14 November 2017

This notice is important and requires your immediate attention.

EDCON ACQUISITION PROPRIETARY LIMITED

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AND QUARTERLY REPORT

FOR THE SIX-MONTH PERIOD ENDED 23 SEPTEMBER 2017

SUMMARY OF FINANCIAL AND OTHER DATA

The following Summary of Financial and Other Data should be read in conjunction with the Condensed Consolidated Financial Statements and related notes thereto in the second half of this notice.

The unaudited historical financial data in the Summary of Financial and Other Data of Edcon Acquisition Proprietary Limited and its subsidiaries (the "Group") attached hereto, relates to the three-month period ended 24 September 2016 and the three-month period ended 23 September 2017. The Condensed Consolidated Financial Statements of the Group relates to the six-month period ended 24 September 2016 and the six-month period ended 23 September 2017. The Group's condensed Consolidated Financial Statements, include a Consolidated Quarterly Statement of Comprehensive Income and a Consolidated Quarterly Statement of Cash Flows for the three-month period ended 24 September 2016 and the three-month period ended 23 September 2017. Unless the context requires otherwise, references in this notice to (i) "second quarter 2017" and "second quarter 2018" shall mean the 13-week period ended 24 September 2016 and the 13-week period ended 23 September 2017, respectively and (ii) "fiscal 2017" and "fiscal 2018" shall mean the 52-week period ended 25 March 2017 and the 53-week period ending 31 March 2018, respectively.

Following the senior management changes announced in the Annual Report of Edcon Acquisition Proprietary Limited for the 52-weeks ended 25 March 2017, the Boardmans and Red Square operations were moved to the Edgars division and the Edgars Active operation was moved to the Jet division. As a result, throughout these reports, "Edgars" refers to the Edgars division, which comprises our Edgars, Red Square and Boardmans operations, "Jet" refers to the Jet division, which comprises our Jet, Jet Mart and Edgars Active operations, and "Specialty" refers to the Specialty division, which comprises our CNA and mono-branded operations as well as profits from associates in the second quarter 2018, whilst the second quarter 2017 additionally includes Edgars Shoe Gallery and Legit. In connection with this reorganisation of our divisions, we have restated our segmental results for the second quarter 2017 but not our segmental results for fiscal year 2017. As a result of the implementation of this new reporting structure, our divisional results for the second quarter 2018 are not directly comparable with our divisional results for fiscal year 2017. The second quarter 2017 includes the operational results for the Legit and Edgars Shoe Gallery unless otherwise stated.

The statements in this section regarding industry outlook, our expectation regarding our future performance, liquidity and capital resources and other non-historical statements in this discussion are forward looking statements. These forward looking statements are subject to numerous risks and uncertainties, some of which are described in more detail in our annual report for fiscal 2017, which we recommend you review in connection with this quarterly report. Our actual results may differ materially from those contained in or implied by any forward looking statements.

Management discussion and analysis of financial performance

Key features

Pertaining to the second quarter 2018 compared to the second quarter 2017:

- ❖ Gross profit margin up 370 bps from 33.8% to 37.5%
- ❖ Pro-forma Adjusted EBITDA increased by 106.3% to R1 million
- ❖ Operating cash before changes in working capital increased by R310 million
- ❖ Retail sales decreased by 6.2% to R5,401 million from R5,761 million impacted by the sale of our Legit business, the exit of non-profitable international brands and the closure of unprofitable stores. Retail sales, excluding Legit, Edgars Shoe Gallery and unprofitable international brands being exited, decreased by 1.6% to R5,372 million whilst like-for-like retail sales decreased by 2.0%
- ❖ Strategies implemented continue to show encouraging results in merchandise categories such as ladieswear and cellular in both Edgars and Jet and childrenswear, footwear and cosmetics in Edgars

Introduction

The second quarter 2018 continued to be impacted by macro-economic factors which continue to weigh on consumers, increased competition from established market participants as well as new market entrants. Our trading environment remains challenging as consumer demand remains weak on the back of tight credit conditions, low growth in consumer disposable income, political uncertainty and restrictive fiscal policy.

Despite the continued challenging environment, pro-forma adjusted EBITDA increased by R17 million or, 106.3% from negative pro-forma adjusted EBITDA of R16 million in the second quarter 2017, to positive pro-forma adjusted EBITDA of R1 million in the second quarter 2018. Retail sales decreased by 6.2% to R5,401 million in the second quarter 2018 from R5,761 million in the second quarter 2017. Excluding retail sales from Edgars Shoe Gallery which we closed in fiscal 2017, our Legit business, which we sold to a third party during fiscal year 2017 including the Legit Botswana business sold in April 2017 and unprofitable brands we are exiting, retail sales decreased by 1.6% from R5,459 million in the second quarter 2017 to R5,372 million in the second quarter 2018. Retail sales were affected by weak consumer demand and fierce price competition through ongoing promotions and clearance activity by competitors as well as our strategic intent to exit non profitable stores. During the second quarter 2018, Edcon opened 32 stores and closed 50 stores. Average retail space excluding Legit decreased by 0.5% compared to the second quarter 2017. Our like-for-like retails sales decreased by 2.0% however positive retail sales growth was achieved in certain merchandise categories such as ladieswear in both Edgars and Jet, childrenswear, footwear and cosmetics in Edgars and Cellular in the Jet division. Cellular retail sales in the Edgars division decreased marginally during the current quarter compared to the second quarter 2017, following improvement initiatives implemented during the quarter. Credit sales decreased slower than during the same period in 2017, decreasing by 3.8% (excluding Legit and Edgars Shoe Gallery 1.6%) compared to a decrease of 18.1% in the second quarter 2017, following our revised arrangement with Absa introduced in the third quarter 2017. Our in-house trade receivables book as at 23 September 2017 was R660 million, up R483 million from R177 million as at 24 September 2016 and has increased by R242 million compared to R418 million as at 25 March 2017. Credit sales contributed 36.3% of total retail sales for the second quarter 2018, an increase of 0.9%, from 35.4% in the second quarter 2017. Cash sales including the Legit business, Edgars Shoe Gallery and the exit of unprofitable international brands decreased by 7.6% (excluding Legit and Edgars Shoe Gallery cash sales decreased 2.7%) as a result of weaker consumer demand in the second quarter 2018.

The gross profit margin for the second quarter 2018 was 37.5%, up 370 bps from 33.8% in the second quarter 2017. The improvement in the gross profit margin was achieved through improved rebates and settlement discounts negotiated with suppliers as well as a reduction in markdowns. The second quarter 2017 was influenced by a significant clearance of excessive aged inventory. Whilst clearance activity decreased compared to the second quarter 2017, it remained higher than anticipated as a result of competitor promotional and markdown activity. First

margins, being margin before promotional and clearance markdowns, improved 140 bps in the second quarter 2018 as the Group anniversaries the introduction of lower price points introduced in fiscal 2017 and input costs were well managed. Gross profit increased by R74 million to R2,024 million from R1,950 million in the second quarter 2017.

Operating cash before changes in working capital increased by R310 million from a cash outflow of R297 million in the second quarter 2017 to a cash inflow of R13 million in the second quarter 2018. The increase is as a result of the improved gross profit Rands generated in the quarter and store expense cost reductions. Working capital generated a R407 million cash outflow in the second quarter 2018 compared to a R41 million inflow in second quarter 2017 as inventory and trade debtors levels increased and the Group's other receivables from associates and third party debtors increased.

Mike Elliot will be joining the Group as Edgars Chief Executive (designate), with effect from 4 December 2017. Mike will assume the role of Chief Executive of Edgars on 1 February 2018 and will replace Andrew Levermore who has resigned from the Group. Mike is a CA(SA), has senior executive experience, strong fashion credentials and a local knowledge of our market, having been Managing Director of Naartjie Clothing and Sunglass Hut.

Trading review

Key operational data

	(unaudited) Retail sales growth (%)				(unaudited) Gross profit margin (%)		
	Q2:FY18 Actual	***Q2:FY17 Actual***	***Q2:FY18 LFL[(1)]***	***Q2:FY17 LFL[(1)]***	***Q2:FY18 Actual***	***Q2:FY17 Actual***	***Pts change[(2)]***
Edgars	(0.9)	(5.9)	(0.8)	(7.2)	41.6	38.5	3.1
Jet	(1.0)	(5.5)	(1.5)	(4.8)	32.4	27.9	4.5
Specialty[(3)]	(41.5)	(9.8)	(12.8)	(7.5)	37.4	34.5	2.9
Edgars Zimbabwe[(4)]	7.3	(19.5)	8.0	(19.6)	44.2	43.5	0.7
Total	(6.2)	(6.8)	(2.0)	(6.8)	37.5	33.8	3.7

	Q2:FY18 Actual	***Q2:FY17 Actual***	***% change***
Total number of stores	1 318	1 548	(14.9)
Average retail space ('000 sqm)	1 543	1 606	(3.9)
Customer credit accounts ('000s)[(5)]	2 577	2 960	(12.9)

(1) Like-for-like sales (same store sales).
(2) Q2:FY18 % change on Q2:FY17
(3) Excluding Legit, Edgars Shoe Gallery and non-profitable brands being exited, retail sales decreased by 11.4% in Q2:FY18 and a decrease of 10.4% in Q2:FY17 . Financial gross profit margin in Q2:FY18 would have been 38.7% and 32.7% in Q2:FY17
(4) On a constant currency basis retail sales increased 7.7% and LFL growth increased by 7.7% in Q2:FY18.
(5) Excludes Edgars Zimbabwe customer credit accounts Q2:FY18 of 156 000 and Q2:FY17 of 170 000.

Edgars

Retail sales in the Edgars division decreased by R22 million or, 0.9% from R2,486 million in the second quarter 2017 to R2,464 million in the second quarter 2018. Our Edgars division, for the second consecutive quarter, achieved positive retail sales growth in ladieswear, childrenswear, footwear and cosmetics, whilst menswear, homeware, cellular and active clothing continued to trade down when compared to the second quarter 2017. Edgars cash sales increased by 0.8% compared to the second quarter 2017 whilst credit sales decreased by 3.0% over the same period. Same store sales decreased by 0.8% compared to the second quarter 2017. Our new strategies continue to show benefits to our customers across certain categories and whilst cellular decreased, the decrease compared to the second quarter 2017 was marginal following improvement initiatives implemented.

Average space decreased by 0.3% to 759 thousand square meters compared to the second quarter 2017. During the second quarter 2018 we opened 2 Edgars stores and 2 Edgars Cosmetics Emporium stores and closed 14 Edgars stores, 1 Edgars sale store, 2 Edgars Emporium stores, 3 Boardmans stores and 1 Red Square store, bringing the total number of stores in the Edgars division to 291.

Gross margin was 41.6% for the second quarter 2018, an increase from 38.5% for the second quarter 2017. The increase is due to supplier discounts received in the second quarter 2018 compared to the second quarter 2017. Lower price points were introduced in the second quarter 2017 and the division did not repeat a number of significant non profitable promotions.

Jet

Retail sales in the Jet division decreased by R22 million, or 1.0%, from R2,306 million in the second quarter 2017, to R2,284 million in the second quarter 2018. The revised arrangement with Absa introduced in the third quarter of fiscal 2017 continues to positively affect credit sales in the Jet division where credit sales increased by 2.7% compared to the second quarter 2017. Cash sales decreased by 2.4% as a result of weak consumer demand and customers taking up our credit offering. Ladieswear and cellular grew positively compared to the second quarter 2017 whilst the remaining categories including menswear, childrenswear, footwear, homeware and hardlines underperformed compared to second quarter 2017. Same store sales decreased by 1.5% compared to the second quarter 2017. The Jet division's strategic initiatives targeted towards improved sales, gross profit, our credit offering to customers and the empowerment of our people continues to show encouraging improvements.

Average space decreased by 0.2% to 652 thousand square meters compared to the second quarter 2017. During the quarter, we opened 17 Jet stores, 10 Jet Mart stores and 1 Edgars Active store and closed 13 Jet stores and 9 Edgars Active stores, bringing the total number of stores in the Discount division to 717.

Gross profit margin increased to 32.4% in the second quarter 2018 from 27.9% in the second quarter 2017 due to improved supplier rebates as well as a reduction in markdown activity.

Specialty

Specialty includes CNA and our mono-branded stores in the second quarter 2018. The second quarter 2017 includes the Legit business, the majority of which was sold in January 2017 and the remaining business in Botswana was sold effective 30 April 2017, as well as the Edgars Shoe Gallery stores which were closed during fiscal 2017.

Total retail sales for the second quarter 2018 was R463 million, a decrease of R329 million, or 41.5% compared to retail sales of R792 million in the second quarter 2017. Excluding Legit, Edgars Shoe Gallery and unprofitable brands being exited such as Lucky Brand, Tom Tailor, River Island, One Green Elephant, Geox, Express and others, retail sales for the second quarter 2018 was R434 million, a decrease of R56 million, or 11.4% compared to the second quarter 2017. Retail sales in CNA decreased by 12.1% whilst the mono-branded stores retail sales decreased by 27.2% (7.9% excluding non-profitable brands being exited).

Average store space decreased by 39.5% to 92 thousand square meters compared to the second quarter 2017 affected by the Legit sale, closure of Edgars Shoe Gallery and the exit of unprofitable international brands. Excluding Legit, average space decreased by 7.3% as unprofitable stores are closed or converted. During the quarter, we closed 7 mono-branded stores, bringing the total number of stores for Specialty to 259 representing 195 CNA stores (includes 11 Samsung stores) and 64 mono-branded stores.

Supplier discounts contributed to an increase in gross margin of 2.9% from 34.5% in the second quarter 2017 to 37.4% in the second quarter 2018. Excluding Legit, Edgars Shoe Gallery and unprofitable brands being exited, gross margin increased 600bps to 38.7% for the second quarter 2018 from 32.7% in the second quarter 2017.

Africa

Sales from countries other than South Africa decreased by 6.9% (11.3% excluding Zimbabwe) compared to the second quarter 2017, and contributed 12.8% (9.6% excluding Zimbabwe) of retail sales for the second quarter 2018, down from 12.9% (10.1% excluding Zimbabwe) in the second quarter 2017. All territories except Zimbabwe reported a decrease in retail sales with Namibia, Swaziland, Lesotho, Zambia and Botswana impacted by the sale of the Legit business. Zimbabwe and Ghana reported an increase in local currency sales. On consolidation, Zimbabwe sales were positively impacted as a result of the Rand weakening against the US dollar. Edcon now has 181 stores outside of South Africa (including 51 in Zimbabwe).

At 23 September 2017, excluding Edgars Zimbabwe, we had 383 thousand fewer credit customers compared to the second quarter 2017 as a result of credit account closures. On a twelve month rolling basis, credit sales (excluding Zimbabwe) decreased from 37.1% of total retail sales in the second quarter 2017 to 35.4% in the second quarter 2018. Edcon's in-house trade receivables book as at 23 September 2017 was R660 million, up R483 million from R177 million as at 24 September 2016 and has increased by R242 million compared to R418 million as at 25 March 2017, following our revised arrangement with Absa implemented in the third quarter 2017. Our new arrangement with Absa will take a period of time to drive meaningful new credit customers and number of credit accounts back to acceptable levels.

On 31 January 2017, in connection with the Restructuring, Edcon Acquisition Proprietary Limited acquired the investment in Hollard Business Associates Proprietary Limited ("HBA") from Edcon Holdings Limited as contemplated in the Restructuring Agreement. The table below presents the consolidated share of insurance profits for the current and prior comparative second quarter 2017 as if Edcon Acquisition Proprietary Limited had included the second quarter 2017 share of profits from the insurance business in its Consolidated Statement of Comprehensive Income:

	Second quarter (unaudited)		
Profits from insurance business - Rm	***2018***	***2017***	***pts change[(1)]***
Share of profits from insurance business second quarter 2018 as reported	124		
3 months share of profits from the insurance business second quarter 2017[(2)]		125	
Share of profits from insurance business	124	125	(0.8)

(1) Q2:FY18 % change on Q2:FY17.

(2) Share of profits from the insurance business for the 3 months ending 24 September 2016 previously included in the Consolidated Statement of Comprehensive Income of Edcon Holdings Limited.

Edcon's share of the profits from the insurance business as presented in the table above, decreased by only R1 million, or 0.8%, from R125 million for the second quarter 2017 (as reported in the Consolidated Statement of Comprehensive Income of Edcon Holdings Limited for second quarter 2017) to R124 million as reported in the Consolidated Statement of Comprehensive Income of the Group on page 17 for the second quarter 2018.

Included in other income on the Statement of Comprehensive Income on page 17 is R116 million in the second quarter 2017 which relates to a brand and administration fee received from Hollard by Edcon Limited, an indirect subsidiary of Edcon Acquisition Proprietary Limited. This fee is not recognised in the second quarter 2018's Consolidated Statement of Comprehensive Income as Edcon Acquisition Proprietary Limited acquired the investment in HBA on 31 January 2017 where after, the Group consolidates its share of the insurance business profits.

Financial review

Summary financial information

Rm	Second quarter (unaudited)		
	2018	***2017***	***% Change[(1)]***
Total revenues	5 904	6 265	(5.8)
Retail sales	5 401	5 761	(6.2)
Gross profit	2 024	1 950	3.8
Gross profit margin (%)	37.5	33.8	3.7 pnt
Pro forma adjusted EBITDA[(2)]	1	(16)	106.3
Capital expenditure	127	105	21.0
Net third party debt including cash and derivatives	5 054	25 894	(80.5)
LTM pro forma adjusted EBITDA	1 440	1 664	(13.5)
Net third party debt/LTM pro forma adjusted EBITDA (times)	3.5x	15.6x	(12.1x)

(1) Q2:FY18 % change on Q2:FY17.

(2) Gross profit is derived from retail sales less cost of sales which excludes advertising costs.

(3) See table on page 9 which reconciles trading profit/loss to adjusted EBITDA and proforma adjusted EBITDA.

Revenues

Total revenues decreased by R361 million, or 5.8%, from R6,265 million in the second quarter 2017 to R5,904 million in the second quarter 2018 due to weaker retail sales which decreased by R360 million compared to the prior period. Retail sales decreased primarily as a result of a reduction in promotion activity compared to the second quarter 2017 which was characterised with aggressive focused clearance activity across all divisions. Additionally, consumer demand remained weak on the back of tight credit conditions, low growth in consumer disposable income, political uncertainty and restrictive fiscal policy. The Group also continued to experience aggressive competition through additional promotional activities on offer by competitors. Credit sales decreased by 3.8% compared to the prior period, while cash sales decreased by 7.6%. Club fees decreased by R29 million as club membership exits across both the Edgars and Jet division were not offset by new club membership drives. The Absa administration fee decreased by R8 million due to a lower number of credit accounts and finance income decreased by R5 million. The decreases in retail sales, club fees, Absa administration fee and finance income was partially offset by an increase of R28 million from manufacturing sales to third parties as third party retailers re-engineer supply chains to shorten lead time of product, an increase in finance charges on trade receivables of R5 million and an increase of R8 million on consolidating the share of profits from the insurance business of R124 million in the second quarter 2018 compared to R116 million received as a brand and administration fee in the second quarter 2017.

Retail gross profit

Gross profit margin increased by 370 bps from 33.8% in the second quarter 2017 to 37.5% in the second quarter 2018. The increase in the gross profit margin was due to negotiated supplier rebates and discounts as well as a reduction in clearance and promotional markdowns albeit still higher than anticipated as competitors increased promotional and clearance activity. Gross profit increased by R74 million to R2,024 million from R1,950 million in the second quarter 2017. First margin in the second quarter 2018 improved 140 bps as the Group anniversaries the introduction of lower price points introduced and input costs were well managed.

Pro forma adjusted EBITDA

The following table reconciles trading profit or loss to adjusted EBITDA and pro forma adjusted EBITDA:

	Second quarter (unaudited)		
Rm	***2018***	***2017***	***% Change[(1)]***
Trading loss	(480)	(456)	(5.3)
Depreciation and amortisation	245	239	
Net asset write off[(2)]	8	-	
EBITDA (gains)/losses from brands exited[(3)]	(2)	14	
EBITDA losses from Edgars Shoes Gallery[(4)]		2	
EBITDA gains from the Legit business[(5)]		(18)	
Other non-recurring costs[(6)]	230	194	
Adjusted EBITDA	1	(25)	104.0
Brand and administration fee income from insurance business[(7)]		(116)	
Share of profits from insurance business[(7)]		125	
Pro forma adjusted EBITDA	1	(16)	106.3

(1) Q2:FY18 % change on Q2:FY17.

(2) Relates to assets written off in connection with the closure of stores, net of related proceeds where applicable.

(3) Adjustment to remove the EBITDA gains or losses achieved from certain brands being exited such as: Express, Geox, Lucky Brand, One Green Elephant, River Island, Tom Tailor and other international brands which the Group has strategically committed to exit.

(4) Adjustment to remove the EBITDA losses or gains from the Edgars Shoe Gallery retail format which the Group closed in fiscal 2017.

(5) Adjustment to remove the EBITDA gains or losses relating to the Legit business sold.

(6) Non-recurring costs in Q2:FY18 related to a debit of R10 million for employee restructure costs, transitional project costs of R18 million, R24 million relating to strategic costs, R5 million of costs for the launch of our revamped customer loyalty Programme, onerous lease costs of R97 million, IT strategy costs of R56 million as the Group transitions from an outsource IT model to a hybrid of outsourcing and in-sourcing model as part of the IT strategy to simplify and upgrade the IT environment, R15 million accrued for non-recurring bonuses and R5 million of other non-recurring costs. Non-recurring costs in Q2:FY17 relate to an R16 million credit released following the head office restructure, onerous lease charges of R144 million, transitional costs incurred of R51 million and strategic initiative costs of R15 million (excludes costs of R167 million relating to the Agreement with creditors and the Restructuring).

(7) The investment in HBA prior to the Restructuring completed in fiscal 2017 was held by Edcon Holdings Limited which was a related party company of Edcon Acquisition Proprietary Limited and the profits from the insurance business were previously consolidated by Edcon Holdings Limited. Previously Edcon Limited received a brand and administration fee from the insurance business arrangement. On 31 January 2017, in connection with the Restructuring, Edcon Holdings Limited sold its investment in HBA to Edcon Acquisition Proprietary Limited and such investment was consolidated from that date. Pro forma adjusted EBITDA is intended to show adjusted EBITDA as if Edcon Acquisition Proprietary Limited Group had always consolidated the share of profits from the insurance business instead of Edcon Holdings Limited.

The table below reconciles previously reported pro-forma adjusted EBITDA by Edcon Holdings Limited and its consolidated subsidiaries for the second quarter 2017 to pro-forma adjusted EBITDA reported above:

	Second quarter (unaudited)
Rm	***2017***
Pro forma adjusted EBITDA previously reported[(1)]	(20)
EBITDA losses from additional brands exited[(2)]	4
Pro forma adjusted EBITDA[(3)]	(16)

(1) Refer to the Unaudited Condensed Consolidated Financial Statements and Quarterly Report of Edcon Holdings Limited for the six month period ended 24 September 2016.

(2) Relates to EBITDA losses from additional international brands targeted and agreed to exit during fiscal 2017.

(3) Proforma Adjusted EBITDA as reported above.

Costs

Rm	Second quarter (unaudited) *2018*	*2017*	*% change*[1]
Store costs	1 649	1 665	(1.0)
Other operating costs[2]	1 110	1 027	8.1
Non-recurring costs[3]	230	194	18.6

(1) Q2:FY18 % change on Q2:FY17.

(2) Other operating costs as per consolidated financial statements, before costs in note (3) below.

(3) Non-recurring costs in Q2:FY18 related to a debit of R10 million for employee restructure costs, transitional project costs of R18 million, R24 million relating to strategic costs, R5 million of costs for the launch of our revamped customer loyalty Programme, onerous lease costs of R97 million, IT strategy costs of R56 million as the Group transitions from an outsource IT model to a hybrid of outsourcing and in-sourcing model as part of the IT strategy to simplify and upgrade the IT environment, R15 million accrued for non-recurring bonuses and R5 million of other non-recurring costs. Non-recurring costs in Q2:FY17 relate to an R16 million credit released following the head office restructure, onerous lease charges of R144 million, transitional costs incurred of R51 million and strategic initiative costs of R15 million (excludes costs of R167 million relating to the Agreement with creditors and the Restructuring).

Total store costs decreased by R16 million, or 1.0%, from R1,665 million in the second quarter 2017, to R1,649 million in the second quarter 2018. The decrease in store costs is due to the closure of unprofitable stores, offset by costs related to new store openings in the second quarter 2018. Thirty-two stores were opened and 50 stores were closed during the second quarter 2018 of which, 28 were in the Jet division. These Jet division stores which were opened during the second quarter 2018, are significantly smaller averaging 351 square meters per store. Rental and manpower costs constituted 60.0% of total costs for the second quarter of 2018.

Other operating costs, excluding non-recurring costs, increased by R83 million, or 8.1%, from R1,027 million in the second quarter 2017 to R1,110 million in the second quarter 2018. Other operating costs increased as a result of an increase in amortisation costs of R16 million following management's re-assessment of the useful lives of the Edgars and Jet brands at the end of fiscal 2017 and an increase in credit costs of R93 million due to an increase in the own funded trade receivables increasing costs and provisioning levels, offset by head office cost reductions.

Non-recurring costs increased by R36 million, or 18.6% in the second quarter 2018 to R230 million, from R194 million for the second quarter 2017. The increase in non-recurring costs relates to a retrenchment cost increase of R26 million, an increase in IT transitional costs of R52 million and a non-recurring bonus cost accrual of R15 million offset by a decrease in onerous lease provision costs of R47 million and a R10 million reduction in other transitional and strategic costs incurred.

Depreciation and amortisation

The depreciation and amortisation charge for the second quarter 2018 increased by 2.5% to R245 million from R239 million in the second quarter 2017. The depreciation charge to profit and loss decreased by R10 million as non-profitable stores were closed and expansion has slowed over the last two fiscal years and the amortisation charge increased by R16 million following management's re-assessment of the useful lives of the Edgars and Jet brands at the end of fiscal 2017 whereby management concluded that a finite useful life of 20 years more appropriately reflects the period over which management is able to estimate the probability of expected future economic benefits resulting from these brands.

Net financing costs

Rm	Second quarter (unaudited) *2018*	*2017*	*% change*
Interest received	18	23	
Financing costs	(357)	(976)	
Net financing costs	(339)	(953)	(64.4)

Net financing costs decreased by R614 million, or 64.4%, from R953 million in the second quarter 2017 to R339 million in the second quarter 2018. This decrease is as a result of the Agreement with Creditors and Restructuring concluded in fiscal 2017 whereby existing debt of Edcon Holdings Limited and its subsidiaries at that time (other than super senior bank debt outstanding under the ZAR Super Senior RCF Term Loan and LC Facility and the EUR Super Senior Liquidity Facility) was delegated up to New Holdco 1 and New Holdco 2, respectively.

Foreign exchange management

Edcon applies a strategy of hedging committed foreign denominated orders, the impact of which appears below the trading profit line. These forward contracts and some inflation in selling prices have absorbed the impact of a fluctuating Rand.

	Second quarter (unaudited)		
Rm	***2018***	***2017***	**% change**
Foreign exchange (losses)/gains	(276)	2 004	
Net movement	(276)	2 004	(113.8)

Edcon manages its foreign exchange risk on liabilities on an ongoing basis. At the end of the second quarter 2018, 58% of the Group's total third party gross debt is hedged by virtue of it being denominated in local currency, whilst 42% is unhedged. The net negative foreign exchange movement during the second quarter 2018 is the result of the Rand depreciating against the U.S. dollar from USD:R12.97 as at 25 June 2017 to USD:R13.08 as at 23 September 2017 and likewise the Rand depreciated against the Euro from EUR:R14.48 as at 25 June 2017 to EUR:R15.61 over the same period. The Rand has appreciated against the U.S dollar when compared to the second quarter 2017, from USD:R13.55 to USD: R13.08 and has depreciated against the Euro from EUR:R15.20 to EUR:R15.61.

Cash flow

Operating cash inflow before changes in working capital increased by R310 million from an outflow of R297 million in the second quarter 2017 to an inflow of R13 million in the second quarter 2018. The increase is mainly due to an increase in gross profit generated through trading and cost reductions in store expenses in the second quarter 2018 compared to the second quarter 2017.

The Group reported a working capital outflow of R407 million in the second quarter 2018, compared to an inflow of R41 million in the second quarter 2017, attributable to:

(i) an increase in trade accounts receivable of R43 million as a result of our new arrangement with Absa, compared to a decrease of R36 million in the second quarter 2017;

(ii) an increase in sundry receivables and prepayments of R169 million in the second quarter 2018 compared to an increase of R47 million in the second quarter 2017. The increase in second quarter 2018 is due to an increase in amounts due from associates and third party debtors;

(iii) no movement on amounts owing to group companies and related parties compared to a cash inflow of R219 million in the second quarter 2017;

(iv) an increase in inventory of R81 million in the second quarter 2018 compared to a decrease of R138 million in the second quarter 2017. The second quarter 2017 decrease was impacted by the aggressive clearance activity in that quarter; and

(v) a decrease in trade and other payables of R114 million in the second quarter 2018 compared to a decrease of R305 million in the second quarter 2017. The decrease in cash outflow is as a result of a decrease in inventory purchases as customer demand has decreased as a result of the macro-economic pressures on customers.

Net cash from operating activities decreased by R115 million from an outflow of R381 million in the second quarter 2017 to an outflow of R496 million in the current quarter, due to the negative working capital movements during the quarter.

Capital expenditure

	Second quarter (unaudited)		
Rm	***2018***	***2017[1]***	***% change***
Edgars	29	37	
Expansion	*16*	*16*	
Refurbishment	*13*	*21*	
Jet	9	22	
Expansion	*(3)*	*14*	
Refurbishment	*12*	*8*	
Specialty[2]	*46*	8	
Expansion	*8*	*1*	
Refurbishment	*38*	*7*	
Edgars Zimbabwe[3]	1	(8)	
IT	32	36	
Other corporate capex	10	10	
	127	105	21.0

(1) Q2:FY17 comparatives have been re-classified for the restructuring of the divisions.
(2) Includes R41 million of fixtures and fittings capitalised from other receivables.
(3) Accrual raised and subsequently reversed in Q2:FY17.

Capital expenditure increased by R22 million to R127 million in the second quarter 2018, from R105 million in the second quarter 2017. In the second quarter 2018, we opened 32 new stores which, combined with store refurbishments, resulted in investments in stores of R43 million (excluding Zimbabwe and R41 million capitalised from other receivables in our Specialty division), compared to the second quarter 2017 during which we opened 8 new stores, resulting in an investment in stores of R67 million (excluding Zimbabwe). Edcon invested R32 million in information systems infrastructure in the second quarter 2018 compared to R36 million in the second quarter 2017.

The Group has planned total capital expenditure of approximately R600 million for fiscal year 2018.

The primary source of short-term liquidity is cash on hand. The amount of cash on hand is influenced by a number of factors including retail sales, working capital levels, supplier and debt service payment terms, timing of payments for capital expenditure projects and tax payment requirements. Working capital requirements fluctuate during each month, depending on when suppliers are paid and when sales are generated, and throughout the year depending on the seasonal build-up of net working capital. Edcon funds peaks in its working capital cycle, which is typically in October and March, with cash flows from operations, drawings under its various facilities and other initiatives.

	Second quarter (unaudited)			
Rm[1]	**Cash**	**PIK**	***2018***	***2017***
Super senior debt				
EUR Refinanced Facility A1 due 31 December 2017[2]	*E+4.00%*	*8.00%*	**681**	
EUR Super Senior Facility due 31 December 2017 – Facility A2[2,3]	*E+4.00%*	*8.00%*	**2 142**	1 880
ZAR Super Senior RCF Term Loan due 31 December 2019[4]	*J+5.00%*	*3.00%*	**2 131**	3 297
ZAR Converted revolving credit Facility until 31 December 2019[4,5]	*J+5.00%*	*3.00%*	**1 254**	
ZAR Super Senior Hedging Debt due 31 December 2017[6]	*JIBAR*	*8.00%*		689
EUR Super Senior Term Loan due 31December 2017[6]	*EURIBOR*	*8.00%*		597
EUR Super Senior PIK notes due 30 June 2019[6]		*8.00%*		1 753
EUR Bridging facility[7]	*E+4.00%*	*8.00%*		315
USD Bridging facility[7]	*L+4.00%*	*8.00%*		372
Senior secured debt				
ZAR term loan due 31 December 2017[6]	*J+7.00%*	*3.00%*		3 299
EUR fixed rate note due 1 March 2018[6]	*9.50%*			10 179
USD fixed rate note due 1 March 2018[6]	*9.50%*			3 701
EUR Senior secured PIK Toggle notes due 30 June 2019[6]	*9.75% (no toggle)*	*12.75% (toggle)*		483
Lease liabilities			**284**	323
Other loans[8]			**182**	287
Gross third party debt			**6 674**	27 175
Derivatives				14
Cash and cash equivalents			**(1 620)**	(1 295)
Net third party debt			**5 054**	25 894

(1) FX rates at end Q2:FY18 were R13.08:$ and R15.61:€; and at the end of Q2:FY17 were R13.55:$ and R15.20:€.
(2) The maturities may be extended in exchange for a cash margin uplift from 4.0% to 9.0% if certain leverage conditions are satisfied.
(3) The maturity may be extended to 30 September 2018 or 31 December 2018 if certain leverage conditions are satisfied.
(4) The maturity may be extended to 31 December 2020 if certain refinancing conditions are satisfied.
(5) The total available facility is R1,825 million of which R575 million was undrawn at 23 September 2017.
(6) This debt was restructured or amended as part of the Restructuring.
(7) Represented the first tranche of bridge funding secured on 8 July 2016, net of fees capitalised.
(8) The portion of this debt relating to Zimbabwe was R123 million in Q2:FY18 and R216 million in Q2:FY17.
(9) At the end of the period R192 million of a Super Senior LC facility were utilised for guarantees and LC's.

The total net third party debt decreased by R20,840 million or 80.5% from R25,894 million as at 24 September 2016 to R5,054 million as at 23 September 2017 as a result of the Agreement with Creditors and the Restructuring effective 1 February 2017.

Net third party debt increased by R846 million compared to that reported as at 24 June 2017 of R4,208 million. The increase is due to the Rand depreciating against the Euro from 24 June 2017 to 23 September 2017 as well as pay-in-kind interest capitalised during the quarter and a decrease in cash and cash equivalents of R31 million.

Events after the reporting period

There has been no events that have occurred following the financial period end which would be material to the financial statements of the Group.

EDCON ACQUISITION PROPRIETARY LIMITED
(“EDCON”)

(REGISTRATION NUMBER 2007/000518/07)

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND QUARTERLY REPORT

FOR THE SIX-MONTH PERIOD ENDED 23 SEPTEMBER 2017

Consolidated Statement of Financial Position (unaudited)

	2017 23 September Rm	2017 25 March Rm	2016 24 September Rm
ASSETS			
Non-current assets			
Properties, fixtures, equipment and vehicles	**2 853**	2 901	2 986
Intangible assets	**8 622**	8 766	10 935
Investment in associates	**-**	-	-
Deferred taxation	**35**	25	127
Employee benefit asset	**47**	47	96
Total non-current assets	**11 557**	11 739	14 144
Current assets			
Inventories	**4 764**	4 358	4 706
Trade receivables	**1 144**	964	798
Amounts owing by group companies and related parties			11
Sundry receivables and prepayments	**1 289**	1 377	1 102
Cash held in escrow on Legit sale		584	
Cash and cash equivalents	**1 620**	1 787	1 295
Total current assets	**8 817**	9 070	7 912
Total assets	**20 374**	20 809	22 056
EQUITY AND LIABILITIES			
Equity attributable to shareholders			
Share capital	**-**	-	-
Share premium	**6 856**	6 856	1 968
Other reserves	**21**	10	64
Retained loss	**(8 346)**	(6 511)	(34 740)
Related party loan derecognised to equity			6 398
	(1 469)	355	(26 310)
Non-controlling interests	**220**	204	219
Total equity	**(1 249)**	559	(26 091)
Non-current liabilities – shareholder's loan			
Related party loan			9 643
Total equity and shareholder's loan	**(1 249)**	559	(16 448)
Non-current liabilities – third parties			
Amounts owing to group companies and related parties	**8 191**	7 673	
Interest-bearing debt	**2 186**	2 178	25 997
Finance lease liability	**249**	260	285
Lease equalisation	**675**	689	661
Onerous lease liability	**312**	242	291
Employee benefit liability	**104**	104	125
Deferred taxation	**42**	41	55
Deferred revenue	**68**	65	66
	11 827	11 252	27 480
Total non-current liabilities	**11 827**	11 252	37 123
Current liabilities			
Interest-bearing debt	**4 204**	3 748	855
Finance lease liability	**35**	45	38
Onerous lease liability	**109**	140	30
Current taxation	**9**	39	48
Deferred revenue	**68**	67	105
Option liability			14
Derivative financial instruments – import FECs	-	32	24
Amounts owing to group companies and related parties	**3**	3	3 854
Trade and other payables	**5 368**	4 924	6 056
Total current liabilities	**9 796**	8 998	11 024
Total equity and liabilities	**20 374**	20 809	22 056
Total managed capital per IAS 1	**13 616**	14 463	10 727

Consolidated Quarterly Statement of Comprehensive Income (unaudited)

	2017 **13 weeks to** **23 September** **Rm**	2016 13 weeks to 24 September Rm
Total revenues	**5 904**	6 265
Revenue - retail sales	**5 401**	5 761
Cost of sales	**(3 377)**	(3 811)
Gross profit	**2 024**	1 950
Other income	**361**	481
Store costs	**(1 649)**	(1 665)
Other operating costs	**(1 340)**	(1 221)
Share of profits from insurance business and losses from associates	**124**	(1)
Trading loss	**(480)**	(456)
Foreign exchange (losses)/gains	**(276)**	2 004
Fair value adjustment for put option		(6)
Fees incurred relating to Restructuring	**4**	(167)
Legit purchase price adjustment	**(26)**	
(Loss)/profit before net financing costs	**(778)**	1 375
Finance income	**18**	23
(Loss)/profit before financing costs	**(760)**	1 398
Financing costs	**(357)**	(976)
(Loss)/profit before taxation	**(1 117)**	422
Taxation	**(10)**	(12)
(LOSS)/PROFIT FOR THE PERIOD	**(1 127)**	410
Other comprehensive income after tax:		
Exchange differences on translating foreign operations	**12**	(3)
Other comprehensive income for the period after tax	**12**	(3)
TOTAL COMPREHENSIVE (LOSS)/PROFIT FOR THE PERIOD	**(1 115)**	407
(Loss)/profit for the period attributable to:		
Owners of the parent	**(1 130)**	407
Non-controlling interests	**3**	3
	(1 127)	410
Total comprehensive (loss)/income for the period attributable to:		
Owners of the parent	**(1 120)**	394
Non-controlling interests	**5**	(25)
	(1 115)	369

Consolidated Half-year Statement of Comprehensive Income (unaudited)

	Note	**2017** **26 weeks to** **23 September** **Rm**	2016 26 weeks to 24 September Rm
Total revenues	3	**11 952**	12 707
Revenue - retail sales		**10 909**	11 734
Cost of sales		**(6 743)**	(7 498)
Gross profit		**4 166**	4 236
Other income		**688**	935
Store costs		**(3 208)**	(3 368)
Other operating costs		**(2 343)**	(2 390)
Share of profits from insurance business and losses from associates	4	**306**	(5)
Trading loss		**(391)**	(592)
Foreign exchange (losses)/gains		**(739)**	2 435
Fair value adjustment for put option			(6)
Fees incurred relating to Restructuring		**(7)**	(379)
Legit purchase price adjustment		**(26)**	
Gain on disposal of Legit Botswana business		**46**	
(Loss)/profit before net financing costs		**(1 117)**	1 458
Finance income		**49**	38
(Loss)/profit before financing costs		**(1 068)**	1 496
Financing costs		**(711)**	(1 849)
Loss before taxation		**(1 779)**	(353)
Taxation		**(45)**	(31)
LOSS FOR THE PERIOD		**(1 824)**	(384)
Other comprehensive income after tax:			
Exchange differences on translating foreign operations		16	(1)
Other comprehensive income for the period after tax		16	(1)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(1 808)**	(385)
Loss for the period attributable to:			
Owners of the parent		**(1 835)**	(387)
Non-controlling interests		**11**	3
		(1 824)	(384)
Total comprehensive (loss)/income for the period attributable to:			
Owners of the parent		**(1 824)**	(388)
Non-controlling interests		**16**	(35)
		(1 808)	(423)

Consolidated Statement of Changes in Equity (unaudited)

	Share capital Rm	Share Premium Rm	Foreign currency translation reserve Rm	Revaluation surplus Rm	Retained loss Rm	Shareholder's loan Rm	Non-controlling interests Rm	Total equity Rm
Balance at 26 March 2016	-	1 968	57	8	(34 353)	6 398	254	(25 668)
(Loss)/profit for the period					(387)		3	(384)
Other comprehensive loss for the period			(1)				(38)	(39)
Total comprehensive loss			(1)		(387)		(35)	(423)
Balance at 24 September 2016	-	1 968	56	8	(34 740)	6 398	219	(26 091)
Balance at 25 March 2017	**-**	**6 856**	**2**	**8**	**(6 511)**		**204**	**559**
(Loss)/profit for the period					**(1 835)**		**11**	**(1 824)**
Other comprehensive income for the period			**11**				**5**	**16**
Total comprehensive (loss)/income			**11**		**(1 835)**		**16**	**(1 808)**
Balance at 23 September 2017	**-**	**6 856**	**13**	**8**	**(8 346)**		**220**	**(1 249)**

Consolidated Quarterly Statement of Cash Flows (unaudited)

	2017 **13 weeks to** **23 September** **Rm**	2016 13 weeks to 24 September Rm
Cash retained from operating activities		
(Loss)/profit before taxation	**(1 117)**	422
Finance income	**(18)**	(23)
Finance costs	**357**	976
Deferred revenue – loyalty programme	**(18)**	(6)
Foreign exchange losses/(gains)	**271**	(2 019)
Fair value adjustment for put option		6
Legit purchase price adjustment	**26**	
Amortisation of intangible assets	**74**	58
Depreciation	**171**	181
Net loss on disposal of properties, fixtures, equipment and vehicles	**8**	
Onerous leases	**60**	157
Project fees accrued		(50)
Losses from associates	**-**	1
Share of profits from insurance business	**177**	
Other non-cash items	**22**	-
Operating cash inflow/(outflow) before changes in working capital	**13**	(297)
Working capital movement	**(407)**	41
(Increase)/decrease in inventories	**(81)**	138
(Increase)/decrease in trade accounts receivable	**(43)**	36
Increase in sundry receivables and prepayments	**(169)**	(47)
Increase in amounts owing to group companies and related parties		219
Decrease in trade and other payables	**(114)**	(305)
Cash outflow from operating activities	**(394)**	(256)
Finance income received	**37**	22
Financing costs paid	**(119)**	(137)
Taxation paid	**(20)**	(10)
Net cash outflow from operating activities	**(496)**	(381)
Cash utilised in investing activities		
Proceeds from disposal of Legit	**608**	
Investment in property, plant and equipment	**(100)**	(113)
Net cash inflow/(outflow) from investing activities	**508**	(113)
Cash effects of financing activities		
(Decrease)/increase in non-current interest-bearing debt	**(17)**	18
(Decrease)/increase in current interest-bearing debt	**(8)**	727
Settlement of option liability		(42)
Decrease in finance lease liability	**(18)**	(20)
Net cash (outflow)/inflow from financing activities	**(43)**	683
(Decrease)/increase in cash and cash equivalents	**(31)**	189
Cash and cash equivalents at the beginning of the period	**1 651**	1 111
Currency adjustments	**-**	(5)
Cash and cash equivalents at the end of the period	**1 620**	1 295

Consolidated Half-year Statement of Cash Flows (unaudited)

	2017 26 weeks to 23 September Rm	2016 26 weeks to 24 September Rm
Cash retained from operating activities		
Loss before taxation	**(1 779)**	(353)
Finance income	**(49)**	(38)
Finance costs	**711**	1 849
Deferred revenue – loyalty programme	**(9)**	6
Foreign exchange losses/(gains)	**720**	(2 512)
Fair value adjustment for put option		6
Legit purchase price adjustment	**26**	
Gain on disposal of Legit Botswana business	**(46)**	
Pension fund holiday	**34**	
Amortisation of intangible assets	**146**	118
Depreciation	**339**	365
Net loss on disposal of properties, fixtures, equipment and vehicles	**18**	5
Onerous leases	**21**	144
Project fees accrued		97
Losses from associates	**-**	5
Share of profits from insurance business	**60**	
Other non-cash items	**19**	30
Operating cash inflow/(outflow) before changes in working capital	**211**	(278)
Working capital movement	**(290)**	(11)
Increase in inventories	**(396)**	(25)
(Increase)/decrease in trade accounts receivable	**(200)**	98
Proceeds from sale of trade accounts receivable	**39**	
Increase in sundry receivables and prepayments	**(74)**	(214)
Increase in amounts owing to group companies and related parties		234
Increase/(decrease) in trade and other payables	**341**	(104)
Cash outflow from operating activities	**(79)**	(289)
Finance income received	**60**	37
Financing costs paid	**(243)**	(432)
Taxation paid	**(83)**	(71)
Net cash outflow from operating activities	**(345)**	(755)
Cash utilised in investing activities		
Proceeds from disposal of Legit	**608**	
Investment in property, plant and equipment	**(380)**	(286)
Net cash inflow/(outflow) from investing activities	**228**	(286)
Cash effects of financing activities		
(Decrease)/increase in non-current interest-bearing debt	**(12)**	28
(Decrease)/increase in current interest-bearing debt	**(17)**	693
Settlement of option liability		(42)
Decrease in finance lease liability	**(21)**	(32)
Net cash (outflow)/inflow from financing activities	**(50)**	647
Decrease in cash and cash equivalents	**(167)**	(394)
Cash and cash equivalents at the beginning of the period	**1 787**	1 693
Currency adjustments	**-**	(4)
Cash and cash equivalents at the end of the period	**1 620**	1 295

Condensed notes to the Consolidated Financial Statements (unaudited)

1.1 Basis of preparation

Edcon Acquisition Proprietary Limited's Consolidated Financial Statements ("Financial Statements") are prepared in accordance with International Financial Reporting Standards ("IFRS") and stated in Rands ("R").

These Financial Statements are presented in accordance with IAS 34 *Interim Financial Reporting*. Accordingly, note disclosures normally included in the annual financial statements have been condensed or omitted.

These Financial Statements have not been audited or reviewed by an auditor. In the opinion of management, all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods have been made.

In preparing these Financial Statements, the same accounting principles and methods of computation are applied as in the Audited Consolidated and Company Annual Financial Statements of Edcon Acquisition Proprietary Limited for the period ended 25 March 2017 and for the period then ended except those relating to new and amended standards and interpretations where applicable.

These Financial Statements should be read in conjunction with the audited Consolidated Financial Statements as at and for the period ended 25 March 2017 as included in the 2017 Annual Report of Edcon Acquisition Proprietary Limited.

Comparability

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial period, except for certain amendments to IFRS standards and interpretations effective as of 25 March 2017, as follows:

- Disclosure Initiative – Amendments to IAS 7
- IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12
- Annual Improvements to IFRS.

These amendments have had no material impact on the Financial Statements.

Restatement

Commencing on 28 May 2017, the Group implemented a restructuring of its internal divisions which affected its divisional reporting segments. The Edcon Group segments comprises of the Edgars division, the Jet division, the Specialty division, the Edgars Zimbabwe division, the Manufacturing division, the Credit and Financial Services division and the Group Services division. The Red Square and Boardmans operations were transferred to the Edgars division from the Specialty division and the Edgars Active operations previously included in the Specialty division have been transferred to the Jet division.

The Edgars division now comprises Edgars, Red Square and Boardmans. The Jet division now comprises Jet, Jet Mart and Edgars Active. The Specialty division comprises CNA, Legit (up to the date of disposal) and our mono-branded operations as well as profits or losses from associates. These reporting segments show the realignment of our operational divisions to accomplish the objectives laid out in the Group's strategic plan following senior management changes.

The comparative financial data in note 2 has been restated for the change in divisional reporting. As a result of this change in divisional reporting, the financial results for the 26-weeks ending 23 September 2017 and 24 September 2016 respectively are not directly comparable to the results for fiscal year 2017.

1.1 Basis of preparation *(continued)*

Going Concern

The Group's financial statements have been prepared on the going concern basis which assumes that the Group will be able to meet the mandatory repayment terms of the Group in the next 12 months.

The Group has recognised a loss after tax of R1 824 million for the period ended 23 September 2017 (24 September 2016: a loss of R384 million) and as at that date, total liabilities exceeded total assets by R 1 249 million (24 September 2016: R26 091 million). To the extent required to maintain the solvency of the Group in the current financial period, amounts owing to group companies and related parties of R8 191 million, except the loan arising from the USD denominated bridging facilities and refinanced New Holdco 1 PIK A-1 notes (the "PIK A-1 notes loan") are subordinated to the claims of all the creditors of the Group. The PIK A-1 notes loan is subordinated to the claims of the ZAR Super Senior RCF term loan, the Converted revolving credit facility, the EUR Super Senior refinance facility and the Refinanced A1 facility. Management is further considering the potential capitalisation and/or redemption of the intra-group debt to maintain the solvency and liquidity of the Group.

Management takes note of any upcoming maturities in the next 12 months including the EUR Super senior refinancing facility and the Refinanced A1 facility maturing 31 December 2017 respectively.

In assessing the refinancing and repayment of obligations, management has considered future sales growth, margin growth, expected operating costs, refinancing of debt, extension of debt, tax settlements of the Group, the terms of the loans owing to Group companies and related parties including the potential capitialisation and/or redenomination of certain intra-group debt, all guarantors and cross guarantors, the fair value of the Group's assets and liabilities and all maturities relating to liabilities for the following 12 months in assessing its ability to trade against operating budgets. Management monitors cash requirements on an ongoing basis for uncertainties which may arise and takes appropriate action where necessary. For example, economic uncertainties may arise which may affect the Group's ability to meet its objectives in terms of sales growth, credit sales, improvements in gross margins, performance of our own credit book, various working capital initiatives and the timing thereof.

Management anticipates repayment requirements will be met out of operating cash flows or from alternative forms of funding such as asset securitisation, refinancing of debt and drawdowns on credit facilities available to the Group including potential capitalisation and/or redenomination of the intra-group debt to maintain the liquidity and solvency of the Group. In reaching its conclusion, and in mitigation of any uncertainties, management has taken into consideration the facilities available under the Converted revolving credit facility, the provision for extension of the EUR Super senior refinancing facility, the potential capitalisation and/or redenomination of intra-group debt, potential securitisations, the ability to sell permitted non-core assets of the Group including but not limited to trade accounts receivable and various working capital initiatives although, there can be no certainty that such risks will arise or that such mitigants will be successful, nor the timing thereof.

Management acknowledges that uncertainty remains over the ability of the Group to meet its funding requirements and to refinance or repay its obligations as they fall due. However, as described above, management has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

If for any reason the Group is unable to continue as a going concern, it would have an impact on the Group's ability to realise assets at their recognised values, in particular goodwill and other intangible assets and to extinguish liabilities in the normal course of business at the amounts stated in these financial statements.

1.2 Significant movements in the Consolidated Statement of Financial Position

Inventories

Inventories increased by R406 million from R4 358 million as at 25 March 2017 to R4 764 million as at 23 September 2017. The increase is due to the seasonality of the business as inventory increases ahead of the peak trading season.

Non-current amounts owing to group companies and related parties

Non-current amounts owing to group companies and related parties increased by R518 million from R7 673 million as at 25 March 2017 to R8 191 million as at 23 September 2017. This increase is due to the deterioration in the ZAR: USD and ZAR: EUR exchange rates since 25 March 2017 which increased the obligation related to the Group's foreign denominated amounts owing to group companies and related parties and the Group recognised related unrealised accounting exchange losses in the Statement of Comprehensive Income.

Current interest-bearing debt

Current interest-bearing debt increased by R456 million from R3 748 as at 25 March 2017 to R4 204 million as at 23 September 2017. This increase is due to the deterioration in the ZAR: EUR exchange rate since 25 March 2017 as well as PIK interest capitalised during the period.

Trade and other payables

Trade and other payables increased by R444 million from R4 924 million as at 25 March 2017 to R5 368 million as at 23 September 2017. The increase is due to an increase in purchases compared to the fiscal 2017 period to date based on seasonality changes in the business and the increase in inventory ahead of the peak trading season.

	2017 26 weeks to 23 September Rm	2016 26 weeks to 24 September Rm
2. SEGMENTAL RESULTS		
2.1 Revenues		
Edgars	**5 155**	5 284
Jet	**4 735**	4 831
Specialty[1]	**920**	1 560
Edgars Zimbabwe[2]	**378**	416
Manufacturing	**135**	83
Credit and Financial Services	**580**	495
Group Services	**49**	38
	11 952	12 707
2.2 Retail sales		
Edgars	**5 020**	5 118
Jet	**4 647**	4 725
Specialty[1]	**920**	1 560
Edgars Zimbabwe[2]	**322**	331
	10 909	11 734
2.3 Number of stores		
Edgars	**291**	310
Jet	**717**	700
Specialty[1]	**259**	487
Edgars Zimbabwe[2]	**51**	51
	1 318	1 548
2.4 Operating (loss)/profit before net financing costs		
Edgars	**(263)**	(239)
Jet	**(252)**	(259)
Specialty[1]	**(121)**	(206)
Edgars Zimbabwe[2]	**32**	12
Manufacturing	**(48)**	(22)
Credit and Financial Services	**367**	315
Group Services[3]	**(832)**	1 857
	(1 117)	1 458

[1] The Specialty division for the 26-weeks to 23 September 2017 comprises of our CNA and mono-branded businesses as well as the Botswana Legit business up until 30 April 2017 and the share of profits or losses from associates. The 26-weeks to 24 September 2016 comprises our CNA, mono-branded, Edgars Shoe Gallery, Legit businesses and the share of profits or losses from associates.

[2] Edgars Zimbabwe is disclosed as a separate segment as the business activities are measured separately.

[3] Included in the allocation to the Group Services segment is foreign exchange gains or losses and non-recurring related expenditure.

		2017 26 weeks to 23 September Rm	2016 26 weeks to 24 September Rm
3.	**REVENUES**		
	Retail sales	**10 909**	11 734
	Club fees	**223**	279
	Finance charges on trade receivables	**167**	164
	Share of profits from insurance business	**306**	
	Administration fee from insurance business		234
	Finance income	**49**	38
	Administration fee	**163**	175
	Manufacturing sales to third parties	**135**	83
		11 952	12 707
4.	**SHARE OF PROFITS OF ASSOCIATES AND INSURANCE BUSINESS**		
	Share of profits from insurance business	**306**	
	Share of losses from other associates	**-**	(5)
		306	(5)

5. **FINANCIAL INSTRUMENTS**

The Group uses a three-level hierarchy to prioritise the inputs used in measuring fair value. Level 1 has the highest priority and level 3 has the lowest. Fair value is principally applied to financial assets and financial liabilities. These are measured at fair value on a recurring basis, aggregated by the level in the fair value hierarchy within which these measurements fall.

The following table presents the Group's assets and liabilities that are measured at fair value at the period end:

	Total Rm
23 September 2017	
Financial liabilities	
Derivative financial instruments – import FECs	**-**
Total financial liabilities	**-**
25 March 2017	
Financial liabilities	
Derivative financial instruments – import FECs	32
Total financial liabilities	32
24 September 2016	
Financial liabilities	
Option liability	14
Derivative financial instruments – import FECs	24
Total financial liabilities	38

5. FINANCIAL INSTRUMENTS *(continued)*

The above instruments, excluding the option liability, were classified as level 1 inputs. The fair value under level 1 is based quoted market prices in active markets.

The option liability is classified as level 3 inputs. The fair value under level 3 is based on unobservable inputs that are supported by little or no market activity and are financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant judgement or estimation.

All financial instruments have been recognised in the Consolidated Statement of Financial Position and there are no material difference between their fair values and carrying values, except for the notes issued.

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

Liquid resources, trade accounts receivable and loans: the carrying amounts reported in the Statement of Financial Position approximate fair values due to the short period to maturity of these instruments.

Short-term interest-bearing debt (excluding notes issued): 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, due to the short period to maturity of these instruments.

Notes issued: the notes that were issued were initially recognised at fair value and thereafter were reported at the exchange rate ruling at the reporting date. The market values at 24 September 2016 for the listed notes was R5 634 million and was determined based on the closing prices of the relevant stock exchange.

6. CONTINGENT LIABILITY

The National Credit Regulator ("NCR") referred a complaint to the National Consumer Tribunal ("NCT") in terms of section 140(2) (b) of the National Credit Act, 32 of 2005 ("NCA") wherein the NCR asked for a declaration by the NCT that Edcon had contravened the NCA by requiring the payment of club fees in terms of its credit agreements. The NCT issued a judgement on 24 April 2017, which the Group has appealed to the High Court on 10 May 2017 following consultation with Senior Counsel. The Appeal, as filed, has the effect of staying the Sanctions hearing until the Appeal process has been finalised. The matter will be heard by the High Court on 15 March 2018.

Based on the above, there is a possible obligation which may or may not arise depending on the outcome of the Appeal process.

7. EVENTS AFTER THE REPORTING DATE

There has been no events that have occurred following the financial period end which would be material to these financial statements.

Corporate Information

Edcon Acquisition Proprietary Limited
Incorporated in the Republic of South Africa
Registration number 2007/000518/07

Executive directors
BJ Brookes* (Managing Director and Chief Executive Officer, appointed 30 September 2015), R Vaughan (Chief Financial Officer, appointed 27 July 2016), T Clerckx** (Chief Financial Officer, resigned 22 July 2016).

*AUSTRALIAN **BELGIAN

Group Secretary
CM Vikisi

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