founding member and chairman of Phodiso Clinics, a healthcare investment company.

### Martin Rosen (61)
Independent non-executive director

**Member of the remuneration and nominations committee**
**Appointed April 2006**

Martin is an accomplished retailer and marketer, having spent 33 years with Pick n Pay before starting his own marketing consultancy in 2004. After 17 years in the retail operations of Pick n Pay, Martin was appointed group marketing director in 1998 and managing director of Pick n Pay Group Enterprises in 2001.

Clicks Group is a health and beauty retail and supply group

# CHAIRMAN'S REPORT

30.4% pa
compound growth in
distributions over five years

David Nurek
*Chairman*

## Challenging economic climate

The 2011 financial year started on a positive note in an environment of buoyant consumer sentiment in the wake of South Africa's successful hosting of the FIFA 2010 World Cup. This mood of optimism was supported by an expectation of a continued economic recovery both locally and internationally.

Low and stable interest rates, with a further 100 basis point reduction in rates in the first half of the year, and higher real wage increases across most sectors proved positive for consumer spending and sustained the economic momentum through the festive season trading period.

However, economic and trading conditions became increasingly challenging as the financial year progressed as these positive factors were negated by consumers coming under pressure from higher fuel, electricity, utilities and food costs. Confidence was further eroded by the renewed global uncertainty arising out of the USA and the Euro zone.

The impact of the tougher trading conditions are reflected in the slowdown in economic growth in the country, with gross domestic product slowing to 1.3% in the second quarter of 2011 following two consecutive quarters of growth measuring 4.5%.

Consumer confidence has also declined during the course of 2011 and fell sharply in the third quarter of the year to the lowest level recorded since mid-2009. This reflects a growing concern among South Africans about the state of the economy and sentiment is being negatively impacted by global economic instability. Domestically, rising household costs, high debt levels and a lack of job creation are weighing down confidence levels.

There is a close correlation between consumer spending and consumer confidence; and the declining levels of confidence indicate a deteriorating retail environment in the months ahead.

## Sustained financial performance

In this tightening economic environment it is pleasing that the group delivered a strong financial performance and continues to generate sustained returns for shareholders. Headline earnings increased by 13.9% to R655 million through robust trading in Clicks and efficient margin management. Diluted headline earnings per share (HEPS) again benefited from the earnings-enhancing effect of the share buy-back programme and increased by 18.1% to 249.7 cents per share. Diluted HEPS has grown at an annual compound rate of 28.6% over the past five years.

A final distribution of 88.0 cents per share was declared, bringing the total distribution for the year to 125.0 cents, an increase of 17.7%. Distributions have shown a five-year annual compound growth of 30.4%.

The group continues to be highly cash generative and remains committed to returning excess capital to shareholders. During the year R848 million was returned to shareholders through distributions and share buy-backs. Over the past five years the group has generated over R4 billion in cash, utilised R1 billion for capital expenditure and returned R3.4 billion to shareholders in distributions and share buy-backs.

The return on shareholders' equity (ROE) was boosted by the share buy-backs and increased strongly from 50.8% to 62.2% for the year, more than trebling since 2006.

Owing to the continued strong cash generation, the board has shown its confidence in the group's prospects and resolved to reduce the distribution cover from 2.0 to 1.8 times HEPS from the 2012 financial year, which will further enhance returns to our shareholders.

The group's trading and financial performance is covered in the Chief Executive's Report and in the Chief Financial Officer's Report.

> The group continues to be highly cash generative and remains committed to returning excess capital to shareholders.

## Changing governance landscape

South Africa's corporate governance landscape has undergone fundamental change in the past year following the introduction of King III and the enactment of the Companies Act (No. 71 of 2008, as amended). Governance processes and practices in the group have been aligned and enhanced as part of the implementation of this ground-breaking governance code and far-reaching new legislation. A detailed review of governance developments over the past year is contained in the Corporate Governance Report on pages 44 to 50.

The board committee structure has been streamlined to enable committees to function more efficiently. Following the amalgamation of the audit and risk committees last year, the remuneration and nominations committees have been combined. In line with the requirements of the Companies Act the board has established a social and ethics committee. The transformation committee has been incorporated into the social and ethics committee and the combined committee has oversight for ethics management, stakeholder engagement, empowerment and transformation.

The independence of all non-executive directors was reviewed during the year. After an intensive evaluation the nominations committee concluded that all six non-executive directors, including myself as chairman, are appropriately classified as being independent in terms of both the King III definition and the JSE Listings Requirements. This review of director independence is undertaken annually.

King III has also introduced the concept of integrated reporting to enable stakeholders to assess a company's ability to create and sustain value in the short, medium and long term. The group supports the concept of integrated reporting in the interests of enhancing disclosure to allow investors to make more informed investment decisions.

Integrated reporting presents another first for South Africa, which is already highly regarded internationally for reporting, regulation and governance standards.

The group qualified for inclusion in the JSE Socially Responsible Investment (SRI) Index for the second consecutive year, based on an independent evaluation of environmental, social, governance and sustainability practices.

The SRI Index has become the benchmark for sustainabilty among listed companies and applies both global SRI standards and issues specific to South Africa, such as transformation and black economic empowerment. The group showed a pleasing overall improvement in its rating in the index, achieving over 90% of the governance and related sustainability indicators.

## Board of directors

The group's chief financial officer, Keith Warburton, resigned to take a well-deserved sabbatical from corporate life. We echo the tribute paid to Keith in last year's annual report and on behalf of the group wish him every success for the future. Michael Fleming succeeded Keith as chief financial officer and was appointed to the board as group financial director in March 2011. Michael has strong credentials as a financial director in a listed environment and we are already benefiting from his wealth of experience.

## Outlook

Consumer spending is expected to remain muted in the current uncertain economic climate. Selling price inflation is anticipated to remain low and no medicine single exit price increase is expected to be granted by the Department of Health for 2012. The group will also face increasing cost pressures in employment, property, transport and utilities.

The focus for the year ahead will therefore be on driving sales volumes and containing costs.

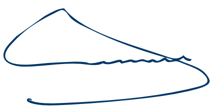
The group remains well positioned in the medium term through the continued expansion of the Clicks store and pharmacy footprint and the opportunity to capitalise on UPD's national presence to secure additional distribution agency contracts.

## Acknowledgements

Challenging times call for strong and decisive leadership and I thank David Kneale and his executive team of Michael Fleming, Michael Harvey and Bertina Engelbrecht for their contribution over the past year. Thank you also to my fellow non-executive directors for sharing their wisdom and expertise.

Once again I thank our more than 8 300 employees at our stores, distribution centres and at head office for their commitment to ensuring our group remains the market leader. I also welcome our staff who became shareholders for the first time this year through the employee share ownership programme.

Thank you to all our external stakeholders, including our customers, shareholders and investment analysts, suppliers, industry regulators and business partners for your continued support.



**David Nurek**
**Independent non-executive chairman**

# CHIEF EXECUTIVE'S REPORT

> Clicks has continued to gain share of the increasingly competitive healthcare market.

**David Kneale**
*Chief Executive Officer*


## Trading performance

Retail trading conditions became increasingly challenging during the year, with the second half being particularly tough as the group faced the high base set in 2010. This included the vibrant trading period around the FIFA 2010 World Cup when retailers benefited from the influx of tourists as well as the extended mid-year school holidays.

Selling price inflation continued to decline during the year and fell to zero in the last few months of the year, averaging only 1.6% for the period. As inflation averaged 5.4% in the previous year, this reduced turnover growth by almost four percentage points.

In the prevailing economic climate consumers have remained cautious and value driven.

Group turnover for the year increased to R14.1 billion, with retail turnover up 10.9% to R10.8 billion. The Clicks chain reported strong growth in turnover of 13.0% as the brand showed real sales volume growth and continued to gain share of the increasingly competitive healthcare market.

In the other retail businesses, Musica experienced a slow second half and turnover for the year was down 5.9% as the decline in the CD and DVD markets accelerated. Musica remains the country's leading entertainment retailer and showed good growth in the newer merchandise categories of gaming, technology and accessories. The Body Shop's operating profit increased by 3.5% despite the brand reporting price deflation of 6.6%.

The performance of UPD, the group's pharmaceutical wholesaler, was negatively impacted by no single exit price (SEP) increase being granted by the Department of Health (DoH) for 2011 and the continued reduction in the independent pharmacy sector. UPD increased turnover by 4.2%, impacted by lower inflation owing to the lack of an SEP increase and the faster growth in sales of lower value generic medicines. Despite the challenging conditions UPD entrenched its market-leading position and increased its share of the private pharmaceutical wholesale market from 22.7% to 23.1%.

The group's operating margin expanded from 6.2% to 6.6% through the excellent performance of Clicks which increased its margin by 80 basis points to 7.7%.

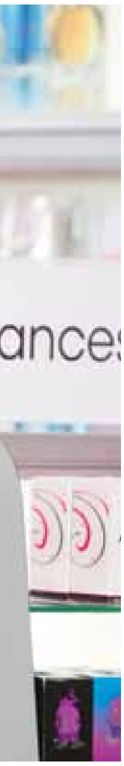
The group's performance is covered in the Chief Financial Officer's Report on page 22 and in the Operational Reviews on pages 36 to 43.

## Group strategy

The group's strategy is to be pre-eminent in health and beauty retailing, and healthcare supply and pharmacy management, through Clicks and UPD. The directors believe the strategy remains sound, gives the group competitive advantage and will ensure sustainable growth in the health and beauty retailing and supply markets.

Clicks has again been independently rated as the country's leading health and beauty retailer. The chain opened its 400th store as 31 new outlets were added during the past year, and is on track to expand its store base to 500 in the medium term. Clicks increased its healthcare market share and while the chain experienced real volume growth in beauty merchandise, customers trading down to lower priced ranges resulted in small declines in skincare and cosmetics value market share. Private label and exclusive brands are core to the Clicks growth strategy and accounted for 18.2% of total Clicks sales and 24.2% of front shop sales. The Clicks ClubCard membership base grew to 3.4 million, slightly short of the targeted 3.5 million, and the Clicks BabyClub was launched during the year.

In healthcare supply and pharmacy management, Clicks has the largest retail pharmacy footprint and extended its network to 283 with the opening of a further 32 dispensaries. Retail pharmacy market share has grown to 15.4%. UPD experienced a more difficult



Opened
400th
Clicks store


year as detailed above. While the application for an export licence was declined, which is a decision we are now challenging, UPD was awarded distribution agency contracts totalling R600 million of notional turnover late in the financial year which will commence in 2012. UPD remains the market leader and the country's only full-range national pharmaceutical wholesaler.

The material issues which could impact on the performance and sustainability of the business are outlined on pages 10 to 13.

The group has published medium-term financial targets since 2007 and these targets are reviewed annually based on performance and the outlook for the following three years. More recently the group has published operating targets relating to the strategic objectives and for the first time this year has disclosed targets for the strategic enablers to demonstrate the sustainability of the business. The performance against these targets is detailed in the Group Strategy and Targets report on pages 4 to 7.

## Healthcare regulation

Dispensing fee regulations were finally implemented by the DoH in late 2010, setting a maximum dispensing fee which may be charged by retail pharmacists.

The four-tier fee structure adopted by the DoH provides a fair return to pharmacists and has created more certainty in the pharmacy sector after several years of instability. A maximum dispensing fee ensures that consumers are not exploited while still allowing pharmacies the flexibility to discount and charge lower fees to customers.

While the new pricing structure enables Clicks to increase pricing and margin, we have continued to price aggressively at levels well below the maximum to build volume and gain market share.

We have consistently called for the capping of logistics fees that can be earned by pharmaceutical wholesalers and therefore welcomed the DoH's proposed regulations to limit maximum logistics fees. While we support the construct of a four-tier fee model based on drug prices, the proposed fee levels are not viable and at this low level would dilute UPD's margin and erode profit.

Management has constructively engaged with the DoH and is confident that a fair solution will be reached. However, the capping of fees will accelerate the much-needed consolidation of the pharmaceutical supply chain. We believe that as the market leader this will benefit UPD.

## Role of pharmacy in NHI

Government's proposed national health insurance (NHI) scheme plans to provide access to healthcare for an estimated 42 million South Africans not covered by private health insurance.

We believe retail pharmacy should be an integral part of broader access to healthcare in the country, not just in the context of the NHI, and therefore welcome government's focus on primary healthcare in the NHI proposals. We have also been encouraged by the willingness of the DoH to engage and seek input from the private sector.

Pharmacists are ideally positioned to provide more accessible basic primary healthcare services and advice. However, pharmacists with the appropriate training need to be authorised to prescribe from the essential drug list to reduce the cost of patient care and to alleviate pressure on a healthcare system which is already under pressure. In this regard we support the proposals of the SA Pharmacy Council to introduce "authorised pharmacist prescribers".

One of the challenges facing government in making healthcare more accessible is the need to increase the number of healthcare practitioners in the country. Clicks recognises the need for a sustainable increase in the number of graduates from pharmacy schools and is working closely with universities to find ways to

Employee share ownership programme launched


increase capacity. At the same time the group is increasing the number of bursaries granted to trainee pharmacists, growing the number of pharmacy interns employed in the group and increasing the number of pharmacy assistants trained through the in-house Pharmacy Healthcare Academy.

In the short term, one of government's key healthcare priorities is to reduce infant and maternal mortality. Clicks is well positioned to partner with government in baby immunisation programmes through its national network of in-store dispensaries and clinics. We have submitted proposals to both national and provincial government to provide these services. Clicks demonstrated its capability to mobilise large-scale projects when it successfully partnered with the DoH in last year's national HIV counselling and testing campaign.

Clicks has also established the Helping Hand Trust and through its pharmacies across the country is offering free clinic services to mothers whose babies were born in state hospitals and who do not have medical insurance.

## Investing in our people

The group recognises that the war for talent is ongoing and extends beyond remuneration. Encouraging progress has been made in developing a performance-driven organisational culture and this is reflected in the improving employee satisfaction index, steadily declining employee turnover and the ongoing transformation in the group. Employee turnover has declined from 23.4% in 2007 to 19.4% in 2011.

A broad-based employee share ownership programme (ESOP) was implemented during the year to enable the group to attract and retain scarce and critical skills, and allow employees to share in the long-term growth and success of the group. Through the scheme, 10% of the group's issued shares have been placed in the Clicks Group Employee Share Ownership Trust for allocation to all full-time permanent employees.

Pharmacists, longer serving employees and senior black employees received a 15% higher share allocation. Senior executives currently participating in the group's long-term incentive scheme do not participate in the ESOP.

Through the scheme 7 965 employees have become shareholders in the Clicks Group, with many owning shares for the first time. 71% of the new shareholders are black staff and 63% are women. Pharmacists comprise almost 5% of the beneficiaries.

Talent management and succession planning processes are embedded across the group. Through the talent management process the group aims to identify and develop high-potential candidates. Succession management plans have been approved for all management positions, including senior store managers, and this is reviewed annually by the board.

A retention scheme has been in place in the group for the past two years and is aimed at employees who are critical to the group's strategic talent and succession plans. This includes high-potential employees, black staff and employees with scarce and critical skills. There are currently 30 employees participating in the scheme, of which 43% are black and 37% are women.

Learning and development is a priority and over 4 300 employees participated in training programmes this year, with the focus on management development, internal transformation and pharmacist



Employee turnover reduced to

19.4%

training. The Pharmacy Healthcare Academy, which is registered with the SA Pharmacy Council, plays a critical role in addressing the pharmacy skills shortage challenge and during the year over 400 learners were trained through the academy.

## Transformation

The group recognises that transformation and empowerment are critical to the sustainability of the business. Our commitment to transformation is demonstrated through the continued progress in the BBBEE rating which has improved from level 7 in 2007 to level 3 in 2011.

The allocation of shares to over 5 500 black staff through the ESOP has accelerated transformation at ownership level.

Employment equity continues to improve with black staff representing 84.8% (2010: 84.7%) and women 63.0% (2010: 62.7%) of all employees. Black staff accounted for 80% of new appointments in the year. Attracting and retaining senior black talent remains a challenge and black staff currently represent 20.4% (2010: 17.8%) of senior and top management. Women comprise 35.5% (2010: 34.7%) of the group's senior leadership.

In the past year R47 million was invested in learning and development, R34 million was committed to enterprise development and R9 million invested in social development projects.

A transformation report has been included in the integrated report for the first time this year to provide stakeholders with an insight into our transformation progress and priorities.

## Appreciation

During the year we said farewell to our chief financial officer, Keith Warburton, and we again thank him for his enormous contribution over the past five years and wish him well. Keith's successor, Michael Fleming, joined the group in February 2011 and has been a most welcome addition to the management team.

In closing I thank our chairman, David Nurek, for his leadership and guidance, as well as our non-executive directors and my colleagues on the group executive for their support. Thank you to our people throughout the country who have performed well in a challenging year and I look forward to their continued commitment in 2012.

Thank you to our customers for making us their first choice in health and beauty retailing and supply.

David Kneale

**David Kneale**
**Chief Executive Officer**

# CHIEF FINANCIAL OFFICER'S REPORT

"Clicks Group was ranked the fifth best performer on the JSE."

**Michael Fleming**
*Chief Financial Officer*

## Introduction

Clicks Group produced another highly competitive financial performance in 2011 and enhanced returns to shareholders. This was achieved through solid earnings growth, increased distributions and substantial funds returned to shareholders through share buy-backs.

Headline earnings for the period increased by 13.9% to R655 million, with diluted headline earnings per share (HEPS) benefiting from the share buy-back programme and increasing by 18.1% to 249.7 cents per share.

Return on shareholders' interest (ROE) increased from 50.8% to 62.2% for the year, lifted by the impact of share repurchases of approximately R300 million in the last six weeks of the financial year. Management has increased the medium-term target for ROE to 55% – 65% given the sustainable financial performance of the group.

In the Sunday Times Top 100 Companies awards for 2010, Clicks Group was ranked the fifth best performer on the JSE, based on the five-year compound growth in shareholder value of 43.3%. Over this period an investment of R10 000 in Clicks Group shares rose to R60 436.

International fund managers continue to view Clicks Group as an attractive investment proposition and the offshore shareholding increased to 60.6% at year-end (2010: 47.1% and 2009: 12.3%). Eight of the 10 largest investors are based abroad.

## Financial performance

The following review of the group's financial performance for the year ended 31 August 2011 is limited to the key line items of the statement of comprehensive income and the statement of financial position which have a material impact on performance. This review should be read in conjunction with the annual financial statements on pages 64 to 124, together with the supplementary information contained in the five-year analysis of financial performance and the business unit segmental analysis which follow on pages 26 to 35.

## Statement of comprehensive income

### Turnover

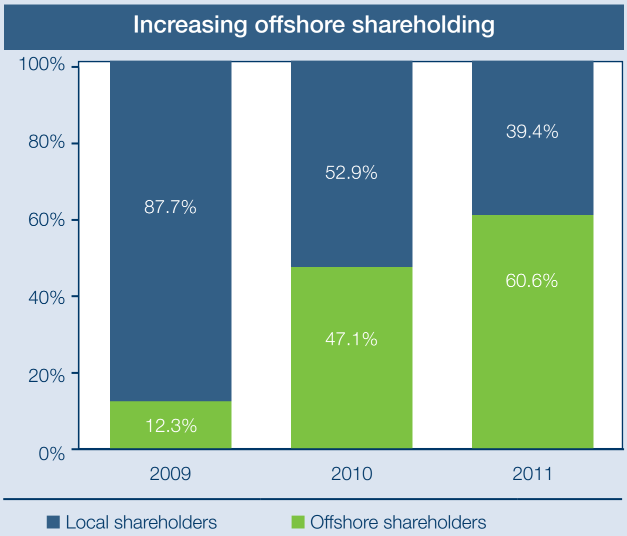
In an environment of low selling price inflation, group turnover increased by 6.2% to R14.1 billion (2010: R13.3 billion).

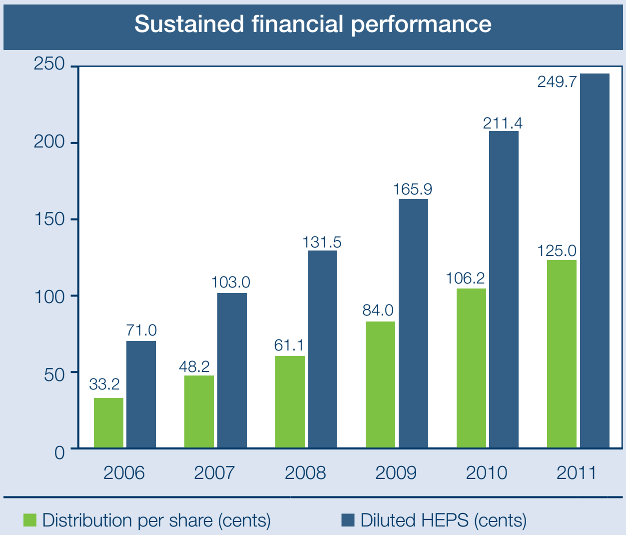
In recent years there has been minimal seasonal effect on the group's turnover as the festive season trading period in the first half is counter-balanced by the winter season in the second half which is a busy trading period for a healthcare business. Group turnover increased by 8.9% during the first half which contributed 51% of the turnover for the year. However, the growth slowed to 3.6% in the second half, highlighting the tougher trading conditions as the year progressed.

Retail turnover, including Clicks, Musica and The Body Shop, increased by 10.9%, with comparable store growth of 6.9%. Selling price inflation declined to 0.6% from 5.4% in the prior year. Average trading space increased by 5.3% to 224 000 m² following the opening of a net 29 new stores during the year.

The Clicks chain, which accounts for 60% of group turnover, increased sales by 13.0%. The brand reported real growth of 12.0% as inflation averaged 1.0% for the year.

Musica sales for the period declined by 5.9%, impacted by deflation of 2.4%, as the decline in the CD and DVD markets accelerated in the second half.




Deflation of 6.6% resulted in turnover in The Body Shop being 2.8% lower for the year.

UPD increased wholesale turnover by 4.2%, with inflation averaging 3.3%.

The continued expansion of the Clicks pharmacy network and the strong growth in the Clicks dispensary business resulted in a 26.2% increase in intragroup turnover from UPD to Clicks.

The trading performance of the business units is covered in the Operational Review on pages 36 to 43.

## Total income

Total income, which comprises gross profit and other income, grew by 10.9% to R3.9 billion. The total income margin, which reflects total income as a percentage of sales, expanded by 110 basis points to 27.7%. This margin has shown consistent growth in recent years, improving from 24.2% in 2008 to 25.3% in 2009 and to 26.6% last year.

The total income margin for the retail businesses rose by 50 basis points to 32.8% (2010: 32.3%) owing to the performance of Clicks, where good buying and supply chain management off-set the margin dilution of dispensary where Clicks continues to price aggressively.

UPD's total income declined by 7.9%. The prior year included a stock gain of R26 million from the increase in the single exit price (SEP) of medicines which was not repeated in the current year as no SEP increase was granted for 2011. The decline in UPD's front shop sales, owing to the continued contraction of independent pharmacy, also placed pressure on the margin.

## Operating expenditure

Operating expenses increased by 9.9%. Expense growth was well contained in the second half of the year through an increased focus on cost management, with retail costs growing by 7.7%. Retail expense growth for the 12-month period was 10.8%, including the investment in 31 new Clicks stores and 32 dispensaries.

Retail operating expenses were impacted by the following:

- An IFRS 2 charge of R15 million following the introduction of the employee share ownership scheme in February 2011
- Pharmacy employment costs, which represent approximately 30% of retail employment costs, were 16% higher on a same store basis
- Electricity and water costs were R19 million higher than the prior year at R83 million
- The disposal of the incentive scheme derivative hedges resulted in a gain of R41 million in 2011 (2010: R123 million).

UPD reduced expenses by 5.6% in the second six months through improved operating efficiencies, and expenses for the year were 0.1% lower than 2010.

## Operating profit

The group's operating margin improved by 40 basis points to 6.6%, translating into a 13.9% increase in operating profit to R938 million (2010: R824 million).

Clicks increased its operating margin from 6.9% to 7.7% through sales volume growth and efficient cost management, resulting in a 25.8% increase in operating profit for the year. Clicks accounts for 81% (2010: 72%) of the group's profit.

Despite maintaining gross margin and stringent cost management, Musica's operating profit was impacted by the decline in turnover and fell by 40.2%.

The Body Shop's margin improved to 19.1% as a result of the strong Rand and operating profit was 3.5% higher for the period.

Distribution cover reduced from 2.0 to 1.8 times

UPD's operating profit was 19.4% lower than the prior year owing to the lack of a trading gain on SEP.

## Statement of financial position

### Inventory

The group has continued to focus on creating efficiencies in working capital management while improving stock infill and store availability metrics.

Inventory days in stock moved from 55 to 60 days and inventory levels were 14.7% higher at year-end, mainly as a result of stock levels in UPD returning to normalised levels. At the prior year-end, UPD's stock levels were abnormally low at 22 days and should ideally be between 28 to 30 days in order to service customers optimally.

Clicks and Musica improved inventory cover and maintained stock growth below the rate of sales growth. Inventory levels in The Body Shop showed a sharp increase owing to a large shipment of product being received shortly before year-end ahead of product price increases.

The medium-term inventory days target has been revised from 50 – 55 days to 55 – 60 days to sustain customer service with appropriate stock availability.

### Cash and capital management

The group remains highly cash-generative. Cash inflow from operations increased by R244 million over 2010 to R677 million (2010: R433 million).

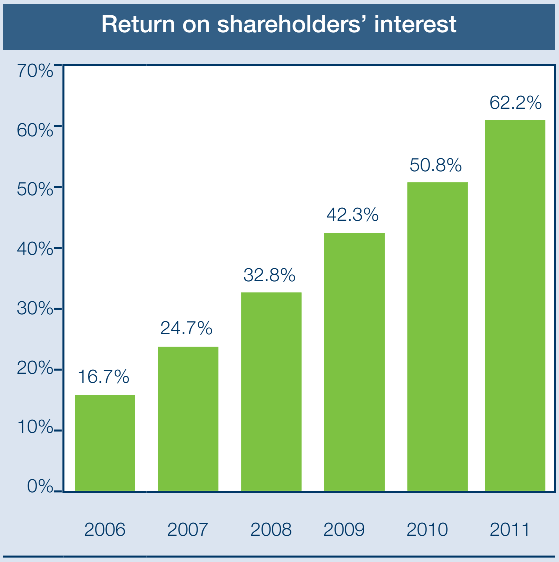
Capital expenditure of R226 million (2010: R231 million) was invested in new stores and dispensaries, refurbishments and IT systems. Distributions to shareholders increased to R296 million (2010: R245 million) owing to higher payouts on the improved financial performance.

As part of the ongoing capital management programme, the group repurchased shares totalling R552 million (2010: R322 million) at an average price of R40.43.

The group has acquired R2 399 million in shares at an average price of R18.37, representing 37.3% of the issued shares at the commencement of the programme in May 2006. The ratio of shareholders' interest to total assets at 22.7% was outside the targeted 30% – 35% owing to the higher volume of shares repurchased during the year. This medium-term target has been revised to 27% – 32%.

## Shareholder distribution

Shareholders will receive a total distribution of 125.0 cents per share for the year, an increase of 17.7%. This comprises an interim distribution of 37.0 cents (2010: 30.5 cents) and a final distribution of 88.0 cents (2010: 75.7 cents), based on a distribution cover of 2.0 times undiluted HEPS. The ordinary distributions are paid as a capital reduction from share premium. A maiden distribution of 12.5 cents per "A" share was declared for participants in the employee share ownership programme. This distribution is payable from distributable reserves.





## Financial reporting and disclosure

The group's annual report was rated in the "Excellent" category in the annual Ernst & Young Excellence in Corporate Reporting awards for the third consecutive year. These independent awards recognise the quality of financial reporting of the top 100 companies on the JSE and are widely regarded as the benchmark for disclosure and reporting in the country.

## Medium-term financial targets

The group's medium-term financial targets are reviewed annually based on budgeted performance and prospects for the next three-year period. The revised targets for 2012 to 2014 are set out below:

| | Achieved in 2011 | **2012 – 2014 target** |
|---|---|---|
| Return on shareholders' interest (%) | 62.2 | **55 – 65** |
| Shareholders' interest to total assets (%) | 22.7 | **27 – 32** |
| Return on assets (%) | 15.7 | **14 – 18** |
| Inventory days | 60 | **55 – 60** |
| Group operating margin (%) | 6.6 | **6 – 7** |

For further detail on the group's financial and operating targets refer to the Group Strategy and Targets report on pages 4 to 7.

## Financial outlook for 2012

Capital expenditure of R257 million is planned for the 2012 financial year. This includes R152 million for new stores and dispensaries, refurbishments and relocations, and R65 million for IT expenditure.

Total retail trading space is expected to increase by 4% to 5%, with 20 to 30 stores planned for Clicks and two for The Body Shop.

Management expects selling price inflation to remain at the current low levels for at least the first half of the new financial year.

The group will incur an annual IFRS 2 charge of approximately R28 million for the employee share ownership programme.

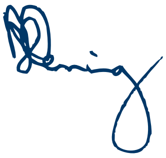
The group's HEPS for 2012 will benefit from the significant volume of shares repurchased during 2011.

The group remains committed to returning surplus cash to shareholders through distributions and share buy-backs. As detailed in the Chairman's Report, the board has lowered the group's distribution cover from the current 2.0 times to 1.8 times undiluted HEPS with effect from the 2012 interim distribution.

## Appreciation

Thank you to our shareholders as well as fund managers and analysts both locally and offshore for their continued investment and support of the group. We also welcome those shareholders who invested in the group for the first time this year.

I would like to thank my predecessor, Keith Warburton, for his support in facilitating a smooth transition into my new role, and extend my thanks to the board for their confidence in appointing me to the group. Finally, thank you to the finance staff across the group for their efficient financial management and commitment to quality reporting to our stakeholders.



**Michael Fleming**
**Chief Financial Officer**

# FIVE-YEAR CONSOLIDATED SUMMARY OF PROFITS

## for the year ended 31 August 2011

| R'm | 5-year compound annual growth % | 2011 | 2010 | 2009 (restated) | 2008 | 2007 |
|---|---|---|---|---|---|---|
| **Turnover** | 7.1% | **14 103** | 13 277 | 12 175 | 11 244 | 11 205 |
| Cost of merchandise sold | 6.2% | **(10 879)** | (10 373) | (9 657) | (9 021) | (8 982) |
| **Gross profit** | 10.5% | **3 224** | 2 904 | 2 518 | 2 223 | 2 223 |
| Other income | 8.9% | **689** | 626 | 564 | 501 | 501 |
| Expenses | 8.2% | **(2 975)** | (2 706) | (2 373) | (2 126) | (2 190) |
| Depreciation and amortisation | 7.8% | **(150)** | (128) | (114) | (95) | (98) |
| Occupancy costs | 5.9% | **(423)** | (390) | (339) | (303) | (336) |
| Employment costs | 9.7% | **(1 496)** | (1 399) | (1 157) | (993) | (1 040) |
| Other costs | 6.9% | **(906)** | (789) | (763) | (735) | (716) |
| **Operating profit** | 18.9% | **938** | 824 | 709 | 598 | 534 |
| Adjustment for capital items | | **(6)** | (14) | (7) | 39 | 27 |
| **Profit before financing costs** | 19.1% | **932** | 810 | 702 | 637 | 561 |
| Net financing costs | (10.1%) | **(34)** | (39) | (55) | (51) | (39) |
| Financial income | | **8** | 10 | 14 | 19 | 16 |
| Financial expense | | **(42)** | (49) | (69) | (70) | (55) |
| Profit before tax | 22.1% | **898** | 771 | 647 | 586 | 522 |
| Income tax expense | 24.1% | **(247)** | (207) | (175) | (145) | (141) |
| **Profit for the year** | 21.4% | **651** | 564 | 472 | 441 | 381 |
| Attributable to: | | | | | | |
| Equity holders of the parent | | **651** | 565 | 472 | 441 | 381 |
| Adjustment for impairment and loss/(profit) on disposal | | **4** | 11 | 6 | (41) | (24) |
| **Headline earnings** | 21.1% | **655** | 576 | 478 | 400 | 357 |
| Headline earnings per share (cents) | | | | | | |
| – basic | 27.9% | **250.1** | 212.3 | 167.7 | 134.0 | 106.1 |
| – diluted | 28.6% | **249.7** | 211.4 | 165.9 | 131.5 | 103.0 |
| Earnings per share (cents) | | | | | | |
| – basic | 28.3% | **248.3** | 208.6 | 165.6 | 148.0 | 113.2 |
| – diluted | 29.0% | **248.0** | 207.7 | 163.8 | 145.2 | 109.9 |
| Number of shares in issue (m) | (5.3%) | **271** | 284 | 303 | 324 | 336 |
| Weighted average number of shares (net of treasury shares) (m) | (5.3%) | **262** | 271 | 285 | 298 | 336 |
| Weighted average diluted number of shares (net of treasury shares) (m) | (5.8%) | **263** | 272 | 288 | 304 | 346 |

1. The consolidated summary of profits include the results of the Discom business unit disposed of during September 2007 as if part of continuing operations and not as discontinued operations.
2. The 2009 figures were restated for the reclassification of certain expenses between occupancy and other costs within the UPD business.
3. For an explanation of terms used, please refer to the Definitions section on page 135 of this report.

| US Dollars 'm | 5-year compound annual growth % | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|
| **Turnover** | 5.8% | **2 041** | 1 826 | 1 345 | 1 517 | 1 556 |
| Cost of merchandise sold | 4.9% | **(1 574)** | (1 427) | (1 067) | (1 217) | (1 248) |
| **Gross profit** | 9.2% | **467** | 399 | 278 | 300 | 308 |
| Other income | 7.7% | **100** | 86 | 62 | 68 | 70 |
| Expenses | 6.8% | **(431)** | (373) | (262) | (287) | (304) |
| Depreciation and amortisation | 6.6% | **(22)** | (18) | (13) | (13) | (14) |
| Occupancy costs | 4.5% | **(61)** | (54) | (37) | (41) | (47) |
| Employment costs | 8.4% | **(217)** | (192) | (128) | (134) | (144) |
| Other costs | 5.5% | **(131)** | (109) | (84) | (99) | (99) |
| **Operating profit** | 17.8% | **136** | 112 | 78 | 81 | 74 |
| Adjustment for capital items | | **(1)** | (2) | (1) | 5 | 4 |
| **Profit before financing costs** | 18.0% | **135** | 110 | 77 | 86 | 78 |
| Net financing costs | (11.1%) | **(5)** | (6) | (6) | (6) | (6) |
| Financial income | | **1** | 1 | 2 | 3 | 2 |
| Financial expense | | **(6)** | (7) | (8) | (9) | (8) |
| **Profit before tax** | 21.1% | **130** | 104 | 71 | 80 | 72 |
| Income tax expense | 22.6% | **(36)** | (28) | (19) | (20) | (20) |
| **Profit for the year** | 20.5% | **94** | 76 | 52 | 60 | 52 |
| Attributable to: | | | | | | |
| Equity holders of the parent | | **94** | 78 | 52 | 60 | 53 |
| Adjustment for impairment and loss/ (profit) on disposal | | **1** | 2 | 1 | (6) | (3) |
| **Headline earnings** | 20.1% | **95** | 80 | 53 | 54 | 50 |
| **Exchange rate: average rate** | | **6.91** | 7.27 | 9.05 | 7.41 | 7.20 |

**Note:**
1. The ZAR five-year consolidated summary of profits was translated to USD using the average rate.

# FIVE-YEAR CONSOLIDATED STATEMENT OF FINANCIAL POSITION at 31 August 2011

| R'm | 5-year compound annual growth % | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Non-current assets | | **1 415** | 1 384 | 1 362 | 1 253 | 1 334 |
| Property, plant and equipment | 6.4% | **950** | 889 | 830 | 734 | 745 |
| Intangible assets | | **302** | 314 | 302 | 302 | 391 |
| Goodwill | | **104** | 106 | 96 | 86 | 84 |
| Deferred tax assets | | **53** | 52 | 88 | 73 | 45 |
| Loans receivable | | **6** | 23 | 46 | 58 | 69 |
| Current assets | | **2 840** | 2 727 | 2 819 | 2 332 | 2 676 |
| Inventories | 4.5% | **1 802** | 1 571 | 1 422 | 1 371 | 1 403 |
| Trade and other receivables | 2.6% | **999** | 869 | 908 | 808 | 796 |
| Loans receivable | | **18** | 16 | 11 | 8 | 5 |
| Cash and cash equivalents | | **18** | 152 | 410 | 101 | 413 |
| Derivative financial assets | | **3** | 119 | 68 | 44 | 59 |
| Total assets | 2.9% | **4 255** | 4 111 | 4 181 | 3 585 | 4 010 |
| **Equity and liabilities** | | | | | | |
| Equity | (9.5%) | **965** | 1 142 | 1 126 | 1 141 | 1 296 |
| Share capital | | **3** | 3 | 3 | 3 | 3 |
| Share premium | | **–** | – | – | 121 | 436 |
| Share option reserve | | **41** | 25 | 25 | 24 | 24 |
| Treasury shares | | **(703)** | (511) | (488) | (463) | (259) |
| Cash flow hedging reserve | | **2** | – | – | – | – |
| Non-distributable reserves | | **(2)** | (2) | (5) | – | – |
| Distributable reserve | | **1 623** | 1 626 | 1 589 | 1 456 | 1 092 |
| Equity attributable to equity holders of the parent | | **964** | 1 141 | 1 124 | 1 141 | 1 296 |
| Non-controlling interest | | **1** | 1 | 2 | – | – |
| Non-current liabilities | | **265** | 297 | 317 | 371 | 338 |
| Interest-bearing borrowings | | **–** | 17 | 37 | 62 | 78 |
| Employee benefits | | **92** | 96 | 91 | 131 | 65 |
| Deferred tax liabilities | | **47** | 69 | 83 | 80 | 92 |
| Operating lease liability | | **126** | 115 | 106 | 98 | 103 |
| Current liabilities | | **3 025** | 2 672 | 2 738 | 2 073 | 2 376 |
| Trade and other payables | 10.3% | **2 432** | 2 290 | 2 408 | 1 828 | 1 902 |
| Employee benefits | | **165** | 203 | 241 | 104 | 136 |
| Provisions | | **5** | 6 | 6 | 8 | 48 |
| Interest-bearing borrowings | | **375** | 117 | 30 | 54 | 203 |
| Income tax payable | | **45** | 47 | 33 | 76 | 87 |
| Derivative financial liabilities | | **3** | 9 | 20 | 3 | – |
| Total equity and liabilities | 2.9% | **4 255** | 4 111 | 4 181 | 3 585 | 4 010 |

**Notes:**
1. Assets and liabilities held for sale. The Discom business unit was disposed of during September 2007.
2. The non-controlling interest relating to the 2008 financial year was less than R1 million and accordingly reported as zero.
3. The share premium has been used for distributions to shareholders as well as share cancellations in the 2007, 2008, 2009, 2010 and 2011 financial years.
4. For an explanation of terms used, please refer to the Definitions section on page 135 of this report.

| US Dollars 'm | 5-year compound annual growth % | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Non-current assets | | **201** | 188 | 175 | 161 | 187 |
| Property, plant and equipment | 6.7% | **134** | 121 | 107 | 95 | 104 |
| Intangible assets | | **43** | 43 | 39 | 39 | 55 |
| Goodwill | | **15** | 14 | 12 | 11 | 12 |
| Deferred tax assets | | **8** | 7 | 11 | 9 | 6 |
| Loans receivable | | **1** | 3 | 6 | 7 | 10 |
| Current assets | | **401** | 370 | 363 | 301 | 374 |
| Inventories | 4.9% | **255** | 213 | 183 | 177 | 196 |
| Trade and other receivables | 2.8% | **140** | 118 | 117 | 104 | 111 |
| Loans receivable | | **3** | 2 | 1 | 1 | 1 |
| Cash and cash equivalents | | **3** | 21 | 53 | 13 | 58 |
| Derivative financial assets | | **–** | 16 | 9 | 6 | 8 |
| Total assets | 3.3% | **602** | 558 | 538 | 462 | 561 |
| **Equity and liabilities** | | | | | | |
| Equity | (9.1%) | **137** | 155 | 144 | 147 | 181 |
| Share capital | | **–** | – | – | – | – |
| Share premium | | **–** | – | – | 16 | 61 |
| Share option reserve | | **6** | 3 | 3 | 3 | 3 |
| Treasury shares | | **(99)** | (69) | (63) | (60) | (36) |
| Cash flow hedging reserve | | **–** | – | – | – | – |
| Non-distributable reserves | | **–** | – | (1) | – | – |
| Distributable reserve | | **230** | 221 | 205 | 188 | 153 |
| Equity attributable to equity holders of the parent | | **137** | 155 | 144 | 147 | 181 |
| Non-controlling interest | | **–** | – | – | – | – |
| Non-current liabilities | | **38** | 40 | 42 | 48 | 47 |
| Interest-bearing borrowings | | **–** | 2 | 5 | 8 | 11 |
| Employee benefits | | **13** | 13 | 12 | 17 | 9 |
| Deferred tax liabilities | | **7** | 9 | 11 | 10 | 13 |
| Operating lease liability | | **18** | 16 | 14 | 13 | 14 |
| Current liabilities | | **427** | 363 | 352 | 267 | 333 |
| Trade and other payables | 10.8% | **344** | 311 | 309 | 236 | 267 |
| Employee benefits | | **23** | 28 | 31 | 13 | 19 |
| Provisions | | **1** | 1 | 1 | 1 | 7 |
| Interest-bearing borrowings | | **53** | 16 | 4 | 7 | 28 |
| Income tax payable | | **6** | 6 | 4 | 10 | 12 |
| Derivative financial liabilities | | **–** | 1 | 3 | – | – |
| Total equity and liabilities | 3.3% | **602** | 558 | 538 | 462 | 561 |
| **Exchange rate: closing rate** | | **7.07** | 7.37 | 7.77 | 7.75 | 7.16 |

**Note:**
1. The ZAR five-year consolidated statement of financial position was translated to USD using the closing rate.

# FIVE-YEAR CONSOLIDATED STATEMENT OF CASH FLOWS for the year ended 31 August 2011

| R'm | 5-year aggregate effect | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|
| **Cash effects of operating activities** | | | | | | |
| Operating profit before working capital changes | 4 081 | **1 075** | 837 | 825 | 722 | 622 |
| Working capital changes | 480 | **(105)** | (203) | 490 | (223) | 521 |
| Cash generated by operations | 4 561 | **970** | 634 | 1 315 | 499 | 1 143 |
| Interest received | 65 | **8** | 9 | 14 | 19 | 15 |
| Interest paid | (219) | **(29)** | (35) | (43) | (60) | (52) |
| Taxation (paid)/received | (831) | **(272)** | (175) | (229) | (193) | 38 |
| Cash inflow from operating activities before distributions | 3 576 | **677** | 433 | 1 057 | 265 | 1 144 |
| Distributions paid to shareholders | (1 010) | **(296)** | (245) | (191) | (157) | (121) |
| Net cash effects of operating activities | 2 566 | **381** | 188 | 866 | 108 | 1 023 |
| **Cash effects of investing activities** | | | | | | |
| Investment in property, plant and equipment and intangible assets to maintain operations | (431) | **(70)** | (86) | (110) | (89) | (76) |
| Investment in property, plant and equipment and intangible assets to expand operations | (544) | **(146)** | (120) | (114) | (85) | (79) |
| Proceeds from disposal of business | 316 | **–** | – | – | 316 | – |
| Acquisition of business, net of cash acquired | (44) | **(10)** | (22) | (10) | (2) | – |
| Acquisition of remaining interest in subsidiary | (3) | **–** | (3) | – | – | – |
| Proceeds from disposal of property, plant and equipment | 89 | **2** | 2 | 2 | 35 | 48 |
| Decrease in loans receivable | 60 | **15** | 19 | 15 | 7 | 4 |
| Net cash effects of investing activities | (557) | **(209)** | (210) | (217) | 182 | (103) |
| **Cash effects of financing activities** | | | | | | |
| Proceeds from the issue of share capital | 2 | **–** | – | – | – | 2 |
| Purchase of treasury shares | (2 377) | **(552)** | (322) | (338) | (607) | (558) |
| Proceeds from disposal of treasury shares | 225 | **3** | 15 | 42 | 44 | 121 |
| Interest-bearing borrowings raised/(repaid) | 166 | **243** | 71 | (44) | (39) | (65) |
| Net cash effects of financing activities | (1 984) | **(306)** | (236) | (340) | (602) | (500) |
| **Net (decrease)/increase in cash and cash equivalents** | 25 | **(134)** | (258) | 309 | (312) | 420 |

**Notes:**

1. The 2007 statement of cash flows presents the group statement of financial position including the Discom assets and liabilities rather than as part of non-current assets and liabilities held for sale. The Discom business unit was disposed of during September 2007.
2. For an explanation of terms used, please refer to the Definitions section on page 135 of this report.

| US Dollars 'm | 5-year aggregate effect | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|
| **Cash effects of operating activities** | | | | | | |
| Operating profit before working capital changes | 545 | **156** | 115 | 91 | 97 | 86 |
| Working capital changes | 54 | **(15)** | (28) | 56 | (31) | 72 |
| Cash generated by operations | 599 | **141** | 87 | 147 | 66 | 158 |
| Interest received | 9 | **1** | 1 | 2 | 3 | 2 |
| Interest paid | (29) | **(4)** | (5) | (5) | (8) | (7) |
| Taxation (paid)/received | (109) | **(39)** | (24) | (25) | (26) | 5 |
| Cash inflow from operating activities before distributions | 470 | **99** | 59 | 119 | 35 | 158 |
| Distributions paid to shareholders | (137) | **(44)** | (34) | (21) | (21) | (17) |
| Net cash effects of operating activities | 333 | **55** | 25 | 98 | 14 | 141 |
| **Cash effects of investing activities** | | | | | | |
| Investment in property, plant and equipment and intangible assets to maintain operations | (57) | **(10)** | (12) | (12) | (12) | (11) |
| Investment in property, plant and equipment and intangible assets to expand operations | (73) | **(21)** | (17) | (13) | (11) | (11) |
| Proceeds from disposal of business | 43 | **–** | – | – | 43 | – |
| Acquisition of business, net of cash acquired | (5) | **(1)** | (3) | (1) | – | – |
| Proceeds from disposal of property, plant and equipment | 12 | **–** | – | – | 5 | 7 |
| Decrease in loans receivable | 9 | **2** | 3 | 2 | 1 | 1 |
| Net cash effects of investing activities | (71) | **(30)** | (29) | (24) | 26 | (14) |
| **Cash effects of financing activities** | | | | | | |
| Proceeds from the issue of share capital | – | **–** | – | – | – | – |
| Purchase of treasury shares | (321) | **(80)** | (44) | (37) | (82) | (78) |
| Proceeds from disposal of treasury shares | 30 | **–** | 2 | 5 | 6 | 17 |
| Interest-bearing borrowings raised/ (repaid) | 27 | **36** | 10 | (5) | (5) | (9) |
| Net cash effects of financing activities | (264) | **(44)** | (32) | (37) | (81) | (70) |
| **Net (decrease)/increase in cash and cash equivalents** | (2) | **(19)** | (36) | 37 | (41) | 57 |
| **Exchange rate: average rate** | | **6.91** | 7.27 | 9.05 | 7.41 | 7.20 |

**Note:**
1. The ZAR five-year consolidated statement of cash flows was translated to USD using the average rate.

# SUSTAINABILITY INDICATORS

| | | 5-year compound annual growth % | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|---|
| **Economic** | | | | | | | |
| Turnover | R'm | 7.1% | **14 103** | 13 277 | 12 175 | 11 244 | 11 205 |
| Comparable stores' turnover growth | % | | **6.9** | 11.2 | 13.2 | 9.2 | 13.2 |
| Gross profit margin | % | | **22.9** | 21.9 | 20.7 | 19.8 | 19.8 |
| Operating margin | % | | **6.6** | 6.2 | 5.8 | 5.3 | 4.8 |
| Headline earnings | R'm | 21.1% | **655** | 576 | 478 | 400 | 357 |
| Diluted headline earnings per share | cents | 28.6% | **249.7** | 211.4 | 165.9 | 131.5 | 103 |
| Return on shareholders' interest | % | | **62.2** | 50.8 | 42.3 | 32.8 | 24.7 |
| Return on total assets | % | | **15.7** | 13.9 | 12.3 | 10.5 | 9.3 |
| Net asset value per share | cents | | **382** | 429 | 407 | 393 | 410 |
| Distributions per share | cents | | **125.0** | 106.2 | 84.0 | 61.1 | 48.2 |
| Distribution cover | times | | **2.0** | 2.0 | 2.0 | 2.2 | 2.2 |
| Capital expenditure | R'm | 6.9% | **226** | 231 | 234 | 176 | 155 |
| Depreciation and amortisation | | | **158** | 137 | 122 | 103 | 104 |
| Growth in trading space | % | | **5.3** | 4.1 | 4.9 | (19.5) | 2.0 |
| Number of stores | | | **590** | 561 | 540 | 519 | 500 |
| Retail trading density | R/m² | | **46 911** | 44 588 | 40 567 | 36 869 | 31 262 |
| In-store dispensaries | | | **283** | 251 | 207 | 157 | 125 |
| In-store clinics | | | **104** | 93 | 105 | 97 | 92 |
| Market share* | | | | | | | |
| – Clicks: retail pharmacy | % | | **15.4** | 13.1 | 11.1 | 9.0 | – |
| – UPD: private pharmaceutical market | % | | **23.1** | 22.7 | 23.6 | 26.4 | 25.6 |
| Clicks ClubCard | | | | | | | |
| – Active members | m | | **3.4** | 3.1 | 2.7 | 2.5 | 2.3 |
| – Annual growth in membership | % | | **9.7** | 14.8 | 6.7 | 12.4 | 10.7 |
| – Contribution to sales | % | | **76.7** | 74.8 | 70.0 | – | – |
| Clicks private label and exclusive products | | | | | | | |
| – Percentage of total sales | % | | **18.2** | 17.8 | 17.6 | 16.3 | 15.1 |
| – Percentage of front shop sales | % | | **24.2** | 23.0 | 22.4 | 21.6 | 19.9 |
| **Social** | | | | | | | |
| Permanent staff | | | **8 309** | 8 064 | 7 585 | 7 122 | 9 076 |
| Staff turnover | % | | **19.4** | 19.8 | 26.1 | 21.2 | 23.4 |
| Pharmacist turnover | % | | **23.0** | 34.0 | 53.0 | – | – |
| Percentage employee participation in share ownership scheme | % | | **95.8** | – | – | – | – |
| Employment equity* | | | | | | | |
| – Black staff as a % of total staff | % | | **84.8** | 84.7 | 84.3 | 84.2 | 86.9 |
| – Black senior and top management | % | | **20.4** | 17.8 | 11.5 | 18.0 | 24.0 |
| – Black directors | % | | **40.0** | 40.0 | 33.0 | 36.0 | 22.0 |
| – Women as a % of total staff | % | | **63.0** | 62.7 | 62.0 | 62.0 | 60.0 |
| – Women senior and top management | % | | **35.5** | 34.7 | 32.0 | 36.0 | 43.0 |
| Skills development* | | | | | | | |
| – Total expenditure | R'm | | **47.0** | 56.0 | 39.7 | 26.7 | 16.5 |
| – Skills development as a % of basic payroll | % | | **3.4** | 4.4 | 4.3 | 3.6 | 2.8 |
| – Number of employees trained | | | **4 356** | 4 527 | 4 523 | 2 607 | 2 657 |

Global Reporting Initative (GRI) Index: An analysis of the group's performance against the GRI indicators is available on the Clicks Group website.

**Note:**

1. The 2007 indicators presented include information relating to Discom. The Discom unit was disposed of during September 2007.

| | | 5-year compound annual growth % | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|---|
| **Social continued** | | | | | | | |
| Preferential procurement* | % | | **75** | 54 | 48 | 46 | – |
| Enterprise development spend* | R'm | | **33.7** | 28.6 | 8.6 | 7.6 | – |
| Corporate social investment spend | R'm | | **9.0** | 9.8 | 14.4 | 9.8 | 0.4 |
| Transformation rating* | Level | | **3** | 5 | 5 | 6 | 7*** |
| Employees covered by medical aid | % | | **16.7** | 18.2 | 22.3 | 21.2 | 19.9 |
| Employees covered by retirement benefits | % | | **95.0** | 91.6 | 92.2 | 97.9 | 90.6 |
| Employees covered by collective bargaining agreements | % | | **42** | 39 | 47 | 39 | 58 |
| **Environmental** | | | | | | | |
| Carbon emissions ($CO_2$)** | metric tons | | **146 335** | 151 404 | 134 341 | 127 014 | – |
| **Additional information** | | | | | | | |
| **Working capital management** | | | | | | | |
| Inventory days | | | **60** | 55 | 54 | 55 | 57 |
| Trade debtor days | | | **46** | 42 | 46 | 44 | 53 |
| Trade creditor days | | | **57** | 52 | 64 | 52 | 66 |
| Effective tax rate | % | | **27.5** | 26.8 | 27.0 | 24.7 | 27.0 |
| Solvency and liquidity | | | | | | | |
| Current ratio | times | | **0.9** | 1.0 | 1.0 | 1.1 | 1.1 |
| Interest-bearing debt to shareholders' interest | % | | **38.9** | 11.7 | 6.0 | 10.1 | 4.6 |
| Interest-bearing debt, including cash, to shareholders' interest | % | | **37.1** | (1.7) | (30.5) | 1.3 | (10.2) |
| Share-related information | | | | | | | |
| Number of shares in issue (gross) | m | | **270.7** | 284.0 | 302.8 | 324.1 | 336.0 |
| Number of shares in issue (net of treasury shares) | m | | **253.0** | 266.3 | 276.3 | 290.3 | 316.1 |
| Weighted average number of shares (net of treasury shares) | m | | **262.1** | 271.1 | 285.2 | 298.2 | 336.3 |
| Weighted average diluted number of shares (net of treasury shares) | m | | **262.5** | 272.3 | 288.3 | 303.8 | 346.3 |
| Share price | | | | | | | |
| – closing | cents | 32.1% | **4 170** | 3 750 | 2 030 | 1 550 | 1 525 |
| – high | cents | | **4 706** | 3 799 | 2 099 | 1 799 | 1 689 |
| – low | cents | | **3 500** | 1 960 | 1 192 | 1 185 | 984 |
| Market capitalisation (gross) | R'm | 25.1% | **11 286** | 10 650 | 6 148 | 5 024 | 5 123 |
| Market capitalisation (net of treasury shares) | R'm | 24.0% | **10 548** | 9 986 | 5 609 | 4 500 | 4 821 |
| Volume of shares traded | 'm | | **466.3** | 306.4 | 222.3 | 300.3 | 316.1 |
| Volume of shares traded | % | | **177.9** | 113.0 | 77.9 | 100.7 | 94.1 |
| Free float (including treasury shares) | | | **93.2** | 93.5 | 91.1 | 89.4 | 96.7 |
| Price earnings ratio | times | | **16.7** | 17.7 | 12.2 | 11.8 | 14.8 |
| FTSE/JSE Africa share indices | | | | | | | |
| All Share Index | | 7.1% | **31 006** | 27 254 | 24 929 | 27 702 | 28 660 |
| General Retailers Index | | 14.1% | **45 547** | 34 216 | 24 277 | 24 909 | 31 715 |
| Food and Drug Retailers Index | | 26.6% | **58 993** | 51 349 | 34 405 | 27 580 | 23 676 |
| **Economic information** | | | | | | | |
| Inflation rate | | | | | | | |
| CPI | % | | **5.3** | 3.5 | 7.7 | 11.6 | 5.8 |
| Prime overdraft rate | | | | | | | |
| – closing | % | | **9.0** | 10.0 | 10.5 | 15.5 | 13.5 |
| – average | % | | **9.1** | 10.3 | 13.3 | 14.7 | 12.5 |
| Exchange rates | | | | | | | |
| Rand/US Dollar | | | | | | | |
| – closing | | | **7.07** | 7.37 | 7.77 | 7.75 | 7.16 |
| – average | | | **6.91** | 7.27 | 9.05 | 7.41 | 7.20 |

* Indicators have been externally assured.
** Current year indicators are in the process of being externally assured.
*** Internally assessed.

# BUSINESS UNIT SEGMENTAL ANALYSIS

## Segmental statement of income for the year ended 31 August 2011

| | | Clicks* | | Musica | | The Body Shop | |
|---|---|---|---|---|---|---|---|
| | | **2011 R'm** | 2010 R'm | **2011 R'm** | 2010 R'm | **2011 R'm** | 2010 R'm |
| **Statement of financial position** | | | | | | | |
| Property, plant and equipment | | **538** | 470 | **51** | 57 | **10** | 12 |
| Intangible assets | | **290** | 294 | **2** | 2 | **–** | – |
| Goodwill | | **19** | 20 | **–** | – | **–** | – |
| Inventories | | **1 202** | 1 114 | **136** | 152 | **12** | 8 |
| Trade and other receivables | | **175** | 156 | **13** | 12 | **2** | 2 |
| Cash and cash equivalents | | **7** | 6 | **–** | – | **–** | – |
| Other assets | | **3** | 4 | **–** | – | **–** | – |
| Total assets | | **2 234** | 2 064 | **202** | 223 | **24** | 22 |
| Employee benefits – non-current | | **13** | 16 | **2** | 2 | **–** | 1 |
| Operating lease liability | | **111** | 100 | **13** | 13 | **2** | 2 |
| Trade and other payables | | **1 168** | 1 242 | **72** | 106 | **10** | 5 |
| Employee benefits – current | | **91** | 105 | **10** | 16 | **1** | 3 |
| Other liabilities | | **3** | 2 | **2** | 1 | **–** | – |
| Total liabilities | | **1 386** | 1 465 | **99** | 138 | **13** | 11 |
| Net assets | | **848** | 599 | **103** | 85 | **11** | 11 |
| **Statement of comprehensive income** | | | | | | | |
| Turnover | | **9 789** | 8 665 | **896** | 952 | **108** | 111 |
| Gross profit | | **2 829** | 2 445 | **299** | 318 | **73** | 70 |
| Other income | | **318** | 281 | **20** | 25 | **2** | 1 |
| Expenses | | **(2 396)** | (2 129) | **(288)** | (290) | **(54)** | (51) |
| Operating profit | | **751** | 597 | **31** | 53 | **21** | 20 |
| **Ratios** | | | | | | | |
| Increase/(decrease) in turnover | % | **13.0** | 16.7 | **(5.9)** | 0.5 | **(2.8)** | 5.2 |
| Selling price inflation | % | **1.0** | 5.8 | **(2.4)** | 2.7 | **(6.6)** | 0.1 |
| Comparable stores' turnover growth | % | **8.5** | 12.8 | **(6.2)** | 0.3 | **(3.3)** | 0.5 |
| Gross profit margin | % | **28.9** | 28.2 | **33.4** | 33.4 | **67.8** | 62.9 |
| Total income margin | % | **32.1** | 31.5 | **35.7** | 36.0 | **69.3** | 63.6 |
| Operating expenses as a percentage of turnover | % | **24.5** | 24.6 | **32.2** | 30.5 | **50.2** | 45.7 |
| Increase/(decrease) in operating expenses | % | **12.5** | 17.0 | **(0.8)** | 1.0 | **6.7** | 8.5 |
| Increase/(decrease) in operating profit | % | **25.8** | 27.3 | **(40.2)** | 4.1 | **3.5** | 21.6 |
| Operating profit margin | % | **7.7** | 6.9 | **3.5** | 5.5 | **19.1** | 17.9 |
| Inventory days | | **63** | 65 | **83** | 87 | **125** | 67 |
| Trade debtor days | | **11** | 9 | **–** | – | **–** | – |
| Trade creditor days | | **45** | 49 | **24** | 40 | **37** | – |
| Number of stores | | **400** | 369 | **148** | 152 | **42** | 40 |
| as at 31 August 2010/2009 | | **369** | 346 | **152** | 156 | **40** | 38 |
| new | | **32** | 26 | **5** | 3 | **2** | 3 |
| closed | | **(1)** | (3) | **(9)** | (7) | **–** | (1) |
| Number of pharmacies | | **283** | 251 | **–** | – | **–** | – |
| as at 31 August 2010/2009 | | **251** | 207 | **–** | – | **–** | – |
| new | | **8** | 27 | **–** | – | **–** | – |
| converted | | **24** | 18 | **–** | – | **–** | – |
| closed | | **–** | (1) | **–** | – | **–** | – |
| Total leased area | m² | **261 363** | 245 078 | **30 780** | 30 741 | **2 892** | 2 802 |
| Weighted retail trading area | m² | **194 887** | 183 430 | **26 923** | 27 195 | **2 190** | 2 144 |
| Weighted annual sales per m² ** | R | **48 770** | 45 924 | **33 265** | 35 011 | **49 217** | 51 748 |
| Number of permanent employees | | **6 642** | 6 366 | **773** | 811 | **122** | 112 |

* Includes the results of Clicks Direct Medicines.
** Sales relating to Clicks excludes Direct Medicines for the purposes of weighted annual sales per m².

Refer to note 34 for a description of the identified reportable segments.

| Group Services 2011 R'm | Group Services 2010 R'm | Total retail operations 2011 R'm | Total retail operations 2010 R'm | UPD 2011 R'm | UPD 2010 R'm | Intragroup elimination 2011 R'm | Intragroup elimination 2010 R'm | Total operations 2011 R'm | Total operations 2010 R'm |
|---|---|---|---|---|---|---|---|---|---|
| **201** | 198 | **800** | 737 | **150** | 152 | **–** | – | **950** | 889 |
| **8** | 16 | **300** | 312 | **2** | 2 | **–** | – | **302** | 314 |
| **–** | – | **19** | 20 | **85** | 86 | **–** | – | **104** | 106 |
| **–** | – | **1 350** | 1 274 | **463** | 312 | **(11)** | (15) | **1 802** | 1 571 |
| **5** | 2 | **195** | 172 | **1 050** | 922 | **(246)** | (225) | **999** | 869 |
| **(5)** | 119 | **2** | 125 | **16** | 27 | **–** | – | **18** | 152 |
| **469** | 596 | **472** | 600 | **186** | 40 | **(578)** | (430) | **80** | 210 |
| **678** | 931 | **3 138** | 3 240 | **1 952** | 1 541 | **(835)** | (670) | **4 255** | 4 111 |
| **72** | 70 | **87** | 89 | **5** | 7 | **–** | – | **92** | 96 |
| **–** | – | **126** | 115 | **–** | – | **–** | – | **126** | 115 |
| **187** | 214 | **1 437** | 1 567 | **1 241** | 948 | **(246)** | (225) | **2 432** | 2 290 |
| **49** | 62 | **151** | 186 | **14** | 17 | **–** | – | **165** | 203 |
| **656** | 298 | **661** | 301 | **392** | 394 | **(578)** | (430) | **475** | 265 |
| **964** | 644 | **2 462** | 2 258 | **1 652** | 1 366 | **(824)** | (655) | **3 290** | 2 969 |
| **(286)** | 287 | **676** | 982 | **300** | 175 | **(11)** | (15) | **965** | 1 142 |
| **–** | – | **10 793** | 9 728 | **5 519** | 5 299 | **(2 209)** | (1 750) | **14 103** | 13 277 |
| **–** | – | **3 201** | 2 833 | **19** | 79 | **4** | (8) | **3 224** | 2 904 |
| **–** | – | **340** | 307 | **352** | 324 | **(3)** | (5) | **689** | 626 |
| **–** | – | **(2 738)** | (2 470) | **(240)** | (241) | **3** | 5 | **(2 975)** | (2 706) |
| **–** | – | **803** | 670 | **131** | 162 | **4** | (8) | **938** | 824 |
| **–** | – | **10.9** | 14.7 | **4.2** | 5.2 | **26.2** | 30.7 | **6.2** | 9.0 |
| **–** | – | **0.6** | 5.4 | **3.3** | 5.5 | **–** | – | **1.6** | 5.4 |
| **–** | – | **6.9** | 11.2 | **–** | – | **–** | – | **6.9** | 11.2 |
| **–** | – | **29.7** | 29.1 | **0.3** | 1.5 | **–** | – | **22.9** | 21.9 |
| **–** | – | **32.8** | 32.3 | **6.7** | 7.6 | **–** | – | **27.7** | 26.6 |
| **–** | – | **25.4** | 25.4 | **4.4** | 4.5 | **–** | – | **21.1** | 20.4 |
| **–** | – | **10.8** | 14.6 | **(0.1)** | 10.5 | **–** | – | **9.9** | 14.1 |
| **–** | – | **20.0** | 24.9 | **(19.4)** | (7.2) | **–** | – | **13.9** | 16.1 |
| **–** | – | **7.4** | 6.9 | **2.4** | 3.1 | **–** | – | **6.6** | 6.2 |
| **–** | – | **65** | 67 | **31** | 22 | **–** | – | **60** | 55 |
| **–** | – | **11** | 9 | **60** | 55 | **–** | – | **46** | 42 |
| **–** | – | **43** | 48 | **66** | 53 | **–** | – | **57** | 52 |
| **–** | – | **590** | 561 | **–** | – | **–** | – | **590** | 561 |
| **–** | – | **561** | 540 | **–** | – | **–** | – | **561** | 540 |
| **–** | – | **39** | 32 | **–** | – | **–** | – | **39** | 32 |
| **–** | – | **(10)** | (11) | **–** | – | **–** | – | **(10)** | (11) |
| **–** | – | **283** | 251 | **–** | – | **–** | – | **283** | 251 |
| **–** | – | **251** | 207 | **–** | – | **–** | – | **251** | 207 |
| **–** | – | **8** | 27 | **–** | – | **–** | – | **8** | 27 |
| **–** | – | **24** | 18 | **–** | – | **–** | – | **24** | 18 |
| **–** | – | **–** | (1) | **–** | – | **–** | – | **–** | (1) |
| **–** | – | **295 035** | 278 621 | **–** | – | **–** | – | **295 035** | 278 621 |
| **–** | – | **224 000** | 212 769 | **–** | – | **–** | – | **224 000** | 212 769 |
| **–** | – | **46 911** | 44 588 | **–** | – | **–** | – | **46 911** | 44 588 |
| **383** | 343 | **7 920** | 7 632 | **389** | 432 | **–** | – | **8 309** | 8 064 |

# OPERATIONAL REVIEW


> Clicks opened the highest number of stores in a single year and grew the chain to 400 outlets.

## Review of the year

Clicks produced strong sales growth of 13.0% in an environment of low price inflation and against the high base set in recent years. The sales performance, together with tight cost control and operating efficiency, contributed to operating profit growth of 25.8%. Management continued to invest in the growth of the chain and opened 31 new stores, the highest number in a single year, and 32 new in-store dispensaries.

Sales growth was driven by the health category which accounted for 54.5% (2010: 52%) of turnover. Within this category, scheduled medicines grew by 24.9% and front shop health by 13.1%. Dispensary sales in Clicks stores grew by 25.4% as the brand continued to follow an aggressive pricing strategy and dispensary opening programme. Clicks processed 19.3 million prescriptions compared to 17.2 million in the prior year. Sales of baby merchandise increased by 21.5%, supported by the successful launch of a private label nappy range. Baby merchandise is a major focus in the health category as Clicks expands its dispensary and clinic services.

| Sales performance | % change | % contribution |
|---|---|---|
| Health | | |
| Scheduled medicines | 24.9 | 27.2 |
| Front shop health | 13.1 | 27.3 |
| Beauty | 5.4 | 23.8 |
| General merchandise | 8.4 | 21.7 |
| Total turnover | 13.0 | 100.0 |

The strong growth in healthcare translated into increased market share, where Clicks now has a 15.4% share of the retail pharmacy market (2010: 13.1%) and 37.9% (2010: 36.8%) of the country's front shop health market.

Clicks experienced good volume growth in beauty merchandise, although sales value was slower owing to price deflation and customers trading down to lower-priced ranges. Overall, beauty sales increased by 5.4%. In the beauty sub-categories, haircare grew by 3.4%, skincare 4.1%, colour cosmetics 5.4% and fine fragrance by 23.5%. Clicks has grown its share of the haircare market to 29.5% while the impact of the slower skincare and cosmetics sales resulted in the chain losing some ground to competitors.

General merchandise produced a solid performance and grew sales by 8.4%, accounting for 21.7% of total sales in Clicks. Deflation impacted the homewares and electrical sub-categories, although there was good volume growth in electrical which grew by 12.2%. This contributed to Clicks increasing its leading market share in small household appliances to 21.3% (2010: 20.0%). Cellular sales rose by 17.1%, confectionery 8.3% and homewares by 4.2%.

Private label and exclusive brands accounted for 18.2% of total sales in Clicks, and 24.2% of front shop sales. Private label products offer better value to customers while entrenching loyalty to the brand and enhancing profitability. The range of private label scheduled medicines has been increased to 29 lines and these have been well received by customers and pharmacists.


32

new pharmacies opened

| Market share (%) | 2011 | 2010 |
|---|---|---|
| Health | | |
| Retail pharmacy* | **15.4** | 13.1 |
| Front shop health** | **37.9** | 36.8 |
| Beauty | | |
| Haircare** | **29.5** | 28.3 |
| Skincare** | **31.8** | 32.6 |
| Colour cosmetics*** | **28.6** | 29.9 |
| General merchandise | | |
| Small household appliances**** | **21.3** | 20.0 |

* IMS (excluding courier pharmacy).
** AC Nielsen.
*** RLC.
**** GfK.

### Store and pharmacy expansion

Clicks increased its store footprint by a net 31 stores, slightly ahead of the target of 20 to 30, and the chain opened its 400th store in Umhlali, north of Ballito, in KwaZulu-Natal shortly before year-end.

During the year the first Clicks store was opened in Botswana and the first pharmacy opened in Swaziland.

Clicks has the largest retail pharmacy network in the country and this was extended to 283 with the opening of a further 32 dispensaries.

At year-end 29% of Clicks stores did not yet have a pharmacy which highlights the organic growth potential in the business. In addition, 76 of the pharmacies are less than two years old and as pharmacies generally take three to four years to reach maturity, there is further sales and profit potential from these pharmacies.

Clinic services are an integral part of the healthcare offering to customers and a driver of pharmacy foot traffic. During the year Clicks serviced 247 000 customers through its 104 clinics across the country.

Clicks launched the Helping Hand Trust to provide free access to clinic services for mothers whose babies were born at state hospitals and who do not have medical insurance. The services include baby immunisation, growth measurement, feeding and nutritional advice, baby weighing and family planning advice. The project has been introduced into 41 stores and 5% from every Clicks-branded baby product is donated to the trust.

# 19.3 million
prescriptions processed

## Operations

Clicks has continued to improve operational disciplines. In the supply chain, the completion of the merchandise Blueprint programme has resulted in more stable product availability, which measured 95.6% at year-end. Management is targeting to achieve 97% availability. By year-end 94.5% of merchandise was being channelled through the Clicks distribution centres.

The customer service excellence programme has been completed in 291 stores. Progress is being tracked through mystery shoppers and customer satisfaction levels are now being measured by store.

One of the major challenges facing Clicks is to find a sustainable solution to attracting and retaining pharmacists. Retention levels have improved over the past year as salary structures have been revised, benefits improved and pharmacists have been granted shares through the employee share ownership programme. This contributed to a reduction in turnover to 23% (2010: 34% and 2009: 53%). Refer to the Material Sustainability Issues on page 10 for further detail.

## Customer loyalty

The Clicks ClubCard membership base has grown by 300 000 over the past year to 3.4 million. ClubCard members accounted for 76.7% of sales in Clicks and R220 million was returned to customers in cash-back vouchers. The average basket value of ClubCard holders is almost double that of non-ClubCard members. There are currently 2.4 million ClubCard holders on the Clicks centralised pharmacy patient database. The BabyClub was launched to assist mothers during pregnancy and in the early years of motherhood.

ClubCard members can also earn points and cash-back vouchers on their purchases from affinity partners which are redeemable in Clicks. These affinity partners include Musica, Nu Metro cinemas, Specsavers and Discovery Vitality.

South African consumers again independently rated Clicks number one for pricing and value in health and beauty retailing. Clicks was also voted as the country's top health and beauty retailer in the authoritative The Times/Sowetan Retail Awards.

| Clicks ClubCard | 2011 | 2010 |
|---|---|---|
| Active ClubCard members (m) | 3.4 | 3.1 |
| Contribution to sales (%) | 76.7 | 74.8 |
| Cash-back vouchers issued (R'm) | 220 | 197 |


# 76.7%
of sales from Clicks ClubCard members

## Strategic focus areas for 2012

The retail environment is expected to become increasingly challenging in 2012. The focus in the year ahead will be on driving sales volume growth through innovation, aggressive promotions and leveraging customer loyalty through the Clicks ClubCard, including introducing additional affinity partners.

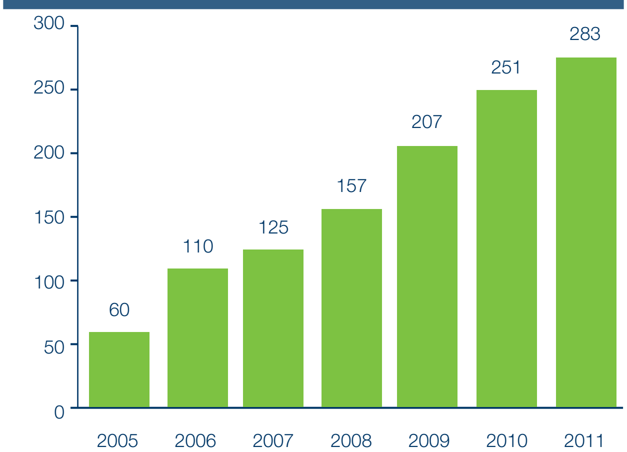
Clicks plans to increase the sales contribution from private label products to 25% in the medium term, and the private label medicines range will be expanded in the year ahead. Clicks is currently developing environmentally friendly private label products that are both price competitive and offer innovative product, packaging and sourcing alternatives.

Cost management will be critical to sustaining profit growth in the year ahead. Clicks will therefore continue to enhance operating efficiencies. After being successfully piloted during the past year, the pharmacy Blueprint project will be implemented nationally from January 2012. The programme will address dispensary efficiency and identify ways for pharmacists to focus on servicing customers rather than administrative functions, in the process making their jobs more interesting and fulfilling. The customer service excellence programme referred to above will be completed in the remaining 25% of Clicks stores in 2012.

Clicks remains on track to meet its medium-term goal of 500 stores. There is a strong pipeline of new stores and the chain expects to again be at the upper end of the target of opening 20 to 30 new stores. Dispensaries will continue to be opened in new and existing stores, with 30 to 40 planned. Clicks continues to focus on acquiring independent pharmacies as this enables the chain to attract additional pharmacists and, where appropriate, to acquire and convert their premises into a Clicks store.

Management is confident that the growth strategies and momentum in Clicks will continue to improve its operating margin and has increased the medium-term margin target to a range of 7% to 8% (previously 6.5% to 7.5%).

**Growth in Clicks pharmacies**



# OPERATIONAL REVIEW


> Building a third-party distribution agency business is a major strategic focus for UPD.

## Review of the year

UPD experienced a tough year as turnover and profitability were negatively impacted as no single exit price (SEP) increase was granted by the Department of Health (DoH) for 2011. UPD increased wholesale turnover by 4.2%, as price inflation declined to 3.3%.

Performance was also impacted by the changing product mix, with sales of lower-value generic medicines growing at a faster rate than originator products. UPD's sales of scheduled medicines increased by 5.7%, with generics growing by 14.6% and originators by 2.7%. This changing mix trend is likely to continue irrespective of future SEP increases.

Operating profit was 19.4% lower as the results for the previous year included a stock gain of R26 million from the SEP increase which was not repeated in the current year. The 9.3% decline in UPD's front shop sales, owing to the continued contraction of independent pharmacy, also placed pressure on the margin.

Despite the challenges encountered during the year, UPD increased its share of the combined private wholesale and distribution market and remains the country's only national full-range wholesaler.

Clicks continues to be the driver of growth for UPD, with sales to Clicks in-store dispensaries and Clicks Direct Medicines increasing by 29.1% owing to the strong growth in the pharmacy business. Clicks remains UPD's largest single customer. UPD supplies the majority of pharmaceutical product to the Life Healthcare and Medi-Clinic private hospitals. Sales to hospital groups accounted for 28% of turnover in UPD and increased by 3.5% over the previous year.

UPD targets independent pharmacies through the Link buying group which currently has 252 member pharmacies. Value-added services are provided to Link pharmacies to create increased loyalty to UPD, including training, front shop marketing support, merchandising, category management and product development. Sales to Link pharmacies accounted for 17.3% of UPD's turnover and increased marginally over 2010.

Sales to other independent pharmacies declined by 32.6% as this sector continues to contract, with a further 80 pharmacies closing during the year.

Export sales declined by 9.1% as UPD's application for an export licence was declined. The decision has been challenged and an appeal lodged with the Medicines Control Council. The export business has therefore been reliant on sales from UPD's Botswana-based pharmaceutical wholesaler, Kalahari Medical Distributors.

Third-party distribution agency business remains a strategic focus. UPD has been aggressively marketing its capability to offer pharmaceutical manufacturers an efficient and cost-effective one-stop supply chain solution. UPD managed contracts with notional distribution turnover (being the value distributed on behalf of clients) of around R600 million in the past year.

UPD supports the DoH's proposals for a transparent pricing mechanism through the capping of logistics fees and would welcome the urgent resolution of this issue. This regulation is expected to result in consolidation of the pharmaceutical wholesale market which will ultimately benefit UPD.

# 23.1%
share of private pharmaceutical market

| Market share (%)* | 2011 | 2010 |
|---|---|---|
| Total private pharmaceutical market (value) | 23.1 | 22.7 |

* IMS

## Strategic focus areas for 2012

Following the extensive changes in the UPD leadership team over the past year, including the restructuring of the sales, buying and planning functions, the new management team has a clearly defined strategy and focus areas for 2012.

UPD's priority is to drive wholesale turnover and margin growth by improving the quality of its front shop ranges and pricing, as well as product availability. No SEP increase is expected for 2012.

Management continues to focus on enhancing loyalty with Link pharmacies and is targeting to increase Link's buying compliance with UPD from the current level of 55% to 60%.

UPD also plans to broaden its range of oncology products and to develop an oncology business through the courier pharmacy service, Clicks Direct Medicines.

Building a distribution agency business is a major revenue opportunity and UPD will focus on securing additional distribution agency contracts. In the second half of the financial year UPD was awarded contracts with notional turnover of a further R600 million to commence in the new financial year, which will double the distribution agency business by the end of the 2012 calendar year.

UPD's medium-term operating margin target for the wholesale business has been revised to 2.5% to 3.0% (previously 2.7% to 3.0%), with the targeted margin not including any trading benefit from SEP increases.

# OPERATIONAL REVIEW

> "Musica performed well to maintain market share in a challenging environment."

**Ralph Lorenz**
*Managing Director*

**MUSICA**
**A WORLD AWAITS**

## Review of the year

Musica's performance slowed dramatically in the second half of the financial year and turnover was 5.9% lower as the decline in the CD and DVD markets accelerated. The brand was further impacted by selling price deflation of 2.4% for the year and a lack of new CD and DVD releases. Customers are increasingly price conscious in the current tough economic climate as reflected in sales of lower-priced merchandise.

In this environment Musica performed well to maintain market share despite the net closure of four stores.

While CD and DVD sales declined by 13.8% and 9.4% respectively, Musica achieved good growth in the newer merchandise categories. Sales of technology and lifestyle merchandise, which includes digital accessories, headphones and portable speakers, cellphones and airtime, increased by 60.7%.

Despite experiencing price deflation, gaming sales grew by 11.4%, driven mainly by the launch of new hardware including PlayStation Move, Xbox Kinect and Nintendo 3DS.

The Clicks ClubCard accounted for 44% of sales in Musica while the basket value of ClubCard holders was on average 25% higher than non-holders. Cardholders earn points and cash-back vouchers on Musica purchases and these are redeemable in Clicks stores.

| Performance summary | Sales change (%) | Contribution to sales (%) | Market share* (%) |
|---|---|---|---|
| CDs | (13.8) | 48 | 41 |
| DVDs | (9.4) | 28 | 27 |
| Gaming | 11.4 | 17 | 9 |
| Technology and accessories | 60.7 | 7 | |

* Aquidneck/GfK.

During the year five new stores were opened and nine stores closed, with the chain ending the year on 148 stores.

An automated merchandise replenishment system was introduced and the initial benefits include improved management of product quality and ranging for stores, and a headcount reduction in the merchandise department.

The strength of the brand is reflected in customers again voting Musica as the coolest music retailer in the Sunday Times Generation Next Awards 2011 and as the best music store in The Times/Sowetan Retail Awards. Musica received a grand prix award in the interactive communications category at the annual Loerie Awards for marketing and advertising.

## Strategic focus areas for 2012

Entertainment retailing will remain challenging as downloading continues to impact the physical formats.

Musica continues to be reshaped to maintain profitability and cash generation. Decisive action has been taken by management to improve terms with suppliers and to adopt a robust approach to lease renewals with landlords on both base rentals and lease duration. A further 10 stores will be closed in the new financial year.

Further space will be allocated in stores to the growth categories of technology, accessories and cellular.

ClubCard participation will be increased through exclusive offers to drive sales in Musica and to enhance loyalty to the brand.

Management will continue to focus on tight control of expenses and working capital and the outlook for performance is reflected in the medium-term operating margin target being revised to 3% to 4% (previously 5% to 6%).

> The franchise agreement with The Body Shop International has been renewed until 2020.

**Sean Kristafor**
*General Manager*

## Review of the year

2011 marked the tenth anniversary of the launch of The Body Shop in South Africa and the franchise agreement with The Body Shop International has been renewed by the Clicks Group until 2020.

The Body Shop maintained unit sales for the financial year while the brand experienced selling price deflation of 6.6%, resulting in a 2.8% decline in turnover. Operating profit increased by 3.5% as the margin benefited from the strength of the Rand during the period.

The gifting and skincare categories showed strong growth while the bath and body category declined by 8% owing mainly to popular local product flavours being discontinued internationally. The iconic Body Butter format was reinvented with the launch of the innovative Body Butter Duo which includes two moisturisers in one container, and this product continues to be a best seller.

The Love Your Body loyalty programme was relaunched early in the financial year, based on the successful Clicks ClubCard formula. The programme has attracted 100 000 customers and already accounts for 44% of the brand's sales. The average basket value of these loyalty cardholders is 25% higher than non-cardholders.

The Body Shop Retail Academy was launched to improve customer service and store management.

Two new outlets were opened in the year: a standalone store in Knysna and a store-within-a-store in Clicks in Cavendish Connect, Cape Town. Capsule ranges of the best-selling lines were introduced into a further 25 Clicks stores, including the first outlet in Botswana.

Capsule ranges in Clicks stores enable The Body Shop to increase distribution and accessibility to the brand. Sales have not been negatively impacted where these Clicks stores trade in the same shopping centres as standalone stores of The Body Shop.

As part of the global brand, the local franchise is committed to upholding the core values of sustainability, including fair trade, community upliftment and non-exploitation of scarce resources. The Rainforest haircare range and Earth Lovers shower gel were the first two products to be launched during the year under The Body Shop's pioneering eco-conscious symbol. This symbol indicates that no sulphates, colourants and parabens are used in the manufacture of the product, while the ingredients are biodegradable and the product packaging is environmentally friendly.

The local franchise received the award for the best integration of values from The Body Shop International, recognising how the South African team has demonstrated a commitment to the brand's values.

The Body Shop was highly placed in the specialist health and beauty stores category in The Times/Sowetan Retail Awards, and in the Sunday Times Generation Next awards for the coolest brands in health and beauty retailing.

## Strategic focus areas for 2012

The main focus in the year ahead will be on leveraging the Love Your Body database to drive customer loyalty and to increase visit frequency.

Building on the success of the Retail Academy, a make-up and skincare consultancy course has been developed. Customer service training will be reinforced through the implementation of a mystery shopper measurement.

The brand's presence will be expanded through the opening of two store-within-a-store concepts in Clicks and increasing capsule ranges to a total of 50 Clicks outlets. Two new standalone stores are planned for the year ahead.

While customers are value conscious in the current economic climate, The Body Shop strives to meet the demand for high quality, natural products through continuous product innovation and values promotions. The medium-term operating margin target of The Body Shop has been increased to 18.0% to 20.0% (previously 14.0% to 16.0%).

# CORPORATE GOVERNANCE REPORT

"A major focus has been on the implementation of King III and the Companies Act."


Clicks Group strives to achieve the highest standards of corporate governance and follows stringent legislative and regulatory compliance practices to ensure the sustainability of the business.

The directors recognise that sound governance can benefit long-term equity performance and enhance shareholder value. In an environment of increasing regulatory and legislative requirements and reporting, the board aims to maintain a balance between compliance and the need to deliver sustainable performance to shareholders.

The group acknowledges that it is the duty of directors and officers to discharge their legal responsibilities with care, skill and diligence, and also to comply with their fiduciary duties to the company. The group has adopted the King Code of Governance Principles 2009 (King III) to achieve the overarching corporate governance philosophies of fairness, accountability, independence, responsibility and transparency.

The group has implemented the recommendations of King III, including the recommendations which are impacted by the implementation of the Companies Act No. 71 of 2008, as amended (the Companies Act).

## Governance enhancements

Governance practices are regularly reviewed to align with legislative and regulatory changes and to reflect developments within the business. A major focus of the past financial year has been on the implementation of King III and the Companies Act. A sub-committee of the board comprising executive management and non-executive directors evaluated the principles of King III against current governance practices and developed a plan to implement the relevant recommendations.

The following changes and enhancements were made to governance processes during the year:

- The terms of reference of the board committees were amended to comply with the requirements of King III.
- The group has adopted integrated reporting to provide a balanced view to shareholders on the sustainability of the business.
- The independence of non-executive directors has been reviewed and this practice will be undertaken annually.
- The members of the audit and risk committee will be proposed for election for the first time at the January 2012 annual general meeting (AGM).
- As recommended by King III, the group's remuneration policy will be proposed to shareholders for a non-binding advisory vote at the AGM.
- A compliance process framework has been implemented throughout the group.
- The structure of the board committees has been amended with effect from 1 September 2011. The remuneration and nominations committees were combined into a single committee. This committee comprises the directors who were members of the respective remuneration committee and nominations committee prior to 31 August 2011.
- In line with the requirements of the Companies Act, the board has established a social and ethics committee, with effect from 1 September 2011. The transformation committee has been incorporated into the social and ethics committee.
- The Companies Act came into effect on 1 May 2011 and the group's processes are being aligned with those required by the Act. The revised memorandum of incorporation (MOI) will be implemented prior to 30 April 2013 and it is anticipated that the revised MOI will be proposed to shareholders for approval at the 2013 AGM.

## Application of King III principles

All JSE-listed companies are required to report and disclose the application of the King III principles in their integrated annual reports. The board has applied the principles of King III and elected to explain the principles that are not applied:

- Principle 3.2 of King III recommends that the chairman of the board should not be a member of the audit committee. The chairman of the board, David Nurek, currently serves on the audit and risk committee. The nominations committee considered the issue and recommended to the board that Mr Nurek should remain a member of the audit and risk committee owing to his skills, knowledge and experience which allow him to make a significant contribution to the committee. He has been a non-executive director of a number of listed companies for over 21 years and has served on the audit and/or risk committees of most of these companies. He is currently a member of the audit and/or risk committees of four listed companies. The board accepted and approved the recommendation that he continues to serve on the committee. The group's audit and risk committee comprises four non-executive independent directors, including the board chairman. The committee is chaired by an experienced chartered accountant who was previously a partner at a large auditing firm, financial director of listed and unlisted companies and who has extensive experience of serving on audit and risk committees.
- Principle 2.26 of the code recommends that companies should disclose the salaries of the three most highly paid employees who are not directors. The board has elected not to apply this principle as no employees receive higher salaries than the four executive directors. The group has a pay band structure linked to organisation level and all employees are paid in terms of this structure. In addition, no employees are rewarded in a manner which could expose the group to any significant risks and no employees have declined appointment as directors to avoid disclosure of their remuneration.
- Principle 9.3 recommends that sustainability reporting and disclosure should be independently assured. The external auditor has assured the annual financial statements and accredited specialist agencies have verified the disclosure on broad-based black economic empowerment and carbon emissions. Internal audit has provided assurance on selected sustainability indicators contained in the Integrated Report. The group is implementing a combined assurance framework which considers the assurances provided by the external auditor, internal audit and specialist agencies.

- The board determined that the prescribed officers in terms of the Companies Act are the members of the group executive which comprises the four executive directors. These are the people who exercise general executive control and management of the whole or a significant portion of the group's businesses and activities. All other senior management report to members of the group executive.

# Board of directors

## Board composition

Clicks Group has a unitary board structure with 10 directors, including four salaried executive directors and six non-executive directors. The only change to the board composition during the year was the resignation of Keith Warburton as group financial director and chief financial officer (CFO) and the appointment of Michael Fleming as group financial director and CFO.

The board elected the chairman after the AGM in January 2011 and will continue to follow this practice after the AGM each year.

The roles of the non-executive chairman and the chief executive officer are formalised, separate and clearly defined. This division of responsibilities at the helm of the company ensures a balance of authority and power, with no one individual having unrestricted decision-making powers.

The non-executive directors have extensive business experience and specialist skills across a range of sectors, including accounting, finance, law, retailing, healthcare and human resources. This enables them to provide balanced and independent advice and judgement in the decision-making process.

Non-executive directors have direct access to management and may meet with management independently of the executive directors.

The company has no controlling shareholder or group of shareholders and there is no direct shareholder representation on the board.

The board meets at least four times a year. Additional meetings can be convened to consider specific business issues which may arise between scheduled meetings. No additional meetings were required during the year.

## Independence of directors

King III requires the board to review the independence of long-serving non-executive directors. This applies to the chairman of the board, David Nurek, who has served as a director for 14 years.

The nominations committee conducted an evaluation of the independence of the chairman and non-executive directors. All relevant factors which could impact on their independence and performance were considered, in particular the factors outlined in King III and the Companies Act. Based on the feedback from this evaluation, the nominations committee believes there are no factors which prevent the directors from exercising independent judgement or acting in an independent manner. All six non-executive directors, including the chairman, are therefore appropriately classified as being independent in terms of both the King III definition and the guidelines outlined in the JSE Listings Requirements.

## Board charter

The scope of authority, responsibility, composition and functioning of the board is contained in a formal charter which is regularly reviewed. The directors retain overall responsibility and accountability for:

- ensuring the sustainability of the business;
- approving strategic plans;
- monitoring operational performance and management;

- ensuring effective risk management and internal controls;
- legislative, regulatory and governance compliance;
- approval of significant accounting policies and annual financial statements;
- selection, orientation and evaluation of directors;
- appropriate remuneration policies and practices;
- monitoring transformation and empowerment; and
- balanced and transparent reporting to shareholders.

In the year ahead the board charter will be aligned with the requirements of the Companies Act.

## Board appointment

The nominations committee considers directors for appointment to the board and motivates these candidates to the board in a thorough and transparent process. The remuneration and nominations committee has assumed this responsibility from 1 September 2011.

Newly appointed directors undergo a formal induction programme which outlines their fiduciary duties and provides an in-depth understanding of the group and its operations. This includes meetings with business unit heads and visits to stores and distribution centres.

Directors do not have a fixed term of appointment. One-third of the directors, being those longest in office, are required to retire by rotation each year and are eligible for re-election by shareholders at the AGM. Directors appointed during the year are required to have their appointments ratified at the following AGM.

The chief executive officer is subject to a 12-month notice period and the other executive directors a six-month period.

Executive directors retire at the age of 63, while there is no prescribed retirement age for non-executive directors.

## Group executive committee

Executive management and the board work closely together in determining the strategic objectives of the group. Authority has been delegated by the board to the chief executive officer and the group executive committee for the implementation of the strategy and the ongoing management of the business. The group executive committee comprises the four executive directors. The board is apprised of progress through reporting at board meetings and regular communications with management.

The responsibilities of the group executive include:

- developing and implementing the group strategic plan;
- preparing budgets and monitoring expenditure;
- monitoring operational performance against agreed targets;
- adhering to financial and capital management policies;
- determining human resources policies and practices;
- monitoring and managing risk; and
- communicating with stakeholders.

## Company secretary

The company secretary ensures that board procedures and all regulations and governance codes are observed. He also provides guidance to the directors on governance, compliance and their fiduciary responsibilities. As an experienced attorney, the company secretary is also head: group legal counsel and provides legal advice and services to the group.

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

The company secretary co-ordinates the induction programme for newly appointed directors, as well as the annual board evaluation process. The appointment and removal of the company secretary is a matter for the board and not for executive management. The company secretary provides training and updates to the board at all meetings by reporting on new and amended legislation and regulations which are relevant to the group's businesses. During the year under review the directors were informed of legislative and regulatory developments in regard to *inter alia* the Consumer Protection Act, the Protection of Personal Information Bill, the Competition Act, the Medicines and Related Substances Act and the proposed logistics fees regulations under the Act, the Companies Act, the Pharmacy Act, the Income Tax Act and proposed changes to various labour laws. Director development programmes are available to the board at the request of any director.

## Board evaluation

An annual questionnaire-based evaluation is undertaken by the directors which includes an assessment of the performance of the board, the chairman, the chief executive officer, individual directors and all board committees. The key issues covered include the board's role and agenda setting; the size, composition and independence of the board; director orientation and development; and board meetings. The chairman of the board discusses the results of these reviews with the board, the chairpersons of the board committees and with each director. The chairman receives feedback on his performance from the nominations committee.

The main recommendation arising out of the 2011 board evaluation process was to streamline the committee structure and amalgamate the nominations committee and the remuneration committee. This will allow the combined committee to function more efficiently and avoid duplication across the two committees. These committees were combined with effect from 1 September 2011 to form the remuneration and nominations committee.

The responses from the evaluation process indicated that the board is well balanced and the size of the board is adequate for the group. The board has the relevant knowledge relating to the group's business and has strengthened its knowledge base in relation to the pharmacy business. The directors believe board meetings are well organised, efficiently run and all relevant aspects of the company's businesses are dealt with thoroughly by the board and its various committees which have all discharged their responsibilities adequately.

## Board and committee structure

The directors have delegated specific functions to committees to assist the board in meeting its oversight responsibilities. The committees all have documented mandates which are reviewed annually and the directors confirm that the committees have functioned in accordance with these written terms of reference during the financial year. All board committees are chaired by independent non-executive directors.

| Board and committee attendance | Board | Audit and Risk | Remuneration | Nominations | Transformation |
|---|---|---|---|---|---|
| **Number of meetings** | 4 | 5 | 2 | 2 | 2 |
| David Nurek | 4+ | 5 | 2 | 2+ | 2 |
| Fatima Abrahams | 3 | | 2+ | 2 | 2+ |
| John Bester | 4 | 5+ | 2 | | |
| Bertina Engelbrecht | 4 | | | | 2 |
| Michael Fleming* | 2/2 | | | | |
| Michael Harvey | 4 | | | | 2 |
| Fatima Jakoet | 4 | 4 | | | |
| David Kneale | 4 | | | | 2 |
| Nkaki Matlala | 4 | 2/3^ | | | 1/2^ |
| Martin Rosen | 4 | | | 2 | |
| Keith Warburton** | 2/2 | | | | |
| **Meeting attendance (%) 2011** | 98 | 89 | 100 | 100 | 92 |
| Meeting attendance (%) 2010 | 100 | 100 | 100 | 100 | 100 |

+ Chair
* Appointed 31 March 2011
** Resigned 31 March 2011
^ Appointed 26 January 2011

The board and committee structure with effect from 1 September 2011 is as follows:

**BOARD OF DIRECTORS**

Six independent non-executive directors
Four executive directors

**Remuneration and nominations committee**

Fatima Abrahams (chair)
John Bester
David Nurek
Martin Rosen

**Directors attending by invitation**

Bertina Engelbrecht
David Kneale

**Audit and risk committee**

John Bester (chair)
Fatima Jakoet
Nkaki Matlala
David Nurek

**Directors attending by invitation**

Bertina Engelbrecht
Michael Fleming
Michael Harvey
David Kneale

**Social and ethics committee**

David Nurek (chair)
Fatima Abrahams
Nkaki Matlala
Bertina Engelbrecht
Michael Harvey
David Kneale

### Remuneration and nominations committee

As detailed earlier in the report, the board approved the amalgamation of the remuneration and nominations committees with effect from 1 September 2011. The committee comprises four independent non-executive directors. The group's external remuneration consultant attends certain of these meetings by invitation.

**Role**

Ensure the group has a competitive remuneration policy to attract, retain and reward quality staff, and to ensure the board's composition and functioning meets the needs of the group.

**Functions**

- Ensure that the group has a remuneration policy which is aligned with the group strategy and performance goals
- Assess and review remuneration policies, employee long-term incentive schemes and short-term performance bonuses
- Approve the remuneration of executive directors and senior management
- Propose fees for non-executive directors, which are tabled for shareholder approval at the AGM
- Determine executive and staff participation in the long-term incentive schemes.

The committee has assumed the following functions which were previously within the mandate of the nominations committee:

- Advise on the composition of the board, review the board structure, size and balance between non-executive and executive directors
- Identify and recommend qualified candidates for directorships
- Ensure that the board has an appropriate balance of skills, experience and diversity
- Co-ordinate the board evaluation process
- Develop effective succession planning for senior management
- Ensure that the performance of the board, individual members and sub-committees is reviewed formally and regularly.

Further detail is contained in the Remuneration Report on page 51.

### Audit and risk committee

The committee structure and composition is unchanged and the four independent non-executive directors will be proposed for election to the committee by shareholders at the forthcoming AGM.

The roles, functions and responsibilities of the committee are detailed in the Audit and Risk Committee Report on pages 66 to 68.

### Social and ethics committee

The transformation committee has been merged with the newly constituted social and ethics committee with effect from 1 September 2011. The committee comprises three independent non-executive directors and three executive directors.

**Role**

Monitor activities relating to ethics, stakeholder engagement and the social impact of the company on communities within which it operates. Monitor progress across all areas of strategic empowerment as well as compliance with transformation codes.

**Functions**

- Monitor the company's activities relating to social and economic development, good corporate citizenship, the environment, and health and public safety
- Ensure appropriate short and long-term targets are set by management
- Monitor progress against targets
- Monitor changes in the application and interpretation of empowerment charters and codes
- Monitor those functions referred to and required in terms of the Companies Act and its regulations.

Refer to the Transformation Report on pages 56 to 59 and the Stakeholder Engagement report on pages 60 and 61.

## Risk management

Clicks Group aims to achieve an appropriate balance between risk and reward, recognising that certain risks need to be taken to achieve sustainable growth and returns while at the same time protecting the group and its stakeholders against avoidable risks.

A disciplined approach is followed in evaluating risks and developing appropriate strategies to mitigate and manage the risk.

The risk attitude of the group, which is the level of risk acceptable to the directors and management, is reviewed annually. The group adopts a conservative risk attitude which the directors believe is appropriate given the nature of the group's business in the healthcare retail and supply market.

In compliance with King III the board obtained assurance regarding the effectiveness of the risk management process and adequacy of the risk methodology. Both were considered to be adequate.

### Responsibility for risk management

The board is responsible for the oversight of the risk management process and has delegated responsibility to the audit and risk committee. This committee is responsible for ensuring the group has implemented an effective policy and plan for risk, and that disclosure regarding risk is comprehensive, timely and relevant. The role, functions and composition of the committee are included in the Audit and Risk Committee Report on pages 66 to 68.

The group executive committee is responsible for designing and implementing the risk management process and monitoring ongoing progress. The group executive regularly reviews the group risks to ensure mitigation strategies are being implemented by the business units. Group internal audit monitors the progress of the group and business units in managing risks and reports its findings to the audit and risk committee biannually.

### Risk management process

Risk management is embedded in the group's annual business planning cycle. In determining the strategic and operational plans for the year ahead, each business unit is required to review its risk register. This includes a review of the risks of the previous financial year, considering new or emerging risks, facilitated workshops with all levels of management and, where appropriate, presentations by external consultants on the environment and market conditions.

A risk framework sets out the various risks that should be considered as part of the risk identification process. These potential risks are updated annually to ensure all relevant industry issues are considered.

## Risk ratings

Each risk on the register is assigned an impact and probability rating. The *impact* assigned to a risk is assessed on a ten-point scale and considers the financial, compliance, reputational and people effects on the group. The *probability* of a risk materialising is measured on a five-point scale.

The *impact* and *probability* ratings are then multiplied to determine the inherent (gross) risk rating and its significance to the group. Detailed risk mitigation plans are developed for each risk which then determines the level of residual (net) risk. Residual risk ratings are then assigned to each risk.

The key risks facing the group are detailed in the Material Sustainability Issues on pages 10 to 13.

## Financial risk management

Through its business activities the group is exposed to a range of financial risks, including market risk (currency, interest rate and price risk), credit risk and liquidity risk. The group's exposure to these risks and policies for measuring and managing the risk are included in notes 28 and 29 to the annual financial statements. Derivative financial instruments are used to hedge certain risk exposures, including the long-term incentive schemes and foreign exchange risk on the import of merchandise. Foreign exchange risk is mitigated by entering into forward exchange contracts which are matched with anticipated future cash flows in foreign currencies. Details of the group's forward exchange exposure is contained in note 29.

# Accountability and compliance

## Internal audit

The internal audit function provides information to facilitate the establishment and maintenance of an effective system of internal control to manage the risks associated with the business. The role of internal audit is outlined in the terms of reference of the audit and risk committee and in the internal audit charter. Details of the internal audit function are contained in the Audit and Risk Committee Report.

## Financial statements and external review

The directors accept ultimate responsibility for the preparation of the annual financial statements that fairly represent the results of the group in accordance with the Companies Act and International Financial Reporting Standards.

The external auditors are responsible for independently auditing and reporting on these financial statements in conformance with statements of International Standards of Auditing and applicable laws. The role of the external audit function is covered in the comprehensive Audit and Risk Committee Report.

## Going concern

The board is 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 64 to 124 have been prepared on a going concern basis. The board is apprised of the group's going concern status at the board meetings coinciding with the interim and final results.

## Information technology governance

Information technology (IT) governance is integrated into the group's operations, and governance practices and frameworks are reviewed as part of the annual internal audit plan.

During the year IT governance practices were reviewed as the group is implementing the King III principles relating to IT. An IT steering committee has been established, reporting to the chairman of the audit and risk committee. The committee meets quarterly to review governance issues as recommended by King III, including IT standards, governance frameworks, results of internal audit reviews and specific IT risks.

The governance framework includes alignment of IT to support business strategy and operations, deliver value and manage performance, information security, managing IT risk and compliance, and business continuity management.

## Legislative and regulatory compliance

Legislative and regulatory compliance is monitored by the head: group legal counsel. An analysis of current and pending legislation and regulation is presented at each meeting of the board, and the audit and risk committee.

Legislation and regulation which could impact on the group's business has been reviewed and analysed by the internal legal and compliance departments and this includes:

- The Companies Act
- The Competition Act and the Competition Amendment Act
- The Consumer Protection Act
- The Medicines and Related Substances Act and Regulations: revisions and amendments
- Revised regulations for dispensing fees for pharmacists
- The Foodstuffs, Cosmetics and Disinfectants Act
- The Standards Act
- The Pharmacy Act
- Regulations relating to the labelling of foodstuffs and foodstuffs products
- The Advertising Standards of SA Codes
- The Cosmetics, Toiletries and Fragrances Compendium
- The Film and Publications Act.

The Consumer Protection Act has a significant impact on the group. Extensive training and education was provided to staff following an analysis of the group's retail operations and an assessment of the changes required by the new legislation. Compliance with the Consumer Protection Act is ongoing.

There were no cases of material legislative or regulatory non-compliance during the year and no penalties or sanctions were imposed on the group or any of its directors or officers during the year. No requests for information were withheld by the group in terms of the Promotion of Access to Information Act.

## Personal share dealings

The group's insider trading policy precludes directors and staff from trading in Clicks Group's shares during two formalised closed periods.

These closed periods run from the end of the interim and annual reporting periods until the financial results are disclosed on the Securities Exchange News Service (SENS).

Embargoes can also be placed on share dealings at any other time if directors or executives have access to price-sensitive information which is not in the public domain.

Directors are required to obtain written approval prior to dealing in the company's shares. The chairman is required to obtain approval from the chairman of the audit and risk committee before undertaking any share dealings. It is also mandatory for directors to notify the company secretary of any dealings in the company's shares. This information is then disclosed on SENS within 48 hours of the trade being effected. These dealings are also reported retrospectively at board meetings. Details of all dealings by directors during the reporting period are contained in the Director's Report.

### Ethics and values

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

The group has implemented various documented policies which require all employees to adhere to ethical business practices in their relationships with one another, suppliers, intermediaries, shareholders and investors. These policies also set stringent standards relating to the acceptance of gifts from third parties and declarations of potential conflicts of interests.

A fraud prevention policy ensures that a firm stance is taken against fraud and the prosecution of offenders. This policy outlines the group's response to fraud, theft and corruption committed by staff and external parties against the company. The internal audit department manages the legal processes relating to fraud cases to ensure the highest possible level of recovery for the group arising from any fraudulent behaviour.

### Tip-offs Anonymous

Staff are encouraged to report suspected fraudulent or unethical behaviour via a toll-free telephone service managed by an external service provider. All reported incidents are investigated. Awareness of this facility is created through presentations, a quarterly newsletter and competitions, and by encouraging staff to report incidents before significant losses are incurred.

| | 2011 | 2010 |
|---|---|---|
| Reported incidents | **172** | 170 |
| Resultant dismissals/resignations | **30** | 16 |
| Employees counselled | **8** | 18 |
| Other disciplinary action | **24** | 29 |

### Political party donations

While the group supports the democratic system in South Africa, it does not make donations to individual political parties.

### Anti-competitive conduct

Clicks Group does not engage in practices that could limit competition or that could adversely impact on customers. The directors are committed to ensuring that all group executives and employees understand the requirements of competition law and regulations. Robust risk management and supervisory oversight processes are in place to ensure adherence to these laws and regulations.

External attorneys were engaged to analyse the Competition Act and the Competition Amendment Act and to advise the directors and management of the content and issues arising from this legislation. A Competition Act compliance process was approved by the board and implemented across the group in the 2011 financial year.

The group occupies a market-leading position in healthcare retailing and supply in South Africa and guards the confidentiality of intellectual property, customer and supplier data, business processes and methodologies.

As a member of the SA Retailers' Association the group participates in forums with other retailers that require an industry response, such as representation to government and regulatory bodies. The constitution of the SA Retailers' Association embodies the principle that competition should not be compromised and that no sharing of information may occur that could detract from retailers being able to compete with one another.

The group has not been sanctioned for anti-competitive practices or for non-compliance with the Competition Act.

Integrated reporting provides shareholders with a balanced view on the sustainability of the business

# REMUNERATION REPORT

## Remuneration policy and philosophy

The group's remuneration policy is based on the "total rewards strategy". This strategy drives a high-performance culture which consistently delivers above-average returns to shareholders through employees who are motivated, engaged and committed. This remuneration policy also supports the attraction, development and retention of employees with scarce and critical skills who contribute to sustained business growth. The group's remuneration policy is transparent with pay bands established for each job grade and this assists in creating trust and ensuring that employees are equitably compensated.

## Remuneration structure

The purpose of the total rewards framework is to enhance the group's employment proposition through:

- flexibility to meet differing employee needs;
- positioning the Clicks Group as an employer of choice for scarce and critical skills areas;
- capability to attract talent and retain top-performing employees.

All new employees are appointed on a total rewards basis. All existing employees, excluding the bargaining unit employees, have been converted to the total rewards methodology.

The total rewards and associated pay and benefits policies have contributed to higher levels of employee commitment and affiliation to the group (as measured in the annual employee satisfaction index which increased from 67% in 2010 to 68% in 2011) and to a decrease in labour turnover (from 19.8% in 2010 to 19.4% in 2011). The total rewards approach has also assisted in improving the turnover rate of pharmacy employees from 53% in 2009 to 23% in 2011. The group's employee turnover rate compares favourably to the retail industry survey result as reported by remuneration consultants, 21st Century, indicating an average turnover of 19%, and the highest reported turnover being 35%.

Annual guaranteed remuneration is determined by considering the following factors:

- the Hay-based job grading level and pay point;
- the competitive position of the Clicks Group's pay and benefits structure relative to its defined market position which determines the remuneration ranges applicable to each job level and skills pool;
- individual performance as assessed during the annual performance appraisal process; and
- individual position in the pay band range relative to competence and performance.

External compensation and benefit consultants advise the group on best pay practices, competitive positioning and benchmarking on strategic human capital issues.

## Aligning business strategy and remuneration policy

The performance of all non-bargaining unit employees is appraised biannually, and alignment and performance expectations are clarified with individualised performance contracts. An employee's performance appraisal outcome is linked to the annual salary increase awarded, creating a direct line of sight between reward and performance.

The performance appraisal process utilises a five-point scale and appraisal results are moderated centrally to ensure fairness and consistency across business units. Salary increases are awarded within the range approved for each performance level, after taking into account other relevant information including the employees' position within the pay band. Employees' performance ratings are confirmed in the communication regarding their annual increases.

## Remuneration governance

The remuneration committee assists the board in ensuring that the group has a competitive remuneration policy which is aligned with the group's strategy and performance goals. The key duties of the committee include:

- ensuring the group has a remuneration policy that promotes the achievement of strategic objectives and encourages individual performance;
- ensuring the combination of fixed and variable pay meets the group's needs and strategic objectives;
- ensuring all benefits, including retirement benefits and other financial arrangements, are justified and correctly valued;
- considering the results of the evaluation of the performance of the chief executive officer and other executive directors, both as directors and as executives in determining remuneration;
- selecting an appropriate comparator group when benchmarking remuneration levels;
- reviewing incentive schemes to ensure continued contribution to shareholder value and that these are administered in terms of the rules; and
- advising on the remuneration of non-executive directors.

The remuneration committee comprises three independent non-executive directors: Professor Fatima Abrahams (chair), John Bester and David Nurek. The chief executive officer and group human resources director attend meetings by invitation, but are excused when their own remuneration and ratings are discussed by the committee. Detail on the remuneration committee and meeting attendance is included in the Corporate Governance Report on pages 44 to 50. The group's remuneration and nominations committees have been amalgamated with effect from 1 September 2011 and a fourth independent non-executive director, Martin Rosen, has been appointed to the committee.

An external consultant, Barbara Maughan, has been appointed on a retainer basis to advise the committee on remuneration trends and the benchmarking of non-executive and executive remuneration. The members of the committee have independent access to the remuneration consultant and may request her professional advice on any remuneration matter. She holds the position of lead: total reward: human capital at Deloitte Consulting and also serves as a remuneration adviser to a number of listed companies.

Remuneration policies and practices were reviewed during the year to align with the recommendations of King lll. The group's remuneration policy will be proposed to shareholders for a non-binding advisory vote at the annual general meeting (AGM) in January 2012.

## Composition of remuneration

### Executive directors

The remuneration package of executive directors consists of three components:

- annual guaranteed pay, which allows for flexible structuring of retirement fund contributions;
- short-term cash-based incentive bonus; and
- participation in the long-term incentive scheme.

The remuneration structure of executive directors is linked to the group's medium-term financial targets and is therefore aligned to shareholder interests. A significant portion of executive remuneration is performance-related.

Base salaries are set according to an annual benchmarking exercise of medium-sized market capitalisation companies on the JSE Limited and a defined retail comparator group of 11 listed companies. This benchmarking scope recognises the complexity in the group's business model and product ranges and the regulatory environment within which the group operates.

The performance of the chief executive officer is assessed by the chairman and the board, while the performance of the other executive directors is evaluated by the chief executive officer and reviewed by the remuneration committee. The annual pay increase of the executive directors is directly related to individual performance ratings and aligned to the annual increase ranges per performance rating as determined by the remuneration committee.

Executive directors participate in the annual short-term cash-based incentive scheme. Financial targets, based on the group's average monthly return on net assets (RONA), are set by the board and embedded in the budgets, operating plans and the performance contracts, and are aligned to the group's published medium-term financial targets. The achievement of these targets is reviewed by the remuneration committee before any incentive payments are made to executive directors and is also subject to review by the group's external auditor.

A bonus of 40% (60% in the case of the chief executive officer) of annual guaranteed pay is paid on the achievement of an on-target performance. The performance hurdle is 100% of the targeted group RONA and at least 95% of the targeted group operating profit. Performance exceeding the targeted performance may result in the payment of a higher bonus. This is, however, self-funded and only paid if the group exceeds the targeted operating profit. The scheme also provides for a stretch performance incentive to drive extraordinary performance. The stretch performance hurdle is met when the targeted group RONA is achieved and the operating profit target has been exceeded by at least 5% (as verified by an external remuneration consultant and a non-executive director). Bonus payments for all employees, including the executive directors, are capped at two times the value of an on-target bonus due to any employee. The targets and value of all bonuses awarded to executives are approved by the remuneration committee.

The group's performance for the 2011 financial year achieved the levels required in terms of the RONA targets.

The sustainability of the group's business is critical in determining remuneration and the board is satisfied that the performance targets do not encourage increased risk taking by the executives.

The long-term incentive scheme in which executive directors participate is based on the allocation of share appreciation rights and is detailed later in the report.

### Management

Senior managers receive an annual guaranteed salary and participate in the short-term incentive bonus scheme. Salaries may include premiums for scarce and critical skills. A limited number of senior managers participate in the long-term incentive scheme, based on strategic contribution to their business unit and their individual performance levels.

An annual performance-based salary increase is paid to all non-bargaining unit employees. The average performance-linked increases for the new financial year will result in an overall increase in payroll of 5% (2010: 5.8%). The annual increase date is 1 September which is aligned with the group's financial year and budgeting period.

### Staff

Collective salary increases are negotiated with the representative trade union for the Clicks bargaining unit. Negotiations regarding the salary increase for 2011/2012 are still under way and in 2010 an increase of 10.8% was agreed. All staff in the bargaining unit also participate in the group's short-term incentive scheme. For UPD staff, the transition was made during the past year from collective wage agreement salary increases to individual performance-based increases. All UPD staff receive a guaranteed 13th cheque.

All store employees' compensation complies with the sectoral determination requirements and the minimum rates of pay as determined for the retail industry are either met or exceeded.

All staff receive discounts on purchases at group stores which vary by business unit.

### Group retention scheme

A retention scheme was implemented during 2009 for employees who are critical to the group's strategic talent and succession plans. This includes high-potential employees, black staff and employees with scarce and critical skills. The candidates recommended for inclusion are reviewed and approved by the nominations committee and the remuneration committee, which also approves all payments made under the scheme. The scheme is aimed at retaining the employees over a three-year period. One-third of the retention value is allocated upfront and the remaining two-thirds will be paid at the end of the three-year retention period. There are currently 30 employees participating in the scheme, of which 43% are black and 37% are women.

### Employee share ownership programme

The group implemented an employee share ownership programme (ESOP) in February 2011 whereby 10% of the group's issued shares after the issue of "A" shares (equating to 29.2 million "A" shares) have been placed in a share trust for allocation to all full-time permanent staff.

The ESOP is aimed at enabling the group to attract and retain scarce and critical skills, to accelerate transformation, to build employee commitment and to reward employees for their contribution by sharing in the growth and success of the company.

Employees with more than five years' service, pharmacists and senior employees from the designated employment equity groups received a 15% enhancement of their share allocation.

The ESOP has a minimum term of three years and a maximum of seven years, with a sliding scale that applies to employees who leave the group within the three to seven-year period.

Senior executives currently participating in the group's long-term incentive scheme do not participate in the ESOP.

### Non-executive directors

Non-executive directors receive fees for their services as directors and for serving on board committees. These fees reward the directors fairly for the time, service and expertise provided to the group. The fee structure is based on an annual benchmarking of non-executive directors' fees in a defined retail comparator group. Non-executive directors do not participate in incentive schemes. There are no options held by non-executive directors.

## Incentive schemes

Both long and short-term incentive schemes have been developed as an integral part of the total rewards framework to ensure that employee performance is aligned to the interests of shareholders, and to reward and retain employees.

### Short-term incentive scheme

All permanent employees in the retail businesses and the majority of employees in UPD participate in the short-term incentive scheme which rewards the achievement of performance targets based on the RONA of the business.

The performance measurement is based on each employee's area of responsibility and can be determined for a specific store, region, business unit or at the group level. The scheme is self-funding as the value of an on-target bonus is included in the annual budget.

Performance exceeding the targeted performance may result in the payment of a higher bonus provided this is funded by the increase in the operating profit. A total of R47.6 million (2010: R66.7 million) was approved by the remuneration committee as the total bonus payable for the 2011 financial year.

### Long-term incentive schemes

The group's long-term incentive scheme detailed below replaced the staff share option scheme and aligns executive remuneration with the creation of shareholder value. Share options were last issued in August 2005.

#### Share appreciation rights scheme

Under the 2005 scheme share appreciation rights were allocated to executive directors and senior employees. The rights vest equally after three years and five years and the exercise price of the rights is linked to the performance of the share price. The first tranche of rights was allocated in April 2005 and a further tranche in May 2006. The last of the outstanding rights matured in May 2011.

The following share appreciation rights allocated to executive directors matured during the financial year and the proceeds are as follows:

| Director | Number of five-year rights | R'000 |
|---|---|---|
| Bertina Engelbrecht | 200 000 | 8 142 |
| David Kneale | 75 000 | 3 053 |

#### Long-term incentive scheme

Share appreciation rights are allocated to participants in this scheme and these rights are cash-settled at the end of the three-year performance period.

The value of the rights is linked to the group's reported diluted headline earnings per share multiplied by an internal price earnings ratio of 12. The long-term incentive scheme charge is accrued over the three-year performance period. In determining the charge, the amount reflected in the statement of comprehensive income takes account of the actual and projected annual growth in diluted headline earnings per share over the three-year performance period. The annual charge is discounted to present value using market yields on high quality bonds that most closely match the term of the share appreciation rights. Rights are forfeited if an employee resigns within the performance period.

On the expiry of the three-year period, employees are required to apply 25% of the after-tax cash settlement value to purchase Clicks Group shares in the open market and to retain these shares for a minimum of one year. A total of 28 (2010: 36) employees currently participate in this scheme, collectively holding 10 506 321 (2010: 12 857 363) rights at year-end.

The table below details rights which have been allocated to executive directors under this scheme over the last three years. The relevant amounts have been expensed through the statement of comprehensive income.

| Executive director | Allocation at R15.83 per right 1 Sept 2008 (number of rights) | Allocation at R19.91 per right 1 Sept 2009 (number of rights) | Allocation at R25.37 per right 1 Sept 2010 (number of rights) |
|---|---|---|---|
| Bertina Engelbrecht | 335 845 | 294 576 | 335 987 |
| Michael Fleming[1] | – | – | 551 832 |
| Michael Harvey | 431 333 | 374 887 | 473 000 |
| David Kneale | 1 072 331 | 942 240 | 1 407 174 |
| Keith Warburton[2] | 450 284 | 395 681 | – |
| **Total** | 2 289 793 | 2 007 384 | 2 767 993 |

[1] Appointed to the board 31 March 2011. Allocation made retrospectively as part of appointment package.

[2] Resigned 31 March 2011 and these rights have been settled.

## Employee benefits

### Retirement funds

Membership of a retirement fund is compulsory for all permanent employees. Employees based in South Africa have the option to join the Clicks Group Retirement Fund, the Clicks Group Negotiated Pension Fund or the Clicks Group Negotiated Provident Fund. The group's employees based in Namibia are all members of the Namflex Umbrella Pension Fund.

The negotiated and retirement funds have boards of trustees, with 50% employee and 50% employer representation. The company representatives include finance executives from across the group who provide financial expertise to the boards. The retirement fund trustees have appointed an independent financial consultant to provide professional investment advice.

- Combined membership across the funds was 8 181 (2010: 7 716) at year-end.
- The funds are all defined contribution schemes and the group carries no liability in relation to these funds.
- All funds provide death and disability cover, while the negotiated funds also include a funeral benefit.

## Medical aid

The Clicks Group Medical Aid Scheme was merged with Moremed to form Horizon Medical Aid Scheme, administered by Medscheme, on 1 January 2011. Membership of one of the Horizon options is actively encouraged and existing members of Discovery Health may continue their membership. At year-end 477 employees were principal members with Horizon and 970 employees were principal members of a Discovery Health medical aid scheme. UPD employees may join either Fedhealth or Discovery Health medical schemes.

Approximately 17% of employees are covered by a medical scheme. Increasing the health benefits available to employees will be a focus area for the group in the years ahead.

# Directors' remuneration

### Executive directors' remuneration – 2011

| Director (R'000) | Salary | RONA short-term incentive* | Performance-based long-term incentive* | Pension fund | Other benefits | Total |
|---|---|---|---|---|---|---|
| Bertina Engelbrecht | 1 862 | 852 | 4 740 | 268 | 1 | 7 723 |
| Michael Fleming[1] | 1 252 | 817 | – | 183 | 23 | 2 275 |
| Michael Harvey | 2 489 | 1 200 | 6 095 | 229 | 238 | 10 251 |
| David Kneale | 5 201 | 3 570 | 15 152 | 747 | 2 | 24 672 |
| Keith Warburton[2] | 1 599 | – | – | 117 | 7 135 | 8 851 |
| **Total** | 12 403 | 6 439 | 25 987 | 1 544 | 7 399 | 53 772 |

[1] Appointed to the board 31 March 2011.
[2] Resigned 31 March 2011.

### Executive directors' remuneration – 2010

| Director (R'000) | Salary | RONA short-term incentive* | Performance-based long-term incentive* | Pension fund | Other benefits | Total |
|---|---|---|---|---|---|---|
| Bertina Engelbrecht | 1 802 | 1 012 | 5 163 | 152 | 1 111 | 9 240 |
| Michael Harvey | 2 264 | 1 340 | 6 540 | 193 | 31 | 10 368 |
| David Kneale | 4 943 | 4 163 | 16 335 | 416 | 1 | 25 858 |
| Keith Warburton | 2 433 | 1 360 | 6 884 | 178 | 14 | 10 869 |
| **Total** | 11 442 | 7 875 | 34 922 | 939 | 1 157 | 56 335 |

### Non-executive directors' remuneration

| Director (R'000) | 2011 Directors' fees | 2010 Directors' fees |
|---|---|---|
| David Nurek | 680 | 648 |
| Fatima Abrahams[4] | 315 | 251 |
| John Bester | 355 | 313 |
| Fatima Jakoet | 240 | 274 |
| Nkaki Matlala[3] | 213 | – |
| Martin Rosen | 175 | 153 |
| **Total** | 1 978 | 1 639 |

[3] Appointed 24 August 2010.
[4] An additional amount of R30 000 was paid to Professor Abrahams for performing the role of chairman of The Clicks Group Employee Share Ownership Trust.
* Payments relating to the performance for the year ended 31 August are paid in November, however, are provided for in the relevant financial year.

## Total directors' remuneration

| R'000 | 2011 | 2010 |
|---|---|---|
| Executive directors (excluding the share appreciation scheme) | 53 772 | 56 335 |
| Non-executive directors | 1 978 | 1 639 |
| **Total directors' remuneration** | 55 750 | 57 974 |

## Directors' shareholdings at 31 August

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| Director | Direct beneficial shares | Indirect beneficial shares | Total | Direct beneficial shares | Indirect beneficial shares | Total |
| David Nurek | – | 279 682 | 279 682 | – | 329 682 | 329 682 |
| John Bester | 12 000 | 10 000 | 22 000 | 10 000 | 10 000 | 20 000 |
| Bertina Engelbrecht | 52 353 | – | 52 353 | 34 591 | – | 34 591 |
| Michael Harvey | 166 314 | – | 166 314 | 143 815 | – | 143 815 |
| David Kneale | 170 845 | – | 170 845 | 214 646 | – | 214 646 |
| Martin Rosen | 2 000 | – | 2 000 | 2 000 | – | 2 000 |
| Keith Warburton* | n/a | n/a | n/a | 46 121 | 5 000 | 51 121 |
| **Total** | 403 512 | 289 682 | 693 194 | 451 173 | 344 682 | 795 855 |

* Resigned 31 March 2011.

The total number of ordinary shares in issue is 270 652 112 (2010: 284 006 929). Percentage of issued share capital held by directors is 0.25% (2010: 0.28%). Details of all dealings in Clicks Group shares by directors during the financial year are contained in the Directors' Report on page 64.

## Non-executive director fees for 2012

The fee structure is aligned to the King III remuneration guidelines that non-executive directors receive a base fee for appointment to the board or any committee, together with an attendance fee per meeting. The base fee comprises approximately 75% of the total fee. The chairman of the board or any committee receives a higher fee.

Fees are currently approved in line with the group's financial year. In future, the fees for a calendar year will be proposed for approval to shareholders at the AGM in January. The fee structure has accordingly been adjusted and shareholder approval will be sought for an increase in the fees for a 16-month period in January 2012. The proposed total fees for non-executive directors represent an increase of 6.9% on the fee structure for the 2011 financial year and adjusted for the 16 months equates to a 9.2% increase.

| **Board position** | Proposed total fees for 4 months from 1 September to 31 December 2012 R | Proposed total fees for 12 months to 31 August 2012 R | Total fees paid for 12 months to 31 August 2011 R | % change for 12 months to 31 August 2012 |
|---|---|---|---|---|
| Board chairman | 167 300 | 470 000 | 440 000 | 6.8 |
| Board member | 53 600 | 150 000 | 140 000 | 7.1 |
| Chair: audit and risk committee | 66 900 | 190 000 | 180 000 | 5.6 |
| Audit and risk committee member | 37 500 | 106 000 | 100 000 | 6.0 |
| Chair: remuneration and nominations committee | 28 200 | 77 000 | 70 000 | 10.0 |
| Remuneration and nominations committee member | 14 100 | 38 500 | 35 000 | 10.0 |
| Chair: social and ethics committee | 28 200 | 77 000 | 70 000 | 10.0* |
| Social and ethics committee member | 14 100 | 38 500 | 35 000 | 10.0* |

* Reflects percentage increase on fees of the transformation committee which has now been amalgamated with the newly constituted social and ethics committee.

# TRANSFORMATION REPORT

> The group has improved from level 7 BBBEE status in 2007 to level 3 in 2011.

**Bertina Engelbrecht** *Group Human Resources Director*


1

## Transformation rating

The group increased its BBBEE score from 58.37 in 2010 to 76.99 in 2011, exceeding its target of 67.8 (level 4) and achieving level 3 status.

| BBBEE element | Maximum | 2011 | Target 2011 | 2010 |
|---|---|---|---|---|
| Ownership | 20 | **11.71** | **0** | 0.49 |
| Management control | 10 | **7.97** | **8.8** | 7.85 |
| Employment equity | 15 | **11.01** | **10** | 10.43 |
| Skills development | 15 | **12.11** | **15** | 12.20 |
| Preferential procurement | 20 | **14.19** | **14** | 13.82 |
| Enterprise development | 15 | **15** | **15** | 8.66 |
| Socio-economic development | 5 | **5** | **5** | 4.92 |
| **Total** | 100 | **76.99** | **67.8** | 58.37 |
| **BBBEE level** | | **3** | **4** | 5 |

Transformation and empowerment are critical areas of sustainability in the South African business environment. The group's commitment to sustainable transformation is demonstrated through the continued improvement in the broad-based black economic empowerment (BBBEE) rating which has improved from level 7 in 2007 to level 3 in 2011.

Transformation is managed within a governance framework which includes the board transformation committee, the internal transformation committee in which both the chief executive and the group human resources director participate, and the business unit transformation forums which are responsible for implementation.

A transformation plan for 2011 to 2013, which is aligned to the Department of Trade and Industry's (DTI) codes of good practice, has been developed to guide the implementation of the group's transformation strategy.

Transformation related highlights for the year include:

- Achieved **level 3 BBBEE** status
- **7 965** staff were allocated shares through the employee share ownership scheme
- **R47 million** invested in learning and development
- **R34 million** committed to enterprise development projects
- **R9 million** invested in social investment projects
- Launched the Clicks **Helping Hand Trust**.

7965
staff allocated
shares

While pleasing progress has been made over the past year, transformation challenges facing the group include attracting and retaining senior black talent, obtaining BBBEE certificates from suppliers to verify procurement spending and managing the impact of regulatory changes relating to skills development.

This report outlines the group's performance and progress against the seven elements of the BBBEE scorecard.

## Ownership

A broad-based employee share ownership programme (ESOP) was implemented during the year to enable employees to share in the growth of the group. Through the ESOP scheme, 10% of the group's issued shares have been placed in the Clicks Group Employee Share Ownership Trust for allocation to all full-time permanent employees. The scheme is governed by six trustees, the majority of whom are black, with two appointed by the board and four elected by employees.

OWN YOUR SHARE
THE CLICKS GROUP EMPLOYEE SHARE OWNERSHIP PROGRAMME

Shares have been allocated to 7 965 permanent employees, with black staff receiving 71% and women 63% of the shares. Pharmacists comprise 4.9% of the ESOP beneficiaries. Refer to page 52 of the Remuneration Report for further detail on the objectives and operation of the ESOP.

## Management control

While the group has performed well in terms of black female representation at the executive and non-executive director level, the key challenge is to improve the representation of blacks and females at the senior management level.

- Black staff represent 20.4% (2010: 17.8%) of senior and top management
- Women account for 35.5% (2010: 34.7%) of senior and top management
- 40% (2010: 40%) of directors are black and 30% (2010: 30%) women.

## Employment equity

The group continues to create an increasingly diverse workforce through the advancement of previously disadvantaged people and the empowerment of women.

The following statistics demonstrate the diversity of the group's employees:

- Black staff represent 84.8% (2010: 84.7%) of the total workforce
- Women comprise 63.0% (2010: 62.7%) of all employees
- Black staff accounted for 80% (2010: 81%) of new appointments.

### Employee profile

| | Female | | | | Male | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Occupational level** | African | Coloured | Indian | White | African | Coloured | Indian | White | **Total** |
| Top management | 0 | 1 | 0 | 3 | 0 | 0 | 2 | 13 | **19** |
| Senior management | 2 | 4 | 4 | 19 | 3 | 2 | 1 | 39 | **74** |
| Professionally qualified | 25 | 40 | 25 | 122 | 20 | 41 | 19 | 118 | **410** |
| Junior management | 309 | 389 | 120 | 480 | 302 | 171 | 61 | 172 | **2 004** |
| Semi-skilled | 2 134 | 1 185 | 119 | 201 | 1 554 | 391 | 52 | 82 | **5 718** |
| Unskilled | 28 | 17 | 3 | 8 | 20 | 4 | 1 | 3 | **84** |
| **Total employees** | **2 498** | **1 636** | **271** | **833** | **1 899** | **609** | **136** | **427** | 8 309 |
| Non-SA-based employees | 81 | 14 | 1 | 0 | 58 | 13 | 1 | 0 | **168** |
| Employees with disabilities | 33 | 62 | 8 | 14 | 29 | 15 | 4 | 10 | **175** |

## Skills development

The group invested R47 million (2010: R57 million) in learning and development, which equates to 3.4% (2010: 4.4%) of the basic payroll. A total of 4 356 employees participated in learning and development programmes, with black employees representing 82% (2010: 85%) of the total employees trained.

Learning and development programmes were mainly focused on investing in management development, internal transformation and pharmacy development.

| Skills development statistics | 2011 | 2010 |
|---|---|---|
| Training spend as a % of payroll | **3.4** | 4.4 |
| Training spend (R million) | **47** | 57 |
| Employees trained | **4 356** | 4 527 |
| Black employees as a % of total employees trained | **82** | 85 |
| Delegates on management development programmes | **319** | 47 |
| Delegates on retail learnership and skills programmes | **347** | 331 |
| Delegates on pharmacy learnership and skills programmes | **408** | 430 |
| Interns and graduates on workplace experience programmes | **40** | 54 |

## Preferential procurement

The group's procurement practices are focused on sourcing merchandise and services from locally-based and empowered suppliers. During the financial year 3.5% (2010: 3.5%) of the total procurement spend was from black-owned suppliers, with 48% (2010: 30%) of the procurement from level 4 and higher-rated BBBEE suppliers.

## Enterprise development

The UPD independent owner-driver initiative demonstrates sustainable transformation. Established in 2003, the scheme has 50 contracted owner-drivers who deliver products for UPD to Clicks, independent pharmacies, hospitals and clinics. UPD paid R30 million (2010: R28 million) to independent owner-drivers and R0.8 million to the management company operating the scheme in the past year. UPD spent a further R2 million in employee time, insurance and other operating costs to improve the efficiency of the scheme.

The group has also invested in Style Studio, a specialist haircare and beauty chain, through an interest-free loan of R0.8 million and employee time totalling over R80 000 in the past financial year. Style Studio was established in 2004 and has four stores.

## Socio-economic development

The group is committed to investing 1% of profit after tax in social development programmes through the Clicks Foundation. In the past year R9.0 million (2010: R9.8 million) was spent on community development projects, equating to 1.4% of profit after tax, and the group achieved the maximum points in this category in the BBBEE rating.


Health and well-being remain the focus of the group's corporate social investment. Business units have identified and implemented projects over the last year in line with the group's focus.

Clicks established the Helping Hand Trust which offers free clinic services to mothers whose babies were born in state hospitals and who do not belong to a medical aid. The free services offered through the Moms and Babies project include baby immunisation, growth measurement, feeding and nutritional advice, baby weighing and family planning advice. The project has been introduced into 41 stores and 5% from every Clicks-branded baby product is donated to the trust. The Clicks business unit also invested R735 000 in bursaries for previously disadvantaged pharmacy students in learning institutions across the country.

UPD continued to support the Topsy Foundation with over R350 000 in financial and product donations. More than R1.1 million in product and employee time was donated to organisations such as the Villa of Hope, Oasis Haven, Jordaan House and Leratong Hospital.

Musica supported the Carel du Toit School for the hearing impaired, Dance for All and Heal the Hood with over R300 000 in product donations.

The Body Shop donated R200 000 to Child Welfare SA to support the ongoing fight to end child trafficking. The funds donated have been generated from the nationwide sales of "Soft Hands, Kind Heart" hand cream. The Body Shop participated in a march to Parliament and presented a petition containing 43 000 signatures to the Chairperson of the Portfolio Committee on Justice and Constitutional Development calling for action to be taken against child trafficking in South Africa.

## Transformation priorities in 2012

The group is assessing the impact of the changes in the employment equity and preferential procurement targets on the DTI scorecard for 2012 to determine the requirements to maintain a level 3 BBBEE rating. However, our transformation priorities for the forthcoming financial year will include attracting, retaining and developing black employees in middle and senior management, and reviewing the learning and development programme to support transformation across the group. The disability framework will also be reviewed to create a more conducive environment for employees with disabilities.

An enterprise development programme will be implemented in the Clicks business unit, and the group will continue to support the UPD owner-driver scheme and Style Studio projects. The major focus of the corporate social investment programme will be extending the Clicks Helping Hand Trust Moms and Babies project to further clinics in the year ahead.

CLICKS
Helping Hand
Moms & Babies

# STAKEHOLDER ENGAGEMENT

Clicks Group has followed a board-endorsed process of formalising stakeholder engagement across the business. Through this process five primary stakeholder groups have been identified that are most likely to influence the sustainability of the business in the short, medium and longer term.

Qualitative and quantitative performance indicators have been developed for each stakeholder group to determine the outcome of the engagement and these measures will be refined on an ongoing basis. These metrics are used in the formal reporting process on stakeholder engagement at board meetings.

## Customers

| Rationale for engaging | Primary means of engaging | Key engagement issues | Outcome of engagement |
|---|---|---|---|
| • Meet customer needs by providing products and services to generate returns for shareholders<br>• Create trust in products and pharmacy practices<br>• Customer loyalty and retention<br>• Increase market share | Retail:<br>• Customer interaction in stores<br>• Dispensing medicine in pharmacies<br>• Primary health services in clinics<br>• Media advertising<br>• ClubCard communications<br>• Promotional activity<br>• CSI programmes<br>• Internet<br>• Market research<br><br>UPD:<br>• Sales representatives<br>• Customer interaction<br>• Internet | • Product range<br>• Service levels<br>• Price competitiveness<br>• Pharmacy and clinic services<br>• ClubCard benefits | Retail:<br>• 88.9 million retail customer transactions (2010: 83.0 million)<br>• 19.3 million prescriptions (2010: 17.2 million) processed<br>• ClubCard membership increased to 3.4 million (2010: 3.1 million)<br>• ClubCard holders account for over 76% of sales (2010: 74%)<br>• Market share growth in key healthcare categories<br>• Clicks independently rated by customers as first for pricing and value in health and beauty retailing<br>• Private label sales 18.2% of total Clicks sales (2010: 17.8%)<br>• Product availability: Clicks 95.6% (2010: 96%)<br>• CSI spend of R9.0 million (2010: R9.8 million)<br><br>UPD:<br>• Product availability: UPD 92% (2010: 89%)<br>• Range – 13 641 lines (2010: 14 431)<br>• Delivery frequency – 2.9 times per week (2010: 2.6 times)<br>• Customer contact – 15 065 visits (2010: not measured) |

## Shareholders and investment community

| Rationale for engaging | Primary means of engaging | Key engagement issues | Outcome of engagement |
|---|---|---|---|
| • Facilitate access to capital by attracting investors<br>• Informed investor community<br>• Balanced analysis of company<br>• Fair market rating relative to peers | • Management meetings with local and international investors and analysts<br>• Interim and annual results presentations<br>• Roadshows to international investors in the UK and USA<br>• Integrated annual report<br>• Statutory shareholder meetings<br>• SENS releases<br>• Investor conferences<br>• Group website | • Group strategy<br>• Trading environment<br>• Trading and financial performance<br>• Regulatory environment<br>• Pharmaceutical wholesaling and distribution<br>• Store and pharmacy expansion plans<br>• Shortage of pharmacists<br>• Capital management<br>• Prospects | • 196 management meetings with local and international shareholders and analysts (2010: 173 meetings)<br>• Volume of shares traded 178% (2010: 113%)<br>• International share ownership 61% (2010: 47%)<br>• Research coverage by 11 brokerages<br>• Participation in four stockbroker conferences |

## Employees

| Rationale for engaging | Primary means of engaging | Key engagement issues | Outcome of engagement |
|---|---|---|---|
| • Attract, motivate and retain talent<br>• Increase productivity<br>• Engender loyalty<br>• Accelerate transformation | • Induction programme<br>• Regular personal and electronic communication<br>• Management roadshows<br>• Employer of Choice programme for pharmacists<br>• Employee wellness programme<br>• Employee satisfaction survey<br>• Ongoing liaison and wage negotiations with trade unions<br>• Engaging pharmacy schools at universities to increase capacity | • Remuneration and benefits<br>• Employee share ownership scheme<br>• Performance management<br>• Personal development<br>• Career path planning<br>• Training and skills development | • Staff turnover 19.4% (2010: 19.8%)<br>• Pharmacist turnover 23% (2010: 34%)<br>• Employee wellness utilisation rate 21% (2010: 27%)<br>• Employment equity<br>– Black staff as a % of total staff 84.8% (2010: 84.7%)<br>– Female staff as a % of total staff 63.0% (2010: 62.7%)<br>• Training and skills development spend R47 million (2010: R57 million)<br>• 408 learners trained through Pharmacy Healthcare Academy in past year<br>• 23 pharmacy interns engaged<br>• Employee satisfaction index 68% (2010: 67%) |

## Industry regulators

| Rationale for engaging | Primary means of engaging | Key engagement issues | Outcome of engagement |
|---|---|---|---|
| • Legislative and regulatory compliance<br>• Lobby for regulatory reform<br>• Lobby for fair legislation which will not adversely affect returns to shareholders<br>• Best practice governance standards | • Written and verbal submissions on draft regulations and legislation<br>• Formal meetings with Department of Health and relevant industry regulators<br>• Ongoing liaison with regulators<br>• Membership of industry bodies | • Legislation<br>• Regulation<br>• Compliance | • Constructive engagement with regulators<br>• Insight into regulatory framework<br>• Formal submissions made in response to draft regulations |

## Suppliers

| Rationale for engaging | Primary means of engaging | Key engagement issues | Outcome of engagement |
|---|---|---|---|
| • Ensure stable supply of merchandise<br>• Understand market movement and new product launches that may change buying patterns<br>• Quality standards maintained<br>• Brand exclusivity<br>• Secure other income to support brand and marketing effort to customers | • Supplier and partner meetings<br>• Contractual agreements and service level measures<br>• Clicks Pharmacy Conference<br>• Suppliers' conference<br>• Audit of suppliers | • Quality and safety standards<br>• Product availability and exclusivity<br>• Product innovation, strength of brands<br>• Private label products<br>• Transformation and BEE scorecards<br>• Legislative compliance | • Reliable, efficient and sustained supply chain<br>• Supplier infill levels<br>– Clicks 79.1% (2010: 80.5%)<br>– UPD 78% (2010: 83%)<br>• Preferential procurement 48% (2010: 35%) from level 4 BBBEE and higher rated suppliers<br>• Consistent supply and maintenance of franchise agreement with The Body Shop International |

# ANNUAL FINANCIAL STATEMENTS

# CONTENTS



# DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the group and company annual financial statements for the year ended 31 August 2011.

## Nature of business

The company is an investment holding company listed in the Food and Drug Retailers sector of the JSE Limited. Its subsidiaries include the country's leading provider of health and beauty merchandise through a network of 590 stores in southern Africa. The company's subsidiaries cover the pharmaceutical supply chain from wholesale distribution to retail pharmacy as well as beauty and cosmetic products. The company operates primarily in southern Africa.

## Group financial results

The results of operations for the year are set out in the consolidated statement of comprehensive income on page 70. The profit attributable to ordinary shareholders for the year is R651 million (2010: R565 million).

## Share capital

In terms of the specific authority granted by shareholders in the annual general meeting held on 18 January 2011 as contemplated in section 221 of the Companies Act No. 61 of 1973 (as amended), the company elected to issue 4 639 549 shares for a subscription price of 1 cent and a premium thereon of R43.01 each to New Clicks South Africa (Proprietary) Limited in order to raise cash to make distributions to its shareholders.

In terms of the specific authority granted by shareholders in the general meeting held on 18 January 2011, the company issued 29 153 295 "A" shares for a subscription price of 1 cent to the Clicks Group Employee Share Ownership Trust in respect of the group's broad-based black economic empowerment ("BBBEE") transaction.

In terms of the specific authority granted by shareholders in the general meeting held on 1 June 2011 as contemplated in section 38 of the Companies Act No. 71 of 2008 (as amended), the company elected to issue 2 348 905 shares for a subscription price of 1 cent and a premium thereon of R42.62 each to New Clicks South Africa (Proprietary) Limited in order to raise cash to make distributions to its shareholders.

The following ordinary shares of 1 cent each, held as treasury shares by a subsidiary of the company, were bought back by the company and cancelled.

| | |
|---|---|
| 20 343 271 | cancelled on 2 December 2010 |

During the year under review the company continued with its share buy-back programme as set out below.

| | |
|---|---|
| 16 888 151 | shares held by a subsidiary of the company as treasury shares at 1 September 2010 |
| 13 663 843 | shares in terms of general repurchases between 1 September 2010 and 31 August 2011 by a subsidiary of the company |
| 6 988 454 | shares issued to a subsidiary of the company in order to raise cash to make distributions |
| (20 343 271) | shares bought back into the company and cancelled on 2 December 2010 |
| 17 197 177 | held by a subsidiary of the company as treasury shares at 31 August 2011 |

## Distributions to shareholders

### Interim

The directors approved a distribution of 37 cents per share (2010: 30.5 cents per share) comprising a capital reduction out of share premium in lieu of a dividend ("the distribution"). The distribution was paid on 4 July 2011 to shareholders registered on 24 June 2011.

### Final

The directors have approved a final distribution of 88 cents per share (2010: 75.7 cents per share) subject to the approval being granted by shareholders at the annual general meeting to be held on 17 January 2012. The source of such distribution will be a capital reduction out of share premium and accordingly results in a reduction in contributed tax capital. The distribution will be payable on 30 January 2012 to shareholders registered on 20 January 2012.

## Events after the financial year-end

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

## Directors and secretary

The names of the directors in office at the date of this report are set out on pages 14 and 15, and the company secretary's details are set out on the inside back cover.

## Appointment

Michael Fleming was appointed as executive director and as group financial director and chief financial officer with effect from 31 March 2011.

## Resignation

Keith Warburton resigned as an executive director with effect from 31 March 2011.

## Retirement and re-election of directors

In accordance with the company's memorandum of incorporation ("MOI") Fatima Abrahams, John Bester and Bertina Engelbrecht retire by rotation at the forthcoming annual general meeting. Michael Fleming retires in terms of the company's MOI. The retiring directors, being eligible, offer themselves for re-election.

## Directors' interest in shares

David Nurek, indirectly through a family trust, sold 50 000 shares at a price of R44.35 per share on 26 October 2010.

In terms of the cash-settled long-term employee incentive scheme which requires all participants at the end of the three-year incentive performance period to purchase shares on the open market to the equivalent of 25% of the after-tax cash settlement value, the executive directors made the following purchases on 30 November 2010 at a price of R43.44 per share: David Kneale purchased 56 199 shares, Keith Warburton purchased 23 694 shares, Michael Harvey purchased 22 499 shares and Bertina Engelbrecht purchased 17 762 shares.

John Bester purchased 2 000 shares directly on 7 February 2011 at a share price of R38.24 per share.

David Kneale sold 100 000 shares directly on 29 August 2011 at a share price of R39.28 per share.

The only change in these interests between the end of the company's financial year and 17 November 2011, being a date not more than one month prior to the date of notice of the annual general meeting, is the sale by David Nurek, indirectly through a family trust, of 39 688 shares on 25 October 2011 at a price of R39.79 per share.

## Incentive schemes

Information relating to the incentive schemes is set out on page 53.

## Special resolutions

Special resolution passed at the annual general meeting held on 18 January 2011 and registered on 28 January 2011:

Special Resolution No. 1: General authority to repurchase shares

Special resolutions passed at the general meeting held on 18 January 2011 and registered on 28 January 2011.

Special Resolution No. 1 – Approval for the amendment of the memorandum and articles of association to increase the company's authorised share capital by the creation of "A" shares for the BBBEE scheme

Special Resolution No. 2 – Specific repurchase of the "A" shares at par value

Special Resolution No. 3 – Approval for financial assistance to the trust and beneficiaries

Special resolutions passed at the general meeting held on 1 June 2011 and lodged with the Companies and Intellectual Property Commission ("CIPC") on 2 June 2011.

Special Resolution No. 1 – Amendment to article 96.2

Special Resolution No. 2 – Amendment to article 98

Special Resolution No. 3 – Authority to implement the specific issue

## Subsidiary companies

The names of the company's main subsidiaries and financial information relating thereto appear on page 124.

The interest of the company in the aggregate income after taxation is R651 million (2010: R565 million).

# DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for the preparation and fair presentation of the annual financial statements and group annual financial statements of Clicks Group Limited, comprising the statements of financial position at 31 August 2011, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report, in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these financial statements.

The directors have made an assessment of the ability of the company and its subsidiaries to continue as going concerns and have no reason to believe that the businesses will not be going concerns in the year ahead.

The auditor is responsible for reporting on whether the consolidated and separate annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

These financial statements have been prepared under the supervision of the Chief Financial Officer:

**Michael Fleming**

Chartered Accountant (SA)

## Approval of consolidated and separate annual financial statements

The consolidated and separate annual financial statements of Clicks Group Limited, as identified in the first paragraph, were approved by the board of directors on 17 November 2011 and signed by:

**DM Nurek**
**Chairman**

**DA Kneale**
**Chief Executive Officer**

Cape Town
17 November 2011

# CERTIFICATE BY THE COMPANY SECRETARY

I certify that Clicks Group Limited has filed all Clicks Group returns and notices as required by a public company in terms of section 88(2)(e) of the Companies Act No. 71 of 2008, as amended, and that such returns and notices are, to the best of my knowledge and belief, true, correct and up to date.

**DW Janks**
**Company Secretary**

Cape Town
17 November 2011

# AUDIT AND RISK COMMITTEE REPORT


The Clicks Group audit and risk committee is a formal committee of the board and functions within documented terms of reference and complies with all relevant legislation, regulation and governance codes. This report of the audit and risk committee is presented to shareholders in compliance with the requirements of the Companies Act No. 71 of 2008, as amended ("the Companies Act").

## Role of the committee

The audit and risk committee has an independent role with accountability to both the board and to shareholders. The committee's responsibilities include the statutory duties prescribed by the Companies Act, activities recommended by King III and the responsibilities assigned by the board.

The responsibilities of the committee are as follows:

### Integrated reporting

- Review the annual financial statements, interim report, preliminary results announcement and summarised integrated information and ensure compliance with International Financial Reporting Standards
- Consider the frequency of interim reports and whether interim results should be assured
- Review and approve the appropriateness of accounting policies, disclosure policies and the effectiveness of internal financial controls
- Perform an oversight role on the group's integrated reporting and consider factors and risks that could impact on the integrity of the integrated report
- Review sustainability disclosure in the integrated report and ensure it does not conflict with financial information
- Consider external assurance of material sustainability issues
- Recommend the integrated report for approval by the board

### Combined assurance

- Ensure the combined assurance model addresses all significant risks facing the group
- Monitor the relationship between external and internal assurance providers and the group

### Finance function

- Consider the expertise and experience of the chief financial officer
- Consider the expertise, experience and resources of the group's finance function

### Internal audit

- Oversee the functioning of the internal audit department and approve the appointment and performance assessment of the group head of internal audit
- Approve the annual internal audit plan
- Ensure the internal audit function is subject to independent quality review as appropriate

### Risk management

- Ensure the group has an effective policy and plan for risk management
- Oversee the development and annual review of the risk management policy and plan
- Monitor implementation of the risk management policy and plan
- Make recommendations to the board on levels of risk tolerance and risk appetite

- Ensure risk management is integrated into business operations
- Ensure risk management assessments are conducted on a continuous basis
- Ensure frameworks and methodologies are implemented to increase the possibility of anticipating unpredictable risks
- Ensure that management considers and implements appropriate risk responses
- Ensure continuous risk monitoring by management
- Express the committee's opinion on the effectiveness of the system and process of risk management
- Ensure risk management reporting in the integrated report is comprehensive and relevant.

## External audit

- Nominate the external auditor for appointment by shareholders
- Approve the terms of engagement and remuneration of the auditor
- Ensure the appointment of the auditor complies with relevant legislation
- Monitor and report on the independence of the external auditor
- Define a policy for non-audit services which the auditor may provide and approve non-audit service contracts
- Review the quality and effectiveness of the external audit process
- Ensure a process is in place for the committee to be informed of any reportable irregularities identified by the external auditor.

## Composition of the committee

The committee currently comprises four independent non-executive directors who are all suitably skilled directors, with at least three members of the committee having recent and relevant financial experience. For the first time the committee will be elected by shareholders at the annual general meeting ("AGM") in January 2012.

The following directors served on the committee during the period under review:

| Independent non-executive director | Qualifications |
|---|---|
| John Bester (Chairman) | B Com (Hons), CA (SA), CMS (Oxon) |
| Fatima Jakoet | B Sc, CTA, CA (SA) Higher certificate in financial markets |
| Nkaki Matlala* | B Sc, M Sc, M D, M Med (Surgery), FCS |
| David Nurek | Dip Law, Grad Dip Company Law |

* Appointed 26 January 2011.

Biographical details of the committee members appear on pages 14 and 15, with supplementary information contained in Annexure 2 to the Notice of Annual General Meeting on page 132.

King III recommends that the chairman of the board should not be a member of the audit and risk committee. The chairman of the board, David Nurek, currently serves on the committee. The board has considered the issue and believes that the chairman's skills, knowledge and experience allow him to make a significant contribution to the committee and the board has therefore recommended that he continues to serve on the committee.

Dr Nkaki Matlala, also an independent non-executive director, was appointed to the committee during the year.

Fees paid to the committee members for 2011 and the proposed fees for 2012 are disclosed in the Remuneration Report on pages 54 and 55.

The executive directors, group head of internal audit and senior management in the finance department attend meetings at the invitation of the committee, together with the external auditor.

The audit and risk committee also meets separately with the external and internal auditors, without members of executive management being present.

The effectiveness of the committee is assessed as part of the annual board and committee self-evaluation process.

## Internal audit

The internal audit function provides information to assist in the establishment and maintenance of an effective system of internal control to manage the risks associated with the business. The role of internal audit is contained in the internal audit charter. The charter is reviewed annually and is aligned with the recommendations of King III.

Internal audit facilitates the combined assurance process and is responsible for the following:

- Evaluating governance processes, including ethics
- Assessing the effectiveness of the risk methodology and internal financial controls
- Evaluating business processes and associated controls in accordance with the annual audit plan and combined assurance model.

The internal audit function is established by the board and its responsibilities are determined by the audit and risk committee. Administratively the group head of internal audit reports to the chief financial officer who in turn reports to the chief executive officer. The group head of internal audit has direct and unrestricted access to the chairman of the audit and risk committee. The group head of internal audit is appointed and removed by the audit and risk committee, which also determines and recommends remuneration for the position. The chairman of the audit and risk committee meets with the group head of internal audit on a monthly basis.

## Internal control

Systems of internal control are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and to provide reasonable, but not absolute, assurance against misstatement or loss.

While the board of directors is responsible for the internal control systems and for reviewing their effectiveness, responsibility for their actual implementation and maintenance rests with executive management. The systems of internal control are based on established organisational structures, together with written policies and procedures, and provide for suitably qualified employees, segregation of duties, clearly defined lines of authority and accountability. They also include cost and budgeting controls, and comprehensive management reporting.

The committee has considered the results of the formal documented review of the company's system of internal financial controls and risk management, including the design, implementation and effectiveness of the internal financial controls conducted by the internal audit function during the 2011 year. The committee has also assessed information and explanations given by management and discussions with the external auditor on the results of the audit. Through this process no material matter has come to the attention of the board that has caused the directors to believe that the company's system of internal controls and risk management is not effective and that the internal financial controls do not form a sound basis for the preparation of reliable financial statements.

## External audit

The audit and risk committee appraised the independence, expertise and objectivity of KPMG Inc. as the external auditor, as well as approving the terms of engagement and the fees paid to KPMG Inc. (refer to note 6 of the annual financial statements on page 90).

The external auditor has unrestricted access to the group's records and management. The auditor furnishes a written report to the committee on significant findings arising from the annual audit and is able to raise matters of concern directly with the chairman of the committee.

The group has received confirmation from the external auditor that the partners and staff responsible for the audit comply with all legal and professional requirements with regard to rotation and independence.

The committee is satisfied that the external auditor is independent of the company.

## Policy on non-audit services

Non-audit services provided by the external auditor may not exceed 25% of the total auditor's remuneration. These services should exclude any work which may be subject to external audit and which could compromise the auditor's independence. All non-audit services undertaken during the year were approved in accordance with this policy.

During the year KPMG received fees of R505 750 (2010: R303 653) for non-audit services, equating to 17.9% (2010: 11%) of the total audit remuneration. These services related mainly to providing an independent fairness opinion and advising on the accounting treatment of the employee share ownership plan, an accounting opinion on the group share award scheme and conducting sustainability risk workshops.

KPMG satisfied the audit and risk committee that appropriate safeguards have been adopted to maintain the independence of the external auditor when providing non-audit services.

## Activities of the audit and risk committee

The committee met five times during the financial year. Members of the committee, the external auditor and the group head of internal audit may request a non-scheduled meeting if they consider this necessary. The chairman of the audit and risk committee will determine if such a meeting should be convened.

Minutes of the meetings of the committee, except those recording private meetings with the external and internal auditors, are circulated to all directors and supplemented by an update from the audit and risk committee chairman at each board meeting. Matters requiring action or improvement are identified and appropriate recommendations made to the board.

The chairman of the committee attends all statutory shareholder meetings to answer any questions on the committee's activities.

The committee performed the following activities relating to the audit function during the year under review, with certain of these duties being required in terms of the Companies Act (and in terms of section 270 of the Companies Act No. 61 of 1973 for the period prior to 1 May 2011, being the implementation date of the Companies Act):

- Recommended to the board and shareholders the appointment of the external auditors, approved their terms of engagement and remuneration, and monitored their independence, objectivity and effectiveness
- Determined the nature and extent of any non-audit services which the auditor may provide to the group and preapproved any proposed contracts with the auditors
- Reviewed the group's internal financial control and financial risk management systems
- Monitored and reviewed the effectiveness of the group's internal audit functions
- Reviewed and recommended to the board for approval the Integrated Annual Report and annual financial statements
- Evaluated the effectiveness of the committee.

Refer to page 48 of the Corporate Governance Report for an overview of the risk management process and function.

## Evaluation of chief financial officer and finance function

The audit and risk committee is satisfied that the expertise and experience of the chief financial officer is appropriate to meet the responsibilities of the position. This is based on the qualifications, levels of experience, continuing professional education and the board's assessment of the financial knowledge of the chief financial officer.

The committee is also satisfied as to the appropriateness, expertise and adequacy of resources of the finance function and the experience of senior members of management responsible for the finance function.

## Approval of the audit and risk committee report

The committee confirms that it has functioned in accordance with its terms of reference for the 2011 financial year and that its report to shareholders has been approved by the board.

**John Bester**
**Chairman: Audit and risk committee**

Cape Town
17 November 2011

# INDEPENDENT AUDITOR'S REPORT

to the shareholders of Clicks Group Limited

We have audited the annual financial statements and group annual financial statements of Clicks Group Limited, which comprise the statements of financial position at 31 August 2011, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, as set out on pages 34 to 35, and 70 to 124, and the directors' report, as set out on page 64.

## Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Clicks Group Limited at 31 August 2011, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

**KPMG Inc.**
**Registered Auditor**

Per David Friedland
Chartered Accountant (SA)
Registered Auditor
Director

8th Floor, MSC House
1 Mediterranean Street
Cape Town
8001

17 November 2011

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 August 2011

| | Notes | 2011 R'000 | 2010 R'000 |
|---|---|---|---|
| **Revenue** | 1 | **14 800 089** | 13 912 673 |
| **Turnover** | 1 | **14 102 919** | 13 276 277 |
| Cost of merchandise sold | | **(10 879 173)** | (10 372 685) |
| **Gross profit** | | **3 223 746** | 2 903 592 |
| Other income | 1 | **688 935** | 626 092 |
| **Total income** | | **3 912 681** | 3 529 684 |
| Expenses | | **(2 975 091)** | (2 706 412) |
| Depreciation and amortisation | 3 | **(149 714)** | (128 095) |
| Occupancy costs | 4 | **(422 596)** | (389 746) |
| Employment costs | 5 | **(1 496 491)** | (1 399 378) |
| Other costs | 6 | **(906 290)** | (789 193) |
| **Operating profit** | | **937 590** | 823 272 |
| Loss on disposal of property, plant and equipment | | **(6 250)** | (6 476) |
| Impairment of intangible asset | 10.2 | **–** | (7 685) |
| **Profit before financing costs** | | **931 340** | 809 111 |
| Net financing costs | 2 | **(33 626)** | (38 751) |
| Financial income | 1, 2 | **8 235** | 10 304 |
| Financial expense | 2 | **(41 861)** | (49 055) |
| **Profit before taxation** | | **897 714** | 770 360 |
| Income tax expense | 7 | **(246 749)** | (206 550) |
| **Total profit for the year** | | **650 965** | 563 810 |
| **Other comprehensive income/(loss):** | | | |
| Exchange differences on translation of foreign subsidiaries | 20 | **(220)** | (1 368) |
| **Cash flow hedges** | | **2 105** | – |
| Change in fair value of effective portion | 19 | **2 924** | – |
| Deferred tax on movement of effective portion | 19 | **(819)** | – |
| **Other comprehensive income/(loss) for the year, net of tax** | | **1 885** | (1 368) |
| **Total comprehensive income for the year** | | **652 850** | 562 442 |
| Profit attributable to: | | | |
| Equity holders of the parent | | **650 932** | 565 413 |
| Non-controlling interest | | **33** | (1 603) |
| | | **650 965** | 563 810 |
| Total comprehensive income attributable to: | | | |
| Equity holders of the parent | | **652 817** | 564 045 |
| Non-controlling interest | | **33** | (1 603) |
| | | **652 850** | 562 442 |
| Earnings per share (cents) | | | |
| Basic | 8 | **248.3** | 208.6 |
| Diluted | 8 | **248.0** | 207.7 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITON

at 31 August 2011

| | Notes | 2011 R'000 | 2010 R'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | **1 414 484** | 1 383 175 |
| Property, plant and equipment | 9 | **949 906** | 888 053 |
| Intangible assets | 10 | **301 579** | 314 473 |
| Goodwill | 11 | **103 510** | 105 335 |
| Deferred tax assets | 12 | **53 756** | 51 907 |
| Loans receivable | 13 | **5 733** | 23 407 |
| **Current assets** | | **2 840 299** | 2 726 963 |
| Inventories | 14 | **1 802 557** | 1 571 248 |
| Trade and other receivables | 15 | **998 944** | 869 279 |
| Loans receivable | 13 | **17 901** | 15 149 |
| Cash and cash equivalents | 27.5 | **17 790** | 152 052 |
| Derivative financial assets | 16 | **3 107** | 119 235 |
| **Total assets** | | **4 254 783** | 4 110 138 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | **965 187** | 1 141 328 |
| Share capital | 17 | **2 999** | 2 841 |
| Share option reserve | 18 | **40 943** | 24 600 |
| Cash flow hedging reserve | 19 | **2 105** | – |
| Treasury shares | 17 | **(703 070)** | (510 850) |
| Non-distributable reserve | 20 | **(1 834)** | (1 614) |
| Distributable reserve | | **1 623 329** | 1 625 669 |
| Equity attributable to equity holders of the parent | | **964 472** | 1 140 646 |
| Non-controlling interest | | **715** | 682 |
| **Non-current liabilities** | | **264 829** | 296 723 |
| Interest-bearing borrowings | 21 | **19** | 16 579 |
| Employee benefits | 22 | **92 473** | 96 274 |
| Deferred tax liabilities | 12 | **46 695** | 68 559 |
| Operating lease liability | 23 | **125 642** | 115 311 |
| **Current liabilities** | | **3 024 767** | 2 672 087 |
| Trade and other payables | 24 | **2 431 756** | 2 290 883 |
| Employee benefits | 22 | **164 669** | 202 569 |
| Provisions | 25 | **5 217** | 6 244 |
| Interest-bearing borrowings | 21 | **375 217** | 116 592 |
| Income tax payable | | **44 489** | 46 808 |
| Derivative financial liabilities | 16 | **3 419** | 8 991 |
| **Total equity and liabilities** | | **4 254 783** | 4 110 138 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 August 2011

| | Number of shares '000 | Share capital (Note 17) R'000 | Share premium (Note 17) R'000 |
|---|---|---|---|
| **Balance at 1 September 2009** | 276 306 | 3 029 | – |
| **Transactions with owners, recorded directly in equity** | | | |
| **Contributions by and distributions to owners** | | | |
| Additional shares issued | 8 533 | 86 | 249 693 |
| Distributions to shareholders | – | – | (249 693) |
| Share option reserve movement | – | – | – |
| Treasury shares cancelled | – | (274) | – |
| Net cost of own shares purchased | (18 556) | – | – |
| Treasury shares purchased | (20 439) | – | – |
| Disposal of treasury shares | 1 883 | – | – |
| Total contributions by and distributions to owners | (10 023) | (188) | – |
| **Changes in ownership interests in subsidiaries that do not result in loss of control** | | | |
| Acquisition of additional interest in subsidiary | – | – | – |
| Total changes in ownership interests in subsidiaries | – | – | – |
| **Total transactions with owners** | (10 023) | (188) | – |
| **Total comprehensive income for the year** | – | – | – |
| Profit for the year | – | – | – |
| Exchange differences on translation of foreign subsidiaries | – | – | – |
| **Balance at 31 August 2010** | 266 283 | 2 841 | – |
| **Transactions with owners, recorded directly in equity** | | | |
| **Contributions by and distributions to owners** | | | |
| Additional shares issued | **6 988** | **70** | **299 657** |
| Employee share ownership plan shares issued | **29 153** | **291** | **–** |
| Distributions to shareholders | **–** | **–** | **(299 657)** |
| Share option reserve movement | **–** | **–** | **–** |
| Treasury shares cancelled | **–** | **(203)** | **–** |
| Net cost of own shares purchased | **(49 465)** | **–** | **–** |
| Treasury shares purchased | **(49 806)** | **–** | **–** |
| Disposal of treasury shares | **341** | **–** | **–** |
| **Total transactions with owners** | **(13 324)** | **158** | **–** |
| **Total comprehensive income for the year** | **–** | **–** | **–** |
| Profit for the year | **–** | **–** | **–** |
| Cash flow hedge reserve | **–** | **–** | **–** |
| Exchange differences on translation of foreign subsidiaries | **–** | **–** | **–** |
| **Balance at 31 August 2011** | **252 959** | **2 999** | **–** |

| Share option reserve (Note 18) R'000 | Treasury shares (Note 17) R'000 | Cash flow hedging reserve (Note 19) R'000 | Non-distributable reserve (Note 20) R'000 | Distributable reserve R'000 | Equity attributable to equity holders of the parent R'000 | Non-controlling interest R'000 | Total equity R'000 |
|---|---|---|---|---|---|---|---|
| 24 549 | (488 258) | – | (5 233) | 1 588 891 | 1 122 978 | 2 285 | 1 125 263 |
| | | | | | | | |
| – | (249 779) | – | – | – | – | – | – |
| – | 5 068 | – | – | (86) | (244 711) | – | (244 711) |
| 51 | – | – | – | – | 51 | – | 51 |
| – | 526 233 | – | – | (525 959) | – | – | – |
| – | (304 114) | – | – | (2 590) | (306 704) | – | (306 704) |
| – | (321 862) | – | – | – | (321 862) | – | (321 862) |
| – | 17 748 | – | – | (2 590) | 15 158 | – | 15 158 |
| 51 | (22 592) | – | – | (528 635) | (551 364) | – | (551 364) |
| – | – | – | 4 987 | – | 4 987 | – | 4 987 |
| – | – | – | 4 987 | – | 4 987 | – | 4 987 |
| 51 | (22 592) | – | 4 987 | (528 635) | (546 377) | – | (546 377) |
| – | – | – | (1 368) | 565 413 | 564 045 | (1 603) | 562 442 |
| – | – | – | – | 565 413 | 565 413 | (1 603) | 563 810 |
| – | – | – | (1 368) | – | (1 368) | – | (1 368) |
| 24 600 | (510 850) | – | (1 614) | 1 625 669 | 1 140 646 | 682 | 1 141 328 |
| | | | | | | | |
| – | (299 727) | – | – | – | – | – | – |
| – | (291) | – | – | – | – | – | – |
| – | 4 220 | – | – | (70) | (295 507) | – | (295 507) |
| 16 343 | – | – | – | – | 16 343 | – | 16 343 |
| – | 651 652 | – | – | (651 449) | – | – | – |
| – | (548 074) | – | – | (1 753) | (549 827) | – | (549 827) |
| – | (552 406) | – | – | – | (552 406) | – | (552 406) |
| – | 4 332 | – | – | (1 753) | 2 579 | – | 2 579 |
| 16 343 | (192 220) | – | – | ( 653 272) | (828 991) | – | (828 991) |
| – | – | 2 105 | (220) | 650 932 | 652 817 | 33 | 652 850 |
| – | – | – | – | 650 932 | 650 932 | 33 | 650 965 |
| – | – | 2 105 | – | – | 2 105 | – | 2 105 |
| – | – | – | (220) | – | (220) | – | (220) |
| 40 943 | (703 070) | 2 105 | (1 834) | 1 623 329 | 964 472 | 715 | 965 187 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 August 2011

| | Notes | 2011 R'000 | 2010 R'000 |
|---|---|---|---|
| **Cash effects of operating activities** | | | |
| Profit before working capital changes | 27.1 | **1 075 227** | 836 994 |
| Working capital changes | 27.2 | **(105 055)** | (203 492) |
| Cash generated by operations | | **970 172** | 633 502 |
| Interest received | | **8 156** | 9 376 |
| Interest paid | | **(29 269)** | (34 851) |
| Taxation paid | 27.3 | **(271 988)** | (174 930) |
| Cash inflow from operating activities before distributions | | **677 071** | 433 097 |
| Distributions paid to shareholders | 26 | **(295 507)** | (244 711) |
| Net cash effects of operating activities | | **381 564** | 188 386 |
| **Cash effects of investing activities** | | | |
| Investment in property, plant and equipment and intangible assets to maintain operations | | **(70 160)** | (86 404) |
| Investment in property, plant and equipment and intangible assets to expand operations | | **(145 541)** | (120 074) |
| Acquisition of remaining interest in subsidiary | | **–** | (3 500) |
| Acquisition of business net of cash acquired | 27.4 | **(10 225)** | (21 689) |
| Proceeds from disposal of property, plant and equipment | | **1 572** | 1 516 |
| Decrease in loans receivable | | **15 001** | 19 436 |
| Net cash effects of investing activities | | **(209 353)** | (210 715) |
| **Cash effects of financing activities** | | | |
| Purchase of treasury shares | | **(552 406)** | (321 862) |
| Proceeds from disposal of treasury shares | | **2 579** | 15 158 |
| Interest-bearing borrowings raised | | **243 354** | 71 331 |
| Net cash effects of financing activities | | **(306 473)** | (235 373) |
| Net decrease in cash and cash equivalents | | **(134 262)** | (257 702) |
| Cash and cash equivalents at the beginning of the year | | **152 052** | 409 754 |
| **Cash and cash equivalents at the end of the year** | 27.5 | **17 790** | 152 052 |

# OPERATIONAL SEGMENTAL ANALYSIS

## Segmental statement of comprehensive income for the year ended 31 August 2011

| | Retail | |
|---|---|---|
| | **2011 R'000** | 2010 R'000 |
| **Segment revenue** | **11 132 599** | 10 034 780 |
| **Turnover** | **10 792 845** | 9 727 869 |
| Cost of merchandise sold | **(7 592 351)** | (6 895 244) |
| **Gross profit** | **3 200 494** | 2 832 625 |
| Other income | **339 754** | 306 911 |
| **Total income** | **3 540 248** | 3 139 536 |
| Segment expenses | **(2 737 419)** | (2 470 451) |
| Depreciation and amortisation | **(136 155)** | (114 481) |
| Occupancy costs | **(420 846)** | (388 030) |
| Employment costs | **(1 375 123)** | (1 275 313) |
| Other costs | **(805 295)** | (692 627) |
| **Operating profit** | **802 829** | 669 085 |
| (Loss)/profit on disposal of property, plant and equipment | **(6 263)** | (6 359) |
| Impairment of intangible asset | **–** | (7 685) |
| **Segment result from operations** | **796 566** | 655 041 |
| Net financing costs | | |
| Financial income | | |
| Financial expense | | |
| **Profit before taxation** | | |
| Income tax expense | | |
| **Total profit for the year** | | |
| **Segmental cash flow information for the year ended 31 August 2011** | | |
| Capital expenditure | **(215 225)** | (213 467) |
| Depreciation and amortisation | **144 726** | 123 161 |
| Non-cash items: | | |
| Fair value adjustment – derivative | **(41 797)** | (123 354) |
| Foreign exchange loss | **3 237** | 7 745 |
| Loss/(profit) on disposal of property, plant and equipment | **6 263** | 6 359 |
| Impairment of intangible asset | **–** | 7 685 |
| Operating lease accrual | **10 331** | 9 471 |
| Equity-settled share option costs | **14 290** | 51 |

| UPD 2011 R'000 | UPD 2010 R'000 | Intragroup elimination 2011 R'000 | Intragroup elimination 2010 R'000 | Group 2011 R'000 | Group 2010 R'000 |
|---|---|---|---|---|---|
| 5 870 836 | 5 622 555 | (2 211 581) | (1 754 966) | 14 791 854 | 13 902 369 |
| 5 518 974 | 5 298 670 | (2 208 900) | (1 750 262) | 14 102 919 | 13 276 277 |
| (5 499 675) | (5 219 690) | 2 212 853 | 1 742 249 | (10 879 173) | (10 372 685) |
| 19 299 | 78 980 | 3 953 | (8 013) | 3 223 746 | 2 903 592 |
| 351 862 | 323 885 | (2 681) | (4 704) | 688 935 | 626 092 |
| 371 161 | 402 865 | 1 272 | (12 717) | 3 912 681 | 3 529 684 |
| (240 353) | (240 665) | 2 681 | 4 704 | (2 975 091) | (2 706 412) |
| (13 559) | (13 614) | – | – | (149 714) | (128 095) |
| (2 831) | (2 804) | 1 081 | 1 088 | (422 596) | (389 746) |
| (121 368) | (124 065) | – | – | (1 496 491) | (1 399 378) |
| (102 595) | (100 182) | 1 600 | 3 616 | (906 290) | (789 193) |
| 130 808 | 162 200 | 3 953 | (8 013) | 937 590 | 823 272 |
| 13 | (117) | – | – | (6 250) | (6 476) |
| – | – | – | – | – | (7 685) |
| 130 821 | 162 083 | 3 953 | (8 013) | 931 340 | 809 111 |
| | | | | (33 626) | (38 751) |
| | | | | 8 235 | 10 304 |
| | | | | (41 861) | (49 055) |
| | | | | 897 714 | 770 360 |
| | | | | (246 749) | (206 550) |
| | | | | 650 965 | 563 810 |
| (10 701) | (18 200) | | | (225 926) | (231 667) |
| 13 559 | 13 614 | | | 158 285 | 136 775 |
| – | – | | | (41 797) | (123 354) |
| – | – | | | 3 237 | 7 745 |
| (13) | 117 | | | 6 250 | 6 476 |
| – | – | | | – | 7 685 |
| – | – | | | 10 331 | 9 471 |
| 1 036 | – | | | 15 326 | 51 |

# OPERATIONAL SEGMENTAL ANALYSIS continued

## Segmental statement of financial position at 31 August 2011

| | Retail | |
|---|---|---|
| | **2011 R'000** | 2010 R'000 |
| **SEGMENT ASSETS** | | |
| **Segment non-current assets** | **1 179 382** | 1 143 211 |
| Property, plant and equipment | **800 400** | 736 142 |
| Intangible assets | **299 622** | 312 560 |
| Goodwill | **18 855** | 19 524 |
| Deferred tax assets | **53 436** | 51 578 |
| Intragroup loans | **1 336** | – |
| Loans receivable | **5 733** | 23 407 |
| **Segment current assets** | **1 958 844** | 2 095 176 |
| Inventories | **1 350 567** | 1 273 622 |
| Trade and other receivables | **194 548** | 171 431 |
| Intragroup loans | **390 452** | 390 452 |
| Loans receivable | **17 901** | 15 149 |
| Cash and cash equivalents | **2 269** | 125 287 |
| Derivative financial assets | **3 107** | 119 235 |
| **Total segment assets** | **3 138 226** | 3 238 387 |
| **SEGMENT EQUITY AND LIABILITIES** | | |
| **Segment equity** | **676 036** | 980 596 |
| Share capital | **2 999** | 2 841 |
| Share option reserve | **41 243** | 24 600 |
| Treasury shares | **(703 070)** | (510 850) |
| Cash flow hedging reserve | **2 105** | – |
| Non-distributable reserve | **(685)** | (617) |
| Distributable reserve | **1 333 444** | 1 464 622 |
| Equity attributable to equity holders of the parent | **676 036** | 980 596 |
| Non-controlling interest | **–** | – |
| **Segment non-current liabilities** | **446 368** | 329 865 |
| Interest-bearing borrowings | **–** | 16 566 |
| Intragroup loans | **186 475** | 40 021 |
| Employee benefits | **87 556** | 89 408 |
| Deferred tax liabilities | **46 695** | 68 559 |
| Operating lease liability | **125 642** | 115 311 |
| **Segment current liabilities** | **2 015 822** | 1 927 926 |
| Trade and other payables | **1 436 550** | 1 567 631 |
| Intragroup loans | **–** | – |
| Employee benefits | **151 050** | 185 527 |
| Provisions | **5 217** | 6 244 |
| Interest-bearing borrowings | **375 097** | 115 359 |
| Income tax payable | **44 489** | 44 174 |
| Derivative financial liabilities | **3 419** | 8 991 |
| **Total segment equity and liabilities** | **3 138 226** | 3 238 387 |

| UPD 2011 R'000 | UPD 2010 R'000 | Intragroup elimination 2011 R'000 | Intragroup elimination 2010 R'000 | Group 2011 R'000 | Group 2010 R'000 |
|---|---|---|---|---|---|
| 422 913 | 279 985 | (187 811) | (40 021) | 1 414 484 | 1 383 175 |
| 149 506 | 151 911 | – | – | 949 906 | 888 053 |
| 1 957 | 1 913 | – | – | 301 579 | 314 473 |
| 84 655 | 85 811 | – | – | 103 510 | 105 335 |
| 320 | 329 | – | – | 53 756 | 51 907 |
| 186 475 | 40 021 | (187 811) | (40 021) | – | – |
| – | – | – | – | 5 733 | 23 407 |
| 1 528 926 | 1 261 691 | (647 471) | (629 904) | 2 840 299 | 2 726 963 |
| 462 891 | 312 480 | (10 901) | (14 854) | 1 802 557 | 1 571 248 |
| 1 050 514 | 922 446 | (246 118) | (224 598) | 998 944 | 869 279 |
| – | – | (390 452) | (390 452) | – | – |
| – | – | – | – | 17 901 | 15 149 |
| 15 521 | 26 765 | – | – | 17 790 | 152 052 |
| – | – | – | – | 3 107 | 119 235 |
| 1 951 839 | 1 541 676 | (835 282) | (669 925) | 4 254 783 | 4 110 138 |
| 300 052 | 175 586 | (10 901) | (14 854) | 965 187 | 1 141 328 |
| – | – | – | – | 2 999 | 2 841 |
| (300) | – | – | – | 40 943 | 24 600 |
| – | – | – | – | (703 070) | (510 850) |
| – | – | – | – | 2 105 | – |
| (1 149) | (997) | – | – | (1 834) | (1 614) |
| 300 786 | 175 901 | (10 901) | (14 854) | 1 623 329 | 1 625 669 |
| 299 337 | 174 904 | (10 901) | (14 854) | 964 472 | 1 140 646 |
| 715 | 682 | – | – | 715 | 682 |
| 6 272 | 6 879 | (187 811) | (40 021) | 264 829 | 296 723 |
| 19 | 13 | – | – | 19 | 16 579 |
| 1 336 | – | (187 811) | (40 021) | – | – |
| 4 917 | 6 866 | – | – | 92 473 | 96 274 |
| – | – | – | – | 46 695 | 68 559 |
| – | – | – | – | 125 642 | 115 311 |
| 1 645 515 | 1 359 211 | (636 570) | (615 050) | 3 024 767 | 2 672 087 |
| 1 241 324 | 947 850 | (246 118) | (224 598) | 2 431 756 | 2 290 883 |
| 390 452 | 390 452 | (390 452) | (390 452) | – | – |
| 13 619 | 17 042 | – | – | 164 669 | 202 569 |
| – | – | – | – | 5 217 | 6 244 |
| 120 | 1 233 | – | – | 375 217 | 116 592 |
| – | 2 634 | – | – | 44 489 | 46 808 |
| – | – | – | – | 3 419 | 8 991 |
| 1 951 839 | 1 541 676 | (835 282) | (669 925) | 4 254 783 | 4 110 138 |

# ACCOUNTING POLICIES

Clicks Group Limited is a company domiciled in South Africa. The consolidated financial statements as at and for the year ended 31 August 2011 comprise the company, its subsidiaries and other entities that it controls (collectively referred to as "the group").

## Basis of preparation

The consolidated financial statements for the group and for the company are prepared in accordance with International Financial Reporting Standards ("IFRS"), its interpretations adopted by the International Accounting Standards Board ("IASB"), AC 500 series issued by SAICA and the South African Companies Act (Act No. 71 of 2008), as amended.

The financial statements are presented in South African Rands ("Rands"), rounded to the nearest thousand. They are prepared on the basis that the group and the company are going concerns, using the historical cost basis of measurement unless otherwise stated.

The accounting policies set out below have been applied consistently in all material respects to all periods presented in these consolidated financial statements, except for Amendments to IAS 32 "Financial instruments: Presentation on classification of rights issues", Amendments to IFRS 2 "Share-based Payment: Group Cash-settled Share-based Payments Arrangement" and IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments". The standards adopted neither resulted in changes to disclosure nor did they have any impact on earnings.

The financial statements were approved by the directors on 17 November 2011.

The preparation of financial statements in accordance with IFRS requires management to make estimates, judgements and assumptions that affect the accounting policies and the reported amounts of assets, liabilities, income and expenses. Such estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Estimates and the underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

## Significant accounting estimates and judgements

Estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below and disclosed in the relevant notes to the financial statements.

### Allowance for net realisable value of inventories

The group evaluates its inventory to ensure that it is carried at the lower of cost or net realisable value. Provision is made against slow moving, obsolete and damaged inventories. Damaged inventories are identified and written down through the inventory counting procedures conducted within each business. Allowance for slow moving and obsolete inventories is assessed by each business as part of their ongoing financial reporting. Obsolescence is assessed based on comparison of the level of inventory holding to the projected likely future sales using factors existing at the reporting date.

### Rebates received from vendors

The group enters into agreements with many of its vendors providing for inventory purchase rebates based upon achievement of specified volumes of purchases, with many of these agreements applying to the calendar year. For certain agreements, the rebates increase as a proportion of necessary purchases as higher quantities or values of purchases are made relative to the prior period. The group accrues the receipt of vendor rebates as part of its cost of sales for products sold, taking into consideration the cumulative purchases of inventory to date. Rebates are accrued monthly, with an extensive reassessment of the rebates earned being performed at the reporting date. Consequently the rebates actually received may vary from that accrued in the financial statements.

### Impairment of financial assets

At the reporting date, the group assesses whether objective evidence exists that a financial asset or group of financial assets is impaired.

Trade receivables: An allowance for impairment loss is made against accounts that in the estimation of management may be impaired. The impairment is assessed monthly, with a detailed formal review of balances and security being conducted at the reporting date. Determining the recoverability of an account involves estimation as to the likely financial condition of the customer and their ability subsequently to make payment.

### Impairment of non-financial assets

Goodwill and intangible assets with an indefinite useful life are tested for impairment at least annually. Intangible assets with a finite useful life and property, plant and equipment are considered for impairment when an indication of possible impairment exists. An asset is impaired when its carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and its value in use.

Goodwill: Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable pre-tax discount rate that is reflective of the cash-generating unit's risk profile, in order to calculate the present value.

Assessment of useful lives and residual values of property, plant and equipment: Items of property, plant and equipment are depreciated over their useful lives taking into account residual values. Assessments of useful lives and residual values are performed annually after considering factors such as technological innovation, maintenance programmes, relevant market information and management consideration. In assessing residual values, the group considers the remaining life of the asset, its projected disposal value and future market conditions.

### Income taxes

The group is subject to income tax in numerous jurisdictions. Significant judgement is required in determining the provision for tax as there are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The group recognises liabilities for anticipated tax issues based on estimates of the taxes that are likely to become due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

### Provision for employee benefits

Post-retirement defined benefits are provided for certain existing and former employees. Actuarial valuations are performed to assess the financial position of the relevant funds and are based on assumptions which include mortality rates, healthcare inflation, the expected long-term rate of return on investments, the discount rate and current market conditions.

### Measurement of share-based payments

The cumulative expense recognised in terms of the group's share-based payment schemes reflects the extent, in the opinion of management, to which the vesting period has expired and the number of rights to equity instruments granted that will ultimately vest. At the end of each reporting date, the unvested rights are adjusted by the number forfeited during the period to reflect the actual number of instruments outstanding. Management is of the opinion that this represents the most accurate estimate of the number of instruments that will ultimately vest.

## Basis of consolidation

The group financial statements include the financial statements of the company, its subsidiaries and other entities that it controls.

Subsidiaries are those entities over whose financial and operating policies the group has the power, directly or indirectly, to exercise control, so as to obtain benefits from their activities. In assessing control, potential voting rights that are currently exercisable are taken into account. The financial results of subsidiaries are included in the consolidated financial statements from the date that control was obtained and, where applicable, up to the date that control ceased.

Special purpose entities ("SPEs") are consolidated if, based on an evaluation of the substance of its relationship with the group and the SPEs' risks and rewards, the group concludes that it controls the SPE. SPEs controlled by the group were established under terms that impose strict limitations on the decision-making powers of the SPEs' management and that result in the group receiving the majority of the benefits related to the SPEs' operations and net assets, being exposed to the majority of risks incidental to the SPEs' activities, or retaining the majority of the residual or ownership risks related to the SPEs or their assets.

All intragroup transactions and balances, including any unrealised gains and losses arising from intragroup transactions, are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

The company carries its investments in subsidiaries at cost less accumulated impairment.

Non-controlling interests in subsidiaries are identified separately from the group's equity therein. The interest of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

## Business combinations and goodwill

### Business combinations from 1 September 2009

Business combinations occurring on or after 1 September 2009 are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at fair value at acquisition date and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the fair value at the acquisition date of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which are deemed to be an asset or liability, will be recognised in accordance with IAS 39 "Financial Instruments: Recognition and Measurement", either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

### Business combinations prior to 31 August 2009

In comparison to the requirement mentioned above, the following treatment applied prior to 31 August 2009:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate transactions. Any additional shares acquired does not affect previously recognised goodwill.

When the group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised only if the group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration affected goodwill.

## Transactions and non-controlling interests

Changes in the group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the company. When the group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of (i.e. reclassified to profit or loss or transferred directly to distributable reserve).

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Written put option agreements and (synthetic) forward agreements that allow the group to purchase its non-controlling interests are recognised as a liability at the present value of the expected exercise price with a corresponding entry recognised in equity.

Changes in the carrying amount of the obligation arising from changes in the purchase consideration (excluding the effect of the unwinding of the discount) are recorded directly in equity.

Non-controlling interests continue to be recognised as they retain present access to the economic benefits underlying ownership interests. Dividends paid to non-controlling interests are recognised in equity as transactions with equity holders.

## Foreign currency

### Functional and presentation currency

All items in the financial statements of the group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates ("the functional currency"). The group's consolidated financial statements are presented in Rands, which is the company's functional and the group's presentation currency.

### Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of group entities at rates of exchange ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to functional currency at the rates of exchange ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for the effective interest and payments during the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign exchange differences arising on translation are recognised in profit or loss.

### Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to South African Rands at exchange rates at the reporting date. The income and expenses of foreign operations are translated to South African Rands at the average exchange rates for the period.

Gains and losses on translation are recognised in other comprehensive income and presented within equity in the Foreign Currency Translation Reserve ("FCTR").

When a foreign operation is disposed of in part or in full, the related amount in the FCTR is transferred to profit or loss.

## Financial instruments

Non-derivative financial instruments are initially recognised at fair value plus directly attributable transaction costs except for financial instruments that are classified as being carried at fair value through profit or loss. Subsequent to initial recognition, these instruments are measured according to their nature.

Financial instruments are classified at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the group's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

The group has non-derivative financial instruments and financial instruments at fair value through profit or loss, as set out below. The subsequent measurement of each financial instrument is explained in more detail below.

### Trade and other receivables and loans receivable

Trade and other receivables and loans receivable are categorised as loans and receivables. These financial assets originate by the group providing goods, services or money directly to a debtor and, subsequent to initial recognition, are measured at amortised cost using the effective interest rate method less any accumulated impairment losses.

### Cash and cash equivalents

Cash and cash equivalents are categorised in the statement of financial position as loans and receivables and, subsequent to initial recognition, are measured at amortised cost.

For the purpose of the statement of cash flows, 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 payments are included in trade and other payables.

### Interest-bearing borrowings

Interest-bearing borrowings are financial liabilities with fixed or determinable payments. Subsequent to initial recognition, these financial instruments are measured at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings on an effective interest rate basis.

### Trade and other payables

Subsequent to initial recognition, trade and other payables are measured at amortised cost.

### Derivative financial instruments and hedging activities

The group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investing activities, as well as market risk arising on cash-settled share-based compensation schemes and employee benefits. In accordance with its treasury policy, the group does not hold or issue derivative financial instruments for trading purposes. Subsequent to initial recognition, derivatives are measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so the nature of the item being hedged. Where a derivative financial instrument is used to hedge the variability in cash flows of the foreign exchange exposure of a recognised monetary asset or liability, hedge accounting may be applied. These derivatives are designated as cash flow hedges.

#### *Cash flow hedges*

Hedge relationships are formally documented at inception. The documentation includes identification of the hedged item and the hedging instrument, details the risk that is being hedged and the way in which effectiveness will be assessed at inception and during the period of the hedge. If the hedge is not highly effective in off-setting changes in fair values or cash flows attributable to the hedged risk, consistent with the documented risk management strategy, hedge accounting is discontinued.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income. The ineffective portion is recognised in profit or loss.

When the forecast transaction results in the recognition of a financial asset or financial liability, the cumulative gain or loss is reclassified from other comprehensive income in the same period in which the hedged forecast cash flows/hedged item affect profit or loss. Otherwise the cumulative gain or loss is removed from other comprehensive income and recognised in profit or loss at the same time as the hedged transaction.

Hedge accounting is discontinued if the hedge no longer meets the criteria for hedge accounting; if the hedging instrument expires or is sold, terminated or exercised; if the forecast transaction is no longer expected to occur; or if hedge designation is revoked. On the discontinuance of hedge accounting (except where a forecast transaction is no longer expected to occur), the cumulative unrealised gain or loss recognised in other comprehensive income is recognised in profit or loss when the forecast transaction occurs and affects profit or loss. Where a forecast transaction is no longer expected to occur, the cumulative unrealised gain or loss is recognised immediately in profit or loss.

#### *Derivatives that do not qualify for hedge accounting*

Certain derivative instruments do not qualify for hedge accounting. Such derivatives are classified as at fair value through profit or loss and changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss.

The fair value of interest rate swaps is the estimated amount that the group would receive or pay to terminate the swap at the reporting date. The fair value of forward exchange contracts is their quoted market price at the reporting period date.

The fair value of option contracts is valued using the Binomial option pricing model.

### Derecognition

#### *Financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Where the group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the group could be required to repay.

#### *Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

### Offset

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

## Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. This condition is regarded as met only when the sale is highly probable and expected to be completed within one year from classification and the asset is available for immediate sale in its present condition.

Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the group's accounting policies. Thereafter assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on a pro-rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and employee benefit assets, which continue to be measured in accordance with the group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

## Discontinued operations

Disposal groups are classified as discontinued operations where they represent a major line of business or geographical area of operations that has been disposed of or is held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

## Property, plant and equipment

### Recognition and measurement

Items of property, plant and equipment, including owner-occupied buildings, are stated at historical cost less accumulated depreciation and accumulated impairment losses. Land is stated at cost less impairment losses.

Upon initial recognition, assets subject to finance leases are recognised at the lower of fair value and the present value of the minimum lease payments.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Installation and other costs, which comprise materials and direct labour costs necessarily incurred in order to acquire property, plant and equipment, are also included in cost.

When parts of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Borrowing costs are capitalised in line with the accounting policy outlined under financial expenses.

Gains or losses 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 profit or loss.

### Subsequent costs

Subsequent expenditure relating to an item of property, plant and equipment is capitalised when it is probable that future economic benefits embodied within the item will flow to the group and its cost can be measured reliably. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

### Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of each part of the asset in order to reduce the cost of the asset to its residual value. Residual value is the amount that an entity could receive for the asset at the reporting date if the asset was already of the age and the condition that it will be in when the entity expects to dispose of it. Residual value does not include expected future inflation. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

| | |
|---|---|
| Buildings | 50 years |
| Computer equipment | 3 to 7 years |
| Equipment | 3 to 10 years |
| Furniture and fittings | 5 to 10 years |
| Motor vehicles | 5 years |

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

## Leases

Finance leases are leases whereby substantially all the risks and rewards of ownership are passed on to the lessee. Assets acquired in terms of finance leases are capitalised and depreciated over the shorter of the useful life of the asset or the lease period, with a corresponding liability recognised in the statement of financial position. The asset and liability are initially recognised at the lower of the fair value and the present value of the minimum lease payments calculated using the interest rate implicit in the lease. Related finance costs are charged to profit or loss using the effective interest method over the period of the lease.

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. Minimum lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term. The resulting difference arising from the straight-line basis and contractual cash flows is recognised as an operating lease obligation or asset. Contingent rental escalations, such as those relating to turnover, are expensed in the year in which the escalation is determined.

## Intangible assets (other than goodwill)

Intangible assets (other than goodwill) are initially recognised at cost if acquired externally, or at fair value if acquired as part of a business combination. Expenditure on internally generated development activity is capitalised if the product or process is technically and commercially feasible, the group has sufficient resources to complete development, the group has intention to complete and use or sell it, it is probable that future economic benefits relating to the asset will flow to the group and the cost can be measured reliably. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the associated intangible asset. Other development expenditure is recognised in profit or loss as an expense when incurred.

No value is attached to internally developed and maintained trademarks or brand names. Expenditure incurred to maintain trademarks and brand names is recognised in profit or loss as incurred.

Intangible assets which have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment. Intangible assets that are assessed as having a finite useful life are amortised over their useful lives on a straight-line basis from the date they become available for use and are tested for impairment if indications exist that they may be impaired. Intangible assets with indefinite useful lives are not amortised and are tested annually for impairment.

The estimated useful lives of intangible assets with finite lives are as follows:

| | |
|---|---|
| Capitalised software development | 5 to 10 years |
| Purchased computer software | 3 to 5 years |
| Contractual rights | 5 years |
| Trademarks | on the basis of the anticipated benefits expected to arise from each trademark |

Amortisation methods, residual values and remaining useful lives of intangible assets with finite useful lives are reassessed annually.

## Inventories

Merchandise for resale is valued on the weighted average cost 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 and is stated net of purchase incentives. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs to complete and sell the product. The cost of merchandise sold includes normal shrinkage, wastage and inventory losses. Obsolete, redundant and slow moving inventories are identified on a regular basis and are written down to their net realisable value. The carrying amount of inventory is recognised as an expense in the period in which the related revenue is recognised.

## Impairment of assets

### Non-financial assets

The carrying amounts of the group's non-financial assets other than inventories (see accounting policy note for inventories), and deferred tax assets (see accounting policy note for deferred tax), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each reporting date.

Whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount, an impairment loss is recognised in profit or loss.

As goodwill is not capable of generating cash flows independently of other assets, in assessing the recoverable amount of goodwill, it 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 on a pro-rata basis comprising the cash-generating unit provided that each identifiable asset is not reduced to below its recoverable amount.

***Recoverable amount***

The recoverable amount of an asset is the greater of its fair value less cost to sell and its value in use. Recoverable amounts are estimated for individual assets or, if an asset does not generate largely independent cash flows, 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 other cash-generating units.

The fair value less cost to sell 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 estimated future cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

*Reversal of impairment losses*

Impairment losses recognised in prior years are assessed at each reporting date for any indicators that the losses have decreased or no longer exist. Reversal of impairment losses recognised in prior years are recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased, either as a result of an event occurring after the impairment loss was recognised or if there has been a change in the estimates used to calculate the recoverable amount.

An impairment loss is reversed only to the extent that the carrying amount of the affected asset is not increased to an amount higher than the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised in prior years. The reversal is recorded as income in profit or loss.

An impairment loss in respect of goodwill is never reversed.

### Financial assets

At the reporting date, an assessment is made as to whether objective evidence exists that a financial asset or a group of financial assets is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events had a negative effect on the estimated future cash flows of the asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

## Share capital

### Ordinary share capital

Ordinary share capital represents the par value of ordinary shares issued.

### Share premium

Share premium represents the excess consideration received by the company over the par value of ordinary shares issued, and is classified as equity.

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from share premium, net of any tax effect.

### Treasury shares

Ordinary shares in Clicks Group Limited which have been acquired by the group in terms of an approved share repurchase programme, held by the Share Incentive Trust or held by the Clicks Group Employee Share Ownership 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.

When treasury shares are sold or reissued, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to or from distributable reserves.

Upon settlement (take-up) of the share options by employees, the difference between the proceeds received from the employees and the cost price of shares is accounted for directly in equity.

### Capitalisation share awards and cash distributions

The full value of capitalisation share awards and cash distributions are recorded as a liability and 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.

Capital distributions received on treasury shares are recorded as a reduction in the cost of the treasury shares.

The related Secondary Tax on Companies ("STC") liability is recorded in the year of its deduction and payment.

## Employee benefits

### Short-term employee benefits

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

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

### Other long-term employee benefits

Liabilities for long-term employee benefits, other than pension plans, which are not due to be settled within twelve months, are discounted to present value using the market yields at the reporting date on high-quality bonds with maturity dates that most closely match the terms of maturity of the group's related liabilities.

### Defined contribution retirement funds

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

The group operates a retirement scheme comprising a number of defined contribution funds in South Africa, the assets of which are held in separate trustee-administered funds. The retirement schemes are funded by payments from employees and the relevant group entity. Obligations for contributions to these funds are recognised as an expense in profit or loss as incurred. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in future payments is available.

### Post-retirement medical aid benefits – defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

The group's obligation to provide post-retirement medical aid benefits to certain employees is calculated by estimating the amount of future benefit that qualifying employees have earned in return for their service in the current and prior periods. This benefit is discounted to determine its present value, using a discount rate based on the market yields at the reporting date on high-quality bonds with maturity dates that most closely match the terms of maturity of the group's obligation. The calculation is performed by a qualified actuary using the projected unit credit method.

When the calculation results in a benefit to the group, the recognised asset is limited to the net total of any unrecognised past service costs and present value of any future refunds from the plan or reductions in the future contributions to the plan.

The portion of benefits relating to past service by employees is recognised as an expense on a straight-line basis over the average vesting period. To the extent that the benefits are already vested, past service costs are recognised immediately.

The group recognises actuarial gains or losses from defined benefit plans immediately in profit or loss.

### Equity-settled share-based compensation benefits

The group grants share options to certain employees under an employee share plan. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted up to August 2005 is measured using the Binomial option pricing model, while the fair value of options granted as part of the Clicks Group employee share option plan is measured using the Monte Carlo option pricing model, taking into account the terms and conditions under which the options were granted. The amount recognised as an expense with a corresponding increase in equity is adjusted at each reporting date to reflect the actual number of share options that vest or are expected to vest.

### Group share scheme recharge arrangements

A recharge arrangement exists whereby the cost of acquiring shares, issued in accordance with certain share schemes granted by the parent company, shall be funded by way of contributions from subsidiary companies in respect of participants who are their employees. The recharge arrangement is accounted for separately from the underlying equity-settled share-based payment upon initial recognition, as follows:

- The subsidiary recognises a recharge liability and a corresponding adjustment against equity for the capital contribution recognised in respect of the share-based payment.
- The parent recognises a recharge asset and a corresponding adjustment to the carrying amount of the investment in the subsidiary.

The recharge arrangement is eliminated on consolidation.

Subsequent to initial recognition the recharge arrangement is remeasured at fair value at each subsequent reporting date until settlement date to the extent vested. The amount of the recharge in excess of the capital contribution recognised in respect of a share-based payment (in subsidiary's accounts) or the cost of investment in the subsidiary (in parent's accounts) is recognised as a return of capital. In the parents' accounts, the recharge is recognised as a reduction in the cost of the investment in the subsidiary and the excess of the recharge reduces the cost of the investment in the subsidiary until it has a balance of zero. Any further decreases in the cost of investment in subsidiary will be recognised by the parent as dividend income in profit or loss. In the subsidiary's accounts, the excess is treated as a distribution/dividend to its parent.

### Cash-settled share-based compensation benefits

The group grants share appreciation rights to certain employees 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 is raised. These share appreciation rights are valued at fair value at each reporting date until settlement date by an independent expert, using the Binomial option pricing model. Any change in the fair value of the liability is recognised in profit or loss.

### Long-term incentive scheme

The group grants cash-settled appreciation rights to management in terms of a long-term incentive scheme. The liability which is not expected to be settled within twelve months is discounted to present value using market yields, at the reporting date, on high-quality bonds with maturity dates that most closely match the terms of maturity of the group's related liabilities. Any difference between projected performance and actual performance is recognised through an actuarial loss/gain based on the projected unit credit method which is recognised immediately in profit or loss.

## Provisions

A provision is recognised when the group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, the amount of a provision is determined by discounting the anticipated future cash flows expected to be required to settle the obligation at a pre-tax rate that reflects the risks specific to the liability.

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. The provision is measured at the present value of the lower of the expected cost of terminating the contract and net cost of continuing with the contract. Before a provision is established, the group recognises any impairment loss on the asset associated with that contract.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

## Guarantees

A financial guarantee is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

These financial guarantees are classified as insurance contracts as defined in IFRS 4 "Insurance Contracts". A liability is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle the contract and a reliable estimate can be made of the amount of the obligation. The amount recognised is the best estimate of the expenditure required to settle the contract at the reporting date. Where the effect of discounting is material, the liability is discounted. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The group performs liability adequacy tests on financial guarantee contract liabilities to ensure that the carrying amount of the liability is sufficient in view of estimated future cash flows. When performing the liability adequacy test, the group discounts all expected contractual cash flows and compares this amount to the carrying value of the liability. Where a shortfall is identified, an additional provision is made.

## Revenue

### Turnover

Turnover comprises net sales to customers. Turnover is measured at the fair value of the consideration received or receivable net of returns, trade discounts, discounts on ClubCard and volume rebates, and is stated exclusive of value added and general sales tax. Revenue from sales is recognised when the significant risks and rewards of ownership are transferred to the buyer, there is no continuing managerial involvement, costs can be measured reliably, and receipt of the future economic benefits is probable.

### Revenue recognition – ClubCard

The group operates a loyalty scheme through Clicks ClubCard. The card allows customers to accumulate ClubCard points that entitle them, subject to certain criteria, to vouchers that may be used in-store. The fair value which includes the expected redemption rate, attributed to the credits awarded is deferred as a liability and recognised as revenue on redemption of the vouchers by customers.

### Financial income

Financial income comprises interest income, dividend income and gains from changes in fair value of financial instruments at fair value through profit or loss. Interest income is recognised in profit or loss on a time proportion basis, taking account of the principal outstanding and the effective interest 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.

#### Distribution and logistics fee income

Revenue in respect of services rendered is recognised in profit or loss as the services are rendered.

#### Other recovery income

Other recovery income is recognised in profit or loss when the group becomes entitled to the income or when it is virtually certain that the conditions required to be fulfilled before payment is received will be fulfilled.

#### Rental income

Income from operating leases in respect of property is recognised in profit or loss on a straight-line basis over the lease term.

### Financial expenses

Financial expenses comprise interest payable on borrowings calculated using the effective interest rate method, unwinding of the discount on provisions and long-term employee benefits, losses from changes in fair value of financial instruments at fair value through profit or loss and gains and losses on interest rate swaps.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

The interest expense component of finance lease payments is recognised in profit or loss using the effective interest rate method.

### Income taxes

Income tax expense on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity in which case the tax is recognised in other comprehensive income or in equity, respectively.

Current tax is the expected tax payable on the taxable profit for the current year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised for all temporary differences between the tax value of an asset or liability and its carrying amount for financial reporting purposes, except the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they will probably not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted at the reporting date. Deferred tax assets and liabilities are off-set if there is a legally enforceable right to off-set current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### Secondary Tax on Companies

Secondary Tax on Companies ("STC") arising on net dividends paid is recognised as a tax charge in the same year as the liability to pay the related dividend.

### Segment reporting

The group has adopted the "management approach" to reporting segment information, basing this on the group's internal management reporting data used internally by the chief operating decision-maker ("CODM").

An operating segment is defined as a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity) whose operating results are regularly reviewed by the entity's CODM to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

### Earnings per share

The group presents basic and diluted earnings per share ("EPS") for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to the ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the dilutive effects of all share options granted to employees.

## Recent accounting developments

Impact of new International Financial Reporting Standards

*Standards, amendments and interpretations effective for 2011*

Clicks Group adopted the following IFRS and International Financial Reporting Interpretations Committee ("IFRIC") interpretations in the current financial year. Where there has been an impact on the financial statements this is described further in the table below:

| Standard/Interpretation | Standard's name | Impact |
|---|---|---|
| IAS 24 | Related Party Disclosures | No change in disclosure |
| IAS 32 | Amendment to IAS 32 "Financial Instruments: Presentation on Classification of Rights Issues" | No financial impact |
| IFRS 2 | Amendment to IFRS 2 "Share-based Payment: Group Cash-settled Share-based Payment Arrangement" | No financial impact |
| IFRIC 19 | Extinguishing financial liabilities with equity instruments | No financial impact |
| Annual improvements to IFRS 2009 and 2010 | | No financial impact |

*Standards, amendments and interpretations not yet effective and under review as to their effect on the group*

The International Accounting Standards Board ("IASB") and IFRIC issued the following standards, amendments and interpretations, with an effective date after the date of these financial statements, which management believe could impact the group in future periods.

| Standard/Interpretation | Standard's name | Impact |
|---|---|---|
| IAS 12 | Amendment to IAS 12 "Income Taxes" on deferred tax | No financial impact |
| IAS 19 | Employee Benefits | Potential financial impact and change in disclosure |
| IAS 27 | Separate Financial Statements | No financial impact |
| IAS 28 | Associates and Joint Ventures | No financial impact |
| IFRS 7 | Financial Instruments: Disclosures on Derecognition | No financial impact |
| IFRS 9 | Financial Instruments | Change in disclosure |
| IFRS 10 | Consolidated Financial Statements | No financial impact |
| IFRS 11 | Joint arrangements | No financial impact |
| IFRS 12 | Disclosure of Interests in Other Entities | No financial impact |
| IFRS 13 | Fair Value Measurement | No financial impact |
| IFRIC 14, IAS 19 | Amendments relating to prepayments of a minimum funding requirement | No financial impact |

| | | Group | |
|---|---|---|---|
| | | **2011 R'000** | 2010 R'000 |
| **1** | **Revenue** | | |
| | Turnover | **14 102 919** | 13 276 277 |
| | Financial income | **8 235** | 10 304 |
| | Other income | **688 935** | 626 092 |
| | Distribution and logistics fees | **361 324** | 328 475 |
| | Rental income | **401** | 917 |
| | Cost recoveries and other | **327 210** | 296 700 |
| | | **14 800 089** | 13 912 673 |
| **2** | **Net financing costs** | | |
| | Recognised in profit or loss | | |
| | Interest income on bank deposits | **5 098** | 3 110 |
| | Interest income on loans and receivables measured at amortised cost | **3 137** | 7 194 |
| | Financial income | **8 235** | 10 304 |
| | Interest expense on financial liabilities measured at amortised cost | **41 600** | 47 858 |
| | Cash interest expense | **29 003** | 34 851 |
| | Non-cash interest expense | **12 597** | 13 007 |
| | Change in fair value of financial assets designated at fair value through profit or loss | **261** | 1 197 |
| | Financial expense | **41 861** | 49 055 |
| | Net financing cost | **(33 626)** | (38 751) |
| **3** | **Depreciation and amortisation** | | |
| | Depreciation on property, plant and equipment (see note 9) | **143 107** | 119 484 |
| | Amortisation of intangible assets (see note 10) | **15 178** | 17 291 |
| | **Total depreciation and amortisation** | **158 285** | 136 775 |
| | Depreciation included in cost of merchandise sold | **(8 571)** | (8 680) |
| | **Depreciation and amortisation included in expenses** | **149 714** | 128 095 |
| **4** | **Occupancy costs** | | |
| | Lease charges | | |
| | Operating leases | **388 369** | 355 449 |
| | Turnover rental expense | **24 923** | 24 836 |
| | Movement in operating lease liability (see note 23) | **10 331** | 9 471 |
| | Movement in provision for onerous contracts (see note 25) | **(1 027)** | (10) |
| | | **422 596** | 389 746 |

| | Group 2011 R'000 | Group 2010 R'000 |
|---|---|---|
| **5 Employment costs** | | |
| Directors' emoluments | **23 309** | 23 052 |
| Non-executive fees | **1 978** | 1 639 |
| Executive | **21 331** | 21 413 |
| Salary and bonus | **18 842** | 19 317 |
| Other benefits | **2 489** | 2 096 |
| Cash-settled share appreciation rights costs (see note 22) | **2 787** | 53 591 |
| Equity-settled share option costs (see note 18) | **15 326** | 51 |
| Long-term incentive scheme (see note 22) | **40 994** | 58 239 |
| Staff salaries and wages | **1 300 986** | 1 145 284 |
| Contributions to defined contribution plans | **77 783** | 71 349 |
| Leave pay costs (see note 22) | **13 625** | 8 184 |
| Bonuses (see note 22) | **85 401** | 97 321 |
| Increase in liability for defined benefit plans (see note 22) | **2 069** | 1 815 |
| **Total employment costs** | **1 562 280** | 1 458 886 |
| Employment costs included in cost of merchandise sold | **(65 789)** | (59 508) |
| **Employment costs included in expenses** | **1 496 491** | 1 399 378 |
| For further detail of directors' emoluments refer to the Remuneration Report on pages 52 to 55. | | |
| Included in total employment costs are the following aggregate amounts (including directors' emoluments) relating to transactions with key management personnel: | | |
| | **56 087** | 115 005 |
| Short-term employee benefits | **28 455** | 25 737 |
| Post-employment benefits | **1 915** | 1 290 |
| Other benefits | **710** | 106 |
| Long-term incentive scheme | **22 220** | 36 980 |
| Share-based payments | **2 787** | 50 892 |
| Non-executive directors' fees | **1 978** | 1 639 |
| | **58 065** | 116 644 |
| **6 Other costs** | | |
| Other operating costs include: | | |
| Auditor's remuneration | **3 334** | 3 080 |
| Audit fees | **2 828** | 2 776 |
| Other services and expenses | **506** | 304 |
| Fees paid for outside services | | |
| Technical services | **26 119** | 41 065 |
| Foreign exchange losses – realised | **17 641** | 22 367 |
| Foreign exchange losses – unrealised (see note 16) | **3 237** | 7 414 |
| Foreign exchange options losses – unrealised (see note 16) | **–** | 331 |
| Share option hedge gains (see note 16) | **(41 840)** | (123 311) |
| Fuel hedge contracts losses/(gains) | **43** | (43) |
| Impairment of trade and other receivables (see note 29.5) | **152** | 25 139 |
| Water and electricity | **83 354** | 63 652 |
| Retail | **78 897** | 60 582 |
| Distribution | **4 457** | 3 070 |

| | Group | | Company | |
|---|---|---|---|---|
| | **2011 R'000** | 2010 R'000 | **2011 R'000** | 2010 R'000 |

## 7 Income tax expense

| | | | | |
|---|---|---|---|---|
| South African normal tax | | | | |
| Current tax | | | | |
| Current year | **261 382** | 181 728 | **–** | – |
| Prior-year overprovision | **(1 888)** | (961) | **–** | – |
| Deferred tax | | | | |
| Current year | **(22 466)** | 18 527 | **–** | – |
| Prior-year overprovision | **(443)** | (1 296) | **–** | – |
| Foreign tax | | | | |
| Current tax | | | | |
| Current year | **9 644** | 6 673 | **–** | – |
| Prior-year underprovision | **59** | 1 359 | **–** | – |
| Withholding tax | **975** | 876 | **–** | – |
| Deferred tax | | | | |
| Current year | **(514)** | (356) | **–** | – |
| **Taxation per income statement** | **246 749** | 206 550 | **–** | – |
| Current year | **(290)** | – | **–** | – |
| Cash flow hedge recognised in other comprehensive income | **819** | – | **–** | – |
| Equity-settled transaction | **(1 109)** | – | **–** | – |
| **Total income tax expense** | **246 459** | 206 550 | **–** | – |
| *Reconciliation of rate of tax* | **%** | % | **%** | % |
| Standard rate – South Africa | **28.00** | 28.00 | **28.00** | 28.00 |
| Adjusted for: | | | | |
| Capital gains tax | **–** | (0.29) | **–** | – |
| Disallowable expenditure | **0.19** | 0.29 | **–** | – |
| Exempt income and allowances | **(0.66)** | (1.18) | **(28.00)** | (28.00) |
| Foreign tax rate variations | **0.15** | 0.14 | **–** | – |
| Foreign withholding tax | **0.11** | 0.11 | **–** | – |
| Prior-year overprovision | **(0.30)** | (0.12) | **–** | – |
| Other | **–** | (0.14) | **–** | – |
| **Effective tax rate** | **27.49** | 26.81 | **–** | – |

Subsidiaries of the group have estimated tax losses of R9.3 million (2010: R7.9 million) available for set-off against future taxable income of those subsidiaries. A deferred tax asset of R2.6 million (2010: R2.2 million) has been recognised in respect of the total estimated tax losses (see note 12).

| | Group 2011 R'000 | Group 2010 R'000 |
|---|---|---|
| **8 Earnings per share** | | |
| *Reconciliation of headline earnings* | | |
| Profit attributable to equity holders of the parent | **650 932** | 565 413 |
| Adjustments: | | |
| Loss on disposal of property, plant and equipment | **4 500** | 4 663 |
| Loss before tax | **6 250** | 6 476 |
| Tax | **(1 750)** | (1 813) |
| Impairment of intangible asset | **–** | 5 533 |
| Impairment of intangible asset | **–** | 7 685 |
| Tax | **–** | (2 152) |
| **Headline earnings** | **655 432** | 575 609 |

| | 2011 cents | 2010 cents |
|---|---|---|
| Earnings per share | **248.3** | 208.6 |
| Headline earnings per share | **250.1** | 212.3 |
| Diluted earnings per share | **248.0** | 207.7 |
| Diluted headline earnings per share | **249.7** | 211.4 |

| | 2011 '000 | 2010 '000 |
|---|---|---|
| *Reconciliation of shares in issue to weighted average number of shares in issue* | | |
| Total number of shares in issue at the beginning of the year | **284 007** | 302 841 |
| Treasury shares held for the full year and/or cancelled | **(17 724)** | (26 535) |
| Treasury shares purchased during the year weighted for period held | **(4 374)** | (6 158) |
| Treasury shares utilised for share options weighted for period in issue | **209** | 925 |
| **Weighted average number of shares in issue for the year** | **262 118** | 271 073 |
| *Reconciliation of weighted average number of shares to weighted average diluted number of shares in issue* | | |
| Weighted average number of shares in issue for the year (net of treasury shares) | **262 118** | 271 073 |
| Dilutive effect of share options and forward purchase of shares (net of treasury shares) | **397** | 1 204 |
| **Weighted average diluted number of shares in issue for the year** | **262 515** | 272 277 |

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | | 2010 | | |
| | Cost R'000 | Accumulated depreciation and impairment losses R'000 | Carrying amount R'000 | Cost R'000 | Accumulated depreciation and impairment losses R'000 | Carrying amount R'000 |
| **9 Property, plant and equipment** | | | | | | |
| Land | **25 809** | **–** | **25 809** | 25 809 | – | 25 809 |
| Buildings | **331 656** | **33 861** | **297 795** | 322 468 | 30 332 | 292 136 |
| Computer equipment | **223 811** | **120 255** | **103 556** | 167 926 | 87 955 | 79 971 |
| Equipment | **160 198** | **92 002** | **68 196** | 145 972 | 71 691 | 74 281 |
| Furniture and fittings | **776 635** | **342 337** | **434 298** | 667 839 | 273 636 | 394 203 |
| Motor vehicles | **38 948** | **18 696** | **20 252** | 38 673 | 17 020 | 21 653 |
| | **1 557 057** | **607 151** | **949 906** | 1 368 687 | 480 634 | 888 053 |

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

All group property is owner-occupied.

Motor vehicles with a net carrying value of Rnil million (2010: R0.1 million) are encumbered in terms of a finance lease with a carrying amount of Rnil million (2010: R0.1 million) as detailed under note 21.

Computer equipment with a net carrying value of Rnil million (2010: R8 million) is encumbered under finance leases with a carrying amount of Rnil million (2010: R1.7 million) as detailed under note 21.

The carrying amount of the group's property, plant and equipment is reconciled as follows:

| | Land R'000 | Buildings R'000 | Computer equipment R'000 | Equipment R'000 | Furniture and fittings R'000 | Motor vehicles R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|
| Carrying amount at 1 September 2009 | 25 809 | 285 688 | 58 760 | 76 977 | 363 193 | 19 086 | 829 513 |
| Additions | – | 9 921 | 44 765 | 15 648 | 102 967 | 12 715 | 186 016 |
| Disposals | – | (125) | (381) | (1 804) | (1 660) | (4 022) | (7 992) |
| Depreciation | – | (3 348) | (23 173) | (16 540) | (70 297) | (6 126) | (119 484) |
| Carrying amount value at 31 August 2010 | **25 809** | **292 136** | **79 971** | **74 281** | **394 203** | **21 653** | **888 053** |
| Additions | **–** | **7 560** | **56 224** | **7 843** | **135 531** | **5 586** | **212 744** |
| Disposals | **–** | **(459)** | **(734)** | **(393)** | **(3 786)** | **(2 412)** | **(7 784)** |
| Depreciation | **–** | **(3 521)** | **(32 100)** | **(17 032)** | **(85 063)** | **(5 391)** | **(143 107)** |
| Transfers | **–** | **2 079** | **195** | **3 497** | **(6 587)** | **816** | **–** |
| Carrying amount value at 31 August 2011 | **25 809** | **297 795** | **103 556** | **68 196** | **434 298** | **20 252** | **949 906** |

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | | 2010 | | |
| | Cost R'000 | Accumulated amortisation and impairment losses R'000 | Carrying amount R'000 | Cost R'000 | Accumulated amortisation and impairment losses R'000 | Carrying amount R'000 |
| **10 Intangible assets** | | | | | | |
| Clicks trademark (see note 10.1) | **272 000** | **–** | **272 000** | 272 000 | – | 272 000 |
| Link trademark | **6 000** | **6 000** | **–** | 6 000 | 5 970 | 30 |
| Unicorn trademark | **35** | **1** | **34** | – | – | – |
| Capitalised software development | **67 744** | **50 415** | **17 329** | 64 822 | 38 727 | 26 095 |
| Contractual rights | **17 018** | **4 802** | **12 216** | 17 814 | 1 466 | 16 348 |
| | **362 797** | **61 218** | **301 579** | 360 636 | 46 163 | 314 473 |

The carrying amount of the group's intangible assets is reconciled as follows:

| | Clicks trademark R'000 | Link trademark R'000 | Unicorn trademark R'000 | Capitalised software development R'000 | Contractual rights R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| Carrying amount at 1 September 2009 | 272 000 | 680 | – | 29 633 | – | 302 313 |
| Additions | – | – | – | 19 322 | 1 140 | 20 462 |
| Amortisation | – | (650) | – | (15 175) | (1 466) | (17 291) |
| Impairment (see note 10.2) | – | – | – | (7 685) | – | (7 685) |
| Acquisition of business (see note 10.3) | – | – | – | – | 16 674 | 16 674 |
| Carrying amount at 31 August 2010 | **272 000** | **30** | **–** | **26 095** | **16 348** | **314 473** |
| Additions | **–** | **–** | **35** | **2 922** | **–** | **2 957** |
| Amortisation | **–** | **(30)** | **(1)** | **(11 650)** | **(3 497)** | **(15 178)** |
| Disposals | **–** | **–** | **–** | **(38)** | **–** | **(38)** |
| Adjustments to purchase price | **–** | **–** | **–** | **–** | **(635)** | **(635)** |
| Carrying amount at 31 August 2011 | **272 000** | **–** | **34** | **17 329** | **12 216** | **301 579** |

10.1 The Clicks trademark is considered to have an indefinite useful life. There is no apparent legal or other restriction to the use of the trademark or risk of technical or other obsolescence. Given the strategic importance of the trademark to the future sustainability of the group, the group's intention is to continue to use the trademark indefinitely. The directors consider that there is no foreseeable limit to the period over which this asset is expected to generate cash inflows for the group and, on this basis, the directors have concluded that the indefinite useful life assumption is appropriate.

In accordance with the group's accounting policy, an impairment test was performed on the carrying values of intangible assets with indefinite useful lives at year-end.

Budgeted operating cash flows for the related business units were projected and discounted at the group's weighted average pre-tax cost of capital. The impairment calculations performed indicated that the trademarks were not impaired.

10.2 During the prior year the group discontinued the development of the Clicks Healthcare System (CHC).

An impairment loss of R7.7 million was included in the impairment of intangible asset line in the statement of comprehensive income in 2010.

10.3 During the prior year the group acquired the pharmacy business of Amalgamated Pharmacy Group (Proprietary) Limited. As part of the acquisition, the group acquired the contractual rights to certain medical aid contracts. These contractual rights are being amortised over five years. The adjustment to purchase was made in respect of licences not received by year-end.

| | Group 2011 R'000 | 2010 R'000 |
|---|---|---|
| **11 Goodwill** | | |
| Balance at the beginning of the year | **105 335** | 96 124 |
| Additional goodwill payments | **–** | 9 211 |
| Adjustment to purchase price | **(1 825)** | – |
| **Balance at the end of the year** | **103 510** | 105 335 |
| Goodwill comprises: | | |
| United Pharmaceutical Distributors (Proprietary) Limited ("UPD") (see note 11.1). | **83 950** | 83 950 |
| Kalahari Medical Distributors (Proprietary) Limited ("Kalahari") (see note 11.2). | **704** | 1 861 |
| Clicks Direct Medicines (Proprietary) Limited and Direct Patient Support (Proprietary) Limited ("Direct Medicines") (see note 11.3). | **12 327** | 12 327 |
| Amalgamated Pharmacy Group (Proprietary) Limited ("Amalgamated Pharmacy Group") (see note 11.4). | **6 529** | 7 197 |

11.1 The goodwill relating to UPD is attributable to the wholesale and distribution business of UPD as a cash-generating unit.

The recoverable amount was determined based on the value in use.

The following key assumptions were made in determining the value in use:

i) A forecast horizon of ten years was used as the business is considered likely to operate for at least this period (ignoring any potential change to medicine regulations or other legislation);

ii) Discount rate of 13.5% per annum being the group's pre-tax weighted average cost of capital;

iii) Selling costs of 1.0% of the gross valuation based on consultations with valuation experts; and

iv) The net asset value of the business will be realised on disposal.

11.2 The same assumptions were applied to Kalahari as this company is in the same business as UPD and accordingly none of the assumptions would change significantly. The fact that Kalahari operates out of Botswana was considered but this is also not expected to change the assumptions.

11.3 The goodwill relating to Direct Medicines is attributable to the Direct Medicines business unit as a cash-generating unit.

The recoverable amount was determined based on the value in use.

The following key assumptions were made in determining the value in use:

i) Budgeted sales and margin for 2012;

ii) Conservative growth of 5% per annum from 2013 to perpetuity; and

iii) Discount rate of 13.5% per annum being the group's pre-tax weighted average cost of capital.

11.4 Due to the synergies that arose on acquisition, the goodwill relating to the purchase of the pharmacy business from Amalgamated Pharmacy Group has been attributed to the Clicks business as a cash-generating unit, which represents the lowest level within the group at which the goodwill is monitored for internal management purposes.

Applying IAS 36, goodwill relating to the above acquisition has been tested for impairment at the same level as the Clicks business unit.

The recoverable amount was determined based on the value in use.

The tests performed on all cash-generating units did not indicate any impairment as at year-end.

Based on the impairment testing performed by management the result of the calculation was not sensitive to any of the above assumptions.

| | Group | | Company | |
|---|---|---|---|---|
| | **2011 R'000** | 2010 R'000 | **2011 R'000** | 2010 R'000 |
| **12 Deferred tax assets/(liabilities)** | | | | |
| Deferred tax assets | **53 756** | 51 907 | **–** | – |
| Deferred tax liabilities | **(46 695)** | (68 559) | **–** | – |
| | **7 061** | (16 652) | **–** | – |
| Balance at the beginning of the year | **(16 652)** | 4 892 | **–** | – |
| Acquisition of business | **–** | (4 669) | **–** | – |
| Current deferred tax credit/(charge) to profit or loss | **23 423** | (16 875) | **–** | – |
| Current deferred tax credit to other comprehensive income | **290** | – | **–** | – |
| **Balance at the end of the year** | **7 061** | (16 652) | **–** | – |
| Arising as a result of: | | | | |
| Capital gains tax | **(30 053)** | (30 053) | **–** | – |
| Employee obligations | **83 420** | 88 609 | **–** | – |
| Income and expense accrual | **53 128** | 27 287 | **–** | – |
| Inventory | **22 159** | 21 511 | **–** | – |
| Onerous leases | **1 870** | 2 158 | **–** | – |
| Operating lease liability | **35 366** | 32 008 | **–** | – |
| Prepayments | **(10 947)** | (8 852) | **–** | – |
| Property, plant and equipment | **(66 790)** | (67 837) | **–** | – |
| STC credits | **528** | 528 | **–** | – |
| Tax losses* | **2 621** | 2 230 | **–** | – |
| Trademarks | **(76 172)** | (76 172) | **–** | – |
| Other | **(8 069)** | (8 069) | **–** | – |
| **Balance at the end of the year** | **7 061** | (16 652) | **–** | – |

The capital gains deferred tax liability arises on the revaluation of a forward purchase of shares by the company in a subsidiary company.

* In respect of the deferred tax assets recognised by two (2010: one) subsidiary companies, the directors consider that sufficient future taxable income will be generated by these subsidiary companies to utilise the deferred tax assets recognised.

| | | Group | |
|---|---|---|---|
| | | **2011 R'000** | 2010 R'000 |
| **13** | **Loans receivable** | | |
| | New Clicks Foundation Trust (see note 13.1). | **5 021** | 5 021 |
| | Intercare Managed Healthcare (Proprietary) Limited (see note 13.2). | **213** | 752 |
| | Intercare Managed Healthcare (Proprietary) Limited (see note 13.3). | **16 635** | 30 211 |
| | Sign and Seal Trading 205 (Proprietary) Limited (see note 13.4). | **1 765** | 2 572 |
| | **Total loans receivable** | **23 634** | 38 556 |
| | Short-term portion included in current assets | **(17 901)** | (15 149) |
| | Non-current loans receivable | **5 733** | 23 407 |

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

13.2 The loan to Intercare Managed Healthcare (Proprietary) Limited ("Intercare") is unsecured, bears interest at prime less 1% and is repayable by December 2011.

13.3 The loan to Intercare was settled on 31 August 2006. Intercare was previously a partially-owned subsidiary of the group. In order for Intercare to settle the loan, it was necessary for the group to guarantee certain facilities amounting to R16.6 million (2010: R30.2 million) that Intercare has with its bankers. As the group has substantially retained the risks and rewards related to the financial instrument by issuing the above-mentioned guarantee, the group continues to recognise the financial asset. A corresponding financial liability amounting to R16.6 million (2010: R30.2 million) has been raised (see note 21).

The terms of the loan between Intercare and its bankers include a fixed repayment schedule over the next year. R4.0 million of the loan is subject to fixed interest at 11.92% and the remainder at a floating rate of prime less 1%. The amortisation of the loan receivable and the related interest will be congruent with settling of the loan payable by Intercare to its bankers.

In the event that Intercare defaults on its loan with its bankers, the group would be required to settle any remaining obligation. The group has a general notarial bond over certain movable assets belonging to Intercare as partial security in respect of this receivable.

13.4 The loans to Sign and Seal Trading 205 (Proprietary) Limited ("Style Studio") consists of a loan of R1.8 million repayable over five years at the prime interest rate with the last instalment due in August 2012, as well as a loan of R800 000 which is interest free and repayable in August 2012. A general notarial bond over the inventories and property, plant and equipment of Style Studio, pledge of ordinary shares in Clicks Group Limited, as well as personal suretyship by the directors, serve as security for the loan.

| | Group 2011 R'000 | Group 2010 R'000 |
|---|---|---|
| **14 Inventories** | | |
| Inventories comprise: | | |
| Goods for resale | **1 728 230** | 1 493 412 |
| Goods in transit | **74 327** | 77 836 |
| | **1 802 557** | 1 571 248 |
| Inventories stated at net realisable value | **49 113** | 49 458 |

The value of inventories stated at net realisable value is determined based on management's best estimate of the likely selling price at which the inventories in question could be sold in the ordinary course of business less the directly attributable selling costs.

| | Group 2011 R'000 | Group 2010 R'000 |
|---|---|---|
| **15 Trade and other receivables** | | |
| Trade and other receivables comprise: | | |
| Trade receivables | **877 308** | 751 127 |
| Less: impairment of trade receivables | **(20 708)** | (34 765) |
| Trade receivables – net | **856 600** | 716 362 |
| Prepayments | **40 994** | 34 942 |
| Income accruals | **64 128** | 81 256 |
| Income tax receivable | **1 099** | 1 516 |
| Other | **36 123** | 35 203 |
| | **998 944** | 869 279 |

The carrying amount of trade and other receivables approximate their fair value. Trade and other receivables are predominantly non-interest-bearing. Refer to note 29.5 for the credit risk management of trade and other receivables.

| | Group 2011 R'000 | Group 2010 R'000 |
|---|---|---|
| **16 Derivative financial instruments** | | |
| ***Derivative financial assets*** | | |
| Balance at the beginning of the year | **119 235** | 68 301 |
| (Realised loss)/unrealised gain on fuel hedge contracts recognised in profit or loss | **(43)** | 43 |
| Unrealised gain on forward exchange contracts recognised in other comprehensive income | **2 924** | – |
| Unrealised gain on forward exchange contracts recognised in profit or loss | **183** | – |
| Change in fair value of share option hedge recognised in profit or loss | **41 840** | 123 311 |
| Proceeds from disposal of share option hedge | **(161 032)** | (72 420) |
| **Balance at the end of the year** | **3 107** | 119 235 |
| ***Derivative financial liabilities*** | | |
| Balance at the beginning of the year | **8 991** | 20 030 |
| Realised gain on forward exchange contracts recognised in profit or loss | **(7 414)** | (16 537) |
| Unrealised loss on forward exchange contracts recognised in profit or loss | **3 419** | 7 414 |
| Realised gain on interest rate swap contracts recognised in profit or loss | **(1 246)** | (3 064) |
| Realised gain on foreign exchange options recognised in profit or loss | **(331)** | (429) |
| Unrealised loss on interest rate swap contracts recognised in profit or loss | **–** | 1 246 |
| Unrealised loss on foreign exchange options recognised in profit or loss | **–** | 331 |
| **Balance at the end of the year** | **3 419** | 8 991 |

| | Group 2011 | | Group 2010 | |
|---|---|---|---|---|
| | Assets R'000 | Liabilities R'000 | Assets R'000 | Liabilities R'000 |
| **16 Derivative financial instruments** continued | | | | |
| Interest rate swap contracts | **–** | **–** | – | (1 246) |
| Forward exchange contracts | **3 107** | **(3 419)** | – | (7 414) |
| Fuel hedge | **–** | **–** | 43 | – |
| Share option hedge | **–** | **–** | 119 192 | – |
| Foreign exchange options | **–** | **–** | – | (331) |
| **Total** | **3 107** | **(3 419)** | 119 235 | (8 991) |

All derivatives noted above are classified as held for trading.

For currency and interest rate derivatives, fair values are calculated using standard market calculation conventions with reference to the relevant closing market spot rates, forward foreign exchange and interest rates. The notional principal amounts of the outstanding forward foreign exchange contracts at 31 August 2011 was R185 million (2010: R238 million). The notional principal amounts of the outstanding interest rate swap contracts at 31 August 2011 was Rnil (2010: R100 million).

The share option hedge served as a hedge in respect of the group's obligations in terms of share appreciation rights granted to employees and the 2010 tranche of the long-term incentive scheme appreciation rights and matured in the current financial year.

The derivative had been valued by an independent external valuator using the Binomial option pricing model. Refer to note 22.2 for significant assumptions used in the Binomial option pricing model.

| | Group | |
|---|---|---|
| | 2011 R'000 | 2010 R'000 |
| **17 Share capital and share premium** | | |
| Authorised – group and company | | |
| 600 million (2010: 600 million) ordinary shares of one cent each | **6 000** | 6 000 |
| 50 million (2010: Rnil) "A" ordinary shares of one cent each | **500** | – |
| Issued ordinary shares – group and company | | |
| 2011: 270.652 million (2010: 284.007 million) ordinary shares of one cent each and 29.153 million (2010: nil) "A" ordinary shares of one cent each | **2 999** | 2 841 |
| Share premium – group | **–** | – |
| Share premium – company | **10 592** | 10 662 |

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 (see note 18).

The company and the group have different values for share premium due to preliminary expenses of R2.1 million being written off against the share premium of a subsidiary company on the acquisition of certain businesses in 1996. The balance of the difference is due to the difference in value between the cancellation of shares at a holding company level at market value while on consolidation the cancellation is carried out at cost.

| | Ordinary shares '000 | "A" ordinary shares '000 | Total 2011 '000 | Total 2010 '000 |
|---|---|---|---|---|
| *Reconciliation of total number of shares in issue to net number of shares in issue* | | | | |
| Total number of shares in issue at the end of the year | **270 652** | **29 153** | **299 805** | 284 007 |
| Treasury shares held at the end of the year | **(17 693)** | **(29 153)** | **(46 846)** | (17 724) |
| **Net number of shares in issue at the end of the year** | **252 959** | **–** | **252 959** | 266 283 |

## 17 Share capital and share premium continued

| Of the shares in issue, the group holds the following treasury shares: | 2011 R'000 | 2010 R'000 |
|---|---|---|
| Shares purchased by a subsidiary – 17.197 million (2010: 16.888 million) ordinary shares of one cent each – cost | **697 405** | 500 484 |
| Shares purchased by the Share Trust – 0.496 million (2010: 0.836 million) ordinary shares of one cent each – cost | **5 374** | 10 366 |
| Shares purchased by the Clicks Group Employee Share Ownership Trust – 0.029 million (2010: nil) "A" ordinary shares of one cent each – cost | **291** | – |
| | **703 070** | 510 850 |

During the year the group cancelled 20 343 271 (2010: 27 367 849) ordinary shares of one cent each. 20 343 271 shares (2010: 27 367 849) were held as treasury shares by a subsidiary. The total cost of R0.203 million on cancellation was deducted from share capital.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

In respect of the company's shares held by entities within the group, all voting rights are suspended until those shares are reissued.

The unlisted "A" ordinary shares have the same rights and rank *pari passu* with the ordinary shares in all respects except for distribution rights.

The holders of "A" ordinary shares are entitled to an annual distribution equal to 10% of the cumulative distribution declared in relation to an ordinary share in a financial year.

## 18 Share option reserve

**Options issued up to August 2005**

The group granted options to qualifying employees based on performance at an option price which was not less than the market price of the share at the date of the grant. The options are subject to a three-year and five-year vesting period. Upon vesting, options, may be exercised at any time until the 10th anniversary.

**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 ordinary share capital and the number of share options granted.

No further grants of options under the share option plan have been made subsequent to August 2005.

| | Group | |
|---|---|---|
| | No. of shares 2011 '000 | No. of shares 2010 '000 |
| Shares allocated and options granted to employees up to August 2005 | | |
| *Options* | | |
| Balance at the beginning of the year | **691** | 2 719 |
| Delivered to participants | **(338)** | (1 883) |
| Options forfeited by participants | **–** | (145) |
| Balance at the end of the year | **353** | 691 |

Details of share option allocations:

| Grant date | Option price | Balance at the beginning of the year | Granted during the year | Delivered during the year | Forfeited during the year | Balance at the end of the year | Weighted average exercise price 2011 |
|---|---|---|---|---|---|---|---|
| September 2000 | R9.30 | 10 000 | – | (10 000) | – | **–** | |
| April 2001 | R7.40 | 108 000 | – | (88 000) | – | **20 000*** | |
| August 2003 | R6.30 | 353 000 | – | (50 000) | – | **303 000** | |
| June 2005 | R7.50 | 75 000 | – | (75 000) | – | **–** | |
| August 2005 | R8.32 | 145 000 | – | (115 000) | – | **30 000** | |
| **Total** | | 691 000 | – | (338 000) | – | **353 000** | **R7.63** |

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

* The shares in relation to these options are in the process of being delivered.

## 18 Share option reserve continued

*Fair value of share-based payments in respect of options*

Options granted after 7 November 2002 that had not vested at 1 January 2005 have been valued using the Binomial option pricing model by an independent, external valuator. The fair value of the options determined at the grant date are amortised over the vesting period to the extent that the options are ultimately exercised or are expected to be exercised. All options have now vested.

**Options issued in terms of the Employee Share Ownership Programme (ESOP)**

In October 2010, Clicks Group Limited announced an employee share ownership programme. In terms of the trust deed, the group issued unlisted "A" ordinary shares ("A" shares), equating to 10% of the issued share capital of the group net of treasury shares.

Options are subject to a seven and eight year vesting period. Upon vesting, options are converted into Clicks Group ordinary shares, 50% in February 2018 and 50% in February 2019 after the repayment of the notional debt.

| | Group | |
|---|---|---|
| | **No. of shares 2011** | No. of shares 2010 |
| "A" Shares issued in terms of the ESOP | **29 153 295** | – |

| Grant date | Option price | Balance at the beginning of the year | Granted during the year | Delivered during the year | Forfeited during the year | **Balance at the end of the year** |
|---|---|---|---|---|---|---|
| February 2011 | R41.54 | – | 27 664 709 | – | (2 474 660) | **25 190 049** |

*Fair value of share-based payments in respect of options*

Options granted have been valued using the Monte Carlo option pricing model by an independent, external valuator. The fair value of the options determined at the grant date is amortised over the vesting period to the extent that the options are ultimately exercised or are expected to be exercised.

The assumptions used in estimating the fair values at grant date are listed below:

| | Share price at grant date | Risk-free rate (%) | Expected dividend yield (%) | Expected volatility (%) | Expected forfeiture rate (%) |
|---|---|---|---|---|---|
| February 2011 – 7-year vesting period | R41.54 | 8.45 | 3.89 | 24.56 | 15.33 |
| February 2011 – 8-year vesting period | R41.54 | 8.60 | 4.11 | 25.00 | 15.33 |

The risk-free rate is the implied yield available on zero-coupon South African government bonds, with a remaining term equal to the expected term of the option being valued (based on the option's remaining contractual life and taking into account the effects of expected early exercise). Bond yields used are those published by the Bond Exchange of South Africa.

The dividend yield is the historical two-year average dividend yield as of the grant date, which has been converted to a continuously compounded dividend yield.

The expected volatility is the historic annualised standard deviation of the continuously compounded rates of return on the share, based on the most recent period as of the grant date that is commensurate with the expected term of the share option.

The expected forfeiture rate is based on the historic trend of option forfeitures.

## 18 Share option reserve continued

The share option reserve recognises the cost at fair value of options issued to employees as accrued over the vesting period.

| | Group 2011 R'000 | Group 2010 R'000 |
|---|---|---|
| ***Share option reserve*** | | |
| Balance at the beginning of the year | **24 600** | 24 549 |
| | **16 343** | 51 |
| Equity-settled share-based payment expense | **15 326** | 51 |
| Deferred tax recorded directly in equity arising on consolidation | **1 017** | – |
| Balance at the end of the year | **40 943** | 24 600 |
| Represented by: | | |
| Estimate of options not yet vested but expected to vest | **16 343** | – |
| Options vested and not forfeited | **24 600** | 24 600 |
| | **40 943** | 24 600 |

## 19 Cash flow hedging reserve

The cash flow hedge reserve represents the effective portion of fair value gains or losses in respect of cash flow hedges.

| | Group 2011 R'000 | Group 2010 R'000 |
|---|---|---|
| Reconciliation of cash flow hedging reserve | | |
| Balance at the beginning of the year | **–** | – |
| Gain recognised on cash flow hedge | **2 924** | – |
| Deferred tax recognised in other comprehensive income | **(819)** | – |
| Balance at the end of the year | **2 105** | – |

The cash flow hedging reserve represents the cumulative portion of gains or losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is reclassified to profit or loss only when the hedged transaction affects profit or loss.

## 20 Non-distributable reserve

| | Group 2011 R'000 | Group 2010 R'000 |
|---|---|---|
| Foreign currency translation reserve | | |
| Unrealised loss on the translation of assets and liabilities of subsidiaries whose financial statements are denominated in foreign currencies | **(1 834)** | (1 614) |
| | **(1 834)** | (1 614) |
| Reconciliation of foreign currency translation reserve | | |
| Balance at the beginning of the year | **(1 614)** | (246) |
| Exchange differences on translation of foreign subsidiaries | **(220)** | (1 368) |
| Balance at the end of the year | **(1 834)** | (1 614) |
| Reconciliation of purchase option reserve | | |
| Balance at the beginning of the year | **–** | (4 987) |
| Acquisition of option in subsidiary | **–** | 4 987 |
| Balance at the end the of year | **–** | – |

| | Group 2011 R'000 | Group 2010 R'000 |
|---|---|---|
| **21 Interest-bearing borrowings** | | |
| **Non-current** | | |
| Finance leases (see note 23.1) | **19** | 13 |
| Financial liability (see note 21.1) | **–** | 16 566 |
| | **19** | 16 579 |
| **Current** | | |
| Bank borrowings | **358 462** | 100 000 |
| Unsecured liability | **120** | 1 144 |
| Finance leases (see note 23.1) | **–** | 1 803 |
| Financial liability (see note 21.1) | **16 635** | 13 645 |
| | **375 217** | 116 592 |
| Total borrowings | **375 236** | 133 171 |

The contractual terms of the group's interest-bearing borrowings are detailed below. More information about the group's treasury, foreign exchange and interest-rate risk policies is given in note 28.

| | Contractual interest rate | Year of maturity | **Carrying amount 2011 R'000** | Carrying amount 2010 R'000 |
|---|---|---|---|---|
| Unsecured bank loan | overnight borrowing rate | on demand | **358 462** | 100 000 |
| Unsecured loan | prime | 2012 | **120** | 1 144 |
| Finance lease liabilities – These lease liabilities are secured by the related leased items (see note 9 and note 23.1) | 15.0% | August 2011 | **–** | 1 714 |
| Finance lease liabilities – These lease liabilities are secured over certain assets (see note 9 and note 23.1) | prime less 1% | 2013 | **19** | 102 |
| Financial liability (see note 21.1) | | | | |
| Portion – fixed | 11.9% | 2012 | **4 133** | 12 628 |
| Portion – variable | prime less 1% | 2012 | **12 502** | 17 583 |
| Total interest-bearing borrowings | | | **375 236** | 133 171 |
| Amount repayable within one year included in current liabilities | | | **(375 217)** | (116 592) |
| Non-current interest-bearing borrowings | | | **19** | 16 579 |

**21.1 Financial liability**

The financial liability has been recognised in respect of a loan advanced to Intercare by its bankers. Although the loan receivable detailed in note 13.3 has been settled, as the group still retains substantially all of the risks and rewards relating to the receivable through the issuance of a guarantee, the receivable has not been derecognised. The proceeds received on the settlement of the receivable have thus been recognised as a financial liability. The repayment terms of this loan are the same as the terms applicable to the receivable.

## 22 Employee benefits

| | Long-term incentive scheme (note 22.1) R'000 | Share appreciation rights (note 22.2) R'000 | Post-retirement medical obligations (note 22.3) R'000 | Total R'000 |
|---|---|---|---|---|
| **Long-term employee benefits** | | | | |
| Balance at 1 September 2009 | 58 151 | 1 798 | 31 185 | 91 134 |
| Change in fair value of cash-settled obligation taken to profit or loss | – | 53 591 | – | 53 591 |
| Current service cost | 57 273 | – | 1 815 | 59 088 |
| Benefit payments | – | – | (534) | (534) |
| Interest cost | 12 112 | – | 2 364 | 14 476 |
| Actuarial loss | 966 | – | – | 966 |
| Reclassification to short-term employee benefits | (67 058) | (55 389) | – | (122 447) |
| **Balance at 31 August 2010** | **61 444** | **–** | **34 830** | **96 274** |
| Current service cost | **54 658** | **–** | **1 246** | **55 904** |
| Benefit payments | **–** | **–** | **(615)** | **(615)** |
| Interest cost | **11 522** | **–** | **2 483** | **14 005** |
| Actuarial (gain)/loss | **(13 664)** | **–** | **823** | **(12 841)** |
| Reclassification to short-term employee benefits | **(60 254)** | **–** | **–** | **(60 254)** |
| **Balance at 31 August 2011** | **53 706** | **–** | **38 767** | **92 473** |

### 22.1 Long-term incentive scheme

During 2011 the group issued 4.7 million (2010: 4.3 million) cash-settled appreciation rights to management. The value of these appreciation rights are linked to the performance of diluted headline earnings per share ("HEPS") over a three-year period. The amount to be provided in the current year is based on a three-year projection of diluted HEPS. Any difference between projected performance and actual performance is recognised through an actuarial loss/(gain) based on the projected unit credit method which is taken to profit or loss.

The exercise price of each appreciation right was determined as R25.37 (2010: R19.91) per right ("base value"). In order to determine the amount to be provided, a fixed factor of 12 is applied to the HEPS at the end of the three-year period. The differential between the factor x HEPS and the base value is the amount that will be paid out per right. Should employees leave during the vesting period, the rights will be forfeited.

### 22.2 Share appreciation rights

During 2005 the group made six million share appreciation rights available to certain employees. Three million of these rights vested during 2008 and the remaining three million vested during the previous year due to performance conditions being met. During 2006, the group made a further one million share appreciation rights available to certain employees.

In the 2007 financial year, 450 000 share appreciation rights relating to the second issue of share appreciation rights were cancelled, leaving 550 000 of this issue to vest. Of these rights, 275 000 expired in 2009 when the performance conditions were not met. The remaining 275 000 vested during 2011 upon the performance conditions being met.

## 22 Employee benefits continued

The “exercise price” of the share appreciation rights varies depending on the performance of the company’s share price on the JSE and is more fully detailed below.

| | | 7 April 2005 tranche | | | 11 May 2006 tranche | |
|---|---|---|---|---|---|---|
| | | Share price on vesting date | Exercise price | | Share price on vesting date | Exercise price |
| Five-year rights | greater than | R16.81 | R8.36 | greater than | R21.22 | R10.55 |
| | greater than | R20.80 | R4.18 | greater than | R26.25 | R5.27 |
| | greater than | R25.51 | R0.01 | greater than | R32.20 | R0.01 |

As the group’s liability in respect of these share appreciation rights was dependent on the performance of the company’s share price on the JSE, a derivative hedge was acquired to limit the extent of the exposure. The hedging instrument covered all exposure where the notional exercise price is R4.18 per share or above or R5.27 per share or above in respect of the 7 April 2005 and 11 May 2006 tranches, respectively.

The obligation in respect of these cash-settled share-based payments has been computed based on the fair value of the notional options at year-end as determined by independent external professional valuators using the Binomial option pricing model, amortised over the vesting period of the rights.

The following key assumptions were made in valuing the Share Appreciation Rights:

i) The expected volatility is the historic annualised standard deviation of the continuously compounded rates of return on the share, based on the most recent period as of the grant date that is commensurate with the expected term of the share option;

ii) The risk-free rate on the valuation date of the financial institution who performed the valuation’s swap rate for the expected life of the option;

iii) A dividend yield of 2.36% was assumed; and

iv) The volatilities were considered appropriate for the duration of the option’s value and an employee exit rate prior to and post vesting date of 0%.

### 22.3 Post-retirement medical obligations

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

An actuarial valuation of the Clicks post-retirement medical aid scheme has determined that the unfunded liability in respect of pensioner post-retirement medical benefits amounts to R38.8 million (2010: R34.8 million). Provision has been made for the full unfunded liability.

The principal actuarial assumptions at the last valuation date (31 August 2011) were:

i) A discount rate of 8.7% per annum;

ii) General increases to medical aid contributions of 7.2%;

iii) A retirement age of 65;

iv) Husbands are on average three years older than their spouses;

v) Mortality of pensioners determined in accordance with PA90 ultimate tables; and

vi) Mortality of in-service members determined in accordance with SA 85-90 ultimate table, with females rated down three years.

The post-retirement medical aid provision is sensitive to assumptions around medical aid inflation and retirement age. A change in either of those factors would have a significant impact on the amount to be provided (expense/(credit) to profit or loss):

| | R’000 |
|---|---|
| – Medical aid inflation increases by 1% per annum over assumptions made | 7 954 |
| – Medical aid inflation decreases by 1% per annum over assumptions made | (6 286) |
| – Retirement age decreases by two years | 5 113 |

| | Long-term incentive scheme (note 22.1) R'000 | Share appreciation rights (note 22.2) R'000 | Leave pay accrual (note 22.4) R'000 | Bonus accrual (note 22.5) R'000 | Overtime accrual (note 22.6) R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| **22 Employee benefits** continued | | | | | | |
| **Short-term employee benefits** | | | | | | |
| Balance at 1 September 2009 | 87 103 | 33 576 | 49 285 | 67 411 | 3 221 | 240 596 |
| Reclassification from long-term employee benefits | 67 058 | 55 389 | – | – | – | 122 447 |
| Benefit payments | (89 838) | (80 557) | (10 024) | (86 141) | (2 260) | (268 820) |
| Charge included in profit or loss | – | – | 8 184 | 97 321 | 2 841 | 108 346 |
| **Balance at 31 August 2010** | **64 323** | **8 408** | **47 445** | **78 591** | **3 802** | **202 569** |
| Reclassification from long-term employee benefits | **60 254** | **–** | **–** | **–** | **–** | **60 254** |
| Benefit payments | **(71 396)** | **(11 195)** | **(13 431)** | **(101 021)** | **(7 681)** | **(204 724)** |
| Charge included in profit or loss | **–** | **2 787** | **13 625** | **85 401** | **4 757** | **106 570** |
| **Balance at 31 August 2011** | **53 181** | **–** | **47 639** | **62 971** | **878** | **164 669** |

22.4 The leave pay accrual is based on actual leave days by employee multiplied by the employee's current total daily cost to company.

22.5 The bonus accrual includes a guaranteed thirteenth cheque and an incentive bonus based on the group's performance. The bonus is provided for all employees who qualify in respect of the expected cash payment.

22.6 The overtime accrual is in respect of overtime worked in August 2011 which is paid in September 2011.

**Pension and provident funds**

Three 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; and

– the Clicks Group Negotiated Provident Fund.

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. These are retirement umbrella funds. Employees who were members of the Rainmaker Pension or Provident Fund are now members of one of the three Clicks Group funds. All permanent full-time staff members are obliged to join, at their choice, one of the funds.

The funds are all defined contribution funds.

Employee and company contributions to the above funds are included in employment costs detailed in note 5.

| | Group 2011 R'000 | Group 2010 R'000 |
|---|---|---|
| **23 Lease commitments** | | |
| **Operating lease liability** | **125 642** | 115 311 |
| Operating leases with fixed escalations are charged to the statement of comprehensive income on a straight-line basis. The associated provision will reverse during the latter part of each lease term when the actual cash flow exceeds the profit or loss charge. | | |
| **Operating lease commitments** The group leases all its retail premises and certain of its pharmaceutical distribution centre sites under operating leases. The lease agreements provide for minimum payments together, in certain instances, with contingent rental payments determined on the basis of achieving a specified threshold turnover. | | |
| Future minimum lease payments under non-cancellable operating leases due: | | |
| – Not later than 1 year | **345 154** | 316 439 |
| – Later than 1 year, not later than 5 years | **964 188** | 912 591 |
| – Later than 5 years | **399 836** | 340 672 |
| | **1 709 178** | 1 569 702 |
| Future minimum lease payments receivable under non-cancellable operating leases due, these relate to Intercare Management Healthcare (Proprietary) Limited: | | |
| – Not later than 1 year | **13 577** | 12 456 |
| – Later than 1 year, not later than 5 years | **57 757** | 60 059 |
| – Later than 5 years | **1 152** | 12 426 |
| | **72 486** | 84 941 |
| The net future minimum lease payments under non-cancellable operating leases due: | | |
| – Not later than 1 year | **331 577** | 303 983 |
| – Later than 1 year, not later than 5 years | **906 431** | 852 532 |
| – Later than 5 years | **398 684** | 328 246 |
| | **1 636 692** | 1 484 761 |

Generally, leases are taken out on a ten-year lease term with an option to extend for a further five years in the instance of Clicks while shorter periods are committed to for Musica and The Body Shop.

**23.1 Finance lease liability**

The finance lease liability is payable as follows:

| | **Future minimum lease payments 2011 R'000** | **Interest 2011 R'000** | **Present value of minimum lease payments 2011 R'000** | Future minimum lease payments 2010 R'000 | Interest 2010 R'000 | Present value of minimum lease payments 2010 R'000 |
|---|---|---|---|---|---|---|
| – Not later than 1 year | **–** | **–** | **–** | 1 935 | 132 | 1 803 |
| – Later than 1 year, not later than 5 years | **19** | **–** | **19** | 19 | 6 | 13 |
| | **19** | **–** | **19** | 1 954 | 138 | 1 816 |

| | Group 2011 R'000 | Group 2010 R'000 |
|---|---|---|
| **24 Trade and other payables** | | |
| The following are included in trade and other payables: | | |
| Trade payables | **1 923 138** | 1 686 519 |
| ClubCard deferred income (see note 24.1) | **68 750** | 66 509 |
| Non-trade payables and accruals | **439 868** | 537 855 |
| | **2 431 756** | 2 290 883 |

**24.1 ClubCard deferred income**

The deferred income relating to ClubCard discount is determined based on the value of unredeemed vouchers in issue as well as the value of discount on qualifying sales that have not been converted into vouchers.

Based on the historic redemption rate, it is assumed that 85% of all vouchers in issue are ultimately redeemed.

Estimates are made based on historic trends regarding the value of discount on qualifying sales that will ultimately convert into vouchers issued.

## 25 Provisions

| | Group 2011 R'000 | Group 2010 R'000 |
|---|---|---|
| **Provision for onerous contracts** | | |
| Balance at the beginning of the year | **6 244** | 6 254 |
| Movement in provision during the year recognised in occupancy costs | **(1 027)** | (10) |
| Balance at the end of the year | **5 217** | 6 244 |

Onerous contracts are identified where the present value of future obligations in terms of the contracts in question exceeds the estimated benefits accruing to the group from the contracts. The provision relates to certain leases where the site is either vacant or the commercial activity on the site is incurring losses.

Future cash flows are determined in accordance with the contractual lease obligations and are adjusted by market-related sub-let rentals and discounted at the group's risk adjusted pre-tax weighted average cost of capital rate.

The provision is further reduced to the extent that a straight-line operating lease accrual has already been recognised (see note 23).

## 26 Distributions to shareholders

| | Group 2011 R'000 | Group 2010 R'000 |
|---|---|---|
| Previous year final cash distribution out of share premium – 75.7 cents per share paid 31 January 2011 (2010: 59.5 cents per share paid 25 January 2010) | **199 593** | 163 907 |
| Current year interim cash distribution out of share premium – 37.0 cents per share paid 4 July 2011 (2010: 30.5 cents per share paid 5 July 2010) | **100 134** | 85 872 |
| Total distributions to shareholders | **299 727** | 249 779 |
| Distributions on treasury shares | **(4 220)** | (5 068) |
| Distributions paid outside the group | **295 507** | 244 711 |

On 19 October 2011, the directors approved the final proposed distribution of 88 cents per share. The source of such a distribution will be a capital reduction out of share premium.

**Distribution policy**

The board of directors have maintained the distribution cover at 2.0 times for the 2011 financial year.

For further details refer to the Directors' Report on page 64 and Shareholders' Diary on page 126.

| | Group 2011 R'000 | Group 2010 R'000 |
|---|---|---|
| **27 Cash flow information** | | |
| **27.1 Profit before working capital changes** | | |
| Profit before taxation | **897 714** | 770 360 |
| Adjustment for: | **143 887** | 27 883 |
| Depreciation and amortisation | **158 285** | 136 775 |
| Reversal of previous unrealised foreign exchange losses | **(7 745)** | (16 966) |
| Unrealised foreign exchange loss | **3 237** | 7 745 |
| Movement in operating lease liability | **10 331** | 9 471 |
| Loss on disposal of property, plant and equipment | **6 250** | 6 476 |
| Impairment of intangible asset | **–** | 7 685 |
| Fair value adjustment – derivatives | **(41 797)** | (123 354) |
| Equity-settled share option costs | **15 326** | 51 |
| Net financing costs | **33 626** | 38 751 |
| | **1 075 227** | 836 994 |
| **27.2 Working capital changes** | | |
| Increase in inventories | **(231 309)** | (136 180) |
| (Increase)/decrease in trade and other receivables | **(130 302)** | 36 498 |
| Disposal of derivative financial instruments | **161 032** | 72 420 |
| Increase/(decrease) in trade and other payables | **152 256** | (128 856) |
| Decrease in employee benefits | **(55 705)** | (47 364) |
| Decrease in provisions | **(1 027)** | (10) |
| | **(105 055)** | (203 492) |
| **27.3 Taxation paid** | | |
| Income tax payable at the beginning of the year | **(45 292)** | (30 547) |
| Current tax charged to profit or loss | **(270 172)** | (189 675) |
| Income tax payable at the end of the year | **43 476** | 45 292 |
| | **(271 988)** | (174 930) |
| **27.4 Acquisition of business net of cash acquired** | | |
| The group acquired the pharmacy business of Amalgamated Pharmacy Group (Proprietary) Limited in 2010, for an amount of R32.7 million. | | |
| Total cost of acquisition | | 32 776 |
| Amount due at the beginning of the year | **11 087** | – |
| Cash paid | **(10 225)** | (21 689) |
| Adjustment to purchase price | **(862)** | – |
| Amount due at the end of the year | **–** | 11 087 |
| **27.5 Cash and cash equivalents** | | |
| Current accounts | **17 790** | 152 052 |
| | **17 790** | 152 052 |

## 28 Financial risk management

The group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

This note presents information about the group's exposure to each of the above risks, the group's objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. The group uses derivative financial instruments to hedge certain risk exposures.

The group treasury functions within the parameters of the treasury policy and reports to a sub-committee of management as outlined in the Risk Management Report.

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the group's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The group buys and sells derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks.

***Currency risk***

The group is exposed to foreign exchange risk through its imports of merchandise. The currencies in which these transactions are primarily denominated are USD, GBP and Euro. The group's treasury risk management policy is to take out forward exchange contracts, to cover committed exposures and anticipated exposures.

The impact of a 10% strengthening or weakening of the currency against the USD, GBP and Euro with all other variables held constant is disclosed in note 29. The effect of this movement is based on the outstanding forward foreign exchange contracts held by the group at year-end.

***Interest rate risk***

The group's interest rate risk arises from long-term and short-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the group to fair value interest rate risk. During 2010 and 2011, the group's borrowings at variable rates were denominated in Rand.

The impact of a 1% increase/decrease in variable interest rates on borrowings is disclosed in note 29.3.

As the group has no significant interest-bearing assets, the group's income and operating cash flows are substantially independent of changes in market interest rates.

**Credit risk**

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the group's receivables. Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

***Trade and other receivables***

The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. In relation to the retail business trade receivables primarily relate to recoverables from vendors with which the group has a trading relationship and medical aids with respect to pharmacy recoverables, while in wholesale, customers (excluding intercompany) are primarily with hospitals and independent pharmacists.

In relation to the wholesale business, the risk management has been delegated to the management of the subsidiary business. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers.

Credit Guarantee Insurance Corporation of South Africa Limited is utilised to cover the majority of wholesale customers with a credit balance over a predetermined amount.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the group may have a secured claim. The group requires collateral in respect of certain trade and other receivables.

The group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are specific loss components that relate to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics of similar financial assets.

The group has furnished guarantees to external parties – see note 31.

## 28 Financial risk management continued

### Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due.

The group's approach is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the group's reputation. Due to the dynamic nature of the underlying businesses, group treasury maintains flexibility in funding by holding availability through credit lines. At year-end the group's total uncommitted facilities available amounted to R1 135.5 million (2010: R939.3 million) of which R777.1 million remained undrawn (2010: R839.3 million).

See note 29.6 for details for maturity analysis of the group's financial liabilities.

### Capital risk management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The group's target of maintaining a ratio of shareholders' interest to total assets is in the range of 27% to 32%. This is obtained through achieving the group's earnings targets, management of working capital, through share buy-backs and distributions.

In 2011 the shareholders' interest to total assets was 22.7% (2010: 27.8%). Excluding the impact of the share buy-back brought forward from the 2012 financial year, the shareholders' interest to total assets would have been 29.7% (2010: 29.5%).

## 29 Financial instruments

### 29.1 Treasury risk management

The treasury committee meets on a regular basis to analyse currency and interest rate exposures and re-evaluate treasury management strategies.

### 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 exchange contracts. These contracts are matched with anticipated future cash flows in foreign currencies. The group does not use forward exchange contracts for speculative purposes.

The group has measured these instruments at fair value (see note 16).

| | 31 August 2011 | | | 31 August 2010 | | |
|---|---|---|---|---|---|---|
| | **Euro '000** | **USD '000** | **GBP '000** | Euro '000 | USD '000 | GBP '000 |
| **Exposure to currency risk – foreign exchange contracts not subject to cash flow hedging** | | | | | | |
| Annual forecast purchases for ensuing year | **1 678** | **32 308** | **2 293** | 2 637 | 41 017 | 3 338 |
| Forward exchange contracts | **86** | **7 299** | **250** | 1 618 | 27 153 | 977 |
| Net exposure | **1 592** | **25 009** | **2 043** | 1 019 | 13 864 | 2 361 |

| | 31 August 2011 | | | 31 August 2010 | | |
|---|---|---|---|---|---|---|
| | **Euro '000** | **USD '000** | **GBP '000** | Euro '000 | USD '000 | GBP '000 |
| **Exposure to currency risk – foreign exchange contracts subject to cash flow hedging** | | | | | | |
| Annual forecast purchases for ensuing year | **810** | **13 500** | **2 236** | – | – | – |
| Forward exchange contracts | **810** | **13 500** | **2 236** | – | – | – |
| Net exposure | **–** | **–** | **–** | – | – | – |

## 29 Financial instruments continued

The following exchange rates applied during the year:

| | Average rate | | Reporting date mid-spot rate | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| USD | **6.91** | 7.27 | **7.07** | 7.34 |
| GBP | **11.08** | 11.70 | **11.52** | 11.33 |
| Euro | **9.59** | 10.23 | **10.20** | 9.28 |

***Foreign exchange rate sensitivity analysis***

The following table details the group's sensitivity to a 10% strengthening in the South African Rand against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and their adjusted translation for a 10% change in foreign currency rates.

| | USD impact | | GBP impact | | Euro impact | |
|---|---|---|---|---|---|---|
| | **2011 R'000** | 2010 R'000 | **2011 R'000** | 2010 R'000 | **2011 R'000** | 2010 R'000 |
| Loss | **(14 792)** | (20 947) | **(2 833)** | (1 137) | **(916)** | (1 718) |

For a 10% weakening of the South African Rand against the relevant currency, there would be an equal but opposite increase in profit.

### 29.3 Interest rate risk

The group is exposed to interest rate risk as entities in the group borrow funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix of fixed and floating rate borrowings and by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite ensuring optimal hedging strategies are applied.

The group's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

***Interest rate sensitivity analysis***

The sensitivity analysis has been determined based on the exposure to interest rates for both derivative and non-derivative financial instruments on the statement of financial position. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the financial reporting date was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant as at year-end, the group's profit for the year ended 31 August 2011 would be R3.8 million lower/higher (2010: R3.3 million lower/higher). This is mainly attributable to the group's exposure to interest rates on its variable rate borrowings.

## 29 Financial instruments continued

### 29.4 Fair values of financial instruments

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

| | | 31 August 2011 | | 31 August 2010 | |
|---|---|---|---|---|---|
| | | Carrying value R'000 | Fair value R'000 | Carrying value R'000 | Fair value R'000 |
| **Financial assets** | | | | | |
| Trade receivables (see note 15) | Loans and receivables | **856 600** | **856 600** | 716 362 | 716 362 |
| Loans receivable (excluding loan receivable from Intercare) (see note 13) | Loans and receivables | **6 999** | **7 215** | 8 345 | 8 456 |
| Loan receivable from Intercare (see note 13) | Loans and receivables | **16 635** | **16 665** | 30 211 | 30 387 |
| Cash and cash equivalents | Loans and receivables | **17 790** | **17 790** | 152 052 | 152 052 |
| Forward exchange contracts used for hedging (see note 16) | Assets at fair value through profit or loss | **183** | **183** | – | – |
| Forward exchange contracts used for cash flow hedging (see note 16 ) | Assets at fair value through other comprehensive income | **2 924** | **2 924** | – | – |
| Share option hedge (see note 16) | Assets at fair value through profit or loss | **–** | **–** | 119 192 | 119 192 |
| Options used for fuel hedge (see note 16) | Assets at fair value through profit or loss | **–** | **–** | 43 | 43 |
| **Financial liabilities** | | | | | |
| Unsecured bank loans (see note 21) | Financial liabilities measured at amortised cost | **358 462** | **358 462** | 100 000 | 116 537 |
| Finance lease liability – fixed rate (see note 21) | Financial liabilities measured at amortised cost | **–** | **–** | 1 714 | 2 398 |
| Finance lease liability – variable rate (see note 21) | Financial liabilities measured at amortised cost | **19** | **19** | 102 | 102 |
| Forward exchange contracts used for hedging (see note 16) | Financial liabilities at fair value through profit or loss | **3 419** | **3 419** | 7 414 | 7 414 |
| Foreign exchange options used for hedging (see note 16) | Financial liabilities at fair value through profit or loss | **–** | **–** | 331 | 331 |
| Interest rate swaps used for hedging (see note 16) | Financial liabilities at fair value through profit or loss | **–** | **–** | 1 246 | 1 246 |
| Unsecured loan (see note 21) | Financial liabilities measured at amortised cost | **120** | **120** | 1 144 | 1 144 |
| Trade and other payables (see note 24) | Financial liabilities measured at amortised cost | **2 431 756** | **2 431 756** | 2 290 883 | 2 290 883 |
| Loan advanced related to Intercare (see note 13) | Financial liabilities measured at amortised cost | **16 635** | **16 665** | 30 211 | 30 387 |

## 29 Financial instruments continued

### 29.4 Fair values of financial instruments continued

**Basis for determining fair values**

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

**Derivatives**

Fair values of currency and interest rate derivatives are calculated using standard market calculation conventions with reference to the relevant closing market spot rates, forward foreign exchange and interest rates.

The fair value of the share option hedge is determined by external, independent valuators using the external valuator's Binomial option pricing model.

Refer to note 22.2 for the key assumptions used in the Binomial option pricing model.

**Non-derivative financial liabilities**

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporing date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

**Interest rates used in determining fair value**

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve at the reporting date plus an adequate constant credit spread, and were as follows:

| | 2011<br>% | 2010<br>% |
|---|---|---|
| Borrowings | 9.0 | 10.0 |
| Leases | 9.0 | 9.0 |

***Fair value hierarchy***

IFRS 7 specifies a hierarchy of valuation techniques for assets and liabilities measured at fair value based on whether the inputs to those techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources and unobservable inputs reflect the group's market assumptions.

The table below provides the valuation method of financial instruments carried at fair value. The different levels have been defined as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

**Assets and liabilities measured at fair value**

| | Group 2011 | |
|---|---|---|
| | Level 2<br>R'000 | Total<br>R'000 |
| Financial assets | | |
| Financial assets at fair value through profit or loss | | |
| Forward exchange contracts used for hedging (see note 16) | 183 | 183 |
| Financial assets at fair value through other comprehensive income | | |
| Forward exchange contracts used for cash flow hedging (see note 16) | 2 924 | 2 924 |
| Total | 3 107 | 3 107 |
| Financial liabilities | | |
| Financial liabilities at fair value through profit or loss | | |
| Forward exchange contracts used for hedging (see note 16) | 3 419 | 3 419 |
| Total | 3 419 | 3 419 |

| | Group 2010 | |
|---|---|---|
| | Level 2 R'000 | Total R'000 |

## 29 Financial instruments continued

| | | |
|---|---|---|
| **Financial assets** | | |
| Assets at fair value through profit or loss | | |
| Options used for fuel hedge (see note 16) | 43 | 43 |
| Share option hedge (see note 16) | 119 192 | 119 192 |
| Total | 119 235 | 119 235 |
| **Financial liabilities** | | |
| Financial liabilities at fair value through profit or loss | | |
| Forward exchange contracts used for hedging (see note 16) | 7 414 | 7 414 |
| Foreign exchange options used for hedging (see note 16) | 331 | 331 |
| Interest rate swaps used for hedging (see note 16) | 1 246 | 1 246 |
| Total | 8 991 | 8 991 |

### 29.5 Credit risk management

Credit risk refers to the risk that a counterparty may default on its contractual obligation resulting in financial loss to the group. The group is exposed to credit risk arising from cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. Management have a formal credit policy in place as a means of mitigating the risk of financial loss to the group.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

| | Carrying amount | |
|---|---|---|
| | **2011 R'000** | 2010 R'000 |
| Cash and receivables | **874 390** | 868 414 |
| Trade receivables (see note 15) | **856 600** | 716 362 |
| Cash and cash equivalents (see note 27.4) | **17 790** | 152 052 |
| Other loans | **23 634** | 38 556 |
| | **898 024** | 906 970 |

**Loans and receivables**

Loans and receivables consist of trade receivables and cash and cash equivalents.

***Trade receivables***

The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers who purchase from the group.

Trade receivables can be categorised into wholesale customers and retail customers.

The maximum exposure to credit risk, after impairment, for trade receivables at the reporting date by type of customer was:

| | Carrying amount | |
|---|---|---|
| | **2011 R'000** | 2010 R'000 |
| Retail customers | **85 131** | 41 157 |
| Wholesale customers | **771 469** | 675 205 |
| | **856 600** | 716 362 |

## 29 Financial instruments continued

### 29.5 Credit risk management continued

***Retail customers***

The ageing of trade receivables at the reporting date was:

| | Gross 2011 R'000 | Impairment 2011 R'000 | Net 2011 R'000 | Gross 2010 R'000 | Impairment 2010 R'000 | Net 2010 R'000 |
|---|---|---|---|---|---|---|
| Not past due | 81 972 | – | 81 972 | 22 937 | – | 22 937 |
| Past due 0 – 30 days | 7 208 | (5 330) | 1 878 | 18 404 | (1 717) | 16 687 |
| Past due 31 – 120 days | 8 175 | (6 894) | 1 281 | 18 559 | (17 026) | 1 533 |
| Total | 97 355 | (12 224) | 85 131 | 59 900 | (18 743) | 41 157 |

Retail trade receivables mainly relate to receivables from medical aids with respect to pharmacy debtors.

Trade debtors are classified as past due when they have passed their payment date by one day.

***Wholesale customers***

The ageing of trade receivables at the reporting date was:

| | Gross 2011 R'000 | Impairment 2011 R'000 | Net 2011 R'000 | Gross 2010 R'000 | Impairment 2010 R'000 | Net 2010 R'000 |
|---|---|---|---|---|---|---|
| Not past due | 755 593 | – | 755 593 | 598 460 | – | 598 460 |
| Past due 0 – 30 days | 7 863 | – | 7 863 | 46 216 | – | 46 216 |
| Past due 31 – 120 days | 16 497 | (8 484) | 8 013 | 46 551 | (16 022) | 30 529 |
| Total | 779 953 | (8 484) | 771 469 | 691 227 | (16 022) | 675 205 |

Trade debtors are classified as past due when they have passed their payment date by one day.

Wholesale customers are primarily with hospitals and independent pharmacists.

UPD minimises its exposure to credit risk by insuring debtors with balances greater than a predetermined amount.

There is an excess (which varies between hospitals and independent pharmacists) that is carried by UPD with the balance being covered by Credit Guarantee Insurance Corporation of South Africa Limited.

The split between insured and uninsured debtors is as follows:

| | Gross amount 2011 R'000 | Gross amount 2010 R'000 |
|---|---|---|
| Insured | 617 437 | 480 849 |
| Uninsured | 162 516 | 210 378 |
| | 779 953 | 691 227 |

Uninsured debtors consist mainly of a concentration of debtors with a monthly turnover of less than R40 000 and low-risk debtors such as government debtors.

The exposure to credit risk in respect of these debtors is managed through credit evaluations and security taken out where appropriate.

## 29 Financial instruments continued

### 29.5 Credit risk management continued

***Impairment loss***

The impairment is determined based on information regarding the financial position of each trade receivable at year-end. No consideration is taken of trade receivables that may become doubtful in the future.

The group's trade receivables are stated net of impairment losses. An analysis of impairment losses are as follows:

| | Retail | | Wholesale | |
|---|---|---|---|---|
| | **2011 R'000** | 2010 R'000 | **2011 R'000** | 2010 R'000 |
| Balance at the beginning of the year | **(18 743)** | (8 935) | **(16 022)** | (7 204) |
| Reduction in/(additional allowances) made | **753** | (16 018) | **(601)** | (9 121) |
| Trade receivables written off during the year as uncollectible | **5 766** | 6 210 | **8 139** | 303 |
| Balance at the end of the year | **(12 224)** | (18 743) | **(8 484)** | (16 022) |

The creation of impairment losses have been included in "other costs" in profit or loss (see note 6). Amounts charged to the allowance account are generally written off to profit or loss when there is no expectation of recovery.

***Cash and cash equivalents***

The group's banking facilities are with reputable institutions all of which have a strong credit rating.

**Other loans**

Other loans are reviewed at least on an annual basis to assess their recoverability. None of the loans is considered to be impaired at the end of the financial year.

## 29 Financial instruments continued

### 29.6 Liquidity risk management

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the group's reputation.

**Liquidity and interest risk tables**

The following tables detail the group's remaining contractual maturity for its financial liabilities, including interest payments and excluding the impact of netting agreements:

| | Interest terms | 2011<br>Carrying amount R'000 | Contractual cash flows R'000 | 1 year or less R'000 | 1 to 5 years R'000 | Over 5 years R'000 |
|---|---|---|---|---|---|---|
| Non-derivative liabilities | | | | | | |
| Interest-bearing borrowings (see note 21) | Variable in relation to prime | 371 103 | 371 755 | 371 755 | – | – |
| Interest-bearing borrowings (see note 21) | Fixed | 4 133 | 4 253 | 4 253 | – | – |
| Trade and other payables (see note 24) | | 2 431 756 | 2 431 756 | 2 431 756 | – | – |
| | | 2 806 992 | 2 807 764 | 2 807 764 | – | – |
| Derivative financial liabilities | | | | | | |
| Forward exchange contracts (see note 16) | | 3 419 | 185 414 | 185 414 | – | – |
| Total financial liabilities | | 2 810 411 | 2 993 178 | 2 993 178 | – | – |

| | Interest terms | 2010<br>Carrying amount R'000 | Contractual cash flows R'000 | 1 year or less R'000 | 1 to 5 years R'000 | Over 5 years R'000 |
|---|---|---|---|---|---|---|
| Non-derivative liabilities | | | | | | |
| Interest-bearing borrowings (see note 21) | Variable in relation to prime | 18 829 | 20 951 | 7 749 | 13 202 | – |
| Interest-bearing borrowings (see note 21) | Fixed | 114 342 | 123 249 | 119 018 | 4 231 | – |
| Trade and other payables (see note 24) | | 2 290 883 | 2 290 883 | 2 290 883 | – | – |
| | | 2 424 054 | 2 435 083 | 2 417 650 | 17 433 | – |
| Derivative financial liabilities | | | | | | |
| Forward exchange contracts (see note 16) | | 7 414 | 238 025 | 238 025 | – | – |
| Total financial liabilities | | 2 431 468 | 2 673 108 | 2 655 675 | 17 433 | – |

| | Group | |
|---|---|---|
| | 2011 R'000 | 2010 R'000 |
| **30 Capital commitments** | | |
| Capital expenditure approved by the directors | | |
| Contracted | **31 405** | 6 755 |
| Not contracted | **225 695** | 243 078 |
| | **257 100** | 249 833 |

The capital expenditure will be financed from borrowings and internally-generated funds.

## 31 Financial guarantees

The company has guaranteed a R16.6 million facility given to Intercare by their bankers as detailed in notes 13.3 and 21.1.

Group companies provide surety for other group companies to the value of R990 million with respect to facilities held with various banks. At year-end R358.5 million of these facilities had been drawn down by group companies.

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

## 32 Related party transactions

**Group**
Clicks Group Limited is the ultimate holding company of the group.

**Transactions between group subsidiaries**
During the year, in the ordinary course of business, certain companies within the group entered into transactions with each other. These intragroup transactions have been eliminated on consolidation. For a list of the group's subsidiaries, see page 124.

**Directors and key management**
Certain non-executive directors are also non-executive directors of other public companies which transact with the group. The relevant directors do not believe that they have control, joint control or significant influence over the financial or operating policies of those companies.

Executive directors' employment contracts do not provide for a defined period of employment, but specify a notice period for the chief executive officer of 12 months and six months for the other executive directors. During this notice period, all standard benefits accrue to the directors in question. Contracts do not provide for predetermined compensation on termination other than that accorded to employees in terms of the group's remuneration policies.

Employee benefits paid to directors and key management personnel are detailed in note 5.

**Shares held by directors and their related entities**
The percentage of shares held by directors of the company and their related entities at year-end are disclosed in the Remuneration Report section on page 55 of this annual report.

**Company**
A schedule of the loans and investments in related parties is included on page 124.

The company received dividends from New Clicks South Africa (Proprietary) Limited, a wholly-owned subsidiary of R893 million (2010: R1.3 billion), comprising cash dividends of Rnil (2010: R575 million), a dividend in substance of R893 million (2010: R697 million) and a dividend in specie of Rnil (2010: R55 million). The company in turn paid distributions on treasury shares held by that subsidiary of R3.6 million (2010: R3.6 million).

In addition, the company paid distributions to the Share Trust of R0.6 million (2010: R1.5 million) on shares held by the trust.

Details regarding distributions relating to treasury shares are included in note 26.

In October 2010, Clicks Group Limited announced an employee share ownership programme ("ESOP"). Details relating to the programme are disclosed in note 18.

## 33 Borrowing powers

In terms of the memorandum of incorporation, the borrowing powers of the company are unlimited.

## 34 Operating segments

The group has identified four reportable segments, as described below, based on its operating brands. The operating brands offer different products and services, and are managed separately. For each of the operating brands, the group's chief decision-makers review internal management reports on a monthly basis. The following describes the operations in each of the group's reportable segments:

- Clicks – is a specialist health, beauty and homeware retailer with stores within the Republic of South Africa, Namibia, Swaziland and Botswana.
- Musica – is a retailer of entertainment-related merchandise, with stores in the Republic of South Africa, Namibia and Botswana.
- The Body Shop – specialises in naturally-inspired luxury toiletries, cosmetics, gifting and grooming, with stores in the Republic of South Africa and Namibia.
- UPD – national full-range pharmaceutical wholesaler and also provides distribution capability for the Clicks Group. UPD operates within the Republic of South Africa and in Botswana.

The information regarding the results of each reportable segment is included on pages 34 and 35. Performance is measured based on segment operating profit, as included in the internal management reports that are reviewed by the group's chief operating decision-makers. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment transactions are on an arm's length basis.

**Major customers**
There are no external customers that account for more than 10% of the group's revenue.

# COMPANY STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 August 2011

| | Note | 2011 R'000 | 2010 R'000 |
|---|---|---|---|
| Reversal of impairment | | – | 600 |
| Bank charges | | (1) | – |
| Dividend income – subsidiary | | 892 866 | 1 327 469 |
| **Profit before taxation** | | **892 865** | 1 328 069 |
| Income tax expense | 7 | – | – |
| **Profit for the year** | | **892 865** | 1 328 069 |
| **Other comprehensive income for the year, net of tax** | | – | – |
| **Total comprehensive income for the year** | | **892 865** | 1 328 069 |

# COMPANY STATEMENT OF FINANCIAL POSITION

at 31 August 2011

| | Notes | 2011 R'000 | 2010 R'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Interest in subsidiary companies (see page 124) | | 889 923 | 876 237 |
| **Current assets** | | | |
| Cash and cash equivalents | | 792 | 788 |
| **Total assets** | | **890 715** | 877 025 |
| **Equity** | | **890 515** | 875 102 |
| Share capital | 17 | 2 999 | 2 841 |
| Share premium | 17 | 10 592 | 10 662 |
| Share option reserve | 18 | 39 926 | 24 600 |
| Distributable reserve | | 836 998 | 836 999 |
| **Current liabilities** | | | |
| Trade and other payables | | 200 | 1 923 |
| **Total equity and liabilities** | | **890 715** | 877 025 |

# COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 August 2011

| | Number of shares '000 | Share capital (Note 17) R'000 | Share premium (Note 17) R'000 | Share option reserve (Note 18) | Distributable reserve | Total R'000 |
|---|---|---|---|---|---|---|
| **Balance at 1 September 2009** | 302 841 | 3 029 | 10 748 | 24 549 | 206 536 | 244 862 |
| Additional shares issued | 8 533 | 86 | 249 693 | – | – | 249 779 |
| Shares cancelled | (27 368) | (274) | – | – | (697 606) | (697 880) |
| Equity-settled capital contribution to subsidiary | – | – | – | 51 | – | 51 |
| Total comprehensive income for the year | – | – | – | – | 1 328 069 | 1 328 069 |
| Distributions to shareholders (see note 26) | – | – | (249 779) | – | – | (249 779) |
| **Balance at 31 August 2010** | **284 006** | **2 841** | **10 662** | **24 600** | **836 999** | **875 102** |
| Additional shares issued | **6 988** | **70** | **299 657** | **–** | **–** | **299 727** |
| Employee share ownership plan shares issued | **29 153** | **291** | **–** | **–** | **–** | **291** |
| Shares cancelled | **(20 343)** | **(203)** | **–** | **–** | **(892 866)** | **(893 069)** |
| Equity-settled capital contribution to subsidiary | **–** | **–** | **–** | **15 326** | **–** | **15 326** |
| Total comprehensive income for the year | **–** | **–** | **–** | **–** | **892 865** | **892 865** |
| Distributions to shareholders (see note 26) | **–** | **–** | **(299 727)** | **–** | **–** | **(299 727)** |
| **Balance at 31 August 2011** | **299 804** | **2 999** | **10 592** | **39 926** | **836 998** | **890 515** |

During the year the group cancelled 20 343 271 (2010: 27 367 849) ordinary shares of one cent each. 20 343 271 (2010: 27 367 849) were previously held as treasury shares and nil (2010: nil) were purchased in the open market. Of the total cost of R0.203 million on cancellation, R0.203 million was deducted from share capital.

See note 17 for an explanation of the difference between the share premium of the group and company.

# COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 August 2011

| | 2011 R'000 | 2010 R'000 |
|---|---|---|
| **Cash effects of operating activities** | | |
| (Loss)/profit before working capital changes | (1) | 629 863 |
| Working capital changes | (1 723) | 1 923 |
| Cash (utilised)/generated by operations | (1 724) | 631 786 |
| Taxation received | – | 958 |
| Cash (outflow)/inflow from operating activities before distributions | (1 724) | 632 744 |
| Distributions paid to shareholders | (299 727) | (249 779) |
| Net cash effects of operating activities | (301 451) | 382 965 |
| **Cash effects of investing activities** | | |
| Purchase of treasury shares from subsidiary company | (203) | (274) |
| Decrease/(increase) in loans receivable | 1 640 | (631 682) |
| Net cash effects of investing activities | 1 437 | (631 956) |
| **Cash effects of financing activities** | | |
| Proceeds from the issue of share capital | 300 018 | 249 779 |
| Net cash effects of financing activities | 300 018 | 249 779 |
| Net movement in cash and cash equivalents | 4 | 788 |
| Cash and cash equivalents at the beginning of the year | 788 | – |
| Cash and cash equivalents at the end of the year | 792 | 788 |

# NOTES TO THE COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 August 2011

| | 2011 R'000 | 2010 R'000 |
|---|---|---|
| **(Loss)/profit before working capital changes** | | |
| Profit before taxation | 892 865 | 1 328 069 |
| Adjustment for: | | |
| Dividend in substance | (892 866) | (697 606) |
| Reversal of impairment | – | (600) |
| | (1) | 629 863 |
| **Working capital changes** | | |
| (Decrease)/increase in trade and other payables | (1 723) | 1 923 |
| | (1 723) | 1 923 |
| **Taxation received** | | |
| Income tax receivable at the beginning of the year | – | 958 |
| Current tax charge | – | – |
| | – | 958 |

# INTEREST IN SUBSIDIARY COMPANIES at 31 August 2011

| Name of company/entity and nature of business | Country of incorporation | Ordinary issued share capital/ trust capital | Shares at cost less amounts written off 2011 R'000 | Shares at cost less amounts written off 2010 R'000 | Amount owing by subsidiaries 2011 R'000 | Amount owing by subsidiaries 2010 R'000 |
|---|---|---|---|---|---|---|
| **Directly held** | | | | | | |
| i) **Trading** | | | | | | |
| New Clicks South Africa (Proprietary) Limited | South Africa | R500 | **272 439** | 272 439 | **568 267** | 570 185 |
| ii) Clicks Group Employee Share Ownership Trust | South Africa | R1 000 | **–** | – | **291** | – |
| iii) Property owning | | | | | | |
| Clicks Centurion (Proprietary) Limited | South Africa | R10 | ***** | * | **9 000** | 9 000 |
| Optimprops 93 (Proprietary) Limited | South Africa | R100 | **–** | 13 | **–** | – |
| **Indirectly held** | | | | | | |
| i) **Trading** | | | | | | |
| Safeway (Swaziland) (Proprietary) Limited | Swaziland | E2 | **–** | – | **–** | – |
| The Clicks Organisation (Botswana) (Proprietary) Limited | Botswana | BWP 3 000 | **–** | – | **–** | – |
| Clicks Group (Namibia) (Proprietary) Limited | Namibia | N$100 | **–** | – | **–** | – |
| The Clicks Group Finance Company (Proprietary) Limited | South Africa | R999 | **–** | – | **–** | – |
| Unicorn Pharmaceuticals (Proprietary) Limited | South Africa | R10 | **–** | – | **–** | – |
| Clicks Retailers (Proprietary) Limited | South Africa | R200 | **–** | – | **–** | – |
| Milton & Associates (Proprietary) Limited | South Africa | R200 | **–** | – | **–** | – |
| Leon Katz (Proprietary) Limited | South Africa | R200 | **–** | – | **–** | – |
| J & G Purchase & Associates (Proprietary) Limited | South Africa | R220 | **–** | – | **–** | – |
| Kalahari Medical Distributors (Proprietary) Limited | Botswana | BWP 360 | **–** | – | **–** | – |
| Clicks Direct Medicines (Proprietary) Limited | South Africa | R700 | **–** | – | **–** | – |
| Direct Patient Support (Proprietary) Limited | South Africa | R100 | **–** | – | **–** | – |
| ii) **Name protection and dormant** | | | | | | |
| 9 companies (2010: 8 companies) | | | **–** | – | **–** | – |
| | | | **272 439** | 272 452 | **577 558** | 579 185 |
| Shares at cost less amounts written off | | | **272 439** | 272 452 | | |
| Amounts owing by subsidiary companies | | | **577 558** | 579 185 | | |
| Share-based payments capitalised | | | **39 926** | 24 600 | | |
| Interest in subsidiaries | | | **889 923** | 876 237 | | |

All subsidiary companies/entities are wholly-owned with the exception of The Link Investment Trust ("Link") and Kalahari Medical Distributors (Proprietary) Limited ("Kalahari").

Clicks Group Limited has a 56% interest in Link and 90% in Kalahari.

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

The loan and investment in Link were impaired in prior years as the carrying value of the loan and investment exceeded the present value of management's best estimate of likely future cash flows discounted at the group's risk adjusted pre-tax weighted average cost of capital. All other loans are interest free, unsecured and an unconditional right to defer payment for 12 months exists.

* Values less than R1 000.

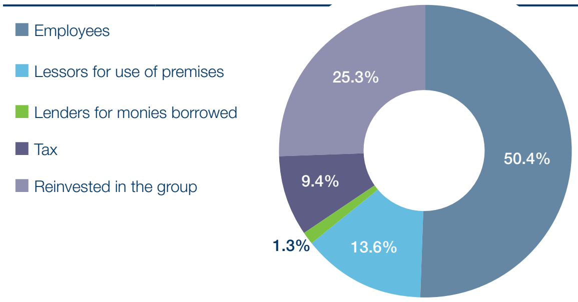
# DISTRIBUTION OF WEALTH CREATED

for the year ended 31 August 2011

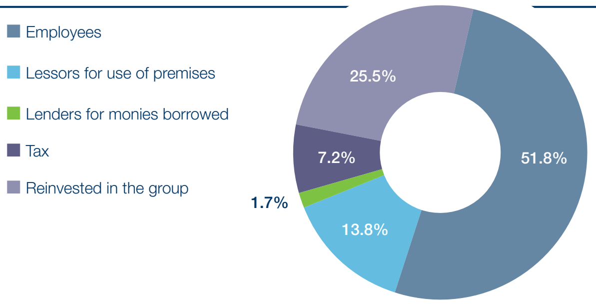
| | 2011 R'm | 2010 R'm |
|---|---|---|
| Total revenue | **14 111** | 13 286 |
| Turnover | **14 103** | 13 276 |
| Finance income | **8** | 10 |
| Paid to suppliers for goods and services | **(11 685)** | (11 082) |
| Value added | **2 426** | 2 204 |
| Other income | **689** | 626 |
| **Wealth created** | **3 115** | 2 830 |
| Applied as follows: | | |
| Employees | **1 562** | 1 459 |
| Salaries and wages | **1 538** | 1 447 |
| Share-based settlements | **15** | – |
| Staff training | **9** | 12 |
| Community investments | **9** | 10 |
| Lessors for use of premises | **423** | 390 |
| Lenders for monies borrowed | **42** | 49 |
| Tax | **293** | 204 |
| Corporate tax | **270** | 190 |
| Property taxes | **23** | 14 |
| Reinvested in the group | **786** | 718 |
| Deferred tax | **(23)** | 17 |
| Depreciation and amortisation | **158** | 137 |
| Retained income | **651** | 564 |
| **Distribution of wealth created** | **3 115** | 2 830 |

## Distribution of wealth created

**2011**




**2010**



# SHAREHOLDERS' DIARY

| | |
|---|---|
| **Annual general meeting** | 17 January 2012 |
| **Preliminary profit announcements** | |
| Interim results to February 2012 | April 2012 |
| Final results to August 2012 | October 2012 |
| **Publication of 2012 Integrated annual report** | November 2012 |
| **Ordinary share distributions** | |
| **2011 Final distribution** | |
| Last day to trade with distribution included | 20 January 2012 |
| Date of distribution payment | 30 January 2012 |
| **2012 Interim distribution** | |
| Last day to trade with distribution included | July 2012 |
| Date of distribution payment | July 2012 |
| **2012 Final distribution** | |
| Last day to trade with distribution included | January 2013 |
| Date of distribution payment | January 2013 |

## 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.

# ANALYSIS OF SHAREHOLDERS

| Classification of registered shareholdings | Number of holders | Percentage of holders | Number of shares | Percentage of shares |
|---|---|---|---|---|
| Banks | 86 | 1.8% | 137 496 142 | 50.8% |
| Pension funds | 85 | 1.7% | 46 604 280 | 17.2% |
| Brokers | 48 | 1.0% | 26 769 031 | 9.9% |
| Mutual funds | 101 | 2.1% | 18 660 153 | 6.9% |
| Own holdings | 1 | 0.0% | 16 493 520 | 6.1% |
| Individuals | 3 555 | 72.7% | 8 535 897 | 3.1% |
| Nominees and trusts | 729 | 14.9% | 5 120 879 | 1.9% |
| Insurance companies | 17 | 0.3% | 4 841 487 | 1.8% |
| Investment companies | 5 | 0.1% | 2 600 057 | 1.0% |
| Other | 264 | 5.4% | 3 530 666 | 1.3% |
| | 4 891 | 100.0% | 270 652 112 | 100.0% |

| Distribution of registered shareholdings | Number of holders | Percentage of holders | Number of shares | Percentage of shares |
|---|---|---|---|---|
| 1 – 1 000 | 2 575 | 52.7% | 1 064 606 | 0.4% |
| 1 001 – 10 000 | 1 829 | 37.4% | 6 295 524 | 2.3% |
| 10 001 – 100 000 | 347 | 7.1% | 10 589 425 | 3.9% |
| 100 001 – 1 000 000 | 100 | 2.0% | 33 503 854 | 12.4% |
| 1 000 001 shares and over | 40 | 0.8% | 219 198 703 | 81.0% |
| | 4 891 | 100% | 270 652 112 | 100.0% |

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 16th annual general meeting ("AGM") of shareholders of Clicks Group Limited ("the company") will be held at the registered office of the company, corner Searle and Pontac Streets, Cape Town on 17 January 2012 at 10:00. The board of directors of the company have determined that the record date for all purposes of determining which shareholders are entitled to participate in and vote at this AGM is 6 January 2012. The last date to trade in order to be eligible to vote is 29 December 2011. At the AGM the following resolutions will be proposed, considered, and if deemed fit, passed with or without amendment, and such other business will be conducted as is required to be dealt with at the AGM in terms of the Companies Act, 71 of 2008, as amended ("the Companies Act").

1. **Presentation of Directors' Report**

2. **Presentation of Audit and Risk Committee Report**

3. **Ordinary resolution number 1** – adoption of financial statements

   To receive and consider for adoption the annual financial statements incorporating the Directors' Report and the Audit and Risk Committee Report of the company and its subsidiaries ("the group") for the year ended 31 August 2011. The financial statements are set out on pages 64 to 124 of the document of which this notice of annual general meeting forms part ("the Integrated Annual Report").

   "Resolved that the audited annual financial statements of the group incorporating the Directors' Report, the Audit and Risk Committee Report and the Independent Auditor's Report for the year ended 31 August 2011 accompanying this notice be accepted and adopted."

4. **Ordinary resolution number 2** – reappointment of auditors

   To approve the reappointment of KPMG Inc. as auditors of the company for the ensuing year and to note that the individual registered auditor who will undertake the audit is David Friedland. The audit and risk committee has recommended that the firm and the designated auditor be reappointed for the ensuing period.

   "Resolved that the firm KPMG Inc. and David Friedland as the designated auditor be reappointed for the ensuing year."

5. **Ordinary resolution number 3** – re-election of director

   To consider the re-election as a director of the company of Fatima Abrahams who retires in accordance with the company's memorandum of incorporation ("MOI") and being eligible, offers herself for re-election.

   "Resolved that Fatima Abrahams be and is hereby elected as a director."

   In compliance with paragraph 3.84 of the JSE Listings Requirements ("the Listings Requirements"), a brief curriculum vitae is provided in Annexure 1 to this notice on page 131.

6. **Ordinary resolution number 4** – re-election of director

   To consider the re-election as a director of the company of John Bester who retires in accordance with the MOI and being eligible, offers himself for re-election.

   "Resolved that John Bester be and is hereby elected as a director."

   In compliance with paragraph 3.84 of the Listings Requirements, a brief curriculum vitae is provided in Annexure 1 to this notice on page 131.

7. **Ordinary resolution number 5** – re-election of director

   To consider the re-election as a director of the company of Bertina Engelbrecht who retires in accordance with the company's MOI and being eligible, offers herself for re-election.

   "Resolved that Bertina Engelbrecht be and is hereby elected as a director."

   In compliance with paragraph 3.84 of the Listings Requirements, a brief curriculum vitae is provided in Annexure 1 to this notice on page 131.

8. **Ordinary resolution number 6** – re-election of director

   To consider the re-election as a director of the company of Michael Fleming who retires in accordance with the MOI and being eligible, offers himself for re-election.

   "Resolved that Michael Fleming be and is hereby elected as a director."

   In compliance with paragraph 3.84 of the Listings Requirements, a brief curriculum vitae is provided in Annexure 1 to this notice on page 131.

9. **Ordinary resolution number 7** – election of members of the audit and risk committee

   Explanatory note

   In terms of the Companies Act, at each AGM an audit committee comprising at least three members who are all independent non-executive directors must be elected. It is proposed that the current members of the audit and risk committee be re-elected for the ensuing year. The election of each member of the audit and risk committee will be voted on separately.

   Brief curricula vitae of the members are provided in Annexure 2 to this notice on page 132.

   ***Election of John Bester as member of the audit and risk committee.***

   9.1 "Resolved that John Bester be and is hereby elected as a member of the audit and risk committee."

   ***Election of Fatima Jakoet as member of the audit and risk committee.***

   9.2 "Resolved that Fatima Jakoet be and is hereby elected as a member of the audit and risk committee."

   ***Election of Nkaki Matlala as member of the audit and risk committee.***

   9.3 "Resolved that Nkaki Matlala be and is hereby elected as a member of the audit and risk committee."

   ***Election of David Nurek as member of the audit and risk committee.***

   9.4 "Resolved that David Nurek be and is hereby elected as a member of the audit and risk committee."

10. **Ordinary resolution number 8** – general authority to make distributions to shareholders by way of a reduction in share premium.

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

    "Resolved that the directors of the company be and are hereby authorised, by way of a general authority to distribute, on a pro rata basis, to all ordinary shareholders of the company, any share capital and reserves of the company in terms of section 46 of the Companies Act, and the MOI and the Listings Requirements, provided that:

    - the general authority shall be valid until the next annual general meeting of the company or for 15 (fifteen) months from the passing of this ordinary resolution (whichever period is shorter).

    When any such distribution is made the directors will give consideration to the following issues at the time the distribution is made. The directors must be of the opinion that at the time of such distribution of share capital and/or reserves:

    - the group will be able in the ordinary course of business to pay its debts for a period of 12 (twelve) months after the date of the distribution;

- the assets of the company and the group, fairly valued, are in excess of the liabilities of the company and the group for a period of 12 (twelve) months after the date of the distribution;
- the issued share capital and reserves of the company and the group are adequate for ordinary business purposes for a period of 12 (twelve) months after the date of the distribution;
- the working capital available to the company and the group is adequate for ordinary business purposes for a period of 12 (twelve) months after the date of the distribution; and
- the directors, will at such time have applied the solvency and liquidity test set out in section 4 of the Companies Act and will have concluded that the company will satisfy the solvency and liquidity test immediately after completing the proposed distribution."

11. **Ordinary resolution number 9 (non-binding advisory vote)** – approval of the company's remuneration policy

Explanatory note

In terms of principle 2.27 of the King Report on Corporate Governance for South Africa, 2009 ("King III Report"), the company's remuneration policy should be tabled to shareholders for a non-binding advisory vote at the AGM. This vote enables shareholders to express their views on the remuneration policies adopted and on their implementation. Accordingly, the shareholders are requested to endorse the company's remuneration policy set out on pages 51 to 55, by way of a non-binding advisory vote.

"Resolved that the company's remuneration policy accompanying this notice be accepted and approved."

12. **Special resolution number 1** – general authority to repurchase shares

Explanatory note

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 Listings Requirements to acquire the company's ordinary shares, subject to the terms and conditions set out in the resolution. The directors require that such general authority should be implemented in order to facilitate the repurchase of the company's ordinary shares in circumstances where the directors consider this to be appropriate and in the best interests of the company and its shareholders.

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

"Resolved that the company hereby approves, as a general approval contemplated in sections 46 and 48 of the Companies Act, the acquisition by the company or any of its subsidiaries from time to time of the issued ordinary 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 MOI, the provisions of the Companies Act and the Listings Requirements as presently constituted and which may be amended from time to time, and provided that:

- any such repurchase shall be implemented through the order book operated by the JSE trading system, without any prior understanding or arrangement between the company and the counterparty;
- authorisation thereto being given by the MOI;
- this general authority shall only be valid until the company's next annual general meeting, provided that it shall not extend beyond 15 (fifteen) months from the date of passing of this special resolution;
- a press announcement will be published as soon as the company and/or its subsidiaries has repurchased ordinary shares constituting, on a cumulative basis, 3% (three per cent) of the initial number of ordinary shares, and for each 3% (three per cent) in aggregate of the initial number of shares repurchased thereafter, containing full details of such repurchases;
- acquisitions by the company and its subsidiaries of shares in the capital of the company may not, in the aggregate, exceed in any one financial year 5% (five per cent) of the company's issued ordinary 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 per cent) of the weighted average of the market price at which such shares are traded on the JSE for the 5 (five) business days immediately preceding the date the repurchase transaction is effected;
- in the case of a derivative (as contemplated in the Listings Requirements) the price of the derivative shall be subject to the limits set out in section 5.84(a) of the Listings Requirements;
- the company's sponsor has confirmed the adequacy of the company's and the group's working capital for purposes of undertaking the repurchase of shares in writing to the JSE when the company entered the market to proceed with the repurchase;
- the company and/or its subsidiaries do not repurchase securities during a prohibited period as defined in paragraph 3.67 of the Listings Requirements unless they have in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed and full details of the programme have been disclosed in an announcement on SENS prior to the commencement of the prohibited period; and
- the company only appoints one agent at any point in time to effect repurchases on its behalf."

When any such repurchase of the maximum number of ordinary shares in terms of the aforegoing general authority is made, the directors will give consideration to the following issues and at the time the repurchase is made, the directors must be of the opinion that:

- the company and the group will be able in the ordinary course of business to pay its debts for a period of 12 (twelve) months after the date of the repurchase;
- the assets of the company and group are to be in excess of the liabilities of the company and group for a period of 12 (twelve) months after the date of the repurchase fairly valued in accordance with the accounting policies used in the audited financial statements for the year ended 31 August 2011;
- the share capital and reserves of the company and group are adequate for ordinary business purposes for a period of 12 (twelve) months after the date of the repurchase;
- the working capital of the company and the group are adequate for ordinary business purposes for a period of 12 (twelve) months after the date of this notice of the annual general meeting; and
- having applied the solvency and liquidity test set out in section 4 of the Companies Act, that the company will satisfy the solvency and liquidity test immediately after completing the proposed repurchase.

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 Listings Requirements for purposes of this general authority:

Directors and management; pages 14 and 15

Major beneficial shareholders; page 8

Directors' interests in ordinary shares; page 55

Share capital of the company; page 99

Litigation statement

In terms of section 11.26 of the Listings Requirements, the directors, whose names appear in 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.

Directors' responsibility statement

The directors, whose names appear in 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 group since the date of signature of the audit report and up to the date of this notice.

13. **Special resolution number 2 –** approval of directors' fees

Explanatory note

In terms of section 66(8) of the Companies Act the company may pay remuneration to its directors for their service as directors. Section 66(9) requires the remuneration to be paid in accordance with a special resolution approved by shareholders within the previous two years.

The effect of the special resolution is that the directors will be entitled to the fees paid for the period from 1 September 2011 until the AGM to be held in January 2013.

"Resolved that the fees of the directors as reflected below be approved for the period from 1 September 2011 until the AGM to be held in January 2013."

The proposed fees are set out on page 55 in the Remuneration Report.

Invitation fee

All non-executive directors who attend committee meetings by invitation at the request of the board shall be eligible to receive the same fee as if they were a member of the committee.

14. **Special resolution number 3** – general approval to provide financial assistance

Explanatory note

The reason for this special resolution is to provide general authority for the company to provide direct or indirect financial assistance to a related or interrelated company or corporation, subject to sub-sections 45(3) and 45(4) of the Companies Act.

Section 45 of the Companies Act provides, *inter alia*, that any direct or indirect financial assistance to a related or interrelated company or corporation must be provided only pursuant to a special resolution of the shareholders, adopted within the previous two years, which approved such assistance either for the specific recipient, or generally for a category of potential recipients, and the specific recipient falls within that category, and the board of directors must be satisfied that:

- immediately after providing the financial assistance, the company would satisfy the solvency and liquidity test, as defined in section 4 of the Companies Act; and
- the terms under which the financial assistance is proposed to be given are fair and reasonable to the company.

The company, when the need arises, *inter alia*, provides loans to and/or guarantees repayment or other obligations of subsidiaries or related or interrelated companies. The company requires the ability to continue providing financial assistance, if and when necessary, to its current and future subsidiaries and/or any other company or corporation that is or becomes related or interrelated, in accordance with section 45 of the Companies Act.

In the circumstances and in order to, *inter alia*, ensure that the company's subsidiaries and other related and interrelated companies and corporations have access to financing and/or financial backing from the company, it is necessary to obtain the approval of shareholders, as set out in special resolution number 3.

The passing of this special resolution will have the effect of allowing the directors of the company to authorise the company to provide direct or indirect financial assistance to the company's subsidiaries and other related and interrelated companies and corporations to allow such persons or companies or corporations to have access to financing and/or financial backing from the company.

"Resolved that the board of directors of the company may, subject to compliance with the requirements of the company's MOI, the Companies Act and the JSE Listings Requirements, each as presently constituted and as amended from time to time, authorise the company to provide direct or indirect financial assistance by way of a loan, guarantee, the provision of security or otherwise, to any related or interrelated company or corporation, or to any future subsidiaries and/or any other company or corporation that is or becomes related or interrelated to the company, for any purpose or in connection with any matter. The financial assistance may be provided at any time during the period commencing on the date of the adoption of this resolution and ending 2 (two) years after such date."

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

All shareholders of ordinary shares and "A" shares in the company are entitled to attend, speak and vote at the AGM. 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 AGM by completing the attached form of proxy and returning it to the company's transfer secretaries or the registered office of the company by not less than 24 hours prior to the time appointed for the holding of the meeting (excluding Saturdays, Sundays and public holidays). A proxy need not also be a shareholder; and
- you may participate electronically in the manner set out below.

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 Limited's electronic settlement system ("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).

The company intends to make provision for shareholders of the company to participate in the AGM by way of electronic communication. Should any shareholder wish to participate in the AGM by way of electronic communication, it is required to give written notice of such proposed participation to both the company at its registered office marked for the attention of the company secretary and the company's transfer secretaries, Computer Share Investor Services (Proprietary) Limited at PO Box 61051, Marshalltown, 2107, by no later than 12:00 on 6 January 2012. Such notice must be accompanied by the following:

(a) if the shareholder is an individual, a certified copy of his identity document;

(b) if the shareholder is not an individual, a certified copy of the resolution adopted by the relevant entity authorising the representative to represent the shareholder at the AGM and a certified copy of the authorised representative's identity document; and

(c) a valid e-mail address and/or facsimile number for the purpose of receiving notice of the manner in which the electronic participation will be conducted.

If the shareholder provides the company with the aforesaid notice and documents, the company shall use its reasonable endeavours to notify the shareholder of the relevant details of the electronic communication through which it can participate in the AGM, and will also inform such shareholders of the voting procedures applicable to them. The cost of participating electronically will be for the expense of the shareholder.

**Approvals required for resolutions**

Ordinary resolutions numbers 1 to 9, contained in this Notice of AGM, require the approval of more than 50% of the total votes cast on the resolutions by shareholders present or represented by proxy at the AGM. Ordinary resolution number 9 is proposed for a non-binding advisory vote only and any failure to pass this resolution will not have any effect on the company's existing arrangements, but the outcome of the vote will be taken into consideration when considering the company's remuneration policy.

Special resolutions numbers 1 to 3 contained in this Notice of AGM require the approval by more than 75% of the total votes cast on the resolutions by shareholders present or represented by proxy at the AGM.

On a poll the holders of ordinary shares or "A" shares shall be entitled to one vote per share.

By order of the board

**DW Janks**
**Company Secretary**

17 November 2011

# ANNEXURE 1 – NOTICE OF ANNUAL GENERAL MEETING

## Brief curricula vitae of directors standing for re-election

### Fatima Abrahams (49)
Independent non-executive director

**B Econ (Hons) (cum laude), M Com and D Com**
**Chairperson of the remuneration and nominations committee**
**Member of the social and ethics committee**

**Appointed March 2008**

Professor Abrahams is an academic, experienced company director and a registered industrial psychologist. She is currently a senior professor at the University of the Western Cape, having also served as dean of the Faculty of Economic and Management Sciences. Professor Abrahams is chairperson of TSiBA Education, a non-profit private higher educational institution, and is a non-executive director of The Foschini Group and Lewis Group.

### John Bester (65)
Independent non-executive director

**B Com (Hons), CA (SA), CMS (Oxon)**
**Chairperson of the audit and risk committee**
**Member of the remuneration and nominations committee**

**Appointed October 2008**

John spent 16 years in the accounting profession, including serving as a partner of Ernst & Young for 10 years. He has been involved in commerce and industry for a further 28 years, holding a number of financial directorships during this time. He is a non-executive director of Personal Trust International, HomeChoice Holdings, Sovereign Food Investments and Western Province Rugby (Proprietary) Limited, as well as a trustee of the Children's Hospital Trust.

### Bertina Engelbrecht (48)
Group human resources director

**B Proc, LL M, admitted attorney**
**Member of the social and ethics committee**

**Appointed as a director in March 2008**

An experienced human resources professional, Bertina joined Clicks Group in July 2006. She was previously general manager for Shell SA Energy and regional human resources manager for Shell Oil Products Africa. Prior to this Bertina was director of organisational effectiveness at Sea Harvest, managed her own consultancy practice and spent eight years with Transnet.

### Michael Fleming (44)
Chief financial officer

**BCom, CTA, CA (SA)**

**Appointed as a director in March 2011**

Michael was previously chief financial officer of Tiger Brands Limited. He joined the Tiger Brands group in 2000, was appointed as financial executive of the Tiger Brands consumer brands division in 2005 and promoted to chief financial officer in June 2008. During his tenure as CFO of Tiger Brands, Michael also served as a non-executive director of Oceana Group Limited.

# ANNEXURE 2 – NOTICE OF ANNUAL GENERAL MEETING

## Brief curricula vitae of directors standing for election to the audit and risk committee

### David Nurek (61)

Independent non-executive chairman

**Dip Law, Grad Dip Company Law**
**Chairman of the social and ethics committees**
**Member of the audit and risk, and remuneration and nominations committees**

Appointed June 1997

David practised as an attorney with Sonnenberg Hoffman Galombik for 32 years, including 23 years as a partner and director. He joined Investec Group in 2000 and is regional chairman of the group's Western Cape businesses and global head of legal risk for the Investec Group. He is non-executive chairman of Distell Group, The Foschini Group and Lewis Group, and a non-executive director of Sun International, Trencor and Mobile Industries.

David has been a non-executive director of a number of listed companies for over 21 years, and has served on the audit and risk committees of most of these companies for many years, giving him a wide experience of participation in audit committee activities. He is currently a member of the audit and/or risk committees of Distell Group, Sun International, Trencor and Mobile Industries, and until recently was a member of the risk committee of Aspen Pharmacare. During the course of his legal practice, David specialised in corporate and commercial matters and subsequent to this, in his position as a senior executive at Investec Group, he has again been involved in dealing with a wide range of corporate and commercial issues.

### John Bester (65)

Independent non-executive director

**B Com (Hons), CA (SA), CMS (Oxon)**
**Chairperson of the audit and risk committee**
**Member of the remuneration and nominations committee**

Appointed October 2008

John spent 16 years in the accounting profession, including serving as a partner of Ernst & Young for 10 years. He has been involved in commerce and industry for a further 28 years, holding a number of financial directorships during this time. He is a non-executive director of Personal Trust International, HomeChoice Holdings, Sovereign Food Investments and Western Province Rugby (Proprietary) Limited, as well as a trustee of the Children's Hospital Trust.

John currently chairs the audit and risk committees for HomeChoice Holdings, Western Province Rugby and the Children's Hospital Trust, and is a member of the Sovereign Foods audit committee. In the past he has chaired the committees of listed companies BJM and Paramount Properties. He also serves on the remuneration committees of these same companies. This involvement, together with John's position as a partner of a large audit firm, and his experience as financial director of a listed company and non-executive director of other listed companies, give him considerable working knowledge of the operations and responsibilities of an audit and risk committee.

### Fatima Jakoet (51)

Independent non-executive director

**B Sc, CTA, CA (SA), Higher certificate in financial markets**
**Member of the audit and risk committee**

Appointed March 2008

After spending six years in the auditing profession, Fatima went on to lecture in financial accounting and then spent over a decade in various positions in corporate South Africa. Fatima is a non-executive director of MMI Holdings, Tongaat Hulett and MTN West and Central Africa (WECA) Region.

Fatima has been a member or chairperson of audit committees since 1994. She has previously chaired the audit committee of the SA Reserve Bank and other listed companies. She is currently the chairperson of MMI Holdings' risk and compliance committee and chairs several audit and risk committees for MTN in the WECA region. Fatima has extensive knowledge of governance and risk management, in addition to her core financial skills.

### Dr Nkaki Matlala (58)

Independent non-executive director

**B Sc, M Sc, M D, M Med (Surgery), FCS**
**Member of the audit and risk, and social and ethics committees**

Appointed in August 2010

Dr Matlala is an experienced teacher and surgeon and is currently executive director: government and stakeholder relations at Mediclinic Southern Africa. He was deputy president of the National Medical and Dental Association in the late eighties, and worked for a number of years in academic medicine and private surgical practice before establishing Safika Health in 1999. He joined Mediclinic in 2005. Dr Matlala is chairman of the Hospital Association of South Africa and a founding member and chairman of Phodiso Clinics, a healthcare investment company.

Dr Matlala has the experience of serving on several healthcare company boards and served on the audit committee of Umnotho weSizwe Group, a mining investment company of which he is non-executive chairman and co-founder.

# CLICKS GROUP LIMITED

CLICKS GROUP LIMITED
Reg No: 1996/000645/06 • Share code: CLS • ISIN: ZAE000134854

# FORM OF PROXY

For use by certificated Clicks Group shareholders and "own name" dematerialised Clicks Group shareholders only, at the annual general meeting of shareholders of the company to be held on Tuesday, 17 January 2012 at 10:00 at the registered office of Clicks Group Limited, corner Searle and Pontac Streets, Cape Town.

I/We (full names – in block letters) ______________________________

of (address) ______________________________

being the registered holder of ______________________________ shares (see note 1) in Clicks Group 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 either for or against a resolution or to abstain from voting on my/our behalf, as indicated below, at the annual general meeting to be held on Tuesday, 17 January 2012 at 10:00 and at any adjournment thereof.

| | | Number of votes (one vote per share) | | |
|---|---|---|---|---|
| | | Vote for | Vote against | Abstain from voting |
| 1. | Ordinary resolution number 1 – adoption of financial statements | | | |
| 2. | Ordinary resolution number 2 – reappointment of auditors | | | |
| 3. | Ordinary resolution number 3 – re-election of Fatima Abrahams as a director | | | |
| 4. | Ordinary resolution number 4 – re-election of John Bester as a director | | | |
| 5. | Ordinary resolution number 5 – re-election of Bertina Engelbrecht as a director | | | |
| 6. | Ordinary resolution number 6 – re-election of Michael Fleming as a director | | | |
| 7. | Ordinary resolution number 7 – election of members of the audit and risk committee (separate voting) | | | |
| | 7.1 John Bester | | | |
| | 7.2 Fatima Jakoet | | | |
| | 7.3 Nkaki Matlala | | | |
| | 7.4 David Nurek | | | |
| 8. | Ordinary resolution number 8 – general authority to make distributions to shareholders by way of a reduction in share premium | | | |
| 9. | Ordinary resolution number 9 (non-binding advisory vote) – approval of the company's remuneration policy | | | |
| 10. | Special resolution number 1 – general authority to repurchase shares | | | |
| 11. | Special resolution number 2 – approval of directors' fees | | | |
| 12. | Special resolution number 3 – general approval to provide financial assistance | | | |

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 (Proprietary) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107) or at the registered office of the company, corner Searle and Pontac Streets, Cape Town, no later than 24 hours (10:00, Monday, 16 January 2012) 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 (10:00, Monday, 16 January 2012) before the commencement of the meeting.
4. A proxy need not be a shareholder of the company.
5. If this proxy is signed under 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

## Capital expenditure

### Maintenance capital expenditure

Capital expenditure incurred in replacing existing capital expenditure or capital expenditure with a return below the group's required return.

### Growth capital expenditure

Capital expenditure that is not maintenance capital expenditure.

## Cash flow

### Financing activities

Activities that result in changes to the capital and funding structure of the group.

### Investing activities

Activities relating to the acquisition, holding and disposal of capital assets and long-term investments.

### Operating activities

Activities that are not financing or investing activities that arise from the operations conducted by the group.

## Comparable stores' turnover growth

Sales growth expressed as a percentage of growth for stores that have been operating for the full period during the current and previous financial years.

## Current ratio

Current assets at year-end divided by current liabilities at year-end.

## Distribution cover

Undiluted headline earnings per share for the year divided by the ordinary distribution per share for the year.

## Distribution per share

Distribution per share is the actual interim cash dividend and/or capital distribution paid and the final cash dividend and/or capital distribution declared, expressed as cents per share.

## Earnings per share

### Earnings per share

Profit for the year divided by the weighted average number of shares in issue for the year.

### Diluted earnings per share

Profit for the year divided by the weighted average diluted number of 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 weighted average diluted number of shares in issue for the year.

## Effective tax rate

The tax charge in the income statement as a percentage of profit before tax.

## Free float

The number of ordinary shares that are freely tradable on the JSE Limited, excluding treasury shares and shares held by directors and employee share schemes.

## Gross profit margin

Gross profit expressed as a percentage of turnover.

## Headline earnings

Profit for the year adjusted for the after-tax effect of goodwill impairment and certain other capital items.

## IFRS

International Financial Reporting Standards, as adopted by the International Accounting Standards Board ("IASB"), and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB.

Clicks Group's consolidated financial statements are prepared in accordance with IFRS.

## Interest-bearing debt, including cash, to shareholders' interest at year-end

Interest-bearing debt (including bank overdraft), net of cash balances, at the end of the year divided by shareholders' interest at the end of the year.

## Inventory days

Closing inventory at year-end divided by the cost of merchandise sold during the year, multiplied by 365 days.

## King III

The revised King Code and Report on Corporate Governance for South Africa, released in 2009, which sets out principles of good corporate governance for South African companies.

## Living Standards Measure (LSM)

The South African Advertising Research Foundation (SAARF) LSM is a widely used marketing research tool in South Africa and a unique means of segmenting the market. It divides the population into 10 LSM groups, 10 (highest) to 1 (lowest), grouping people according to their living standards using criteria such as ownership of major appliances and access to services.

## Market capitalisation

The closing market price per share at year-end multiplied by the number of ordinary shares in issue at year-end.

## Net asset value per share

Net assets at year-end divided by the number of ordinary shares in issue at year-end (net of treasury shares).

## Net tangible asset value per share

Net assets at year-end, less intangible assets (such as goodwill and trademarks), divided by the number of ordinary shares in issue at year-end (net of treasury shares).

## Operating profit

Operating profit before financing costs, as reported in the group consolidated statement of comprehensive income, adjusted to exclude goodwill impairment, impairment of property, plant and equipment, profit on disposal of businesses and profit/loss on disposal of property, plant and equipment.

## Operating profit margin

Operating profit expressed as a percentage of turnover.

## Percentage of ordinary shares traded

The number of ordinary shares traded on the JSE Limited during the year as a percentage of the weighted average number of ordinary shares in issue (net of treasury shares).

## Price earnings ratio

The closing market price per share at year-end divided by diluted headline earnings per share for the year.

## Return on shareholders' interest (ROE)

Headline earnings expressed as a percentage of the average shareholders' interest for the year.

## Return on total assets (ROA)

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.

### Business unit segment

A distinguishable trading brand or component of the group.

## Selling price inflation

The change in the weighted average selling price of a sample of products for the year relative to the previous year expressed as a percentage of the weighted average selling price of the same sample of products for the previous year. Only products sold in both the current and previous years are included in the sample.

## Shareholders' interest

Share capital and share premium (reduced by the cost of treasury shares) and other reserves comprising equity.

## Shareholders' interest to total assets

The shareholders' interest divided by the total assets at the year-end.

## Total income

Gross profit plus other income.

## Total income margin

Total income expressed as a percentage of turnover.

## Trade creditor days

Closing trade creditors at year-end (adjusted to exclude VAT) divided by the cost of merchandise sold during the year, multiplied by 365 days.

## Trade debtor days

Closing trade debtors at year-end (adjusted to exclude VAT) divided by sales for the year, multiplied by 365 days.

## Treasury shares

Issued shares in Clicks Group Limited held by a group company in terms of an approved share repurchase programme, the New Clicks Holdings Share Trust and the Clicks Group Employee Share Ownership Trust.

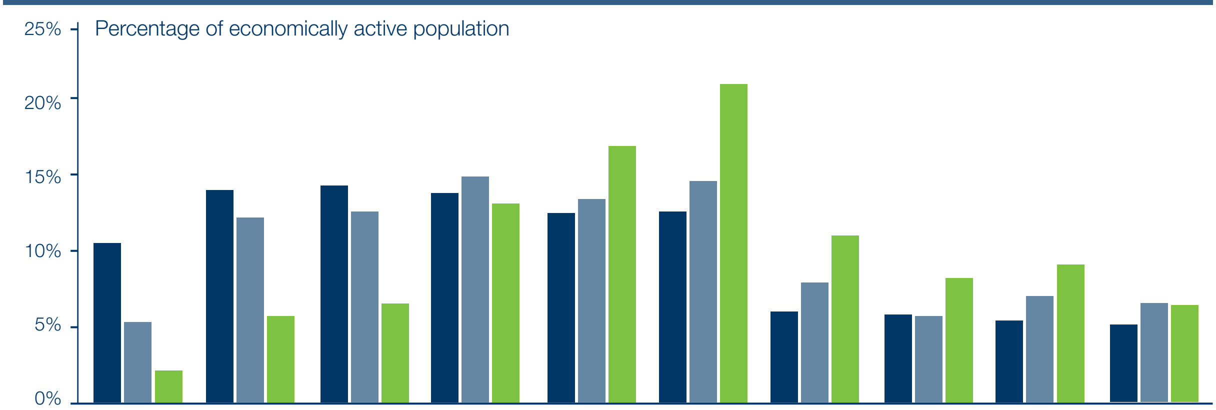
## Weighted average number of shares

The number of ordinary shares in issue, increased by shares issued during the year and reduced by treasury shares purchased or shares cancelled during the year, weighted on a time basis for the period during which they have participated in the income of the group.

## Weighted average diluted number of shares

The weighted average number of ordinary shares adjusted for the effects of all dilutive potential shares.

**SAARF Living Standards Measure (LSM)**




| 2011 | LSM 1 | LSM 2 | LSM 3 | LSM 4 | LSM 5 | LSM 6 | LSM 7 | LSM 8 | LSM 9 | LSM 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| Population ('000) | 717 | 1 934 | 2 225 | 4 450 | 5 750 | 7 128 | 3 747 | 2 788 | 3 110 | 2 170 |
| Average monthly household income (R) | 1 363 | 1 929 | 2 258 | 3 138 | 4 165 | 6 322 | 10 255 | 14 014 | 19 654 | 29 512 |

■ 2001 ■ 2006 ■ 2011

# CORPORATE INFORMATION

## Clicks Group Limited
Incorporated in the Republic of South Africa
Registration number 1996/000645/06
JSE share code: CLS
ISIN: ZAE000134854

## Registered address
Cnr Searle and Pontac Streets
Cape Town 8001
Telephone: +27 (0)21 460 1911

## Postal address
PO Box 5142
Cape Town 8000

## Company secretary
David Janks, BA, LL B
E-mail: David.Janks@clicksgroup.co.za

## Auditors
KPMG Inc.

## Principal bankers
The Standard Bank of South Africa

## Attorneys
Cliffe Dekker Hofmeyr Inc.
Bowman Gilfillan Inc.

## JSE sponsor
Investec Bank Limited

## Transfer secretaries
Computershare Investor Services (Proprietary) Limited
Business address: 70 Marshall Street, Johannesburg 2001
Postal address: PO Box 61051, Marshalltown 2107
Telephone: +27 (0)11 370 5000

## Investor relations consultants
Tier 1 Investor Relations
Telephone: +27 (0)21 702 3102
E-mail: ir@tier1ir.co.za

**For more information, please visit our website on www.clicksgroup.co.za**

ince.motiv