

MASSMART



Massmart Mission

Massmart is a **management group, invested** in a portfolio of **focused distribution formulae**, each reliant on **operational excellence** as the foundation of **price leadership** in the distribution of mainly **branded consumer goods**.

The group actively seeks the continual improvement of performance from the portfolio and its parts through **technology-enabled sharing or agglomeration of capabilities, knowledge, resources, influence and information**.

To this end, leadership throughout the group is **incentivised predominantly on group performance**.

Massmart Vision

Customers will regard Massmart's trading formulae as their **first choice** when buying those categories of merchandise offered by the formulae.

Suppliers will regard Massmart as a **valued partner** in accessing and understanding their end consumers.

Career retailers will regard Massmart as the **preferred employer** in the distribution industry.

Investors will regard Massmart as a portfolio rendering **superior total returns at relatively lower risk** than other companies listed in the retail sector of the Johannesburg Stock Exchange.

The **community** will regard Massmart as a **sensitive, caring, trustworthy, South African** corporation.

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Financial Highlights for the Year to June 2001

	2001	2000	Change
Group summary	Rm	Rm	%
Sales	11 568,4	10 357,7	12
EBITA*	277,0	201,5	37
Headline earnings	216,0	106,2	103
Proforma headline earnings*	216,0	127,8	69
Cash generated from operations	344,4	64,6	437
Shareholders' equity	1 204,6	576,7	109
Total assets	4 143,4	3 067,6	35
Ordinary share performance	Cents/share	Cents/share	%
Earnings			
Headline	109,9	76,5	44
Proforma headline*	109,9	82,0	34
Attributable	91,4	71,8	27
Dividends	36,0	9,4	283
Net asset value	611,2	367,1	66
Financial statistics*	%	%	
Operating margin	2,4	2,0	
Return on capital employed	37,0	54,2	
Return on shareholders' equity	19,1	25,0	
Debt: equity	1,2	15,7	

* See explanatory notes forming part of the Five Year Review on pages 2 and 3.

Prospects

For the first 16 weeks of the 2002 financial year, sales growth including acquisitions is in excess of 25%. This growth is consistent across all product categories. Comparable store sales growth for the same period exceeds 12%.

In the absence of a deterioration in Southern African economic conditions, Massmart is poised to produce earnings growth in excess of sales growth and the retail sector, in line with the Group's expectations on listing.

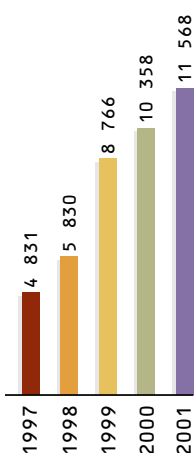
Five Year Review

	Notes	Compound growth % p.a.	2001	2000	1999	1998	1997
Operating results (Rm)							
Sales		24	11 568,4	10 357,7	8 765,5	5 830,1	4 831,4
Earnings before interest, tax and amortisation (EBITA)		67	277,0	201,5	135,3	67,4	35,8
Net interest received / (paid)			9,4	(56,6)	(67,9)	(0,8)	(16,2)
Headline earnings		108	216,0	106,2	38,5	33,5	11,5
Proforma headline earnings	1		216,0	127,8	77,9	33,5	11,5
Balance sheet (Rm)							
Shareholders' equity	2	52	1 204,6	576,7	447,9	208,8	225,5
Net cash / (borrowings)			498,8	(83,4)	192,2	131,0	7,9
Total assets		35	4 143,4	3 067,6	2 627,6	1 535,6	1 249,5
Inventories			1 555,7	1 318,5	1 107,7	552,9	427,3
Accounts payable			2 247,1	2 034,1	1 796,9	1 176,6	833,9
Cash flow (Rm)							
Cash generated from operations		16	344,4	64,6	167,0	154,3	192,8
Net cash flow from operating activities			262,1	(18,9)	91,4	136,7	165,2
Net cash flow from investing activities			(645,8)	(155,6)	(958,0)	(98,0)	(85,2)
Net cash flow before financing activities			(383,7)	(174,4)	(560,7)	38,7	80,0
Profitability and gearing ratios (%)							
Operating margin	3	35	2,4	2,0	1,5	1,2	0,7
Return on capital employed	4		37,0	54,2	46,7	31,8	19,7
Return on shareholders' equity	5		19,1	25,0	23,7	15,4	5,2
Debt: equity	6		1,2	15,7	51,1	(40,1)	43,3
Liquidity ratios							
Current ratio			1,0	1,0	1,0	1,0	1,0
Quick ratio			0,5	0,4	0,4	0,6	0,6

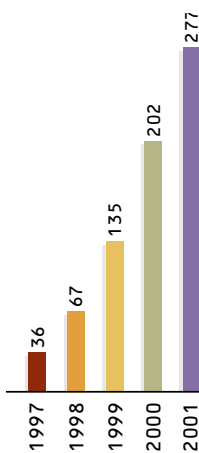
Note: All figures have been restated to reflect the deconsolidation of Makro Zimbabwe.

2 Trading performance

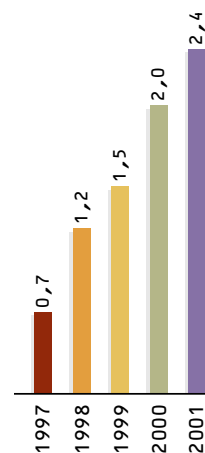
Sales (Rm)



EBITA (Rm)



Operating margin (%)



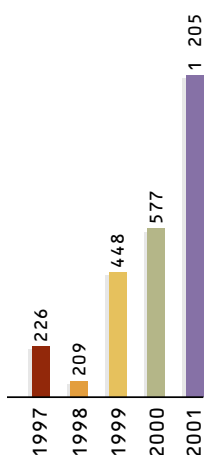
	Notes	Compound growth % p.a.	2001	2000	1999	1998	1997
Per Share Performance (cents)							
Headline earnings			109,9	76,5	33,9	37,8	13,8
Diluted headline earnings			109,8	76,3	55,3	37,7	13,7
Attributable earnings			91,4	71,8	192,7	39,7	20,8
Dividends			36,0	9,4	-	-	-
Trading cash flow	7	19	170,8	182,0	126,1	118,3	84,2
Operating cash flow	8	(9)	133,4	(13,5)	80,5	154,2	197,9
Net asset value		23	611,2	367,1	368,6	230,6	270,0
Stock Exchange Information							
Shares traded (millions)			27,1				
Percentage of shares traded (%)			13,8				
Share price (cents):							
High			1 455				
Low			760				
Closing			930				

Notes:

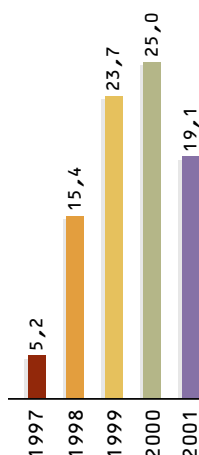
1. Proforma headline earnings apply to the 1999 and 2000 years only and represent headline earnings with the after-tax convertible debenture interest of R21,6m (2000) and R39,4m (1999) added back respectively.
2. In 1999 the convertible debentures of R410m have been included with shareholders' equity. These debentures were converted to ordinary shares on 1 January 2000.
3. Operating margin is the percentage of EBITA to sales.
4. The return on capital employed is the percentage of EBITA to the average of the opening and closing balances of capital employed (at historical net book value excluding the Jumbo goodwill and deferred tax assets).
5. The return on shareholders' equity is the percentage of headline earnings to the average of the opening and closing balances of shareholders' equity.
6. Debt comprises interest-bearing liabilities less cash balances.
7. Trading cash flow per share is calculated using the cash flow from trading, before working capital movements.
8. Operating cash flow per share is calculated using the net cash flow from operations, after working capital movements, excluding exceptional items.

Equity performance

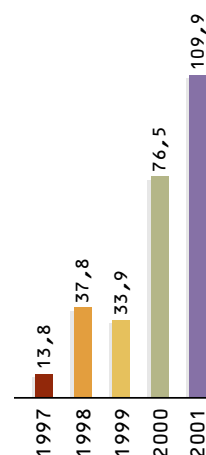
Shareholders' equity (Rm)



Return on shareholders' equity (%)



Headline EPS (c)



Letter from the Executive Directors

Overview

In the eleventh year of its existence - its first as a public company - Massmart recorded solid progress towards its strategic, organisational and financial objectives.

Organic growth was enhanced as each of the chains refined its business model, sharpened its customer focus and strengthened its management, concurrently exploring opportunities to create value through intra group collaboration. Future growth was augmented and the group expanded its product and market reach, with its eighth acquisition, a transaction that complied totally with Massmart's espoused acquisition criteria.

In anticipation of continued development and growth, executive leadership was strengthened by several key appointments, a structure was devised to address the differing demands of today's and tomorrow's business and additional governance practices were installed.

Despite a testing first half, a strong recovery in the second led to record sales, profits and earnings per share for the year. Improved management of assets and working capital led to high cash flows and a strengthened balance sheet.

Group sales rose 11,7% to R11,6bn and operating profit rose 33% to R268m.

The 34% growth in proforma headline earnings per share to 109,9 cents is more representative of the group's 2001 trading performance than the 44% growth in headline earnings per share.

A significant improvement in cash flow from operations to R344m substantially strengthened the balance sheet.

A detailed report on the financial performance and position of your group appears on pages 22 and 23.

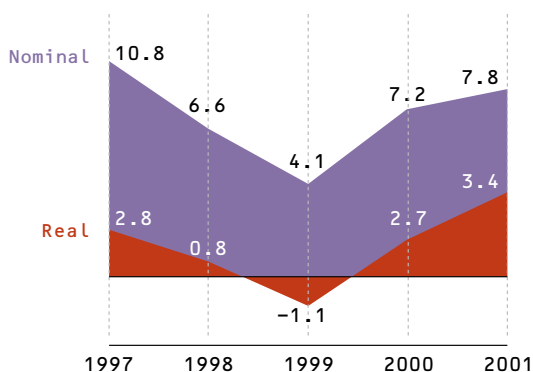
Financial statements alone do not provide shareholders with an appropriate valuation mechanism for our business. This report is therefore a manifestation of our quest for constant improvement in qualitative and quantitative disclosure, however uncomfortable this may be in times of underperformance.

Environment

The following factors inter alia, contributed to a highly competitive trading environment during the past year.

- Mediocre economic growth - Real gross domestic product and private consumption expenditure grew 3,0% and 3,1% respectively over the period. Real retail sales, as reported by the Central Statistical Services, grew 3,4% during the year compared to 2,7% in the previous year. Growth improved in the second quarter of 2001. The Retail Liaison Committee reported nominal sales growth of 8,4%.

South African Retail Industry Sales Growth (%)



- Low consumer confidence - Consumer confidence, as measured by the Stellenbosch Bureau of Economic Research, was generally negative across all economic and demographic segments throughout the financial year, with the exception of the first quarter of 2001, when it was neutral.
- Changing discretionary spending - Unemployment and AIDS among lower income groups have depressed consumption, while uncertainty and insecurity have dulled the shopping intensity of the upper income LSM 7 and 8 groups which account for approximately 19% of all households, 70% of household income and 83% of discretionary spending, excluding services, food and clothing. Consistent with international trends, South African retailers' share of consumer spending declined in favour of services. Spending on housing, communication, transport, health and education increased across middle and upper income groups.
- Illegal trading - The laudable efforts of the South African Revenue Service to outlaw customs duty and VAT evasion have yet to penetrate all sectors of retail and wholesale distribution. We look forward to the time when the distribution of non-durable, fast moving consumer goods is regularised in respect of source, duties and tax. Besides the obvious loss of revenue to the fiscus, illegal trading undermines the profitability of legitimate industry participants and acts as a deterrent to fixed investment and job creation.

- Excess retail space - Aggressive retail property development over many years has resulted in excess, frequently poorly located, retail space relative to the size and location of the South African market. Poor financial returns and falling trading densities continue to fuel consolidation of chains, rationalisation of space and a review of trading formats, across all sectors of retail trade.

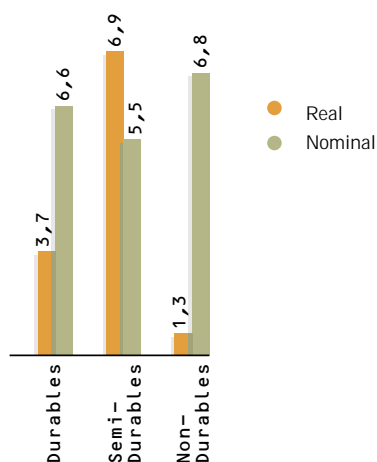
In this environment consumer choice is high and loyalty is low. Blatant value is required to attract and retain custom.

Strategy

With few exceptions, the mass market in most countries is served by national or international consumer brands. Although it is possible for retailers in these markets to differentiate themselves by managing other variables in the retail marketing mix, price becomes an essential weapon when competing retailers sell identical branded products. In this situation, sustained low price is reliant on low cost procurement and the maintenance of low cost operating practices, both very difficult to achieve without a critical mass relative to competitors.

Massmart's initial strategic objective was therefore to grow the company to a size that enabled it to compete effectively in selected product categories, against competitors who were substantially larger

South African Retail Industry Category Growth (2000/2001) (%)



Letter from the Executive Directors (continued)

at the time. Research showed that little opportunity existed to grow an additional single retail or wholesale chain to the required scale. What was possible was broader, deeper, market penetration and the growth of selected product categories, through the acquisition, consolidation and growth of a portfolio of retail and wholesale formulae. To this end a strategy of aggressive acquisitive and organic growth was pursued.

A predicted limitation of this approach was the duplication of head offices, management teams and functions, which would result in a relatively higher cost base than a single chain competitor of similar size. The response to this was to define a basis by which the costs of a multi-divisional group could be more than offset by value-adding internal collaboration and joint initiatives. Four major areas of intra-group opportunity were initially identified: expense reduction through improved efficiency, margin enhancement through consolidated supplier relationships, market penetration through co-ordinated management of the retail mix, and executive development through inter-company, cross-functional assignments. This approach led to the creation of the group's "Chain and Channel" strategy, which stresses the need for the management of each chain to be dedicated to the needs of a well defined target market, while concurrently participating in collaborative activities which enhance value by leveraging the resources, influence and talent of the group.

Without focused chains customers cannot be satisfied, without collaboration between the chains shareholders suffer. There is no trade-off.

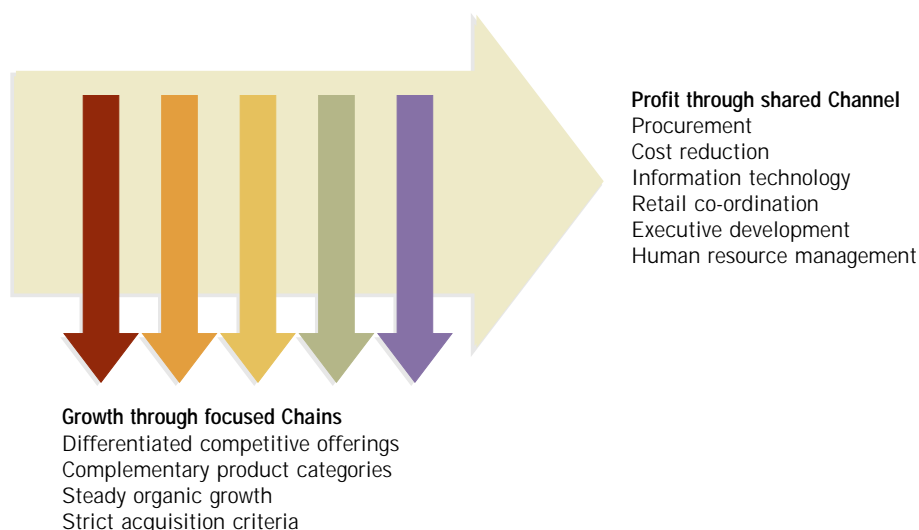
The delicate balance between these seemingly opposing objectives is ensured by structures, processes and incentivisation mechanisms, which fuel entrepreneurship at the expense of bureaucracy.

The Chains

The growth of the Massmart portfolio of chains is founded on the following principles:

- An aggressive competitive trading stance in each chain, comprising a unique mix of location, format, product categories, merchandise ranges, promotional activity and services, each directed at a clearly defined market segment.
- A strong participation in one or more of the seven large product categories which collectively constitute 85% of Massmart's sales.
- The development of an expanding regional presence.
- Favourable cash characteristics.
- A quest for high comparable store sales growth.

The Massmart Business Model



- Acquisitions that are value accretive, enhance category influence, add strategic value to Massmart and are enhanced by Massmart's ownership and collaborative activity.

Over the past year the application of Massmart's portfolio principles led to improved performance in all chains and a major acquisition which resulted in a fifth division.

The performance of Massmart's five divisions is fully described in the Divisional Reports on pages 16 to 19 and the Segmental Analysis on pages 20 and 21.

The Channel

The term "Channel" is used to describe any centralised, shared or collaborative activity that enhances profitability beyond that which would otherwise be achieved independently by the chains. Accordingly all costs and benefits of any such activity, including those of the holding company, are allocated to the chains. The ultimate vindication of this approach is that Massmart chains should be more profitable than their stand-alone peers.

The key tenet is that Channel activities must add value or reduce cost without adding complexity to, or diverting focus from the Chains.

Progress with the extension and implementation of Channel activities enhanced the profitability of the chains over the past year.

Procurement

Without detracting from the day-to-day purchasing activity of the chains, the management of the strategic and contractual relationship with suppliers is co-ordinated by various Forums. These Forums comprise the relevant merchandise executives from each chain, led by individuals acknowledged by the business as experts in the discipline.

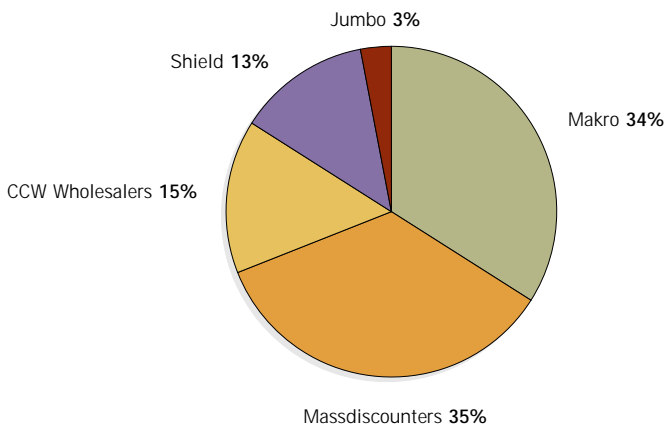
In addition to the Food and General Merchandise Forums, a third Forum was created during the year to co-ordinate cell phone activity throughout the group and a start has been made to establish a Liquor Forum.

Cost reduction

Where viable, non-merchandise procurement is agglomerated and co-ordinated across the chains to reduce input costs of goods and services. Internal and international benchmarking is used to improve productivity and reduce costs.

Internal audit, store development, supplier contract administration, international commerce and employee benefits are all centralised and shared by all divisions.

Divisional Contribution to 2001 Sales



Letter from the Executive Directors (continued)

Information technology

Massmart seeks to leverage technology as a driver of strategy and an engine of execution. To this end the group invests in cost effective IT appropriate

to each chain's needs, while striving for group-wide integration to enhance inter-divisional collaboration.

During the year the competence of information management was strengthened in most of the divisions with the appointment of IT and change management executives. This led to the creation of an IT Forum to co-ordinate group information requirements, IT strategy and the management of outsource partners. Massmart's outsource contracts are structured to contain costs and preserve flexibility in this fast changing field.

Retail co-ordination

Store locations, retail positioning, promotional activity and pricing are co-ordinated to optimise customer value and market positioning.

Executive development

Massmart subscribes to the belief that its success is directly attributable to the quality and depth of its executive talent. The management of executive recruitment, development and succession is a key responsibility of the group and divisional executive directors, aided by organisation

development professionals from the divisions.

Over the past year the effectiveness of this critical activity was enhanced by the refinement of the succession planning process and the alignment of individual leadership profiles with organisational objectives.

Retention is ensured by highly competitive remuneration, the allocation of responsibility and accountability, incentivisation and meaningful equity participation.

Human resource management

The management and associates of each Massmart division are dedicated to the needs of their target customers and to the imperatives of their individual strategies and operating models. As such the culture and human resource policies of each chain are unique, within the parameters of a limited but non-negotiable set of group principles.

Despite this, the similarities that legitimise the portfolio make it necessary and efficient to embark on selected group-wide human resource initiatives from time to time. Typical of this was Massmart's funding of a Chair of Retail at UNISA. This valued partnership with South Africa's largest university has enabled the establishment of the country's first Bachelor of Commerce Degree in Retail.

Stores by Region

South Africa

Gauteng	33
Kwazulu-Natal	21
Western Cape	10
Eastern Cape	10
Other	25
Sub-total	99

Outside South Africa

Namibia	2
Botswana	3
Zimbabwe	2
Zambia	1
Lesotho	1
Sub-total	9

Total	108
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Currently the most important group initiative is the assessment, monitoring and prevention of HIV/AIDS. Expert advice is that measurement is key to any but the most superficial prevention efforts. Massmart is therefore in negotiation with associates to determine the basis of confidential testing of representative samples of the entire staff complement. Once the extent of infection within Massmart is known, existing education and counselling efforts will be reviewed.

Management process and structure

Massmart's management processes and structures support the strategy and business model. Starting with the Massmart board, the formal management of the group devolves through the group executive committee and the divisional boards and executive committees, to ensure strategic focus, appropriate budgeting, governance, control and integration.

In contrast, the informal management of the group is open, inclusive, communicative and relaxed.

The roles and responsibilities of the holding company, the Chains and the Channel are clearly defined without imposing boundaries on the intra-group exchanges critical to the evolution of a dynamic business.

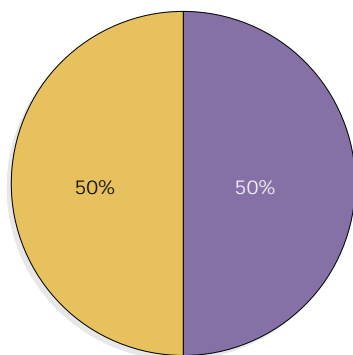
The delicate balance between chain and group priorities is ensured by the group executive

committee, which comprises the executive directors of Massmart and selected heads of the divisions. Although this committee approves and monitors the strategies and budgets of the divisions, its primary objective is to seek out and evaluate opportunities for growth, or opportunities where collaboration between the chains will generate incremental benefit.

In anticipation of continued growth, the structure and calibre of executive management was improved during the year.

- Dan Barrett, previously Chief Operating Officer, was appointed Deputy Chief Executive Officer of Massmart and Chairman of Makro, Massdiscounters, CCW and Shield.
- Steve Leggatt relinquished the role of Chief Financial Officer on 30 June 2001, in order to fill the newly created position of Executive Director Strategy and Corporate Finance. In this capacity he will be responsible for strategic analysis and the identification and realisation of growth opportunities, including acquisitions.
- Guy Hayward was appointed to the Board on 15 May 2001 and promoted from Group Finance Executive to Chief Financial Officer with effect from 1 July 2001.
- Ingo Meyer was appointed to the Group Executive

Sales by Customer Segment



- Resale (LSM 2-6)
- End user (LSM 6-8)

Letter from the Executive Directors (continued)

Committee. Paul Marsh and Mark Huxtable resigned.

- Mark Lamberti, Executive Chairman, assumed line responsibility for, and the chairmanship of, Jumbo.

Growth strategies

The actions taken by each division over the past year are budgeted to result in a real growth of sales. This growth will be augmented by the acquisition of Jumbo, which adds a substantial tranche of new category revenue to Massmart, and the incorporation of the 22 acquired Browns and Weirs stores, which almost doubles the sales of CCW.

The following new stores are planned: a CCW store in Vereeniging by July 2002, Makro West Rand - October 2002, Game Mauritius - November 2002 and Game Maputo - March 2003 .

With the exception of Zimbabwe, where efficient repatriation of fees and dividends is currently near impossible, Massmart's growth into the under-served markets of sub Saharan Africa has been highly profitable. This has resulted in a more concerted approach and resources have been allocated to explore and prioritise an aggressive growth strategy. The objective is to open at least 10 stores over the next three years to achieve additional sales approaching R1.0bn.

The executive directorate has been restructured primarily to delineate the relevant focus and expertise required for organic and acquisitive growth. We are confident that this will perpetuate Massmart's 10 year record of real sales growth.

Dedication

On 28 July 2001, David Parker, Deloitte's audit partner to Massmart since 1988, passed away after a valiant battle with cancer. David was intimately involved in the growth and development of Massmart and his expertise, friendship and counsel will be sorely missed. This annual report is dedicated to him.

Appreciation

Our first year as a public company has been eventful and challenging.

The trading environment left no room for error; each of the divisions undertook major projects; Makro's fire was a traumatic experience; the Jumbo acquisition was protracted and demanding, and the derating of the retail sector of the JSE dampened Massmart's debut as a listed company. None of these developments prevented your group from achieving a record result, ahead of the sector and expectations.

Major Categories (Sales>R600m)

- Groceries
- Liquor
- Appliances
- Video and Audio
- Multimedia and Office
- Sport and Outdoors
- DIY

Our endeavour was entirely due to the intellect, efforts and energies of thousands of people who share the Massmart vision as associates, family members, suppliers and advisors. We are deeply indebted to all of them.

Prospects

Worldwide, economies are in decline, the manufacturing sectors of many major industrial nations are in recession, and commodity, equity, bond and currency markets are volatile. The uncertainty and events arising from the terrorist attack on the United States on 11 September 2001 have exacerbated these trends. Over the coming year, Southern Africa will feel the effect of these developments in addition to specific regional exigencies such as unemployment, AIDS and political difficulties in Zimbabwe. The hesitant South African economic recovery will slow.

The strategies, structures, systems and processes of Massmart have been configured to realise relatively superior profit growth, cash earnings and high returns on equity, from high volume, low cost mass merchandising in a slow growth environment. The people of Massmart will not allow this approach to be corrupted by the advent of difficult times.

Although new store development will slow in the current year, merchandise and marketing innovation, improved operational efficiencies, tighter working capital management and the integration of the acquired businesses will produce a growth of profit and earnings per share in excess of sales growth and ahead of the retail sector.

Mark J. Lamberti

Chairman of the Board and Chief Executive Officer

Daniel Barrett

Deputy Chief Executive Officer

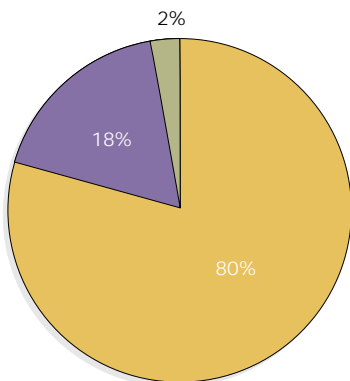
Guy Hayward

Chief Financial Officer

Stephen Leggatt

Director of Strategy and Corporate Finance

Payment Methods (% of sales)



- Cash
- Trade credit (< 30 days)
- Retail credit

Massmart Directors

Executive directors

Mark Lamberti (51)

Chairman and Chief Executive Officer
BCom, MBA
Appointed 27 August 1990
Appointed Chairman 7 August 1997

Daniel Barrett (50)*

Deputy Chief Executive Officer
BSc (Econ) (Hons), BCompt (Hons), CA (SA)
Appointed 13 November 1998

Stephen Leggatt (53)*

Director Strategy and Corporate Finance
FCA
Appointed 1 October 1997

Guy Hayward (36)

Chief Financial Officer
BCom, CTA, CA(SA)
Appointed 15 May 2001

* British

** Netherlands

Non-executive directors

William Kirsh (40)

Chief Executive Officer, Primedia
BCom, BAcc, CA(SA), H Dip Tax Law
Appointed 1 July 1997

Nigel Matthews (56)

Businessman
MA, MBA
Appointed 1 November 2001

John Newton (51)

Chief Financial Officer, Wooltru
BCom, LLB, BCom (Hons)(Tax), CA(SA)
Appointed 1 February 2000

Michael Rubin (51)

Businessman
BSc, MBA (UCT), MBA (Columbia)
Appointed 27 August 1990

Folkert Schukken (65)**

Past Chairman, Makro SHV
MSc (Eng)
Appointed 15 May 1996

Christopher Seabrooke (48)

Executive Chairman, Sabvest
BCom, BAcc, MBA, FCMA
Appointed 1 February 2000



Mark Lamberti

Daniel Barrett

Stephen Leggatt

Guy Hayward

Massmart Executive Committee

Mark Lamberti (51)

Chairman
BCom, MBA
Joined Makro 1988

Daniel Barrett (50)

Deputy Chief Executive Officer
BSc (Econ) (Hons), BCompt (Hons), CA (SA)
Joined Game 1993

Stephen Leggatt (53)

Director Strategy and Corporate Finance
FCA
Joined Massmart 1997

Guy Hayward (36)

Chief Financial Officer
BCom, CTA, CA (SA)
Joined Massmart 2000

Gareth ("Joe") Owens (52)

Chief Executive, Makro
Chairman of Massmart General Merchandise Forum
Joined Makro 1988

Grant Pattison (30)

Managing Director, Massdiscounters
Chairman of Massmart IT Forum
BSc (Elec Eng)
Joined Massmart 1997

Ingo Meyer (36)

Managing Director, Shield
BCom, ACMA, CFA, MBA
Joined Dion 1998

Robin Wright (45)

Managing Director, CCW
BCom, CA (SA)
Founded CCW 1987

Executives



Joe Owens

Grant Pattison

Ingo Meyer

Robin Wright

Divisional Directorate

Makro

Dan Barrett (Chairman)

Alternate: Mark Lamberti
Massmart

Joe Owens (52)

Chief Executive
Joined Makro 1988

Bruce Cayzer (41)

Food Executive
Chairman of Massmart Food Forum
Joined Makro 1999

Guy Hayward

Massmart

John Hudson (46)

Human Resource Executive
BCom, MBA
Joined Makro 1985

Mike Jordan (46)

Financial Executive
ACIS, ACMA, EDP, MBA
Joined Makro 1999

Stephen Leggatt

Massmart

Gert Lourens (48)

Operations Executive
Joined Makro 1993

Chris Nezar (43)

Marketing Executive
BCom, MBA
Joined Makro 1989

Tony O'Gorman (41)

General Merchandise Executive
MBA
Joined Makro 1989

Massdiscounters

Dan Barrett (Chairman)

Alternate: Mark Lamberti
Massmart

Grant Pattison (30)

Managing Director
BSc (Elec Eng)
Joined Massmart 1997

Robbie Barrell (44)

Store Operations Director
Joined Game 1981

Barry Clements (54)

Store Development Director
Joined Game 1971

Brad Evelyn (48)

Massmart African Development Director
BCom
Joined Game 1986

Steve Glendinning (40)

Organisational Development Director
BSoc.Sc (Hons)
Joined Massdiscounters 2001

Neville Hatfield (35)

Merchandise Director
IMM Diploma
Joined Game 1992

Guy Hayward

Massmart

Stephen Leggatt

Massmart

Glynn Wright (36)

Financial Director
BCom, Dip.Acc, BAdmin (Retail), CA(SA)
Joined Massdiscounters 2001

Shield

Dan Barrett (Chairman)

Alternate: Mark Lamberti
Massmart

Ingo Meyer (36)

Managing Director
BCom, ACMA, CFA, MBA
Joined Dion 1998

Rafic Bhushkaw (46)

Member Finance Director
Joined Shield 1975

Ahmed Goondiwala (61)

Business Development Director
Founded Shield 1973

Guy Hayward

Massmart

Rashid Mohammed (37)

Financial Director
B.Com
Joined Shield 1984

Billy Snyders (58)

Supplier Management Director
Joined Shield 1977

Rob Suttle (46)

Member Sales Director
Joined Shield 2000

CCW

Dan Barrett (Chairman)

Alternate: Mark Lamberti
Massmart

Robin Wright (45)

Managing Director
BCom, CA(SA)
Founded CCW 1987

David Amm (29)

Organisation and Systems Director
BSc (Chem Eng), BA (PPE)
Joined Massmart 1999

Guy Hayward

Massmart

Terry Warren (45)

Marketing Director
Founded CCW 1987

Jumbo

Mark Lamberti (Chairman)

Massmart

Surendra Bhawan (52)

Managing Director
Joined Jumbo 1983

Dan Barrett

Massmart

Guy Hayward

Massmart

Cassim Jassat (47)

Director
Joined Jumbo 1988

Yunus Moolla (50)

Financial Director
BCom, BCompt (Hons), CA(SA)
Joined Jumbo 1988

Dinesh Seetha (54)

Operations Director
Founded Jumbo 1980

Divisional Reports

Makro – a chain of large warehouse club outlets and the Makrooffice format which operates within Makro stores and through one free-standing unit. The stores, situated in South Africa and Zimbabwe, trade in food, liquor and general merchandise with commercially affiliated customers.

Makro concluded its third decade of trading in South Africa with a year marked by two major challenges, both a major focus of management attention.

The first was the total destruction by fire of the flagship Woodmead store on 6 May 2001. Forensic experts established that the fire was started by electrical or chemical ignition and no foul play was suspected. Makro was fully insured for the loss of assets and profits estimated to be R200m. The clearing of the site commenced within days of the fire, liability was accepted by the insurers on 24 May 2001 and reconstruction commenced on 4 June 2001.

The second, a substantial enhancement to the existing SAP Financial and Warehouse systems, centred on South Africa's first installation of SAP Retail software. Cost reductions and increased efficiencies will flow from an improvement in information, integration, business intelligence, customer relationship management capabilities and upstream and downstream eCommerce. The system went live on 20 August 2001.

Sales grew 7% to R3 903m. But for the destruction of Woodmead, trading space at year-end would have been 96 679m². No new stores were opened and

Zimbabwe was deconsolidated in response to difficulties with the repatriation of dividends and royalties. This, together with the effect of the Woodmead fire, resulted in comparable store sales growth of 8,1%. The fire also undermined the consistent market share gains registered up to its occurrence. Firm gross margins and excellent control of assets, expenses and working capital resulted in a 78% increase in profit before interest and tax to R70,7m. Makro's pre-tax profits of R98,4m produced a 2,5% return on sales, moving closer to the division's target of 3%.

The essence of Makro's strategy is captured in the internal slogan "the lowest prices in what we sell through the lowest costs in what we do". Makro's high volume, low margin, low cost, warehouse club format is entrenched by confining access to Makro Card holders who now constitute one of the most valuable databases in South Africa - the only one which captures data on the purchasing behaviour in every transaction. In addition to the insights so gained, independent consumer research conducted during the year ranked Makro high among its competitors in awareness and loyalty. The value of the Makro brand is maintained through high quality direct marketing and national advertising.

The management of Makro, led by Chief Executive Joe Owens and an unchanged executive directorate, continued to invest considerable time and effort in the broad-based development of literacy, numeracy, administrative, retail, managerial and leadership skills. The effectiveness of development programmes is carefully assessed through competency testing, the monitoring of sophisticated organisational

Makro operating highlights

- 8,1% same-store sales growth
- Makro Woodmead destroyed by fire on 6 May 2001
- Substantial progress with SAP Retail implementation
- Profit growth through category and merchandise innovation

EBITA (Rm)



climate and customer satisfaction lead indicators, and an electronically enabled 360-degree performance management system, which ensures alignment and accountability. The company strives to foster an open constructive relationship with all associates, 64% of who are members of the South African Commercial Catering and Allied Workers Union (SACCAWU). The Makro Educational Trust, managed by Makro associates, is the company's prime social responsibility, assisting employees, their families and the broader community with education.

Following a remarkable year of record achievement, attention in the current year will be focused on stabilising and realising the benefits of the new SAP Retail system, reinstating Woodmead's performance and preparing for the opening of a new store on the West Rand in October 2002. Investigations into the potential for store opportunities in Africa are progressing.

Massdiscounters - a chain of discount stores trading under the Game and Dion retail brands in South Africa, Namibia, Botswana and Zambia, offering a wide range of general merchandise to the value-seeking customer.

The consolidation of Game and Dion under one management team in Massdiscounters in 1999 and early 2000 resulted in a more balanced portfolio of general merchandise discount stores, a lower cost base and higher profitability than would otherwise have been achieved.

Numerous changes of senior management were required to achieve this, most notably the appointment

in October 2000 of Grant Pattison, who as Managing Director reconstituted the executive leadership of Massdiscounters. Steve Glendinning was appointed Organisational Development Director in January 2001; Neville Hatfield was appointed Merchandise Executive in October 2000 and appointed Merchandise Director in October 2001; Bert Verster was appointed Marketing Executive in March 2001 and Glynn Wright was appointed Financial Director in June 2001.

The merger was particularly disruptive to the merchandise division, which experienced changes to leadership, structure and systems, all of which contributed to less than optimal merchandising and marketing in the first half, with a negative impact on sales and profits. Comparable store sales grew only 1%, an increase in slow moving stock necessitated increased provisions and slower stock turns resulted in higher interest costs. Performance in the second half improved substantially as procurement, merchandising and promotional disciplines were reinstated, concurrent with a focus on slow moving merchandise.

Sales grew 9% to R4 184m. Two stores were opened and one closed during the year. At year-end the company traded on 264 844m² of space. Comparable store sales grew 3,5%. Notwithstanding the second half recovery, the loss of market share in the first half was not recouped. Profit before interest and tax increased 14% to R114,3m. Pre-tax profits of R84,4m produced a 2% return on sales, compared to the division's target of 5%.

The achievement of the targeted return relies on five major initiatives: the reinstatement of the

Massdiscounters operating highlights

- Difficult first half
- 3,5% same-store sales growth
- Dion regional focus well implemented
- Strong profit growth from Game African stores

EBITA (Rm)



Divisional Reports (continued)

merchandise and marketing aggression of both Game and Dion; the repositioning of Dion as a regional chain strong in sports, outdoor, housewares and hi-tech; the reduction of the cost base; refinement of the store portfolio and further expansion into Africa.

Recent independent consumer research ranked Game as first or second in all provinces in respect of awareness and customer commitment in the general merchandise category. This brand equity has been established and will be maintained by exceptional pricing on a broad range of quality merchandise, advertised through approximately 3,3m leaflets per week and underpinned by the Game Guarantee of total customer satisfaction. Game's positioning as a caring company is ensured by continued investment in a broad range of community projects, an example of which is the donation of almost 2 000 wheelchairs to underprivileged disabled people over the past three years.

Continued investment in human potential development, ensures a substantial pool of retail and management skills, low rates of staff turnover and progress with Employment Equity targets. Almost 30% of Massdiscounters staff are members of SACCAWU.

Shield - a voluntary buying organisation assisting independent wholesalers and retailers to procure food more efficiently for resale to lower income consumers in South Africa, Namibia, Botswana, Swaziland and Lesotho.

The division experienced a slight decline in sales as the lower end of the market served by Shield's customers came under pressure and the decision

was taken to manage the merchandise and customer mix in favour of more profitable sales and higher quality debtors.

Sales fell 2% to R1 697m reflecting a loss of market share. Sales from comparable members grew 6,2%. The year ended with 273 retail outlets and 244 wholesale outlets, a net gain of 23 outlets, most of which were retailers. Profit before interest and tax increased 9% to R37,1m, attributable to a favourable customer and product mix and exceptional control of bad debt, which amounted to only 0,4% of debtors. Pre-tax profits of R46,3m produced a 2,7% return on sales, compared to the division's target of 3%.

In March 2001 Ingo Meyer was appointed Managing Director with the mandate to formulate and implement the strategy, structures and systems necessary to reposition Shield as a more valuable business partner to its independent members and suppliers. This process has commenced, building on the considerable experience that has ensured Shield's success over twenty-eight years, as well as more recent developments such as the eShield electronic commerce initiative which generated sales of R442,4m for the year.

Progress was made in the selection of the Microsoft Great Plains Business Solution as a core transaction processing system to replace and integrate the various activities that constitute the business of Shield. The system will be implemented by May 2002 with an expected 20-month payback on the investment.

Shield operating highlights

- 10 year record of unbroken profit growth
- Exceptional management of debtors
- Sales from comparable members grow 6,2%



EBITA (Rm)



The executive team was strengthened with the appointment of Cindy Shacklock as Organisation Development Executive responsible for information and human resource management, and the reassignment of founder Ahmed Goondiwala to the newly created position of Business Development Director. This position, together with the reinvigorated sales division, will ensure that members' needs are fully understood and satisfied, leading to real sales growth in the current year.

CCW - a peri-urban and rural chain of cash-and-carry warehouses located in South Africa, Lesotho and Namibia, distributing basic food and groceries to lower income customers.

CCW made excellent progress throughout the year with the implementation of its unique strategy of low cost wholesaling through owner-managed stores. Sales grew 29% to R1 477m resulting in a pleasing growth of market share. New stores opened in the second half in Vryburg, Rustenburg and Bloemfontein enhanced sales growth of 14,2% from comparable stores. Trading space at year-end was 61 964m². Excellent control of margins, costs, shrinkage, assets and working capital resulted in a 25% increase in profit before interest and tax to R34,5m. CCW's pre-tax profits of R39,5m produced a 2,7% return on sales. Although moving closer to this division's target of 3%, this year's return on sales was marginally depressed by the new stores that had yet to reach optimal sales and profitability levels.

In anticipation of further growth, the executive was strengthened by the appointment of David Amm as Organisation and Systems Director in

May 2001 and a regional operational structure was implemented.

During the second half, considerable effort was spent assessing and formulating plans for the incorporation of the 22 Browns and Weirs stores. This preparation ensured a smooth transition, fully supported by the management and staff of the acquired stores. The rapid introduction of the policies and processes that have traditionally assured CCW's success, will increase the acquired stores' branch contributions, which will translate into earnings growth as a result of CCW's substantially lower head office costs.

Jumbo - is a six store cash-and-carry distributor, expert in the distribution of mass-market cosmetics and toiletries.

Founded in 1980, the company trades through outlets on 21 732m². Jumbo was acquired with effect from 1 April 2001 and will be run as a fifth division of Massmart under the leadership of Surendra Bhawan.

In the three months to June, Jumbo generated sales of R307,9m and operating profit of R19,7m.

Early indications are that the cross-pollination of expertise, resources and skills will be of substantial benefit to both Massmart and Jumbo. The integration period is expected to last 12 to 18 months whereafter growth strategies will be revealed.

CCW operating highlights

- 14,2% same store sales growth
- 3 new stores
- Strengthened management for Browns and Weirs integration

EBITA (Rm)



CCW WHOLESALERS

Segmental Analysis

		Group			Makro*		
		2001	2000	% change	2001	2000	% change
Financial information							
Sales	Rm	11 569	10 358	12	3 903	3 646	7
EBITA	Rm	277	202	37	71	40	78
Inventories	Rm	1 556	1 319	18	356	333	7
Total assets	Rm	3 772	3 621	4	1 031	1 137	(9)
Total liabilities	Rm	3 808	3 143	21	925	832	11
Net capital expenditure	Rm	110	105	4	17	15	19
Cash flow from operating activities	Rm	412	118	250	159	143	11
Operational information							
Number of stores		106	95	12	12	12	0
Trading area	m ²	445 219	403 326	10	96 679	95 018	2
Number of employees		12 922	11 595	11	2,475	2 460	1
Operational statistics***							
Sales per store (excl. Shield)	R'000	95 640	90 884	5	325 250	303 833	7
Sales per m ² (excl. Shield)	R'000	23	21	5	40	38	5
Sales per employee	R'000	933	893	4	1 577	1 482	6
EBITA per employee	R'000	21	17	22	29	16	76

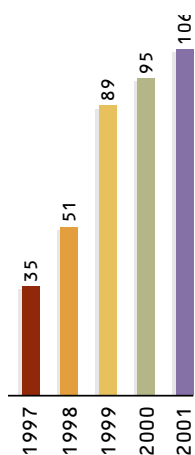
* Makro excludes the two Makro Zimbabwe stores and includes Makro Woodmead for ten months.

** Jumbo's results are for a three month period.

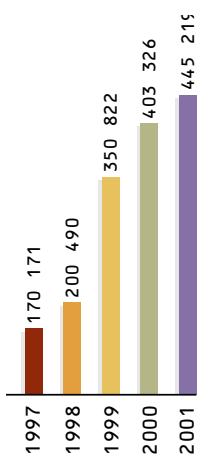
*** To assist comparison Jumbo's operational statistics have been annualised.

Resource trends

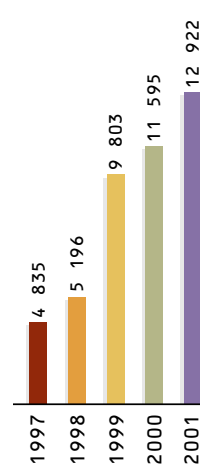
Stores



Trading space (m²)



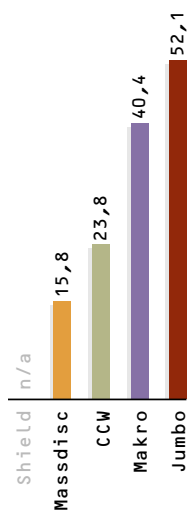
Employees



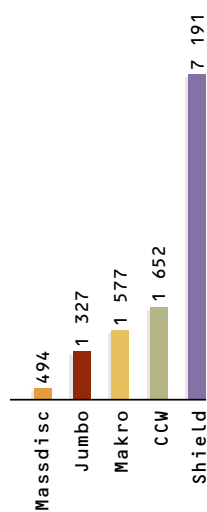
Massdiscounters			Shield			CCW			Jumbo**		
2001	2000	% change	2001	2000	% change	2001	2000	% change	2001	2000	% change
4 184	3 845	9	1 697	1 724	(2)	1 477	1 143	29	308	-	-
114	100	14	37	34	9	35	28	25	20	-	-
898	891	1	-	-	-	145	95	52	157	-	-
1 513	1 642	(8)	406	474	(14)	482	369	31	339	-	-
1 465	1 582	(7)	341	406	(16)	417	323	29	660	-	-
74	66	13	2	4	(37)	15	22	(30)	1	-	-
176	(102)	(272)	44	44	(1)	11	33	(65)	23	-	-
66	64	3	-	-	-	22	19	16	6	-	-
264 844	255 844	4	-	-	-	61 964	52 464	18	21 732	-	-
8 464	8 050	5	236	247	(4)	894	838	7	853	-	-
63 394	60 078	6	3 282	3 490	(6)	67 136	60 158	12	188 684	-	-
16	15	5	-	-	-	24	22	9	52	-	-
494	478	3	7 191	6 980	3	1 652	1 364	21	1 327	-	-
13	12	8	157	138	14	39	33	17	83	-	-

Relative productivity

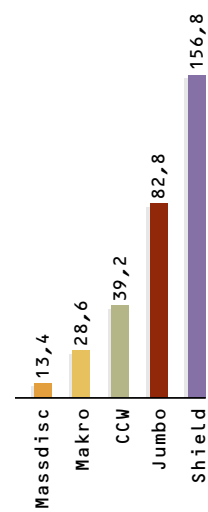
Sales / m² (R'000)



Sales / employee (R'000)



EBITA / employee (R'000)



Financial Review

Acquisitions

The acquisition from Rebhold and Tiger Brands of Jumbo Cash & Carry and Sip 'n Save with effect from 1 April 2001, and 22 Browns and Weirs stores with effect from 1 July 2001, for R490m was announced on 31 May 2001. Details were communicated in a circular to shareholders on 2 July 2001 and the final suspensive condition, the approval by the South African Competition Commission, was met on 21 September 2001.

Shareholders are reminded that Massmart's preliminary annual results published on 20 August 2001 did not include the effects of the acquisition, which at that stage had not yet been approved by the Competition Commission. Following the approval, this annual report reflects three months' trading to 30 June 2001 and the financial position as at the same date for Jumbo and Sip 'n Save. The acquisition of 22 Browns and Weirs stores, effective from 1 July 2001, is excluded from this financial year's result.

Future reporting on the acquired entities will follow their operating structures with Jumbo forming a fifth division of Massmart and Sip 'n Save and the 22 Browns and Weirs stores being included with CCW.

Given the economic and foreign currency crisis in Zimbabwe, the results and financial position of Makro's two stores in that country have been deconsolidated. Earnings are now accounted for on a cash-received basis. Due to this change in accounting policy all comparative figures have been restated resulting in a decline in the group's earnings to June 2000 of R3,0m. Although Makro has previously received Zimbabwe Central Bank approval to pay dividends and royalties, the scarcity of, and continuing weakness in, foreign currency makes it unlikely that cash receipts from Zimbabwe will be significant for the foreseeable future. Summarised results for Makro Zimbabwe have not been shown as a supplementary note in the financial section due to their immateriality.

In keeping with the understanding reached on acquisition in 1998, Massmart increased its share of CCW from 84% to 90% on 1 January 2001.

Financial performance

Excluding Jumbo, sales growth was 8.7%, with major category sales growth of 8% in food, 6% in liquor and 10% in general merchandise including apparel. The

five new stores opened during the year (three in CCW and two in Massdiscounters) contributed 2.6% of this sales growth.

The total trading area in Massmart at year-end was 445 219 m², a 10% increase over the prior year. Excluding Jumbo the total trading area was 423 487 m². Most of the 5% increase arose from the new stores opened in the latter part of the year.

Given the difficult trading conditions, all chains focused on maintaining their profitability by foregoing potentially unprofitable sales growth. Margin improvement resulted from innovative merchandise and customer mix management and the continual pursuit of operational efficiencies and cost reduction opportunities. These actions were manifest in a 33% improvement (27% excluding Jumbo) in operating profit to R267,9m (R256,5m excluding Jumbo).

Financial position

Over the past 18 months, Massmart's funding profile has been carefully altered to position the group for future expansion through organic growth and acquisition. These changes are reflected in the swing from last year's net interest paid of R56,6m to this year's net interest received of R9,4m. The prior year conversion of Massmart's convertible debentures into ordinary shares eliminated interest paid of R30,9m while this financial year's 4 July 2000 initial public offering and R500m capital raising, improved interest earnings by approximately R47m. Excluding the R12,2m interest accrued to the Jumbo vendors, the net interest received of R21,7m indicates that Massmart's average net cash position over the 2001 financial year was approximately R220m. The high net cash balances at each reporting period are generally unrepresentative of the group's average net funding position as significant creditor payments are normally made in the period immediately following month-end.

The group's effective tax rate of 25,5% (prior year 24,7%) is not sustainable. During the year a thorough historical tax review was conducted and any adjustments were processed into this financial year's tax charge. The once-off benefit of these adjustments to earnings is approximately 4 cents per share or R7m. The effective group tax rate is expected to increase towards the statutory corporate rate of 30% over the next three years.

Included in exceptional items are assets written-off (R24,5m), the majority relating to IT assets in Massdiscounters, the write-down to market value of our investment in NetActive Limited (R8,2m), the write-down of a Makro property reflecting a permanent value impairment (R5,1m) and restraints of trade paid to certain executives (R2,9m). Massmart's 11.8% associate company, Affinity Logic, reorganised its capital structure resulting in an exceptional profit of R10,4m.

After issuing 40m new shares upon the listing on 4 July 2000, the number of issued Massmart shares remained constant at 197 077 388, although the weighted-average number of shares was marginally lower at 196 529 443.

The balance sheet as at 30 June 2000 does not include the R500m cash raised on 4 July 2000. In the prior year, to assist comparison with the results for 1999, proforma headline earnings and headline earnings per share were calculated. These figures represent earnings assuming the debentures had been converted at the beginning of that financial year.

Returns

Massmart is committed to rendering superior returns to shareholders. As part of this process, the chains are recapitalised annually with shareholder funds or permanent equity provided for long term assets only and the net working capital position is financed through cash or debt, dependent on the cash characteristics of the specific business model. This process enables a consistent basis for evaluating divisional returns and economic value added. Massmart is committed to utilising an economic value added measurement as a basis for future executive incentivisation.

During the year, returns on capital employed and shareholders' equity declined to 37,0% and 19,1% respectively (see page 3 for definition of calculations). This decline was due solely to the July 2000 capital raising of R500m. Interest returns on the cash raised of approximately 10% are significantly lower than Massmart's average return on capital employed of 54,2% achieved in the prior year. Our medium term targets are to exceed a 35% return on average capital employed (excluding goodwill and deferred tax assets) and a 25% return on average shareholders' equity, thereby exceeding

our weighted-average cost of capital by at least 5%.

Cash position

On 30 June 2001 payment for the Jumbo acquisition plus interest due to vendors of R12,2m was accrued and is reflected in current liabilities as Amounts due to Vendor of R502,2m. The purchase consideration was paid in cash on 26 September 2001.

The benefit of our focus on working capital management is reflected in the improvement in cash generated from operations from R64,6m to R344,4m. In addition, total inventories of R1 556m, representing an average stock holding of 57 days, is more than funded by accounts payable of R2 247m.

Following the payment for the Jumbo acquisitions, Massmart will have net average borrowings of approximately R300m. With shareholders' equity currently at R1,2bn, this represents an average gearing ratio of 25%, which is conservative in view of the group's high cash generation and well covered by operating cash flows.

Capital expenditure

During the year capital expenditure of R94,6m was spent on maintaining operations and R32,3m on expansion. Expenditure on maintaining operations is counter-balanced by the depreciation charge, excluding goodwill amortisation, of R83,0m. The expansionary expenditure primarily represents the cost of the new CCW and Game stores. By 30 June no significant capital cost had been incurred in the reconstruction of Makro Woodmead. This expenditure will be incurred in the first quarter of the 2002 financial year and will, in any event, be funded by insurance proceeds.

Dividends

Massmart's stated dividend policy is to pay annual dividends representing a three-times cover ratio, unless circumstances dictate otherwise. Given the cash-generative nature of the group, it is anticipated that these dividends will be cash.

With respect to the final dividend, the directors resolved to offer shareholders, registered in the books of the company on 14 September 2001, a final cash dividend of 21,0 cents (2000 9,4 cents) per share, bringing the total distribution for the year to 36,0 cents (2000 9,4 cents) per share.

Corporate Governance

Massmart Board

The Massmart Board plays a central role in directing the company towards the achievement of the Massmart vision within the parameters of sound corporate practice.

The directives and authorities of the Board are devolved sequentially through the Massmart Executive Committee, the Divisional Boards and the Divisional Executive Committees.

The Board is responsible for its own composition, the appointment of the Chairman and Chief Executive Officer and for ensuring proper governance of the group. The Board meets on a quarterly basis and on an ad hoc basis should a situation demand the Board's attention. Massmart complies with the requirements of the King Code in all material respects, with the exception that Mark Lamberti is Chairman of the Board and Chief Executive Officer. The Massmart Board has a strong non-executive representation of six directors, including four directors who are independent of both Massmart management and its major shareholders. No individual or group therefore dominates the Board's decision-making.

The Board is currently engaged in the appointment of at least two additional independent, non-executive directors.

All directors are subject to retirement and re-election by shareholders every three years. In addition all directors are subject to election by shareholders in general meeting at the first opportunity after his/her initial appointment.

Directors are encouraged to take independent advice in the furtherance of their responsibilities. They have direct access to the auditors and to the advice and services of the company secretary, who is responsible for ensuring that Board procedures are followed and that the applicable rules and regulations are complied with.

Sub-committees

There are two sub-committees of the Board, being the Remuneration and Succession Committee and the Audit Committee.

The Remuneration and Succession Committee, comprising Christopher Seabrooke (chairman), Mark Lamberti and Folkert Schukken, is responsible for the approval of the remuneration of directors and executive management and for the approval of

remuneration policies for staff. As part of this, it also approves incentives and the awards granted in terms of the share incentive scheme. The Committee is also responsible for ensuring that adequate succession plans are in place for the Group executive directors and the divisional heads.

The Audit Committee, comprising Christopher Seabrooke (chairman) and John Newton, with attendance whenever necessary by the external auditors, the internal auditors and by senior financial executives of the group, has the responsibility to review and report that:

- adequate books and records are maintained;
- appropriate accounting policies have been adopted;
- robust internal control systems are in place; and
- the going concern assertion remains appropriate.

The internal and external auditors have free access to the Audit Committee and give formal reports to the meetings.

It is the intention to expand the Audit Committee in the coming financial year when additional non-executive Board appointments have been made.

Share dealings

No group director or employee may deal, directly or indirectly, in Massmart shares on the basis of unpublished price sensitive information.

In terms of Massmart's "closed period" policy, all directors and employees are precluded from dealing in Massmart shares one month prior to the end of each reporting period (being 31 December and 30 June) until the release of the group results.

All directors and employees are precluded from dealing in Massmart shares in the hour preceeding the close of the JSE.

Governance authorities

During the year Massmart formalised its internal governance and approvals framework. This was formally adopted by the board on 15 May 2001. These governance authorities describe the specific levels of authority and required approvals for all major decisions at both group and divisional level.

King Code

The board will actively address the new principles contained in the draft King II Report.

Annual Financial Statements as at 30 June 2001

Approval of the Annual Financial Statements

The annual financial statements were approved by the board of directors on 22 October 2001 and signed on their behalf by:



MJ Lamberti
Executive Chairman



S Leggatt
Chief Financial Officer

Company secretary certificate

I, Roger Anthony McKee, the company secretary for Massmart Holdings Limited, certify that to the best of my knowledge and belief, all returns required of a public company have, in respect of the year under review, been lodged with the Registrar of Companies and that all such returns are true, correct and up to date.



R A McKee
Company Secretary

Report of the independent auditors

To the members of Massmart Holdings Limited

We have audited the annual financial statements and group annual financial statements set out on pages 26 to 66 for the year ended 30 June 2001. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

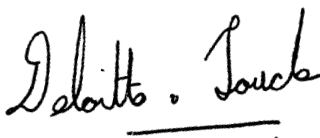
We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company and the group at 30 June 2001, and the results of their operations and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Companies Act in South Africa.

Makro Zimbabwe excluded from group annual financial statements

We concur with the decision of the directors not to deal with Makro Zimbabwe in the group annual financial statements for the reasons given in the Financial Review on page 22.



Deloitte & Touche
Chartered Accountants (SA)
Johannesburg, 22 October 2001

Directors' Report

Corporate governance

Massmart is committed to the principles advocated in the draft King Report II and the directors believe that the group complies with the Code of Corporate Practices and Conduct in all material respects. The role of executive chairman is considered appropriate at this time.

Directors' responsibilities

The directors acknowledge responsibility for the preparation of the annual financial statements, which, in their opinion, fairly present the results and cash flows for the financial year and the state of affairs of the company and group at the end of the financial year.

The external auditors are responsible for reporting on the fair presentation of these financial statements. The company and its subsidiaries have maintained adequate accounting records and an effective system of internal controls to ensure the integrity of the underlying information.

Appropriate accounting policies, supported by sound and prudent managerial judgements and estimates, have been consistently applied except for the changes noted below and in note 4 on page 37. Makro Zimbabwe was deconsolidated as explained on page 22 of the Financial Review. A subsequent interpretation of AC116 "Employee Benefits" resulted in the recalculation of the leave pay accrual and the post retirement medical aid provision.

The audit committee of the board reviews the financial information presented and ensures that there has been adherence to South African Statements of Generally Accepted Accounting Practice. Internal and external auditors of group companies have unrestricted access to the committee.

Group financial results

The final results of the group are set out in the income statement on page 29. The financial position of the group is set out in the balance sheet on page 30.

Share capital

The following ordinary shares were in issue during the year under review :

Opening balance	157 077 388
Private placement	40 000 000
Closing balance	197 077 388

Dividend policy

Massmart's dividend policy is to declare and pay annual dividends representing a dividend cover ratio of approximately three times, unless circumstances dictate otherwise.

Dividends

With respect to the final dividend, the directors resolved to offer shareholders, registered in the books of the company on 14 September 2001, a final cash dividend of 21,0 cents (2000 9,4 cents) per share, bringing the total distribution for the year to 36,0 cents (2000 9,4 cents) per share.

Directorate and secretary

The current directorate of the company is shown on page 12. The company secretary is Mr R A McKee, CA (SA). In accordance with the provisions of the company's articles of the association Messrs D G Barrett and S Leggatt retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election. Mr C A Hall resigned on 30 September 2000. On 15 May 2001 Mr G R C Hayward was appointed as Executive Director and on 1 July 2001 was appointed Chief Financial Officer. Mr D Doijer has been proposed for election as an alternate director to Mr F Schukken. Mr N Matthews will be appointed non-executive director with effect from 1 November 2001.

Interests of directors in the company's shares

At 30 June 2001 directors owned ordinary shares in the company, or options over ordinary shares in the company, directly or indirectly, aggregated as to beneficial and non-beneficial ownership, as follows:

	2001				2000			
	Shares		Options		Shares		Options	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial	Beneficial	Non-beneficial	Beneficial	Non-beneficial
Non-executive directors								
C Seabrooke	25 000	–	118 300	–	–	–	–	–
W Kirsh	–	–	78 000	–	–	–	78 000	–
M J Rubin	130 925	–	–	–	202 925	–	–	–
J D Newton	–	–	–	–	–	–	–	–
F Schukken	–	–	–	–	–	–	–	–
Executive directors								
M J Lamberti	270 835	5 384 105	–	–	742 001	3 875 638	–	–
D G Barrett	682 500	–	300 000	–	910 000	–	–	–
S Leggatt	994 500	–	–	–	994 500	–	–	–
G R C Hayward	–	–	808 643	–	–	–	708 643	–

At the date of this report, the directors' holdings were as follows:

	2001			
	Shares		Options	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
Non-executive directors				
C Seabrooke	25 000	–	118 300	–
W Kirsh	–	–	78 000	–
M J Rubin	130 925	–	–	–
J D Newton	–	–	–	–
F Schukken	–	–	–	–
Executive directors				
M J Lamberti	270 835	6 219 205	–	–
D G Barrett	972 500	–	300 000	–
S Leggatt	1 194 500	–	–	–
G R C Hayward	–	–	1 108 643	–

M J Lamberti owns 1 369 400 (2000 : nil) shares non-beneficially that were purchased on the JSE and not through the Massmart share incentive scheme.

Details of shares issued and options granted by the company in terms of the rules of the Massmart share incentive scheme are dealt with in note 24 on page 50.

Directors' Report (continued)

Subsidiaries

Details of the company's interests in material subsidiaries are set out in note 30 on page 54.

Borrowing powers

In terms of the articles of association, the group has unlimited borrowing powers. At 30 June 2001, borrowings were R17,2m (2000 R262,7m).

Going concern

The directors are of the opinion that the business will be a going concern in the year ahead.

Subsequent events

On 5 September 2001, the Wooltru Limited co-suretyships on certain long-term Makro property leases were removed. This overcame the final major impediment to the Wooltru unbundling.

Massmart paid R25m towards the cost of the removal of these co-suretyships. This amount will be written-off over the remaining 20 years of the Makro leases.

The Massmart directors believe that Massmart shareholders' interests would be best served by the Wooltru unbundling, with Massmart's free-float on the JSE increasing from approximately 20% to 60%.

28 On 21 September 2001 the Competition Tribunal approved the acquisition by Massmart of Jumbo, Sips 'n Save and 22 Browns and Weirs stores. Accordingly, in terms of the purchase agreement, the cash consideration plus accrued interest of R502,2m was paid on 26 September 2001.

On 22 October 2001 the appointment of Mr N Matthews as a non-executive director, with effect from 1 November 2001, was announced.

On behalf of the board

R A McKee

22 October 2001

Consolidated Income Statement for the year ended 30 June 2001

	Notes	Group	
		2001 Rm	2000 Rm
Revenue	2	11 671,4	10 447,9
Sales		11 568,4	10 357,7
Cost of sales		(9 966,9)	(8 916,2)
Gross profit		1 601,5	1 441,5
Other income		70,9	66,1
Depreciation		(92,1)	(63,9)
Employment costs		(778,8)	(694,5)
Occupancy costs		(277,5)	(291,0)
Other operating costs		(256,1)	(256,7)
Operating profit	3	267,9	201,5
Net interest received / (paid)	5	9,4	(56,6)
Exceptional items	6	(30,6)	(9,8)
Net profit before taxation		246,7	135,1
Taxation	7	(63,0)	(33,4)
Net profit after taxation		183,7	101,7
Share of associated company (loss) / income		(0,1)	1,0
Net profit before minority interests		183,6	102,7
Minority interests	20	(3,9)	(3,1)
Net profit attributable to ordinary shareholders		179,7	99,6
Headline earnings	9	216,0	106,2
Proforma headline earnings	9	216,0	127,8
Earnings per share (cents)			
Attributable	9	91,4	71,8
Headline	9	109,9	76,5
Proforma headline	9	109,9	82,0
Diluted headline	9	109,8	76,3
Dividend per share (cents)			
Interim	8	15,0	–
Final*	8	21,0	9,4

*Declared and paid after the financial year end.

Consolidated Balance Sheet as at 30 June 2001

		Group	
		2001	2000
		Rm	Rm
	Notes		
ASSETS			
Non-current assets		1 233,6	770,2
Property, plant and equipment	10	368,2	332,4
Intangible assets	11	340,2	-
Investment in associated company	12	12,5	2,3
Other investments	13	50,6	57,1
Loans	14	122,8	93,5
Deferred taxation	15	339,3	284,9
Current assets		2 909,8	2 297,4
Inventories	16	1 555,7	1 318,5
Accounts receivable and pre-payments		833,2	811,8
Taxation		2,1	1,7
Loans to associated and joint venture companies		0,6	2,5
Amounts owing by Wooltru group companies		0,6	2,1
Bank balances and cash		517,6	160,8
Total assets		4 143,4	3 067,6
EQUITY AND LIABILITIES			
Capital and reserves		1 204,6	576,7
Share capital	17	2,0	1,6
Share premium	18	474,1	-
Non-distributable reserves	19	247,2	259,8
Retained profit		481,3	315,3
Minority interests	20	11,1	12,1
Total equity		1 215,7	588,8
Non-current liabilities		71,3	95,8
Long-term liabilities	21	28,5	6,3
Long-term provisions	22	37,2	83,9
Deferred taxation	15	5,6	5,6
Current liabilities		2 856,4	2 383,0
Accounts payable		2 247,1	2 034,1
Provisions	23	59,5	59,4
Amounts due to vendor		502,2	-
Taxation		26,3	17,8
Dividends		-	18,5
Loans from associated and joint venture companies		4,1	6,6
Amounts owing to Wooltru group companies		-	217,9
Bank overdraft and short-term borrowings		17,2	28,7
Total equity and liabilities		4 143,4	3 067,6

Consolidated Cash Flow Statement for the year ended 30 June 2001

	Notes	Group	
		2001 Rm	2000 Rm
Cash flow from operating activities			
Cash flow from trading	31.1	335,6	252,4
Working capital movements	31.2	8,8	(187,8)
Cash generated from operations		344,4	64,6
Interest received		32,1	24,1
Interest paid		(22,7)	(80,7)
Investment income		2,7	2,2
Taxation paid	31.3	(46,4)	(29,1)
Dividends paid		(48,0)	-
Net cash inflow / (outflow) from operating activities		262,1	(18,9)
Cash flow from investing activities			
Investment to maintain operations	31.5	(94,6)	(20,9)
Investment to expand operations	31.6	(32,3)	(136,6)
Proceeds on disposal of property, plant and equipment	31.7	6,9	22,7
Purchase of shares in subsidiaries		-	(2,9)
Investment in subsidiaries	31.8	(494,9)	(12,3)
Loans and other investments		(30,9)	(5,6)
Net cash outflow from investing activities		(645,8)	(155,6)
Cash flow from financing activities			
Shares issued		474,5	21,8
Decrease in long-term liabilities		(34,2)	(29,0)
Long-term borrowings raised / (repaid)		23,4	(93,4)
Amounts owing to vendors		502,2	-
Net cash inflow / (outflow) from financing activities		965,9	(100,6)
Net increase / (decrease) in cash and cash equivalents		582,2	(275,1)
Cash and cash equivalents at beginning of year		(83,4)	191,7
Cash and cash equivalents at end of year	31.9	498,8	(83,4)

Consolidated Statement of Changes in Equity for the year ended 30 June 2001

	Group						
	Share capital Rm	Share premium Rm	Non- distributable reserves Rm	Translation reserve Rm	Retained profit/ (loss) Rm	Minority interests Rm	Total Rm
Balance as previously reported	0,1	–	134,6	–	(91,0)	12,4	56,1
Change in accounting policies (note 4)	–	–	–	–	(23,2)	(1,6)	(24,8)
Restatement of trademark (note 4)	–	–	55,2	–	–	–	55,2
Release of deferred taxation on trademarks	–	–	(10,0)	–	10,0	–	–
Restated balance as at 30 June 1999	0,1	–	179,8	–	(104,2)	10,8	86,5
Net profit for the year	–	–	–	–	102,7	–	102,7
Exchange differences on translation	–	–	–	2,1	–	–	2,1
Transfers from/(to) retained profit arising as a result of:							
- amortisation of trademarks in subsidiaries	–	–	8,5	–	(8,5)	–	–
- release of deferred taxation on trademarks previously written off against shareholders' equity	–	–	(21,6)	–	21,6	–	–
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 minority interests	–	–	–	–	–	(1,8)	(1,8)
Income attributable to minorities	–	–	–	–	(3,1)	3,1	–
Dividends declared (note 8)	–	–	–	–	(18,5)	–	(18,5)
Balance as at 30 June 2000	1,6	–	253,4	6,4	315,3	12,1	588,8
Net profit for the year	–	–	–	–	183,6	–	183,6
Exchange differences on translation	–	–	–	3,2	–	–	3,2
Transfers from/(to) retained profit arising as a result of:							
- amortisation of trademarks in subsidiaries	–	–	8,5	–	(8,5)	–	–
- release of deferred taxation on trademarks previously written off against shareholders' equity	–	–	(24,3)	–	24,3	–	–
Issue of shares	0,4	474,1	–	–	–	–	474,5
Changes in minority interests	–	–	–	–	–	(4,9)	(4,9)
Income attributable to minorities	–	–	–	–	(3,9)	3,9	–
Dividends declared (note 8)	–	–	–	–	(29,5)	–	(29,5)
Balance as at 30 June 2001	2,0	474,1	237,6	9,6	481,3	11,1	1 215,7

Notes to the Consolidated Annual Financial Statements

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 principal accounting policies adopted are set out below. These policies have been consistently applied except as disclosed in note 4 and the directors' report.

Consolidation

The group annual financial statements incorporate the annual financial statements of the company and the companies it controls. Control is normally evidenced when the group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital. The operating results of the subsidiaries are consolidated from the date on which effective control is transferred to the group and up to the effective dates of disposal.

Separate disclosure is made of minority interests where the group's investment is less than 100%.

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

Makro Zimbabwe has not been consolidated for the reasons disclosed in the Financial Review on page 22.

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, but which it does not control.

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. The carrying amount reflects the group's share of net assets of the associate and includes any goodwill on the acquisition.

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.

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. 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 are 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:

- Fixtures, fittings, plant, equipment and motor vehicles 4 to 5 years
- Computer equipment and software 3 to 5 years
- Leasehold improvements Lease period

The value of depreciated assets are periodically compared to the recoverable amount, determined by, either the estimated amount if sold or expected future cashflows discounted to their present value. If the asset has permanently declined below its recoverable amount the decline is recognised as an expense.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net assets of the acquired company at the date of acquisition.

Goodwill is reported in the balance sheet as an intangible asset and is amortised using the straight line method over its estimated useful life.

The carrying amount of goodwill is reviewed annually and written down for permanent impairment where it is considered necessary.

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 the estimated useful life of the software concerned.

Notes to the Consolidated Annual Financial Statements (continued)

1. ACCOUNTING POLICIES (continued)

Financial instruments

- **Financial assets:**

The group's principal financial assets are trade receivables, bank balances and cash, and equity investments. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

- **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 below.

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 in note 33 to the Annual Financial Statements.

Foreign currency transactions

Transactions in foreign currencies are accounted for at the rate of exchange ruling on the date of transaction. Where the transaction is covered by a forward exchange contract the rate specified in the contract is used. 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.

The results of Massmart's Zimbabwean operations have not been consolidated for the reasons given in the Financial Review on page 22.

Investments

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

Market value is calculated by reference to stock exchange quoted selling prices at the close of business on the balance sheet date. Adjustments to cost are only made where, in the opinion of directors, the investment is impaired. Where an investment has been impaired, it is recognised as an expense in the period in which the impairment is identified.

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.

1. ACCOUNTING POLICIES (continued)

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 the term of the relevant lease.

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.

Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Retirement benefit costs

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

Other post retirement obligations

Certain group companies provide post retirement healthcare benefits to their retirees. The entitlement to post retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period.

The expected costs of these benefits accrue over the period of employment, using an accounting methodology similar to that for defined benefit pension plans. Valuations of these obligations are carried out by independent qualified actuaries.

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, and interests in joint ventures, 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.

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.

Trade receivables

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

Cash and cash equivalents

For purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, investments in money market instruments, and amounts owing by group companies, net of bank overdraft and amounts owing to group companies. In the balance sheet, bank overdrafts are included with borrowings in current liabilities.

Notes to the Consolidated Annual Financial Statements (continued)

	Group	
	2001 Rm	2000 Rm
2. REVENUE		
Sales	11 568,4	10 357,7
Royalties and franchise fees	3,0	0,1
Property rentals	1,7	2,3
Interest received from investments	32,1	24,1
Interest from trade receivables	43,5	50,9
Dividends received	28,1	23,8
Less: interest paid on related liability	(25,3)	(21,6)
Management and administration fees	19,9	10,6
	11 671,4	10 447,9

	Group	
	2001 Rm	2000 Rm
3. OPERATING PROFIT		
Credits to operating profit include:		
Foreign exchange profit	-	1,0
Reversal of previous write-downs of inventories to net realisable value	4,6	7,1
Net profit on disposal of property, plant and equipment	1,2	4,3
Charges to operating profit include:		
Depreciation (owned assets):		
Fixtures, fittings, plant and equipment	53,0	43,0
Computer equipment	22,8	13,2
Leasehold improvements	3,1	2,2
Motor vehicles	3,1	5,4
Goodwill	9,1	-
Depreciation (leased assets):		
Office equipment	-	0,1
Motor vehicles	1,0	-
Foreign exchange loss	8,7	2,7
Operating lease charges:		
Land and buildings	255,6	223,4
Plant and equipment	4,2	2,0
Motor vehicles	11,3	7,8
Computer equipment	5,6	12,0
Other	-	0,7
Net loss on disposal of property, plant and equipment	7,2	0,6
Fees payable:		
Technical services	0,2	0,6
Administrative and outsourcing services	91,8	121,7
Consulting	5,7	4,5
Auditors' remuneration:		
Audit fee:		
Current year	2,6	2,1
Prior year under-provision	0,2	0,1
Other services	1,3	0,4

	Group			
	Net profit/ (loss) before taxation Rm	Taxation Rm	Minority interests Rm	Net profit/ (loss) Rm
4. CHANGE IN ACCOUNTING POLICIES				
During the year, the group changed its accounting policies as noted on page 26 in the directors' report. The comparative results have been appropriately restated. The effects of these changes are as follows:				
2000				
(Decrease) / increase in net profit as a result of:				
Makro Zimbabwe	(7,8)	3,9	0,9	(3,0)
Post retirement medical aid provision	(0,6)	0,2	-	(0,4)
Leave pay accrual	0,3	(0,1)	-	0,2
	(8,1)	4,0	0,9	(3,2)
Prior years				
Restatement of opening retained income				
Makro Zimbabwe	(6,8)	-	1,0	(5,8)
Post retirement medical aid provision	(5,7)	1,7	-	(4,0)
Leave pay accrual	(17,5)	5,1	-	(12,4)
	(30,0)	6,8	1,0	(22,2)

As a consequence of the finalisation of the Game trademark valuation an additional amount of R55,2m was raised as a non-distributable reserve.

	Group	
	2001 Rm	2000 Rm
5. NET INTEREST RECEIVED / (PAID)		
Interest received from investments	32,1	24,1
Interest paid on borrowings	(10,5)	(49,8)
Interest accrued to vendor	(12,2)	-
Interest paid on convertible debentures	-	(30,9)
Net interest received / (paid)	9,4	(56,6)

Notes to the Consolidated Annual Financial Statements (continued)

6. EXCEPTIONAL ITEMS	Group			
	Net profit/ (loss) before taxation Rm	Taxation Rm	Minority interests Rm	Net profit/ (loss) Rm
2001				
Assets written off	(24,5)	7,4	-	(17,1)
Restraints of trade	(2,9)	0,9	-	(2,0)
Share of associate's exceptional item	10,4	-	-	10,4
Impairment of investment	(8,2)	-	-	(8,2)
Impairment of property	(5,1)	-	-	(5,1)
Other	(0,3)	(0,4)	-	(0,7)
	(30,6)	7,9	-	(22,7)
2000				
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)

7. TAXATION	Group	
	2001 Rm	2000 Rm
Current year:		
South African normal tax		
Current tax	26,8	16,7
Deferred tax	18,9	10,9
Foreign tax	16,0	5,5
Tax effect of participation in export partnerships	0,4	0,2
	62,1	33,3
Prior year (over) / under provision:		
South African normal tax		
Current tax	(1,1)	0,4
Deferred tax	2,3	-
Foreign tax	(0,3)	(0,3)
	0,9	0,1
	63,0	33,4

Certain companies in the group participate in export partnerships. As the companies are liable for the tax effect of the participation, the amount is classified as a tax charge.

7. TAXATION (continued)	Group	
	2001 %	2000 %
The rate of taxation is reconciled as follows:		
Standard rate	30,0	30,0
Exempt income	(6,6)	(7,9)
Disallowable expenditure	4,1	2,2
Foreign tax rate differences	(0,8)	(0,4)
Assessed losses	(2,4)	1,2
Withholding taxation	0,5	(0,5)
Adjustments to prior year	(0,4)	0,1
Other	1,1	-
Effective rate	25,5	24,7
Estimated assessed losses available for set off against future taxable income, after utilisation to reduce deferred tax balances (Rm)		
South African	28,5	181,1
Foreign	-	4,5

8. DIVIDENDS DECLARED	Group	
	2001 Rm	2000 Rm
Provision for final cash dividend	-	18,5
Interim cash dividend	29,5	-
Total dividends declared	29,5	18,5

No. 1 of 9,4 cents declared on 21 August 2000 and paid on 15 September 2000. (R18,5m)

No. 2 of 15 cents declared on 12 February 2001 and paid on 23 March 2001. (R29,5m)

No. 3 of 21 cents declared on 20 August 2001 and paid on 17 September 2001. This final dividend relates to the 2001 financial year but has, in accordance with South African GAAP, not been accrued in these results as it was declared after the year-end.

Notes to the Consolidated Annual Financial Statements (continued)

	Group			
	2001 Rm	2000 Rm	2001 Cents	2000 Cents
9. EARNINGS PER SHARE				
Attributable and headline earnings per share				
The calculation of attributable earnings and headline earnings per share is based on a weighted average of 196 529 443 (2000 - 138 769 242) ordinary shares.				
The calculation is reconciled as follows:				
Net profit attributable to ordinary shareholders	179,7	99,6	91,4	71,8
Adjustments after taxation and minorities				
Exceptional items - capital	22,0	6,4	11,2	4,6
Losses on closure costs	-	2,5	-	1,7
Loss / (profit) on disposal of movable assets	4,6	(2,9)	2,3	(2,1)
Goodwill amortisation	9,1	-	4,6	-
Other	0,6	0,6	0,4	0,5
Headline earnings	216,0	106,2	109,9	76,5
Proforma headline earnings per share				
The calculation of proforma headline earning per share is based on a weighted-average of 196 529 443 (2000 - 155 799 252) ordinary shares. This was adjusted in the 2000 financial year to show the impact on earnings per share had the convertible debentures been converted into ordinary shares with effect from 1 July 1999.				
The calculation is reconciled as follows:				
Headline earnings	216,0	106,2	109,9	76,5
Adjustment in respect of the after-tax effect of interest paid on the convertible debentures	-	21,6	-	5,5
Proforma headline earnings	216,0	127,8	109,9	82,0
Diluted headline earnings per share				
The calculation of diluted headline earnings per share is based on a weighted-average of 196 729 715 (2000 - 139 116 412) ordinary shares.				
The calculation is reconciled as follows:				
Headline earnings	216,0	106,2	109,9	76,5
Adjustment for impact of the issuing of ordinary shares	-	-	(0,1)	(0,2)
Diluted headline earnings	216,0	106,2	109,8	76,3

	Group			
	Cost Rm	Accumulated depreciation Rm	Impairment Rm	Net book value Rm
10. PROPERTY, PLANT AND EQUIPMENT				
2001				
Owned assets				
Freehold land and buildings	65,3	-	9,3	56,0
Fixtures, fittings, plant and equipment	434,5	213,4	-	221,1
Computer equipment	97,4	39,2	-	58,2
Leasehold improvements	25,5	10,5	-	15,0
Motor vehicles	19,5	10,0	-	9,5
	642,2	273,1	9,3	359,8
Capitalised leased assets				
Office equipment	0,6	0,3	-	0,3
Motor vehicles	9,0	0,9	-	8,1
	9,6	1,2	-	8,4
Total	651,8	274,3	9,3	368,2
2000				
Owned assets				
Freehold land and buildings	58,1	-	-	58,1
Fixtures, fittings, plant and equipment	384,6	177,6	-	207,0
Computer equipment	69,4	22,7	-	46,7
Leasehold improvements	19,1	8,1	-	11,0
Motor vehicles	18,6	9,3	-	9,3
	549,8	217,7	-	332,1
Capitalised leased assets				
Office equipment	0,5	0,2	-	0,3
Total	550,3	217,9	-	332,4

Notes to the Consolidated Annual Financial Statements (continued)

	Group				
	Opening net book value Rm	Additions Rm	Disposals Rm	Impairment/ Depreciation Rm	Closing net book value Rm
10. PROPERTY, PLANT AND EQUIPMENT					
Reconciliation of property, plant and equipment					
2001					
Owned assets					
Freehold land and buildings	58,1	7,2	-	9,3	56,0
Fixtures, fittings, plant and equipment	207,0	73,5	6,4	53,0	221,1
Computer equipment	46,7	36,6	2,3	22,8	58,2
Leasehold improvements	11,0	7,1	-	3,1	15,0
Motor vehicles	9,3	7,3	4,0	3,1	9,5
	332,1	131,7	12,7	91,3	359,8
Capitalised leased assets					
Office equipment	0,3	-	-	-	0,3
Motor vehicles	-	9,3	0,2	1,0	8,1
	0,3	9,3	0,2	1,0	8,4
Total	332,4	141,0	12,9	92,3	368,2
2000					
Owned assets					
Freehold land and buildings	46,5	11,6	-	-	58,1
Fixtures, fittings, plant and equipment	163,4	103,5	16,9	43,0	207,0
Computer equipment	29,6	30,9	0,6	13,2	46,7
Leasehold improvements	8,6	6,3	1,7	2,2	11,0
Motor vehicles	28,0	5,2	18,5	5,4	9,3
	276,1	157,5	37,7	63,8	332,1
Capitalised leased assets					
Office equipment	0,4	-	-	0,1	0,3
Total	276,5	157,5	37,7	63,9	332,4

	Group		
	Cost Rm	Accumulated depreciation Rm	Net book value Rm
11. INTANGIBLE ASSETS			
2001			
Goodwill	349,3	9,1	340,2
	349,3	9,1	340,2
Reconciliation of intangible assets:			
Opening book value			-
Acquisition of subsidiary			349,3
Amortisation charge (written off over 10 years)			(9,1)
Closing book value			340,2

	Group	
	2001 Rm	2000 Rm
12. INVESTMENT IN ASSOCIATED COMPANY		
The Retail Value Chain (Proprietary) Limited (unlisted)		
At cost	-	-
Amounts owing	0,9	0,9
Amounts written off	-	(0,6)
Share of retained income	11,6	2,0
	12,5	2,3

Directors' valuation of the investment in the associated company is R12,5m (2000 R59,4m). Massmart owns 25% of The Retail Value Chain (Proprietary) Limited which owns 47,5% of Affinity Logic Holdings (Proprietary) Limited. Total assets of Affinity Logic are R50,6m (2000 R9,2m) and total interest free liabilities R49,6m (2000 R49,6m). The net profit attributable to ordinary shareholders is R41,4m (2000 R4m).

Notes to the Consolidated Annual Financial Statements (continued)

	Group	
	2001 Rm	2000 Rm
13. OTHER INVESTMENTS		
Listed investment		
NetActive Limited - at cost	10,0	10,0
Less: impairment	(8,2)	-
	1,8	10,0
The market value at 30 June 2001 was R1,8m (2000 R3,0m)		
Unlisted investments		
Shares at cost	1,5	0,2
Amounts owing	-	1,3
Preference shares – Fullimput 65 (Pty) Ltd	204,9	177,9
Less: Set-off of related long-term liability	(157,6)	(132,3)
	48,8	47,1
	50,6	57,1

The directors value the unlisted investments at R48,8m (2000 R47,1m). The preference share investment represents 100 fixed rate redeemable cumulative par value preference shares in Fullimput 65 (Proprietary) Limited. A long-term liability of the Group is secured by a cession of the preference shares.

	Group	
	2001 Rm	2000 Rm
14. LOANS		
Housing loans to Massmart Holdings Limited directors:		
Balance at beginning of the year	1,2	2,0
Advances	0,3	-
Repayments	-	(0,8)
Balance at end of the year	1,5	1,2
Other housing and staff loans	8,3	10,7
Employee share purchase trust	100,7	68,2
Other	12,3	13,4
	121,3	92,3
	122,8	93,5

All housing and staff loans, including loans to directors, bear interest at various rates below the prime rate. The loan to the employee share purchase trust is interest-free.

	Group	
	2001 Rm	2000 Rm
15. DEFERRED TAXATION		
The major movements during the period are analysed as follows:		
Net asset at beginning of the year	279,3	304,1
Written off to income for the year	(21,2)	(10,9)
Charge to equity for the year arising on acquisition of trademarks	75,4	-
Effect of export partnerships	0,2	(13,9)
Net asset at end of the year	333,7	279,3
The major components of deferred taxation are analysed as follows:		
Trademarks previously charged to shareholders' equity	209,4	178,3
Unutilised taxation losses	90,1	52,9
Temporary differences	45,7	60,7
Export partnerships	(11,5)	(12,6)
	333,7	279,3
The net deferred tax position is reconciled as follows:		
Deferred taxation asset	339,3	284,9
Deferred taxation liability	(5,6)	(5,6)
	333,7	279,3

At the balance sheet date, the Group has unutilised tax losses of R5,5m (2000 R8,4m) 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	
	2001 Rm	2000 Rm
16. INVENTORIES		
Merchandise	1 555,7	1 318,5
Inventories are carried at the lower of cost and net realisable value.		
Inventories carried at net realisable value included above	72,8	80,2

Notes to the Consolidated Annual Financial Statements (continued)

	Group	
	2001 Rm	2000 Rm
17. SHARE CAPITAL		
Authorised		
500 000 000 (2000 - 500 000 000) Ordinary shares of 1 cent each	5,0	5,0
Issued		
197 077 388 (2000 - 157 077 388) Ordinary shares of 1 cent each	2,0	1,6

The company listed on The JSE Securities Exchange South Africa on 4 July 2000 by way of a private placement of 40m ordinary shares at an issue price of R12,50 each. Cash proceeds of R500m were raised, before settling share issue and listing costs of approximately R22,0m.

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

	Group	
	2001 Rm	2000 Rm
18. SHARE PREMIUM		
Opening balance	-	-
Premium on shares issued during the year	496,1	430,3
Share issue costs	(22,0)	-
Intangible assets written off on acquisition of businesses	-	(430,3)
	474,1	-

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	Group	
	2001 Rm	2000 Rm
19. NON-DISTRIBUTABLE RESERVES		
Foreign currency translation reserve	9,5	6,4
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	136,7	158,2
Premium on acquisition of shares in subsidiaries	0,1	-
Amortisation of trademarks in subsidiaries	66,2	60,5
	247,2	259,8

	Group	
	2001 Rm	2000 Rm
20. MINORITY INTERESTS		
At beginning of the year	12,1	10,8
Acquisition of minority interests	(4,9)	(1,8)
Share of net profit of subsidiary	3,9	3,1
At end of the year	11,1	12,1

	Group	
	2001 Rm	2000 Rm
21. LONG-TERM LIABILITIES		
Unsecured		
Minority shareholders' loans	21,6	6,3
Secured		
Capitalised finance leases, secured by movable assets of R9,6m (2000 R0,5m), repayable in equal monthly instalments over one to five years at an interest rate of 1% below prime overdraft rate	8,2	0,1
Less: Included in short-term borrowings	(1,3)	(0,1)
	6,9	-
Total long-term liabilities	28,5	6,3

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

Notes to the Consolidated Annual Financial Statements (continued)

	Group									
	2001 Rm	2000 Rm								
22. LONG-TERM PROVISIONS										
Provision for profit warranty	63,8	101,6								
Less: Payable in ensuing year included in short-term provisions	(50,3)	(37,8)								
Provision for post-retirement medical aid contributions	23,7	20,1								
	37,2	83,9								
The provision for profit warranty relates to the 1998 agreement entered into with Affinity Logic Holdings (Proprietary) Limited and is repayable over two remaining periods to June 2003 as follows:										
<table border="1"> <thead> <tr> <th>Year</th> <th>Rm</th> </tr> </thead> <tbody> <tr> <td>2002</td> <td>50,3</td> </tr> <tr> <td>2003</td> <td>13,5</td> </tr> <tr> <td></td> <td>63,8</td> </tr> </tbody> </table>	Year	Rm	2002	50,3	2003	13,5		63,8		
Year	Rm									
2002	50,3									
2003	13,5									
	63,8									
Certain group companies provide post retirement healthcare benefits to their retirees. The method of accounting for and the frequency of valuing this potential liability is similar to those used for defined benefit pension schemes. This liability is unfunded. The main assumptions used in calculating the costs and provisions are as follows:										
An annual discount rate of 12% per annum.										
Long term medical cost inflation of 10% per annum.										
The last valuation was performed as at 30 June 2001. These costs are assessed in accordance with the advice of independent professional qualified actuaries. The projected unit method is applied to measure the defined benefit scheme liabilities.										
48 The net expense recognised in the income statement is:										
Current service costs	1,7	1,3								
Accrual	(0,6)	(0,4)								
Interest on obligation	2,5	1,8								
Net expense recognised as part of employment costs	3,6	2,7								

23. PROVISIONS	Group	
	2001 Rm	2000 Rm
Property refinancing costs	1,9	6,2
Restructuring costs raised on acquisition	7,3	15,4
Short-term portion of long-term provision (note 22)	50,3	37,8
	59,5	59,4

Provisions raised against specific assets, for example inventories and accounts receivable, are shown against those assets.

Reconciliation of provisions	Group			
	Opening balance Rm	Amounts provided Rm	Amounts utilised Rm	Closing balance Rm
2001				
Property refinancing costs	6,2	-	(4,3)	1,9
Restructuring costs raised on acquisition	15,4	-	(8,1)	7,3
Short-term portion of long-term provision (note 22)	37,8	50,3	(37,8)	50,3
	59,4	50,3	(50,2)	59,5
2000				
Property refinancing costs	13,9	-	(7,7)	6,2
Restructuring costs raised on acquisition	56,6	26,9	(68,1)	15,4
Short-term portion of long-term provision (note 22)	33,3	35,6	(31,1)	37,8
	103,8	62,5	(106,9)	59,4

Notes to the Consolidated Annual Financial Statements (continued)

	Group	
	2001 000's	2000 000's
24. SHARE INCENTIVE SCHEME		
Total shares and options available to the scheme	30 000	30 000
Opening balance of shares and options	21 621	1 343
New shares and options offered to employees during the year	6 776	20 522
Shares repurchased from/redeemed by employees and options lapsed/redeemed during the year	(6 681)	(244)
Closing balance of shares and options	21 716	21 621

The closing balance includes 11 280 280 (2000 - 15 200 000) shares and 10 435 754 (2000 - 6 421 398) options.

The following options granted to employees and directors in terms of the share incentive scheme have not yet been exercised:

Offer date	Exercise price (R)	Number of options	
		2001 000's	2000 000's
13 October 1994	13,54	3 692	3 692
17 November 1995	2,60	-	26 932
15 August 1997	2,42	15 925	31 850
1 October 1998	4,29	339 979	448 760
22 September 1999	12,37	1 781 598	1 800 279
10 March 2000	14,61	4 104 685	4 109 885
13 November 2000	12,25	3 919 875	-
12 April 2001	8,00	270 000	-
		10 435 754	6 421 398

Options may be exercised at any time but shares arising out of options may only be sold when they have vested with the participant. Vesting occurs over a five year period as follows:

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25% two years after the offer date,
50% three years after the offer date,
75% four years after the offer date,
100% five years after the offer date.

On 27 August 2001 the Remuneration Committee gave option holders the right to cancel some or all of their options and to accept offers of new options for the same number previously held at an exercise price of R10,95 (being the weighted-average price of Massmart shares for the five days prior to 27 August 2001) conditional upon the original offer date being changed to 27 August 2001 and the vesting period being reset back to five years for the new options.

25. RETIREMENT BENEFIT INFORMATION

All 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 Funds 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 a sound financial position. No alterations to the contribution rate were recommended. The latest interim valuation was performed on 29 February 2000. This valuation also reflected a sound financial position. The next actuarial valuation, as at 28 February 2001, will be completed in October 2001.

Contributions received for the year ended 30 June 2001 amounted to R42,4m (2000 R39,2m).

	Group	
	2001 Rm	2000 Rm
26. CAPITAL COMMITMENTS		
Commitments in respect of capital expenditure approved by directors		
Contracted for	31,3	0,6
Not contracted for	102,9	108,3
	134,2	108,9

This expenditure, which relates primarily to the rebuilding of Makro Woodmead store and store refurbishments, will be financed from insurance proceeds, existing cash resources, by cash generated from the group's activities or from borrowings against available facilities.

Notes to the Consolidated Annual Financial Statements (continued)

	Group	
	2001 Rm	2000 Rm
27. OPERATING LEASE COMMITMENTS		
Land and buildings		
Year 1	314,4	292,5
Years 2 to 5	1 366,4	1 234,4
Subsequent to year 5	2 360,6	2 533,4
	4 041,4	4 060,3
Plant, furniture and equipment		
Year 1	0,8	1,8
Years 2 to 5	1,9	5,2
Subsequent to year 5	-	0,4
	2,7	7,4
Other		
Year 1	5,9	2,4
Years 2 to 5	14,8	20,7
Subsequent to year 5	1,6	-
	22,3	23,1

Promissory notes that represent commitments under non-cancellable operating leases of R1 599bn (2000 R1 663bn) entered into by Masstores (Proprietary) Limited on behalf of Makro are included in operating lease commitments in land and buildings. These leases terminate in December 2020. In accordance with AC105, the rentals paid are amortised over the entire remaining lease period.

	Group	
	2001 Rm	2000 Rm
28. CONTINGENT LIABILITIES		
Forward exchange contracts (note 33)	119,1	44,7
Guarantees in respect of creditors of subsidiary company	105,0	105,0
Other	1,5	1,8
	225,6	151,5

	Group	
	2001 Rm	2000 Rm
29. 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% (June 2000: 50,3%). On 30 June 2001, Massmart was an associate of Wooltru Limited.		
<i>Trading transactions</i>		
During the period, group companies entered into the following trading related transactions.		
Fees paid:		
Wooltru Finance (Proprietary) Limited	0,8	1,5
Affinity Logic Holdings (Proprietary) Limited	90,9	119,2
Fees received:		
Affinity Logic Holdings (Proprietary) Limited	4,9	6,9
CNA Holdings (Proprietary) Limited	-	3,7
The above transactions were carried out at market related prices.		
<i>Financing transactions</i>		
During the period, group companies entered into the following financing related transactions.		
Interest paid:		
Wooltru Finance (Proprietary) Limited	7,5	70,2
Affinity Logic (Proprietary) Limited	-	1,1
Interest received:		
Wooltru Finance (Proprietary) Limited	6,8	0,2
CNA Holdings (Proprietary) Limited	-	13,1
Constantia Greetings (Proprietary) Limited	-	3,5

The above transactions were carried out at market related rates.

Directors' remuneration

Remuneration paid to directors is disclosed in note 4 under the company annual financial statements.

Notes to the Consolidated Annual Financial Statements (continued)

30. PRINCIPAL SUBSIDIARIES AND ASSOCIATE

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

Name of company	Group			
	Number of shares in issue 000's	Effective holding %	Shares at book value Rm	Indebtedness Rm
Affinity Logic Holdings (Proprietary) Limited *	1	12	-	0,9
CCW Holdings (Proprietary) Limited	-	100	-	18,8
Jumbo Cash and Carry (Proprietary) Ltd	-	100	473,0	-
Massmart Management & Finance Company (Proprietary) Limited	-	100	-	492,5
Masstores (Proprietary) Limited	5 217	100	-	(270,7)
Shield Buying & Distribution (Proprietary) Limited	4 443	100	29,2	30,5
			502,2	272,0
Aggregate trading profits (R'000)			145,2	
Aggregate trading losses (R'000)			22,8	

* Associate company - the holding is through a 25% share in The Retail Value Chain (Proprietary) Limited.

31. NOTES TO THE CASH FLOW STATEMENT	Group	
	2001 Rm	2000 Rm
31.1 Cash flow from trading		
Net profit before taxation	246,7	135,1
Adjustment for:		
Depreciation	92,1	63,9
Net loss / (profit) on disposal of property, plant and equipment	6,0	(3,7)
Exceptional items not relating to trading activities (note 31.4)	2,9	-
Foreign exchange loss	-	2,7
Interest income	(32,1)	(24,1)
Interest expense	22,7	80,7
Investment income	(2,7)	(2,2)
	335,6	252,4

	Group	
	2001 Rm	2000 Rm
31. NOTES TO THE CASH FLOW STATEMENT (continued)		
31.2 Working capital movements		
Increase in inventories	(71,7)	(210,8)
Decrease / (increase) in accounts receivable and pre-payments	37,0	(173,4)
Increase in accounts payable	55,9	236,8
Decrease in provisions	(12,4)	(40,4)
	8,8	(187,8)
31.3 Taxation paid		
Normal taxation:		
Amounts owing at beginning of year	16,1	23,3
Amounts owing at end of year	(24,2)	(16,1)
Deferred taxation:		
Amounts charged to the income statement	(21,2)	(10,9)
Amounts re-allocated from accounts payable	-	(0,6)
Amounts acquired from purchase of subsidiary	12,7	-
Taxation charged to the income statement	63,0	33,4
	46,4	29,1
31.4 Exceptional items not relating to trading activities		
Write down of an investment	8,2	-
Impairment of property value	5,1	-
Share of associates exceptional item	(10,4)	-
	2,9	-
31.5 Investment to maintain operations		
Land and buildings/leasehold improvements	4,3	2,2
Vehicles	13,4	2,5
Plant and equipment	48,8	13,6
Computer equipment	28,1	2,6
	94,6	20,9
31.6 Investment to expand operations		
Land and buildings/leasehold improvements	10,1	15,6
Vehicles	0,6	2,7
Plant and equipment	15,4	90,0
Computer equipment	6,2	28,3
	32,3	136,6
31.7 Proceeds on disposal of property, plant and equipment		
Land and buildings/leasehold improvements	0,1	-
Vehicles	5,2	0,1
Plant and equipment	1,1	22,5
Computer equipment	0,5	0,1
	6,9	22,7

Notes to the Consolidated Annual Financial Statements (continued)

	Group	
	2001 Rm	2000 Rm
31. NOTES TO THE CASH FLOW STATEMENT (continued)		
31.8 Investment in subsidiaries		
Fair value of assets and liabilities acquired in subsidiary:		
Cash and cash equivalents	12,1	-
Inventories	165,5	-
Accounts receivable and prepayments	58,4	-
Property, plant and equipment	14,1	-
Deferred taxation	76,0	-
Trade payables	(157,1)	-
Taxation	(12,7)	-
Minorities	1,4	-
Goodwill and trademark	349,3	12,3
Total purchase price	507,0	12,3
Less: cash and cash equivalents of subsidiary	(12,1)	-
Cash impact of acquisition, net of cash and cash equivalents acquired	494,9	12,3
31.9 Cash and cash equivalents at end of year		
Cash on hand and balances with banks	501,7	136,5
Wooltru group companies:		
Money market	-	(217,9)
Other	(2,9)	(2,0)
Cash and cash equivalents at end of year	498,8	(83,4)

32. FINANCIAL INSTRUMENTS

Interest rate management

Funding requirements/investment of surplus funds are managed through Wooltru Finance (Pty) Ltd. The borrowing with Wooltru Finance (Pty) Ltd as at 24 June 2001 was Rnil (2000 R217,9m). Following the proposed Wooltru unbundling, the funding requirements / investment of surplus funds will be managed by Massmart through its own commercial bank facilities.

Liquidity risk management

The group's liquidity requirements are assessed on an ongoing basis as part of the group's treasury function. No significant risk exists as the group is conservatively structured and the operations generate positive cash flows.

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. The foreign subsidiary is accounted for as a foreign operation and any exchange profit or loss is charged to the income statement.

32. FINANCIAL INSTRUMENTS (continued)

Fair value of financial instruments

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

	Group	
	Book value Rm	Fair value Rm
Long term liability:		
Loan from Mettle Merchant Bank (note 13)	(158)	(238)
Cumulative preference shares:		
Fullimput 65 (Pty) Ltd (note 13)	205	276
Provision:		
Provision for profit warranty (short and long term) (note 22)	(64)	(56)
Commitments:		
Promissory notes outstanding (note 27)	(1 599)	(562)

33. FORWARD FOREIGN EXCHANGE CONTRACTS

Forward exchange contracts are entered into in order to manage exposure to fluctuations in foreign currency exchange rates on specific transactions. The group's policy is to enter into forward contracts for all committed foreign currency purchases.

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

	Group	
	2001 Rm	2000 Rm
USD	116,1	42,9
GBP	0,8	0,2
Euro	2,2	1,2
FF	-	0,3
NLG	-	0,1

The forward rate varies between R8,12 and R8,24 per USD and the latest maturity date is 7 February 2002.

Notes to the Consolidated Annual Financial Statements (continued)

34. SEGMENTAL REPORTING

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

	Group						
	Total 2001 Rm	Corporate 2001 Rm	Mass- discounters 2001 Rm	Makro 2001 Rm	Shield 2001 Rm	CCW 2001 Rm	Jumbo* 2001 Rm
Primary business segments							
Sales	11 568,4	–	4 183,9	3 903,0	1 696,9	1 476,8	307,8
Operating profit	267,9	–	114,3	70,7	37,1	34,4	11,4
Net interest received / (paid)	9,4	(5,6)	(29,9)	27,7	9,2	5,1	2,9
Exceptional items	(30,6)	(7,0)	(22,2)	(1,4)	–	–	–
Total assets	4 143,4	371,7	1 513,3	1 030,9	406,3	482,0	339,2
Total liabilities	2 927,7	(880,5)	1 465,4	925,4	340,5	417,2	659,7
Net capital expenditure	113,5	3,8	74,3	17,3	2,2	15,3	0,6
Depreciation	92,1	2,4	63,6	14,0	6,0	4,8	1,3
Impairment losses	17,5	8,2	–	9,3	–	–	–
Non-cash items other than depreciation	9,6	4,1	4,6	1,0	(0,1)	–	–
Cash flow from operating activities	265,3	(146,6)	175,6	158,7	43,7	11,3	22,6

The corporate figures include certain consolidation entries.

* Included for the 3 months from 1 April 2001 to 30 June 2001.

34. SEGMENTAL REPORTING (continued)

	Group					
	Total 2000 Rm	Corporate 2000 Rm	Mass- discounters 2000 Rm	Makro 2000 Rm	Shield 2000 Rm	CCW 2000 Rm
Primary business segments						
Sales	10 357,7	–	3 844,7	3 645,7	1 724,0	1 143,3
Operating profit	201,5	–	100,1	40,1	33,6	27,7
Net interest (paid) / received	(56,6)	(81,2)	(23,6)	34,2	8,8	5,2
Exceptional items	(9,8)	(6,4)	–	(3,4)	–	–
Total assets	3 067,6	(553,5)	1 641,5	1 137,1	473,5	369,0
Total liabilities	2 478,9	(663,9)	1 582,2	831,7	406,0	322,9
Net capital expenditure	107,5	2,2	65,5	14,5	3,5	21,8
Depreciation	63,9	1,6	42,7	15,1	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	(18,8)	(136,4)	(101,9)	142,8	44,2	32,5

The corporate figures include certain consolidation entries.

	Group					
	Total 2001 Rm	South Africa 2001 Rm	Rest of Africa 2001 Rm	Total 2000 Rm	South Africa 2000 Rm	Rest of Africa 2000 Rm
Geographic segments						
Sales	11 568,4	10 667,2	901,2	10 357,7	9 786,7	571,0
Segment assets	4 143,4	3 980,6	162,8	3 067,6	2 870,4	197,2
Net capital expenditure	113,5	116,5	(3,0)	107,5	107,8	(0,3)

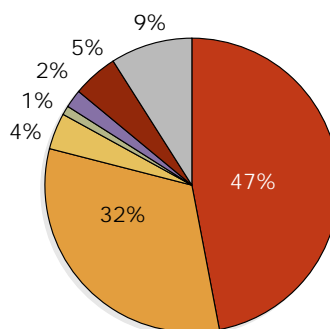
Value Added Statement

	Group			
	2001		2000	
	Rm	%	Rm	%
Sales, royalties, franchise fees, rentals and management and administration fees	11 593,0		10 370,7	
Cost of sales	(9 966,9)		(8 916,2)	
Interest and investment income	78,4		77,2	
Share of associated company retained (loss) / profit	(0,1)		1,0	
Exceptional items	(30,6)		(9,9)	
Value added	1 673,8	100	1 522,8	100
Applied as follows:				
To employees as salaries, wages and other benefits	778,9	47	694,5	46
Net cost of services and other operating expenses	533,5	32	547,7	36
To government as taxation	63,0	4	33,4	2
To lenders as interest	22,7	1	80,7	5
To shareholders as dividends	29,5	2	18,5	1
Minorities	3,9	-	3,1	-
Depreciation	92,1	5	63,8	4
Net earnings retained	150,2	9	81,1	6
	1 673,8	100	1 522,8	100

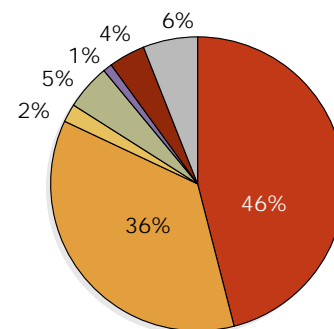
60 Value added applied as follows

- Employee benefits
- Net cost of services and other operating expenses
- Taxation to government
- Interest to lenders
- Shareholders' dividends
- Depreciation
- Retained

2001



2000



Massmart Holdings Limited
Income Statement for the year ended 30 June 2001

	Notes	Company	
		2001 Rm	2000 Rm
Revenue	1	61,6	106,7
Dividends received		61,5	75,8
Other costs		(0,3)	-
Operating profit		61,2	75,8
Net interest paid	2	(12,1)	-
Exceptional items	3	(8,2)	(1,9)
Net profit before taxation		40,9	73,9
Taxation		(0,2)	-
Net profit attributable to shareholders		40,7	73,9
Dividends declared		(29,5)	(18,5)
Retained income for the year		11,2	55,4
Retained income at beginning of the year		60,7	5,3
Retained income at end of the year		71,9	60,7
Dividends per share (cents)			
Interim		15,0	-
Final*		21,0	9,4

* Declared and paid after the financial year end.

Massmart Holdings Limited
Balance Sheet as at 30 June 2001

		Company	
		2001	2000
		Rm	Rm
	Notes		
ASSETS			
Non-current assets			
		1 018,3	81,1
Interest in subsidiaries	5	784,1	(107,7)
Investment in associated company	6	0,9	0,9
Other investments and loans	7	233,3	187,9
Current assets			
		31,9	5,1
Dividends receivable from subsidiary		30,5	-
Accounts receivable and prepayments		1,4	4,6
Taxation		-	0,5
Total assets		1 050,2	86,2
EQUITY AND LIABILITIES			
Capital and reserves			
		548,0	62,3
Share capital	8	2,0	1,6
Share premium	9	474,1	-
Retained profit		71,9	60,7
Total equity		548,0	62,3
Current liabilities			
		502,2	23,9
Accounts payable		-	1,0
Amounts due to vendor		502,2	-
Dividends		-	18,5
Bank overdraft and short-term borrowings		-	4,4
Total equity and liabilities		1 050,2	86,2

Massmart Holdings Limited
Notes to the Annual Financial Statements

The results of Massmart Holdings Limited consist primarily of the receipt of interest and dividends from its wholly-owned subsidiaries, and the payment of dividends to shareholders. Consequently, a cash flow statement and a statement of changes in equity for the company have not been presented as they provide no meaningful additional information and can be deduced from the financial statements.

	Company	
	2001 Rm	2000 Rm
1. REVENUE		
Dividends received	61,5	75,8
Interest received from subsidiary	-	30,9
Interest received other	0,1	-
	61,6	106,7

	Company	
	2001 Rm	2000 Rm
2. NET INTEREST PAID		
Interest received from subsidiaries	-	30,9
Interest received other	0,1	-
Interest paid on convertible debentures	-	(30,9)
Interest accrued to vendor	(12,2)	-
	(12,1)	-

	Company	
	2001 Rm	2000 Rm
3. EXCEPTIONAL ITEMS		
Write off of investment in subsidiary	-	(1,9)
Impairment of investment in NetActive Limited	(8,2)	-
	(8,2)	(1,9)

Massmart Holdings Limited
Notes to the Annual Financial Statements (continued)

	Company	
	2001 Rm	2000 Rm
4. DIRECTORS EMOLUMENTS		
Executive directors		
Salaries and allowances	5,4	3,9
Performance incentives	4,3	1,9
Retirement and related benefits	0,6	0,4
Benefits from low interest loans	4,8	3,8
Other benefits	0,5	-
	15,6	10,0
Non-executive directors		
Fees for services as directors	0,4	0,3
Salaries and allowances	-	0,1
Benefits from low interest loans	0,2	0,1
	0,6	0,5

Performance incentives are established at the commencement of the financial year and are linked directly to Group performance for that year. In addition, superior individual performance is rewarded based upon specific actions or achievements which, in the opinion of the Remuneration Committee, enhance the long-term value of the Group.

Directors' emoluments are paid by a Massmart subsidiary.

	Company	
	2001 Rm	2000 Rm
5. INTEREST IN SUBSIDIARIES		
Shares at cost, less amounts written off	524,2	50,0
Amounts owing by / (to) subsidiaries	259,9	(157,7)
	784,1	(107,7)

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	Company	
	2001 Rm	2000 Rm
6. INVESTMENT IN ASSOCIATED COMPANY		
The Retail Value Chain (Proprietary) Limited (unlisted)		
At cost	-	-
Amounts owing	0,9	0,9
	0,9	0,9

Directors' valuation of the investment in the associated company is R12,5 m (2000 R59,4 m). Massmart owns 25% of The Retail Value Chain (Proprietary) Limited which owns 47,5% of Affinity Logic Holdings (Proprietary) Limited.

	Company	
	2001 Rm	2000 Rm
7. OTHER INVESTMENTS AND LOANS		
Listed investment		
NetActive Limited - at cost	10,0	10,0
Less: impairment	(8,2)	-
	1,8	10,0
The market value at 30 June 2001 is R1,8m (2000 R3,0m)		
Unlisted investments		
Preference shares – Fullimput 65 (Pty) Ltd	204,9	177,9
Investment in Makro Zimbabwe	1,3	-
Loan		
Massmart share purchase trust	25,3	-
	231,5	177,9
	233,3	187,9

The directors value the unlisted investments at 30 June 2001 is R206m (2000 R178m). The preference share investment represents 100 fixed rate redeemable cumulative par value preference shares in Fullimput 65 (Proprietary) Limited. A long-term liability of the Group is secured by a cession of the preference shares.

	Company	
	2001 Rm	2000 Rm
8. SHARE CAPITAL		
Authorised		
500 000 000 (2000 - 500 000 000) Ordinary shares of 1 cent each	5,0	5,0
Issued		
197 077 388 (2000 - 157 077 388) Ordinary shares of 1 cent each	2,0	1,6

The company listed on The JSE Securities Exchange South Africa on 4 July 2000 by way of a private placement of 40m ordinary shares at an issue price of R12,50 each. Cash proceeds of R500m were raised, before settling share issue and listing costs of approximately R22m.

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: 10 435 754 (2000 6 421 398) Massmart ordinary shares at considerations ranging from R2,42 to R14,61 (2000 R2,42 to R14,61). Details are shown in note 24 under the group annual financial statements.

Massmart Holdings Limited
Notes to the Annual Financial Statements (continued)

	Company	
	2001 Rm	2000 Rm
9. SHARE PREMIUM		
Opening balance	-	523,1
Premium on shares issued during the year	496,1	416,8
Share issue costs	(22,0)	-
Intangible assets written off on acquisition of businesses	-	(939,9)
	474,1	-

	Company	
	2001 Rm	2000 Rm
10. CONTINGENT LIABILITIES		
Guarantees in respect of creditors of subsidiary company	105,0	105,0
	105,0	105,0

Registered Shareholding

The following analysis of shareholders was extracted from the shareholders register as at 30 June 2001:

Number of shareholders	Category	Number of ordinary shares held	
		000's	% of total
Individual holding			
248	1 - 5 000 shares	15	-
4	5 001 - 25 000 shares	687	0,4
252		702	0,4
7	Massmart directors	7 488	3,8
154	Management	5 220	2,6
25	Banks, nominees and finance companies	31 559	16,0
2	Insurance companies	7 250	3,7
9	Trust funds and investment companies	2 840	1,4
102	Other corporate entities	142 018	72,1
299		196 375	99,6
551		197 077	100,0

In terms of the definitions in the Listing Requirements of the JSE Securities Exchange South Africa, public shareholders own 21,0% of the issued shares. According to information received by the directors, the following are the only shareholders beneficially holding directly or indirectly, at the date of this report, in excess of 5% of the equity share capital:

Wooltru Limited	40,8%
SHV Investments B. V.	20,6%
Holding Maatschappij Afidema B. V.	10,6%

ADMINISTRATION

Secretary	R A McKee, CA (SA)
Registered office	Massmart House, 16 Peltier Drive, Sunninghill Ext 6 Sandton, 2196
Postal address	Private Bag X 4, Sunninghill, 2157
Telephone number	+ 27 (0) 11 517 0000
Fax number	+ 27 (0) 11 517 0020
Web site	http://www.massmart.co.za
Company registration number	1940/014066/06
Transfer secretaries	Mercantile Registrars Limited, 11 Diagonal Street Johannesburg, 2001
Principal bankers	Nedcor Limited, ABSA Bank Limited
Auditors	Deloitte & Touche
Corporate law advisers	Edward Nathan & Friedland (Pty) Limited

FINANCIAL CALENDAR

Financial Year End	June
Annual Report	October
Annual General Meeting	November
Interim Report	February
Dividends:	
Declared	interim February
	final August
Payable	interim March
	final September

Notice of General Meeting

Notice is hereby given that the annual general meeting of the company will be held at 09h00 at Massmart House, 16 Peltier Drive, Sunninghill Ext 6, Sandton on Wednesday, 28 November 2001, for purposes of:

1. Transacting the following business:

- 1.1 to receive and adopt the annual financial statements of the company and the group for the year ended 30 June 2001;
- 1.2 to elect directors in the place of those retiring in accordance with the company's articles of association; and
- 1.3 to transact such other business as may be transacted at an annual general meeting.

2. Considering and, if deemed fit, passing, with or without modification, the following ordinary and special resolutions:

Ordinary resolutions:

1. **"Resolved that** the annual financial statements of the company and the group for the year ended 30 June 2001, circulated together with this notice, be and are hereby adopted."
2. **"Resolved that** Mr D G Barrett, who resigns by rotation and has offered himself for re-election, be and is hereby re-elected to the board of directors of the company for a further period of three years."
3. **"Resolved that** Mr S Leggatt, who resigns by rotation and has offered himself for re-election, be and is hereby re-elected to the board of directors of the company for a further period of three years."
4. **"Resolved that** the election to the board of directors of the company of Mr G R C Hayward with effect from 15 May 2001 be and is hereby approved."
5. **"Resolved that** the appointment of Mr D Doijer as an alternate director to Mr F Schukken with effect from 20 August 2001 be and is hereby approved."
6. **"Resolved that** the election to the board of directors of the company of Mr N Matthews with effect from 1 November 2001 be and is hereby approved.

7. **"Resolved that** Messrs Deloitte & Touche be and are hereby re-elected as the company's auditors for the ensuing financial year."
8. **"Resolved that** the declaration of the final cash dividend of 21 cents per ordinary share in respect of the six months ended 30 June 2001, payable to holders of ordinary shares registered as such at the close of business on 14 September 2001 be and is hereby approved."
9. **"Resolved that** all the ordinary shares in the authorised but unissued share capital of the company be and are hereby placed under the control of the directors in terms of section 221(2) of the Companies Act, 1973 (Act 61 of 1973), as amended ("Act"), who shall be authorised to allot and issue such ordinary shares to such person or persons on such terms and conditions as they may deem fit."
10. **"Resolved that**, subject to the Listings Requirements of the JSE Securities Exchange South Africa ("JSE"), the directors be and are hereby authorised to issue the ordinary shares in the authorised but unissued share capital of the company for cash to such person or persons on such terms and conditions as they may deem fit, subject to the following:
 - 10.1 the shares shall be of a class already in issue;
 - 10.2 the shares shall be issued to public shareholders (as defined in the Listings Requirements of the JSE);
 - 10.3 the issues in the aggregate in any one financial year shall not exceed 15% (fifteen percent) of the number of shares already in issue;
 - 10.4 the maximum discount at which the shares may be issued shall be 10% (ten percent) of the weighted average traded price of the shares over the 30 (thirty) business days prior to the date that the price of the issue is determined or agreed by the directors;
 - 10.5 the authority hereby granted will be valid until the company's next annual general meeting, provided that it will not extend to beyond 15 (fifteen) months."The approval of a 75% (seventy five percent) majority of the votes cast by shareholders present or represented by proxy at the annual general meeting is required for this resolution to become effective.

Special resolutions:

1. **“Resolved that** the company and its subsidiaries be and are hereby authorised in terms of sections 85(2) and 85(3) of the Act, and the Listings Requirements of the JSE, from time to time to acquire ordinary shares in the issued share capital of the company from such shareholder/s, at such price, in such manner and subject to such terms and conditions as the directors may deem fit, but subject to the articles of association of the company, the Act and the Listings Requirements of the JSE, and provided that:

1.1 the authority hereby granted will be valid until the company's next annual general meeting, provided that it will not extend to beyond 15 (fifteen) months from the date of registration of this special resolution;

1.2 acquisitions may not be made at a price greater than 10% (ten percent) above the weighted average of the market value for the shares determined over the 5 (five) business days prior to the date that the price for the acquisition is agreed;

1.3 acquisitions in the aggregate in any one financial year shall not exceed 15% (fifteen percent) of the company's issued ordinary share capital.”

Although the Listings Requirements of the JSE provide that acquisitions by a company of its own shares in the aggregate in any one financial year pursuant to a general authority may not exceed 20% (twenty percent) of the company's issued ordinary share capital, the directors are only seeking an authority to acquire up to 15% (fifteen percent) of the company's issued ordinary share capital.

Statement by the board of directors

In accordance with the Listings Requirements of the JSE, the directors state that:

a) the intention of the directors is to utilise the authority at a future date, provided that the cash resources of the company are in excess of its requirements. In this regard, the directors will take into account, inter alia, an appropriate capitalisation structure for the company and the long-term cash needs of the company, and will ensure that any such utilisation is in the interests of the shareholders;

b) having considered the effect of the maximum number of ordinary shares that may be acquired pursuant to the authority and the date upon

which such acquisition/s will take place:

- the company and its subsidiaries will be able in the ordinary course of business to pay their debts for a period of twelve months after the date of this notice of annual general meeting;
- the assets of the company and its subsidiaries will be in excess of the liabilities of the company and its subsidiaries for a period of twelve months after the date of this notice of annual general meeting, such assets and liabilities being fairly valued in accordance with South African Statements of Generally Accepted Accounting Practice and in accordance with the accounting policies used in the company and the group annual financial statements for the year ended 30 June 2001;
- the issued share capital and reserves of the company and its subsidiaries will be adequate for purposes of the business of the company and its subsidiaries for a period of twelve months after the date of this notice of annual general meeting;
- the working capital available to the company and its subsidiaries will be adequate for purposes of the business of the company and its subsidiaries for a period of twelve months after the date of this notice of annual general meeting.

2. **“Resolved that** the company's share capital be and is hereby reduced in terms of section 90 of the Act, with effect from the date of registration of this special resolution, by reducing the company's share premium account from R903 241 889.95 by an amount of R429 199 000.45, such reduction to be applied to write off goodwill and other intangible asset components of the company's interests in subsidiaries.”

3. **“Resolved that** the company's articles of association be and are hereby amended by the inclusion of the following new article 40 after the existing article 39: “ELECTRONIC TRANSMISSION OF NOTICES, PROXIES AND OTHER DOCUMENTS

40. For purposes of paragraphs 1 to 15 of this article 40:

40.1.1 “data message” means information generated, displayed, sent, received or stored by electronic media, optical or similar means;

40.1.2 “electronic media” means media

Notice of General Meeting (continued)

such as facsimiles, CD-ROM, electronic mail, bulletin boards, Internet websites and computer networks;

40.1.3 "electronic proxies" means a proxy received by the Company via the proxy system;

40.1.4 "information system" means a system for generating, displaying, sending, receiving, storing or otherwise processing data messages, and includes the Internet and the World Wide Web;

40.1.5 "proxy system" means an information technology based system, approved by the board, providing for members to electronically deliver an electronic proxy to the Company via an information system;

40.1.6 "writing" or "written" means, in respect of data messages, information contained therein that is accessible so far as to be usable for subsequent reference.

40.2 Notwithstanding anything to the contrary contained in these articles, and whenever in these articles reference is made to service of notice by the Company on or to documents having to be delivered by the Company to members, it shall be sufficient for the Company to effect service of notice on or delivery of documents via an information system without the requirement to effect notice or delivery of documents by any other means, but subject to the Listings Requirements of the JSE and the Act.

40.3 The provisions of article 40.2 shall only apply to such members who have consented thereto and have supplied the Company with their data message addresses. Notwithstanding the aforesaid, a member having supplied the Company with its data message address may, on notification to the Company by registered mail -

40.3.1 decline data message notification or delivery ("withdrawal") and require paper-based notification or delivery in accordance with the remainder of the provisions of these articles, provided that such withdrawal shall become effective on the 7th (seventh) day after receipt thereof by the Company and provided further that no data message notification or delivery sent by the Company prior to such date shall be affected by the withdrawal; or

40.3.2 request paper-based notification or delivery over and above data message notification or delivery provided that in such instance data message notification or delivery shall nevertheless be the only notification or delivery to be considered for purposes of compliance with these articles.

40.4 Data message notification or delivery shall be deemed to constitute a valid notice or delivery or irrespective of whether the information forming the subject matter of the notice or delivery is -

40.4.1 contained as texts in the body of the data message; or

40.4.2 provided as an attachment to the data message as a separate document in any file format generally used; or

40.4.3 made available for direct or indirect access or download, as the case may be, by hyperlink in the data message; or

40.4.4 made available on a website for direct or indirect access or download, as the case may be, the address of which is provided in the data message; or

40.4.5 a combination of the above.

40.5 A data message notice shall be deemed to have been served on or documents delivered to the member on the day of having been sent by or on behalf of the Company and in proving such service or delivery it shall be sufficient to prove that the data message had been sent to the appropriate address as evidenced by the relevant records of the Company or its agent, provided that a member shall not be entitled to dispute service or delivery under any circumstances after expiry of 6 (six) months from the official issue date of the notice or 14 (fourteen) days after a meeting for which such notice had been issued, whichever occurs first.

40.6 In as far as these articles or applicable laws require data message notices to be signed, such requirement shall be met in all respects in accordance with the provisions of articles 40.10 and 40.11.

40.7 In as far as these articles or applicable laws require data message notices to be submitted to or otherwise filed with the Company, such requirements shall be met if, in the sole opinion of the board, the information

system is capable of satisfying the requirements of articles 40.12 to 40.14.

40.8 A data message sent by a member to the Company shall not be deemed to have been received unless actually received.

40.9 Members acknowledge and accept that data message notification may lead to certain costs on their part, including telephone dial-up costs and cost of printing.

40.10 Whenever these articles or applicable law requires a signature of a member or other person, that requirement shall be met in relation to a data message if -

40.10.1 a method is used to identify that person and to indicate that person's approval of the information contained in the data message; and

40.10.2 that method is, in the sole and absolute discretion of the board, as reliable as was appropriate for the purpose for which the data message was generated or communicated, in light of all the circumstances.

40.11 Article 40.10 applies where the requirement therein is in the form of an obligation or where applicable law simply provides consequences in the absence of a signature.

40.12 Where these articles or applicable law requires that certain documents, records or information be retained, that requirement shall be met in respect of a data message by retaining the relevant data message, provided that the following conditions are satisfied -

40.12.1 the information contained therein is accessible so as to be useable for subsequent reference; and

40.12.2 the data message is retained in the format in which it was generated, sent or received, or in a format which can be demonstrated to represent accurately the information generated, sent or received; and

40.12.3 such information, if any, is retained as enables the identification of the origin and destination of a data message and the date and time when it was sent or received.

40.13 An obligation to retain documents, records or information in accordance with article 40.12 does not extend to any information the sole purpose of which is to

enable the message to be sent or received.

40.14 A person may satisfy the requirements referred to in article 40.12 by using the services of any other person, provided that the conditions set forth in articles 40.12.1, 40.12.2, and 40.12.3 are met.

40.15 No electronic proxies from members shall be allowed without the approval of the Board, and otherwise than through a proxy system approved by the Board, which approval (in both cases) the Board may withdraw at any time in its sole and absolute discretion. The Board may from time to time specify further criteria or conditions that must be complied with by members to become eligible to use electronic proxies.

Reasons and effects

The reason for special resolution number 1 is to give a renewable mandate to the directors to repurchase ordinary shares in the company. The effect of special resolution number 1 will be that the company and its subsidiaries will be authorised to acquire ordinary shares in the company.

The reason for special resolution number 2 is that the company wishes to ratify the write-off of goodwill and other intangible asset components of the company's interests in subsidiaries. The effect of special resolution number 2 is to reduce the company's share premium account.

The reason for special resolution number 3 is that the company wishes to send notices and other documents to shareholders by electronic means. The effect of special resolution number 3 will be that the company's articles of association will be amended so as to provide for the sending of notices and other documents to shareholders by electronic means.

Voting and proxies

All holders of ordinary shares in the company will be entitled to attend and vote at the annual general meeting. Subject to any rights or restrictions for the time being attached to any ordinary shares, on a show of hands, every shareholder who is present in person, or in the case of a company, the representative appointed in terms of section 188 of the Act, shall have one vote. On a poll, each shareholder shall have so many votes for each share as is determined in accordance with section 195 of the Act, read with the company's articles of association.

Notice of General Meeting (continued)

A shareholder entitled to attend and vote at the annual general meeting is entitled to appoint one or more proxies (none of whom need be shareholders) to attend, speak and, on a poll, to vote in his/her stead. The form of proxy for the annual general meeting, which sets out the relevant instructions for its completion, accompanies this notice of annual general meeting.

By order of the Board



R A McKee

Secretary

Johannesburg
22 October 2001

Registered office

Massmart House
16 Peltier Drive
Sunninghill Ext 6
Sandton
2196

Private Bag X4
Sunninghill
2157

Transfer secretaries

Mercantile Registrars Limited
11 Diagonal Street
Johannesburg
2000

P. O. Box 1053
Johannesburg
2000

Massmart Holdings Limited

registration number 1940/014066/06

Form of proxy

I/We
of
being a member/members of the above mentioned company, hereby
appoint: or failing him/her,
..... or failing him/her, the chairman
of the annual general meeting as my/our proxy to vote for me/us on my/
our behalf at the annual general meeting of the company to be held at
09h00 on 28 November 2001 and at every adjournment of that meeting.

Signed at
this day of 2001

Signature

Please indicate with an "X" in the appropriate space below how you wish your vote to be cast. If you return this form duly signed, without any specific directions, the proxy shall be entitled to vote as he/she thinks fit.

	IN FAVOUR OF RESOLUTION	AGAINST RESOLUTION	ABSTAIN FROM VOTING
Ordinary resolutions:			
1. Adoption of the annual financial statements			
2. Re-election of Mr D G Barrett to the Board of Directors			
3. Re-election of Mr S Leggatt to the Board of Directors			
4. Election of Mr G R C Hayward to the Board of Directors			
5. Appointment of Mr D Doijer as an alternate director			
6. Election of Mr N Matthews to the Board of Directors			
7. Re-election of Messrs Deloitte & Touche as the company's auditors			
8. Approval of the final dividend of 21 cents per share			
9. Placement of the unissued share capital under the control of the directors			
10. Authority for the directors to issue shares for cash			
Special resolutions:			
1. Authority for the company to buy back its own shares			
2. Write-off of goodwill against the share premium account			
3. Amendment to the company's articles to provide for electronic communication			

A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend, speak and to vote in his/her stead. A proxy need not be a member of the company. Proxies must be lodged at the registered office of the company not less than 48 (forty-eight) hours before the time for holding the meeting