1. Accounting Policies

The financial information of the Massmart Group is prepared on the historical cost basis.

The financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice. The principle accounting policies adopted are set out below. These policies have been consistently applied except as disclosed in note 4.

Revenue

Revenue of the group comprises net sales excluding value added tax, royalties, franchise fees, interest received, investment income, finance charges and management fees.

Sales of goods are recognised when title has passed. Interest income is accrued on a time basis, by reference to the principal outstanding and the interest rate applicable. Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Property, plant, equipment and depreciation

Freehold land and buildings and leasehold improvements are shown at valuation or at cost. Valuations are carried out by the directors annually and by professional valuers from time to time. Freehold land and buildings and leasehold improvements are classified as investment properties and are not depreciated. Other lease premiums and leasehold improvements are written-off over the lease periods or such shorter periods as may be appropriate.

Other property, plant and equipment is shown at their original cost less accumulated depreciation. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets concerned, as follows:

- Plant, vehicles and fixtures — 4 to 5 years
- Computer equipment and software — 3 to 5 years
- Leasehold improvements — Lease period

Computer software

Computer software is capitalised where expenditure incurred will lead to future benefits accruing to the group. Costs are amortised on the straight-line basis over estimated useful lives of the software concerned.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Temporary differences arise from differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of assessable tax profit. In general deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities which affects neither the tax profit nor the accounting profit at the time of the transaction.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Massmart Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Inventories

Inventories, which consist of merchandise, are valued at the lower of cost and net realisable value. Cost is calculated on the weighted average or retail methods.

Retirement benefit costs

Payments to defined contribution plans are charged as an expense as they fall due. There are no open defined benefit plans in the Massmart Group.

Interests in associates

An associate is an enterprise over which the Massmart Group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. The carrying amount of such interests is reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

Where a group enterprise transacts with an associate of the Massmart Group, unrealised profits and losses are eliminated to the extent of the Massmart Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

Consolidation

The group annual financial statements incorporate the annual financial statements of the company and its subsidiaries. The operating results of the subsidiaries are included from the effective dates of acquisition and up to the effective dates of disposal. Premiums arising on the acquisition of subsidiaries as well as intangible assets acquired are written-off against share premium, and, to the extent that share premium is exhausted, are written-off against retained income. These amounts represent the excess of the price paid over the fair value of the net tangible assets acquired at date of acquisition

All significant inter-company transactions and balances have been eliminated.

Leased assets

Assets held under finance leases are capitalised at their fair value at the date of acquisition. The corresponding liability to the lessor, net of finance charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the differences between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to income on a straight-line basis over term of the relevant lease.

Foreign currency transactions

Transactions in foreign currencies are accounted for at the rate of exchange ruling on the date of transaction. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement. Massmart has a policy of covering forward all its foreign exchange transactions of a trading nature.

Foreign currency balances

Assets and liabilities denominated in foreign currencies have been accounted for at the rates of exchange ruling at the balance sheet date, or at the forward rate determined in forward exchange contracts. Gains and losses arising on translation are dealt with in the income statement.

Foreign investments

The balance sheets of consolidated foreign subsidiaries are translated into South African Rand at the rate of exchange ruling at the balance sheet date. The related income statements are translated at the weighted average rates of exchange for the year. Gains and losses on the translation of foreign subsidiaries are taken directly to non-distributable reserves. Provisions are made to cover remittance risks where appropriate.

On consolidation, the assets and liabilities of the group's foreign operations are translated at exchange rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are appropriately accounted for according to the nature of the foreign investment.

Financial instruments

- Financial assets:
  The group's principal financial assets are trade receivables, bank balances and cash, and equity investments.

  Trade receivables are stated at their normal value as reduced by appropriate allowances for estimated irrecoverable amounts.

  Long-term investments, where the group is not in a position to exercise significant influence or joint control, are stated at cost less permanent impairment loss, where the investment's carrying value exceeds its estimated recoverable amount.

- Financial liabilities and equity instruments:
  Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. Debt instruments issued which carry a right to convert to equity that is dependent on the outcome of uncertainties beyond the control of both the group and the holder, are classified as liabilities except where the possibility of conversion is certain.

  Financial liabilities include finance lease obligations, interest-bearing bank loans and overdrafts, convertible loan notes and trade and other payables.

  The accounting policy adopted for finance lease obligations is outlined above.

  Interest-bearing bank loans and overdrafts and convertible loan notes are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

  Trade and other payables are settled at their nominal value.

  Equity instruments are recorded at the proceeds received, net of direct issue costs.

- Off balance sheet derivative instruments:
  Derivative financial instruments, comprising currency forward contracts and options, are not recognised in the financial statements on inception. The policy adopted for instruments designed to hedge foreign exchange risks is outlined elsewhere in the notes to the Annual Financial Statements.

	Group		Company	
	2000	1999	**2000**	1999
	Rm	Rm	**Rm**	Rm
2. Revenue				
Sales	**10 634,6**	8 916,0		
Royalties and franchise fees	**0,6**	0,4		
Property rentals	**2,4**	–		
Interest from investments	**24,6**	68,5	**–**	20,9
Interest from trade receivables	**50,9**	51,7		
Interest from subsidiaries	**–**	–	**30,9**	46,9
Dividends received	**23,8**	9,0	**75,8**	26,9
Less: set-off of interest paid on related liability	**(21,6)**	(7,9)		
Management and administration fees	**10,6**	7,3		
	10 725,9	9 045,0	**106,7**	94,7

3. Operating income

	Group 2000 Rm	Group 1999 Rm	Company 2000 Rm	Company 1999 Rm
Credits to operating income include:				
Interest on trade receivables	**50,9**	51,7		
Dividends received	**23,8**	9,0	**75,8**	26,9
Less: set-off of interest paid on related liability	**(21,6)**	(7,9)		
Foreign exchange profit	**1,0**	0,6		
Reversal of previous write-downs of inventories to net realisable value	**7,1**	–		
Net profit on disposal of plant and equipment	**4,3**	1,0		
Charges to operating income include:				
Depreciation (owned assets):				
Fixtures, fittings, plant and equipment	**43,4**	33,2		
Computer equipment	**14,3**	13,0		
Motor vehicles	**5,4**	7,2		
Leasehold improvements	**2,4**	1,5		
Depreciation (leased assets):				
Office equipment	**0,1**	0,1		
Cost of sales	**9 155,8**	8 032,4		
Foreign exchange loss	**2,7**	0,3	**0,1**	–
Operating lease charges:				
Land and buildings	**226,7**	181,1		
Plant and equipment	**2,0**	1,1		
Motor vehicles	**7,8**	–		
Computers	**12,0**	–		
Other	**1,0**	1,9		
Net loss on disposal of plant and equipment	**0,6**	2,2		
Remuneration other than to employees for:				
Technical services	**0,6**	–		
Administrative and outsourcing services	**122,2**	81,8		
Consulting	**4,5**	0,7		
Auditors' remuneration:				
Audit fee:				
Current year	**2,2**	1,6		
Prior year under-provision	**0,1**	–		
Other services	**0,4**	0,2		

4. Changes in accounting policies

During the year, the group changed its accounting policies as noted on page 19 in the directors' report. The comparative results have been appropriately restated. The effect of these changes are as follows:

	Net income before taxation Rm	Taxation Rm	Minority interests Rm	Net income/ (loss) Rm
2000 Group				
Increase/(decrease) in net income as a result of:				
Leave pay	0,3	(0,1)	–	0,2
Post-retirement medical aid costs	(2,2)	0,7	–	(1,5)
Store pre-opening costs	12,3	(3,7)	–	8,6
Deferred taxation	–	(15,1)	–	(15,1)
	10,4	(18,2)	–	(7,8)
1999 Group				
(Decrease)/increase in net income as a result of:				
Leave pay	(1,7)	0,5	–	(1,2)
Post-retirement medical aid costs	(2,9)	0,9	–	(2,0)
Store pre-opening costs	(11,6)	3,5	–	(8,1)
Deferred taxation:				
Policy change	–	63,7	(0,1)	63,6
Rate change	–	(6,1)	–	(6,1)
	(16,2)	62,5	(0,1)	46,2
Prior Year Group				
Restatement of opening retained income in respect of prior year adjustments for:				
Leave pay	(18,5)	6,5	–	(12,0)
Post-retirement medical aid costs	(8,8)	3,1	–	(5,7)
Store pre-opening costs	(0,4)	0,1	–	(0,3)
Deferred taxation	–	19,8	–	19,8
	(27,7)	29,5	–	1,8

5. Net interest paid

	Group		Company	
	2000 Rm	1999 Rm	**2000 Rm**	1999 Rm
Interest received from investments	**24,6**	68,5	**–**	20,9
Interest received from subsidiaries	**–**	–	**30,9**	46,9
Interest paid on borrowings	**(50,9)**	(81,2)	**–**	(11,5)
Interest paid on convertible debentures	**(30,9)**	(56,3)	**(30,9)**	(56,3)
Net interest paid	**57,2**	69,0	**–**	–

	Net income before taxation Rm	Taxation Rm	Minority interests Rm	Net income/ (loss) Rm
6. Exceptional items				
2000 Group				
Restraints of trade	(6,8)	0,4	–	(6,4)
Losses on closure	(2,4)	–	–	(2,4)
Other	(0,6)	–	–	(0,6)
	(9,8)	0,4	–	(9,4)
1999 Group				
Restraints of trade	(4,2)	–	–	(4,2)
Loss on disposal of property, plant and equipment to Affinity Logic in terms of outsourcing contract	(48,9)	14.3	–	(34,6)
Destruction of CCW store in Lesotho	(3,9)	1,0	1,2	(1,7)
Provisions in respect of:				
Costs associated with property refinancing deal	(16,3)	–	–	(16,3)
Profit warranty	(155,1)	46,5	–	(108,6)
Profit on property refinancing deal	122,6	–	–	122,6
Profit on disposal of intellectual property	193,3	–	–	193,3
Donation received from Wooltru Limited	12,4	–	–	12,4
Profit on disposal of land and buildings	16,5	–	–	16,5
	116,4	61,8	1,2	179,4
2000 Company				
Write off of investment	(1,9)	–	–	(1,9)
1999 Company				
Donation received from Wooltru Limited	12,4	–	–	12,4

	Group		Company	
	2000 Rm	1999 Rm	**2000 Rm**	1999 Rm
7. Taxation				
Current year:				
South African normal tax	**16,7**	18,7		
Deferred tax:				
Timing differences	**14,7**	(68,5)		
Rate adjustment	**–**	6,1		
Foreign tax	**5,5**	6,1		
	36,9	(37,6)		
Prior year under/(over) provision:				
South African normal tax	**0,4**	(0,2)		
Deferred tax	**0,1**	–		
Foreign tax	**(0,3)**	–		
	0,2	(0,2)		
Tax effect of participation in export partnerships	**0,3**	–		
	37,4	(37,8)		

	Group		Company	
	2000	1999	2000	1999

7. Taxation (continued)

The group participates in export partnerships. As the group is liable for the tax effect of the participation, the amount is classified as a tax charge.

	Group 2000	Group 1999	Company 2000	Company 1999
	%	%	%	%
The rate of taxation is reconciled as follows:				
Standard rate	30,0	30,0	30,0	30,0
Exempt income	(7,6)	(52,8)	(31,0)	(30,0)
Disallowable expenditure	2,8	1,2	1,0	–
Foreign tax rate differences	(0,4)	(1,4)		
Assessed losses	0,5	0,2		
Withholding taxation	(0,5)	–		
Adjustment to prior year	0,1	(0,1)		
Rate adjustment	–	3,2		
Other	1,0	–		
Effective rate	25,9	(19,7)	–	–
	Rm	Rm	Rm	Rm
Estimated assessed losses available for set off against future taxable income:				
South African	181,1	172,3		
Foreign	4,5	–		

8. Dividends declared

	Group 2000	Group 1999	Company 2000	Company 1999
Provision for final cash dividend	18,5	–	18,5	–
Total dividends declared	18,5	–	18,5	–

9. Premium on acquisition and intangible assets written off

	Group 2000	Group 1999	Company 2000	Company 1999
Reversal of amounts previously set off, now written off against share premium	325,3	–		
Goodwill on acquisition written off	–	(379,1)		
Total amount reversed/(written off)	325,3	(379,1)		

	Group		Group	
	2000 Rm	1999 Rm	2000 Cents	1999 Cents
10. Earnings per share				

Headline earnings per share

The calculation of earnings and headline earnings per share is based on a weighted average of 138 769 242 (1999 - 113 522 050) ordinary shares. The calculation of headline earnings per share is reconciled as follows:

Net income attributable to ordinary shareholders	**103,9**	227,2	**74,8**	200,1
Adjustments after taxation and minorities:				
Exceptional items - capital	**6,4**	(198,1)	**4,6**	(174,5)
Losses on closure costs	**2,4**	–	**1,7**	–
(Profit)/loss on disposal of movable assets	**(2,9)**	18,0	**(2,1)**	15,8
Other	**0,6**	–	**0,5**	–
Headline earnings	**110,4**	47,1	**79,5**	41,4

Proforma headline earnings per share

The calculation of proforma headline earning per share is based on a weighted-average of 155 799 242 (1999 - 140 880 649) ordinary shares. This has been adjusted to show the impact on earnings per share had the convertible debentures been converted into ordinary shares for the whole of both financial years. The calculation is reconciled as follows:

Headline earnings	**110,4**	47,1	**79,5**	41,4
Adjustment in respect of the after-tax effect of interest paid on the convertible debentures	**21,6**	39,4	**5,0**	20,0
Proforma headline earnings	**132,0**	86,5	**84,5**	61,4

Diluted headline earnings per share

The calculation of diluted headline earnings per share is based on a weighted-average of 139 116 412 (1999 - 140 616 617) ordinary shares. The calculation is reconciled as follows:

Headline earnings	**110,4**	47,1	**79,5**	41,4
Adjustment for impact of the potential conversion of convertible debentures/issuing of ordinary shares	**–**	39,4	**(0,2)**	20,0
Diluted headline earnings	**110,4**	86,5	**79,3**	61,4

	Group		Company	
	2000 Rm	1999 Rm	2000 Rm	1999 Rm
11. Directors' emoluments				
Executive directors:				
Remuneration	**5,3**	4,9		
Pension	**0,3**	0,2		
Restraints of trade	**5,0**	2,6		
Benefits from share schemes	**3,9**	1,7		
	14,5	9,4		

	Group		Company	
	2000 R'000	1999 R'000	2000 R'000	1999 R'000
12. Ordinary share capital				
Authorised				
500 000 000 (1999 - 100 000 000)				
Ordinary shares of 1 cent each	**5 000**	1 000	**5 000**	1 000
Issued				
157 077 388 (1999 - 9 348 234)				
Ordinary shares of 1 cent each	**1 571**	93	**1 571**	93
	1 571	93	**1 571**	93

The company listed on The Johannesburg Stock Exchange on 4 July 2000 by way of a private placement of 40 million ordinary shares at an issue price of R12,50 each. Cash proceeds of R500 m were raised, before settling share issue and listing costs of approximately R22 m.

The directors have the authority, until the next Annual General Meeting, to issue the unissued ordinary shares of the company.

The following options granted to employees in terms of the share incentive scheme have not yet been exercised: 6 421 389 (1999 602 550) Massmart ordinary shares at considerations ranging from R2,42 to R14,61 (1999 R2,42 to R13,54). The options are exercisable in annual 25% tranches between October 2000 and April 2004.

	Group		Company	
	2000 Rm	1999 Rm	2000 Rm	1999 Rm
13. Share premium				
Opening balance	**–**	154,2	**523,1**	262,2
Premium on shares issued during the year	**430,3**	262,6	**416,8**	262,6
Share issue costs	**–**	(1,7)	**–**	(1,7)
Intangible assets written off on acquisition of businesses	**(430,3)**	(415,1)	**(939,9)**	–
	–	–	**–**	523,1

14. Non-distributable reserves				
Foreign currency translation reserve	**6,4**	4,3		
Capital redemption reserve fund	**0,2**	0,2		
Arising on acquisition of Makro SA (Proprietary) Limited	**34,5**	34,5		
Deferred taxation on trademarks written off against shareholders equity	**123,2**	134,5		
Premium on acquisition of shares in subsidiaries	**–**	(87,7)		
Amortisation of trademarks in subsidiaries	**60,5**	48,8		
	224,8	134,6		

	Group		Company	
	2000	1999	**2000**	1999
	Rm	Rm	**Rm**	Rm
15. Long-term liabilities				
Unsecured				
Convertible debentures	**–**	410,0	**–**	410,0
Letters of allocation	**–**	1,6		
Minority shareholders' loans	**6,7**	8,2		
Purchase of subsidiary	**–**	96,1	**4,3**	96,1
Less: Included in accounts payable	**–**	(93,4)	**(4,3)**	(91,8)
	6,7	422,5	**–**	414,3
Secured				
Capitalised finance leases, secured by movable assets of R0,4 m (1999 R0,4 m), repayable in equal monthly instalments over one to five years at an interest rate of 1% below prime overdraft rate.	**0,1**	0,2		
Less: Included in short-term borrowings	**(0,1)**	(0,1)		
	–	0,1	**–**	–
Total long-term liabilities	**6,7**	422,6	**–**	414,3

The minority shareholders' loans are interest bearing at market-related rates and have no fixed terms of repayment.

16. Long-term provisions

Provision for profit warranty	**101,6**	132,7		
Less: Payable in ensuing year included in short-term provisions	**(37,8)**	(33,4)		
Provision for post-retirement medical aid contributions	**13,8**	11,8		
	77,6	111,1		

The provision for profit warranty relates to the 1998 agreement entered into with Affinity Logic Holdings (Proprietary) Limited and is repayable over three periods to June 2003 as follows:

	Year	Rm
	2001	37,8
	2002	54,7
	2003	9,1
		101,6

	Group		
	Cost Rm	Accumulated depreciation Rm	Net book value Rm
17. Property, plant and equipment			
2000			
Owned assets:			
Freehold land and buildings	58,1	–	58,1
Fixtures, fittings, plant and equipment	387,5	178,3	209,2
Computer equipment	74,3	24,2	50,1
Leasehold improvements	21,7	8,4	13,3
Motor vehicles	18,9	9,5	9,4
	560,5	220,4	340,1
Leased assets:			
Office equipment	0,5	0,2	0,3
Total	561,0	220,6	340,4
1999			
Owned assets:			
Freehold land and buildings	46,5	–	46,5
Fixtures, fittings, plant and equipment	313,6	147,9	165,7
Computer equipment	42,5	10,5	32,0
Leasehold improvements	16,9	6,2	10,7
Motor vehicles	40,5	12,3	28,2
	460,0	176,9	283,1
Leased assets:			
Office equipment	0,5	0,1	0,4
Total	460,5	177,0	283,5

	Owned assets Rm	Leased assets Rm	Total Rm
Reconciliation of property, plant and equipment			
2000			
Opening net book value	283,1	0,4	283,5
Additions	160,2	–	160,2
Disposals	(37,7)	–	(37,7)
Depreciation	(65,5)	(0,1)	(65,6)
Closing net book value	340,1	0,3	340,4
1999			
Opening net book value	194,2	0,5	194,7
Additions	251,4	–	251,4
Disposals	(107,6)	–	(107,6)
Depreciation	(54,9)	(0,1)	(55,0)
Closing net book value	283,1	0,4	283,5

	Group		Company	
	2000 Rm	1999 Rm	2000 Rm	1999 Rm
18. Interest in subsidiaries				
Shares at cost, less amounts written off			**50,0**	143,9
Amounts owing (to)/by subsidiaries			**(157,7)**	785,4
			(107,7)	929,3

Details of all material subsidiaries are shown in note 30.

19. Investment in associate

	Group 2000 Rm	Group 1999 Rm	Company 2000 Rm	Company 1999 Rm
The Retail Value Chain (Proprietary) Limited (unlisted):				
At cost	**–**	–	**–**	–
Amounts owing	**0,9**	12,4	**0,9**	12,4
Amounts written off	**(0,6)**	(11,5)	**–**	–
Share of retained income	**2,0**	1,0	**–**	–
	2,3	1,9	**0,9**	12,4

Directors' valuation of the investment in the associate company is R59,4 m (1999 R5,8 m). Massmart owns 25% of The Retail Value Chain (Proprietary) Limited which owns 47,5% of Affinity Logic Holdings (Proprietary) Limited.

20. Other investments

	Group 2000 Rm	Group 1999 Rm	Company 2000 Rm	Company 1999 Rm
Listed investments				
NetActive Limited - at cost	**10,0**	10,0	**10,0**	10,0
Market value R3,0 million (1999 R7,5 million)				
Unlisted investments				
Letters of allocation	**–**	0,2		
Shares at cost	**0,5**	0,3		
Amounts owing	**–**	0,3		
Preference shares – Fullimput 65 (Pty) Ltd	**177,9**	154,1	**177,9**	154,1
Less: Set-off of related long-term liability	**(132,3)**	(110,7)		
	46,1	44,2	**177,9**	154,1
	56,1	54,2	**187,9**	164,1

The directors value the unlisted investments at R46,1 m (1999 R44,2 m). The preference share investment represents 100 fixed rate redeemable cumulative par value preference shares of R1 each in Fullimput 65 (Proprietary) Limited, issued at a premium of R1 450 871,88 per share. A long-term liability of the Group is secured by a cession of the preference shares.

	Group		Company	
	2000 Rm	1999 Rm	2000 Rm	1999 Rm
21. Loans				
Housing loans to Massmart Holdings directors:				
Balance at beginning of year	**2,0**	4,2		
Advances	**–**	0,9		
Repayments	**(0,8)**	(3,1)		
Balance at end of year	**1,2**	2,0		
Other housing and staff loans	**10,7**	12,8		
Employee share purchase trust	**68,2**	60,9		
Other	**13,4**	0,4		
	93,5	76,1		

22. Inventories

Merchandise	**1 355,7**	1 134,5		
Goods in transit	**–**	0,3		
	1 355,7	1 134,8		

Inventories are carried at the lower of cost and net realisable value.

Inventories carried at net realisable value included above	**80,2**	40,3		

23. Deferred taxation

The major movements during the period are analysed as follows:				
Asset at beginning of year	**242,6**	41,8		
(Written off to)/released from income for the year	**(14,8)**	68,5		
Charge to equity for the year arising on acquisition of business	**–**	138,3		
Effect of change in tax rate	**–**	(6,0)		
Effect of export partnerships	**(13,9)**	–		
Net asset at end of year	**213,9**	242,6		
The major components of deferred taxation are analysed as follows:				
Trademarks written off against shareholders' equity	**123,1**	134,6		
Unutilised taxation losses	**53,2**	49,4		
Temporary differences	**25,0**	58,6		
Export partnerships	**12,6**	–		
	213,9	242,6		

At the balance sheet date, the Group has unutilised tax losses of R8,4 m (1999 R7,7 m) available for offset against future taxable profits, which have not been recognised as deferred tax assets due to the unpredictability of future profit streams. Temporary differences arising in connection with the interest in the associate are insignificant.

	Group	
	2000 **000's**	1999 000's
24. Share incentive scheme		
Total shares and options available to the scheme	**30 000**	1 402
Opening balance of shares and options	**1 343**	897
New shares and options offered to employees during the year, and impact of the 12:1 capitalisation issue	**20 522**	777
Shares repurchased from/redeemed by employees and options lapsed/redeemed during the year	**(244)**	(331)
Closing balance of shares and options	**21 621**	1 343

The closing balance includes 15 200 000 shares and 6 421 000 options.

25. Retirement benefit information

Most full-time permanent staff of Massmart Group are members of the Massmart Group Retirement Fund or the Saccawu National Provident Fund. These Funds are defined contribution funds and are subject to the Pension Fund Act, 1956. The Massmart Group Retirement Fund requires an actuarial valuation every three years. At the last statutory valuation of the fund as at 28 February 1999, the valuator reported that the fund was in sound financial position. No alterations to the contribution rate were recommended. Interim valuations were performed on 28 February 1997 and 28 February 2000. These valuations also reflected a sound financial position.

Contributions for the year ended 30 June 2000 amounted to R39,2 m (1999 R36,0 m).

	Group		Company	
	2000 **Rm**	1999 Rm	**2000** **Rm**	1999 Rm
26. Capital commitments				
Commitments in respect of capital expenditure approved by directors:				
Contracted for	**0,6**	12,4		
Not contracted for	**109,6**	103,2		
	110,2	115,6		

This expenditure, which relates primarily to new store openings in Massdiscounters and store refurbishment, will be financed from existing cash resources, by cash generated from the group's activities and from borrowings against available facilities.

	Group		Company	
	2000 Rm	1999 Rm	**2000** Rm	1999 Rm

27. Forward exchange contracts

The following foreign exchange forward contracts existed in respect of transactions falling due after the balance sheet date and which were not yet reflected in the financial statements:

US $	**42,9**	36,3		
GBP	**0,2**	4,5		
Euro $	**1,2**	0,6		
It lire	**–**	1,2		
FF	**0,3**	1,6		
NLG	**0,1**	0,9		
AUD	**–**	1,6		

The forward rate varies between R6.43 and R7.286 per US$ and the latest maturity date is 15 June 2001.

28. Statement of changes in equity

	Share capital Rm	Share premium Rm	Non-distributable reserve Rm	Translation reserve Rm	Retained income/ (loss) Rm	Outside share-holders Rm	Total Rm
Balance as at 30 June 1999	0,1	–	134,6	–	(91,0)	12,4	56,1
Net income for the year	–	–	–	–	107,9	–	107,9
Exchange differences arising on translation	–	–	–	2,1	–	–	2,1
Transfers from/(to) retained income arising as a result of:							
- amortisation of trademarks in subsidiaries	–	–	8,6	–	(8,6)	–	–
- release of deferred taxation on trademarks written off against shareholders' equity	–	–	(11,5)	–	11,5	–	–
Intangible assets written off:							
- on acquisition of businesses	–	(416,9)	86,7	4,3	325,9	–	–
- increase in shareholding in subsidiary	–	(13,5)	–	–	–	–	(13,5)
- share of associate's premium on acquisition	–	–	–	–	(0,6)	–	(0,6)
Issue of shares	1,5	20,4	–	–	–	–	21,9
Conversion of debentures	–	410,0	–	–	–	–	410,0
Changes in outside shareholders	–	–	–	–	–	(1,8)	(1,8)
Income attributable to outside shareholders	–	–	–	–	(4,0)	4,0	–
Dividends declared	–	–	–	–	(18,5)	–	(18,5)
Balance as at 30 June 2000	**1,6**	**–**	**218,4**	**6,4**	**322,6**	**14,6**	**563,6**

	Share capital Rm	Share premium Rm	Non-distributable reserve Rm	Translation reserve Rm	Retained income/ (loss) Rm	Outside share-holders Rm	Total Rm
28. Statement of changes in equity (continued)							
Balance as at 30 June 1998	0,1	154,2	13,0	–	54,1	19,0	240,4
Prior year adjustment (see note 4)	–	–	–	–	1,8	–	1,8
Net income for the year	–	–	–	–	230,3	–	230,3
Exchange differences arising on translation	–	–	–	0,7	–	–	0,7
Transfers from/(to) retained income arising as a result of:							
- amortisation of trademarks in subsidiaries	–	–	8,4	–	(8,4)	–	–
- release of deferred taxation on trademarks written off against shareholders' equity	–	–	(13,4)	–	13,4	–	–
Intangible assets written off:							
- on acquisition of businesses	–	(415,2)	–	–	(367,5)	–	(782,7)
- increase in shareholding in subsidiary	–	–	(8,4)	(0,7)	–	–	(9,1)
- share of associate's premium on acquisition	–	–	–	–	(11,5)	–	(11,5)
Issue of shares	–	261,0	–	–	–	–	261,0
Deferred taxation arising on trademark written off against shareholders equity	–	–	135,0	–	–	–	135,0
Changes in outside shareholders	–	–	–	–	(0,1)	(9,7)	(9,8)
Income attributable to outside shareholders	–	–	–	–	(3,1)	3,1	–
Balance as at 30 June 1999	0,1	–	134,6	–	(91,0)	12,4	56,1

	Group		Company	
	2000 Rm	1999 Rm	**2000 Rm**	1999 Rm
29. Contingent liabilities				
Forward exchange contracts	**44,7**	46,8	**–**	–
Promissory notes	**1 661,0**	1 975,0	**–**	–
Guarantees in respect of creditors of subsidiary company	**36,2**	35,0	**35,0**	35,0
Other	**1,8**	1,8	**–**	–
	1 743,7	2 058,6	**35,0**	35,0

Promissory notes represent commitments under non-cancellable operating leases entered into by Masstores (Proprietary) Limited.

	Group 2000 Rm			
29. Contingent liabilities (continued)				
Operating leases				
Land and buildings				
From 1 July 2000 - 30 June 2001	**229,0**			
From 1 July 2001 - 30 June 2005	**910,0**			
Subsequent to 30 June 2005	**1 258,6**			
	2 397,6			
Plant, furniture and equipment				
From 1 July 2000 - 30 June 2001	**1,8**			
From 1 July 2001 - 30 June 2005	**5,2**			
Subsequent to 30 June 2005	**0,4**			
	7,4			
Other				
From 1 July 2000 - 30 June 2001	**2,4**			
From 1 July 2001 - 30 June 2005	**20,7**			
	23,1			

	Number of shares in issue 000's	Effective holding %	Shares at book value R'000	Indebtedness R'000
30. Subsidiaries and associate				

Details of Massmart's material subsidiary companies and associate company are as follows:

Name of company				
Masstores (Proprietary) Limited	5 217	100	–	(288 671)
Makro SA (Proprietary) Limited	2 200	100	20 732	–
Makroffice (Proprietary) Limited	6	100	7	–
The Massmart Trust	–	100	–	(441)
Shield Buying & Distribution (Proprietary) Limited	4 443	100	29 216	52 000
Massmart Management & Finance Co. (Proprietary) Limited	–	100	–	59 332
CCW Holdings (Proprietary) Limited	–	100	5	18 790
Drop-Inn Group Holdings (Proprietary) Limited	864	100	–	–
Imagegate Limited (U.K.)	GBP 100	100	–	1 336
The Retail Value Chain (Proprietary) Limited *	1	25	–	–
Final Call Investments (Proprietary) Limited	–	100	–	–
			49 960	(157 654)
Aggregate trading profits (R'000)			101 193	
Aggregate trading losses (R'000)			22 143	

* Associate company

	Group		Company	
	2000	1999	**2000**	1999
	Rm	Rm	**Rm**	Rm

31. Related party transactions

As at the date of this report, the largest shareholder of the Massmart Group is Wooltru Limited with a holding of 41% (1999 63%). On 30 June 2000, Massmart was a subsidiary of Wooltru Limited.

Trading transactions

During the period, group companies entered into the following trading related transactions.

	Group 2000 Rm	Group 1999 Rm	Company 2000 Rm	Company 1999 Rm
Fees paid:				
Wooltru Finance (Proprietary) Limited	**1,5**	1,5		
Affinity Logic (Proprietary) Limited	**119,2**	86,9		
Fees received:				
Affinity Logic (Proprietary) Limited	**6,9**	3,3		
CNA Holdings (Proprietary) Limited	**3,7**	3,3		
Constantia Greetings (Proprietary) Limited	**–**	0,7		

The above transactions were carried out at market related prices.

Financing transactions

During the period, group companies entered into the following financing related transactions.

	Group 2000 Rm	Group 1999 Rm	Company 2000 Rm	Company 1999 Rm
Interest paid:				
Wooltru Finance (Proprietary) Limited	**70,2**	93,8		
Affinity Logic (Proprietary) Limited	**1,1**	2,0		
Interest received:				
Wooltru Finance (Proprietary) Limited	**0,2**	10,2		
CNA Holdings (Proprietary) Limited	**13,1**	20,4		
Constantia Greetings (Proprietary) Limited	**3,5**	4,8		
Affinity Logic (Proprietary) Limited	**–**	4,8		

The above transactions were carried out at market related rates.

Directors' remuneration

Remuneration paid to directors is disclosed in note 11 above.

32. Notes to the cash flow statements

	Group 2000 Rm	Group 1999 Rm	Company 2000 Rm	Company 1999 Rm
32.1 Net cash inflow from operations				
Cash flow from trading:				
Net income before taxation	**144,3**	191,5	**73,9**	39,3
Adjustment for:				
Depreciation	**65,6**	55,0	**–**	–
Net (profit)/deficit on disposal of property, plant and equipment	**(3,7)**	33,6	**–**	–
Exceptional items not relating to trading activities	**–**	(173,2)	**1,9**	(12,4)
Foreign exchange loss	**2,7**	0,3	**–**	–
Interest income	**(24,6)**	(68,5)	**(30,9)**	(67,8)
Interest expense	**81,8**	137,5	**30,9**	67,8
Investment income	**(2,2)**	(1,1)	**(75,8)**	(26,9)
	263,9	175,1	**–**	–

	Group		Company	
	2000	1999	**2000**	1999
	Rm	Rm	**Rm**	Rm
32. Notes to the cash flow statements (continued)				
32.2 Working capital movements				
Increase in inventories	**(220,9)**	(160,5)	**–**	–
(Increase)/decrease in accounts receivable	**(158,9)**	2,9	**–**	–
(Increase)/decrease in pre-payments	**(21,2)**	10,2	**(4,6)**	–
Increase/(decrease) in accounts payable	**246,0**	141,2	**(0,2)**	(43,3)
Decrease in provisions	**(36,3)**	(7,6)	**–**	–
	(191,3)	(13,8)	**(4,8)**	(43,3)
32.3 Taxation paid				
Normal taxation:				
Amounts owing/(owed) at beginning of year	**23,3**	(2,8)	**(0,5)**	(0,5)
Amounts (owing)/owed at end of year	**(16,1)**	(23,3)	**0,5**	0,5
Deferred taxation:				
Amounts (charged to)/released from the income statement	**(14,8)**	62,4	**–**	–
Amounts re-allocated from accounts payable	**(0,6)**	–	**–**	–
Amounts acquired from purchase of subsidiary	**–**	9,3	**–**	–
Taxation charged to the income statement	**37,4**	(37,8)	**–**	–
	29,2	7,8	**–**	–
32.4 Exceptional items not relating to trading activities				
Proceeds from disposal of intellectual property	**–**	193,3	**–**	–
Proceeds from property refinancing deal	**–**	122,6	**–**	–
Donation received from Wooltru Limited	**–**	12,4	**–**	12,4
Provision in respect of profit warranty	**–**	(155,1)	**–**	–
	–	173,2	**–**	12,4
Unutilised portion of long-term provision	**–**	132,7	**–**	–
	–	305,9	**–**	12,4
32.5 Investment to maintain operations				
Land and buildings/leasehold improvements	**2,2**	1,5		
Vehicles	**2,5**	14,5		
Plant and equipment	**13,6**	32,8		
Computer equipment	**2,6**	26,9		
	20,9	75,7		
32.6 Investment to expand operations				
Land and buildings/leasehold improvements	**16,0**	28,2		
Vehicles	**2,7**	2,5		
Plant and equipment	**90,3**	57,5		
Computer equipment	**30,3**	15,2		
	139,3	103,4		

	Group		Company	
	2000	1999	**2000**	1999
	Rm	Rm	**Rm**	Rm
32. Notes to the cash flow statements (continued)				
32.7 Proceeds on disposal of property, plant and equipment				
Land and buildings/leasehold improvements	**–**	18,6		
Vehicles	**0,1**	4,5		
Plant and equipment	**22,5**	1,2		
Computer equipment	**0,1**	49,6		
	22,7	73,9		
32.8 Investments in subsidiaries				
Fair value of assets acquired in subsidiaries:				
Cash and cash equivalents	**–**	86,0		
Inventories	**–**	421,4		
Accounts receivable	**–**	91,0		
Pre-payments	**–**	12,8		
Property, plant and equipment	**–**	72,3		
Deferred taxation	**–**	3,2		
Trade payables	**–**	(450,1)		
Provisions	**–**	(118,9)		
Taxation	**–**	(9,3)		
Long-term liabilities	**–**	(67,3)		
Loans and investments	**–**	0,1		
Minorities	**–**	(0,7)		
Goodwill and trademark	**12,3**	737,7		
Total purchase price	**12,3**	778,2		
Less: cash and cash equivalents of subsidiary	**–**	(86,0)		
Cash flow on acquisition net of cash and cash equivalent acquired	**12,3**	692,2	**–**	–
Net change in interest in subsidiary companies	**–**	–	**(26,7)**	532,7
	12,3	692,2	**(26,7)**	532,7
32.9 Cash and cash equivalents at end of year				
Cash on hand and balances with banks	**133,9**	101,5	**–**	–
Wooltru group companies:				
Money market	**(217,8)**	74,6	**–**	–
Other	**(4,1)**	0,3	**–**	(3,9)
Other - accrued interest	**–**	(0,1)	**–**	–
Short-term investments	**–**	7,5	**–**	–
Cash and cash equivalents at end of year	**(88,0)**	183,8	**–**	(3,9)
Effect of exchange rate changes	**–**	0,3	**–**	–
Cash and cash equivalents at end of year	**(88,0)**	184,1	**–**	(3,9)

33. Financial instruments

Interest rate management

Funding requirements/investment of surplus funds are managed through Wooltru Finance (Pty) Ltd, a fellow subsidiary. The borrowing from Wooltru Finance (Pty) Ltd as at 25 June 2000 was R217,8 m.

Liquidity risk management

There is no liquidity risk as the group generates sufficient cash resources.

33. Financial instruments (continued)

Credit risk management

Credit risk is pro-actively managed throughout the group. Adequate resources are allocated to control this risk, and where necessary third party insurance is obtained.

Currency risk management

All foreign denominated trading liabilities are covered by forward exchange contracts. Foreign denominated assets are not covered by forward exchange contracts. Foreign businesses are accounted for in accordance with the accounting policy as disclosed on page 24.

Fair value of financial instruments

The estimated fair values of all assets and liabilities approximate their book value, with the exception of:

	Book value Rm	Fair value Rm
Long term liability:		
Loan from Mettle Merchant Bank (see note 20)	(132)	(192)
Cumulative preference shares:		
Fullimput 65 (Pty) Ltd (see note 20)	178	228
Commitments:		
Promissory notes outstanding (see note 29)	(1,661)	(644)
Provision:		
Affinity Logic-provision for profit warranty (short and long term) (see note 16)	(102)	(82)

34. Segmental reporting

The group is organised into four chains for operational and management purposes, being Massdiscounters, Makro, Shield and CCW. Massmart reports its primary business segment information on the basis of the four chains.

	Total 2000 Rm	Corporate 2000 Rm	Mass-discounters 2000 Rm	Makro 2000 Rm	Shield 2000 Rm	CCW 2000 Rm
Primary business segments:						
Sales	10 634,6	–	3 844,7	3 922,6	1 724,0	1 143,3
Operating income	211,3	(35,1)	121,1	55,1	39,3	30,9
Net interest (paid)/received	(57,2)	(81,2)	(23,6)	33,6	8,8	5,2
Exceptional items	(9,8)	(6,4)	–	(3,4)	–	–
Total assets	3 059,7	(553,5)	1 641,5	1 129,2	473,5	369,0
Total liabilities	2 496,1	(663,9)	1 582,2	848,9	406,0	322,9
Net capital expenditure	110,2	2,2	65,5	17,2	3,5	21,8
Depreciation	65,6	1,6	42,7	16,8	1,9	2,6
Non-cash items other than depreciation	(1,8)	(1,0)	(3,6)	2,6	0,2	–
Cash flow from operating activities	(11,6)	(136,4)	(101,9)	150,0	44,2	32,5

The corporate figures include certain consolidation entries.

34. Segmental reporting (continued)	Total 1999 Rm	Corporate 1999 Rm	Mass-discounters 1999 Rm	Makro 1999 Rm	Shield 1999 Rm	CCW 1999 Rm
Primary business segments:						
Sales	8 916,0	–	3 209,5	3 394,7	1 480,7	831,1
Operating income	144,1	(7,9)	51,1	44,4	34,2	22,3
Net interest (paid)/received	(69,0)	(84,8)	(28,7)	25,6	10,6	8,3
Exceptional items	116,4	131,4	(2,2)	(7,3)	(1,6)	(3,9)
Total assets	2 649,5	(452,8)	1 417,5	971,5	407,0	306,3
Total liabilities	2 593,4	(51,7)	1 301,4	750,6	313,1	280,0
Net capital expenditure	105,2	3,7	100,8	(13,4)	2,3	11,8
Depreciation	55,0	1,6	31,4	19,5	1,7	0,8
Non-cash items other than depreciation	(64,1)	(87,7)	52,6	(4,8)	(16,8)	(7,4)
Cash flow from operating activities (excluding exceptional items)	85,3	(112,5)	21,6	114,1	51,0	11,1

The corporate figures include certain consolidation entries.

	Total 2000 Rm	South Africa 2000 Rm	Rest of Africa 2000 Rm	Total 1999 Rm	South Africa 1999 Rm	Rest of Africa 1999 Rm
Geographic segments:						
Sales	10 634,6	9 786,7	847,9	8 916,0	8 196,3	719,7
Segment assets	3 059,7	2 793,2	266,5	2 649,5	2 520,4	129,1
Capital expenditure	110,2	107,8	2,4	105,2	95,8	9,4