

# *Annual Report*

***Edcon Holdings (Proprietary) Limited***

***For the period ended 28 March 2009***



## EDCON ANNUAL REPORT 2009

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## **BUSINESS AND MANAGEMENT**

### **Overview**

We are the largest non-food retailer in South Africa with a 31% market share of the South African clothing and footwear ("C&F") market, more than twice that of our nearest competitor, and have been in operation for 80 years. Since opening our first *Edgars* store in 1929, we have expanded our footprint to include 1,233 stores under 14 retail chains throughout southern Africa. Our leading chains include *Edgars*, *Jet*, *CNA*, *Boardmans* and *Red Square*, which are among the most recognisable retail brands in the region. We are the number one or number two retailer in the majority of our product lines, including clothing, footwear, mobile phones, cosmetics, stationery and books. We also have the largest base of consumer credit customers in southern Africa, with more than four million active credit card accounts. As of 28 March 2009, we employed 19,100 permanent employees and for the year then ended ("fiscal 2009"), we generated revenue of R25,195 million, including retail sales of R22,075 million, and adjusted EBITDA (excluding the consolidation of OntheCards) of R3,410 million.


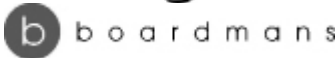





Our primary operations are in South Africa, where we derive approximately 95% of our retail sales. According to RLC, from fiscal 2004 to fiscal 2009, C&F sales in South Africa, which accounted for 59% of our retail sales in fiscal 2009, have grown at a CAGR of 12%. C&F spend as a percentage of household expenditure has also increased, primarily as a result of a rapidly emerging black middle class, which has more than doubled in size since 2000. Our large retail footprint positions us to continue benefiting from this growth in the South African market. Our remaining operations are in neighbouring Namibia, Botswana, Lesotho and Swaziland.

We sell private label and branded products, including such product categories as clothing, footwear, mobile phones, cosmetics, homewares, stationery and books, across our 14 retail chains. Our retail business is organised into two divisions as follows:

### **Department store division**

The department store division is targeted at middle- to upper-income consumers and accounted for 59% of our retail sales and 56% of our adjusted EBITDA in fiscal 2009. *Edgars*, the largest chain in the division and the leading department store chain in South Africa, accounted for 51% of our retail sales in fiscal 2009. We also operate our specialty store chains *Boardmans*, *Red Square*, *Temptations*, *Prato* and *Edgars Active* under our department store division. We also sell stationery, books and magazines through our *CNA* chain, which has been trading in South Africa since 1896 and is one of the region's oldest and best known retail brands. *CNA* accounted for 8% of our retail sales in fiscal 2009.








## DEPARTMENT STORE DIVISION CHAINS

| Chains   | Number of Stores | Product Mix   |
|--|------------------|---|
|  | 152              | Clothing, footwear, cosmetics, mobile phones, homewares and accessories   |
|  | 40               | Homewares, including kitchenwares, do-it-yourself products ("DIY"), household appliances and textiles                     |
|  | 40               | Branded beauty products, including cosmetics, skin care and fragrances  |
|  | 18               | Ladies intimatewear   |
|  | 12               | Casual footwear   |
|  | 3                | Sportswear  |
|  | 211              | Stationery, books, magazines, greeting cards, mobile phones, music, toys, photographic equipment and computer accessories |

### Discount division

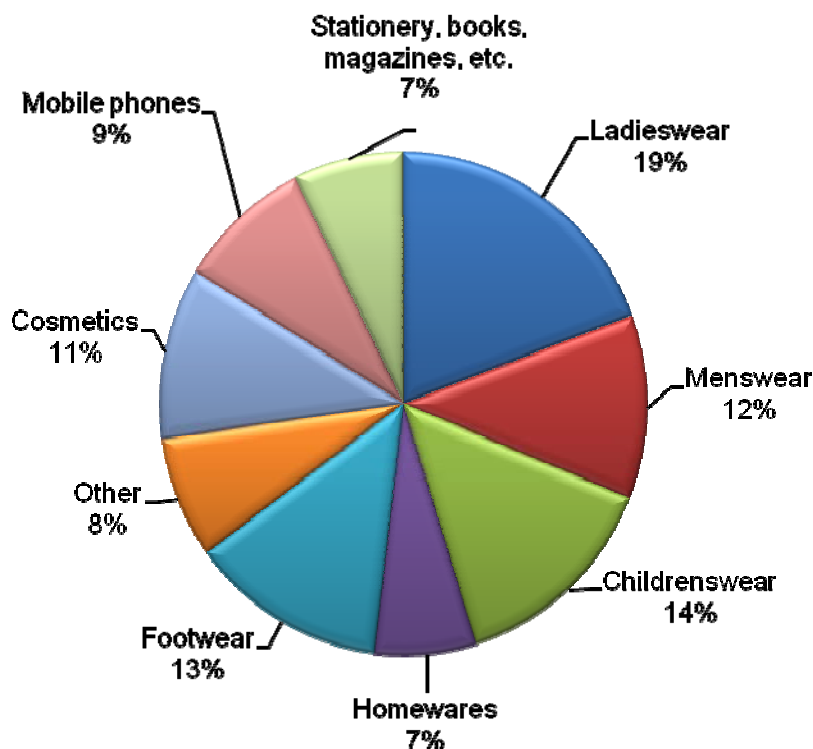
The discount division sells value merchandise targeted at lower- to middle-income consumers, and accounted for 41% of our retail sales and 19% of our adjusted EBITDA in fiscal 2009. The largest chain in our discount division is *Jet*, which was voted the number one brand among South African C&F retailers in each of 2005, 2006 and 2007. *Jet* and its associated chains, which include *Jet Mart*, *Jet Shoes* and *Jet Home*, comprise 424 stores and generated 33% of our retail sales in fiscal 2009. We also operate specialty store chains under the *Legit* and *Blacksnow* brands, which focus primarily on the fashionable youth market.

## DISCOUNT DIVISION CHAINS

| Chains   | Number of Stores | Product Mix   |
|--|------------------|---|
|  | 328              | Clothing, footwear and mobile phones  |
|  | 87               | Clothing, footwear, kitchenwares, music, DIY, household appliances, textiles and health and beauty products |
|  | 147              | Youth ladieswear  |
|  | 8                | Formal and casual footwear  |
|  | 2                | Youth menswear  |
|  | 1                | Homewares, including kitchenwares, DIY, household appliances and textiles                                   |
|  | 184              | Beauty, health and household appliances   |

The split of our retail sales by category is shown below.

#### RETAIL PRODUCT MIX <sup>(1)</sup>



(1) Figures presented are from fiscal 2009

(2) Other includes accessories and hardline products

#### Credit and financial services division

We also offer consumer credit and insurance products through our credit and financial services business. We have the largest base of consumer credit customers in southern Africa, with more than four million active credit card accounts, twice as many as our closest competitor. We issue private label credit cards to qualifying customers who can use our credit cards in all of our chains. We perform all aspects of the credit management process in-house, including credit scoring, activation, servicing and collection, and we also provide our credit management services to third parties. Purchases completed with our private label credit cards accounted for 52% of our retail sales in fiscal 2009. We also offer *Edgars* and *Jet* co-branded *MasterCards*.

In addition to our credit card operations, we offer our credit card holders private loans and insurance products in partnership with financial institutions and insurance providers. We do not bear underwriting risk with respect to these insurance products, and we only act as a sales agent for the loan products we currently offer. In fiscal 2009, our credit and financial services business excluding OntheCards Investments Limited generated R565 million of net profit before tax.

## Industry overview

We primarily operate within the large and growing South African C&F market, which accounted for 59% of our retail sales in fiscal 2009. The C&F market, as measured by the South African Retailers' Liaison Committee ("RLC"), is estimated to have generated R42,3 billion in sales in fiscal 2009. RLC collects and publishes sales and related data from RLC member companies, which are medium- and large-sized C&F retailers. We believe RLC data provides the most consistent statistics on the C&F market.

## Management

### Directors

Edcon Holdings (Proprietary) Limited has a unitary board structure comprising two executive directors and five non-executive directors. The address of our directors is Edgardale, 1 Press Avenue, Crown Mines, Johannesburg, 2092, Republic of South Africa. The members of Edcon Holdings (Proprietary) Limited's board of directors are as follows:

| <u>Name</u>       | <u>Age</u> | <u>Position</u>                                   |
|-------------------|------------|---|
| Stephen M. Ross   | 57         | Executive director, group chief executive officer |
| Dr. Urin Ferndale | 44         | Chief executive: retail operations                |
| Stephen M. Zide   | 49         | Non-executive director                            |
| Dwight Poler      | 43         | Non-executive director chairman                   |
| John Tudor        | 39         | Non-executive director                            |
| Edward Berk       | 35         | Non-executive director                            |
| Zohra Ebrahim     | 49         | Non-executive director                            |

**Stephen M. Ross**—Mr. Ross was appointed group chief executive officer of Edcon in 1998 and has served on the board of directors throughout this period. Mr. Ross has more than 25 years of experience in both wholesale manufacturing and apparel retailing in the United States, having worked for companies such as Macy's, Lord & Taylor, Sears and Philips-van-Heusen. Mr. Ross received a B.A. from Washington & Jefferson College.

**Dr. Urin Ferndale**—Dr. Ferndale joined Edcon in 1999 as the group human resources director. In September 2007 he was appointed as chief executive: retail operations. Prior to joining Edcon, Dr. Ferndale was employed as personnel manager, human resources manager and labour relations manager at several listed companies and parastatal entities. Dr. Ferndale holds a PhD from the University of Johannesburg and a B.A. and an M.A. from the University of the Western Cape.

**Stephen M. Zide**—Mr. Zide was appointed director of Edcon Holdings (Proprietary) Limited in 2007. Mr. Zide has been a member of Bain Capital since 1997 and a managing director since 2001. From 1998 through 2000, Mr. Zide was a managing director of Pacific Equity Partners, an affiliate of Bain Capital in Sydney, Australia. Prior to that, Mr. Zide was a partner of the law firm of Kirkland & Ellis LLP, where he was founding member of the New York office and specialised in representing private equity and venture capital firms. Mr. Zide received an M.B.A. from Harvard Business School, a J.D. from Boston University School of Law and a B.A. from the University of Rochester.

**Dwight Poler**—Mr. Poler was appointed director of Edcon Holdings (Proprietary) Limited in 2007. Mr. Poler is a managing director at Bain Capital, which he joined in 1994. Previously, Mr. Poler was at Bain & Company, and prior to that he worked in the mergers and acquisitions department at Morgan Stanley & Co in New York and Tokyo. Mr. Poler received an M.B.A. from the Amos Tuck School at Dartmouth and a B.A. from Amherst College.

**John Tudor**—Mr. Tudor was appointed director of Edcon Holdings (Proprietary) Limited in 2007. Mr. Tudor joined Bain Capital in 2000 where he is a principal. Previously, Mr. Tudor was a consultant at the Monitor Group. Mr. Tudor is a member of the board of directors of Burlington Coat Factory Warehouse and Guitar Center. Mr. Tudor received an M.B.A. from Harvard Business School. He is also a graduate of the University of Cape Town, and Oxford University.

**Edward Berk**—Mr. Berk was appointed director of Edcon Holdings (Proprietary) Limited in 2007. Mr. Berk is a managing director at Bain Capital, which he joined in 1997. Previously, he was a consultant with Bain & Company. Mr. Berk received an M.B.A. from Harvard Business School and a B.A. from Harvard University.

**Zohra B. Ebrahim** — Ms. Ebrahim was appointed director of Edcon in 1999. Ms. Ebrahim is a past president of the Institute of People Management and has advised government at various levels on aspects of housing policy. Ms. Ebrahim holds a B.A. and a Higher Diploma in Education from the University of Cape Town.

### ***Executive management***

Our board of directors has delegated authority for the day-to-day affairs of each of our divisions to our executive managers. Our executive management team is mandated to assist in reviewing the operations of and performance by Edcon Holdings (Proprietary) Limited and its subsidiaries, developing strategy and policy proposals for consideration by our board of directors and implementing the directives of the board. Our executive management team consists of the individuals indicated below.

| <b>Name</b>       | <b>Age</b> | <b>Position</b>  |
|-------------------|------------|--|
| Stephen M. Ross   | 57         | Executive director, group chief executive officer      |
| Stephen R. Binnie | 41         | Chief financial officer                                |
| Mark R. Bower     | 54         | Deputy chief executive officer                         |
| Dr. Urin Ferndale | 44         | Executive director, chief executive: retail operations |
| Hugues Witvoet    | 50         | Chief executive of the department store division       |
| Christo Claassen  | 40         | Chief executive of the discount division               |

For information on Stephen M. Ross and Dr. Urin Ferndale, see “Management—Directors” above.

**Stephen R. Binnie**—Mr. Binnie was appointed as chief financial officer of Edcon in 2002. Mr. Binnie has been a senior financial manager for over 15 years, including a group financial manager at Investec from 1998 to 2002. Mr. Binnie holds a BCom and a BAcc from University of Witwatersrand, and an M.B.A. from Heriot-Watt University. Mr Binnie is a qualified chartered accountant.

**Mark R. Bower**—Mr. Bower joined Edcon in 1990 and is currently the deputy chief executive officer of the group. Mr. Bower is currently the chief executive of the CNA division and is responsible for group-wide services such as credit, distribution, IT, strategic planning, property development, and business intelligence. Previously, Mr. Bower was an audit partner. He has been a director of a number of listed companies for 25 years. Mr. Bower has been a trustee of the Eden Trust/Thuthuka Bursary Fund for the advancement of Black Chartered Accountants since 1989. He holds a BCom from Natal University and BCompt Honours from the University of South Africa. Mr Bower is a qualified chartered accountant.

**Hugues Witvoet**—Mr. Witvoet joined Edcon in August 2008. Mr Witvoet is from Paris and has lived and worked in Asia, Central America and the United Kingdom. He has extensive retail experience with AS Watson, LVMH and Carrefour and in addition has worked for McKinsey & Co. Mr Witvoet is a graduate of Essec Business School.

**Christo Claassen**—Mr. Claassen was appointed Chief Executive of the discount division effective 1 July 2008. Previously he was responsible for group strategy as well as group property development. Mr Claassen joined Edcon in 2004 as the Business Development Executive in the discount division. He is a qualified chartered accountant and holds an M.B.A. in Retailing from Stirling University in Scotland. Mr Claassen was the Chief Executive officer of Dunns prior to joining Edcon.

## Compensation

In fiscal 2009, we paid our executive directors and executive managers named above aggregate compensation, including bonuses, of R12 million and R27 million, respectively.

Our directors and executive managers are indirect equity investors in Edcon Holdings (Proprietary) Limited. Our non-executive directors may be deemed beneficial owners of securities in Edcon (BC) S.A.R.L, which in turn is a shareholder of Edcon Holdings (Proprietary) Limited. Our executive managers are beneficiaries of the Founder Investor Trusts, which in turn are shareholders of Edcon Holdings (Proprietary) Limited.

## Principal shareholders and share capital

Edcon Holdings (Proprietary) Limited's shareholders are Edcon (BC) S.A.R.L, The Edcon Staff Empowerment Trust (the "Empowerment Trust") and seven further trusts. Edcon (BC) S.A.R.L, a *société à responsabilité limitée* incorporated in Luxembourg, holds 87% of the ordinary shares of Edcon Holdings (Proprietary) Limited. Edcon (BC) S.A.R.L is indirectly controlled by funds advised by affiliates of Bain Capital including Bain Capital Fund IX, L.P. and Bain Capital Fund VIII-E, L.P. Barclays Nominees (Aldermanbury) Limited, an affiliate of Barclays Capital beneficially holds approximately 13% of the shares in Edcon (BC) S.A.R.L. The Empowerment Trust holds shares entitling it in aggregate to 10% of the votes at any general meeting of Edcon Holdings (Proprietary) Limited. The Empowerment Trust was created in July 2005 as part of our black economic empowerment programme and its beneficiaries are predominantly black employees. The remaining shareholders in Edcon Holdings (Proprietary) Limited are the Founder Investor Trusts. These trusts, the beneficiaries of which include members of Edcon management, collectively hold 3% of the ordinary shares of Edcon Holdings (Proprietary) Limited. Edcon Holdings (Proprietary) Limited indirectly owns 100% of the issued capital of Edcon (Proprietary) Limited. The members of the board of directors of Edcon Holdings (Proprietary) Limited that are affiliated with Bain Capital may be deemed to beneficially own shares owned by entities affiliated with Bain Capital. Each such individual disclaims beneficial ownership of any such shares in which such individual does not have a pecuniary interest.

## Equity sponsor

Our sponsor is an affiliate of Bain Capital, a leading global private investment firm, whose affiliates manage several pools of capital, including private equity, venture capital, public equity, and leveraged debt assets. Since its inception in 1984, Bain Capital has made private equity investments and add-on acquisitions in over 230 companies around the world, including such leading retailers and consumer companies as *Toys "R" Us, Burger King, Staples, Burlington, Coat Factory, Michaels, Shopper's Drug Mart, Brookstone, Domino's Pizza, Dollarama, Sealy Corp., Sports Authority* and *Duane Reade*. Headquartered in Boston, Bain Capital has offices in New York, London, Munich, Mumbai, Hong Kong, Shanghai and Tokyo.

## Corporate Information

Edcon Holdings (Proprietary) Limited is a company incorporated under the laws of South Africa on 27 November 2006 under Registration No. 2006/036903/07. Edcon (Proprietary) Limited, is a company incorporated under the laws of South Africa on 5 February 2007 under Registration No. 2007/003525/07. Edcon Acquisition (Proprietary) Limited is a company incorporated under the laws of South Africa on 12 January 2007 under Registration No. 2007/000518/07. Our headquarters are located at Edgardale, 1 Press Avenue, Crown Mines, Johannesburg, 2092, Republic of South Africa. Our telephone number is +27 11 495 6000. Our website address is [www.edcon.co.za](http://www.edcon.co.za).

## **SUMMARY HISTORICAL AND PRO FORMA FINANCIAL AND OTHER DATA**

The following audited historical financial data relates to the financial statements for the 52-week periods ended 31 March 2007, 29 March 2008 and 28 March 2009 which appear elsewhere in this annual report. Unless the context requires otherwise, references in this notice to “fiscal 2007”, “fiscal 2008” and “fiscal 2009” shall mean the 52-week period ended 31 March 2007, the 52-week period ended 29 March 2008 and the 52-week period ended 28 March 2009, respectively.

On 14 May 2007, Edcon Acquisition (Proprietary) Limited, a wholly owned subsidiary of Edcon, acquired the issued share capital of Edgars Consolidated Stores Limited (the “Acquired Business”). Financial information for the periods ended 5 May 2007 (the date on which the acquisition was accounted for) or prior thereto is derived from the historical financial statements of the Acquired Business, which appear for the fifty-two week period ended 31 March 2007 and for the five-week period ended 5 May 2007 in the “Predecessor” column of the financial statements attached hereto. References to “we” and “us” are to the Acquired Business on a consolidated basis in respect of periods prior to 6 May 2007, and are references to Edcon on a consolidated basis in respect of periods after 6 May 2007.

We also present on page 8 certain pro forma financial data to show the effect of certain aspects of the Transactions as defined in the offering memorandum in relation to the €1,180 million senior secured floating rate notes due 2014 and the €630 million senior floating rate notes due 2015 (together the “Floating Rate Notes”) dated 14 June 2007 (the “Offering Memorandum”).

|   | <b>Fiscal year</b>   |          |                             |          |                           |          |
|---|----------------------|----------|-----------------------------|----------|---------------------------|----------|
|   | <i>(in millions)</i> |          |                             |          |                           |          |
|   | <i>(audited)</i>     |          |                             |          |                           |          |
|   | <b>2007</b>          |          | <b>2008<sup>(1,2)</sup></b> |          | <b>2009<sup>(1)</sup></b> |          |
| <b>Income statement data</b>  |                      |          |                             |          |                           |          |
| Revenues  | R                    | 20 149   | R                           | 22 565   | R                         | 24 665   |
| Retail sales  |                      | 18 531   |                             | 20 183   |                           | 22 075   |
| Cost of sales   |                      | (11 395) |                             | (12 585) |                           | (13 774) |
| Gross profit  |                      | 7 136    |                             | 7 598    |                           | 8 301    |
| Other income  |                      | 413      |                             | 446      |                           | 467      |
| Store costs   |                      | (3 032)  |                             | (3 432)  |                           | (3 847)  |
| Other operating costs   |                      | (2 109)  |                             | (2 224)  |                           | (2 628)  |
| Additional depreciation and amortisation <sup>(4)</sup>                   |                      |          |                             | (458)    |                           | (656)    |
| Retail trading profit   |                      | 2 408    |                             | 1 930    |                           | 1 637    |
| Net profit/(loss) from credit and financial services                      |                      | (241)    |                             | 73       |                           | 216      |
| Equity accounted earnings of joint venture                                |                      | 243      |                             | 287      |                           | 349      |
| Trading profit  |                      | 2 410    |                             | 2 290    |                           | 2 202    |
| Restructure and acquisition costs   |                      | (44)     |                             | (196)    |                           |          |
| Gain on buy-back of senior floating rate notes                            |                      |          |                             |          |                           | 1 350    |
| Net fair value movement on Floating Rate Notes and associated derivatives |                      |          |                             | (1 314)  |                           | (1 050)  |
| Impairment of indefinite life brands and goodwill                         |                      |          |                             |          |                           | (697)    |
| Profit before financing costs   |                      | 2 366    |                             | 780      |                           | 1 805    |
| Net financing costs   |                      | (22)     |                             | (2 527)  |                           | (2 899)  |
| Taxation  |                      | (685)    |                             | 429      |                           | 454      |
| Net (loss)/earnings   | R                    | 1 659    | R                           | (1 318)  | R                         | (640)    |
| <b>Other financial data</b>   |                      |          |                             |          |                           |          |
| EBITDA <sup>(5)</sup>   | R                    | 2 663    | R                           | 1 597    | R                         | 2 904    |
| Adjusted EBITDA <sup>(5)</sup>  |                      | 2 801    |                             | 3 066    |                           | 3 410    |
| Operating lease expense   |                      | 1 042    |                             | 1 131    |                           | 1 269    |
| Adjusted EBITDAR  |                      | 3 843    |                             | 4 197    |                           | 4 679    |
| Capital expenditure   |                      | 564      |                             | 571      |                           | 569      |
| Depreciation and amortisation   |                      | 297      |                             | 817      |                           | 1 099    |
| <b>Balance sheet data</b>   |                      |          |                             |          |                           |          |
| Cash and cash equivalents   | R                    | 471      | R                           | 365      | R                         | 379      |
| Working capital   |                      | 3 390    |                             | 3 635    |                           | 4 834    |
| Total assets  |                      | 9 517    |                             | 38 081   |                           | 34 822   |
| Total debt at unhedged rates  |                      | 713      |                             | 24 687   |                           | 22 241   |
| Total net (cash)/debt including cash and derivatives                      |                      | 242      |                             | 18 851   |                           | 20 797   |
| Total equity and shareholder's loan                                       |                      | 4 972    |                             | 6 934    |                           | 6 118    |

**Select operating data**

|   | <b>Fiscal year</b><br><i>(unaudited)</i> |             |             |
|---|--|-------------|-------------|
|   | <b>2007</b>                              | <b>2008</b> | <b>2009</b> |
| Number of stores                              | 948                                      | 1 141       | 1 233       |
| Same store sales growth                       | 6.8%                                     | 3.6%        | 3.2%        |
| Average retail space (in '000 sqm)            | 1 066                                    | 1 151       | 1 251       |
| Number of customer credit accounts (in '000s) | 4 105                                    | 4 097       | 4 290       |

**Cash flow data**

|   | <b>Fiscal year</b><br><i>(in millions)</i><br><i>(audited)</i> |       |                             |       |                           |         |
|---|--|-------|-----------------------------|-------|---------------------------|---------|
|   | <b>2007</b>  |       | <b>2008<sup>(1,2)</sup></b> |       | <b>2009<sup>(1)</sup></b> |         |
| Operating cash inflow before changes in working capital | R  | 2 706 | R                           | 2 909 | R                         | 3 432   |
| Working capital movement                                |  | (946) |                             | (354) |                           | (1 420) |
| Cash generated from operating activities                |  | 1 760 |                             | 2 555 |                           | 2 012   |

- As of 6 May 2007 ("Consolidation Date"), we have consolidated the OntheCards securitisation programme ("OtC") in our financial statements. This change in accounting treatment of OtC does not impact the non-recourse status of the sale of receivables by Edcon to OtC, nor the security or rights of either the noteholders or of the creditors of OtC. For comparative purposes with periods prior to the Consolidation Date, all figures presented in the summary financial statements above exclude the impact of consolidating OtC. Refer to note 3 below for a reconciliation of key items.
- Fiscal 2008 comprises 5 weeks relating to the "Predecessor" and 47 weeks relating to the "Successor" as reflected in the Consolidated Financial Statements attached hereto.
- The following tables reconcile financial information which is presented in the Group Financial Statements which consolidate OtC, to the tables presented in the summary financial statements above. Refer to note 37 in the Group Financial Statements for the impact of consolidating OtC.

**Income statement data**

|                        | <b>Fiscal year</b><br><i>(in millions)</i><br><i>(audited)</i> |                                   |             |                                   |             |               |
|------------------------|--|-----------------------------------|-------------|-----------------------------------|-------------|---------------|
|                        | <b>2009</b>  |                                   | <b>2009</b> |                                   | <b>2009</b> |               |
|                        | Including OtC  | Consolidation adjustments for OtC |             | Consolidation adjustments for OtC |             | Excluding OtC |
| Revenues               | R  | 25 195                            | R           | 530                               | R           | 24 665        |
| Net income from credit |  | 499                               |             | 283                               |             | 216           |

**Other financial data**

|                 |   |       |   |     |   |       |
|-----------------|---|-------|---|-----|---|-------|
| Adjusted EBITDA | R | 3 693 | R | 283 | R | 3 410 |
|-----------------|---|-------|---|-----|---|-------|



|  | 5 weeks to<br>5 May | 47 weeks to<br>29 March<br>including<br>OtC | 52 weeks to<br>29 March<br>including<br>OtC | 52 weeks to<br>29 March<br>consolidation<br>adjustments<br>for OtC | 52 weeks to<br>29 March<br>excluding<br>OtC |
|--|---------------------|---|---|--|---|
| <b>Cash flow data</b>                                      |                     |   |   |  |   |
| Operating cash inflow before<br>changes in working capital | R 359               | R 2 888                                     | R 3 247                                     | R 338  | R 2 909                                     |
| Working capital movement                                   | (506)               | 165   | (341)                                       | 13   | (354)                                       |

- 4) This additional depreciation and amortisation relates to the amortisation of intangibles and the incremental depreciation arising from the fair value adjustments in relation to the acquisition of the Acquired Business, the issuance of the Floating Rate Notes and the transactions related thereto (the "Transactions") in fiscal 2008. These figures are included in "Other operating costs" in the Group Financial Statements.
- 5) The following table reconciles net loss or earnings to EBITDA and adjusted EBITDA.

|   | <b>Fiscal year</b><br><i>(in millions)</i><br><i>(audited)</i> |       |                             |         |                           |         |
|---|--|-------|-----------------------------|---------|---------------------------|---------|
|   | <b>2007</b>  |       | <b>2008<sup>(1,2)</sup></b> |         | <b>2009<sup>(1)</sup></b> |         |
| Net (loss)/earnings   | R  | 1 659 | R                           | (1 318) | R                         | (640)   |
| Taxation  |  | 685   |                             | (429)   |                           | (454)   |
| Net financing costs   |  | 22    |                             | 2 527   |                           | 2 899   |
| Depreciation & amortisation   |  | 297   |                             | 817     |                           | 1 099   |
| EBITDA  | R  | 2 663 | R                           | 1 597   | R                         | 2 904   |
| Net fair value movement on notes and associated<br>derivatives <sup>(a)</sup> |  |       |                             | 1 314   |                           | 1 281   |
| Realised gain on derivatives <sup>(b)</sup>                                   |  |       |                             |         |                           | (231)   |
| Costs of the private equity transaction <sup>(c)</sup>                        |  | 42    |                             | 157     |                           |         |
| Gain on buy-back of senior floating rate notes <sup>(d)</sup>                 |  |       |                             |         |                           | (1 350) |
| Impairment of intangible assets <sup>(e)</sup>                                |  |       |                             |         |                           | 697     |
| VAT expense <sup>(f)</sup>  |  | (29)  |                             | (41)    |                           | 90      |
| Asset write-off <sup>(g)</sup>  |  |       |                             |         |                           | 19      |
| Usury rate lag <sup>(h)</sup>   |  | 106   |                             |         |                           |         |
| Acquisition costs <sup>(i)</sup>  |  | 2     |                             | 39      |                           |         |
| Other adjustments <sup>(j)</sup>  |  | 17    |                             |         |                           |         |
| Adjusted EBITDA   | R  | 2 801 | R                           | 3 066   | R                         | 3 410   |

- a) Prior to the issuance of the Floating Rate Notes we executed currency and interest rate derivatives to hedge the repayment of the interest and principal on the Floating Rate Notes to 2011 and 2012 respectively. This adjustment relates to the revaluation of the Floating Rate Notes to the spot exchange rate and change in the fair value of the derivatives associated with the principal.
- b) Relates to a realised gain in June 2008 from certain derivatives associated with the interest on the senior floating rate notes.
- c) This adjustment reflects the one-time professional fees incurred by Edcon in relation to the Transactions in fiscal 2008.
- d) On 27 June 2008, Edcon Holdings (Proprietary) Limited completed a notes repurchase where Edcon purchased a nominal value of €252 million of the senior floating rate notes for €138,6 million, or 55% of the face value. As a result of the buy-back Edcon recognised a gain, net of associated fees, of R1,350 million.

- e) This adjustment relates to the impairment of goodwill and indefinite life intangible assets in fiscal 2009.
- f) This adjustment relates to a reversal of VAT input charges claimed from the South African Revenue Services (SARS) in fiscal 2009 of R90 million, of which R41 million relates to fiscal 2008 and R29 million relates to fiscal 2007, that arose as a result of legislative interpretation, by SARS of the Value Added Tax Act, during fiscal 2009 which they applied retrospectively. In addition, a reversal of R40 million has been expensed in fiscal 2009.
- g) This adjustment relates to assets written off in fiscal 2009.
- h) This adjustment reflects net interest that we would have earned had the Department of Trade and industry's April 2007 decision to automatically adjust, on the basis of a formula, the maximum permissible chargeable interest rate, been implemented at the beginning of fiscal 2007.
- i) This adjustment reflects the costs of the *Discom acquisition* in the prior year and the discount of the purchase price against the fair market value of the Topic acquisition in fiscal 2007.
- j) This adjustment relates to movements in general provisions and other expenses as detailed in the Offering Memorandum.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion should be read in conjunction with, and is qualified in its entirety by reference to our group financial statements and the related notes thereto included in this Annual Report. "Fiscal", when used in this Annual Report in relation to any period, means the fiscal period ended on the Saturday of that period closest to 31 March of that year. The following discussion should be read in conjunction with "Selected Historical and Pro Forma Financial and Other Data".*

### Group financial statement presentation

We discuss below the group financial statements and results of operations in fiscal 2007, 2008 and 2009 of Edcon on a consolidated basis. The group financial statements for the periods discussed have been audited and prepared in accordance with IFRS and appear in this Annual Report. See "Group Financial Statements".

### Key income statement items

#### Revenue

We derive revenue primarily from the sale of retail products which accounted for 88% of our revenue in fiscal 2009. Our retail products are available for sale in 1,233 stores, 95% of which are in South Africa, with the remainder in Namibia, Botswana, Lesotho and Swaziland.

Changes to our retail sales from period to period are generally affected by the following factors:

- the quality and availability of our products;
- the extent to which we are able to predict, plan for and implement changes to our product mix to reflect customer trends;
- the prices at which we sell our products, which may change depending on markdowns; and
- the volume of our products sold and changes in the mix of products sold within our different product lines.

Changes to our cost of sales from period to period result from a number of factors, including:

- the base price of raw materials;
- exchange rates;
- the amount of duties paid on purchases of products imported to South Africa;
- freight cost;
- import quotas;
- rebates and discounts earned from suppliers; and
- the level of our marketing and advertising costs, including costs associated with market research.

#### Store costs

Our store costs primarily consist of (i) payroll for our store based employees, including salaries, bonuses, payroll taxes and pension costs, (ii) establishment costs such as rent, local taxes, service charges, and other operating costs at our stores, including cleaning, maintenance, security and energy, (iii) depreciation expense related to capital expended on our stores, (iv) stock shrinkage, and (v) credit card commissions.

Changes in our store costs from period to period are the result of a number of factors, including:

- the general level of payroll and benefit increases given to our store based employees;
- rental increases agreed to as part of our store lease agreements;
- the opening of new stores, including pre-opening costs, and the modernisation of existing stores, including the associated depreciation charge; and
- costs related to the volume of products sold, including increases in transaction charges related to credit card sales.

### ***Other operating costs***

Other operating costs primarily consist of (i) various corporate overhead costs associated primarily with our head offices, including human resources, procurement, communications, finance, information technology, strategy and facilities, (ii) depreciation expense related to our head office assets and the amortisation of other intangible assets, (iii) other human resource costs, such as our BEE programme, our training programmes and the maintenance of our wellness programme for employees, (iv) depreciation and maintenance expense related to certain information technology systems, (v) costs related to group marketing, and (vi) other head office facility costs.

Changes in our other operating costs from period to period are primarily the result of:

- the general level of payroll and benefit increases given to selected head office employees;
- costs associated with implementing employee incentive plans;
- expenses related to new and revised information technology systems;
- changes to our head offices including expansion of our head offices to accommodate the increased number of stores; and
- changes to our overhead costs.

### ***Credit and financial services net profit***

In addition to our retail sales, we generate profit from our credit and financial services business.

Credit and financial services net profit primarily consists of (i) interest earned from our credit customers (including credit card and personal loan customers), (ii) equity accounted earnings from our insurance joint ventures, which earn money from premiums paid by customers, (iii) revenue from the sale of credit receivables, less (iv) bad debts on the credit accounts which we have underwritten, and the provision for doubtful debts, (v) costs associated with running the credit and financial services business, including payroll for our credit and financial services business employees, collection costs, and credit bureau costs, and (vi) taxes incurred on the profit of the financial services business.

Credit and financial services net profit from period to period is affected generally by the following factors:

- the level of credit card sales;
- incidence of bad debts on the credit accounts which we have underwritten, and the provision for doubtful debts;
- interest rate fluctuations and changes to restrictions on the level of interest we are able to charge our credit customers;
- changes in the amount of receivables we sell or changes in the discount rate applicable to such receivables; and
- the general level of payroll and benefit increases given to selected credit and financial service employees.

For a further discussion of the components which comprise credit and financial services net profit, see note 26 to the fiscal 2009 group financial statements.

## **Significant factors affecting our results of operations**

### ***Economic conditions in South Africa***

Approximately 95% of our retail sales are generated in South Africa, which has recently undergone significant social, political and economic transformation. Our future results of operations are dependent on continued economic, political and social stability in South Africa. Changes in economic conditions may affect, among other things, demand for our services and the creditworthiness of our customers.

South Africa has experienced stable economic growth in recent years, in part due to a rapidly emerging black middle class with increased spending power, and the government's commitment to macroeconomic growth. Real GDP increased by 5.0%, 5.1% and 3.1% in 2006, 2007 and 2008, respectively, and over the same periods, headline inflation has been 4.6%, 7.1% and 11.5% respectively.

### ***Growth in the clothing and footwear market***

The C&F market in South Africa grew at a CAGR of 12% from fiscal 2004 to fiscal 2009. This growth is due to a number of factors, including the growth of the South African economy, the rapidly emerging black middle class, which historically spends a higher percentage of its disposable income on C&F goods, and the movement of market share from the informal market to more established medium- and large-sized retailers. We expect this growth to continue, and as the market share leader, we expect to benefit from the increased size of the C&F market.

### ***Cost of sales***

A key component of our growth strategy is to consolidate our procurement and leverage our market scale to obtain better pricing for our products, decreasing our cost of sales. We also intend to establish strategic relationships with low-cost suppliers.

### ***Same store growth***

Our retail sales and profitability are primarily dependent on the amount of retail sales that we generate from our existing stores. Since fiscal 2004, we have increased our same store growth at a CAGR of 8%, and increased our trading density from R13,262 to R17,646. The amount of retail sales we generate from our existing store sites is contingent on a number of factors, including average customer spend, customer retention and merchandise assortment and allocation.

### ***New store openings***

Historically, we have increased retail sales by opening new stores. We opened a net 39, 34 and 92 new stores in fiscal 2007, 2008 and 2009, respectively. Our property development committee applies strict criteria to potential new sites, and reviews site performance annually to determine if sites are meeting their targets or can be used more efficiently. Our ability to open new stores in the future will depend on our ability to find new sites which meet our investment criteria for expansion.

## ***Acquisitions***

Increases to our retail sales, as well as our store costs and other operating costs can be affected by acquisitions. Between fiscal 2007 and 2009 we spent an aggregate of R318 million of capital expenditure on acquisitions excluding the Transactions. In addition, certain indirect costs resulting from successful acquisitions, such as integration costs and increased overhead and employment costs are not included in these figures. Our ability to find and complete acquisitions is dependent on a number of factors, including the availability of attractive targets, the availability of funding for acquisitions, and restrictions placed on us by anti-competitive legislation.

## ***Seasonality***

Our retail sales, like most other retailers, are subject to seasonal influences. Historically, our most important trading periods in terms of retail sales have been the Easter and Christmas seasons, with approximately 9% of our retail sales occurring in April and 25% between the beginning of November and the end of December. We incur significant additional expenses in advance of the Easter and Christmas seasons in anticipation of higher retail sales during those periods, including the cost of additional inventory, advertising and hiring additional employees. In previous years, our investment in working capital has peaked in early to mid-March, and October and November as a result of increased supply purchases in anticipation of Easter and Christmas. Our results are also affected by periods of abnormal or unseasonal weather conditions, which can lead to a decrease in retail sales and higher markdowns.

## ***Performance of our credit book***

Our credit and financial services business generated R565 million of net profit before tax in fiscal 2009. Since fiscal 2007, the size of our credit book has increased from R8.9 billion to R10.5 billion, due to our increased recruitment of new credit accounts and increased credit balances from existing customers. As a result of the growth in our credit pool, the incidence of net bad debt in our credit book has increased from 11.4% in fiscal 2007 to 11.8% in fiscal 2009. We believe that as we remove non-performing accounts from our credit book and as the average tenure of our customer matures, incidences of bad debts will decrease. Credit and financial services net profit is dependent on a number of factors. See “—Key income statement items—credit and financial services net profit”.

## **Results of Operations**

### ***Fiscal 2009 compared to fiscal 2008***

#### ***Retail Sales***

Retail sales increased by R1,892 million, or 9.4%, from R20,183 million in fiscal 2008 to R22,075 million in fiscal 2009, primarily as a result of the continued growth in clothing and footwear sales and the inclusion of Discom's retail sales over the entire fiscal 2009 (Discom was acquired in September 2007). Excluding Discom, sales growth was 6.4% with same store sales growth of 3.2%. Credit sales accounted for 52% of total retail sales in fiscal 2009, down from 53% in fiscal 2008. In the department store division (excluding CNA), retail sales in fiscal 2009 increased by 6.4% from fiscal 2008 primarily due to growth from product lines such as childrenswear, ladieswear, menswear and cosmetics. CNA's retail sales in fiscal 2009 increased 6.9% from fiscal 2008, driven by growth in sales of stationery, digital and interactive products. Retail sales in the discount division increased by 13.9% (6.3% excluding Discom) from fiscal 2008 to fiscal 2009 due mainly to the growth in childrenswear, footwear, cosmetics and other non-clothing products.

#### ***Gross profit***

Gross profit increased by R703 million, or 9.3%, from R7,598 million in fiscal 2008 to R8,301 million in fiscal 2009. Gross profit as a percentage of retail sales of 37.6% in fiscal 2009 was the same as that achieved in fiscal 2008. In the department store division, (excluding CNA) gross profit as a percentage of retail sales increased from

41.8% in fiscal 2008 to 42.2% in fiscal 2009 primarily as a result of reduced markdowns in menswear. In CNA, gross profit as a percentage of retail sales decreased from 33.8% in fiscal 2008 to 32.8% in fiscal 2009 due to a change in product mix with stronger growth being achieved in the lower margin digital products. In the discount division, gross profit as a percentage of retail sales decreased from 32.9% in fiscal 2008 to 32.8% (34.0% excluding Discom in fiscal 2009 compared to 33.6% in fiscal 2008) in fiscal 2009 mainly due to lower markdowns in ladieswear and menswear. The gross margin of Discom continued to improve and was 24.5% for fiscal 2009, compared to 22.4% in fiscal 2008.

#### *Store costs*

Store costs increased by R415 million, or 12.1%, from R3,432 million in fiscal 2008 to R3,847 million in fiscal 2009. Excluding Discom, the rise was R331 million, or 10.0% and resulted primarily from wage and rent increases for our existing stores and the addition of 5.7% to average retail space from fiscal 2008 to fiscal 2009.

#### *Other operating costs*

Other operating costs, excluding depreciation and amortisation charges associated with the fair value adjustments from the Transactions, increased by R404 million, or 18.2%, from R2,224 million in fiscal 2008 to R2,628 million in fiscal 2009. This increase is primarily a result of additional information technology costs, salary increases, the establishment of our centralised sourcing department and a R90 million reversal of VAT input charges claimed from SARS previously.

#### *Depreciation and amortisation*

Depreciation and amortisation increased by R282 million from R817 million in fiscal 2008 to R1,099 million in fiscal 2009, primarily as a result of increased depreciation and amortisation of intangibles, property, fixtures, equipment and vehicles which arose as a result of the Transactions.

#### *Credit and financial services net profit*

Credit and financial services net profit increased by R205 million, from R360 million in fiscal 2008 to R565 million in fiscal 2009. This increase was primarily due to higher interest income associated with higher trade receivables balances and a rise in the maximum permissible chargeable interest rate. Consolidated annualised bad debts as a percentage of average debtors was 11.8% for fiscal 2009 compared with 11.6% in fiscal 2008. Equity accounted earnings of joint ventures after taxation increased by R62 million, or 21.6%, from R287 million in fiscal 2008 to R349 million in fiscal 2009. The number of active accounts increased from 4.1 million in fiscal 2008 to 4.3 million in fiscal 2009.

#### *Trading profit*

Trading profit decreased by R88 million from R2,290 million in fiscal 2008 to R2,202 million in fiscal 2009 after deducting R656 million additional depreciation and amortisation costs related to the amortisation of intangibles and the incremental depreciation arising from the fair value adjustments in relation to the Transactions. In addition, we incurred a R90 million charge for VAT inputs previously claimed from SARS. Excluding these costs, trading profit in fiscal 2009 increased by R200 million, or 7.3%, to R2,948 million from fiscal 2008.

Adjusted EBITDA increased by R344 million, or 11.2%, from R3,066 million in fiscal 2008 to R3,410 million in fiscal 2009.

#### *Net financing costs*

Net financing costs increased to a net charge of R2,899 million in fiscal 2009 from R2,527 million in fiscal 2008. This increase is primarily a result of an additional month's interest costs associated with the Floating Rate Notes

and an incremental R280 million charge in relation to the shareholder's loan from our equity sponsors, partially offset by the reduction in interest expense in connection with the bond repurchase in June 2008.

### ***Fiscal 2008 compared to fiscal 2007***

#### *Retail Sales*

Retail sales increased by R1,652 million, or 8.9%, from R18,531 million in fiscal 2007 to R20,183 million in fiscal 2008, primarily as a result of the continued growth in clothing and footwear sales and the acquisition of Discom but were dampened by the impact of rising interest rates, escalating food and fuel prices and the implementation of the National Credit Act. Excluding Discom, sales growth was 6.3%, including same store sales growth (stores open for the full period in the current year and in the prior year) of 3.6%. Credit sales accounted for 53% of total retail sales in fiscal 2008, down from 60% in fiscal 2007. In the department store division (excluding CNA), retail sales in fiscal 2008 increased by 7.4% from fiscal 2007 primarily due to growth from product lines such as childrenswear, ladieswear and footwear. CNA's retail sales in fiscal 2008 increased 11.8% from fiscal 2007, driven by growth in sales of books, stationery and digital products. Retail sales in the discount division increased by 10.4% (3.6% excluding Discom) from fiscal 2007 to fiscal 2008 due mainly to the growth in childrenswear, ladieswear, homeware and other non-clothing products, offset by negative growth in menswear.

#### *Gross profit*

Gross profit increased by R462 million, or 6.5%, from R7,136 million in fiscal 2007 to R7,598 million in fiscal 2008. Gross profit as a percentage of retail sales decreased from 38.5% in fiscal 2007 to 37.6% in fiscal 2008 as a result of higher markdowns in the discount division and lower margin product sold by Discom. In the department store division (excluding CNA) gross profit as a percentage of retail sales was 41.8% in fiscal 2008, the same as achieved in fiscal 2007. Similarly in CNA, gross profit as a percentage of retail sales at 33.8% in fiscal 2008 was in line with the 33.9% achieved in fiscal 2007. In the discount division, gross profit as a percentage of retail sales decreased from 35.0% in fiscal 2007 to 32.9% (33.6% excluding Discom) in fiscal 2008 mainly due to higher markdowns on menswear as a result of stock imbalances and the higher relative sales growth of lower-margin hardlines goods.

#### *Store costs*

Store costs increased by R400 million, or 13.2%, from R3,032 million in fiscal 2007 to R3,432 million in fiscal 2008. Excluding Discom, the rise was R270 million, or 8.9% and resulted primarily from wage and rent increases for our existing stores and the addition of 4.9% to average retail space from fiscal 2007 to fiscal 2008.

#### *Other operating costs*

Other operating costs, excluding depreciation and amortisation charges associated with the fair value adjustments from the Transactions, increased by R115 million, or 5.5%, from R2,109 million in fiscal 2007 to R2,224 million in fiscal 2008. This increase is primarily as a result of additional costs in fiscal 2008 for information technology and salary increases, offset by the non-cash expense related to historical share options granted to employees in fiscal 2007.

#### *Depreciation and amortisation*

Depreciation and amortisation increased by R520 million from R297 million in fiscal 2007 to R817 million in fiscal 2008, primarily as a result of increased depreciation and amortisation of intangibles, property, fixtures, equipment and vehicles which arose as a result of the Transactions.

### *Credit and financial services net profit*

Credit and financial services net profit increased by R358 million, from R2 million in fiscal 2007 to R360 million in fiscal 2008. This increase was primarily due to higher interest income associated with a rise in the maximum permissible chargeable interest rate. Consolidated annualised bad debts as a percentage of average debtors was 11.6% for fiscal 2008 compared with 11.4% in fiscal 2007. Equity accounted earnings of joint ventures after taxation increased by R44 million, or 18.1%, from R243 million in fiscal 2007 to R287 million in fiscal 2008. Following an aggressive account opening programme in previous years, new account growth slowed and net of closures the number of active accounts remained at 4.1 million, similar to fiscal 2007.

### *Trading profit*

Trading profit decreased by R120 million from R2,410 million in fiscal 2007 to R2,290 million in fiscal 2008 after deducting R458 million additional depreciation and amortisation costs related to the amortisation of intangibles and the incremental depreciation arising from the fair value adjustments in relation to the Transactions. In addition, Discom incurred a trading loss of R30 million. Excluding these costs and losses, trading profit in fiscal 2008 increased by R368 million, or 15.3%, to R2,778 million from fiscal 2007.

Adjusted EBITDA increased by R265 million, or 9.5%, from R2,801 million in fiscal 2007 to R3,066 million in fiscal 2008.

### *Net financing costs*

Net financing costs increased to a net charge of R2,527 million in fiscal 2008 from R22 million in fiscal 2007. This increase is primarily a result of interest costs associated with the Floating Rate Notes and the shareholder's loan from our equity sponsors.

## **Historical cash flows**

### *Fiscal 2009 compared to fiscal 2008*

Operating cash inflow before changes in working capital increased by R523 million, or 18.0%, from R2,909 million in fiscal 2008 to R3,432 million in fiscal 2009 primarily due to the higher trading profit.

Working capital increased by R1,420 million in fiscal 2009 compared to an increase of R354 million for fiscal 2008. This was primarily due to (i) an increase in inventory of R397 million in fiscal 2009 compared to an increase of R50 million in fiscal 2008 as a result of increased trading activity in the stores and the shift of Easter into April in fiscal 2009 compared to March in fiscal 2008, (ii) an increase in trade accounts receivable of R906 million in fiscal 2009 compared to an increase of R295 million in fiscal 2008 due to the reduction in the proportion of credit sales in fiscal 2008 from fiscal 2007 where as the proportion of credit sales in fiscal 2009 has been relatively flat plus, (iii) a decrease in accounts payable of R149 million in fiscal 2009 compared to an increase of R105 million in fiscal 2008 due to the relative rise in imports and FMCG purchases, which have shorter terms.

Capital expenditure in fiscal 2009 was R569 million compared with R571 million in fiscal 2008. During fiscal 2009 we added a net 92 stores which, combined with store refurbishments, resulted in investments in store fixtures of R298 million. In addition, we invested R265 million in IT infrastructure (including our new point-of-sale system).

### *Fiscal 2008 compared to fiscal 2007*

Operating cash inflow before changes in working capital increased by R203 million, or 7.5%, from R2,706 million in fiscal 2007 to R2,909 million in fiscal 2008 primarily due to the higher trading profit offset by (i) non-recurring costs of R157 million in relation to the Transactions and (ii) costs of R39 million related to the *Discom* acquisition.

Working capital increased by R354 million in fiscal 2008 compared to an increase of R946 million for fiscal 2007. This was due primarily to an increase in trade accounts receivable of R295 million in fiscal 2008 compared to an increase of R829 million in fiscal 2007 due to the reduction in the proportion of credit sales in fiscal 2008 from fiscal 2007.

Capital expenditure in fiscal 2008 was R571 million compared with R564 million in fiscal 2007. During fiscal 2008 we added a net 34 (plus 159 acquired in the Discom transaction) stores which, combined with store refurbishments, resulted in investments in store fixtures of R331 million. In addition, we invested R206 million in IT infrastructure (including our new point-of-sale system). Discom was acquired for R318 million in September 2007.

### ***Buy-back of senior floating rate notes***

On 27 June 2008, Edcon Holdings (Proprietary) Limited completed a notes repurchase of the senior floating rate notes with a nominal value of €252 million for €138,6 million, or 55% of the face value. As a result of the buy-back, Edcon recognised a gain, net of associated fees, of R1,350 million.

### ***Hedge realisation***

In June 2008 we realised R1,793 million from certain derivatives used to hedge interest rate and foreign exchange exposures associated with the senior floating rate notes. A revised hedging structure was put in place, whereby Edcon Holdings (Proprietary) Limited entered into currency swaps and foreign currency forward contracts to hedge certain exposures under the €378 million of senior floating rate notes then outstanding. As a result, Edcon Holdings (Proprietary) Limited remains (i) hedged for the interest rate and currency risk on the interest payments of the Floating Rate Notes until June 2011 and (ii) economically hedged on the principal of the Floating Rate Notes until June 2012. Management is continually re-evaluating its hedging strategies and exposures and may choose to amend this position in the future.

Prior to the hedge realisation we had available liquidity under the Senior Revolving Credit Facility of over R2.5 billion. Over the one month following the hedge realisation we invested over R2 billion in capital expenditures and assets, including inventory that we use in our business. Our available liquidity under the Senior Revolving Credit Facility as at 27 December 2008 was R3,118 million.

### ***Liquidity and capital resources***

Our primary source of short-term liquidity is cash on hand, our Senior Revolving Credit Facility (as defined below), the Borrowing Base Facility (as defined below) and the receivables backed facility associated with OntheCards Investments Limited (the "OtC Receivable Backed Facility"). The amount of cash on hand and the outstanding balance of our Senior Revolving Credit Facility, the Borrowing Base Facility and the OtC Receivable Backed Facility are influenced by a number of factors, including retail sales, working capital levels, supplier payment terms, timing of payment for capital expenditure projects, and tax payment requirements.

Our working capital requirements fluctuate during the month, depending on when we pay our suppliers and collect receivables, and throughout the year depending on the seasonal build-up of inventory and accounts receivable. We fund peaks in the working capital cycle with cash flows from operations and drawings under our Senior Revolving Credit Facility.

At 28 March 2009 our total net debt including cash and derivatives (excluding the OtC Receivable Backed Facility) of R20,797 million consisted of (i) the fair value of Floating Rate Notes of R19,600 million, (ii) borrowings under the Borrowing Base Facility of R816 million, (iii) borrowings under the Senior Revolving Credit Facility of R1,825 million, less (iv) net derivatives of R1,065 million and (v) cash and cash equivalents of R379 million. In addition, OntheCards net debt of R2,659 million consisted of (i) borrowings under the receivables backed facility of R2,599 million and (ii) borrowings under the liquidity facility of R60 million.

At 28 March 2009, the total availability under the Senior Revolving Credit Facility was R3,500 million. The total availability under the Borrowing Base Facility was R3,900 million, although this may increase to R6,500 million if commitments under the OtC securitisation are transferred to our Borrowing Base Facility.

During fiscal 2009 the maximum utilisation of the Senior Revolving Credit Facility and the Borrowing Base Facility was R2,275 million and R1,316 million (R3,916 million including OtC) respectively.

We believe that operating cash flows and amounts available under the Senior Revolving Credit Facility, Borrowing Base Facility and OtC Receivable Backed Facility will be sufficient to fund our debt service obligations and operations, including capital expenditure and contractual commitments, through to 31 March 2010.

## Indebtedness

Reference is hereby made to the indentures governing the Floating Rate Notes (the "Indentures"). Reference is further made to (i) the Senior Revolving Credit Facility (as defined in the Indentures), (ii) the Borrowing Base Facility (as defined in the Indentures) and (iii) the Intercreditor Agreement (as defined in the Indentures).

There have been no material changes in the terms of our indebtedness as described in the Offering Memorandum.

## Scheduled repayments of our obligations

The following table summarises as of 28 March 2009, (i) the contractual obligations, commercial commitments and principal payments we are committed to make under our debt obligations, leases and other agreements and (ii) their maturities.

| Commitments due by period –<br>Rmillion                        | Total |         | Less than<br>1 year | 1 – 3<br>years | 3 – 5<br>years | More than<br>5 years |   |        |
|--|-------|---------|---------------------|----------------|----------------|----------------------|---|--------|
|  | R     |         | R                   | R              | R              | R                    |   |        |
| Revolving Credit Facility                                      | R     | 1,825   | R                   | -              | R              | 1,825                | R | -      |
| Senior Secured Notes <sup>(1)</sup>                            |       | 14,867  |                     | -              |                | -                    |   | 14 867 |
| Senior Notes <sup>(1)</sup>                                    |       | 4,733   |                     | -              |                | -                    |   | 4,733  |
| Derivative Financial Instruments –<br>Notes <sup>(2)</sup>     |       | (1,730) |                     | -              |                | (1,730)              |   | -      |
| Borrowing Base Facility <sup>(3)</sup>                         |       | 816     |                     | -              |                | 816                  |   | -      |
| Leases <sup>(4)(5)</sup>                                       |       | 6,079   |                     | 1,236          |                | 2,003                |   | 1,374  |
| Medical aid <sup>(6)</sup>                                     |       | 112     |                     | -              |                | -                    |   | 112    |
| Derivative Financial Instruments' –<br>interest <sup>(2)</sup> |       | 665     |                     | 326            |                | 339                  |   | -      |
| Interest expense on Floating Rate<br>Notes <sup>(7)</sup>      |       | 7,093   |                     | 1,315          |                | 2,630                |   | 2,630  |
| Total long-term debt obligations                               |       | 34,460  |                     | 2,877          |                | 5,788                |   | 4,099  |
|  |       |         |                     |                |                |                      |   | 21,696 |

(1) Presented using the ruling rate of exchange at the balance sheet date.

(2) Presented based on the fair values at the balance sheet date.

(3) In addition, OtC has commitments of R2,599 million under the OtC receivable backed facility and R60 million under the OtC liquidity facility. The borrowing base facility and the OtC receivable backed facility mature in June 2010.

(4) Our group financial statements present our lease obligations in categories different from the categories we use in this table. Therefore, we have straight-lined our lease obligations to present them for the periods we use in this table.

(5) Leases include property operating lease commitments and computer equipment operating lease commitments.

(6) We assume that there are no medical aid obligations that will become due and payable prior to five years.

(7) Presented based on the floating interest and exchange rates at the balance sheet date.

The property leases into which we enter have an average initial lease term of ten years for our *Edgars* chains and five years for our other chains, with lease terms typically including four options to extend the lease for periods of five years each. The leases generally give us the right to sublet the leased premises and assign our rights under the lease to our affiliate companies. Rental payments are generally made on a monthly basis and rent is increased at an agreed percentage rate (typically 7%) compounded annually. As of 28 March 2009, the future minimum property operating lease commitments due within one year amounted to R1,069 million.

## **Market risk**

### *Foreign currency risk*

We are exposed to the exchange rate movement of the rand, our operating currency, against other currencies in respect of merchandise we import. A substantial portion of our indebtedness is denominated in euro. Foreign exchange rate fluctuations in the future may affect our ability to service our foreign-currency denominated indebtedness, including payments in euro on the Floating Rate Notes. See “Risk Factors—Risks related to our business and industry—Our business is affected by foreign currency fluctuations”. Historically, our policy has been to cover all foreign-denominated import liabilities using forward exchange contracts. We hedge our exposure to the rate movement of the rand against the euro in relation to the Floating Rate Notes, both the principal and interest coupons. See Group Financial Statements.

### *Interest rate risk*

As a result of the significant inter-seasonal and intra-month swings in working capital in our business, our short term net debt can fluctuate greatly. Therefore, our treasury actively monitors our interest rate exposure. We use swaps to manage our interest rate risk against any unexpected fluctuations in the interest rates. We also actively manage our fixed and floating rate interest-bearing debt and cash and cash equivalents mix as part of this exposure management process.

In order to hedge specific interest rate exposure of existing borrowings and anticipated peak additional borrowings, we make use of interest rate derivatives, only as approved in terms of policy limits which require approval of the chief executive officer and, in some cases, the board of directors, depending on the size of the derivative. We have fixed the interest payments on the Floating Rate Notes until June 2011. See Group Financial Statements.

### *Counterparty risk*

Counterparty risk with financial institutions is managed by clearly defined bank mandates and delegation of authority. We carefully assess on an ongoing basis the creditworthiness of financial counterparties. Exposure limits are managed by our treasury, and monitored by our Treasury Risk Workgroup.

### ***Critical accounting policies and use of estimates***

In preparing our group financial statements, our management has historically been required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Actual results in the future could differ from these estimates, and this may be material to our financial statements. Significant estimates and judgments made relate to an allowance for doubtful debts, allowances for slow-moving inventory, residual values, useful lives and depreciation methods, classification of leases, estimating the fair value of derivatives including credit valuation adjustments to reflect non-performance risk, pension fund and employee obligations and asset impairment tests.

#### *Revenue recognition*

Revenue comprises retail sales of merchandise, manufacturing sales, club fees, financial services income, equity accounted earnings of joint ventures, dividends, and interest and finance charges accrued to Edcon. Revenue from all sales of merchandise, net of returns, is brought to account when delivery takes place to the customer. Revenue from manufacturing and other operations is recognised when the sale transactions giving rise to such revenue are concluded. Finance charges on arrear account balances are accrued on a time proportion basis, recognising the effective yield on the underlying assets. Dividends are recognised when the right to receive payment is established. Interest received is recognised using the effective interest rate method. Club fees are recognised as incurred.

#### *Trade and other receivables*

Trade and other receivables are initially recognised at fair value. Subsequent to initial measurement, receivables are recognised at amortised cost less an allowance for doubtful debts. A provision for impairment is made when there is objective evidence (such as default or delinquency of interest and the principal) that Edcon will not be able to collect all amounts due under the original terms of the trade receivable transactions. Bad debts incurred are recognised in profit or loss as incurred.

Delinquent accounts are impaired by applying Edcon's impairment policy recognising both contractual and ages of accounts. Age refers to the number of months since a qualifying payment was received. The process for estimating impairment considers all credit exposures, not only those of low credit quality and estimated on the basis of historical loss experience, adjusted on the basis of current observable data, to reflect the effects of current conditions. Edcon assesses whether objective evidence of impairment exists individually for receivables that are individually significant, and individually or collectively for receivables that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed receivable, whether significant or not, the receivable is included in a group of receivables with similar credit risk characteristics and that group of receivables is collectively assessed for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised, are not included in a collective assessment of impairment.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss; to the extent the carrying value of the receivable does not exceed its cost at the reversal date.

## *Leases*

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred from the lessor to Edcon as lessee. The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at inception date and whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Assets subject to finance leases are capitalised at the lower of the fair value of the asset, and the present value of the minimum lease payments, with the related lease obligation recognised at the same value. Capitalised leased assets are depreciated over the shorter of the lease term and the estimated useful life if Edcon does not obtain ownership thereof. Finance lease payments are allocated, using the effective interest rate method, between the lease finance cost, which is included in financing costs, and the capital repayment, which reduces the liability to the lessor.

Operating leases are those leases which do not fall within the scope of the above definition. Operating lease rentals with fixed escalation clauses are charged against trading profit on a straight-line basis over the term of the lease.

In the event of a sub-lease, lease rentals received are included in profit or loss on a straight-line basis.

## *Inventory*

Retail trading inventories are valued at the lower of cost, using the weighted average cost, and net realisable value, less an allowance for slow-moving items. Net realisable value is the estimated selling price in the ordinary course of business less necessary costs to make the sale. In the case of own manufactured inventories, cost includes the total cost of manufacture, based on normal production facility capacity, and excludes financing costs. Work-in-progress is valued at actual cost, including direct material costs, labour costs and manufacturing overheads. Factory raw materials and consumable stores are valued at average cost, less an allowance for slow-moving items.

The allowance for slow-moving inventory is made with reference to an inventory age analysis. All inventory older than 18 months is provided for in full as it is not readily disposable.

All store inventories are physically verified at least twice a year through the performance of inventory counts and shortages identified are written off immediately. Stores, which have a history of high inventory losses, are subject to more frequent inventory counts. An allowance is made, based on historical trends of inventory losses, for losses incurred between the last physical count and the balance sheet date.

## *Financial instruments*

Financial instruments recognised on the balance sheet include derivative instruments, held-to-maturity investments, trade and other receivables, cash and cash equivalents, trade and other payables and financial liabilities. Financial instruments are initially measured at fair value, including transaction costs, except those at fair value directly through profit or loss, when Edcon becomes a party to contractual arrangements.

Edcon uses derivative financial instruments such as foreign currency contracts and interest rate swaps to manage the financial risks associated with their underlying business activities and the financing of those activities. Edcon does not undertake any trading activity in derivative financial instruments.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

We incorporate credit risk valuation adjustments to appropriately reflect both our own non-performance risk and the respective counterparty's non-performance risk in the fair value measurements.

The significant inputs to the overall valuations are based on market observable data or information derived from or corroborated by market observable data, including transactions, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

Where models are used the selection of a particular model to value a derivative depends upon the contractual terms of, and specific risks inherent in the instrument as well as the ability of pricing information in the market. Edcon uses similar models to value similar instruments. Valuation models require a variety of inputs including contractual terms, market prices, yield curves and credit curves.

The credit risk valuation adjustments are calculated by determining the current net exposure of each derivative (excluding potential future exposure) and then discounting the estimated cash flows at a rate, adjusted with each counterparty's credit spread to the applicable exposure.

The inputs utilised by Edcon for its own credit spread are based on estimated fair market spreads for entities with similar credit ratings. For counterparties with publicly available credit information, the credit spreads over the benchmark rate used in the calculations represent implied credit default swap spreads obtained from a third party credit data provider.

In adjusting the fair value of derivative contracts for the effect of non-performance risk, Edcon has not considered the impact of netting and any applicable credit enhancements such as, collateral postings, thresholds, mutual puts and guarantees. Edcon additionally actively monitors counterparty credit ratings for any significant changes.

For the purposes of hedge accounting, hedges are classified as either fair value hedges where they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction.

In relation to cash flow hedges which meet the conditions for special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in net profit or loss.

For cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged item affects the net profit or loss, for example when the future sale actually occurs.

For derivatives that do not qualify for special hedge accounting, any gains or losses arising from changes in fair value are taken directly to net profit or loss for the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for special hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

### *Goodwill*

Goodwill is initially measured at cost and represents the excess of the purchase consideration over the fair value of Edcon's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition. Following initial recognition, goodwill is measured at cost, less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

If on acquiring an entity, Edcon's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity exceeds the purchase consideration, this excess/(discount) is recognised in profit or loss immediately.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the acquisition. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. 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 that operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

### *Other intangible assets*

Where payments are made for the acquisition of intangible assets with a finite useful life, the amounts are capitalised at cost and amortised on a straight-line basis over their anticipated useful lives. Intangible assets acquired through the acquisition of an entity are recognised at fair value. The useful life of intangible assets with a finite life is estimated to be between five and fifteen years. Amortisation is charged on those assets with finite lives and the expense is taken to the income statement and included in other operating costs. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial period-end and assessed for indicators of impairment. Annually, intangible assets with an indefinite useful life are reviewed for impairment or changes in estimated future benefits, either individually or at the cash-generating unit level. Such intangible assets are not amortised and the useful life is reviewed annually to determine whether indefinite life assessment continues to be appropriate. If not, the change from indefinite to finite will be made on a prospective basis. If such indications exist, an analysis is performed to assess whether the carrying amount of intangible assets is fully recoverable. An impairment is made if the carrying amount exceeds the recoverable amount. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Intangible assets are derecognised on disposal or when no future economic benefits are expected through use of the intangible assets. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the intangible asset and are recognised in profit or loss when the intangible asset is derecognised. No valuation is made of internally developed and maintained intangible assets. Expenditure incurred to maintain brand names is charged in full to the income statement as incurred.

## RISK FACTORS

### Risks related to our business and industry

#### ***Unfavourable macroeconomic factors may decrease consumer demand for our retail goods***

Macroeconomic factors such as GDP growth, employment levels and interest rates affect consumer demand for our goods. Strong consumer demand has been fuelled in part by increased social grants since 2002. More recently, a slowdown in growth of the South African economy and the resulting impact on employment have put pressure on consumer spending. Higher interest rates, increased fuel costs, increased consumer indebtedness, decreasing social grants and lower consumer confidence could have a material adverse effect on our retail sales and the results of our operations.

Our results are also impacted by other macroeconomic factors, such as the prevailing economic climate, real disposable income and salaries and wage rates, including any increase as a result of payroll cost inflation or governmental action to increase minimum wages or contributions to pension provisions, the availability of consumer credit and consumer perception of economic conditions. Approximately 95% of our retail sales are derived from South Africa and therefore a general slowdown in South African GDP growth or an uncertain economic outlook may adversely affect consumer spending habits, which may reduce our retail sales and adversely impact our results of operations. Moreover, many of the items that we sell, particularly higher margin fashion and homewares products, represent discretionary purchases, meaning that we may experience a decline in retail sales that is proportionally greater than the level of general economic decline. Therefore, an economic downturn in South Africa could have a material adverse effect on our business, financial condition, results of operations and cash flows.

#### ***Our business could be adversely affected by disruptions in our supply chain***

Any significant disruption or other adverse event affecting our relationship with any of our major suppliers could have a material adverse effect on the results of our operations and our financial condition. If we need to replace any of our major suppliers, we may face risks and costs associated with a transfer of operations. In addition, a failure to replace any of our major suppliers on commercially reasonable terms, or at all, could have a material adverse effect on our results of operations and financial condition.

The concentration of our suppliers will increase as we proceed with our strategy to reduce the number of our suppliers. In the event that one or more of our major suppliers chooses to cease providing us with merchandise or experiences operational difficulties, and we are unable to secure alternative sources in a timely manner or on commercially beneficial terms, we may experience inventory shortages or other adverse effects to our business. If our suppliers are unable or unwilling to continue providing us with merchandise under our presently agreed terms including as a result of our significantly increased leverage, or if we are unable to obtain goods from our suppliers at prices that will allow our merchandise to be competitively priced, there could be a material adverse effect on our retail sales, results of operations and liquidity.

The cost and availability of our supplies are dependent on many factors, including:

- the base price of raw material costs, as well as the cost of individual product components;
- freight costs; and
- rebates and discounts earned from suppliers.

Moreover, we purchase a portion of our products in markets outside of South Africa, principally in Asia, and the number of our foreign suppliers may increase as we proceed with our strategy to partner with suppliers in low cost countries. We face a variety of risks generally associated with doing business in foreign markets and importing merchandise from these regions, including:

- political instability;
- increased security requirements applicable to foreign goods;
- imposition of duties and taxes, other charges and restrictions on imports;
- risks related to labour practices, environmental matters or other issues in the foreign countries or factories in which our merchandise is manufactured;
- delays in shipping; and
- increased costs of transportation.

Any of these risks, in isolation or in combination, could adversely affect our reputation, financial condition and results of operations. New initiatives may be proposed that may have an impact on the trading status of certain countries and may include retaliatory duties or other trade sanctions that, if enacted, could increase the cost of products purchased from suppliers in such countries or restrict the importation of products from such countries. The future performance of our business will partly depend on our foreign suppliers and may be adversely affected by the factors listed above, all of which are beyond our control.

***Our business is affected by foreign currency fluctuations***

We realise a majority of our revenue, and incur a significant portion of our costs and expenses, in rand. We purchase a portion of our products in markets outside of South Africa, principally in Asia, and the number of our foreign suppliers may increase as we proceed with our strategy to partner with suppliers in low-cost countries. The cost of foreign-sourced products is affected by the fluctuation of the relevant local currency against the rand or, if priced in other currencies, the price of the merchandise in currencies other than the rand. Accordingly, changes in the value of the rand relative to foreign currencies may increase our cost of goods sold and, if we are unable to pass such cost increases on to our customers, decrease our gross margins and ultimately our earnings.

In addition, a substantial portion of our indebtedness is denominated in euro. In recent years, the value of the rand as measured against the euro has fluctuated considerably. Foreign currency fluctuations in the future may affect our ability to service our foreign currency denominated indebtedness, including payments in euro on the Floating Rate Notes. We have hedged the principal and coupon payments on the Floating Rate Notes until June 2012 and June 2011 respectively but Edcon may choose to adjust this position in the future.

We cannot assure you that we will be able to manage our currency risks effectively or that any volatility in currency exchange rates will not have a material adverse effect on our financial condition or results of operations or on our ability to make principal and interest payments on our indebtedness, including the Floating Rate Notes.

***If we are unable to renew or replace our store leases or enter into leases for new stores on favourable terms, or if any of our current leases are terminated prior to the expiration of its stated term and we cannot find suitable alternative locations, our growth and profitability could be harmed***

We lease nearly all of our store locations. Our ability to renew any expired lease or, if such lease cannot be renewed, our ability to lease a suitable alternative location, as well as our ability to enter into leases for new stores on favourable terms, depend on many factors beyond our control, such as conditions in the local real estate market, competition for desirable properties and our relationships with current and prospective landlords. If we are unable to renew existing leases or lease suitable alternative locations, or enter into leases for new stores on favourable terms, our growth and our profitability may be significantly harmed.

***We depend heavily on our information technology systems to operate our business***

We rely to a significant degree on the efficient and uninterrupted operation of our various computer and communications systems to operate and monitor all aspects of our retail business and our credit and financial services business, including, in respect of our retail business, sales, warehousing, distribution, purchasing, inventory control and merchandise planning and replenishment. Any significant breakdown or other significant disruption to the operations of our primary sites for all of our computer and communications systems could significantly affect our

ability to manage our information technology systems, which in turn could have a material adverse effect on our retail sales, financial condition and results of operations.

***Any negative impact on the reputation of, and value associated with, our brand names could adversely affect our business***

Our brand names represent an important asset of our business. Maintaining the reputation of, and value associated with, our brand names is central to the success of our business, but there can be no assurance that our business strategy and its execution will accomplish this objective. Substantial erosion in the reputation of, or value associated with, our brand names could have a material adverse effect on our business, financial condition and results of operations.

***Our business could suffer as a result of weak retail sales during peak selling seasons***

Our business is subject to seasonal peaks. Historically, our most important trading periods in terms of retail sales, operating results and cash flows have been the Easter and Christmas seasons, with approximately 9% of our retail sales occurring in April and 25% in November and December. We incur significant additional expenses in advance of the Easter and Christmas seasons in anticipation of higher retail sales during those periods, including the cost of additional inventory, advertising and hiring additional employees. In previous years, our investment in working capital has peaked in early to middle March and October and November and has fallen significantly in April and January. If, for any reason, retail sales during our peak seasons are significantly lower than we expect, we may be unable to adjust our expenses in a timely fashion and may be left with a substantial amount of unsold inventory, especially in seasonal merchandise that is difficult to liquidate. In that event, we may be forced to rely on significant markdowns or promotional sales to dispose of excess inventory, which could have a material adverse effect on our business, financial condition and results of operations. At the same time, if we fail to purchase a sufficient quantity of merchandise, we may not have an adequate supply of products to meet consumer demand, which may cause us to lose retail sales.

***Our business can be adversely affected by unseasonal weather conditions***

Our results are affected by periods of abnormal or unseasonal weather conditions. For example, periods of warm weather in the winter could render a portion of our inventory incompatible with such unseasonal conditions. Adverse weather conditions early in the season could lead to a slowdown in retail sales at full margin, followed by more extensive markdowns at the end of the season. Prolonged unseasonal weather conditions during one of our peak trading seasons could adversely affect our turnover and, in turn, our results of operations and cash flows. In addition, extreme weather conditions, such as floods, may make it difficult for our employees and customers to travel to our stores.

***The sector in which our business operates is highly competitive***

The retail market is highly competitive, particularly with respect to product selection and quality, store location and design, price, customer service, credit availability and advertising. We compete at the national and local levels with a wide variety of retailers of varying sizes and covering different product lines across all geographic markets in which we operate. For example, in the department store segment we compete directly with *Woolworths*, *Truworths* and *Foschini*. In the discount store segment we compete with companies such as *Mr Price*, *Ackermans* and *PEP*. In addition, the South African retail sector has experienced a consolidation of market formats as retail companies diversify in other sectors of the retail market. For example, *Pick 'n Pay*, South Africa's leading food retailer, has in the last several years entered into the C&F market by opening standalone value clothing stores. Our credit and financial services business faces competition from other retail companies which offer financial services to their customers. Increased competition from our existing competitors or new entrants to the market could result in lower prices and margins or a decrease in our market share, any of which could have a material adverse effect on our retail sales, results of operations and liquidity.

We face a variety of competitive challenges including:

- anticipating and quickly responding to changing consumer demands;
- maintaining favourable brand recognition and effectively marketing our products to consumers in several diverse market segments;
- developing innovative fashion products in styles that appeal to consumers of varying age groups and tastes;
- sourcing merchandise efficiently;
- competitively pricing our products; and
- responding to changes in consumer behaviour as a result of economic conditions and as a result of changes in consumer spending patterns.

Actions taken by our competitors, as well as actions taken by us to maintain our competitiveness and reputation, can place and will continue to place pressure on our pricing strategy, margins and profitability and could have a material adverse effect on our business, results of operations and financial condition. Some of our competitors may have greater financial resources, greater purchasing economies of scale and/or lower cost bases, any of which may give them a competitive advantage over us. Our competitors also may merge or form strategic partnerships, which could cause significant additional competition for us.

***We may not be able to predict accurately or fulfill customer preferences or demand***

A portion of our sales are from fashion-related products, which are subject to volatile and rapidly changing customer tastes. The availability of new products and changes in customer preferences have made it more difficult to predict sales demand accurately. As a multi-product retailer, our success depends, in part, on our ability to effectively predict and respond to quickly changing consumer demands and preferences and to translate market trends into appropriate, saleable product offerings. Our ability to anticipate and effectively respond to changing customer preferences and tastes depends, in part, on our ability to attract and retain key personnel in our buying, design, merchandising, marketing and other functions. Competition for such personnel is intense, and we may not be able to attract and retain a sufficient number of qualified personnel in future periods.

Furthermore, many of our products are manufactured offshore. Accordingly, in some instances we must enter into contracts for the purchase and manufacture of merchandise well in advance of the applicable selling season. The long lead times between ordering and delivery make it more important to accurately predict, and more difficult to fulfill, the demand for items.

There can be no assurance that our orders will match actual demand. If we are unable to successfully predict or respond to sales demand or to changing styles or trends, our sales will be lower and we may be forced to rely on additional markdowns or promotional sales to dispose of excess or slow-moving inventory or we may experience inventory shortfalls on popular products, any of which could have a material adverse effect on our business, financial condition and results of operations. In addition, a number of other factors, including changes in personnel in the buying and merchandising function, could adversely affect product availability.

***Our growth depends in part on our ability to open and operate new stores profitably***

One of our key business strategies is to expand our base of retail stores. If we are unable to implement this strategy, our ability to increase our sales, profitability, and cash flow could be impaired. To the extent that we are unable to open and operate new stores profitably, our sales growth would come only from increases in same store sales. We may be unable to implement our strategy if we cannot identify suitable sites for additional stores, negotiate acceptable leases, access sufficient capital to support store growth, or hire and train a sufficient number of qualified employees.

***We are reliant on our key personnel and we face strong competition to attract and retain qualified managers and employees***

We are highly dependent on our key personnel, including Stephen Ross, our chief executive officer, who have extensive experience in, and knowledge of, our industry. In addition, our business faces significant and increasing competition for qualified management and skilled employees. We have instituted a number of programmes to improve the recruitment and retention of managers and employees, and we typically invest substantially in their training and professional development. However, these programmes may prove unsuccessful, and, in conditions of constrained supply of skilled employees, there is a risk that our well-trained managers and employees will accept employment with our competitors. The loss of the service of our key personnel or our failure to recruit, train, and retain skilled managers and employees could have a material adverse effect on our retail sales, results of operations and liquidity.

***An increase in bad debts among our credit card customers or restrictions on our ability to charge market related interest rates could have a negative impact on the performance of our credit and financial services business***

From fiscal 2007 to fiscal 2009, we experienced an anticipated increased incidence of bad debts among our credit card customers as a result of our having actively expanded the size of our credit book. Bad debts as a percentage of our debtors' book increased from 11.4% in fiscal 2007 to 11.8% in fiscal 2009. It is possible that this upward trend will continue in the short term and beyond and there may be increased incidence of bad debts. The increase in bad debts as a percentage of our credit card assets could have a material adverse effect on our revenue, results of operations and liquidity. In addition, existing or future statutory usury provisions may prevent us from increasing the interest rates we charge on our credit cards beyond a specified threshold even though our cost of credit may increase. Such restrictions could have a material adverse effect on our revenue, results of operations and liquidity.

***We are indirectly owned and controlled by our equity sponsor, an affiliate of Bain Capital, and its interests as equity holder may conflict with creditors***

We are indirectly owned and controlled by our equity sponsor, an affiliate of Bain Capital, and our equity sponsor or its affiliates have the ability to control our policies and operations. The interests of our equity holders may not in all cases be aligned with your interests. For example, if we encounter financial difficulties or are unable to pay our debts as they mature, the interests of our equity holders might conflict with those of the holders of our Floating Rate Notes. In addition, our equity holders may have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their equity investments, even though such transactions might involve risks to holders of our Floating Rate Notes. Furthermore, our equity sponsor or its affiliates may in the future own businesses that directly or indirectly compete with us. Our equity sponsor or its affiliates also may pursue acquisition opportunities that may be complementary to our business, and as a result, those acquisition opportunities may not be available to us.

***We could experience labour disputes that could disrupt our business***

As of March 2009, approximately 13,150 of our employees are represented by collective bargaining and are covered by collective bargaining or similar agreements that are subject to periodic renegotiation. We have recently negotiated a new two-year collective bargaining agreement with the South African Commercial, Catering and Allied Workers Union, the biggest trade union active among our employees. However, any future collective bargaining negotiations may not prove as successful and result in the disruption of our operations. Such future collective bargaining negotiations may result in an increase in our labour costs. In addition, our employees could join in national labour strikes, boycotts or other collective actions. Any work stoppages and labour disruptions or any increase in our labour costs could materially adversely affect our retail sales, results of operations and financial condition.

**Risks related to South Africa**

***An adverse change in economic, political and social conditions in South Africa or regionally may adversely affect economic conditions generally and demand for our products specifically and cause our revenue, profitability and cash flow to decline***

We derived approximately 95% of our retail sales in South Africa. Economic, political and social conditions in South Africa have a significant direct impact on our business. South Africa has relatively high levels of unemployment, poverty and crime, and a relatively low level of education. These problems, in part, have hindered investments in South Africa, prompted the emigration of skilled workers and negatively affected economic growth. Although it is difficult to predict the effect of these problems on South African businesses or the South African government's efforts to solve them, these

problems, or the policy prescriptions proposed, such as Black Economic Empowerment legislation, may adversely affect economic conditions generally and demand for our products specifically. Government policies aimed at alleviating and redressing the lack of services and disadvantages suffered by the majority of citizens under previous South African governments may also have an adverse effect on economic conditions and our operations. There has also been economic, political and social instability in the countries surrounding South Africa, which may negatively affect South African economic, political or social conditions. An adverse change in the economic, political or social conditions in South Africa as well as regional instability may have a material adverse effect on our operations, profitability and financial condition.

There are risks associated with an investment in South Africa, including:

- adverse changes in economic and governmental policy;
- relatively low levels of disposable consumer income;
- risk of relatively high-level of crime, including the risk of robberies of cash in transit;
- unpredictable changes in the legal and regulatory environment;
- relatively high levels of corruption;
- the impact of exchange controls;
- inconsistent application of existing laws and regulations; and
- relatively slow or insufficient legal remedies.

Since 1999, during the years of GDP growth, SARB has focused on controlling inflation as its primary monetary policy. However, there is a risk that, as growth in the South African economy slows, SARB may adjust its focus on inflation in favour of a growth-oriented monetary policy. As a consequence, inflation could increase further, which could destabilise South Africa's macroeconomic performance. Worsening macroeconomic conditions could materially adversely affect our retail sales, results of operations and financial condition.

An adverse change in economic, political or social conditions in South Africa or neighbouring countries or emerging markets generally may adversely affect the value of the rand, economic conditions in South Africa generally or demand for our products specifically, which may have a material adverse effect on our operations, profitability and financial condition. In addition, any such adverse change may negatively affect investor sentiment towards South Africa or emerging markets generally, which may have a material adverse effect on the market value and liquidity of the Floating Rate Notes.

#### ***Disruptions or breakdowns in South African infrastructure could disrupt our business***

Our operations are reliant on the continued ability of South African infrastructure to support our business activities. Disruptions in the provision of basic services such as electricity and water shortages impact our ability to reach our customers and our customers' ability to shop in our stores. This is evidenced by the recent power outages experienced in South Africa as a result of Eskom, the electrical services provider, implementing a program of load shedding. The recent rapid growth of the population and economy of South Africa has placed pressure on the existing infrastructure of the country. Any failure on the part of the South African government to invest in adequate infrastructure could adversely affect our retail sales, results of operations and financial condition.

#### ***South African exchange control restrictions could hinder our ability to procure and/or repay non-rand denominated financings***

South Africa's exchange control regulations restrict business transactions between residents of the Common Monetary Area on the one hand, which consists of South Africa, the Republic of Namibia and the Kingdoms of Lesotho and Swaziland, and non-residents of the Common Monetary Area, on the other hand. In particular, South African companies:

- are often not permitted to export capital from South Africa, hold foreign currency in excess of certain limits or incur indebtedness denominated in foreign currencies without the approval of the South African exchange control authorities; and
- are prohibited from using transfer pricing and excessive interest rates on foreign loans as a means of expatriating currency.

These restrictions could hinder our ability to procure non-rand denominated financings in the future. While the South African government has relaxed exchange controls in recent years, it is difficult to predict what action, if any, the government may take in the future with respect to exchange controls. The government may continue to relax or may

abolish exchange controls in the future. However, if the government were to tighten exchange controls, these restrictions could further hinder our ability to procure non-rand denominated financings in the future and could adversely impact our results of operations and liquidity.

The issuance of the Floating Rate Notes and our ability to make scheduled interest payments and to pay principal at maturity under the Floating Rate Notes required the approval of the South African exchange control authorities. To repurchase or redeem Floating Rate Notes prior to their stated maturity, however, including upon a change of control, upon a tax withholding event or with the proceeds of asset sales, we would need to obtain additional approvals from the South African exchange control authorities, which may take a significant amount of time to obtain, if we can obtain them at all. If we could not obtain that consent (and, therefore, did not offer to repurchase or redeem the Floating Rate Notes following a change of control, tax event or asset sale offer, as the case may be), an event of default would occur, requiring us to repay the Floating Rate Notes at par plus accrued interest.

***The high rates of HIV infection in South Africa could cause us to lose skilled employees, incur additional costs or adversely affect economic conditions generally or demand for our products specifically, each of which could cause our retail sales, results of operations and liquidity to decline***

South Africa has one of the highest reported HIV infection rates in the world. The exact impact of increased mortality rates due to AIDS-related deaths on the cost of doing business in South Africa and the potential growth rate of the economy is unclear at this time. We may lose employees with valuable skills due to AIDS-related deaths, and our results of operations and financial condition could be materially adversely affected if we lose those employees. In addition, we may incur education and prevention costs. Our results of operations and liquidity could be materially adversely affected if our employee health-related expenses increase. Moreover, increased mortality rates due to AIDS-related deaths may slow the population growth rate, cause the South African population to decline or increase significantly the overall cost of doing business in South Africa, which may affect economic conditions generally and demand for our products specifically. The effects of HIV infection on both our employees and on the South African market may have a material adverse effect on our operations, profitability and financial condition.

#### **Risks related to the Floating Rate Notes**

***We must use a significant portion of our cash flow to service our indebtedness which could have important consequences to us. Any failure in our ability to generate sufficient cash in the future could force us to take certain actions which could have a material adverse effect on our retail sales, results of operations and liquidity***

As of 28 March 2009, we had total debt of R22,241 million reflected on the Balance Sheet. Our substantial indebtedness could have important consequences to us including:

- requiring us to dedicate a significant portion of our cash flow from operations to make payments on our indebtedness, thereby reducing the portion of our cash flow available to fund our working capital and capital expenditure needs and for other general corporate purposes;
- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;
- limiting our ability to make strategic acquisitions or engage in other corporate transactions;
- placing us at a competitive disadvantage compared to our competitors that have less indebtedness; and
- limiting our ability to borrow additional funds or raise equity capital in the future and increasing the cost of any such financings.

Our ability to make payments on and repay or refinance our indebtedness, including the Floating Rate Notes, and to fund our working capital requirements and capital expenditures, will depend on our future operating performance and ability to generate cash, which in turn will depend, to some extent, on general economic, financial, competitive, market and other factors, many of which are beyond our control. Furthermore, we may incur additional indebtedness in the future that may contain financial or other covenants more restrictive than those contained in the Indentures of the Floating Rate Notes ("the Indentures").

Although we currently believe that our future cash flows, together with available borrowing facilities, will be adequate to service our indebtedness and fund our working capital and capital expenditure needs, we cannot assure you that our business will generate sufficient cash or that future borrowings will be available to us for such purposes. Our borrowing base facility and OtC receivable backed facility mature in June 2010. If our future cash flows and available borrowings

are insufficient to service our debt and fund our liquidity needs, we may be forced to take certain actions which could have a material adverse effect on our retail sales, results of operations and liquidity, including:

- reducing or delaying capital expenditures;
- selling assets;
- obtaining additional indebtedness;
- restructuring or refinancing all or a portion of our indebtedness, including the Floating Rate Notes, on or before maturity; or
- foregoing opportunities such as strategic joint ventures and acquisitions of other businesses.

In the worst case, an actual or impending inability to pay our debts as they become due and payable could result in our insolvency.

***Despite our current levels of indebtedness, we and our subsidiaries may still be able to incur substantially more debt***

The terms of the Indentures and our new senior revolving credit facility and borrowing base facility will limit, but not prohibit, us or our subsidiaries from incurring additional indebtedness, including additional secured indebtedness. Consequently, we and our subsidiaries may incur substantial additional indebtedness in the future. Any such incurrence of additional indebtedness could exacerbate the leverage-related risks that we now face.

***The guarantees on the senior floating rate notes (the “Senior Subordinated Guarantees”) are contractually subordinated, and the senior floating rate notes are structurally subordinated, to the senior secured floating rate notes and indebtedness incurred under the Senior Revolving Credit Facility and the Borrowing Base Facility***

The Senior Subordinated Guarantees are contractually subordinated to the senior secured floating rate notes, the Senior Secured Guarantees and indebtedness incurred under the Senior Revolving Credit Facility and the Borrowing Base Facility. In the event of bankruptcy, liquidation, insolvency or default, holders of the senior floating rate notes may not be able to recover the full, or any, amount in respect of the senior floating rate notes if the amount of the Senior Subordinated Guarantees does not meet all obligations under the Floating Rate Notes. In such event, holders of the senior floating rate notes may receive less, rateably, than holders of the senior secured floating rate notes, or nothing.

In addition, the senior floating rate notes are structurally subordinated to the senior secured floating rate notes and indebtedness incurred under the Senior Revolving Credit Facility and the Borrowing Base Facility. Generally, creditors of a parent company will have no direct claim against the assets of any subsidiary of that parent company. Therefore, in the event of bankruptcy or insolvency of Edcon (Proprietary) Limited, a subsidiary of Edcon Holdings (Proprietary) Limited, or of any of Edcon (Proprietary) Limited’s subsidiaries, if the claims of holders of the senior floating rate notes are not met in full by the Senior Subordinated Guarantees, the remaining claims of holder’s of the senior floating rate notes will be structurally subordinated to the claims of the other creditors of Edcon (Proprietary) Limited or any of Edcon (Proprietary) Limited’s subsidiaries and will only be satisfied to the extent that Edcon Holdings (Proprietary) Limited receives a distribution from Edcon (Proprietary) Limited’s or such subsidiary’s insolvent estate for the shares held by it in Edcon (Proprietary) Limited or such subsidiary.

***Restrictions in the Indentures and other instruments governing our indebtedness may limit our ability to operate our business***

Restrictions contained in the Indentures governing the Floating Rate Notes, our Senior Revolving Credit Facility, Borrowing Base Facility and/or our other indebtedness may limit our ability to, among other things:

- incur more debt;
- create liens;
- pay dividends and make distributions or repurchase shares;
- make investments or certain other restricted payments;
- sell assets;
- enter into new businesses;
- enter into sale-leaseback transactions;
- merge or consolidate or transfer and sell substantially all of our assets; and
- engage in transactions with affiliates.

Such restrictions could affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities as they may arise.

***Enforcing your rights as a holder of the Floating Rate Notes or under the Guarantees across multiple jurisdictions may be difficult***

The senior secured floating rate notes issued by Edcon (Proprietary) Limited and guaranteed by the Senior Secured Guarantors, and the senior floating rate notes issued by Edcon Holdings (Proprietary) Limited and guaranteed by the Senior Subordinated Guarantors (as each is defined in the Indentures). Each of Edcon (Proprietary) Limited, Edcon Holdings (Proprietary) Limited, the Senior Secured Guarantors and the Senior Subordinated Guarantors is organised under the laws of South Africa. In the event of bankruptcy, insolvency or a similar event, proceedings could be initiated in South Africa or in the jurisdiction of incorporation or organisation (if other than South Africa) of a future Senior Secured Guarantor or Senior Subordinated Guarantor. Your rights under the Floating Rate Notes and the Guarantees may thus be subject to the laws of multiple jurisdictions, and there can be no assurance that you will be able to effectively enforce your rights in multiple bankruptcy, insolvency or other similar proceedings. Moreover, such multi-jurisdictional proceedings are typically complex and costly for creditors and often result in substantial uncertainty and delay in the enforcement of your rights.

In addition, the bankruptcy, insolvency, administrative, and other laws of such jurisdictions of organisation may be materially different from, or in conflict with, one another and those in the United States or other jurisdictions, with which you may be familiar in certain areas, including creditors' rights, priority of creditors, the ability to obtain post-petition interest and the duration of the insolvency proceeding. The application of these various laws in multiple jurisdictions could trigger disputes over which a jurisdiction's law should apply and could adversely affect your ability to enforce your rights and to collect payment in full under the Floating Rate Notes and Guarantees.

The laws of the jurisdiction in which the Senior Secured Guarantors and the Senior Subordinated Guarantors are organised limit their ability to guarantee debts of a parent company. These limitations arise under various provisions and principles of corporate law, which can require sister or subsidiary guarantors to receive adequate corporate benefit from the financing and govern fraudulent transfer laws. If these limitations were not observed, the Guarantees of the Floating Rate Notes would be subject to legal challenge. The Guarantees will contain language limiting the amount of debt guaranteed so that any applicable local law restrictions will not be violated. Furthermore, although we believe that the Guarantees of the Floating Rate Notes are enforceable (subject to the aforementioned restrictions), there can be no assurance that a third-party creditor would not challenge the Guarantees and prevail in court.

***The insolvency laws of South Africa may not be as favourable to you as the insolvency laws of other jurisdictions with which you may be familiar***

*Ranking of claims*

We are organised in South Africa and substantially all of our assets are located in South Africa. In the event of our insolvency, the claims of holders of Floating Rate Notes would be subject to the insolvency laws of South Africa. The insolvency laws of South Africa may not be as favourable to you as the laws of other jurisdictions with which you may be familiar.

Under South African law, there are three types of creditors:

- secured creditors;
- preferred creditors; and
- concurrent creditors.

Secured creditors are creditors who hold security for their claims against the debtor in the form of a special mortgage, landlord's lien, pledge or right of retention. A secured creditor will be entitled to be paid out of the proceeds of the collateral subject to its security, after payment of costs and expenses and payment of any secured claim which ranks higher. If the proceeds of the encumbered property are insufficient to cover the secured creditor's claim against a debtor entity such as the Issuers, the secured creditor will have a concurrent claim for the balance from the free residue in the estate of the debtor entity (i.e. that portion of the debtor's estate which is not subject to a security interest or preferences), if any.

Preferred creditors are entitled to payment out of the free residue of a debtor's estate before concurrent creditors. The Insolvency Act, 1936 of South Africa ("SA Insolvency Act") stipulates preferences in ranking of certain claims of preferred creditors, including, *inter alia*, salaries or remuneration of employees, statutory obligations and income tax. Preferred creditors' claims include, among others, claims by the South African Revenue Services, costs of liquidation, salary or remuneration of employees and claims by holders of a notarial general bond which has not been perfected by way of a court order prior to the date of presentation to the court of the application for liquidation in respect of the debtor. A portion of the security for the Issuers' counter-indemnity obligations in respect of the Senior Secured Notes will be effected by way of registration of a general notarial bond ("GNB"), making the SPV Guarantor (as defined in the Indentures), on perfection of the GNB by way of a court order, a preferred creditor. A GNB may be perfected only by a court, and only in event of default or liquidation. In the event that the GNB is not perfected, with respect to the assets of the Issuers covered by such GNB, the SPV Guarantor will share the proceeds of realisation of such assets. Once a GNB is registered and subsequently perfected the creditor in whose favour the GNB is registered enjoys a secured preference relative to (1) the immovable assets secured by the GNB and (2) the terms of the GNB.

Concurrent creditors do not enjoy any advantage over other creditors of a debtor. Instead, they are paid out of the free residue of the debtor's estate after any preferred creditors have been paid. Concurrent creditors all rank equally. Should the free residue be insufficient to meet their claims each receives a pro rata portion of its claim by way of cash dividend.

### *Insolvency procedures and reorganisations*

The procedures available to wind-up or reorganise companies under South African law are:

- winding up;
- scheme of arrangement; and
- judicial management.

### *Winding up*

The SA Companies Act 1973 and the SA Insolvency Act govern the winding up of companies in South Africa. Any creditor that has an unpaid claim of more than R100 or the debtor itself may present an application for winding up to the court if the debtor is "insolvent." Generally, a company will be "insolvent" if its liabilities exceed its assets or it cannot pay its debts as and when they become due or when certain technical events of insolvency occur (such as failure to pay a judgement debt).

*Appointment of the liquidator.* After the court has issued a winding-up order, a liquidator takes control of the debtor in the place of its directors, who lose all of their powers. The liquidator may only be removed if he does not act in the best interest of the general body of creditors or has misappropriated funds. The liquidator has three main functions. First, the liquidator investigates the affairs of the debtor. Second, the liquidator collects assets and claims in favour of the debtor. Finally, the liquidator realises the assets of the debtor and administers the debtor's affairs in order to wind up its affairs and pay the debtor's creditors from the debtor's estate.

*General procedure and realisation of secured assets.* In general, commencement of winding-up proceedings restricts all creditors, including secured creditors, from taking any action to recover their claims against the debtor. Provided that the liquidator has not elected to "take over" the assets forming the subject matter of a creditor's security (as more fully described below), a secured creditor is entitled, prior to the date of the second creditors' meeting, to realise its security provided that all proceeds from such realisation will have to be paid over to the liquidator and such creditor will still be obliged to prove its claim, which will be paid to the extent of the realisation and following final liquidation, in the ordinary course. Where the creditor has not realised its security prior to the second meeting of creditors, for example when the asset is part of a going concern, he must deliver the property to the liquidator who will realise the security, usually through public auction of the entire business or parts of business, taking into account the best interests of the secured creditor. There can be no assurance that a liquidator's realisation will be the same as that which a secured creditor might achieve on its own.

*"Take over" of collateral by the liquidator.* As an alternative to realisation of a secured creditor's collateral, the liquidator may, following certain notice periods, "take over" the property from the creditor at a value agreed upon between the liquidator and a secured creditor or at the full amount of the creditor's claim. In practice, the liquidator will only undertake this process if he believes he can dispose of the assets of the debtor or the business of the debtor as a going concern. If the liquidator takes over the collateral, the secured debt claims of the creditor are released.

*Ongoing operations during liquidation.* Regardless of whether the liquidator intends to take over the collateral of one or more creditors, it is possible for the liquidator to continue operating the debtor's business in order to facilitate a sale of the debtor or its assets as a going concern. A liquidator may arrange interim funding for the debtor which is paid as part of the costs of the execution process, provided that the liquidator is reasonably confident the sale process will yield sufficient proceeds at relevant times to repay such funding. Court approval is required for any secured borrowings by the debtor. Typically, a liquidator will require indemnification from the creditors during continuation of the debtor's business.

#### *Scheme of arrangement*

A scheme of arrangement under the SA Companies Act may also be used to reorganise a debtor's debts. It amounts to a compulsory compromise of claims between the debtor and its creditors (once approved by creditors). A creditors' compromise or scheme of arrangement may be initiated by the creditors of a company or by the company itself. To become effective, it must be approved by at least three quarters in value of the creditors affected (or each relevant class of creditors affected) present and voting at a meeting convened for that purpose, as well as the shareholders of the company if the company has not been placed in liquidation (see above) or under judicial management (see below). If the company is in liquidation or under judicial management, then the discretion lies with the liquidator or judicial manager, as the case may be.

The scheme must be sanctioned by the court on good cause shown, primarily that the offer of compromise is fair and reasonable. The application to sanction a scheme is subject to certain notice provisions. The entire scheme of arrangement process generally takes about two months.

#### *Judicial management*

Judicial management is a seldom-used procedure provided for in the SA Companies Act. It is available if the debtor, because of mismanagement or any other cause, is unable to pay its debts or meet its obligations; the debtor has not become, or has been prevented from becoming, a successful concern; there is a reasonable probability that if the debtor is placed under judicial management it will be able to pay its debts or meet its obligations and become a successful concern; and it appears just and equitable to grant a judicial management order. The same parties entitled to apply for the winding-up of a company may also apply to place a company under judicial management. In an application for the winding-up of a company, the court may also order judicial management if circumstances permit. The purpose of judicial management is to get a company back into a profitable position, thus the process could last for a few years.

In addition to these court-driven procedures, debtors and their creditors are free to enter into a contractually-sanctioned reorganisation of claims against the debtor if the creditors and the debtor (and, where relevant, shareholders) agree.

*Avoidance of claims.* Under South African law, a number of pre-insolvency transactions, including granting security, can be set aside by a court. For instance, a court may set aside certain dispositions of a debtor's property made prior to commencement of winding up proceedings.

*Transactions at under value.* A court will set aside a disposition of the debtor's property if it was not made for value and, if:

- the disposition was made within two years of the date of the provisional liquidation order and the petitioning party proves that, immediately after the disposition was made, the liabilities of the debtor exceeded its assets; or
- the disposition was made two years before the date of the provisional liquidation order and the person who benefited from the disposition is unable to prove that, immediately after the disposition was made, the assets of the debtor exceeded its liabilities.

It is not necessary to establish whether or not the insolvent intended to prejudice creditors by making the disposition.

*Preferences.* South African law also makes provision for setting aside a disposition of the debtor's property if such disposition is made not more than six months before the date of the provisional liquidation order, such disposition has the effect of preferring one creditor over another and, if immediately after the making of such disposition, the liabilities of the debtor exceed the value of its assets. However, if the person in whose favour the disposition was made proves that the disposition was made in the ordinary course of business, being a disposition which would normally be entered into

by solvent entities, and that the transaction was not intended to prefer one creditor above another, then such disposition may not be set aside.

South African law also provides that if a debtor makes a disposition of its property at any time when its liabilities exceed its assets, with the intention of preferring one of its creditors above another, and it is thereafter liquidated, the court may set aside the disposition.

In addition, South African law provides that any disposition by a debtor made prior to the date of a provisional liquidation order, in collusion with another person and in a manner which has the effect of prejudicing its creditors or of preferring one creditor over another may be set aside. However, there is legal authority which states that in order for any transaction to be set aside under this provision, the transaction must have been concluded with a fraudulent intention.

Finally, under South African common law, a disposition may be set aside where the creditors of the insolvent estate can prove that:

- the disposition reduces the assets of the company;
- the company and the entity in favour of whom the disposition was made had a common intention to defraud or prejudice the creditors of the insolvent; and
- the prejudice to the insolvent's creditors was caused by the fraud referred to above.

*Dispositions without notice.* South African law provides that if a company transfers a business belonging to it or the goodwill of that business or any goods or property forming part thereof (save in the ordinary course of business or for the purpose of securing the payment of a debt) and such company has not published a notice of the intended transfer in the Government Gazette within a period of not less than thirty and not more than sixty days prior to the date of such transfer, the transfer will be void as against the creditors of the seller for a period of six months after such transfer and in addition will be void against the trustee if the estate of the seller is liquidated within that time period.

If the Issuers were to experience financial difficulties, it is impossible to predict whether claims under the Floating Rate Notes would be paid in full or at all, how long payments under the Floating Rate Notes could be delayed and whether or to what extent holders of the Floating Rate Notes would be compensated for any delay in payment under the Floating Rate Notes. The ultimate recovery (if any) by holders of Floating Rate Notes will depend on the value of the insolvent estate and numerous other factors, including those described above.

***Creditors under the Senior Revolving Credit Facility are entitled to be repaid with the proceeds of Collateral sold in any enforcement sale in priority to the holders of the senior secured floating rate notes and the value of the Collateral may not be sufficient to satisfy our obligations under the senior floating rate notes***

The SPV Guarantee running to the Senior Secured Trustee (as defined in the Indentures) and the hedging providers in respect of the hedging counterparties' obligations is supported, with respect to the same Collateral, on an equal and rateable basis by the secured counter-indemnities provided by Edcon (Proprietary) Limited and the Senior Secured Guarantors and on a junior basis to the secured counter-indemnities that benefit the SPV Guarantee running to the lenders under the Senior Revolving Credit Facility and the Borrowing Base Facility in respect of certain receivables and related asset security only. In the event of a foreclosure on the liens securing the counter-indemnities, any proceeds received from the sale of the Collateral would be distributed first to satisfy debt and obligations incurred under the Senior Revolving Credit Facility and thereafter to repay the obligations of Edcon (Proprietary) Limited and the Senior Secured Guarantors under the senior secured floating rate notes and the senior secured Guarantees, respectively, as well as any other debt ranking on an equal and rateable basis in right of payment upon enforcement of collateral with the senior secured floating rate notes and the Senior Secured Guarantees, including the hedging counterparties' obligations to the hedging providers.

No appraisals of the Collateral have been prepared by or on behalf of us. The amount of proceeds realised upon the enforcement of Collateral will depend upon many factors including, among others, whether or not our business is sold as a going concern, the jurisdiction in which the enforcement action or sale is completed, the ability to readily liquidate the Collateral, the availability of buyers, the condition of the Collateral and exchange rates. Furthermore, there may not be any buyer willing and able to purchase our business as a going concern, or willing to buy a significant portion of our assets in the event of an enforcement action. Finally, a going concern sale will be more difficult to achieve because available cash may be insufficient to fund our operations during any sale process as a significant proportion of our receivables will secure the Borrowing Base Facility. Each of these factors could reduce the proceeds realised upon enforcement of the Collateral. Consequently there can be no assurance that the proceeds from the sale of the

Collateral securing the senior secured floating rate notes and the Senior Secured Guarantees will be sufficient to satisfy the obligations of Edcon (Proprietary) Limited and the Senior Secured Guarantors under the senior secured floating rate notes and the Senior Secured Guarantees, respectively. In addition, there can be no assurance that the Collateral could be sold in timely manner, if at all.

***The Collateral will not be granted directly to the holders of the senior secured floating rate notes***

The security interests in the Collateral will not be granted directly to holders of the Senior Secured Notes. Instead, they will be granted to the SPV Guarantor (which will issue a limited recourse guarantee of the Floating Rate Notes) as security for Edcon (Proprietary) Limited and the Senior Secured Guarantors' obligations under their counter-indemnities to the SPV Guarantor.

As a result, neither the Senior Secured Trustee nor the holders of the senior secured floating rate notes will have the right to realise the Collateral directly but, instead, must, acting in accordance with the Intercreditor Agreement, instruct the SPV Guarantor (which must take any such action to realise the security). This indirect claim over the Collateral could delay or make more costly any realisation of the Collateral. Furthermore, because the Senior Secured Indentures and the senior secured floating rate notes will be governed by New York law and the SPV Guarantor guarantee and security arrangements will be governed by South African law, realisation may be further delayed by court proceedings in multiple jurisdictions or interpretation of foreign laws in a South African court proceeding.

***Fraudulent conveyance statutes under South African law may limit your rights as a holder of the Notes to enforce the security provided by the Senior Secured Guarantors and/or the Senior Subordinated Guarantors***

Our obligations under the Floating Rate Notes are guaranteed by the Senior Secured Guarantors and the Senior Subordinated Guarantors, and the Guarantees may be subject to review under the "impeachable transactions" provisions of the laws of South Africa, where we conduct our operations.

In an insolvency proceeding, it is possible that creditors of the Senior Secured Guarantors and/or the Senior Subordinated Guarantors may challenge the Guarantees and intercompany obligations as impeachable transactions. If so, such laws may permit a court, if it makes certain findings, to:

- avoid or invalidate all or a portion of such Senior Secured Guarantor's or such Senior Subordinated Guarantor's obligations under the Guarantees;
- direct that holders of the Floating Rate Notes return any amounts paid under the Guarantees to such Senior Secured Guarantor or such Senior Subordinated Guarantor or to a fund for the benefit of its creditors; or
- take other action that is detrimental to you.

If we cannot satisfy our obligations under the Floating Rate Notes and the Guarantees are found to represent an impeachable transaction, we cannot assure you that we will ever be able to repay in full any amounts outstanding under the Floating Rate Notes. In addition, the liability of any Senior Secured Guarantor or Senior Subordinated Guarantor under its Guarantee of the Floating Rate Notes will be limited to the amount that will result in its Guarantee not constituting an impeachable transaction and there can be no assurance as to what standard a court would apply in making a determination of the maximum liability of such Senior Secured Guarantor or such Senior Subordinated Guarantor under its Guarantee of the Floating Rate Notes. For a description of certain impeachable transactions, see "Risk Factors—Risks related to the Floating Rate Notes—The insolvency laws of South Africa may not be as favourable to you as the insolvency laws of other jurisdictions with which you may be familiar".

***We may not be able to obtain enough funds to repurchase the Floating Rate Notes if a change of control takes place***

A "change of control" is an event defined in the Indentures and includes certain changes in ownership or voting rights with respect to us. If a change of control occurs, holders of the Floating Rates Notes may require us to purchase any or all of the Floating Rate Notes at 101% of their principal amount together with accrued and unpaid interest. We may not have enough money, however, to purchase the Floating Rate Notes upon a change of control and also may not be able to raise the money to do so. Furthermore, any such purchase by us will require the approval of South African exchange control authorities, which may not be forthcoming. Additionally, a change of control would be a prepayment event under the Senior Revolving Credit Facility and the Borrowing Base Facility. In the event this results in an event of default under such facilities, the lenders under such facilities may accelerate such debt, which could also cause an event of default under the Indentures. Restrictions contained in the Indentures on a change of control may make it more difficult for others to obtain control of us. The change of control provisions may not protect you in a transaction in which we

incur a large amount of debt, including a reorganisation, restructuring, merger or other similar transaction, because that kind of transaction may not involve any shift in voting power or beneficial ownership, or may not involve a shift large enough to trigger a change of control.

***Transfers of the Floating Rate Notes will be subject to certain restrictions***

We have not registered the Floating Rate Notes under the U.S. Securities Act or any other securities laws. Therefore, you may not offer or sell the Floating Rate Notes in the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in compliance with all other securities laws. It is your obligation to ensure that your offers and sales of the Floating Rate Notes within the United States and other countries comply with all applicable securities laws.

***The Floating Rate Notes will bear interest at a floating rate that could rise significantly, increasing our interest cost and debt and reducing our cash flow***

The Floating Rate Notes will bear interest at per annum rates equal to EURIBOR, adjusted periodically, plus a spread. This interest rate could rise significantly in the future and could therefore increase our interest cost and debt and reduce funds available to repay the Floating Rate Notes and other financing and funds available to finance operations and future business opportunities. As a result, higher market interest rates would intensify the consequences of our leveraged capital structure.

***Edcon Holdings (Proprietary) Limited is a holding company and is dependent on payments from its subsidiaries, including Edcon (Proprietary) Limited, in order to be able to make payments on the senior floating rate notes***

Edcon Holdings (Proprietary) Limited, the issuer of the senior floating rate notes, is a holding company with no independent operations. All of its operations are conducted by its subsidiaries. As a result, Edcon Holdings (Proprietary) Limited's cashflow and its ability to service its indebtedness, including the ability to pay the principal and interest amount of the senior floating rate notes when due, will depend on the performance of its subsidiaries and the ability of those subsidiaries to distribute funds to Edcon Holdings (Proprietary) Limited.

***Investors in the Floating Rate Notes may have difficulty bringing actions, and enforcing judgments, against us, our directors and our executive officers based on the civil liabilities provisions of the United States federal securities laws or other laws of the United States or any state thereof or the securities laws or other laws of other jurisdictions, as the case may be, in South Africa***

We are a company incorporated in South Africa. All of our senior managers reside in South Africa. Substantially all of our assets and assets of these persons are located in South Africa. Although we will submit to the jurisdiction of New York courts in connection with the offering of the Floating Rate Notes, it may not be possible for investors to effect service of process within the United States upon us or upon our directors and officers, or to enforce against us or any of them judgments obtained in U.S. courts predicated upon civil liability provisions of the federal securities laws of the United States to the extent U.S. legal concepts do not have a corresponding concept under South African law (class action certification, for example). In addition, there is doubt as to the enforceability in South Africa, in original actions, of civil liabilities predicated solely upon the federal securities laws of the United States.

***The Floating Rate Notes will initially be held in book-entry form and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies***

Unless and until definitive registered Floating Rate Notes are issued in exchange for book-entry interests in the Floating Rate Notes, owners of the book-entry interests will not be considered owners or holders of the Floating Rate Notes. Instead, the registered holder, or its nominee, will be the sole holder of the Floating Rate Notes. Payments of principal, interest and other amounts owing on or in respect of the Floating Rate Notes in global form will be made to The Bank of New York (as paying agent for the Floating Rate Notes), which will make payments to the common depositary, which will in turn distribute payments to Euroclear and Clearstream Banking. Thereafter, payments will be made by Euroclear and Clearstream Banking to participants in these systems and then by such participants to indirect participants. After payment to the common depositary neither we, the Senior Secured Trustee, the Senior Trustee (each as defined in the Indentures) nor the paying agent will have any responsibility or liability for any aspect of the records relating to, or payments of, interest, principal or other amounts to Euroclear and Clearstream Banking or to owners of book-entry interests.

Unlike holders of the Floating Rate Notes themselves, owners of book-entry interests will not have the direct right to act upon our solicitations or consents or requests for waivers or other actions from holders of the Floating Rate Notes that we may choose to make in the future. Rather, owners of book-entry interests will be permitted to act only to the extent that they have received appropriate proxies to do so from Euroclear and Clearstream Banking or, if applicable, from a participant. We cannot assure you that procedures implemented for the granting of such proxies will be sufficient to enable you to vote on any such solicitations or requests for actions on a timely basis.

Similarly, upon the occurrence of an event of default under the Indentures, owners of book-entry interests will be restricted to acting through Euroclear and Clearstream Banking. We cannot assure you that the procedures to be implemented through Euroclear and Clearstream Banking will be adequate to ensure the timely exercise of rights under the Floating Rate Notes.

***You may face foreign exchange risks or tax consequences by investing in the Floating Rate Notes***

The Floating Rate Notes are denominated and payable in euros. If you are a U.S. investor, an investment in the Floating Rate Notes will entail foreign exchange-related risks due to, among other factors, possible significant changes in the value of the euro relative to the U.S. dollar because of economic, political and other factors over which we have no control. Depreciation of the euro against the U.S. dollar could cause a decrease in the effective yield of the Floating Rate Notes below their stated coupon rates and could result in a loss to you on a U.S. dollar basis. Investment in the Floating Rate Notes by U.S. investors may also have important tax consequences.

**Group Financial Statements**  
**Edcon Holdings (Proprietary) Limited**  
*For the period ended 28 March 2009*

# Group Financial Statements of Edcon Holdings (Proprietary) Limited

(Registration number 2006/036903/07)

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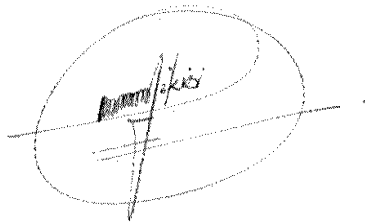
# Group Financial Statements of Edcon Holdings (Proprietary) Limited

(Registration number 2006/036903/07)

## Certificate by Group Secretary

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In my capacity as Group Secretary, I hereby confirm, in terms of the Companies Act, 1973, that for the period ended 28 March 2009, the Company has lodged with the Registrar of Companies all such returns as are required of a company in terms of this Act and that all such returns are true, correct and up to date.

A handwritten signature in black ink, appearing to read 'CM Vikisi', is written over a circular stamp. The signature is somewhat stylized and overlaps the stamp.

**CM Vikisi**  
**Group Secretary**

Johannesburg  
26 May 2009

## Independent Auditor's Report

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### TO THE MEMBERS OF EDCON HOLDINGS (PROPRIETARY) LIMITED

We have audited the Group Financial Statements of Edcon Holdings (Proprietary) Limited, which comprise the balance sheets as at 28 March 2009, the income statements, the statements of changes in ordinary shareholders' equity and cash flow statements for the period then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 47 to 115.

#### *Directors' Responsibility for the Financial Statements*

The Group's directors are responsible for the preparation and fair presentation of these Financial Statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *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 the directors, 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, the Financial Statements present fairly, in all material respects, the financial position of the Group as at 28 March 2009, and of their financial performance and their cash flows for the period then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

*Ernst & Young Inc.*

Ernst & Young Inc.  
Registered Auditor

26 May 2009  
Johannesburg

# **GROUP FINANCIAL STATEMENTS OF EDCON HOLDINGS (PROPRIETARY) LIMITED**

*(Registration number 2006/036903/07)*

## **GOING CONCERN AND DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING**

For the period 28 March 2009

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### **GOING CONCERN**

The Group's balance sheet at 28 March 2009 reports a net debit of R280 million in other reserves, an accumulated retained loss of R2,289 million and share premium of R2,143 million in equity attributable to shareholders. Therefore, the total deficit reported in equity at 28 March 2009 is R426 million.

The directors' having considered the going concern assumption have included the shareholder's loan of R6,492 million in the assessment (refer to note 34, management of capital). To the extent required to maintain the solvency of the Group, the Shareholder's loan agreement is subordinated to the claims of all of the creditors of the Group.

As a result, the Group Financial Statements set out on pages 47 to 115 have been prepared on the going-concern basis. The directors have every reason to believe that the Group has adequate resources to continue in operation for the foreseeable future.

### **PRESENTATION OF FINANCIAL STATEMENTS**

With effect 14 May 2007, the issued ordinary shares and preference shares in Edgars Consolidated Stores Limited (the "Predecessor") were acquired by Edcon Acquisition (Proprietary) Limited whose sole shareholder is Edcon Holdings (Proprietary) Limited (the "Successor"). Edcon Acquisition (Proprietary) Limited is the legal successor to Edgars Consolidated Stores Limited and Edcon Holdings (Proprietary) Limited is the parent of the Edcon Group.

As of 5 May 2007, all conditions precedent to the private equity transaction had been fulfilled and the new Group consisting of Edcon Holdings (Proprietary) Limited and all its subsidiaries has been consolidated as from 6 May 2007.

The Group Financial Statements for the period ended 28 March 2009 incorporate the results for the 52 weeks ended 28 March 2009 of the Successor. The Group Financial Statements for the comparative period ended 29 March 2008 incorporate the results for the 47 weeks ended 29 March 2008 of the Successor. One months results, being 5 weeks relating to the Predecessor for the period ending 5 May 2007, have been presented for comparative purposes together with the Group Financial Statements relating to the Predecessor being the 52 weeks ended 31 March 2007.

In preparing these Group Financial Statements, the same accounting principles and methods of computation are applied as in the Group Financial Statements of the Predecessor, Edgars Consolidated Stores Limited on 31 March 2007 and for the periods then ended except for the changes set out on page 49.

Accordingly, information for the current and comparative periods has been provided on the following basis: For periods ending prior to 6 May 2007, the financial position and results of the Predecessor are included and presented. For periods ending after 6 May 2007, the financial position and results of the Successor are included and presented.

The separate Annual Financial Statements of the parent company Edcon Holdings (Proprietary) Limited have not been included in these Group Financial Statements. A copy thereof can be provided on request.

No event, material to the understanding of this report, has occurred between the financial year-end and the date of this report.

In the context of their audit, carried out for the purposes of expressing an opinion on the fair presentation of the Group Financial Statements, the external auditors have concurred with the disclosures of the directors on going concern.

# **GROUP FINANCIAL STATEMENTS OF EDCON HOLDINGS (PROPRIETARY) LIMITED**

*(Registration number 2006/036903/07)*

## **GOING CONCERN AND DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING** *(continued)*

For the period 28 March 2009

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### **BUY-BACK OF SENIOR FLOATING RATE NOTES**

On 27 June 2008, Edcon Holdings (Proprietary) Limited completed a notes repurchase of the senior floating rate notes with a nominal value of €252 million for €138,6 million, or 55% of the face value. As a result of the buy-back, the Group recognised a gain, net of associated fees, of R1,350 million.

### **HEDGE REALISATION**

In June 2008 we realised R1,793 million from certain derivatives used to hedge interest rate and foreign exchange exposures associated with the senior floating rate notes. A revised hedging structure was put in place, whereby Edcon Holdings (Proprietary) Limited entered into currency swaps and foreign currency forward contracts to hedge certain exposures under the €378 million of senior floating rate notes then outstanding. As a result, Edcon Holdings (Proprietary) Limited remains (i) hedged for the interest rate and currency risk on the interest payments of the Floating Rate Notes until June 2011 and (ii) economically hedged on the principal of the Floating Rate Notes until June 2012. Management is continually re-evaluating its hedging strategies and exposures and may choose to amend this position in the future.

Prior to the hedge realisation we had available liquidity under the Senior Revolving Credit Facility of over R2.5 billion. Over the one month following the hedge realisation we invested over R2 billion in capital expenditures and assets, including inventory that we use in our business. Our available liquidity under the Senior Revolving Credit Facility as at 27 December 2008 was R3,118 million.

### **DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING**

The directors' are ultimately responsible for the preparation of the Group Financial Statements and related financial information that fairly present the state of affairs and the results of the Group. The external auditors are responsible for independently auditing and reporting on these Group Financial Statements in conformity with International Standards on Auditing.

The Group Financial Statements set out in this report have been prepared by management in accordance with International Financial Reporting Standards. They incorporate full and reasonable disclosure and are based on appropriate accounting policies, which have been consistently applied and which are supported by reasonable and prudent judgments and estimates.

Adequate accounting records have been maintained throughout the period under review.

# GROUP FINANCIAL STATEMENTS OF EDCON HOLDINGS (PROPRIETARY) LIMITED

(Registration number 2006/036903/07)

## GOING CONCERN AND DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING *(continued)*

For the period 28 March 2009

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### COMPARABILITY

A portion of trade receivables is securitised to OntheCards Investments Limited ("OtC") on a non recourse basis. As a result of the refinancing of the OtC securitisation structure through the issue of unlisted and unrated notes and subordinated loan borrowings, management reassessed all previous judgments and assumptions in the prior period and concluded that OntheCards should be consolidated from 6 May 2007. OtC has therefore been consolidated in the 2009 and 2008 Group Financial Statements of the Successor.

Note 37 of the Group Financial Statements discloses the impact of consolidating OtC on the income statement, balance sheet and cash flow statement.

The Group Financial Statements have been approved by the Board of Directors and are signed on its behalf by:



DM Poler, Chairman



SM Ross, Group Chief Executive Officer

Johannesburg  
26 May 2009

## Currency of Group Financial Statements

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The presentation and functional currency of the Group Financial Statements is South African Rand (R).

The approximate Rand cost of a unit of the following currencies at year-end was:

|               | <b>Successor</b> | Predecessor |       |
|---------------|------------------|-------------|-------|
|               | <b>2009</b>      | 2008        | 2007  |
| US Dollar     | <b>9,48</b>      | 8,15        | 7,26  |
| Sterling      | <b>13,68</b>     | 16,26       | 14,29 |
| Botswana Pula | <b>1,23</b>      | 1,25        | 1,18  |
| Euro          | <b>12,78</b>     | 12,82       | 9,69  |

## Group Balance Sheets

|  |      | <b>Successor</b> | Predecessor   |
|--|------|------------------|---------------|
|  |      | <b>2009</b>      | 2008          |
|  |      | <b>28 March</b>  | 29 March      |
|  | Note | Rm               | Rm            |
|  |      |                  | 31 March      |
|  |      |                  | Rm            |
| <b>ASSETS</b>                                  |      |                  |               |
| <b>Non-current assets</b>                      |      |                  |               |
| Properties, fixtures, equipment and vehicles   | 3    | 3 128            | 3 263         |
| Intangible assets                              | 4    | 18 997           | 20 112        |
| Held-to-maturity investments                   | 6    |                  | 700           |
| Equity accounted investment in joint ventures  | 7    | 1                | 11            |
| Derivative financial instruments               | 8    | 2 393            | 5 429         |
| Deferred tax                                   | 9    | -                | 82            |
| <b>Total non-current assets</b>                |      | <b>24 519</b>    | <b>28 815</b> |
| <b>Current assets</b>                          |      |                  |               |
| Inventories                                    | 10   | 2 544            | 2 148         |
| Trade, other receivables and prepayments       | 11   | 9 710            | 8 742         |
| Derivative financial instruments               | 8    | 188              | 421           |
| Cash and cash equivalents                      | 12   | 379              | 492           |
| <b>Total current assets</b>                    |      | <b>12 821</b>    | <b>11 803</b> |
| <b>Total assets</b>                            |      | <b>37 340</b>    | <b>40 618</b> |
| <b>EQUITY AND LIABILITIES</b>                  |      |                  |               |
| <b>Equity attributable to shareholders</b>     |      |                  |               |
| Share capital                                  | 13   | -                | 5             |
| Share premium                                  | 13   | 2 143            | 2 143         |
| Other reserves                                 | 14   | (280)            | 836           |
| Retained (loss) / surplus                      | 15   | (2 289)          | (1 590)       |
|  |      | (426)            | 1 389         |
| Minority interest                              |      | -                | 1             |
| <b>Total equity</b>                            |      | <b>(426)</b>     | <b>1 390</b>  |
| <b>Non-current liabilities – shareholder's</b> |      |                  |               |
| Shareholder's loan                             | 17   | 6 492            | 5 547         |
| <b>Total equity and shareholder's loan</b>     |      | <b>6 066</b>     | <b>6 937</b>  |
| <b>Non-current liabilities – third parties</b> |      |                  |               |
| Notes issued                                   | 18   | 19 600           | 22 761        |
| Subordinated loan                              | 18   |                  | 25            |
| Lease equalisation                             |      | 369              | 399           |
| Derivative financial instruments               | 8    | 1 002            | 379           |
| Employee benefit liability                     | 27.1 | 112              | 120           |
| Deferred tax                                   | 9    | 374              | -             |
|  |      | 21 457           | 25 535        |
| <b>Total non-current liabilities</b>           |      | <b>27 949</b>    | <b>31 082</b> |
| <b>Current liabilities</b>                     |      |                  |               |
| Interest-bearing debt                          | 19   | 5 300            | 4 507         |
| Current taxation                               |      | 470              | 138           |
| Derivative financial instruments               | 8    | 514              | -             |
| Trade and other payables                       | 20   | 3 533            | 3 501         |
| <b>Total current liabilities</b>               |      | <b>9 817</b>     | <b>8 146</b>  |
| <b>Total equity and liabilities</b>            |      | <b>37 340</b>    | <b>40 618</b> |
| <b>Total managed capital per IAS 1</b>         | 34   | <b>30 966</b>    | <b>34 204</b> |
|  |      |                  | 5 674         |

## Group Income Statements

|   | Note  | Successor                             |                                       | Predecessor                       |                                       |
|---|-------|---------------------------------------|---------------------------------------|-----------------------------------|---------------------------------------|
|   |       | 2009<br>52 weeks to<br>28 March<br>Rm | 2008<br>47 weeks to<br>29 March<br>Rm | 2007<br>5 weeks to<br>5 May<br>Rm | 2007<br>52 weeks to<br>31 March<br>Rm |
| <b>Total revenues</b>                                   | 23    | <b>25 195</b>                         | 20 950                                | 2 094                             | 20 149                                |
| <b>Revenue - retail sales</b>                           |       | <b>22 075</b>                         | 18 244                                | 1 939                             | 18 531                                |
| Cost of sales   |       | <b>(13 774)</b>                       | (11 407)                              | (1 178)                           | (11 395)                              |
| <b>Gross profit</b>                                     |       | <b>8 301</b>                          | 6 837                                 | 761                               | 7 136                                 |
| Other income  | 24    | <b>467</b>                            | 411                                   | 35                                | 413                                   |
| Store costs   |       | <b>(3 847)</b>                        | (3 162)                               | (270)                             | (3 032)                               |
| Other operating costs                                   | 25    | <b>(3 284)</b>                        | (2 476)                               | (206)                             | (2 109)                               |
| <b>Retail trading profit</b>                            |       | <b>1 637</b>                          | 1 610                                 | 320                               | 2 408                                 |
| Income from credit                                      | 26.1  | <b>2 271</b>                          | 1 783                                 | 102                               | 987                                   |
| Expenses from credit                                    | 26.2  | <b>(1 772)</b>                        | (1 382)                               | (92)                              | (1 228)                               |
| Equity accounted earnings of joint venture              |       | <b>349</b>                            | 264                                   | 23                                | 243                                   |
| <b>Trading profit</b>                                   |       | <b>2 485</b>                          | 2 275                                 | 353                               | 2 410                                 |
| Restructure costs                                       |       |                                       | (152)                                 | (5)                               | (42)                                  |
| Acquisition costs                                       |       |                                       | (39)                                  |                                   | (2)                                   |
| Gain on buy-back of senior floating rate notes          | 18.2  | <b>1 350</b>                          |                                       |                                   |                                       |
| Derivative unrealised (loss)/gain                       | 8.6   | <b>(1 415)</b>                        | 4 612                                 |                                   |                                       |
| Derivative realised gain                                | 8.7.1 | <b>231</b>                            |                                       |                                   |                                       |
| Unrealised foreign exchange gain/(loss) on notes issued | 18.1  | <b>134</b>                            | (5 926)                               |                                   |                                       |
| Impairment of indefinite life brands and goodwill       | 4     | <b>(697)</b>                          |                                       |                                   |                                       |
| <b>Profit before net financing costs</b>                |       | <b>2 088</b>                          | 770                                   | 348                               | 2 366                                 |
| Interest received                                       | 28.2  | <b>33</b>                             | 248                                   | -                                 | 35                                    |
| <b>Profit before financing costs</b>                    |       | <b>2 121</b>                          | 1 018                                 | 348                               | 2 401                                 |
| Financing costs   | 28.1  | <b>(3 288)</b>                        | (3 100)                               | (8)                               | (57)                                  |
| <b>(Loss) / profit before taxation</b>                  |       | <b>(1 167)</b>                        | (2 082)                               | 340                               | 2 344                                 |
| Taxation  | 29    | <b>472</b>                            | 522                                   | (95)                              | (685)                                 |
| <b>(Loss) / profit for the period</b>                   |       | <b>(695)</b>                          | (1 560)                               | 245                               | 1 659                                 |
| <b>Attributable to:</b>                                 |       |                                       |                                       |                                   |                                       |
| Equity holders of the parent                            |       | <b>(694)</b>                          | (1 559)                               | 245                               | 1 648                                 |
| Minority interest                                       |       | <b>(1)</b>                            | (1)                                   | -                                 | 11                                    |

## Group Statements of Changes in Ordinary Shareholders' Equity

|  | Share<br>capital<br>Rm | Share<br>premium<br>Rm | Other<br>reserves<br>Rm | Retained<br>(loss) /<br>surplus<br>Rm | Total<br>Rm  | Minority<br>interest<br>Rm | Total<br>equity<br>Rm |
|--|------------------------|------------------------|-------------------------|---------------------------------------|--------------|----------------------------|-----------------------|
| <b>Predecessor</b>   |                        |                        |                         |                                       |              |                            |                       |
| Balance at 1 April 2006  | 5                      | 166                    | 41                      | 3 818                                 | 4 030        |                            | 4 030                 |
| Foreign currency translation   |                        |                        | 15                      |                                       | 15           |                            | 15                    |
| Other  |                        |                        | (1)                     |                                       | (1)          |                            | (1)                   |
| Total income and expense for the<br>period recognised directly in equity       |                        |                        | 14                      |                                       | 14           |                            | 14                    |
| Profit for the period  |                        |                        |                         | 1 648                                 | 1 648        | 11                         | 1 659                 |
| Net income for the period  |                        |                        | 14                      | 1 648                                 | 1 662        | 11                         | 1 673                 |
| Ordinary share capital issued on 24<br>May 2006, 08 March and 28 March<br>2007 | -                      | 699                    |                         |                                       | 699          |                            | 699                   |
| Net movement in treasury shares (note<br>13.6)                                 | -                      | (634)                  |                         |                                       | (634)        |                            | (634)                 |
| Share-based payment credit   |                        |                        |                         | 58                                    | 58           |                            | 58                    |
| Acquisition of minority interest   |                        |                        |                         |                                       |              | -                          | -                     |
| Ordinary dividends (note 30)   |                        |                        |                         | (854)                                 | (854)        |                            | (854)                 |
| Balance at 31 March 2007   | 5                      | 231                    | 55                      | 4 670                                 | 4 961        | 11                         | 4 972                 |
| Foreign currency translation   |                        |                        | (5)                     |                                       | (5)          |                            | (5)                   |
| Total income for the period recognised<br>directly in equity                   |                        |                        | (5)                     |                                       | (5)          |                            | (5)                   |
| Profit for the period  |                        |                        |                         | 245                                   | 245          |                            | 245                   |
| Net income for the period  |                        |                        | (5)                     | 245                                   | 240          |                            | 240                   |
| Acceleration of options  | -                      | 727                    |                         |                                       | 727          |                            | 727                   |
| Share-based payment credit   |                        |                        |                         | 4                                     | 4            |                            | 4                     |
| Other  |                        |                        |                         | (1)                                   | (1)          |                            | (1)                   |
| Balance at 5 May 2007  | 5                      | 958                    | 50                      | 4 918                                 | 5 931        | 11                         | 5 942                 |
| <b>Successor</b>   |                        |                        |                         |                                       |              |                            |                       |
| Opening balance at 5 May 2007  | -                      | -                      | -                       | -                                     | -            | -                          | -                     |
| Foreign currency translation   |                        |                        | 31                      |                                       | 31           |                            | 31                    |
| Revaluation of land and buildings  |                        |                        | 23                      |                                       | 23           |                            | 23                    |
| Net gains on cash flow hedges  |                        |                        | 782                     |                                       | 782          |                            | 782                   |
| Total income and expense for the<br>period recognised directly in equity       | -                      | -                      | 836                     | -                                     | 836          | -                          | 836                   |
| Loss for the period  |                        |                        |                         | (1 559)                               | (1 559)      | (1)                        | (1 560)               |
| Net loss for the period  | -                      | -                      | 836                     | (1 559)                               | (723)        | (1)                        | (724)                 |
| Ordinary share capital issued  | -                      | 1 936                  |                         |                                       | 1 936        |                            | 1 936                 |
| Preference share capital issued  | -                      | 207                    |                         |                                       | 207          |                            | 207                   |
| Preference share dividends   |                        |                        |                         | (27)                                  | (27)         |                            | (27)                  |
| Other  |                        |                        |                         | (4)                                   | (4)          | 2                          | (2)                   |
| Balance at 29 March 2008   | -                      | 2 143                  | 836                     | (1 590)                               | 1 389        | 1                          | 1 390                 |
| Foreign currency translation   |                        |                        | (3)                     |                                       | (3)          |                            | (3)                   |
| Net losses on cash flow hedges   |                        |                        | (1 113)                 |                                       | (1 113)      |                            | (1 113)               |
| Total income and expense for the<br>period recognised directly in equity       | -                      | -                      | (1 116)                 | -                                     | (1 116)      | -                          | (1 116)               |
| Loss for the period  |                        |                        |                         | (694)                                 | (694)        | (1)                        | (695)                 |
| Loss for the period  | -                      | -                      | (1 116)                 | (694)                                 | (1 810)      | (1)                        | (1 811)               |
| Other  |                        |                        |                         | (5)                                   | (5)          |                            | (5)                   |
| <b>Balance at 28 March 2009</b>  | <b>-</b>               | <b>2 143</b>           | <b>(280)</b>            | <b>(2 289)</b>                        | <b>(426)</b> | <b>-</b>                   | <b>(426)</b>          |
| Note   | 13.6                   | 13.6                   | 14                      | 15                                    |              |                            |                       |

## Group Cash Flow Statements

|   | Note        | Successor                             |                                       | Predecessor                       |                                       |
|---|-------------|---------------------------------------|---------------------------------------|-----------------------------------|---------------------------------------|
|   |             | 2009<br>52 weeks to<br>28 March<br>Rm | 2008<br>47 weeks to<br>29 March<br>Rm | 2007<br>5 weeks to<br>5 May<br>Rm | 2007<br>52 weeks to<br>31 March<br>Rm |
| <b>Cash retained from operating activities</b>                  |             |                                       |                                       |                                   |                                       |
| (Loss)/profit before tax  |             | (1 167)                               | (2 082)                               | 340                               | 2 344                                 |
| Interest received   |             | (33)                                  | (248)                                 | -                                 | (35)                                  |
| Financing costs   |             | 3 288                                 | 3 100                                 | 8                                 | 57                                    |
| Impairment of intangibles                                       | 4           | 697                                   |                                       |                                   |                                       |
| Derivative realised and unrealised loss/(gain)                  | 8.6 & 8.7.1 | 1 184                                 | (4 612)                               |                                   |                                       |
| Unrealised foreign exchange (gain)/loss on notes issued         | 18.1        | (134)                                 | 5 926                                 |                                   |                                       |
| Gain on buy-back of senior floating rate notes                  | 18.2        | (1 350)                               |                                       |                                   |                                       |
| Amortisation  | 25.1        | 418                                   | 380                                   | -                                 | 1                                     |
| Depreciation  | 25.3        | 681                                   | 410                                   | 27                                | 296                                   |
| Other non-cash items  | 32.1        | 131                                   | 14                                    | (16)                              | 43                                    |
| <b>Operating cash inflow before changes in working capital</b>  |             | <b>3 715</b>                          | <b>2 888</b>                          | <b>359</b>                        | <b>2 706</b>                          |
| Working capital movement  | 32.2        | (1 553)                               | 165                                   | (506)                             | (946)                                 |
| <b>Cash generated/(utilised) from operating activities</b>      |             | <b>2 162</b>                          | <b>3 053</b>                          | <b>(147)</b>                      | <b>1 760</b>                          |
| Interest received   |             | 15                                    | 248                                   | -                                 | 35                                    |
| Financing costs paid  |             | (2 280)                               | (2 298)                               | (8)                               | (57)                                  |
| Taxation paid   | 32.3        | (235)                                 | (246)                                 | -                                 | (805)                                 |
| <b>Cash (outflow)/inflow from operations</b>                    |             | <b>(338)</b>                          | <b>757</b>                            | <b>(155)</b>                      | <b>933</b>                            |
| Dividends paid  | 32.4        |                                       |                                       |                                   | (854)                                 |
| <b>Net cash (utilised)/retained</b>                             |             | <b>(338)</b>                          | <b>757</b>                            | <b>(155)</b>                      | <b>79</b>                             |
| <b>Cash utilised in investment activities</b>                   |             |                                       |                                       |                                   |                                       |
| Investment to maintain operations                               | 32.5        | (419)                                 | (332)                                 | (26)                              | (181)                                 |
| Investment to expand operations                                 | 32.6        | (149)                                 | (24 390)                              | (21)                              | (379)                                 |
| <b>Net cash invested</b>  |             | <b>(568)</b>                          | <b>(24 722)</b>                       | <b>(47)</b>                       | <b>(560)</b>                          |
| <b>Cash effects of financing activities</b>                     |             |                                       |                                       |                                   |                                       |
| Increase in shareholder funding                                 | 32.7        |                                       | 7 025                                 |                                   | 65                                    |
| Notes issued  | 32.8        |                                       | 17 063                                |                                   |                                       |
| Buy-back of senior floating rate notes                          | 32.9        | (1 768)                               |                                       |                                   |                                       |
| Proceeds from derivatives                                       |             | 1 793                                 |                                       |                                   |                                       |
| Increase in interest-bearing debt                               | 32.10       | 768                                   | 106                                   | 238                               | 537                                   |
| <b>Net cash inflow from financing activities</b>                |             | <b>793</b>                            | <b>24 194</b>                         | <b>238</b>                        | <b>602</b>                            |
| <b>(Decrease)/increase in cash and cash equivalents</b>         | 32.11       | <b>(113)</b>                          | <b>229</b>                            | <b>36</b>                         | <b>121</b>                            |
| <b>Cash and cash equivalents at the beginning of the period</b> |             | <b>492</b>                            | <b>-</b>                              | <b>471</b>                        | <b>349</b>                            |
| Consolidation of OntheCards                                     |             |                                       | 261                                   |                                   |                                       |
| Currency adjustments  |             | -                                     | 2                                     | -                                 | 1                                     |
| <b>Cash and cash equivalents at the end of the period</b>       |             | <b>379</b>                            | <b>492</b>                            | <b>507</b>                        | <b>471</b>                            |

# Notes to the Group Financial Statements

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## 1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

### 1.1 Basis of preparation

Edcon Holdings (Proprietary) Limited is a limited liability company which is incorporated and domiciled in South Africa.

The Edcon Holdings (Proprietary) Limited's Group Financial Statements (Financial Statements) are presented in Rands and all values are rounded to the nearest Rand million except when otherwise indicated.

With effect 14 May 2007, the issued ordinary shares and preference shares in Edgars Consolidated Stores Limited (the "Predecessor") were acquired by Edcon Acquisition (Proprietary) Limited whose sole shareholder is Edcon Holdings (Proprietary) Limited (the "Successor"). Edcon Acquisition (Proprietary) Limited is the legal successor to Edgars Consolidated Stores Limited and Edcon Holdings (Proprietary) Limited the parent of the Edcon Group.

As of 5 May 2007, all conditions precedent to the private equity transaction had been fulfilled and the new Group consisting of Edcon Holdings (Proprietary) Limited and all its subsidiaries has been consolidated as from 6 May 2007.

In preparing these Financial Statements, the same accounting principles and methods of computation are applied as in the Group Financial Statements of Edcon Holdings (Proprietary) Limited on 29 March 2008 and for the period then ended.

Financial information for the current and comparative periods has been provided on the following basis: For periods ending prior to 6 May 2007, the financial position and results of the Predecessor are included and presented. For periods ending after 6 May 2007, the financial position and results of the Successor are included and presented.

These Financial Statements should be read in conjunction with the audited Financial Statements as at and for the period ended 29 March 2008 as included in the 2008 audited Group Financial Statements of Edcon Holdings (Proprietary) Limited.

The Financial Statements are prepared in accordance with the historical cost basis except for land and buildings and financial instruments that have been measured at fair value.

The 2009 financial period consisted of 52 weeks while the 2008 financial period consisted of 47 weeks relating to the Successor and 5 weeks relating to the Predecessor. The 2007 financial period consisted of 52 weeks relating to the Predecessor.

### 1.2 Comparability

A portion of the trade receivables is securitised to OntheCards ("OtC") on a non-recourse basis. In connection with the refinancing of the OtC securitisation structure through the issue of unlisted and unrated notes and subordinated loan borrowings, OtC has been consolidated from 6 May 2007.

IFRIC 11, IFRS 2 – Group Treasury Share Transactions was early adopted by the Predecessor in the 2007 Group Financial Statements. The standard has had no material impact on the Group Financial Statements of the Successor.

The Group has adopted all Standards and Interpretations which have become effective during the current period. These Standards and Interpretations have had no material impact on the Group Financial Statements.

The Group Financial Statements conform to International Financial Reporting Standards. The Financial Statements incorporate the following accounting policies:

### 1.3 Basis of consolidation

The Group Financial Statements comprise the financial statements of the parent company (Edcon Holdings (Proprietary) Limited), its subsidiaries, the Staff Empowerment Trust and jointly controlled entities, presented as a single economic entity and, consolidated at the same reporting date of the parent company. The Group Financial Statements are prepared using uniform accounting policies for like transactions and events. All intra-group balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

## Notes to the Group Financial Statements *(continued)*

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### 1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION *(continued)*

#### 1.3 Basis of consolidation *(continued)*

Subsidiaries, which are directly or indirectly controlled by the Group, are included in the Group Financial Statements as from the date of acquisition, where control is transferred to the Group, and cease to be consolidated from the date on which control no longer exists. Where there is a loss of control of a subsidiary, the Group Financial Statements include the results for the part of the reporting period during which the Group has control. The identifiable assets and liabilities of entities acquired are assessed and included in the balance sheet at their fair values as at the dates of acquisition.

New acquisitions are included in the Group Financial Statements using the purchase method whereby the assets and liabilities are measured at their fair value. The purchase consideration is allocated to the assets and liabilities on the basis of fair values at the date of acquisition.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the Group balance sheet, separately from Edcon Holdings (Proprietary) Limited's shareholders' equity.

#### 1.4 Use of estimates and judgments and assumptions made in the preparation of the Financial Statements

In preparing the Financial Statements, management is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and the application of judgment are inherent in the formation of estimates. Significant estimates and judgments made relate to credit risk valuation adjustments in determining the fair value of derivative instruments to reflect non-performance risk (refer to note 1.9.1), an allowance for doubtful debts (refer to note 1.9.3), allowances for slow-moving inventory (refer to note 1.10), residual values, useful lives and depreciation methods (refer to note 1.12), pension fund and employee obligations (refer to note 1.20, 27.2.1 and 27.2.2), and intangible asset impairment tests (refer to note 5). Other judgments made relate to classifying financial assets and liabilities into categories.

The Group owns 40% of the shares in Edgars Zimbabwe Limited. Edgars Zimbabwe has not been equity accounted in the current or prior years as the effect is considered to be immaterial and no further disclosure is made in these Group Financial Statements.

#### 1.5 Foreign currency transactions

The functional and presentation currency of the Group Financial Statements is the South African Rand. Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency, being the South African Rand, at exchange rates ruling at the balance sheet date. Exchange differences arising on the settlement of transactions, at rates different from those at the date of the transaction, and unrealised foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognised in profit or loss.

#### 1.6 Foreign currency translations

The functional currencies of the foreign subsidiaries are as follows:

- Pula – (Jet Supermarkets Botswana (Pty) Limited).
- Maloti – (Edgars Stores (Lesotho) (Pty) Limited and Easy Rider Clothing (Pty) Limited).
- Namibian Dollar - (Edgars Stores (Namibia) Limited).
- Lilangeni – (Edgars Stores Swaziland Limited, Central News Agency (Swaziland) (Pty) Limited and Swaziland News Agency (Pty) Limited).
- British Pound – (Bellfield Limited).

The Maloti, Namibian Dollar and the Lilangeni are pegged at one to one to the South African Rand.

# Notes to the Group Financial Statements (*continued*)

## 1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (*continued*)

### 1.6 Foreign currency translations (*continued*)

As at the balance sheet date, the assets and liabilities of these foreign subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rates for the period. The exchange differences arising on the translation are recognised directly in a foreign currency translation reserve within shareholders' equity. On disposal of a foreign subsidiary, the deferred cumulative amount recognised in shareholders' equity relating to that particular foreign operation is recognised in the income statement.

### 1.7 Goodwill

Goodwill is initially measured at cost and represents the excess of the purchase consideration over the fair value of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition. Following initial recognition, goodwill is measured at cost, less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

If on acquiring an entity, the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity exceed the purchase consideration, this excess/(discount) is recognised in profit or loss immediately.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the acquisition. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. 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 that operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

### 1.8 Other intangible assets

Where payments are made for the acquisition of intangible assets with a finite useful life, the amounts are capitalised at cost and amortised on a straight-line basis over their anticipated useful lives. Intangible assets acquired through the acquisition of an entity are recognised at fair value. Currently the useful life of intangible assets with a finite life is estimated to be between five and fifteen years. Amortisation is charged on those assets with finite lives and the expense is taken to the income statement and included in other operating costs. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial period-end and assessed for indicators of impairment. Annually, intangible assets with an indefinite useful life are reviewed for impairment or changes in estimated future benefits, either individually or at the cash-generating unit level. Such intangibles are not amortised and the useful life is reviewed annually to determine whether indefinite life assessment continues to be appropriate. If not, the change from indefinite to finite will be made on a prospective basis. If such indications exist, an analysis is performed to assess whether the carrying amount of intangible assets is fully recoverable. An impairment is made if the carrying amount exceeds the recoverable amount. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis. The Group's intangible assets and useful lives are as follows:

|                        | Estimated useful life |
|------------------------|-----------------------|
| Edgars brand           | Indefinite            |
| Jet brand              | Indefinite            |
| CNA brand              | Indefinite            |
| Boardmans brand        | Indefinite            |
| Red Square brand       | 10 years              |
| Legit brand            | 10 years              |
| Discom brand           | 10 years              |
| Customer relationships | 5 – 10 years          |
| Trademarks             | 5 – 15 years          |
| Customer lists         | 5 – 10 years          |
| Technology             | 7 years               |

# Notes to the Group Financial Statements *(continued)*

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## 1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION *(continued)*

### 1.8 Other intangible assets *(continued)*

Intangible assets are derecognised on disposal or when no future economic benefits are expected through use of the intangible asset. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the intangible asset and are recognised in profit or loss when the intangible asset is derecognised. Expenditure on internally developed and maintained intangible assets are expensed. Expenditure incurred to maintain brand names is charged in full to the income statement as incurred.

### 1.9 Financial instruments

Financial instruments are initially measured at fair value, including transaction costs, except those at fair value directly through profit or loss, when the Group becomes a party to contractual arrangements. The subsequent measurement of financial instruments is dealt with in subsequent notes. Where the Group can legally do so, and the Group intends to settle on a net basis, or simultaneously, related positive and negative values of financial instruments are offset within the balance sheet amounts.

All regular way purchases and sales of financial assets are recognised on the date of trade.

#### 1.9.1 Derivative instruments

The Group uses derivative financial instruments such as foreign currency contracts and interest rate swaps to manage the financial risks associated with their underlying business activities and the financing of those activities. The Group does not undertake any trading activity in derivative financial instruments.

Derivative financial instruments are measured at their fair value. For hedge accounting purposes, derivative financial instruments are designated at inception as fair value, cash flow or net investment hedges if appropriate.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments. A credit risk valuation adjustment is incorporated to appropriately reflect both our own non-performance risk and the respective counterparty's non-performance risk in the fair value measurement. The significant inputs to the overall valuations are based on market observable data or information derived from or corroborated by market observable data, including transactions, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

Where models are used, the selection of a particular model to value the derivative depends upon the contractual terms of, and specific risks inherent in the instrument as well as the availability of pricing information in the market. The Group uses similar models to value similar instruments. Valuation models require a variety of inputs including contractual terms, market prices, yield curves and credit curves.

The credit risk valuation adjustments are calculated by determining the current net exposure of each derivative (excluding potential future exposure) and then discounting the estimated cash flows at a rate adjusted with each counterparty's credit spread to the applicable exposure.

The inputs utilised for the Group's own credit spread are based on estimated fair market spreads for entities with similar credit ratings as the Group. For counterparties with publicly available credit information, the credit spreads over the benchmark rate used in the calculations represent implied credit default swap spreads obtained from a third party credit provider.

In adjusting the fair value of derivative contracts, for the effect of non-performance risk, the Group has not considered the impact of netting and any applicable credit enhancements such as, collateral postings, thresholds, mutual puts and guarantees. The Group actively monitors counterparty credit ratings for any significant changes.

## Notes to the Group Financial Statements *(continued)*

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### 1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION *(continued)*

#### 1.9 Financial instruments *(continued)*

##### 1.9.1 Derivative instruments *(continued)*

For the purposes of hedge accounting, hedges are classified as either fair value hedges where they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to cash flow hedges which meet the conditions for special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in profit or loss.

For cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged item affects the profit or loss, for example when interest payments are made.

For derivatives that do not qualify for special hedge accounting, any gains or losses arising from changes in fair value are taken directly to profit or loss for the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for special hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss for the period.

##### 1.9.2 Held-to-maturity investments

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest rate method. Interest received on loan and debt securities is included in the income statement as interest received and is recognised on an accrual basis.

##### 1.9.3 Trade and other receivables

Subsequent to initial measurement, receivables are recognised at amortised cost less an allowance for doubtful debts. A provision for impairment is made when there is objective evidence (such as default or delinquency of interest and the principal) that the Group will not be able to collect all amounts due under the original terms of the trade receivable transactions. Bad debts incurred are recognised in profit or loss as incurred.

Delinquent accounts are impaired by applying the Group's impairment policy recognising both contractual and ages of accounts. Age refers to the number of months since a qualifying payment was received. The process for estimating impairment considers all credit exposures, not only those of low credit quality and estimated on the basis of historical loss experience, adjusted on the basis of current observable data, to reflect the effects of current conditions. The Group assesses whether objective evidence of impairment exists individually for receivables that are individually significant, and individually or collectively for receivables that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed receivable, whether significant or not, the receivable is included in a group of receivables with similar credit risk characteristics and that group of receivables is collectively assessed for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised, are not included in a collective assessment of impairment.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss; to the extent the carrying value of the receivable does not exceed its cost at the reversal date.

# Notes to the Group Financial Statements (*continued*)

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## 1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (*continued*)

### 1.9 Financial instruments (*continued*)

#### 1.9.4 Cash and cash equivalents

Cash and cash equivalents are measured at amortised cost and comprise cash on hand and demand deposits together with any highly liquid investments readily convertible to known amounts of cash.

#### 1.9.5 Financial liabilities

Financial liabilities, other than derivatives, are amortised at their original debt value, less principal payments and amortisation. Discounts arising from the difference between the net proceeds of debt instruments issued and the amounts repayable at maturity, are charged to net financing costs over the life of the instruments using the effective interest rate method.

#### 1.9.6 Impairment of financial assets

At each balance sheet date an assessment of financial assets other than trade receivables (refer note 1.9.3) is made of whether there is any objective evidence of impairment of these financial assets. If there is evidence of defaults and current market conditions indicate that an impairment loss on these financial assets has been incurred, the impairment loss is measured as the difference between the assets' carrying amounts and the present value of the estimated future cash flows discounted at the financial assets' original effective interest rates. The loss is recognised in profit or loss.

#### 1.9.7 Derecognition of financial instruments

Financial assets are derecognised where the Group transfers the risks and rewards associated with the financial asset. Derecognition normally occurs when the financial asset is sold or all the cash flows associated with the financial asset are passed to an independent third party. Where the contractual rights to receive the cash flows of certain receivables are retained but a contractual obligation is assumed to pay those cash flows to a third party, those receivables are derecognised provided there is no obligation to pay amounts to the third party, unless equivalent amounts are collected from the original receivable.

The Group is prohibited from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows and, the Group has an obligation to remit any cash flows it collects on behalf of the third party without material delay and is not entitled to reinvest such cash flows except for investments in cash and cash equivalents during the short settlement period, from the collection date to the date of required remittance to the third party and the interest earned on such investments, is passed on to the third party.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or has expired.

### 1.10 Inventories

Retail trading inventories are valued at the lower of cost, using the weighted average cost, and net realisable value, less an allowance for slow-moving items. Net realisable value is the estimated selling price in the ordinary course of business less necessary costs to make the sale. In the case of own manufactured inventories, cost includes the total cost of manufacture, based on normal production facility capacity, and excludes financing costs. Work-in-progress is valued at actual cost, including direct material costs, labour costs and manufacturing overheads. Factory raw materials and consumable stores are valued at average cost, less an allowance for slow-moving items.

The allowance for slow-moving inventory is made with reference to an inventory age analysis. All inventory older than 18 months is provided for in full as it is not readily disposable.

All store inventories are physically verified at least twice a year through the performance of inventory counts and shortages identified are written off immediately in profit or loss. Stores, which have a history of high inventory losses, are subject to more frequent inventory counts. An allowance is made, based on historical trends of inventory losses, for losses incurred between the last physical count and the balance sheet date.

## Notes to the Group Financial Statements (continued)

### 1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

#### 1.11 Leases

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred from the lessor to the Group as lessee. The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at inception date and whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Assets subject to finance leases are capitalised at the lower of the fair value of the asset, and the present value of the minimum lease payments, with the related lease obligation recognised at the same value. Capitalised leased assets are depreciated over the shorter of the lease term and the estimated useful life if the Group does not obtain ownership thereof. Finance lease payments are allocated, using the effective interest rate method, between the lease finance cost, which is included in financing costs, and the capital repayment, which reduces the liability to the lessor.

Operating leases are those leases which do not fall within the scope of the above definition. Operating lease rentals with fixed escalation clauses are charged against trading profit on a straight-line basis over the term of the lease.

In the event of a sub-lease, lease rentals received are included in profit or loss on a straight-line basis.

#### 1.12 Properties, fixtures, equipment and vehicles

##### 1.12.1 Properties

Properties comprise of a building held by the Group for retail space and general-purpose land and buildings for use by employees. Properties are initially valued at cost and subsequently revalued by recognised professional valuers, to net realisable open-market value using the alternative or existing-use basis as appropriate, ensuring carrying amounts do not differ materially from those which would be determined using fair value at the balance sheet date. On revaluation, the cost, as well as the accumulated depreciation, is restated proportionately. Any revaluation surplus is credited to the asset revaluation reserve, net of deferred taxes, and included in shareholders' equity in the balance sheet. Any revaluation deficit directly offsetting a previous surplus is directly offset against that surplus in the asset revaluation reserve. Upon disposal, any revaluation reserve relating to the particular property being sold is transferred to retained earnings.

Depreciation is provided on buildings over 50 years on a straight-line basis.

##### 1.12.2 Lease premiums and leasehold improvements

Expenditure relating to leased premises is capitalised as appropriate and depreciated to expected residual value over the remaining period of the lease on a straight-line basis.

Leasehold improvements for leasehold land and buildings are depreciated over the lease periods which range from 5 to 10 years, or such shorter periods as may be appropriate.

##### 1.12.3 Fixtures, equipment and vehicles

Fixtures, equipment and vehicles are carried at cost less accumulated depreciation, less accumulated impairment loss, and depreciated on a straight-line basis to their expected residual values over the estimated useful lives as follows:

|                       |          |
|-----------------------|----------|
| Fixtures and fittings | 8 years  |
| Computer equipment    | 5 years  |
| Computer software     | 3 years  |
| Machinery             | 10 years |
| Vehicles              | 5 years  |

# Notes to the Group Financial Statements *(continued)*

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## 1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION *(continued)*

### 1.12 Properties, fixtures, equipment and vehicles *(continued)*

#### 1.12.4 Impairment of property, fixtures, equipment and vehicles

Property, fixtures, equipment and vehicles are reviewed at each reporting date for impairment or whenever events or changes in circumstances indicate that the carrying value may not be recoverable, to determine whether there is any indication of impairment. The impairment recognised in the profit or loss (or equity for revalued property) is the excess of the carrying value over the recoverable amount (the greater of fair value less cost to sell and value in use). Recoverable amounts are estimated for individual assets or, when an individual asset does not generate cash flows independently, the recoverable amount is determined for the larger cash-generating unit to which the asset belongs.

A previously recognised impairment will be reversed in so far as estimates change as a result of an event occurring after the impairment was recognised. This assessment is made at each reporting date. An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of impairment is recognised in profit or loss.

#### 1.12.5 Derecognition of properties, fixtures, equipment and vehicles

An item of property, fixtures, equipment and vehicles is derecognised on disposal or when no future economic benefits are expected through its continued use. Gains or losses which arise on derecognition, are included in the income statement in the year of derecognition. The gain or loss is calculated as the difference between the net disposal proceeds and the carrying amount of the property, fixtures, equipment or vehicles at the date of sale.

#### 1.12.6 Asset lives and residual values

Buildings, fixtures, equipment and vehicles are depreciated over their useful life taking into account any residual values where appropriate. The estimated useful life of these assets and depreciation methods are assessed at each financial year end and could vary as a result of technological innovations and maintenance programmes. In addition, residual values are reviewed at each financial year end after considering future market conditions, the remaining life of the asset and projected disposal values. Changes in asset lives and residual values are accounted for on a prospective basis as a change in estimate.

### 1.13 Software costs

Packaged software and the direct costs associated with the development and installation thereof are capitalised as computer software and are an integral part of computer hardware. The total cost is capitalised and depreciated in accordance with note 1.12.3.

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

Non-current assets (or a disposal group) are classified as held for sale if the carrying amount will be recovered through a highly probable sale transaction, rather than through continuing use. The sale is considered to be highly probable where the assets (or a disposal group) are available for immediate sale, management is committed to the sale and the sale is expected to be completed within a period of one year from the date of classification. Assets classified as held for sale are measured at the lower of the asset's carrying amount and fair value less costs to sell.

Where the sale is more than one year into the future due to circumstances beyond the Group's control, the costs to sell are measured at the present value. Any increase in the present value of costs to sell are recognised in the income statement as a financing cost.

An impairment loss is recognised in profit or loss for any initial or subsequent write-down of the asset or disposal group to fair value less costs to sell. A gain, for any subsequent increase in fair value less costs to sell, is recognised in profit or loss to the extent that it does not exceed the cumulative impairment loss previously recognised.

Non-current assets classified as held for sale are not depreciated.

## Notes to the Group Financial Statements *(continued)*

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### 1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION *(continued)*

#### 1.14 Non-current assets held for sale and discontinued operations *(continued)*

Where a component of the Group, being either a separate major line of business, a geographical area of operations or a subsidiary is acquired exclusively with a view to resell and management is committed to the sale and it is expected to be completed within a period of one year or has been sold, that component is classified as a discontinued operation.

#### 1.15 Income taxes

Income tax payable on profits, based on the applicable tax laws, is recognised as an expense in the period in which profits arise. Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax liabilities are recognised for temporary differences arising between the carrying amounts of assets and liabilities in the balance sheet and their amounts as measured for tax purposes, irrespective of whether it will result in taxable amounts in future periods, unless the deferred tax liability arises from the initial recognition of goodwill. Deferred tax assets are recognised for all temporary differences which will result in deductible amounts in future periods, but only to the extent that it is probable that sufficient taxable profits will be available against which these differences can be utilised. Neither a deferred tax asset nor liability is recognised where it arises from a transaction, which is not a business combination, and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realised or the liability will be settled, based on enacted or substantively enacted rates.

Current and deferred tax assets and liabilities are offset when they arise from the same tax reporting entity, and relate to the same tax authority, and when the legal right to offset exists. Where applicable, non-resident shareholders' taxation is provided in respect of foreign dividends receivable.

Secondary tax on companies (STC), is provided for at a rate of 10% (12.5% to October 2007) on the amount by which dividends declared by the Group exceed dividends received. STC is charged to profit or loss at the applicable ruling rate and included in the taxation expense for the period.

#### 1.16 Financing costs

Financing costs are recognised in the income statement in the period in which they are incurred.

#### 1.17 Joint ventures

The Group has an interest in a joint venture which is jointly controlled by the Group and one or more other venturer under a contractual arrangement. The Group's interest in jointly controlled entities is accounted for using the equity method. Under the equity method, the investment in joint ventures is carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the joint ventures. Goodwill relating to the joint ventures is included in the carrying amount of the investment and is not amortised or separately tested for impairment. The income statement reflects the share of the results of operations of the joint ventures. Where the Group transacts with a jointly controlled entity, unrealised profits or losses are eliminated to the extent of the Group's interest in the joint venture. The reporting period for jointly controlled entities is the same as the Group's.

#### 1.18 Revenue recognition

Revenue comprises retail sales of merchandise, manufacturing sales, club fees, financial services income, equity accounted earnings of joint ventures, dividends, interest and finance charges accrued to the Group. Revenue from all sales of merchandise, net of returns, is brought to account when delivery takes place to the customer. Revenue from manufacturing and other operations is recognised when the sale transactions giving rise to such revenue are concluded. Finance charges on arrear account balances are accrued on a time proportion basis, recognising the effective yield on the underlying assets. Dividends are recognised when the right to receive payment is established. Interest received is recognised using the effective interest rate method. Club fees are recognised as incurred. Revenue is measured at the fair value of consideration received or receivable.

# Notes to the Group Financial Statements *(continued)*

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## 1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION *(continued)*

### 1.19 Business and geographical segments

The principal segments of the Group have been identified on a primary basis by division, and on a secondary basis by significant geographical region. The basis is representative of the internal structure for management reporting purposes. The source and nature of business risks and returns are segmented on the same basis.

Segment revenue – retail sales reflect sales to third parties, excluding arm's length inter-segment revenue recorded at fair value. The segment result is presented as segment operating profit without allocation of finance costs and taxation. Corporate expenses are allocated on an appropriate basis after giving due consideration to the nature of such expenses incurred. Segment gross assets include those assets that can be specifically identified with a particular segment. Neither trade accounts receivable, which are housed in the centralised Credit and Financial Services Division, nor corporate liabilities which are held at the Group Services Division, are allocated to segments.

### 1.20 Employee benefits - post-retirement benefits

The Group operates a number of retirement benefit plans for its employees. These plans include both defined benefit and defined contribution provident funds and other retirement benefits such as medical aid benefit plans. Current contributions incurred with respect to the defined contribution provident funds, are charged against profit or loss when incurred.

The Group uses the projected unit credit actuarial method to determine the present value of its defined benefit plans and the related current service cost and, where applicable, past service costs. The portion of actuarial gains and losses recognised in profit or loss is the excess over the greater of 10% of the present value of the defined benefit obligation at the end of the previous reporting period, before deducting plan assets, and 10% of the fair value of any plan assets at the same date, divided by the expected average remaining working lives of the employees participating in the fund. Improved benefits in defined benefit funds are only granted if they can be financed from the actuarial surplus. Contribution rates to defined benefit plans are adjusted for any unfavourable experience adjustments. Favorable experience adjustments are retained within the funds. Actuarial surpluses are only brought to account in the Group's Financial Statements when it is certain that economic benefits will be available to the Group.

### 1.21 Share capitalisation awards and cash dividends

The full cash equivalent of capitalisation share awards, and cash dividends paid by the Group are recorded and disclosed as dividends declared in the statement of changes in ordinary shareholders' equity. Dividends declared subsequent to the period-end are not charged against shareholders' equity at the balance sheet date as no liability exists. Upon allotment of shares in terms of a capitalisation award, the election amounts are transferred to the share capital and share premium account; cash dividend election amounts are paid and the amount deducted from equity.

### 1.22 Treasury shares

Shares held by the Staff Empowerment Trust are classified in the Group's shareholders' equity as treasury shares. These shares are treated as a deduction from the issued number of shares, and the cost price of the shares is deducted from share capital and premium, in the balance sheet. Any dividends received on treasury shares are eliminated on consolidation.

### 1.23 Future changes in accounting policies

#### ***IFRS 8, Operating Segments***

IFRS 8 was issued in November 2006 and becomes effective for financial years beginning on or after 1 January 2009. The IFRS specifies how an entity should report information about its operating segments in annual financial statements and report selected information about its operating segments in interim financial reports. Additionally, it sets out requirements for related disclosures about products and services, geographical areas and major customers.

## Notes to the Group Financial Statements *(continued)*

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### 1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION *(continued)*

#### 1.23 Future changes in accounting policies *(continued)*

##### ***IFRS 8, Operating Segments (continued)***

The Group has evaluated the effect of this standard and adoption of this standard will impact the segments currently reported in note 2 of the Financial Statements where an additional segment for the CNA chain will be required as well as additional disclosure with respect to the identification of the Group's operating segments and types of products and services from which each reportable segment derives its revenues. Additionally the standard shall result in overheads and net assets to be allocated as management views these allocations.

##### ***IFRIC 13, Customer Loyalty Programmes***

IFRIC 13 was issued in June 2007 and becomes effective for financial periods beginning on or after 1 July 2008. The IFRIC addresses the accounting by an entity that grants award credits to its customers.

The Group is still evaluating the effect of this standard and expects that adoption of this standard will impact revenue reported in note 23, however, initial estimates indicate that this impact will not be material based on current processes.

##### ***IFRS 2, Share-based Payments – Vesting Conditions and Cancellations***

An amendment to IFRS 2, Share-based payments, was published in 2008 and becomes effective for financial periods beginning on or after 1 January 2009. The standard restricts the definition of a vesting condition and specifies when an award is accounted for as a cancellation due to failure to meet a non-vesting condition.

The Group has not entered into share-based payment schemes with non-vesting conditions attached and therefore having evaluated the effect of adopting this standard, has concluded it will not materially impact the Group.

##### ***IFRS 3, Business Combinations and IAS 27, Consolidated and Separate Financial Statements***

These standards were revised and reissued in January 2008 and become effective for financial periods beginning on or after 1 July 2009 with prospective application. The IFRS 3 applies to all transactions and events that meet the definition of a business combination. IAS 27 was revised to require that a change in ownership interest of a subsidiary is accounted for as an equity transaction and the accounting for losses incurred by a subsidiary as well as the loss of control of a subsidiary was changed.

The Group has evaluated the effect of adopting these standards and has resolved that the standards will have a material effect on all future business combinations in future reporting periods on adoption of the standards.

##### ***IAS 1, Presentation of Financial Statements***

This standard was revised and issued in September 2007 and becomes effective for financial periods beginning on or after 1 January 2009. The standard separates owner and non-owner changes in equity. The statement of changes in shareholders' equity will only include details of transactions with owners. All non-owner changes in equity will be presented as a single line. A statement of comprehensive income is also introduced which presents all items of income and expense recognised in profit or loss together with all other items of recognised income and expense either in a single statement, or two linked statements.

The Group is still evaluating these disclosures and whether one or two statements will be presented.

##### ***IAS 23, Borrowing Costs***

This standard was revised and reissued in March 2007 and becomes effective for all periods beginning on or after 1 January 2009. The standard requires that borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset and other borrowing costs are recognised as an expense in the period incurred.

The Group has evaluated the effect of this standard and does not expect the adoption thereof to have a material effect.

## Notes to the Group Financial Statements *(continued)*

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### 1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION *(continued)*

#### 1.23 Future changes in accounting policies *(continued)*

##### ***Amendment to IAS 32 and IAS 1, Puttable Financial Instruments***

This amendment was issued in February 2008 and becomes effective for financial periods beginning on or after 1 January 2009. IAS 32 now requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires certain disclosures relating to puttable instruments classified as equity.

The Group has evaluated the effect of adopting these amendments and does not expect that adoption thereof will impact the Group Financial Statements.

##### ***Amendment to IAS 39 - Eligible Hedged Items***

This amendment was issued in July 2008 to clarify how principles that determine whether a hedged risk or portion of cash flows is eligible for designation and how this should be applied in certain situations. The amendment becomes effective for financial periods beginning on or after 1 July 2009.

The Group has evaluated the effect of adopting this amendment and does not expect that adoption thereof will impact the Group Financial Statements.

##### ***IFRIC 16, Hedges of a Net Investment in a Foreign Operation***

The IFRIC becomes effective for financial periods beginning on or after 1 October 2008 and provides more detailed guidance on the identification of foreign currency risks that qualify for hedge accounting in this type of hedge, key aspects of the hedge effectiveness test, where within the group the related hedging instrument(s) can be held and, how the foreign currency gain or loss should be allocated to the foreign operation upon disposal. The IFRIC additionally clarifies that only differences between functional currencies may be hedged.

The Group has evaluated the effect of adopting this interpretation and has concluded that IFRIC 16 will have no material impact on the Group's Financial Statements.

##### ***IFRIC 17, Distributions of Non-cash Assets to Owners***

The IFRIC is effective for annual periods beginning on or after 1 July 2009 with prospective application. IFRIC 17 provides guidance on how an entity should account for the distribution of assets other than cash, as dividends to its owners, acting in their capacity as owners including prescribed disclosures.

The Group has evaluated the impact of adopting this interpretation and has concluded that IFRIC 17 will only impact the Group's Financial Statements where the Group distributes assets other than cash to its owners in terms of recognising any dividend payable, measurement of any dividend payable and applicable disclosures prescribed by this interpretation.

##### ***Improvements to IFRS's (annual Improvements Project 2007)***

The Standard deals with 34 amendments which were separated into Part I and Part II and become effective for financial periods beginning on or after 1 January 2009 unless otherwise stated below. Part I deals with changes the IASB identified that resulted in accounting changes while Part II deals with terminology or editorial amendments.

## Notes to the Group Financial Statements *(continued)*

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### 1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION *(continued)*

#### 1.23 Future changes in accounting policies *(continued)*

##### ***Improvements to IFRS's (annual Improvements Project 2007) (continued)***

Part I included 23 amendments to the following Standards:

- IFRS 5, Non-current Assets Held for Sale and Discontinued Operations – effective 1 July 2009
- IAS 1, Presentation of Financial Statements
- IAS 16, Property, Plant and Equipment
- IAS 19, Employee Benefits
- IAS 20, Accounting for Government Grants and Disclosures of Government Assistance
- IAS 23, Borrowing costs
- IAS 27, Consolidated and Separate Financial Statements
- IAS 28, Investments in Associates
- IAS 29, Financial Reporting in Hyper Inflationary Economies
- IAS 31, Interests in Joint Ventures
- IAS 36 Impairment of Assets
- IAS 38, Intangible Assets
- IAS 39, Financial Instruments : Recognition and Measurement
- IAS 40, Investment Property
- IAS 41, Agriculture

The Group has evaluated the impact of all improvements and has concluded the improvements shall have no material impact on the Group's Financial Statements on adoption of the improvements.

# Notes to the Group Financial Statements (continued)

## 2. SEGMENTAL ANALYSIS

|                               | REVENUES        |                 |                       |                 | REVENUE-RETAIL SALES |               |                       |               | SEGMENT RESULT-OPERATING PROFIT <sup>3</sup> |                  |                       |                |
|-------------------------------|-----------------|-----------------|-----------------------|-----------------|----------------------|---------------|-----------------------|---------------|--|------------------|-----------------------|----------------|
|                               | Successor       |                 | Predecessor           |                 | Successor            |               | Predecessor           |               | Successor                                    |                  | Predecessor           |                |
|                               | 2009 Rm         | 2008 Rm         | 2007 5 weeks to 5 May | 2007 Rm         | 2009 Rm              | 2008 Rm       | 2007 5 weeks to 5 May | 2007 Rm       | 2009 Rm                                      | 2008 Rm          | 2007 5 weeks to 5 May | 2007 Rm        |
| Department Stores Division    | 13 291          | 11 283          | 1 196                 | 11 559          | 13 086               | 11 109        | 1 180                 | 11 383        | 1 193  | 1 292            | 218                   | 1 652          |
| Discount Division             | 9 206           | 7 333           | 776                   | 7 353           | 8 989                | 7 135         | 759                   | 7 148         | (197)  | 336              | 101                   | 726            |
| Manufacturing Division        | 45 <sup>1</sup> | 39 <sup>1</sup> | 2 <sup>1</sup>        | 32 <sup>1</sup> |                      |               |                       |               | 2  | (3)              | 1                     | (13)           |
| Credit and Financial Services | 2 633           | 2 059           | 120                   | 1 170           |                      |               |                       |               | 845 <sup>4</sup>                             | 664 <sup>4</sup> | 33 <sup>4</sup>       | 2 <sup>4</sup> |
| Group Services <sup>2</sup>   | 20              | 236             | -                     | 35              |                      |               |                       |               | 245  | (1 519)          | (5)                   | (1)            |
| <b>Group</b>                  | <b>25 195</b>   | <b>20 950</b>   | <b>2 094</b>          | <b>20 149</b>   | <b>22 075</b>        | <b>18 244</b> | <b>1 939</b>          | <b>18 531</b> | <b>2 088</b>                                 | <b>770</b>       | <b>348</b>            | <b>2 366</b>   |
| South Africa                  | 23 915          | 20 015          | 2 010                 | 19 325          | 20 946               | 17 420        | 1 855                 | 17 755        | 1 687  | 485              | 317                   | 2 116          |
| Other <sup>7</sup>            | 1 280           | 935             | 84                    | 824             | 1 129                | 824           | 84                    | 776           | 401  | 285              | 31                    | 250            |

|                               | DEPRECIATION AND AMORTISATION |            |                       |            | IMPAIRMENT OF INTANGIBLES |         |                       |         | CAPITAL EXPENDITURE <sup>5</sup> |            |                       |            |
|-------------------------------|-------------------------------|------------|-----------------------|------------|---------------------------|---------|-----------------------|---------|----------------------------------|------------|-----------------------|------------|
|                               | Successor                     |            | Predecessor           |            | Successor                 |         | Predecessor           |         | Successor                        |            | Predecessor           |            |
|                               | 2009 Rm                       | 2008 Rm    | 2007 5 weeks to 5 May | 2007 Rm    | 2009 Rm                   | 2008 Rm | 2007 5 weeks to 5 May | 2007 Rm | 2009 Rm                          | 2008 Rm    | 2007 5 weeks to 5 May | 2007 Rm    |
| Department Stores Division    | 562                           | 319        | 8                     | 94         | 184                       |         |                       |         | 169                              | 233        | 10                    | 205        |
| Discount Division             | 283                           | 194        | 6                     | 73         | 513                       |         |                       |         | 168                              | 81         | 7                     | 107        |
| Manufacturing Division        | 2                             | 1          | -                     | 2          |                           |         |                       |         | 1                                | -          | -                     | 1          |
| Credit and Financial Services | 7                             | 4          | -                     | 4          |                           |         |                       |         | -                                | 2          | -                     | 6          |
| Group Services <sup>2</sup>   | 245                           | 272        | 13                    | 124        |                           |         |                       |         | 231                              | 208        | 30                    | 245        |
| <b>Group</b>                  | <b>1 099</b>                  | <b>790</b> | <b>27</b>             | <b>297</b> | <b>697</b>                |         |                       |         | <b>569</b>                       | <b>524</b> | <b>47</b>             | <b>564</b> |
| South Africa                  | 1 088                         | 780        | 26                    | 288        | 697                       |         |                       |         | 562                              | 518        | 46                    | 546        |
| Other <sup>7</sup>            | 11                            | 10         | 1                     | 9          |                           |         |                       |         | 7                                | 6          | 1                     | 18         |

### Notes

<sup>1</sup>Represents manufacturing sales to third parties. In deriving the revenue, inter-group manufacturing sales of R145 million (47 weeks to 29 March 2008 R153 million, 5 weeks to 5 May 2007 R13 million and 2007: R190 million) have been eliminated.

<sup>2</sup>Incorporating corporate divisions and consolidation adjustments.

<sup>3</sup>The 2009 segmental result is stated after impairment of intangibles.

<sup>4</sup>Includes equity accounted earnings of joint ventures of R349 million (47 weeks to 29 March 2008 R264 million, 5 weeks to 5 May 2007 R23 million and 2007: R243 million).

<sup>5</sup>Excludes proceeds on disposal of properties, fixtures, equipment and vehicles (note 32.5).

<sup>6</sup>Includes investment in joint ventures of R1 million (2008 and 2007: R11 million and R14 million).

<sup>7</sup>Comprising Botswana, Lesotho, Swaziland and Namibia.

<sup>8</sup>2009 financial data is presented for the 52 weeks ended 29 March 2008 for the Successor. Comparative data of the Predecessor is for the 5 weeks ended 5 May 2007 and 52 weeks ended 31 March 2007.

## Notes to the Group Financial Statements (continued)

|                               | TOTAL ASSETS       |                    |                    | TOTAL LIABILITIES |               |              | TOTAL EQUITY |              |              |
|-------------------------------|--------------------|--------------------|--------------------|-------------------|---------------|--------------|--------------|--------------|--------------|
|                               | Successor          |                    | Predecessor        | Successor         |               | Predecessor  | Successor    |              | Predecessor  |
|                               | 2009<br>Rm         | 2008<br>Rm         | 2007<br>Rm         | 2009<br>Rm        | 2008<br>Rm    | 2007<br>Rm   | 2009<br>Rm   | 2008<br>Rm   | 2007<br>Rm   |
| Department Stores Division    | 9 525              | 9 334              | 2 271              | 1 702             | 1 904         | 437          | 7 823        | 7 430        | 1 834        |
| Discount Division             | 5 150              | 5 198              | 767                | 1 095             | 1 179         | 284          | 4 055        | 4 019        | 483          |
| Manufacturing Division        | 72                 | 90                 | 48                 | 18                | 21            | 7            | 54           | 69           | 41           |
| Credit and Financial Services | 9 579 <sup>6</sup> | 8 711 <sup>6</sup> | 5 251 <sup>6</sup> | 162               | 146           | 175          | 9 417        | 8 565        | 5 076        |
| Group Services <sup>2</sup>   | 13 014             | 17 285             | 1 180              | 34 789            | 35 978        | 3 642        | (21 775)     | (18 693)     | (2 462)      |
| <b>Group</b>                  | <b>37 340</b>      | <b>40 618</b>      | <b>9 517</b>       | <b>37 766</b>     | <b>39 228</b> | <b>4 545</b> | <b>(426)</b> | <b>1 390</b> | <b>4 972</b> |
|                               |                    |                    |                    |                   |               |              |              |              |              |
| South Africa                  | 36 652             | 39 987             | 8 943              | 37 673            | 39 163        | 4 507        | (1 021)      | 824          | 4 436        |
| Other <sup>7</sup>            | 688                | 631                | 574                | 93                | 65            | 38           | 595          | 566          | 536          |

## Notes to the Group Financial Statements (continued)

|  | <b>Successor</b> | Predecessor  |              |
|--|------------------|--------------|--------------|
|  | 2009             | 2008         | 2007         |
|  | 28 March         | 29 March     | 31 March     |
|  | Rm               | Rm           | Rm           |
| <b>3. PROPERTIES, FIXTURES, EQUIPMENT AND VEHICLES</b>               |                  |              |              |
| <b>Historic cost except for revalued land and buildings</b>          |                  |              |              |
| Land and buildings   |                  |              |              |
| Historic cost  | 131              | 98           | 31           |
| Revaluation surplus  | 35               | 35           | 94           |
| Leasehold improvements   | 495              | 470          | 363          |
| Fixtures and fittings  | 2 438            | 2 272        | 1 831        |
| Computer equipment and software                                      | 952              | 642          | 1 403        |
| Machinery and vehicles   | 169              | 156          | 177          |
|  | <b>4 220</b>     | <b>3 673</b> | <b>3 899</b> |
| <b>Accumulated depreciation</b>                                      |                  |              |              |
| Buildings  | 8                | 4            | 25           |
| Leasehold improvements   | 155              | 58           | 191          |
| Fixtures and fittings  | 595              | 206          | 1 033        |
| Computer equipment and software                                      | 290              | 126          | 1 008        |
| Machinery and vehicles   | 44               | 16           | 82           |
|  | <b>1 092</b>     | <b>410</b>   | <b>2 339</b> |
| <b>Net carrying value</b>  | <b>3 128</b>     | <b>3 263</b> | <b>1 560</b> |
| Comprising:  |                  |              |              |
| Land and buildings   | 158              | 129          | 100          |
| Leasehold improvements   | 340              | 412          | 172          |
| Fixtures and fittings  | 1 843            | 2 066        | 798          |
| Computer equipment and software                                      | 662              | 516          | 395          |
| Machinery and vehicles   | 125              | 140          | 95           |
|  | <b>3 128</b>     | <b>3 263</b> | <b>1 560</b> |
| <b>Opening net carrying value</b>                                    | <b>3 263</b>     | -            | 1 320        |
| <b>Movements for the year</b>  |                  |              |              |
| Land and buildings – revaluation, cost less accumulated depreciation | -                | 26           | -            |
| <b>Capital expenditure</b>   |                  |              |              |
| Buildings  | -                | -            | -            |
| Leasehold improvements   | 65               | 64           | 59           |
| Fixtures and fittings  | 233              | 257          | 268          |
| Computer equipment and software                                      | 265              | 201          | 204          |
| Machinery and vehicles   | 3                | 2            | 33           |
|  | <b>566</b>       | <b>524</b>   | <b>564</b>   |
| <b>Fair value of acquisitions</b> (note 32.12)                       |                  |              |              |
| Acquisition of the Edcon Group:                                      |                  |              |              |
| Land and buildings   |                  | 105          |              |
| Leasehold Improvements   |                  | 409          |              |
| Fixtures and fittings  |                  | 1 973        |              |
| Computer equipment and software                                      |                  | 440          |              |
| Machinery and vehicles   |                  | 155          |              |
| Acquisition of Discom – fixtures and fittings                        |                  | 39           |              |
|  |                  | <b>3 121</b> |              |
| <b>Other</b>   |                  |              |              |
| Currency adjustments   | (1)              | 8            | 2            |
| Reclassification of assets   | -                |              |              |
| Buildings  | 33               |              |              |
| Leasehold improvements   | (36)             |              |              |
| Fixtures and fittings  | (57)             |              |              |
| Computer equipment and software                                      | 50               |              |              |
| Machinery and vehicles   | 10               |              |              |
|  | <b>565</b>       | <b>3 679</b> | <b>566</b>   |
| <b>Disposals</b>   |                  |              |              |
| Land and buildings   | -                | -            | 26           |
| Leasehold improvements   | 4                | 1            | -            |
| Fixtures and fittings  | 10               | 5            | 4            |
| Computer equipment and software                                      | 5                | -            | -            |
| Machinery and vehicles   | -                | -            | -            |
|  | <b>19</b>        | <b>6</b>     | <b>30</b>    |
| Depreciation (note 25.3)   | <b>681</b>       | <b>410</b>   | <b>296</b>   |
| <b>Closing net carrying value</b>                                    | <b>3 128</b>     | <b>3 263</b> | <b>1 560</b> |

## Notes to the Group Financial Statements (continued)

### 3. PROPERTIES, FIXTURES, EQUIPMENT AND VEHICLES (continued)

The reclassifications on page 70 arose as a result of finalising the take-on of the fixed assets fair value adjustment in the fixed asset register by asset as a result of the Edcon Group acquisition.

Land and buildings were revalued at 1 March 2008 to open market value based on the open market net rentals and current replacement cost of each property. Deferred taxation has been raised on the revaluation surplus. The independent valuations were carried out by professional valuers. No other categories of assets were revalued.

A register of the Group's land and buildings is available for inspection at the company's registered office.

If the land and buildings were measured using the cost model the cost is R156 million (2008 and 2007: R98 million and R31 million) and the accumulated depreciation is R8 million (2008 and 2007: R4 million and R25 million).

At 28 March 2009 the properties, fixtures, equipment and vehicles have an estimated replacement cost and insurance value of R6,0 billion (2008 and 2007: R5,2 billion and R5,0 billion) which excludes input value added-tax where appropriate. The Group had no idle fixed assets. The gross cost of fully depreciated fixtures, equipment and vehicles is immaterial.

These assets are security in terms of the floating rate notes issued (note 18) and the revolving credit facility (note 19).

### 4. INTANGIBLE ASSETS

Goodwill represents the excess of the purchase consideration over the fair value of the identifiable assets at the date of acquisition purchased as part of a business combination. Other intangible assets represent registered rights to the exclusive use of certain trademarks and brand names.

#### Balance at the beginning of the period

#### Current year movements

Goodwill on acquisition of Edcon Group (note 32.12.1)  
 Goodwill on acquisition of Discom (note 32.12.2)  
 Goodwill on consolidation of OntheCards (note 32.12.3)  
 Intangible assets on acquisition of the Edcon Group (note 32.12.1)  
 Intangible asset on acquisition of Discom (note 32.12.2)

Amortisation of intangible assets:

Charge for the year (note 25.1)

Impairment of goodwill

Impairment of indefinite life brands

#### Balance at the end of the period

#### Comprising:

Goodwill at cost

Intangible assets at cost

Impairment of intangibles

Accumulated amortisation of intangible assets

|                 | <b>Successor</b> | Predecessor |
|-----------------|------------------|-------------|
| <b>2009</b>     | 2008             | 2007        |
| <b>28 March</b> | 29 March         | 31 March    |
| <b>Rm</b>       | Rm               | Rm          |
|                 | -                | 78          |
|                 | 8 348            |             |
|                 | 86               |             |
|                 | 79               |             |
|                 | 11 906           |             |
|                 | 73               |             |
|                 | (418)            | (1)         |
|                 | (12)             |             |
|                 | (685)            |             |
|                 | 20 112           | 77          |
|                 | 8 513            | 77          |
|                 | 11 979           | 5           |
|                 | (697)            |             |
|                 | (798)            | (5)         |
|                 | 20 112           | 77          |

## Notes to the Group Financial Statements (continued)

|   | <b>Successor</b> |          | Predecessor |
|---|------------------|----------|-------------|
|   | <b>28 March</b>  | 29 March | 31 March    |
|   | <b>2009</b>      | 2008     | 2007        |
|   | <b>Rm</b>        | Rm       | Rm          |
| <b>4. INTANGIBLE ASSETS (continued)</b>     |                  |          |             |
| <b>Intangible assets at cost:</b>           |                  |          |             |
| Indefinite life brands                      | <b>8 492</b>     | 8 492    |             |
| Finite life brands                          | <b>229</b>       | 229      |             |
| Customer relationships                      | <b>1 974</b>     | 1 974    |             |
| Trademarks recognised                       | <b>206</b>       | 206      | 5           |
| Customer lists                              | <b>561</b>       | 561      |             |
| Technology                                  | <b>517</b>       | 517      |             |
|   | <b>11 979</b>    | 11 979   | 5           |
| <b>Impairment of intangibles:</b>           |                  |          |             |
| Indefinite life brands                      | <b>(685)</b>     |          |             |
|   | <b>(685)</b>     |          |             |
| <b>Amortisation of intangible assets:</b>   |                  |          |             |
| Finite life brands                          | <b>(41)</b>      | (18)     |             |
| Customer relationships                      | <b>(433)</b>     | (207)    |             |
| Trademarks recognised                       | <b>(40)</b>      | (19)     | (5)         |
| Customer lists                              | <b>(142)</b>     | (68)     |             |
| Technology                                  | <b>(142)</b>     | (68)     |             |
|   | <b>(798)</b>     | (380)    | (5)         |
| <b>Carrying value of intangible assets:</b> |                  |          |             |
| Indefinite life brands                      | <b>7 807</b>     | 8 492    |             |
| Finite life brands                          | <b>188</b>       | 211      |             |
| Customer relationships                      | <b>1 541</b>     | 1 767    |             |
| Trademarks recognised                       | <b>166</b>       | 187      | -           |
| Customer lists                              | <b>419</b>       | 493      |             |
| Technology                                  | <b>375</b>       | 449      |             |
|   | <b>10 496</b>    | 11 599   | -           |

Indefinite life brands principally comprise those brands for which there is no foreseeable limit to the period over which they are expected to generate net cash inflows.

The Edgars, Jet, CNA and Boardmans brands are considered to have an indefinite life as each has been in existence for a significant period and the strength and durability of these brands and the level of marketing support.

Goodwill is tested annually for impairment (refer to note 5).

## Notes to the Group Financial Statements (continued)

### 5. IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLES WITH INDEFINITE LIVES

Goodwill acquired through business combinations and intangible assets with indefinite lives have been allocated to individual cash-generating units for impairment testing as follows:

- Department Stores Division – consists of the Edgars and CNA chains offering clothing, footwear, homeware and stationery products
- Discount Division – includes Jet, JetMart, Discom, Legit and Jet Shoes chains offering clothing, footwear, beauty and homeware products.
- Credit and Financial Services

Impairment testing of this goodwill and intangibles with indefinite lives was undertaken on the following basis:

The recoverable amount of cash-generating units has been determined based on a value-in-use calculation. To calculate this, cash flow projections are based on financial budgets approved by senior management covering a five-year period. The discount rate applied to the cash flow projections for the Department Stores and Discount Divisions is 15% (2008: 15%) and for the Credit and Financial Services division, 17% (2008: 17%). The average growth rates used to extrapolate the cash flow projection of each cash-generating unit beyond the five-year period is 6% (2008: 5%) as future benefits are expected beyond the five year period.

| <b>Carrying amount of goodwill and intangibles with indefinite lives (Rm)</b> | <b>Department Stores Division</b> | <b>Discount Division</b> | <b>Credit and Financial Services</b> | <b>Total</b> |
|---|-----------------------------------|--------------------------|--------------------------------------|--------------|
| Carrying amount of goodwill   | <b>1 824</b>                      | <b>3 008</b>             | <b>3 669</b>                         | <b>8 501</b> |
| Carrying amount of indefinite life intangibles                                | <b>5 099</b>                      | <b>2 708</b>             | <b>-</b>                             | <b>7 807</b> |

During the current period a total impairment of R685 million has been recognised on the indefinite life brands due to an economic downturn not anticipated in the prior period impairment tests. As a result, forecast sales assumptions were decreased in line with current market conditions over the short-term, however the growth rates beyond the five year period were increased.

#### Key assumptions applied in value-in-use calculation of the cash generating units

The calculation of value-in-use is most sensitive to the following assumptions:

- Gross margin
- Discount rates
- Market share
- Growth rates used to extrapolate cash flows beyond the budget period

Gross margins are based on financial budgets for both the Department Stores Division and the Discount Division. The gross margin of the Department Stores Division and Discount Division is held constant over the five year period.

Discount rates reflect management's estimate of the risks specific to each unit.

Market share assumptions (based on external market information) are important as management considers how the units position relative to its competitors might change over the budget period. Management expects the market share of both the Department Stores Division and the Discount Division to be reasonably stable over the budget period.

Growth rate estimates are conservatively applied to each unit having considered industry expected growth rates and the Group is not expected to exceed the long-term average growth rates of the industry.

A reasonable possible change in any of the key assumptions would not result in the carrying amount of any of the cash generating units exceeding their recoverable amount.

## Notes to the Group Financial Statements (continued)

|  | <b>Successor</b> |          | Predecessor |
|--|------------------|----------|-------------|
|  | <b>2009</b>      | 2008     | 2007        |
|  | <b>28 March</b>  | 29 March | 31 March    |
|  | <b>Rm</b>        | Rm       | Rm          |
| <b>6. HELD-TO-MATURITY INVESTMENTS</b>   |                  |          |             |
| Preference shares earning a prime interest linked rate of (2007: 7,81%) redeemable in August 2007  |                  |          | 170         |
| Preference shares earning a prime linked interest rate of (2007: 7,72%) redeemable in August 2008  |                  |          | 370         |
| Preference shares earning a prime linked interest rate of (2007: 7,81%) redeemable in August 2008  |                  |          | 160         |
|  |                  |          | <b>700</b>  |
| Our credit and financial services business has historically been funded by the sale of receivables generated by that business to OntheCards (OtC). In order to fund the payment of the purchase price for the receivables, OtC issued from time to time notes that were listed on the Bond Exchange of South Africa and borrowed under a subordinated loan facility provided by First Rand Bank. Edcon pledged preference shares as security for a credit default swap which secured First Rand Bank's subordinated loan to OtC. |                  |          |             |
| <b>7. EQUITY ACCOUNTED INVESTMENT IN JOINT VENTURES</b>  |                  |          |             |
| Hollard Insurance – 50% holding offering long and short-term insurance products to account holders   | <b>1</b>         | 11       | 14          |
| SA Eagle Legal (Pty) Ltd   | -                | -        | -           |
|  | <b>1</b>         | 11       | 14          |
| <b>7.1 Share of joint ventures' reserves</b>   |                  |          |             |
| Balance at the beginning of the period   | <b>11</b>        | -        | 12          |
| Acquisition of Edcon Group   |                  | 38       |             |
| Profit for the period  | <b>349</b>       | 264      | 243         |
| Administration fee   | <b>(129)</b>     |          |             |
| Dividends received   | <b>(230)</b>     | (291)    | (241)       |
| Carrying value of joint ventures   | <b>1</b>         | 11       | 14          |
| <b>7.2 Share of joint ventures' net assets, revenue and profit</b>   |                  |          |             |
| Current assets   | <b>270</b>       | 222      | 177         |
| Current liabilities  | <b>56</b>        | 23       | 50          |
| Revenue  | <b>990</b>       | 622      | 727         |
| Expenses   | <b>515</b>       | 210      | 215         |
| Profit after tax   | <b>349</b>       | 264      | 243         |

## Notes to the Group Financial Statements (continued)

|   | <b>Successor</b> | Predecessor |
|---|------------------|-------------|
|   | <b>2009</b>      | 2008        |
|   | <b>28 March</b>  | 29 March    |
|   | <b>Rm</b>        | Rm          |
|   |                  | 2007        |
|   |                  | 31 March    |
|   |                  | Rm          |
| <b>8. DERIVATIVE FINANCIAL INSTRUMENTS</b>                        |                  |             |
| <b>8.1 Non-current derivative assets</b>                          |                  |             |
| Foreign currency forward contracts <sup>1</sup>                   | 232              | 942         |
| Currency swaps  | 2 161            | 4 487       |
|   | <b>2 393</b>     | 5 429       |
| <b>8.2 Current derivative assets</b>                              |                  |             |
| Interest rate swaps <sup>1</sup>                                  |                  | 5           |
| Foreign currency forward contracts <sup>1</sup>                   | 188              | 416         |
|   | <b>188</b>       | 421         |
| <b>8.3 Non-current derivative liabilities</b>                     |                  |             |
| Interest rate swaps <sup>1</sup>                                  | 503              | 379         |
| Foreign currency forward contracts <sup>1</sup>                   | 68               |             |
| Currency swaps  | 431              |             |
|   | <b>1 002</b>     | 379         |
| <b>8.4 Current derivative liabilities</b>                         |                  |             |
| Interest rate swaps <sup>1</sup>                                  | 454              |             |
| Foreign currency forward contracts <sup>1</sup>                   | 60               |             |
|   | <b>514</b>       |             |
| <b>8.5 Total derivatives</b>                                      |                  |             |
| Interest rate swap liability                                      | (957)            | (374)       |
| Foreign currency forward contracts asset                          | 292              | 1 358       |
| Currency swaps asset  | 1 730            | 4 487       |
|   | <b>1 065</b>     | 5 471       |
| <b>Credit risk valuation adjustments<sup>2</sup></b>              |                  |             |
| Interest rate swaps   | (240)            | -           |
| Foreign currency forward contracts                                | (18)             | -           |
| Currency swaps  | (168)            | -           |
|   | <b>(426)</b>     | -           |
| <b>Total derivatives before credit risk valuation adjustments</b> |                  |             |
| Interest rate swap liability                                      | (1 197)          | ( 374)      |
| Foreign currency forward contracts asset                          | 274              | 1 358       |
| Currency swaps asset  | 1 562            | 4 487       |
|   | <b>639</b>       | 5 471       |

<sup>1</sup> Refer to note 35.2 for details of hedging activities.

<sup>2</sup> Credit risk valuation adjustments are included in the total fair value of derivatives above.

## Notes to the Group Financial Statements (continued)

|   | <b>Successor</b>                | Predecessor            |
|---|---------------------------------|------------------------|
|   | <b>2009<br/>28 March<br/>Rm</b> | 2008<br>29 March<br>Rm |
|   |                                 | 2007<br>31 March<br>Rm |
| <b>8. DERIVATIVE FINANCIAL INSTRUMENTS (continued)</b>  |                                 |                        |
| <b>8.5 Total derivatives (continued)</b>  |                                 |                        |
| <p>The Group issued Euro denominated floating rate notes to the value of € 1,810 million on the Irish Stock Exchange on 15 June 2007. The issue consisted of senior secured floating rate notes and senior floating rate notes of € 1,180 million and € 630 million respectively.</p> <p>On 27 June 2008, the Group completed a notes repurchase of the senior floating rate notes with a nominal value of € 252 million for € 138,6 million being 55% of the face value.</p> <p>In June 2008 we realised R1,793 million from certain derivatives used to hedge interest rate and foreign exchange exposures associated with the senior floating rate notes.</p> <p>The remaining notes expose the Group to both interest rate risk and foreign exchange risk. The Group has executed the following hedging strategy:</p> <ul style="list-style-type: none"> <li>- A series of interest rate swaps were entered at a swap rate of pay 4.529% fixed, receive three months EURIBOR, quarterly. Settlement dates match the quarterly payment dates for coupons on the floating rate notes up to 15 June 2011. The transaction hedges the interest rate risk on the cash flows occurring during the first four years of the senior floating rate notes and the senior secured floating rate notes (refer to note 18) and was designated as a cash flow hedge.</li> <li>- A series of foreign currency forward contracts were entered to buy EUR and sell ZAR corresponding to the EUR scheduled payments on the fixed leg of the interest rate swap at each payment date. Settlement dates match the payment dates of the interest rate swap. These foreign currency forward contracts therefore hedge the EUR/ZAR currency risk on the combined cash flows of the interest rate swap and the first four years of anticipated interest payments on the floating rate notes and were designated as a cash flow hedge.</li> <li>- A currency swap was entered to economically hedge the repayment of the €1,558 million (2008: €1,810 million) principal on the senior and senior secured floating rate notes and matures on 15 June 2012.</li> </ul> |                                 |                        |
| <b>8.6 Derivative unrealised (losses)/gains</b>   |                                 |                        |
| Interest rate swaps gain  | -                               | 70                     |
| Foreign currency forward contracts loss   | -                               | (203)                  |
| Currency swaps (loss)/gain  | <b>(1 427)</b>                  | 4 745                  |
| Ineffective portion of cash flow hedge – interest rate swap released from equity (note 14)  | <b>2</b>                        | -                      |
| Ineffective portion of cash flow hedge – foreign currency forward released from equity (note 14)  | <b>10</b>                       | -                      |
| Derivative unrealised (losses)/gains  | <b>(1 415)</b>                  | 4 612                  |

## Notes to the Group Financial Statements (continued)

|   | <b>Successor</b> | Predecessor |
|---|------------------|-------------|
|   | <b>2009</b>      | 2008        |
|   | <b>28 March</b>  | 29 March    |
|   | <b>Rm</b>        | Rm          |
|   |                  | 2007        |
|   |                  | 31 March    |
|   |                  | Rm          |
| <b>8. DERIVATIVE FINANCIAL INSTRUMENTS (continued)</b>  |                  |             |
| <b>8.7 Derivative realised gains</b>  |                  |             |
| <b>8.7.1</b> Included in profit before net financing costs released from equity (note 14)   | <b>231</b>       |             |
| <b>8.7.2</b> Included in net financing costs released from equity (note 14)   | <b>265</b>       |             |
| <b>Total derivative realised gains</b>  | <b>496</b>       |             |
| During June 2008, R1,330 million previously recognised in unrealised gains in profit and loss was realised on the currency swaps. |                  |             |
| <b>8.8 Maturity analysis of derivative financial instruments' cash flows</b>  |                  |             |
| <b>Cash outflows</b>  |                  |             |
| Due within one year   | <b>2 205</b>     | 1 663       |
| Total due within one year   | <b>2 205</b>     | 1 663       |
| After one year but within two years   | <b>2 268</b>     | 1 935       |
| After two years but within three years  | <b>564</b>       | 2 026       |
| After three years but within four years   | <b>21 623</b>    | 504         |
| After four years but within five years  |                  | 23 054      |
| Total due after one year  | <b>24 455</b>    | 27 519      |
| Total   | <b>26 660</b>    | 29 182      |
| <b>Cash inflows</b>   |                  |             |
| Due within one year   | <b>1 738</b>     | 2 116       |
| Total due within one year   | <b>1 738</b>     | 2 116       |
| After one year but within two years   | <b>1 831</b>     | 2 239       |
| After two years but within three years  | <b>475</b>       | 2 383       |
| After three years but within four years   | <b>23 617</b>    | 623         |
| After four years but within five years  |                  | 29 933      |
| Total due after one year  | <b>25 923</b>    | 35 178      |
| Total   | <b>27 661</b>    | 37 294      |
| <b>Net cash (outflows)/inflows</b>  |                  |             |
| Due within one year   | <b>(467)</b>     | 453         |
| Total due within one year   | <b>(467)</b>     | 453         |
| After one year but within two years   | <b>(437)</b>     | 304         |
| After two years but within three years  | <b>(89)</b>      | 357         |
| After three years but within four years   | <b>1 994</b>     | 119         |
| After four years but within five years  |                  | 6 879       |
| Total due after one year  | <b>1 468</b>     | 7 659       |
| Total   | <b>1 001</b>     | 8 112       |

The maturity analysis of derivative financial instruments' cash flows reflects the expected cash outflows and inflows of the Group using undiscounted cash flows, settlement terms and expected movements in floating rates.

## Notes to the Group Financial Statements (continued)

|  | Successor                                |                                       | Predecessor                       |  |
|--|--|---------------------------------------|-----------------------------------|--|
|  | 2009<br>52 weeks<br>to<br>28 March<br>Rm | 2008<br>47 weeks to<br>29 March<br>Rm | 2007<br>5 weeks to<br>5 May<br>Rm | 2007<br>52 weeks<br>to<br>31 March<br>Rm |
| <b>9. DEFERRED TAXATION</b>  |  |                                       |                                   |  |
| Balance at the beginning of the period                                     | (1 851)                                  | -                                     | 82                                | 84                                       |
| Deferred tax arising on acquisitions and consolidation of OtC (note 32.12) |  | (2 289)                               | -                                 | -  |
| Income statement (note 29.1)   | 1 193                                    | 718                                   | (5)                               | (2)                                      |
| Deferred tax in equity (note 29.2)   | 279                                      | (280)                                 | -                                 | -  |
| Other  | 5  |                                       | (77)                              |  |
| Balance at the end of the period   | <b>(374)</b>                             | <b>(1 851)</b>                        | -                                 | 82                                       |
| <b>Comprising:</b>   |  |                                       |                                   |  |
| Appro sales  | 20                                       | -                                     |                                   | 53                                       |
| Intangible assets  | 1 669                                    | 1 881                                 |                                   |  |
| Property, fixtures, equipment and vehicles                                 | 431                                      | 430                                   |                                   | 68                                       |
| Capital expenditure  | -  | -                                     |                                   | 4  |
| Prepayments  | 4  | 2                                     |                                   | 3  |
| Revaluation reserve  | 3  | 3                                     |                                   | 5  |
| Fair value gain on interest rate swaps                                     | 2  | 20                                    |                                   |  |
| Cash flow hedges in equity   | -  | 401                                   |                                   |  |
| Deferred STC raised  | 10                                       | 9                                     |                                   |  |
| Other  | 15                                       | 14                                    |                                   | 14                                       |
| <b>Deferred tax liability</b>  | <b>2 154</b>                             | <b>2 760</b>                          |                                   | <b>147</b>                               |
| Doubtful debts   | 244                                      | 175                                   |                                   | 19                                       |
| Other payables   | 129                                      | 75                                    |                                   | 43                                       |
| Leave pay accrual  | 34                                       |                                       |                                   |  |
| Operating lease adjustment   | 112                                      | 118                                   |                                   | 129                                      |
| Unearned finance income  | 19                                       | 15                                    |                                   |  |
| Fair value loss on interest rate swaps deferred in equity                  | -  | 125                                   |                                   |  |
| Cash flow hedges   | 270                                      |                                       |                                   |  |
| Assessed loss on income statement items                                    | 972                                      | 401                                   |                                   |  |
| Other  | -  | -                                     |                                   | 38                                       |
| <b>Deferred tax asset</b>  | <b>1 780</b>                             | <b>909</b>                            |                                   | <b>229</b>                               |
| <b>Net deferred tax (liability) / asset</b>                                | <b>(374)</b>                             | <b>(1 851)</b>                        |                                   | <b>82</b>                                |

## Notes to the Group Financial Statements (continued)

|   | <b>Successor</b> | Predecessor |       |
|---|------------------|-------------|-------|
|   | <b>2009</b>      | 2008        |       |
|   | <b>28 March</b>  | 29 March    |       |
|   | <b>Rm</b>        | Rm          |       |
|   |                  | 2007        |       |
|   |                  | 31 March    |       |
|   |                  | Rm          |       |
| <b>10. INVENTORIES</b>                                    |                  |             |       |
| Merchandise   | 2 515            | 2 119       | 1 937 |
| Raw materials   | 20               | 22          | 18    |
| Work in progress  | 9                | 7           | 7     |
| Total inventories on hand                                 | <b>2 544</b>     | 2 148       | 1 962 |
| Inventory write-downs included above                      | <b>85</b>        | 95          | 91    |
| <b>11. TRADE, OTHER RECEIVABLES AND PREPAYMENTS</b>       |                  |             |       |
| Trade accounts receivable – retail                        | 10 506           | 9 325       | 4 844 |
| Trade accounts receivable – personal loans                | 1                | 7           | 66    |
| Allowance for doubtful debts                              | <b>(1 045)</b>   | (827)       | (545) |
| Total trade receivables                                   | <b>9 462</b>     | 8 505       | 4 365 |
| Other receivables   | 224              | 190         | 182   |
| Pension fund asset  |                  |             | 86    |
| Value-added taxation receivable                           | -                | -           | 5     |
| Staff loans   | 9                | 5           | 6     |
| Total receivables   | <b>9 695</b>     | 8 700       | 4 644 |
| Fair value gain on forward exchange contracts (note 35.4) | -                | 29          | -     |
| Prepayments   | 15               | 13          | 7     |
| Net trade, other receivables and prepayments              | <b>9 710</b>     | 8 742       | 4 651 |

All obligations under the borrowing base facility (see note 19) are secured by a first priority security interest over designated eligible receivables constituting the borrowing base for the borrowing base facility. At 28 March 2009 R2,634 million (2008: R2,792 million) is designated as eligible receivables.

All obligations under the OtC receivable backed facility (see note 19) are secured by a pledge and cession of the eligible receivables that OtC acquires from time to time. At 28 March 2009 R4,157 million (2008: R4,017 million) is designated as eligible receivables.

## Notes to the Group Financial Statements (continued)

|   | <b>Successor</b> | Predecessor  |            |
|---|------------------|--------------|------------|
|   | <b>2009</b>      | 2008         | 2007       |
|   | <b>28 March</b>  | 29 March     | 31 March   |
|   | <b>Rm</b>        | Rm           | Rm         |
| <b>11. TRADE, OTHER RECEIVABLES AND PREPAYMENTS (continued)</b>         |                  |              |            |
| <b>11.1 Analysis of trade receivables past due but not impaired</b>     |                  |              |            |
| Overdue 30 days – 60 days   | 1 778            | 1 105        | 479        |
| Overdue 60 days – 90 days   | 655              | 405          | 193        |
| Overdue 90 days – 120 days  | 277              | 194          | 96         |
| Greater than 120 days   | 480              | 324          | 181        |
|   | <b>3 190</b>     | <b>2 028</b> | <b>949</b> |
| <b>11.2 Trade receivables provided for</b>                              | <b>1 045</b>     | 827          | 545        |
| <b>11.3 Interest on impaired receivables</b>                            | <b>201</b>       | 212          | 118        |
| Interest recognised on impaired receivables                             |                  |              |            |
| This interest is included in the finance charges in note 23.            |                  |              |            |
| <b>11.4 Allowance for doubtful debts</b>                                |                  |              |            |
| Balance at the beginning of the period                                  | 827              | -            | 322        |
| Acquisition of the Edcon Group  |                  | 548          |            |
| Consolidation of OntheCards   |                  | 198          |            |
| Increase in allowance   | 218              | 88           | 223        |
| Release of provision  | -                | (7)          | -          |
| Balance at the end of the period  | <b>1 045</b>     | 827          | 545        |
| Amounts written off are disclosed in note 26.2.                         |                  |              |            |
| <b>12. CASH AND CASH EQUIVALENTS</b>                                    |                  |              |            |
| Cash on hand  | 233              | 382          | 207        |
| Cash on deposit   | 146              | 110          | 264        |
|   | <b>379</b>       | <b>492</b>   | <b>471</b> |
| <b>13. SHARE CAPITAL AND PREMIUM</b>                                    |                  |              |            |
| <b>13.1 Authorised ordinary share capital</b>                           |                  |              |            |
| 720 000 000 ordinary shares with a par value of 1 cent                  |                  |              | 7          |
| 65 000 000 "A" ordinary shares of 1 cent each                           |                  |              | 1          |
| 1 000 000 000 "A" ordinary shares with a par value of 0.00001 cent each | -                | -            |            |
| 100 000 000 "B" ordinary shares with a par value of 0.00001 cent each   | -                | -            |            |
| 1 000 000 000 "C" ordinary shares with a par value of 0.00001 cent each | -                | -            |            |
| 1 000 000 000 "D" ordinary shares with a par value of 0.00001 cent each | -                | -            |            |
| 1 000 000 000 "E" ordinary shares with a par value of 0.00001 cent each | -                | -            |            |
|   | <b>-</b>         | <b>-</b>     | <b>8</b>   |



## Notes to the Group Financial Statements (continued)

|  | <b>Successor</b> | Predecessor |
|--|------------------|-------------|
|  | <b>2009</b>      | 2007        |
|  | <b>28 March</b>  | 31 March    |
|  | <b>Rm</b>        | Rm          |
| <b>13.5 SHARE CAPITAL AND PREMIUM (continued)</b>  |                  |             |
| <b>13.5 Voting rights of ordinary and preference shares</b>  |                  |             |
| <p>The "A" ordinary shareholder of the Predecessor was not entitled to any participation in the profits or assets of the company Edgars Consolidated Stores Limited and was not entitled to receive or participate in any payment to shareholders.</p>                   |                  |             |
| <p>Each "A" ordinary share of the Successor shall entitle the holder thereof to 1 000 votes on all matters upon which shareholders have the right to vote.</p>   |                  |             |
| <p>Each "A" preference share of the Successor shall not entitle the holders thereof to receive notice of or to attend or vote at any general meeting of the company Edcon Holdings (Proprietary) Limited, save in the circumstances prescribed by the Companies Act.</p> |                  |             |
| <p>The total "B" ordinary shareholder of the Successor at any time shall, in aggregate, have the right to exercise such number of votes as is equal to 10,6% of the aggregate voting rights of the total "A" ordinary shares then in issue.</p>                          |                  |             |
| <p>Each "C", "D" and "E" ordinary share shall entitle the holder thereof to one vote on all matters upon which shareholders have the right to vote.</p>  |                  |             |
| <b>13.6 Issued ordinary shares and premium</b>   |                  |             |
| Balance at the beginning of the period   | <b>2 143</b>     | 171         |
| Ordinary shares issued – share capital   | -                | 699         |
| Preference shares issued – share capital   | -                | -           |
| Ordinary shares issued – share premium   | 2 756            | -           |
| Preference shares issued – share premium   | 207              | -           |
| Treasury shares – Staff Empowerment Trust  | (820)            | -           |
| Net movement of treasury shares – Staff Share Trust  | -                | (634)       |
| Balance at the end of the period   | <b>2 143</b>     | 236         |
| <b>Comprising:</b>   |                  |             |
| Share capital  | -                | 5           |
| Share premium  | <b>2 143</b>     | 231         |
| Total  | <b>2 143</b>     | 236         |

R175 million of ordinary shares were issued through the capitalisation of a portion of the shareholder's loan at 29 March 2008.

## Notes to the Group Financial Statements (continued)

|  | Successor              | Predecessor            |                        |
|--|------------------------|------------------------|------------------------|
|  | 2009<br>28 March<br>Rm | 2008<br>29 March<br>Rm | 2007<br>31 March<br>Rm |
| <b>14. OTHER RESERVES</b>  |                        |                        |                        |
| <b>Balance at the beginning of the period comprising:</b>  |                        |                        |                        |
| Revaluation reserve net of deferred taxation   | 23                     | -                      | 76                     |
| Foreign currency translation reserve   | 31                     | -                      | (45)                   |
| Other  | -                      | -                      | 10                     |
| Cash flow hedges net of tax  | 782                    |                        |                        |
|  | <b>836</b>             | -                      | 41                     |
| <b>Movements</b>   |                        |                        |                        |
| Net increase in revaluation reserve  | -                      | 23                     | -                      |
| Foreign currency translation reserve   | (3)                    | 31                     | 15                     |
| Other  | -                      | -                      | (1)                    |
| Cash flow hedges recognised in equity  | (2 054)                | 1 234                  |                        |
| Cash flow hedges reclassified to profit or loss (note 8.6 & 8.7)   | 508                    | (148)                  |                        |
| Tax impact of cash flow hedges (note 29.2)   | 433                    | (304)                  |                        |
| Balance at the end of the period   | <b>(280)</b>           | 836                    | 55                     |
| <b>Comprising:</b>   |                        |                        |                        |
| Revaluation reserve net of deferred taxation   | 23                     | 23                     | 76                     |
| Foreign currency translation reserve   | 28                     | 31                     | (30)                   |
| Other  | -                      | -                      | 9                      |
| Cash flow hedges net of tax  | (331)                  | 782                    |                        |
|  | <b>(280)</b>           | 836                    | 55                     |
| <b>15. RETAINED (LOSS) / SURPLUS</b>   |                        |                        |                        |
| <b>Comprising:</b>   |                        |                        |                        |
| Holding company - Edcon Holdings (Proprietary) Limited   | 2 039                  | (454)                  | 4 038                  |
| Consolidated subsidiaries  | (4 328)                | (1 136)                | 632                    |
|  | <b>(2 289)</b>         | (1 590)                | 4 670                  |
| Distributions by certain foreign subsidiaries will give rise to withholding taxes of R68 million (2008 and 2007: R43 million and R29 million). No deferred tax is raised until dividends are declared as the Group controls the timing of the reversal and it is probable that there will be no reversal in the foreseeable future. Deferred tax not raised was R161 million (2008: R109 million). |                        |                        |                        |
| <b>16. CONSOLIDATED SUBSIDIARIES (Annexure 1 : page 115)</b>   |                        |                        |                        |
| <b>16.1 Aggregate profits/losses of subsidiaries and joint venture</b>   |                        |                        |                        |
| Profits  | 254                    | 25 382                 | 534                    |
| Losses   | (3 415)                | (26 906)               | (1)                    |
|  | <b>(3 161)</b>         | (1 524)                | 533                    |

## Notes to the Group Financial Statements (continued)

|  | <b>Successor</b> | Predecessor |
|--|------------------|-------------|
|  | <b>2009</b>      | 2008        |
|  | <b>28 March</b>  | 29 March    |
|  | <b>Rm</b>        | Rm          |
|  |                  | 2007        |
|  |                  | 31 March    |
|  |                  | Rm          |
| <b>17. SHAREHOLDER'S LOAN</b>  |                  |             |
| Loan by Edcon (BC) S.A.R.L.  | <b>6 492</b>     | 5 547       |
|  |                  | -           |
| <b>Comprising:</b>   |                  |             |
| Principal at the beginning of the period (note 28.1)   | <b>5 057</b>     |             |
| Loan from Edcon (BC) S.A.R.L.  |                  | 5 057       |
| Interest capitalised during the period   | <b>672</b>       |             |
| Principal at the end of the period   | <b>5 729</b>     | 5 057       |
| Interest accrued at the beginning of the period  | <b>490</b>       |             |
| Interest accrued for the period (note 28.1)  | <b>945</b>       | 665         |
| Interest capitalised during the period   | <b>(672)</b>     |             |
| Share capital issued   |                  | (175)       |
| Interest accrued at the end of the period  | <b>763</b>       | 490         |
| The loan is denominated in South African Rands and accrues interest at the South African prime rate plus 2% p.a. on the principal up to and including the date of repayment. The principal is repayable by no later than May 2037. This shareholder's loan is regarded as capital for IAS 1 purposes (refer to note 34). |                  |             |
| <b>18. LONG TERM INTEREST BEARING DEBT</b>   |                  |             |
| Senior secured floating rate notes issued  | <b>11 259</b>    | 11 259      |
| Foreign currency on senior secured floating rate notes   | <b>3 832</b>     | 3 863       |
| Fees capitalised on senior secured floating rate notes   | <b>(224)</b>     | (252)       |
| <b>Senior secured floating rate notes</b>  | <b>14 867</b>    | 14 870      |
| Senior floating rate notes issued  | <b>3 606</b>     | 6 010       |
| Foreign currency on senior floating rate notes   | <b>1 227</b>     | 2 063       |
| Fees capitalised on senior floating rate notes   | <b>(100)</b>     | (182)       |
| <b>Senior floating rate notes</b>  | <b>4 733</b>     | 7 891       |
| Subordinated loan  |                  | 25          |
|  | <b>19 600</b>    | 22 786      |

## Notes to the Group Financial Statements (continued)

|  | <b>Successor</b> | Predecessor |
|--|------------------|-------------|
|  | <b>2009</b>      | 2008        |
|  | <b>28 March</b>  | 29 March    |
|  | <b>Rm</b>        | Rm          |
|  |                  | 2007        |
|  |                  | 31 March    |
|  |                  | Rm          |
| <b>18. LONG TERM INTEREST BEARING DEBT (continued)</b>                 |                  |             |
| <b>18.1 Reconciliation of long-term interest bearing debt</b>          |                  |             |
| Balance at the beginning of the period                                 | <b>22 786</b>    | -           |
| Subordinated loan issued   |                  | 25          |
| Senior floating rate notes issued                                      |                  | 6 010       |
| Senior secured floating rate notes issued                              |                  | 11 259      |
| Fees capitalised on senior floating rate notes                         |                  | (194)       |
| Fees capitalised on senior secured floating rate notes                 |                  | (273)       |
| Foreign currency movement on senior floating rate notes                | <b>(103)</b>     | 2 063       |
| Foreign currency movement on senior secured floating rate notes        | <b>(31)</b>      | 3 863       |
| Fees amortised on senior floating rate notes                           | <b>82</b>        | 12          |
| Fees amortised on senior secured floating rate notes                   | <b>28</b>        | 21          |
| Senior floating rate notes repurchased (note 18.2)                     | <b>(2 404)</b>   |             |
| Foreign currency movement on notes repurchased                         | <b>(733)</b>     |             |
| Subordinated loan repaid   | <b>(25)</b>      |             |
| Balance at the end of the period                                       | <b>19 600</b>    | 22 786      |
| Unrealised foreign exchange gain/(loss) on notes issued                | <b>134</b>       | (5 926)     |
| Fees amortised recognised in financing costs (note 28.1)               | <b>110</b>       | 33          |
| <b>18.2 Buy-back of senior floating rate notes</b>                     |                  |             |
| Senior floating rate notes repurchased                                 | <b>2 404</b>     |             |
| Foreign currency movement on notes repurchased                         | <b>733</b>       |             |
| Purchase price of senior floating rate notes                           | <b>(1 726)</b>   |             |
| Fees paid and accrued on buy-back of senior floating rate notes        | <b>(61)</b>      |             |
| Gain on buy-back of the senior floating rate notes after fees incurred | <b>1 350</b>     |             |

The senior secured floating rate notes of €1,180 million are issued by Edcon (Proprietary) Limited and guaranteed on a senior secured basis and are secured, along with the revolving credit facility, by security interests over substantially all the assets of Edcon Holdings (Proprietary) Limited and its restricted subsidiaries. Currently there are no unrestricted subsidiaries in the Group. Interest is payable quarterly in arrears at a rate of three-month EURIBOR, reset quarterly, plus 3,25%. The notes mature on 15 June 2014. There have been no defaults or breaches of the principal or interest during the period. The market value of the senior secured floating rate notes at 28 March 2009 was R5,885 million (2008: R10,132 million).

The senior floating rate notes of € 378 million (2008: € 630 million) are issued by Edcon Holdings (Proprietary) Limited and guaranteed on a senior subordinated basis and secured by a third ranking pledge of the proceeds of the loan between Edcon Holdings (Proprietary) Limited and Edcon (Proprietary) Limited. Interest is payable quarterly in arrears at a rate of three-month EURIBOR, reset quarterly, plus 5,5%. The notes mature on 15 June 2015. There have been no defaults or breaches of principal or interest during the period. On 27 June 2008, the Group repurchased € 252 million (R3,137 million) of the senior floating rate notes. The market value of the senior floating rate notes at 28 March 2009 was R1,039 million (2008: R3,714 million).

## Notes to the Group Financial Statements (continued)

|  | <b>Successor</b> | Predecessor |
|--|------------------|-------------|
|  | <b>2009</b>      | 2008        |
|  | <b>28 March</b>  | 29 March    |
|  | <b>Rm</b>        | Rm          |
|  |                  | 2007        |
|  |                  | 31 March    |
|  |                  | Rm          |
| <b>19. SHORT-TERM INTEREST BEARING DEBT</b>              |                  |             |
| Borrowing base facility                                  | <b>816</b>       | 1 315       |
| OtC receivables backed facility                          | <b>2 599</b>     | 2 581       |
| Revolving credit facility                                | <b>1 825</b>     | 611         |
| OtC liquidity facility                                   | <b>60</b>        |             |
| Secured bank overdrafts, call funds and short-term loans | -                | -           |
|  |                  | 713         |
|  | <b>5 300</b>     | 4 507       |
|  |                  | 713         |

The borrowing base facility provides secured financing of up to R3,900 million (2008: R3,900 million). All obligations under that facility are secured by a first priority security interest over designated eligible receivables (see note 11) constituting the borrowing base for the facility. The facility accrues interest at applicable JIBAR plus a margin of 2,6% (2008: 2,1%) payable monthly in arrears.

The OtC receivables backed facility provides secured financing of up to R2,600 million (2008: R2,600 million). All obligations under the facility are secured by a pledge and a cession of the eligible receivables that OtC acquires from time to time (see note 11). The facility accrues interest at applicable JIBAR plus a margin of 2,6% (2008: 2,1%) payable monthly in arrears.

The revolving credit facility provides senior secured financing of up to R3,500 million (2008: R3,500 million) for general corporate and working capital purposes. All obligations under the facility are secured by substantially all the assets of Edcon Holdings (Proprietary) Limited and its restricted subsidiaries. Currently there are no unrestricted subsidiaries in the Group. The revolving credit facility accrues interest at applicable JIBAR plus a margin of 2,5% payable monthly in arrears. The facility includes R2,225 million (2008: R2,200 million) borrowing capacity available for bank guarantees, letters of credit, forward exchange contracts and for borrowings under bilateral ancillary facilities. These ancillary facilities accrue interest at ruling over-night market related lending rates.

The OtC liquidity facility with FirstRand Bank Limited accrues interest at a rate equal to the SAFEX call rate from time to time plus 1,45% calculated from the date of any particular drawdown is made up to and including to the date immediately prior to the date on which the drawdown is repaid and capitalised monthly in arrears. The total liquidity facility granted is R200 million expiring in June 2010.

There have been no defaults or breaches of principal interest or redemption terms during the current or prior periods.

## 20. TRADE AND OTHER PAYABLES

|  |              |       |       |
|--|--------------|-------|-------|
| Trade accounts payable                                       | <b>2 150</b> | 2 289 | 2 374 |
| Sundry accounts payable and accrued expenses                 | <b>1 111</b> | 909   | 710   |
| Lease equalisation   | <b>30</b>    | 23    | 24    |
| Leave pay accrual  | <b>126</b>   | 122   | 114   |
| Value added taxation payable                                 | <b>46</b>    | 59    | -     |
| Interest accrued on Senior floating rate notes               | <b>15</b>    | 33    | -     |
| Interest accrued on Senior secured floating rate notes       | <b>32</b>    | 49    | -     |
| Commitment fee accrued                                       | <b>15</b>    | 17    | -     |
| Fair value change on forward exchange contracts (notes 35.4) | <b>8</b>     | -     | 1     |
|  | <b>3 533</b> | 3 501 | 3 223 |

The trade and sundry payables amounts are interest free and mature no later than 30 to 60 days. Other payables mature no later than one year.

## Notes to the Group Financial Statements (continued)

|  | <b>Successor</b> | Predecessor |       |
|--|------------------|-------------|-------|
|  | <b>2009</b>      | 2008        |       |
|  | <b>28 March</b>  | 29 March    |       |
|  | <b>Rm</b>        | Rm          |       |
|  |                  | 2007        |       |
|  |                  | 31 March    |       |
|  |                  | Rm          |       |
| <b>21. FUTURE CAPITAL EXPENDITURE</b>  |                  |             |       |
| <b>Contracted:</b>   |                  |             |       |
| Properties, fixtures, equipment and vehicles   | <b>214</b>       | 395         | 249   |
| <b>Authorised by the directors but not yet contracted:</b>   |                  |             |       |
| Properties, fixtures, equipment and vehicles   | <b>258</b>       | 373         | 553   |
|  | <b>472</b>       | 768         | 802   |
| All the expenditure will be incurred during the next financial period and is to be financed from free cash flows.  |                  |             |       |
| <b>22. LEASES</b>  |                  |             |       |
| The Group leases the majority of its properties and computer equipment under operating leases whereas other operating assets are generally owned. The lease agreements of certain of the Group's store premises provide for a minimum annual rental payment and additional payments determined on the basis of turnover. Lease agreements have an option of renewal in terms of the lease agreement ranging between 5 to 10 years. |                  |             |       |
| The future minimum property operating lease commitments are due as follows:  | <b>5 667</b>     | 5 439       | 4 086 |
| Within one year  | <b>1 069</b>     | 941         | 814   |
| Between two and five years   | <b>3 218</b>     | 3 064       | 2 466 |
| In more than five years  | <b>1 380</b>     | 1 434       | 806   |
| The future revenue expected from sub-leases is estimated to be R17 million (2008: R15 million).  |                  |             |       |
| The Group also leases certain computer equipment. The agreements provide for minimum annual rental payments and additional payments depending on usage.  |                  |             |       |
| The future minimum computer equipment operating lease commitments are due as follows:  | <b>412</b>       | 480         | 439   |
| Within one year  | <b>167</b>       | 183         | 163   |
| Between two and five years   | <b>245</b>       | 297         | 276   |

## Notes to the Group Financial Statements (continued)

|   | Successor                             |                                       | Predecessor                       |                                       |
|---|---------------------------------------|---------------------------------------|-----------------------------------|---------------------------------------|
|   | 2009<br>52 weeks to<br>28 March<br>Rm | 2008<br>47 weeks to<br>29 March<br>Rm | 2007<br>5 weeks to<br>5 May<br>Rm | 2007<br>52 weeks to<br>31 March<br>Rm |
| <b>23. REVENUES</b>   |                                       |                                       |                                   |                                       |
| Retail sales  | 22 075                                | 18 244                                | 1 939                             | 18 531                                |
| Club fees   | 422                                   | 372                                   | 33                                | 381                                   |
| Preference dividend (note 31)   |                                       | 4                                     | 4                                 | 52                                    |
| Finance charges on trade receivables (note 31)                                    | 2 271                                 | 1 779                                 | 93                                | 875                                   |
| Equity accounted earnings of joint ventures                                       | 349                                   | 264                                   | 23                                | 243                                   |
| Interest received (note 28.2)   | 33                                    | 248                                   | -                                 | 35                                    |
| Manufacturing sales to third parties  | 45                                    | 39                                    | 2                                 | 32                                    |
|   | <b>25 195</b>                         | <b>20 950</b>                         | <b>2 094</b>                      | <b>20 149</b>                         |
| <b>24. OTHER INCOME</b>   |                                       |                                       |                                   |                                       |
| Club fees   | 422                                   | 372                                   | 33                                | 381                                   |
| Manufacturing sales to third parties  | 45                                    | 39                                    | 2                                 | 32                                    |
|   | <b>467</b>                            | <b>411</b>                            | <b>35</b>                         | <b>413</b>                            |
| <b>25. OTHER OPERATING COSTS</b>  |                                       |                                       |                                   |                                       |
| Trading profit is stated after taking account of the following items:             |                                       |                                       |                                   |                                       |
| <b>25.1 Amortisation of trademarks</b>  |                                       |                                       |                                   |                                       |
| Charge for the year   | 418                                   | 380                                   | -                                 | 1                                     |
| <b>25.2 Auditors' remuneration</b>  |                                       |                                       |                                   |                                       |
| Audit fees – current year   | 10                                    | 11                                    | -                                 | 7                                     |
| Audit fees – prior year   | 1                                     |                                       |                                   | 2                                     |
| Fees for consulting and other services  | 2                                     | 5                                     | -                                 | 19                                    |
|   | <b>13</b>                             | <b>16</b>                             | <b>-</b>                          | <b>28</b>                             |
| <b>25.3 Depreciation of properties, fixtures, equipment and vehicles</b>          |                                       |                                       |                                   |                                       |
| Buildings   | 4                                     | 4                                     | -                                 | 3                                     |
| Leasehold improvements  | 96                                    | 58                                    | 3                                 | 38                                    |
| Fixtures and fittings   | 389                                   | 206                                   | 13                                | 137                                   |
| Computer equipment and software   | 164                                   | 126                                   | 10                                | 107                                   |
| Machinery and vehicles  | 28                                    | 16                                    | 1                                 | 11                                    |
|   | <b>681</b>                            | <b>410</b>                            | <b>27</b>                         | <b>296</b>                            |
| <b>25.4 Fees payable</b>  |                                       |                                       |                                   |                                       |
| Managerial, technical, administrative and secretarial fees paid outside the Group | 212                                   | 176                                   | 10                                | 125                                   |
| Outsourcing of IT function  | 354                                   | 233                                   | 22                                | 245                                   |
|   | <b>566</b>                            | <b>409</b>                            | <b>32</b>                         | <b>370</b>                            |
| <b>25.5 Operating lease expenses</b>  |                                       |                                       |                                   |                                       |
| Properties:   |                                       |                                       |                                   |                                       |
| Minimum lease payments  | 1 061                                 | 841                                   | 71                                | 812                                   |
| Turnover clause payments  | 35                                    | 33                                    | 7                                 | 51                                    |
| Operating lease adjustment  | (23)                                  | (22)                                  | (2)                               | (12)                                  |
| Sublease rental income  | (17)                                  | (14)                                  | (1)                               | (15)                                  |
| Equipment and vehicles  | 213                                   | 192                                   | 26                                | 206                                   |
|   | <b>1 269</b>                          | <b>1 030</b>                          | <b>101</b>                        | <b>1 042</b>                          |

## Notes to the Group Financial Statements (continued)

|   | Successor                             |                                       | Predecessor                       |                                       |
|---|---------------------------------------|---------------------------------------|-----------------------------------|---------------------------------------|
|   | 2009<br>52 weeks to<br>28 March<br>Rm | 2008<br>47 weeks to<br>29 March<br>Rm | 2007<br>5 weeks to<br>5 May<br>Rm | 2007<br>52 weeks to<br>31 March<br>Rm |
| <b>25.6 Net (loss) / gain on disposal of properties, fixtures, equipment and vehicles</b>   | <b>(18)</b>                           | <b>(5)</b>                            | <b>(4)</b>                        | <b>1</b>                              |
| <b>25.7 Cost of share based payments</b>  |                                       |                                       |                                   |                                       |
| Acceleration of share options   |                                       |                                       | 103                               |                                       |
| Staff share incentive scheme  |                                       |                                       | 3                                 | 46                                    |
| Staff empowerment transaction   |                                       |                                       | 1                                 | 12                                    |
|   |                                       |                                       | 107                               | 58                                    |
| Subsequent to 31 March 2007, the vesting dates for all options which were previously issued by the Predecessor were accelerated. An amount of R103 million was recognised in profit by the Predecessor on acceleration. |                                       |                                       |                                   |                                       |
| <b>25.8 Cost of inventories expensed</b>  | <b>13 325</b>                         | <b>10 797</b>                         | <b>1 117</b>                      | <b>10 768</b>                         |
| <b>25.9 VAT expense</b>   | <b>90</b>                             |                                       |                                   |                                       |
| As a result of legislative interpretation in terms of Value Added Tax (VAT) the Group has incurred a R90 million charge in the current year which relates to transactions incurred in prior periods.                    |                                       |                                       |                                   |                                       |
| <b>26. CREDIT INCOME AND EXPENSE</b>  |                                       |                                       |                                   |                                       |
| <b>26.1 Income from credit</b>  |                                       |                                       |                                   |                                       |
| Discount  |                                       |                                       |                                   | 5                                     |
| Preference dividend   |                                       | 4                                     | 4                                 | 52                                    |
| Finance charges on trade receivables  | 2 271                                 | 1 779                                 | 93                                | 875                                   |
| Subordinated loan / credit default swap   |                                       |                                       | 5                                 | 55                                    |
|   | <b>2 271</b>                          | <b>1 783</b>                          | <b>102</b>                        | <b>987</b>                            |
| <b>26.2 Expenses from credit</b>  |                                       |                                       |                                   |                                       |
| Bad debt recoveries   | 221                                   | 198                                   | 12                                | 113                                   |
| Bad debt incurred   | (1 226)                               | (1 074)                               | (68)                              | (789)                                 |
| Net increase in doubtful debt provision   | (218)                                 | (81)                                  | (4)                               | (223)                                 |
| Administration and other costs  | (549)                                 | (425)                                 | (32)                              | (329)                                 |
|   | <b>(1 772)</b>                        | <b>(1 382)</b>                        | <b>(92)</b>                       | <b>(1 228)</b>                        |
| <b>26.3 Net credit income / (expense)</b>   | <b>499</b>                            | <b>401</b>                            | <b>10</b>                         | <b>(241)</b>                          |
| <b>27. DIRECTORS AND EMPLOYEES</b>  |                                       |                                       |                                   |                                       |
| <b>27.1 Employees</b>   |                                       |                                       |                                   |                                       |
| The aggregate remuneration and associated cost of permanent and casual employees including directors was:   |                                       |                                       |                                   |                                       |
| Salaries and wages  | 2 287                                 | 1 977                                 | 159                               | 1 899                                 |
| Retirement benefit costs  | 217                                   | 177                                   | 14                                | 172                                   |
| Medical aid contributions:  |                                       |                                       |                                   |                                       |
| Current   | 53                                    | 48                                    | 5                                 | 57                                    |
| Post-retirement   | 1                                     | -                                     | -                                 | 1                                     |
|   | <b>2 558</b>                          | <b>2 202</b>                          | <b>178</b>                        | <b>2 129</b>                          |

## Notes to the Group Financial Statements (continued)

|   | <b>Successor</b> | Predecessor |
|---|------------------|-------------|
|   | 2009             | 2008        |
|   | 52 weeks to      | 47 weeks to |
|   | 28 March         | 29 March    |
|   | Rm               | Rm          |
|   |                  | 2007        |
|   |                  | 52 weeks to |
|   |                  | 31 March    |
|   |                  | Rm          |
| <b>27. DIRECTORS AND EMPLOYEES (continued)</b>  |                  |             |
| <b>27.1 Employees (continued)</b>   |                  |             |
| <b>Edcon Pension Fund</b>   |                  |             |
| Actuarially determined:   |                  |             |
| Current service cost  | (1)              | (1)         |
| Interest cost   | (33)             | (38)        |
| Unrecognised loss (paragraph 58 limit)  | (129)            | (41)        |
| Expected return on assets   | 76               | 79          |
| Net loss  | <b>(87)</b>      | <b>(1)</b>  |
| Company contributions   | 1                | 1           |
| Actual return on pension fund assets  | <b>101</b>       | <b>80</b>   |
|   |                  | <b>103</b>  |
| The contribution for the 2010 financial period is estimated to be approximately R1 million. |                  |             |
| <b>Edcon Medical Aid</b>  |                  |             |
| Actuarially determined:   |                  |             |
| Current service cost  | 3                | 3           |
| Interest cost   | 10               | 11          |
| Actuarial (loss)/gain   | (15)             | (12)        |
| Post-retirement medical aid expense   | <b>(2)</b>       | <b>2</b>    |
|   |                  | <b>14</b>   |

Separate funds, independent of the Group, provide retirement and other benefits for all permanent employees and their dependants. During the period there were three defined contribution funds of significance, namely Edcon Provident Fund, SACCAWU National Provident Fund and FEDCRAW Provident Fund. A defined contribution fund is available to employees in Namibia and Botswana, Edcon Namibia Provident Fund and Edcon Botswana Provident Fund.

A statutory valuation of the Edcon Pension Fund, a defined benefit plan, was carried out by an independent firm of consulting actuaries on 31 December 2002 using the attained age method of valuation. The actuarial value of liabilities for all pensioners and members, including a stabilisation reserve, was determined at R328 million. The fair value of assets calculated by reference to the market value was R644 million. The fund was accordingly fully funded. The actuarial valuation was based on the principal assumptions that the fund will earn 10% per annum after taxation, that salary increases will be 7,3% per annum plus merit increases and a post-retirement interest rate of 4,5% per annum.

As a result of a change in the requirements of the regulators it was necessary to re-perform the valuation on the "best estimate basis" as prescribed by Pension Fund Circular 117 issued by the Financial Services Board in the current period. Under the best estimate basis the actuarial value of liabilities for all pensioners and members including a solvency reserve, was determined at R426 million. The fair value of assets calculated by reference to the market value remained at R644 million. The fund therefore remains fully funded.

In the current period an actuarial estimate was performed using the projected unit credit method, and the fair value of the assets and liabilities is reflected on page 92. The actuarial estimate was based on the principle assumptions as set out in note 27.2.1.

As reported last period, proposals were submitted to the Financial Services Board (FSB) in 2002 to offer pensioners an enhanced pension in exchange for assuming all their medical aid liabilities. Similarly, a portion of the surplus was to be utilised to pay the lump sum to medical aid members' provident fund accounts to meet the Predecessor's existing post-retirement medical aid liability for service rendered to date.

Initially approval was received from the FSB to transfer active members and pensioners to alternative arrangements and annuity policies. These members' and pensioners' accrued actuarial liabilities were enhanced by 25%. The surplus detailed in note 27.5 is adequate to cover the estimated consequence of this transaction which is estimated to be R59 million and the balance of the surplus will be transferred to the Edcon Provident Fund. Subsequently, however, the FSB reneged on their approval and requested a determination of the surplus available for distribution to former members prior to the utilisation of the surplus for current members.

## Notes to the Group Financial Statements (continued)

### 27. DIRECTORS AND EMPLOYEES (continued)

#### 27.1 Employees (continued)

The consequence for the Edcon Pension Fund is that prior to being permitted to distribute the enhancements to the members and pensioners, a formal surplus apportionment scheme must be prepared as envisaged by Section 15B of the Pension Fund Act. Based on the advice of the funds consultants and actuaries and the results of preliminary investigations, the Trustees remain confident that sufficient surplus exists to meet post-retirement medical aid liabilities and amounts due to former members.

The Trustees of the Edcon Pension Fund have amended the investment strategy of the Fund with regards to the management of the assets backing the pensioner liabilities. The pension assets have been utilised to purchase a policy of insurance with Metropolitan which effectively guarantees the monthly pensions payable to pensioners and protects the Fund against the adverse effects of longevity risk.

Contributions to the Group's significant defined contribution funds are at a rate of 17,49% of benefit salary and where funds are contributory, members pay a maximum of 7,5%. The employer's portion is charged against profits.

|  | Pensioners<br>Number | Members<br>Number | Contributions<br>Rm |
|--|----------------------|-------------------|---------------------|
| Membership of, and employer contributions to each of the funds were: |                      |                   |                     |
| <b>2009 Successor at 28 March</b>                                    |                      |                   |                     |
| Edcon Pension Fund   | 1 020                | 27                | 1                   |
| Edcon Provident Fund   | -                    | 15 597            | 195                 |
| Edcon Namibia Retirement Fund  | 13                   | 224               | 1                   |
| Botswana Retirement Fund   | -                    | 220               | 1                   |
| SACCAWU National Provident Fund                                      | -                    | 1 090             | 6                   |
| FEDCRAW Provident Fund   | -                    | 463               | 3                   |
|  | <b>1 033</b>         | <b>17 621</b>     | <b>207</b>          |
| <b>2008 Successor at 29 March</b>                                    |                      |                   |                     |
| Edcon Pension Fund   | 1 181                | 29                | 1                   |
| Edcon Provident Fund   | -                    | 16 436            | 183                 |
| Edcon Namibia Retirement Fund  | 13                   | 252               | 1                   |
| Topics Namibia Retirement Fund                                       | -                    | 11                | -                   |
| Botswana Retirement Fund   | -                    | 218               | 1                   |
| SACCAWU National Provident Fund                                      | -                    | 1 280             | 6                   |
| FEDCRAW Provident Fund   | -                    | 504               | 3                   |
|  | <b>1 194</b>         | <b>18 730</b>     | <b>195</b>          |
| <b>2007 Predecessor at 31 March</b>                                  |                      |                   |                     |
| Edcon Pension Fund   | 1 246                | 35                | 1                   |
| Edcon Provident Fund   | -                    | 15 173            | 160                 |
| Edcon Namibia Retirement Fund  | 13                   | 221               | 1                   |
| Botswana Retirement Fund   | -                    | 133               | 1                   |
| SACCAWU National Provident Fund                                      | -                    | 1 161             | 6                   |
| FEDCRAW Provident Fund   | -                    | 496               | 3                   |
|  | <b>1 259</b>         | <b>17 219</b>     | <b>172</b>          |

All funds are subject to the Pension Funds Acts of the various countries and, where required by law, actuarial valuations are conducted every three years. The market value of investments of the various Edcon funds as at 28 March 2009 was R2,690 million (2008 and 2007: R2,851 million and R2,523 million).

## Notes to the Group Financial Statements (continued)

### 27. DIRECTORS AND EMPLOYEES (continued)

#### 27.1 Employees (continued)

##### Medical aid fund

The Successor operates a defined benefit medical aid scheme for the benefit of permanent employees. The costs of the short-term benefit for current employees are charged against income as incurred and amounted to R53 million for the period ending 28 March 2009 (2008 and 2007: R48 million and R57 million). Membership of the medical aid scheme is voluntary for all employees. Total membership currently stands at 4 787 principal members in South Africa. In terms of employment contracts and the rules of the schemes, certain post-retirement medical benefits are provided to 1 582 current and past employees by subsidising a portion of the medical aid contribution of members, after retirement. The medical aid contributions for 2009 are estimated to be approximately R1 million. The actuarial valuation was based on the main assumptions set out in note 27.2.2.

The status of the Edcon Medical Aid Fund determined in terms of IAS 19 is as follows:

|   | <b>Successor</b>                | Predecessor            |                        |
|---|---------------------------------|------------------------|------------------------|
|   | <b>2009<br/>28 March<br/>Rm</b> | 2008<br>29 March<br>Rm | 2007<br>31 March<br>Rm |
| Recognised employee benefit liability               | <b>112</b>                      | 120                    | 123                    |
| <b>Reconciliation of employee benefit liability</b> |                                 |                        |                        |
| Balance at the beginning of the period              | <b>120</b>                      | 123                    | 113                    |
| Current service cost                                | <b>3</b>                        | 3                      | 3                      |
| Interest cost                                       | <b>10</b>                       | 11                     | 8                      |
| Actuarial gain                                      | <b>(15)</b>                     | (12)                   | 3                      |
| Employee benefit payments                           | <b>(6)</b>                      | (5)                    | (4)                    |
|   | <b>112</b>                      | 120                    | 123                    |

#### 27.2 Valuation Assumptions

##### 27.2.1 Defined Benefit Pension Fund Valuation Assumptions

The valuation is based on assumptions which include a discount rate of 9,0% (2008 and 2007: 8,8% and 8,0%) per annum, an inflation rate and pension increase rate of 5,3% (2008 and 2007: 5,5% and 5,0%) per annum, a salary increase rate of 6,3% (2008 and 2007: 6,5% and 6,0%) per annum, and an expected return on assets of 8,5% per annum. The discount rate is determined with reference to market yields at the balance sheet date. The market yield is determined with reference to the yield curve for South African government bonds. The inflation rate is in line with the Government Monetary Policy target of 3% to 6% (2008 and 2007: 3% to 6%). The inflation rate assumed is used to determine both the salary and pension rate increases. The salary increase is based on the assumption that the increase will be 1% above inflation. The Fund adopts a pension increase policy that targets 100% of inflation and, as a result, a pension increase of 5,3% is used in the valuation. The expected rate of return on assets has been based on long-term returns on equities, cash and bonds. An adjustment is made to reflect the effects of retirement fund's tax.

## Notes to the Group Financial Statements *(continued)*

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### 27. DIRECTORS AND EMPLOYEES *(continued)*

#### 27.1 Employees *(continued)*

##### 27.2.2 Employee Benefit Liability Valuation Assumptions and Sensitivity

The valuation is based on assumptions which include a discount rate of 9,0% (2008 and 2007: 8,8% and 9,0%) per annum, inflation rate of 5,3% (2008 and 2007: 5,5% and 6,0%) per annum, income at retirement would increase by 6,8% per annum, demographic assumptions based on a standard set of best estimate demographic assumptions, membership continuation and expected retirement age. The discount rate is determined with reference to market yields at the balance sheet date. The market yield is determined with reference to the yield curve for South African government bonds. The inflation rate is in line with the Government Monetary Policy target of 3% to 6% (2008 and 2007: 3% to 6%). It was assumed that health care cost inflation would be the same as CPI inflation and that remuneration increases, including promotional increases would exceed inflation by 1,5% over the long-term and that income at retirement would be 60% of final salary. It was further assumed that no current in-service members eligible for benefits would discontinue membership upon reaching retirement with Edcon and that they would retire on their current medical scheme option and no changes would occur on retirement. An expected retirement age of 63 was used in the valuation with assumed rates of early retirement.

The valuation results are extremely sensitive to the assumptions used. The value of the liability could turn out to be overstated or understated depending on the extent to which actuarial experience differs from the above assumptions.

## Notes to the Group Financial Statements (continued)

### 27. DIRECTORS AND EMPLOYEES (continued)

#### 27.2 Valuation Assumptions (continued)

##### 27.2.2 Post Retirement Medical Obligation Valuation Assumptions and Sensitivity (continued)

The effect of a 1% increase or decrease would have the following effects:

|  | Central Assumption  |      |             | Decrease 1%   |      |             | Increase 1%           |      |             |
|--|---|------|-------------|---|------|-------------|-----------------------|------|-------------|
|  | Successor   |      | Predecessor | Successor   |      | Predecessor | Successor             |      | Predecessor |
|  | 2009  | 2008 | 2007        | 2009  | 2008 | 2007        | 2009                  | 2008 | 2007        |
| <b>Inflation (CPI and health care costs) sensitivity</b> | <b>5,3%</b>   | 5,5% | 6,0%        |   |      |             |                       |      |             |
| Accrued liability – Rm                                   | <b>112</b>  | 120  | 123         | <b>99</b>   | 106  | 107         | <b>129</b>            | 138  | 143         |
| Accrued liability – % change                             |   |      |             | <b>(12)</b>   | (12) | (13)        | <b>15</b>             | 15   | 16          |
| Current service and interest cost – Rm                   | <b>13</b>   | 14   | 11          | <b>11</b>   | 12   | 10          | <b>15</b>             | 16   | 14          |
| Current service and interest cost - % change             |   |      |             | <b>(15)</b>   | (14) | (8)         | <b>15</b>             | 17   | 24          |
| <b>Retirement age sensitivity</b>                        | <b>63 years</b>   |      |             | <b>One year younger</b>   |      |             | <b>One year older</b> |      |             |
| Accrued liability – Rm                                   | <b>112</b>  | 120  | 123         | <b>116</b>  | 125  | 130         | <b>109</b>            | 116  | 117         |
| Accrued liability - % change                             |   |      |             | <b>4</b>  | 4    | 6           | <b>(3)</b>            | (3)  | (5)         |
| <b>Discount rate</b>                                     | <b>9.0%</b>   | 8.8% | 9.0%        | <b>Decrease 1%</b>  |      |             | <b>Increase 1%</b>    |      |             |
| Accrued liability – Rm                                   | <b>112</b>  | 120  | 123         | <b>128</b>  | 138  | 143         | <b>100</b>            | 106  | 107         |
| Accrued liability - % change                             |   |      |             | <b>14</b>   | 15   | 16          | <b>(11)</b>           | (12) | (13)        |
| <b>Post employment mortality tables</b>                  | <b>PA (90) ult rated down 1 year to 0.75% improvement p.a from 2006</b> |      |             | <b>PA (90) ult rated down 2 years with 1% improvement p.a from 2006</b> |      |             |                       |      |             |
| Accrued liability – Rm                                   | <b>112</b>  | 120  | 123         | <b>117</b>  | 126  | 134         |                       |      |             |
| Accrued liability - % change                             |   |      |             | <b>4</b>  | 5    | 9           |                       |      |             |



## Notes to the Group Financial Statements (continued)

|             |  | Successor     |                | Predecessor  |               |
|-------------|--|---------------|----------------|--------------|---------------|
|             |  | 2009          | 2008           | 2007         | 2007          |
|             |  | 52 weeks to   | 47 week to     | 5 weeks to   | 52 weeks to   |
|             |  | 28 March      | 29 March       | 5 May        | 31 March      |
|             |  | R 000         | R 000          | R 000        | R 000         |
| <b>27.</b>  | <b>DIRECTORS AND EMPLOYEES (continued)</b>         |               |                |              |               |
| <b>27.7</b> | <b>Directors' emoluments</b>                       |               |                |              |               |
|             | <b>Non-executive directors:</b>                    |               |                |              |               |
|             | Fees   | 295           | 221            | 565          | 2 545         |
|             | Retirement, medical, accidental and death benefits |               |                |              | 300           |
|             |  | <b>295</b>    | <b>221</b>     | <b>565</b>   | <b>2 845</b>  |
|             | <b>Executive directors:</b>                        |               |                |              |               |
|             | Remuneration                                       | 10 651        | 9 092          | 827          | 16 358        |
|             | Retirement, medical, accidental and death benefits | 446           | 302            | 27           | 1 867         |
|             | Performance bonus                                  | 350           | -              | -            | 1 500         |
|             | Loyalty bonus                                      | 423           | 350            | -            | 1 899         |
|             | Other benefits                                     | -             | 439            | -            | 255           |
|             | Options realised                                   |               | 167 080        |              |               |
|             | Fair value of options granted <sup>1</sup>         |               |                | -            | 23 395        |
|             |  | <b>11 870</b> | <b>177 263</b> | <b>854</b>   | <b>45 274</b> |
|             | Retired ex directors                               | 69            | 84             | 18           | 200           |
|             | <b>Total</b>                                       | <b>12 234</b> | <b>177 568</b> | <b>1 437</b> | <b>48 319</b> |

<sup>1</sup> The fair value of options granted is the annual expense determined by IFRS 2.

|             |   | Successor    |              | Predecessor |             |
|-------------|---|--------------|--------------|-------------|-------------|
|             |   | 2009         | 2008         | 2007        | 2007        |
|             |   | 52 weeks to  | 47 weeks to  | 5 weeks to  | 52 weeks to |
|             |   | 28 March     | 29 March     | 5 May       | 31 March    |
|             |   | Rm           | Rm           | Rm          | Rm          |
| <b>28.</b>  | <b>FINANCING COSTS AND INTEREST RECEIVED</b>                    |              |              |             |             |
| <b>28.1</b> | <b>Financing costs</b>  |              |              |             |             |
|             | Interest paid to independent third parties                      | 769          | 1 167        | 7           | 57          |
|             | Interest accrued on shareholder's loan (note 17)                | 945          | 665          |             |             |
|             | Fees amortised on senior floating rate note (note 18.1)         | 82           | 12           |             |             |
|             | Fees amortised on senior secured floating rate note (note 18.1) | 28           | 21           |             |             |
|             | Interest on senior notes  | 470          | 482          |             |             |
|             | Interest on senior secured notes                                | 956          | 753          |             |             |
|             | Foreign currency losses   | -            | -            | 1           | -           |
|             | Forward exchange contracts                                      | 38           | -            | -           | -           |
|             |   | <b>3 288</b> | <b>3 100</b> | <b>8</b>    | <b>57</b>   |
| <b>28.2</b> | <b>Interest received</b>  |              |              |             |             |
|             | Interest received from independent third parties                | 18           | 221          | -           | 20          |
|             | Foreign currency gain   | 15           | -            | -           | 10          |
|             | Forward exchange contracts                                      | -            | 27           | -           | 5           |
|             |   | <b>33</b>    | <b>248</b>   | <b>-</b>    | <b>35</b>   |
| <b>28.3</b> | <b>Net financing costs</b>                                      | <b>3 255</b> | <b>2 852</b> | <b>8</b>    | <b>22</b>   |

## Notes to the Group Financial Statements (continued)

|   | Successor                                |  | Predecessor                       |  |
|---|--|--|-----------------------------------|--|
|   | 2009<br>52 weeks<br>to<br>28 March<br>Rm | 2008<br>47 weeks<br>to<br>29 March<br>Rm | 2007<br>5 weeks to<br>5 May<br>Rm | 2007<br>52 weeks<br>to<br>31 March<br>Rm |
| <b>29. TAXATION</b>   |  |  |                                   |  |
| <b>29.1 Taxation charge</b>   |  |  |                                   |  |
| Current taxation - this year  | 696                                      | 135                                      | 90                                | 610                                      |
| - prior year  | 25                                       | 5  | -                                 | 13                                       |
| Secondary taxation on companies   |  |  |                                   |  |
| - this year   |  | -  | -                                 | 66                                       |
| - deemed  |  | 54                                       | -                                 | -  |
| - prior year  |  | 1  | -                                 | -  |
| Withholding taxes - this year   |  | -  | -                                 | -  |
| - prior year  |  | 1  | -                                 | (6)                                      |
| Total current taxation  | 721                                      | 196                                      | 90                                | 683                                      |
| Deferred taxation - this year   | (1 193)                                  | (650)                                    | 5                                 | 2  |
| - acquisitions  |  | -  | -                                 | -  |
| - rate change   |  | (57)                                     | -                                 | -  |
| - prior years   |  | (11)                                     | -                                 | -  |
| Total deferred taxation credit  | (1 193)                                  | (718)                                    | 5                                 | 2  |
| Total   | (472)                                    | (522)                                    | 95                                | 685                                      |
| <b>Comprising:</b>  |  |  |                                   |  |
| South African normal taxation   | (472)                                    | (638)                                    | 95                                | 584                                      |
| Secondary taxation on companies   |  | 55                                       | -                                 | 66                                       |
| Withholding taxes   |  | 1  | -                                 | (6)                                      |
| Foreign taxes   |  | 60                                       | -                                 | 41                                       |
|   | (472)                                    | (522)                                    | 95                                | 685                                      |
| <b>29.2 Taxation charge to the statement of changes in equity</b>                   |  |  |                                   |  |
| <b>Current income tax related to items charged or credited directly to equity:</b>  |  |  |                                   |  |
| Unrealised gain on cash flow hedges   | (154)                                    | 28                                       |                                   |  |
| <b>Deferred income tax related to items charged or credited directly to equity:</b> |  |  |                                   |  |
| Unrealised gain on cash flow hedges   | (279)                                    | 276                                      |                                   |  |
| Gain on revaluation of properties   |  | 4  |                                   |  |
| Income tax expense reported in equity   | (433)                                    | 308                                      |                                   |  |

## Notes to the Group Financial Statements (continued)

|   | Successor                                |                                       | Predecessor                       |  |
|---|--|---------------------------------------|-----------------------------------|--|
|   | 2009<br>52 weeks<br>to<br>28 March<br>Rm | 2008<br>47 weeks to<br>29 March<br>Rm | 2007<br>5 weeks to<br>5 May<br>Rm | 2007<br>52 weeks<br>to<br>31 March<br>Rm |
| <b>29. TAXATION (continued)</b>                     |  |                                       |                                   |  |
| <b>29.3 Deferred income tax comprises:</b>          |  |                                       |                                   |  |
| <b>Arising on deferred tax assets (note 9)</b>      |  |                                       |                                   |  |
| Doubtful debts                                      | (69)                                     | (97)                                  | -                                 | (45)                                     |
| Other payables                                      | (54)                                     | (27)                                  | -                                 | 34                                       |
| Leave pay accrual                                   | (34)                                     | (2)                                   | -                                 | (2)                                      |
| Operating lease adjustment                          | 6  | 7                                     | -                                 | (1)                                      |
| Unearned finance income                             | (4)                                      | -                                     | -                                 | -  |
| Interest rate swaps                                 | -  | 20                                    | -                                 | -  |
| Assessed loss on income statement items             | (851)                                    | (401)                                 | -                                 | -  |
| Other   | -  | -                                     | -                                 | (1)                                      |
| <b>Arising on deferred tax liabilities (note 9)</b> |  |                                       |                                   |  |
| Appro sales   | 20                                       | (53)                                  | -                                 | 2  |
| Property, fixtures, equipment and vehicles          | 1  | -                                     | -                                 | 14                                       |
| Intangible assets                                   | (212)                                    | (97)                                  | -                                 | -  |
| Capital expenditure                                 | -  | -                                     | -                                 | 1  |
| Prepayments   | 2  | (1)                                   | -                                 | 1  |
| Deferred STC raised                                 | 1  | 9                                     | -                                 | -  |
| Other   | 1  | (8)                                   | 5                                 | (1)                                      |
|   | <b>(1 193)</b>                           | (650)                                 | 5                                 | 2  |
| Rate exchange                                       |  | (57)                                  |                                   |  |
| Prior year adjustment                               |  | (11)                                  |                                   | -  |
| Net deferred tax expense                            | <b>(1 193)</b>                           | (718)                                 | 5                                 | 2  |
| <b>29.4 Reconciliation of rate of taxation (%)</b>  |  |                                       |                                   |  |
| Standard rate – South Africa                        | (28)                                     | (29)                                  | 29                                | 29                                       |
| Adjusted for:                                       |  |                                       |                                   |  |
| Dividend income                                     | -  | -                                     | -                                 | (1)                                      |
| Equity accounted earnings of joint venture          | -  | (4)                                   | (2)                               | (3)                                      |
| Disallowable expenditure                            | (47)                                     | 8                                     | 1                                 | 1  |
| Secondary taxation on companies                     | -  | 3                                     | -                                 | 3  |
| Prior year charges                                  | 5  | -                                     | -                                 | -  |
| Rate changes  | -  | (3)                                   | -                                 | -  |
| Capital profits and assessed loss utilised          | 43                                       | -                                     | -                                 | -  |
| Effective tax rate                                  | <b>(27)</b>                              | (25)                                  | 28                                | 29                                       |

## Notes to the Group Financial Statements (continued)

### 29. TAXATION (continued)

#### 29.5 Change in tax rate

The statutory taxation rate in South Africa changed from 29% to 28% with effect from the 2009 financial period. Normal taxation has therefore been calculated using a rate of 28% for the current financial period (2008: 29%). As this change in rate was substantively enacted before the end of the prior financial period, deferred taxation in the prior period was calculated using a rate of 28%.

|   | Predecessor<br>2007<br>Rm |
|---|---------------------------|
| <b>30. DIVIDENDS</b>  |                           |
| Ordinary shares   |                           |
| No. 119 of 100 cents declared on 16 May 2006 and paid on 3 July 2006        | 566                       |
| No. 120 of 71 cents declared on 14 November 2006 and paid on 8 January 2007 | 402                       |
|   | 968                       |
| Less: dividends received on treasury shares held through:                   |                           |
| United Retail Limited   | (89)                      |
| Staff Share Trust   | (25)                      |
| Total ordinary dividends paid   | 854                       |

#### 31. INCOME, EXPENSE, GAINS AND LOSSES FROM FINANCIAL ASSETS AND LIABILITIES

Held-to-maturity investments – preference dividends (note 23)

Finance charges on trade receivables (note 23)

Interest on cash deposits (note 28.2)

Interest on financial liabilities carried at amortised cost (note 28.1)

(Loss)/gain recognised on forward exchange contracts at fair value (note 28.1 and 28.2)

Foreign currency gain/(loss) recognised on financial assets (note 28.1 and 28.2)

Income recognised on credit default swap (note 35.5)

Interest settlement on Usury/Usury star swap (note 35.5)

Derivative unrealised (loss)/ gain (note 8.6)

Derivative realised gain (note 8.7.1)

Unrealised foreign exchange gain/(loss) on notes issued (note 18.1)

|  | Successor                             |                                       | Predecessor                       |                                       |
|--|---------------------------------------|---------------------------------------|-----------------------------------|---------------------------------------|
|  | 2009<br>52 weeks to<br>28 March<br>Rm | 2008<br>47 weeks to<br>29 March<br>Rm | 2007<br>5 weeks to<br>5 May<br>Rm | 2007<br>52 weeks to<br>31 March<br>Rm |
|  |                                       | 4                                     | 4                                 | 52                                    |
|  | 2 271                                 | 1 779                                 | 93                                | 875                                   |
|  | 18                                    | 221                                   | -                                 | 20                                    |
|  | (3 250)                               | (3 100)                               | (7)                               | (57)                                  |
|  | (38)                                  | 27                                    | -                                 | 5                                     |
|  | 15                                    | -                                     | (1)                               | 10                                    |
|  |                                       |                                       | 5                                 | 90                                    |
|  |                                       | -                                     | (1)                               | (44)                                  |
|  | (1 415)                               | 4 612                                 |                                   |                                       |
|  | 231                                   |                                       |                                   |                                       |
|  | 134                                   | (5 926)                               |                                   |                                       |
|  | (2 034)                               | (2 383)                               | 93                                | 951                                   |

## Notes to the Group Financial Statements (continued)

|   | Successor                             |                                       | Predecessor                       |                                       |
|---|---------------------------------------|---------------------------------------|-----------------------------------|---------------------------------------|
|   | 2009<br>52 weeks to<br>28 March<br>Rm | 2008<br>47 weeks to<br>29 March<br>Rm | 2007<br>5 weeks to<br>5 May<br>Rm | 2007<br>52 weeks to<br>31 March<br>Rm |
| <b>32. CASH FLOW</b>  |                                       |                                       |                                   |                                       |
| <b>32.1 Other non-cash items</b>  |                                       |                                       |                                   |                                       |
| Net loss/(gain) on disposal of properties, fixtures, equipment and vehicles (note 25.6)   | 18                                    | 5                                     | 4                                 | (1)                                   |
| Cost of share-based payments  |                                       | -                                     | 4                                 | 58                                    |
| Equity accounted investment in joint ventures   | 10                                    | 31                                    | (22)                              | (2)                                   |
| Vat expense <sup>1</sup>  | 130                                   |                                       |                                   |                                       |
| Operating lease adjustment  | (23)                                  | (22)                                  | (2)                               | (12)                                  |
| Other non-cash items  | (4)                                   |                                       |                                   |                                       |
|   | <b>131</b>                            | <b>14</b>                             | <b>(16)</b>                       | <b>43</b>                             |
| <sup>1</sup> Includes R90 million relating to prior periods (note 25.9) and R40 million for the current period included in expenses from credit (note 26.2) |                                       |                                       |                                   |                                       |
| <b>32.2 Working capital movement</b>  |                                       |                                       |                                   |                                       |
| (Increase)/decrease in inventories  | (397)                                 | (95)                                  | 45                                | (294)                                 |
| Increase in trade accounts receivable   | (988)                                 | (287)                                 | (59)                              | (829)                                 |
| Increase in other receivables   | (11)                                  | (26)                                  | (12)                              | (18)                                  |
| (Decrease)/increase in trade and other payables   | (157)                                 | 573                                   | (480)                             | 195                                   |
|   | <b>(1 553)</b>                        | <b>165</b>                            | <b>(506)</b>                      | <b>(946)</b>                          |
| <b>32.3 Taxation paid</b>   |                                       |                                       |                                   |                                       |
| Taxation liability at the beginning of the period   | (138)                                 | -                                     | (64)                              | (186)                                 |
| Acquisition of the Edcon Group and consolidation of OtC   |                                       | (160)                                 |                                   |                                       |
| Current taxation provided (note 29.1)   | (721)                                 | (196)                                 | (90)                              | (683)                                 |
| Current taxation recognised in equity (note 29.2)   | 154                                   | (28)                                  |                                   |                                       |
| Taxation liability disposed of  |                                       | -                                     | 154                               |                                       |
| Taxation liability at the end of the period   | 470                                   | 138                                   | -                                 | 64                                    |
|   | <b>(235)</b>                          | <b>(246)</b>                          | <b>-</b>                          | <b>(805)</b>                          |
| <b>32.4 Dividends paid</b>  |                                       |                                       |                                   |                                       |
| Dividends declared and paid (note 30)   |                                       |                                       |                                   | (854)                                 |
| <b>32.5 Investment to maintain operations</b>   |                                       |                                       |                                   |                                       |
| Replacement of properties, fixtures, equipment and vehicles   | (420)                                 | (332)                                 | (26)                              | (185)                                 |
| Proceeds on disposal of properties, fixtures, equipment and vehicles  | 1                                     | -                                     | -                                 | 4                                     |
|   | <b>(419)</b>                          | <b>(332)</b>                          | <b>(26)</b>                       | <b>(181)</b>                          |

## Notes to the Group Financial Statements (continued)

|              |   | Successor                             |                                       | Predecessor                       |                                       |
|--------------|---|---------------------------------------|---------------------------------------|-----------------------------------|---------------------------------------|
|              |   | 2009<br>52 weeks to<br>28 March<br>Rm | 2008<br>47 weeks to<br>29 March<br>Rm | 2007<br>5 weeks to<br>5 May<br>Rm | 2007<br>52 weeks to<br>31 March<br>Rm |
| <b>32.</b>   | <b>CASH FLOW</b> (continued)  |                                       |                                       |                                   |                                       |
| <b>32.6</b>  | <b>Investment to expand operations</b>  |                                       |                                       |                                   |                                       |
|              | Additions to leased premises  | (65)                                  | (64)                                  | (15)                              | (59)                                  |
|              | Additions to properties, fixtures, equipment and vehicles                               | (84)                                  | (128)                                 | (6)                               | (320)                                 |
|              | Net investment in subsidiaries and other assets (note 32.12.4)                          |                                       | (24 198)                              |                                   |                                       |
|              |   | (149)                                 | (24 390)                              | (21)                              | (379)                                 |
| <b>32.7</b>  | <b>Increase in shareholder funding</b>  |                                       |                                       |                                   |                                       |
|              | Increase in shareholder's loan  |                                       | 5 057                                 |                                   |                                       |
|              | Ordinary share capital issued   |                                       | 1 761                                 | -                                 | 699                                   |
|              | Preference share capital issued   |                                       | 207                                   | -                                 | -                                     |
|              | Net movement in treasury shares   |                                       |                                       | -                                 | (634)                                 |
|              |   |                                       | 7 025                                 | -                                 | 65                                    |
| <b>32.8</b>  | <b>Notes issued</b>   |                                       |                                       |                                   |                                       |
|              | Senior floating rate notes  |                                       | 6 102                                 |                                   |                                       |
|              | Senior secured floating rate notes  |                                       | 11 428                                |                                   |                                       |
|              | Fees paid on notes issued   |                                       | (467)                                 |                                   |                                       |
|              |   |                                       | 17 063                                |                                   |                                       |
| <b>32.9</b>  | <b>Buy-back of senior floating rate notes</b>   |                                       |                                       |                                   |                                       |
|              | Senior floating rate notes repurchased (note 18.2)                                      | (3 137)                               |                                       |                                   |                                       |
|              | Fees paid on buy-back of senior floating rate notes                                     | (42)                                  |                                       |                                   |                                       |
|              | Gain before fees paid and accrued on buy-back of senior floating rate notes (note 18.2) | 1 411                                 |                                       |                                   |                                       |
|              |   | (1 768)                               |                                       |                                   |                                       |
| <b>32.10</b> | <b>Increase in interest bearing debt</b>  |                                       |                                       |                                   |                                       |
|              | Net increase in short-term debt   | 793                                   | 106                                   | 238                               | 537                                   |
|              | Net decrease in long-term debt  | (25)                                  |                                       |                                   |                                       |
|              |   | 768                                   | 106                                   | 238                               | 537                                   |
| <b>32.11</b> | <b>Increase in cash and cash equivalents</b>  |                                       |                                       |                                   |                                       |
|              | Cash on hand  | (149)                                 | 384                                   | 85                                | 3                                     |
|              | Cash on deposit   | 36                                    | 108                                   | (49)                              | 119                                   |
|              | Consolidation of OntheCards (note 32.12.3)  |                                       | (261)                                 |                                   |                                       |
|              | Currency adjustments  | -                                     | (2)                                   | -                                 | (1)                                   |
|              |   | (113)                                 | 229                                   | 36                                | 121                                   |

## Notes to the Group Financial Statements (continued)

|   | Successor<br>2008<br>29 March<br>Fair value<br>Rm | Carrying value<br>Rm |
|---|---|----------------------|
| <b>32. CASH FLOW (continued)</b>  |   |                      |
| <b>32.12 Net investment in subsidiaries and other assets</b>  |   |                      |
| <b>32.12.1 Acquisition of the Edcon Group</b>   |   |                      |
| The Group acquired 100% of the shares of Edgars Consolidated Stores Limited, a clothing retailer effective 5 May 2007 as determined by IFRS 3. The fair value of the net assets acquired at the effective date of acquisition was as follows: |   |                      |
| <b>Non-current assets</b>   |   |                      |
| Properties, fixtures, equipment and vehicles  | 3 082   | 1 575                |
| Intangible assets   | 11 906  | 77                   |
| Deferred tax asset  | -   | 77                   |
| Other financial assets  | 742   | 742                  |
|   | 15 730  | 2 471                |
| <b>Current assets</b>   |   |                      |
| Inventories   | 1 901   | 1 915                |
| Trade, other receivables and prepayments  | 5 356   | 5 442                |
| Cash and cash equivalents   | 507   | 507                  |
|   | 7 764   | 7 864                |
| <b>Non-current liabilities</b>  |   |                      |
| Deferred tax liability  | (2 335)   | -                    |
| <b>Current liabilities</b>  |   |                      |
| Interest-bearing debt   | (951)   | (951)                |
| Trade and other payables  | (3 442)   | (3 442)              |
|   | (4 393)   | (4 393)              |
| <b>Total identifiable assets acquired and liabilities assumed</b>   | 16 766  | 5 942                |
| Goodwill on acquisition   | 8 348   |                      |
| Cost of the business combination  | 25 114  |                      |
| Settled by way of cash  | 25 114  |                      |
| Less: cash and cash equivalents acquired  | (507)   |                      |
| Less: cash received from employees  | (727)   |                      |
| <b>Net cash outflow on acquisition</b>  | 23 880  |                      |
| The total cost of the business combination comprised of the following:  |   |                      |
| Cash paid   | 25 002  |                      |
| Directly attributable acquisition costs   | 112   |                      |
| <b>Total cost of acquisition</b>  | 25 114  |                      |

The acquired business contributed revenues and net profit as presented for the 11 month period to 29 March 2008. Had this business combination been effected on 1 April 2007, Group revenue would have been R2,094 million higher and the loss reported would have reduced by R245 million as reported in the 5 weeks to 5 May 2007 of the Predecessor.

The goodwill recognised of R8,348 million is attributed to the benefits expected to be derived from combining the assets and activities with those of the Group including, expected synergies, revenue growth and future market development. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

## Notes to the Group Financial Statements (continued)

|  | Successor<br>2008<br>29 March<br>Fair value<br>Rm | Carrying value<br>Rm |
|--|---|----------------------|
| <b>32. CASH FLOW (continued)</b>   |   |                      |
| <b>32.12 Net investment in subsidiaries and other assets (continued)</b>   |   |                      |
| <b>32.12.2 Acquisition of Discom</b>   |   |                      |
| On 17 September 2007, the Group acquired certain Discom stores net assets from New Clicks. The fair value of the net assets acquired was as follows: |   |                      |
| <b>Non-current assets</b>  |   |                      |
| Fixtures, equipment and vehicles   | 39  | 45                   |
| Intangible asset   | 73  | -                    |
|  | 112   | 45                   |
| <b>Current assets</b>  |   |                      |
| Inventories  | 148   | 148                  |
|  | 148   | 148                  |
| <b>Non-current liabilities</b>   |   |                      |
| Deferred taxation  | (20)  | -                    |
|  | (20)  | -                    |
| <b>Current liabilities</b>   |   |                      |
| Other payables   | (8)   | (8)                  |
|  | (8)   | (8)                  |
| <b>Total identifiable assets acquired and liabilities assumed</b>  | 232   | 185                  |
| Goodwill on acquisition  | 86  |                      |
| Cost of the business combination   | 318   |                      |
|  | 318   |                      |
| Settled by way of cash   | 318   |                      |
| The total cost of the business combination comprised of the following:   |   |                      |
| Cash paid  | 316   |                      |
| Directly attributable acquisition cost   | 2   |                      |
| Total cost of acquisition  | 318   |                      |

The acquired Discom stores contributed revenues of R491 million and a net loss of R30 million for the period from 17 September 2007 to 29 March 2008. Had the business combination been effected on 6 May 2007 on formation of the Successor, it is estimated that the Group revenue would have been R486 million higher. The Group cannot reliably measure the impact on net loss reported had the business combination been effected on 6 May 2007.

The goodwill recognised is attributed to the benefits expected to be derived from combining the assets and activities of the Discom stores with those of the Group.

## Notes to the Group Financial Statements (continued)

Successor  
2008  
29 March  
Fair value  
Rm

### 32. CASH FLOW (continued)

#### 32.12 Net investment in subsidiaries and other assets (continued)

##### 32.12.3 Consolidation of OntheCards Investments Limited

The fair value of net assets consolidated at 6 May 2007 was as follows:

#### Non-current assets

|                   |           |
|-------------------|-----------|
| Deferred taxation | 66        |
|                   | <u>66</u> |

#### Current assets

|  |              |
|--|--------------|
| Trade, other receivables and prepayments | 3 783        |
| Cash and cash equivalents                | 261          |
|  | <u>4 044</u> |

#### Non-current liabilities

|              |              |
|--------------|--------------|
| Notes issued | 3 475        |
|              | <u>3 475</u> |

#### Current liabilities

|                          |            |
|--------------------------|------------|
| Trade and other payables | 714        |
|                          | <u>714</u> |

#### Net liabilities at fair value consolidated

|                                   |           |
|-----------------------------------|-----------|
| Goodwill arising on consolidation | (79)      |
| Consideration                     | <u>79</u> |
|                                   | <u>-</u>  |

| Successor   |               | Predecessor |
|-------------|---------------|-------------|
| 2009        | 2008          | 2007        |
| 52 weeks to | 47 weeks to   | 52 weeks to |
| 28 March    | 29 March      | 31 March    |
| Rm          | Rm            | Rm          |
|             | 23 880        |             |
|             | 318           |             |
|             | -             |             |
|             | <u>24 198</u> |             |

#### 32.12.4 Cash utilised:

|  |               |
|--|---------------|
| Acquisition of the Edcon Group (note 32.12.1)      | 23 880        |
| Discom acquisition (note 32.12.2)                  | 318           |
| Consolidation of OntheCards (note 32.12.3)         | -             |
| Cash utilised in investment activities (note 32.6) | <u>24 198</u> |

| Successor |               | Predecessor  |
|-----------|---------------|--------------|
| 2009      | 2008          | 2007         |
| 28 March  | 29 March      | 31 March     |
| Rm        | Rm            | Rm           |
|           | 3 297         | 3 223        |
|           | 4 507         | 713          |
|           | <u>7 804</u>  | <u>3 936</u> |
|           | -             | -            |
|           | 25            | -            |
|           | -             | -            |
|           | -             | -            |
|           | 28 308        | -            |
|           | <u>26 092</u> | <u>-</u>     |
|           | 28 333        | -            |
|           | <u>34 723</u> | <u>3 936</u> |

### 33. MATURITY ANALYSIS FOR NOTES ISSUED, SUBORDINATED LOAN, SHORT-TERM INTEREST-BEARING DEBT AND TRADE AND OTHER PAYABLES

|   |                      |                      |                     |
|---|----------------------|----------------------|---------------------|
| Trade and other payables                | 3 331                | 3 297                | 3 223               |
| Short-term interest bearing debt        | 5 300                | 4 507                | 713                 |
| Total due within one year               | <u>8 631</u>         | <u>7 804</u>         | <u>3 936</u>        |
| After one year but within two years     | -                    | -                    | -                   |
| After two years but within three years  | -                    | 25                   | -                   |
| After three years but within four years | -                    | -                    | -                   |
| After four years but within five years  | -                    | -                    | -                   |
| After five years                        | 26 092               | 28 308               | -                   |
| Total due after one year                | <u>26 092</u>        | <u>28 333</u>        | <u>-</u>            |
| <b>Total debt</b>                       | <b><u>34 723</u></b> | <b><u>36 137</u></b> | <b><u>3 936</u></b> |

Refer to note 8 for maturity details relating to derivatives.

### 34. MANAGEMENT OF CAPITAL

The Successor considers share capital including ordinary and preference shares, share premium, the shareholder's loan, reserves and interest-bearing debt as capital.

The shareholder's loan is considered to be capital as the amount is repayable in May 2037 and all interest is capitalised. The "A" preference shares are cumulative and redeemable at the option of the issuer and are therefore regarded as capital. The long-term interest bearing debt primarily consists of the senior secured floating rate notes and the senior floating rate notes which have a maturity of June 2014 and June 2015 respectively. These notes were issued to finance the purchase of Edgars Consolidated Stores Limited and as such are regarded as permanent capital.

The objectives in managing this capital are to:

- Ensure appropriate access to equity debt markets.
- Ensure sufficient resilience against economic turmoil.
- Safeguard the Group's ability to continue as a going concern, be flexible and take advantage of opportunities that are expected to provide an adequate return to shareholders.
- Optimise weighted average cost of capital, given inherent constraints.

The Group manages its capital and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the current period.

The notes and the short-term banking facilities contain substantially the same covenants and events of default. These are set out in the Offering Memorandum for the notes dated 8 June 2007. During the period there have been no defaults.

The Successor takes cognisance of select rating agency ratios that evaluate the ability of the capital to absorb losses and the flexibility that a combination of capital instruments provide. The value placed on the corporate rating is important as Edcon has issued notes on the Irish Stock Exchange and to facilitate the funding of OtC.

### 35. FINANCIAL RISK MANAGEMENT

#### 35.1 Treasury risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. 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 moderate certain risk exposures.

A treasury workgroup consisting of senior executives meets on a regular basis to update treasury policies and objectives, analyse currency and interest rate exposures and re-evaluate treasury management strategies against revised economic forecasts. Compliance with Group Treasury policies and objectives of the Board and exposure limits is reviewed at meetings of the Risk Management Workgroup.

#### 35.2 Cash flow hedges

The Group's cash flow hedges relate to the floating rate notes and consist of (i) interest rate swaps that are used to protect against variability in future interest cash flows on liabilities which bear interest at variable rates or which are expected to be refunded or reinvested in the future and (ii) foreign currency forward contracts that are used to protect against variability in future cash flows that are subject to fluctuations based on foreign exchange rates.

Gains and losses on derivatives are initially recognised directly in equity, in the cash flow hedging reserve, and are transferred to the income statement when the forecast transactions affect the income statement. On a quarterly basis amounts are transferred from equity to profit or loss on both the interest rate swap and forward exchange contracts as interest payments on the notes are incurred.

## Notes to the Group Financial Statements (continued)

### 35. FINANCIAL RISK MANAGEMENT (continued)

#### 35.2 Cash flow hedges (continued)

The cash flow hedge forecast transactions are expected to occur until June 2011 in line with the maturity dates of the hedging instruments and will affect profit or loss over the same period.

#### 35.3 Sensitivity analysis of derivatives

The Group recognises that movements in certain risk variables (such as interest rates or foreign exchange rates) might impact the value of its derivatives and also the amounts recorded in its equity and its profit or loss for the period. Therefore the Group has assessed:

- what would be reasonably possible changes in the risk variables at the balance sheet date and
- the effects on profit or loss and equity if such changes in the risk variables were to occur.

The sensitivity analysis takes into account the incremental change in value arising from a parallel fall or rise in the yield curve and the exchange rate.

The following table assumes all designated hedges will change in fair value through equity (100% effective), and considers sensitivities to forward interest rate curves, of +/- 50 and +/-100 basis points respectively. If these sensitivities were to occur, the impact on the consolidated profit or loss, and equity for each category of financial instrument held at the balance sheet date is shown below:

|   | Index   | Sensitivity | Derivative asset / (liability) Rm | Equity Rm | Income statement effect Rm |
|---|---------|-------------|-----------------------------------|-----------|----------------------------|
| Interest rate swaps                                   | EURIBOR | -100bps     | (404)                             | 404       | -                          |
|   | EURIBOR | -50bps      | (200)                             | 200       | -                          |
|   | EURIBOR | +50bps      | 197                               | (197)     | -                          |
|   | EURIBOR | +100bps     | 391                               | (391)     | -                          |
| Foreign currency forward contracts and currency swaps | EUR-ZAR | -10%        | (2 221)                           | 299       | 1 922                      |
|   | EUR-ZAR | -5%         | (1 111)                           | 150       | 961                        |
|   | EUR-ZAR | 5%          | 1 111                             | (150)     | (961)                      |
|   | EUR-ZAR | 10%         | 2 221                             | (299)     | (1 922)                    |

#### 35.4 Foreign currency management

Material forward exchange contracts at 28 March 2009 are summarised below. The writing of option contracts is restricted, thus currency options may only be purchased as a cost-effective alternative to forward exchange contracts. No currency options are currently in place.

|  | Foreign currency m | Derivative fair value Rm | Contract equivalent Rm | Average rate |
|--|--------------------|--------------------------|------------------------|--------------|
| <b>Foreign currency exposure against Rand economically hedged import forward orders</b>        |                    |                          |                        |              |
| <b>2009 – Successor</b>  |                    |                          |                        |              |
| US dollar  | 26                 | (8)                      | 260                    | 10,12        |
| 2008 – Successor   |                    |                          |                        |              |
| US dollar  | 28                 | 29                       | 201                    | 7,18         |
| 2007 – Predecessor   |                    |                          |                        |              |
| Euro   | 1                  | -                        | 10                     | 9,67         |
| US dollar  | 25                 | (1)                      | 187                    | 7,36         |
| <b>Foreign currency exposure against Rand economically hedged floating rate notes exposure</b> |                    |                          |                        |              |
| <b>2009 – Successor Euro</b>   | <b>1 854</b>       | <b>2 022</b>             | <b>25 370</b>          | <b>13,68</b> |
| 2008 – Successor Euro  | 2 321              | 5 845                    | 28 749                 | 12,39        |

## Notes to the Group Financial Statements (continued)

### 35. FINANCIAL RISK MANAGEMENT (continued)

#### 35.4 Foreign currency management (continued)

The Group, in terms of approved policy limits, manages short-term foreign currency exposures relating to trade imports and exports. Net uncovered Rand transaction exposures to the US dollar at 28 March 2009 amounted to R27 million, being 9,5% of the total import exposure (2008 and 2007: R21 million and nil). The Group policy is to restrict the net aggregate cover to between 80% and 125% of total foreign order exposure.

At 28 March 2009, in respect of future import commitments, if the South African Rand had weakened 5% against the US dollar, with all other variables held constant, attributable earnings for the period would have increased by R14 million from revaluation of forward exchange contracts (2008 and 2007: R12 million and R13 million). Conversely at 28 March 2009, in respect of future import commitments, if the South African Rand had strengthened by 5% against the US dollar, with all other variables held constant, attributable earnings for the period would have decrease by R14 million from revaluation of forward exchange contracts (2008 and 2007: R12 million and R13 million). Changes in the Rand/US dollar exchange rates of foreign currency creditors are largely offset by fair value changes on the forward exchange contracts.

The nominal principal floating rate notes amounts, totalling EUR1,558 million, have been hedged economically through a foreign currency swap (refer to note 8). The interest cash flows payable quarterly have been hedged to 15 June 2011 (Refer to note 8 and 35.2). Foreign exchange gains and losses on the foreign currency swap will be largely offset by gains and losses on translation of the floating rate notes. At 28 March 2009, in respect of the floating rate notes exposures, if the South African Rand had weakened 5% against the Euro, with all other variables held constant, attributable earnings for the period would have decreased by R996 million (2008: R1,160 million). Conversely, at 28 March 2009, in respect of the floating rate notes exposures, if the South African Rand had strengthened 5% against other currencies, with all other variables held constant, attributable earnings for the period would have increased by R996 million (2008: R1,160 million).

#### 35.5 Interest rate management

As part of the process of managing the Group's fixed and floating rate interest bearing debt and cash and cash equivalents mix, the interest rate characteristics of new and the refinancing of existing loans are positioned according to expected movements in interest rates. The maximum interest rate exposure and the repricing profile at 28 March 2009 is summarised as follows:

|   | <b>Floating<br/>rate<br/>Total</b> | <b>Fixed<br/>rate<br/>Total</b> | <b>Total interest<br/>bearing debt<br/>Total</b> |
|---|------------------------------------|---------------------------------|--|
| <b>2009 – Successor</b>                 |                                    |                                 |  |
| Interest-bearing debt (Rm) – short-term | 5 300                              | -                               | 5 300  |
| Interest-bearing debt (Rm) – long-term  | 19 600                             | -                               | 19 600   |
| % of total interest-bearing debt        | 100                                | -                               | 100  |
| <b>2008 – Successor</b>                 |                                    |                                 |  |
| Interest-bearing debt (Rm) – short-term | 4 507                              | -                               | 4 507  |
| Interest-bearing debt (Rm) – long-term  | 22 786                             | -                               | 22 786   |
| % of total interest-bearing debt        | 100                                | -                               | 100  |
| <b>2007 – Predecessor</b>               |                                    |                                 |  |
| Interest-bearing debt (Rm)              | 713                                |                                 | 713  |
| % of total interest-bearing debt        | 100                                |                                 | 100  |

At 28 March 2009, if all interest rates on local borrowings had been 100 basis points lower, with all other variables held constant, attributable earnings would have been R53 million (2008 and 2007: R45 million and R7 million) higher. Conversely, at 28 March 2009, if all interest rates on local borrowings had been 100 basis points higher with all other variables held constant, attributable earnings would have been R53 million (2008 and 2007: R45 million and R7 million) lower.

## Notes to the Group Financial Statements (continued)

### 35. FINANCIAL RISK MANAGEMENT (continued)

#### 35.5 Interest rate management (continued)

|  | Total<br>R | Floating<br>rate<br>R | Repriced<br>within 0 – 6<br>months<br>Total<br>R | Fixed<br>rate<br>R |
|--|------------|-----------------------|--|--------------------|
| <b>2009 - Successor</b>                            |            |                       |  |                    |
| <b>Cash on deposit and investments by currency</b> |            |                       |  |                    |
| US dollar  | 108        | 108                   | -  | -                  |
| Sterling   | 3          | 3                     | -  | -                  |
| Botswana Pula                                      | 21         | 21                    | -  | -                  |
| South African Rand                                 | 247        | 247                   | -  | -                  |
| <b>2008 - Successor</b>                            |            |                       |  |                    |
| <b>Cash on deposit and investments by currency</b> |            |                       |  |                    |
| US dollar  | 57         | 57                    | -  | -                  |
| Sterling   | 6          | 6                     | -  | -                  |
| Botswana Pula                                      | 14         | 14                    | -  | -                  |
| South African Rand                                 | 415        | 415                   | -  | -                  |
| <b>2007 - Predecessor</b>                          |            |                       |  |                    |
| <b>Cash on deposit and investments by currency</b> |            |                       |  |                    |
| US dollar  | 16         | 13                    | 3  | -                  |
| Sterling   | 3          | -                     | 3  | -                  |
| Euro   | 3          | 3                     | -  | -                  |
| Botswana Pula                                      | 1          | 1                     | -  | -                  |
| South African Rand                                 | 447        | 447                   | -  | -                  |

## Notes to the Group Financial Statements (continued)

### 35. FINANCIAL RISK MANAGEMENT (continued)

#### 35.5 Interest rate management (continued)

|   | Notional amount<br>EUR million |                    |                     | Fixed interest<br>% payable |                   |                     | Fair value - R million |                   |                     |
|---|--------------------------------|--------------------|---------------------|-----------------------------|-------------------|---------------------|------------------------|-------------------|---------------------|
|   | Successor<br>2009              | Successor<br>2008  | Predecessor<br>2007 | Successor<br>2009           | Successor<br>2008 | Predecessor<br>2007 | Successor<br>2009      | Successor<br>2008 | Predecessor<br>2007 |
| <b>Interest rate swaps (Rm)</b>   |                                |                    |                     |                             |                   |                     |                        |                   |                     |
| Pay fixed / receive floating Interest rate swaps > 1 year-Senior floating rate note | 378 <sup>1</sup>               | 630 <sup>1</sup>   |                     | 10.03                       | 10.03             |                     | 232                    | 130               |                     |
| Interest rate swaps > 1 year-Senior Secured floating rate note                      | 1 180 <sup>1</sup>             | 1 180 <sup>1</sup> |                     | 7.78                        | 7.78              |                     | 725                    | 244               |                     |
| <b>Other swaps (Rm)</b>   |                                |                    |                     |                             |                   |                     |                        |                   |                     |
| Usury/Usury star swap <sup>2</sup> (note 31)  |                                |                    | 3 222 <sup>3</sup>  |                             |                   |                     |                        |                   | -                   |
| Credit default swap (note 31)   |                                |                    | 700                 |                             |                   |                     |                        |                   | -                   |

<sup>1</sup>The successor entered into interest rate swaps to swap interest payable on the notes issued from floating, being 3 months EURIBOR, to a fixed rate of pay 4,529%.

<sup>2</sup>Receive Usury, pay Usury star (133% of prime rate plus 6%).

<sup>3</sup>Nominal amount variable as asset base movements occur.

#### 35.6 Credit risk management

Maximum exposure to credit risk is represented by the carrying amounts of derivative assets, trade accounts receivable and short-term cash investments in the balance sheet. The Group only deposits short-term cash surpluses with financial institutions of high-quality credit standing. Credit limits per financial institution are established at the treasury meeting and are approved at the Audit and Risk Workgroup. Trade accounts receivable comprise a large, widespread customer base and risk exists on delinquent accounts and possible defaults by customers. The Group performs ongoing credit evaluations of the financial condition of customers. The granting of credit is controlled by application and behavioural scoring models, and the assumptions therein are reviewed and updated on an ongoing basis. At 28 March 2009, the Group did not consider there to be any concentration of credit risk.

At 28 March 2009, if all interest rates on interest-bearing trade receivables and short-term cash investments at that date had been 100 basis points lower, with all other variables held constant, attributable earnings would have been R85 million (2008 and 2007: R76 million and R12 million) lower. Conversely, at 28 March 2009, if all interest rates at that date had been 100 basis points higher, with all other variables held constant, the attributable earnings would have been R85 million (2008 and 2007: R76 million and R12 million) higher. This sensitivity is due to the high value of trade receivables attracting the Usury rate interest income.

The derivatives are held with four counterparties of high credit worthiness. The credit worthiness is assessed on a regular basis. At period end all counterparties were classified as investment grade.

## Notes to the Group Financial Statements (continued)

### 35. FINANCIAL RISK MANAGEMENT (continued)

#### 35.7 Liquidity risk

The Group has minimised risk of illiquidity as shown by its substantial banking facilities and reserve borrowing capacity.

Total banking and loan facilities  
Actual interest-bearing debt (note 19 and 35.5)  
Unutilised borrowing facilities

Total banking and loan facilities of the Successor including OntheCards comprise:

Revolving credit facility  
Borrowing base facility  
OtC receivable backed facility  
OtC liquidity facility

<sup>1</sup>Includes R2,200 million ancillary facilities.

These facilities are committed facilities and are therefore subject to commitment fees as follows:

- Revolving credit facilities at 0,625% p.a.
- Borrowing base facility 0,5% p.a.
- OtC receivable backed facility at 0,5% p.a.
- OtC liquidity facility at 0,48% p.a.

The maturity dates of the facilities are:

- Revolving credit facility
- Revolving credit Ancillary facilities
- Borrowing base facility
- OtC receivable backed facility
- OtC liquidity facility

| 2009<br>Successor<br>Rm           | 2008<br>Successor<br>Rm           | 2007<br>Predecessor<br>Rm |
|-----------------------------------|-----------------------------------|---------------------------|
| 10 200                            | 10 200                            | 2 385                     |
| (5 300)                           | (4 507)                           | (713)                     |
| 4 900                             | 5 693                             | 1 672                     |
| 3 500 <sup>1</sup>                | 3 500 <sup>1</sup>                |                           |
| 3 900                             | 3 900                             |                           |
| 2 600                             | 2 600                             |                           |
| 200                               | 200                               |                           |
| 10 200                            | 10 200                            |                           |
| June 2012<br>Reviewed<br>annually | June 2012<br>Reviewed<br>annually |                           |
| June 2010                         | June 2010                         |                           |
| June 2010                         | June 2010                         |                           |
| June 2010                         | June 2010                         |                           |

#### 35.8 Fair value of financial instruments

All financial instruments have been recognised in the balance sheet and there is no material difference between their fair values and carrying values.

The following methods and assumptions were used by the Group in establishing fair values:

**Liquid resources, trade accounts receivable, investments and loans:** the carrying amounts reported in the balance sheet approximate fair values.

**Short-term interest-bearing debt:** the fair values of the Group's loans are estimated using discounted cash flow analyses applying the RSA yield curve. The carrying amount of short-term borrowings approximates their fair value.

**Notes issued:** the floating rate notes issued are fair valued based on the exchange rate ruling at the balance sheet date.

**Forward instruments:** forward exchange contracts are entered into to cover import orders, and fair values are determined using foreign exchange market rates at 28 March 2009. Forward exchange agreements and swaps are entered into to hedge interest rate exposure of investments, interest bearing debt and fair values are determined using market related derivative rates at 28 March 2009.

## Notes to the Group Financial Statements (continued)

### 36. RELATED-PARTY TRANSACTIONS

The Group Financial Statements include the financial statements of Edcon Holdings (Proprietary) Limited and subsidiaries and joint ventures (refer to Annexure 1 on page 115 for a list of significant subsidiaries). Related party relationships exist within the Group. During the period all purchasing and selling transactions were concluded at arm's length. Edcon Holdings (Proprietary) Limited is the ultimate South African parent entity and the ultimate parent of the Group is Edcon (BC) S.A.R.L. The following table provides the total amount of transactions, which have been entered into with related parties:

|  | <b>Successor</b>                          |   |   |
|--|---|---|---|
|  | <b>2009</b>                               |   |   |
|  | <b>Fee paid to related parties<br/>Rm</b> | <b>Amounts owed by related parties<br/>Rm</b> | <b>Amounts owed to related parties<br/>Rm</b> |
| Loan including interest to shareholder |   |   | <b>6 492</b>                                  |
| Fee paid to Bain Capital affiliate     | <b>43</b>                                 |   |   |

|  | <b>Successor</b>                          |   |   |
|--|---|---|---|
|  | <b>2008</b>                               |   |   |
|  | <b>Fee paid to related parties<br/>Rm</b> | <b>Amounts owed by related parties<br/>Rm</b> | <b>Amounts owed to related parties<br/>Rm</b> |
| Loan including interest to shareholder   | -   | -   | 5 547   |
| Preference dividend due to shareholders' | -   | -   | 27  |
| Fee paid to Bain Capital affiliate       | 30  | -   | -   |

Transactions with joint ventures are detailed in note 7.

#### 36.1 Compensation relating to key management personnel

|  | <b>Successor</b>                                |                                       | Predecessor                           |
|--|---|---------------------------------------|---------------------------------------|
|  | <b>52 weeks<br/>2009</b>                        | 47 weeks<br>2008                      | 52 weeks<br>2007                      |
|  | <b>Total<br/>including<br/>directors<br/>Rm</b> | Total<br>including<br>directors<br>Rm | Total<br>including<br>directors<br>Rm |
| Remuneration                                     | <b>27</b>                                       | 20                                    | 23                                    |
| Retirement, medical, accident and death benefits | <b>4</b>  | 2                                     | 3                                     |
| Performance bonus                                | -   | -                                     | 2                                     |
| Loyalty bonus                                    | <b>6</b>  | -                                     | 2                                     |
| Other benefits                                   | <b>1</b>  | -                                     | -                                     |
| Fair value of options granted <sup>1</sup>       |   |                                       | 28                                    |
| Options exercised                                |   | 332                                   | -                                     |
|  | <b>38</b>                                       | 354                                   | 58                                    |
| <b>Comprising:</b>                               |   |                                       |                                       |
| Short-term employee benefits                     | <b>34</b>                                       | 20                                    | 27                                    |
| Fair value of options granted <sup>1</sup>       |   |                                       | 28                                    |
| Options exercised                                |   | 332                                   | -                                     |
| Post-employment benefits                         | <b>4</b>  | 2                                     | 3                                     |

<sup>1</sup> The fair value of options granted is the annual expense determined by IFRS 2.

Key management personnel includes directors (refer to note 27.7) and members of the Chief Executive's Forum.

## Notes to the Group Financial Statements (continued)

|  | <b>2009</b>     | <b>Successor</b> |
|--|-----------------|------------------|
|  | <b>28 March</b> | <b>2008</b>      |
|  | <b>Rm</b>       | <b>29 March</b>  |
|  |                 | <b>Rm</b>        |
| <b>37. CONSOLIDATION OF ONTHECARDS INVESTMENTS LIMITED (OtC)</b>   |                 |                  |
| Included in the Group Balance Sheets by line are the following balances relating to the consolidation of OtC effective 6 May 2007: |                 |                  |
| <b>ASSETS</b>  |                 |                  |
| <b>Non-current assets</b>  |                 |                  |
| Intangible assets  | 79              | 79               |
| Held-to-maturity investments   | (1 450)         | (1 425)          |
| <b>Total non-current assets</b>  | <b>(1 371)</b>  | <b>(1 346)</b>   |
| <b>Current assets</b>  |                 |                  |
| Trade, other receivables and prepayments   | 3 889           | 3 756            |
| Cash and cash equivalents  | -               | 127              |
| <b>Total current assets</b>  | <b>3 889</b>    | <b>3 883</b>     |
| <b>Total assets</b>  | <b>2 518</b>    | <b>2 537</b>     |
| <b>EQUITY AND LIABILITIES</b>  |                 |                  |
| <b>Equity attributable to shareholders</b>   |                 |                  |
| Retained (loss)/surplus  | (52)            | 3                |
| <b>Total equity</b>  | <b>(52)</b>     | <b>3</b>         |
| <b>Non-current liabilities – third parties</b>   |                 |                  |
| Subordinated loan  |                 | 25               |
| Deferred tax   | (89)            | (70)             |
|  | <b>(89)</b>     | <b>(45)</b>      |
| <b>Total non-current liabilities</b>   | <b>(89)</b>     | <b>(45)</b>      |
| <b>Current liabilities</b>   |                 |                  |
| Interest-bearing debt  | 2 659           | 2 581            |
| Current taxation   | (2)             | (4)              |
| Trade and other payables   | 2               | 2                |
| <b>Total current liabilities</b>   | <b>2 659</b>    | <b>2 579</b>     |
| <b>Total equity and liabilities</b>  | <b>2 518</b>    | <b>2 537</b>     |
| <b>Total managed capital per IAS 1</b>   | <b>2 607</b>    | <b>2 584</b>     |

## Notes to the Group Financial Statements *(continued)*

|  | <b>2009</b>        | <b>Successor</b> |
|--|--------------------|------------------|
|  | <b>52 weeks to</b> | 2008             |
|  | <b>28 March</b>    | 47 weeks to      |
|  | <b>Rm</b>          | 29 March         |
|  |                    | <b>Rm</b>        |

### 37. CONSOLIDATION OF ONTHECARDS INVESTMENTS LIMITED (OtC) *(continued)*

Included in the Group Income Statements by line, are the following amounts relating to the consolidation of OtC effective 6 May 2007:

|   |              |       |
|---|--------------|-------|
| <b>Total revenues</b>                                   | <b>530</b>   | 479   |
| Income from credit                                      | <b>517</b>   | 467   |
| Expenses from credit                                    | <b>(234)</b> | (129) |
| <b>Trading profit and profit before financing costs</b> | <b>283</b>   | 338   |
| Interest received                                       | <b>13</b>    | 12    |
| <b>Profit before financing costs</b>                    | <b>296</b>   | 350   |
| Financing costs   | <b>(369)</b> | (345) |
| <b>Loss before taxation</b>                             | <b>(73)</b>  | 5     |
| Taxation  | <b>18</b>    | (2)   |
| <b>Loss for the period</b>                              | <b>(55)</b>  | 3     |

## Notes to the Group Financial Statements *(continued)*

|  | <b>2009</b>        | <b>Successor</b> |
|--|--------------------|------------------|
|  | <b>52 weeks to</b> | 2008             |
|  | <b>28 March</b>    | 47 weeks to      |
|  | <b>Rm</b>          | 29 March         |
|  |                    | <b>Rm</b>        |
| <b>37. CONSOLIDATION OF ONTHECARDS INVESTMENTS LIMITED (OtC) <i>(continued)</i></b>  |                    |                  |
| Included in the Group Cash Flow Statements by line, are the following amounts relating to the consolidation of OtC effective 6 May 2007: |                    |                  |
| <b>Cash retained from operating activities</b>   |                    |                  |
| (Loss)/profit before taxation  | <b>(73)</b>        | 5                |
| Interest received  | <b>(13)</b>        | (12)             |
| Financing costs  | <b>369</b>         | 345              |
| <b>Operating cash inflow before changes in working capital</b>   | <b>283</b>         | 338              |
| Working capital movement   | <b>(133)</b>       | 13               |
| Trade accounts receivable  | <b>(82)</b>        | (51)             |
| Other receivables  | <b>(43)</b>        | 76               |
| Trade and other payables   | <b>(8)</b>         | (12)             |
| <b>Cash generated from operating activities</b>  | <b>150</b>         | 351              |
| Interest received  | <b>5</b>           | 12               |
| Financing costs paid   | <b>(360)</b>       | (345)            |
| Taxation paid  | <b>-</b>           | (8)              |
| <b>Net cash (utilised)/retained</b>  | <b>(205)</b>       | 10               |
| <b>Cash effects of financing activities</b>  |                    |                  |
| Increase in held-to-maturity investments   | <b>25</b>          | 725              |
| Increase in short-term interest bearing debt   | <b>53</b>          | (869)            |
| <b>Net cash inflow/(outflow) from financing activities</b>   | <b>78</b>          | (144)            |
| <b>Decrease in cash and cash equivalents</b>   | <b>(127)</b>       | (134)            |
| <b>Cash and cash equivalents at the beginning of the period</b>  | <b>127</b>         | -                |
| Consolidation of OntheCards  |                    | 261              |
| <b>Cash and cash equivalents at the end of the period</b>  | <b>-</b>           | 127              |

## ANNEXURE 1 – INTERESTS IN SIGNIFICANT SUBSIDIARIES

|   | Nature of business* | Issued ordinary capital |            |            | % interest in capital |           |           | Book value-shares |            |            |
|---|---------------------|-------------------------|------------|------------|-----------------------|-----------|-----------|-------------------|------------|------------|
|   |                     | 2009<br>R               | 2008<br>R  | 2007<br>R  | 2009<br>%             | 2008<br>% | 2007<br>% | 2009<br>Rm        | 2008<br>Rm | 2007<br>Rm |
| Celrose (Pty) Limited                         | M                   | 100                     | 100        | 100        | 49                    | 49        | 49        | 51                | 51         | -          |
| Edcon Acquisition (Pty) Ltd                   | A                   | 1                       | 1          |            | 100                   | 100       |           | 1 968             | 1 968      |            |
| Edcon (Pty) Ltd                               | R                   | 895                     | 894        |            | 100                   | 100       |           | 3 232             | 3 075      |            |
| National Security Corporation (Pty) Limited   | G                   | 2 000                   | 2 000      | 2 000      | 100                   | 100       | 100       | 7                 | 7          | -          |
| R22 Properties (Pty) Limited                  | P                   | 1                       | 1          | 1          | 100                   | 100       | 100       | 88                | 88         | -          |
| Topics (Pty) Limited                          | D                   | 235 219                 | 235 219    | 235 219    | 100                   | 100       | 100       | 94                | 94         | 54         |
| VOC Investments (Pty) Limited                 | D                   | 950 050                 | 950 050    | 950 050    | 100                   | 100       | 100       | 51                | 51         | 51         |
| <b>Incorporated in Botswana</b>               | <b>P</b>            | <b>P</b>                | <b>P</b>   | <b>P</b>   |                       |           |           |                   |            |            |
| Jet Supermarkets Botswana (Pty) Limited       | R                   | 300 000                 | 300 000    | 300 000    | 100                   | 100       | 100       | 405               | 405        | -          |
| <b>Incorporated in Namibia</b>                | <b>N\$</b>          | <b>N\$</b>              | <b>N\$</b> | <b>N\$</b> |                       |           |           |                   |            |            |
| Edgars Stores (Namibia) Limited               | R                   | 1 050 000               | 1 050 000  | 1 050 000  | 100                   | 100       | 100       | 264               | 264        | -          |
| <b>Incorporated in Swaziland</b>              | <b>L</b>            | <b>L</b>                | <b>L</b>   | <b>L</b>   |                       |           |           |                   |            |            |
| Central News Agency (Swaziland) (Pty) Limited | D                   | 400                     | 400        | 400        | 100                   | 100       | 100       | 1                 | 1          | 1          |
| Edgars Stores Swaziland Limited               | R                   | 1 500 000               | 1 500 000  | 1 500 000  | 100                   | 100       | 100       | 136               | 136        | 1          |
| <b>Incorporated in Guernsey</b>               | <b>£</b>            | <b>£</b>                | <b>£</b>   | <b>£</b>   |                       |           |           |                   |            |            |
| Bellfield Limited                             | G                   | 41                      | 41         | 41         | 100                   | 100       | 100       | 70                | 70         | -          |
| Interest in subsidiaries                      |                     |                         |            |            |                       |           |           | 6 367             | 6 210      | 107        |

\* Nature of business R: Retailing, M: Manufacturing, G: Group Services, D: Dormant, P: Property Holding, A: Acquisition company.

Note: Celrose (Pty) Ltd is consolidated as the Group retains control.

## Corporate Information

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### **Edcon Holdings (Proprietary) Limited**

Incorporated in the Republic of South Africa  
Registration number 2006/036903/07

### **Non-executive directors**

DM Poler\* (Chairman), EB Berk\*, JM Tudor\*, SM Zide\*, ZB Ebrahim.

### **Executive directors**

SM Ross\* (Managing Director and Chief Executive Officer),  
U Ferndale

\*USA

### **Group Secretary**

CM Vikisi

### **Registered office**

Edgardale, Press Avenue  
Crown Mines, Johannesburg 2092  
Telephone: +27 11 495-6000  
Fax: +27 11 837-5019

### **Postal address**

PO Box 100, Crown Mines 2025

### **Auditors**

Ernst & Young Inc.  
Wanderers Office Park  
52 Corlett Drive, Illovo 2196  
PO Box 2322, Johannesburg 2000  
Telephone: +27 11 772-3000  
Fax: +27 11 772-4000

### **Listing Agent, Trustee, Registrar, Transfer Agent and Principal Paying Agent**

The Bank of New York  
1 Canada Square  
London E14 SAL  
United Kingdom

### **Tracy Sheridan, Listing Executive** – The Bank of New York

Mellon Corporation  
Corporate Trust Services  
Phone +353 1 542 6991  
Fax +353 1 542 6 999  
Tracy.x.sheridan@bankofny.com