MASSMART

2003 Annual Report

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Corporate profile

Massmart is a managed portfolio of nine wholesale and retail chains, each focused on high volume, low margin, low cost distribution of mainly branded consumer goods for cash, through 142 outlets and two buying associations serving 1 394 independent retailers and wholesalers, in eight countries in southern Africa.

The Group is the third largest distributor of consumer goods in sub-Saharan Africa, the leader in general merchandise and liquor, the third largest in food and the largest food wholesaler.

Contents

Massmart Holdings Limited

Sales **R20,4bn**, Trading profit **R748m**, Headline earnings **R480m**

Massdiscounters (Retail discount stores)	Masswarehouse (Wholesale and retail warehouse outlets)	Masscash (Wholesale Cash & Carry outlets)	Masstrade (Buying groups for independent wholesalers and retailers)
Sales R6 229m PBT R298m	Sales R5 705m PBT R160m	Sales R5 740m PBT R209m	Sales R2 695m PBT R81m
Game 55 stores General merchandise – RSA, Botswana, Namibia, Zambia, Mauritius	**Makro** 15 outlets General merchandise/Food/Liquor – RSA, Zimbabwe	**CBW Wholesalers** 46 outlets Food/Liquor – RSA, Lesotho, Namibia	**Shield** 494 members/695 retail and wholesale outlets Food – RSA, Botswana, Namibia, Swaziland
Dion (Home Work Play) 11 stores General merchandise – RSA	**Builders Warehouse** 6 outlets Building Materials/DIY – RSA	**Jumbo** 6 outlets Cosmetics/Food – RSA	**Furnex** 674 members/699 retail outlets Furniture/Appliances – RSA
	Tile Warehouse 5 outlets Tiles/Sanitaryware – RSA		

Investment proposition

Within southern African retail and wholesale distribution, Massmart is a unique investment offering:

Strategic and structural clarity

Management quality and depth

Diversification

- Customers – All mass market strata
- Geography – Eight southern African countries
- Merchandise – Leadership in five general merchandise categories and liquor, with a dominant defensive food profile
- Four routes to market

Revenue growth

- Proven record of successful organic (134 495m²) and acquisitive (nine acquisitions) growth
- Proven record of comparable store sales growth
- New stores in South Africa planned for Makro, Builders Warehouse, Tile Warehouse, CBW and Jumbo
- New stores in Africa planned for Game and CBW
- Acquisition opportunities constantly under consideration

Profit growth

- High average sales per store (R124,5 million in 2003)
- Improving operating practices and cost reduction
- Inter-divisional collaboration
- Growing net margins

Relatively low risk

- Four business models
- High cash flows and stock turns of food complement the higher margins of general merchandise
- High cash generation and high cash dividend growth
- Retail credit only 2% of total sales

Good governance

Strategic principles

Mission

Massmart's mission describes the assets and competencies necessary for strategic success.

Massmart is a **South African**-based **international, management group, invested** in a portfolio of **differentiated, complementary, focused wholesale and retail formats,** each reliant on **high volumes** and **operational excellence** as the foundation of **price leadership,** in the distribution of mainly **branded consumer goods for cash.**

The Group actively seeks the continual improvement of performance in the portfolio and its parts, through **strategic and structural clarity, high market shares, excellent management and leadership, cost-effective technology** and the **sharing or agglomeration of capabilities, knowledge, resources, influence and information.**

To this end, thought leadership, individual and collective performance, and collaboration throughout the Group are **appropriately rewarded,** with executive management **incentivised predominantly on Group performance.**

Vision

Massmart's vision describes the response we strive for from stakeholders.

Customers will regard Massmart's wholesale and retail formats as their **first choice** when buying those categories of merchandise offered by the formats.

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 growth and total returns at relatively lower risk** than alternative wholesale and retail investments.

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

Strategic intent

To be considered a **leader by all stakeholders in our chosen markets.**

Operating highlights for the year ended 30 June 2003

- Sales exceeded R20 billion for the first time, almost doubling since listing three years ago.
- Record sales, trading profits and pre- and post-interest trading margins from all divisions.
- Comparable store and comparable member sales grew 17,6% and 19,5% when adjusted for the 53rd week in the previous year.
- Non-South African sales of R1,4 billion.
- Excellent expense control resulted in record Group pre- and post-interest operating profits of 3,67% and 3,49% of sales respectively.
- Return on equity improved from 27,6% to 31,2%.
- Last year's Furnex acquisition was fully integrated.
- Builders Warehouse and Tile Warehouse were acquired in March 2003.
- The appointment of a non-executive chairman and three independent non-executive directors ensured greater compliance with the King II Report on Corporate Governance.

Financial highlights
for the year ended 30 June 2003

Group summary	2003 Rm	2002 Rm	*Change %*
Sales	**20 369,5**	16 709,2	*22*
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	**855,5**	645,0	*33*
Operating profit	**698,2**	499,1	*40*
Headline earnings	**480,0**	361,6	*33*
Cash generated from operations	**785,3**	676,6	*16*
Shareholders' equity	**1 666,1**	1 414,0	*18*
Total assets	**5 794,0**	4 944,9	*17*
Ordinary share performance	**Cents/share**	Cents/share	*%*
Headline earnings per share	**242,4**	183,2	*32*
Diluted headline earnings per share	**235,6**	181,9	*30*
Attributable earnings per share	**216,8**	163,0	*33*
Dividends	**97,0**	61,0	*59*
Net asset value	**839,0**	714,8	*17*
Financial statistics*	**%**	%	
Operating margin	**3,7**	3,2	
Return on capital employed	**70,7**	77,6	
Return on shareholders' equity	**31,2**	27,6	
Debt: equity	**14,7**	16,7	

** See explanatory notes forming part of the six-year review on pages 4 and 5.*

Prospects for the year to 30 June 2004

For the first 15 weeks of the current financial year, sales growth, including the Builders Warehouse and Tile Warehouse acquisitions for the first time, was 14,5%. Comparable store sales growth for the same period was 7,3%. Deflation is evident in many product categories, arising predominantly from the impact of a stronger Rand on direct or indirect imports and on local merchandise influenced by the exchange rate. Estimated volume growth is 4,5%. Profit is in line with budget and ahead of the comparable period in the previous year.

In line with strategy, and slightly ahead of Massmart's 2007 Vision for Growth objectives, at least 14 stores will be added to the Group's 142 store portfolio in the current year.

Management efforts are dedicated to providing more customers with excellent value, through innovative merchandising and a low cost operating philosophy, while mitigating the effects of currency volatility through tight working capital management and a rapid response to relevant performance metrics. A unique approach to these imperatives will ensure high returns and earnings growth at the forefront of the retail sector.

Six-year review in SA Rand

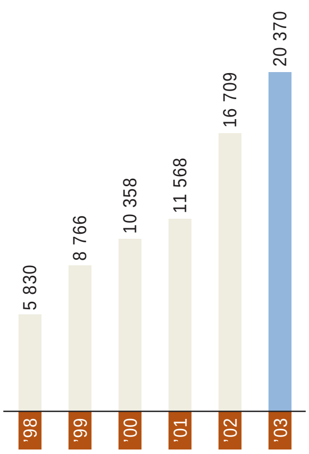
	Notes	*Compound growth % per annum*	2003	2002	2001	2000	1999	1998
Operating results (Rm)								
Sales		*28*	**20 369,5**	16 709,2	11 568,4	10 357,7	8 765,5	5 830,1
EBITDA	1	*49*	**855,5**	645,0	360,0	265,4	190,3	117,9
EBITA	2	*62*	**747,7**	538,8	277,0	201,5	135,3	67,4
Net interest (paid)/received			**(50,4)**	(14,1)	9,4	(56,6)	(67,9)	(0,8)
Headline earnings		*70*	**480,0**	361,6	216,0	106,2	38,5	33,5
Balance sheet (Rm)								
Shareholders' equity	3	*51*	**1 666,1**	1 414,0	1 204,6	576,7	447,9	208,8
Net cash/(borrowings)			**563,4**	550,3	498,8	(83,4)	192,2	131,0
Total assets		*30*	**5 794,0**	4 944,9	4 143,4	3 067,6	2 627,6	1 535,6
Inventories			**2 236,7**	1 981,9	1 555,7	1 318,5	1 107,7	552,9
Accounts payable			**3 598,8**	3 042,7	2 247,1	2 034,1	1 796,9	1 176,6
Cash flow (Rm)								
Cash generated from operations		*39*	**785,3**	668,7	344,4	64,6	167,0	154,3
Cash spent on maintaining fixed assets			**(83,6)**	(76,3)	(94,6)	(20,9)	(75,0)	(74,0)
Cash spent on investing in fixed assets			**(216,7)**	(73,1)	(32,3)	(136,6)	(103,0)	(7,0)
Profitability and gearing ratios (%)								
Operating margin	4	*25*	**3,7**	3,2	2,4	2,0	1,5	1,2
Return on capital employed	5	*17*	**70,7**	77,6	37,0	54,2	46,7	31,8
Return on shareholders' equity	6	*15*	**31,2**	27,6	19,1	25,0	23,7	15,4
Debt: equity	7		**14,7**	16,7	42,4	0,5	93,9	3,9
Cash earnings cover	9		**1,0**	1,3	1,2	(0,2)	2,4	4,1
Liquidity ratios								
Current ratio			**1,1**	1,2	1,0	1,0	1,0	1,0
Quick ratio			**0,6**	0,5	0,5	0,4	0,4	0,6
Inventory days	8		**46**	50	57	54	50	38

Notes:

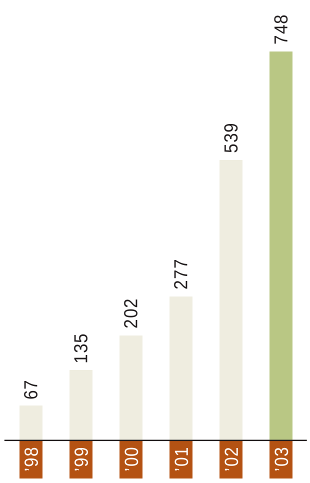
1. *EBITDA is earnings before interest, taxation, depreciation and goodwill amortisation.*
2. *EBITA is earnings before interest, taxation and amortisation. We prefer using EBITA rather than operating profit as the latter includes the charge for goodwill amortisation which can distort traditional trading ratios and returns.*
3. *In 1999 the convertible debentures of R410 million have been included in shareholders' equity. These debentures were converted to ordinary shares on 1 January 2000.*
4. *Operating margin is the percentage of EBITA to sales.*
5. *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 goodwill and deferred tax assets).*
6. *The return on shareholders' equity is the percentage of headline earnings to the average of the opening and closing balances of shareholders' equity.*
7. *Debt comprises non-current interest-bearing liabilities (and amounts due to vendor in 2001).*
8. *Inventory days is calculated using total cost of sales.*
9. *Cash earnings cover represents the ratio of operating cash flow per share to headline earnings per share.*

Trading performance

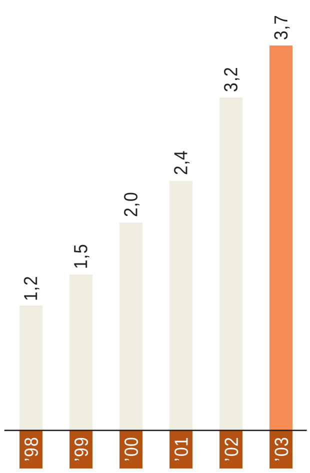
Sales (Rm)



EBITA (Rm)



Operating margin (Rm)



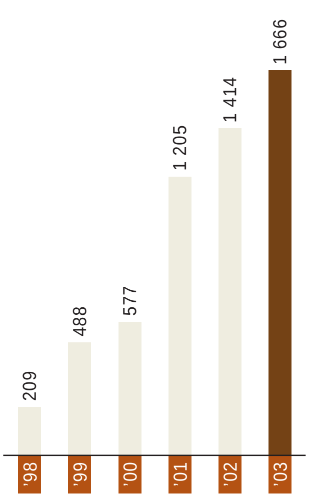
Six-year review in US Dollars

	Notes	*Compound growth % per annum*	2003	2002	2001	2000	1999	1998
Operating results ($m)								
Sales		*14*	**2 247,7**	1 643,5	1 518,6	1 631,0	1 443,9	1 191,6
EBITDA		*31*	**94,4**	63,4	47,3	41,8	31,3	24,1
EBITA		*43*	**82,5**	53,0	36,4	31,7	22,3	13,8
Net interest (paid)/received			**(5,6)**	(1,4)	1,2	(8,9)	(11,2)	(0,2)
Headline earnings		*51*	**53,0**	35,6	28,4	16,7	6,3	6,8
Balance sheet ($m)								
Shareholders' equity	3	*40*	**210,2**	139,1	149,5	83,2	73,5	38,8
Net cash/(borrowings)			**71,1**	54,1	61,9	(12,0)	31,5	24,4
Total assets		*21*	**736,2**	486,3	514,1	442,5	431,1	285,5
Inventories			**282,1**	194,9	193,0	190,2	181,7	102,8
Accounts payable			**459,3**	299,2	278,8	293,4	294,8	218,7
Cash flow ($m)								
Cash generated from operations			**86,7**	66,6	45,2	10,2	27,5	31,5
Cash spent on maintaining fixed assets			**(9,2)**	(7,5)	(12,4)	(3,3)	(12,4)	(15,1)
Cash spent on investing in fixed assets			**(23,9)**	(7,2)	(4,2)	(21,5)	(17,0)	(1,4)
Profitability and gearing ratios (%)								
Operating margin	4	*25*	**3,7**	3,2	2,4	2,0	1,5	1,2
Return on capital employed	5	*17*	**69,5**	70,1	37,5	55,7	44,4	32,3
Return on shareholders' equity	6	*15*	**30,3**	24,6	19,4	25,7	22,9	15,4
Debt: equity	7		**14,7**	16,7	42,4	0,5	93,9	3,9
Cash earnings cover	9		**1,0**	1,3	1,2	(0,2)	2,4	4,1
Liquidity ratios								
Current ratio			**1,1**	1,2	1,0	1,0	1,0	1,0
Quick ratio			**0,6**	0,5	0,5	0,4	0,4	0,6
Inventory days	8		**53**	50	54	49	50	35
Exchange rates (Rand/US$)								
At year-end			**7,93**	10,17	8,06	6,93	6,10	5,38
Average for the year			**9,06**	10,17	7,62	6,35	6,07	4,89

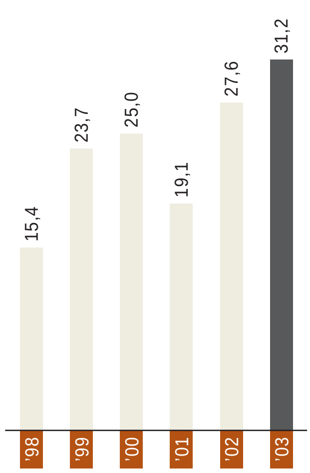
Notes:
All notes refer to the six-year review in SA Rand on page 4.

Equity performance

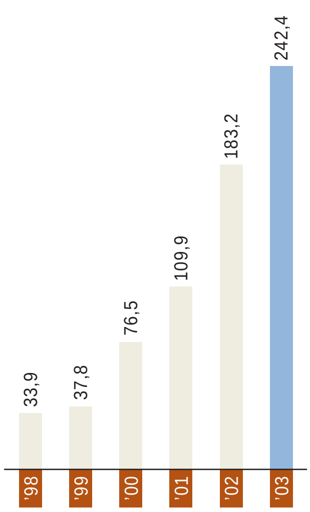
Shareholders' equity (Rm)



Return on shareholders' equity (%)



Headline EPS (c)



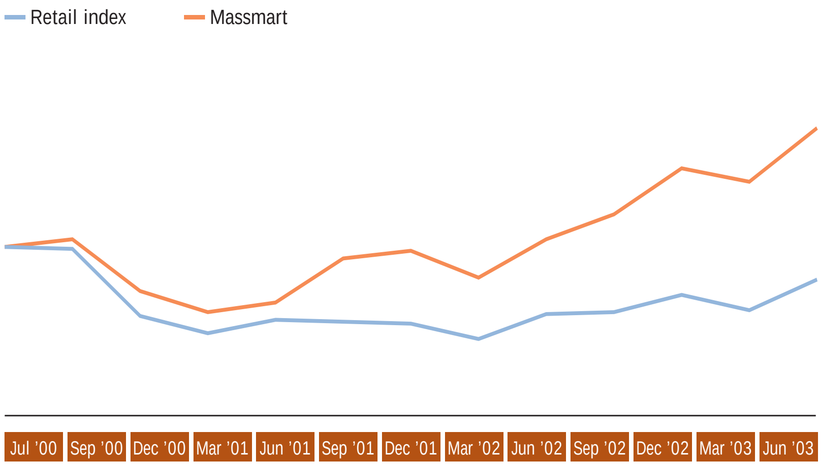
Share performance

	Notes	*Compound growth % per annum*	**2003**	2002	2001	2000	1999	1998
Per share performance (South African cents)								
Headline earnings		*45*	**242,4**	183,2	109,9	76,5	33,9	37,8
Diluted headline earnings		*44*	**235,6**	181,9	109,8	76,3	55,3	37,7
Attributable earnings		*40*	**216,8**	163,0	91,4	71,8	192,7	39,7
Dividends		*118*	**97,0**	61,0	36,0	9,4	–	–
Trading cash flow	1	*29*	**428,6**	319,1	170,8	182,0	126,1	118,3
Operating cash flow	2	*10*	**253,4**	240,2	133,4	(13,5)	80,5	154,2
Net asset value		*29*	**839,0**	714,8	611,2	367,1	368,6	230,6
Per share performance (US$ cents)								
Headline earnings		*28*	**26,8**	18,0	14,4	12,1	5,6	7,7
Diluted headline earnings		*28*	**26,0**	17,9	14,4	12,0	9,1	7,7
Attributable earnings		*24*	**23,9**	16,0	12,0	11,3	31,1	8,1
Dividends		93	**10,7**	6,0	4,7	1,5	–	–
Trading cash flow	1	*14*	**47,3**	31,8	22,4	28,7	20,8	24,2
Operating cash flow	2	*(3)*	**27,4**	24,0	17,5	(2,1)	13,3	31,5
Net asset value		*20*	**105,8**	70,3	75,8	53,0	60,4	42,9
Stock exchange information								
Shares in issue (millions)			**198,6**	197,8	197,1			
Shares traded (millions)			**86,1**	40,2	27,1			
Percentage of shares traded (%)			**43,4**	20,3	13,8			
Share price South African (cents):								
High			**2 222**	1 550	1 455			
Low			**1 275**	930	760			
Closing			**2 100**	1 350	930			

Notes:

1. *Trading cash flow per share is calculated using the cash flow from trading, before working capital movements.*
2. *Operating cash flow per share is calculated using the net cash flow from operations, after working capital movements, excluding exceptional items.*

Massmart share price versus JSE General Retailers index (Rebased to 100)



Massmart was listed on the JSE Securities Exchange on 4 July 2000

Letter from the non-executive chairman

During the year, the Board resolved to separate the roles of Chairman and Chief Executive, previously held by Mark Lamberti. I was appointed non-Executive Chairman with effect from 1 July 2003. Mark, who continues as CEO and Deputy Chairman, has assembled a strong board of intellect and skills and has fulfilled the role of Chairman in an inspiring and effective manner. I am indeed honoured to now take this role.

Massmart recorded excellent results in the 2003 financial year. Turnover exceeded R20 billion for the first time, HEPS grew at 32% and cash flow was strong. These achievements were particularly gratifying in the context of the unprecedented volatility in exchange rates, interest rates and inflation. Management's ability to cope with these variables and still deliver value to consumers and profits to shareholders has been recognised by the market in the substantial increase in the share price of Massmart, its improved rating and its outperformance of its JSE sector.

Massmart has a dynamic and growth-orientated management culture, reinforced by financial incentives linked predominantly to growth in earnings. This has attracted high quality executives to the Group and resulted in the management team led by Mark Lamberti being one of the most highly regarded in South Africa. The Board is committed to supporting the Group's mission and strategies and giving its full backing to the executive team.

Massmart remains committed to sound corporate governance at all levels. The Board has a balance of skills and experience and its committees are functioning effectively. The quality of reporting by management is high and there is vigorous interaction between non-executive and executive Board members on the many issues that are debated in the course of the management of the Group. The performances of the Board and its committees are subject to annual written assessments. Every effort is made to ensure that the assessment process is dynamic, does not take the form of perfunctory box-ticking and reinforces the ongoing commitment to good governance and integrity of management within the Group.

Massmart is driving to achieve the strategic and financial objectives in its 2007 Vision for Growth, through its three major imperatives of organic growth, acquisitions and inter-divisional collaboration. The Group's achievements in 2003 have set a sound base for these objectives to be met and I am confident that our Chief Executive and his team will continue to deliver above-average growth as they have in the past.

Chris Seabrooke
14 October 2003

Massmart defining events 1990 – 2002

1990 – 1994

- 1990
  - Massmart founded
  - With R895 million sales through six Makro stores, Massmart's multi-chain, organic and acquisitive growth strategy formulated
- 1991
  - Transpaco Stationers acquired and integrated to form Makroffice
- 1992
  - Drop Inn acquired
  - Acquisition of Shield (378 members)
- 1993
  - Acquisition of Dion (20 stores)
- 1994/6
  - Merger, profit fall and demerger of Makro/Dion

1995 – 1999

- 1996
  - Sale of 25% of Massmart to SHV
  - Balance of "Channel & Chain" clarified
- 1997
  - Acquisition of Makro franchisee in Zimbabwe
- 1998
  - Acquisition of 51% of CCW (14 stores)
  - Acquisition of Game (26 stores)
  - Sales exceed R5 billion
- 1999
  - Operating profit exceeds R100 million
  - Massdiscounters formed to integrate and rationalise Dion and Game

2000 – present

- 2000
  - Massmart listed on the JSE Securities Exchange
  - Sales exceed R10 billion
- 2001
  - Acquisition of Jumbo (six stores)
- 2002
  - Acquisition of Browns and Weirs (22 stores)
  - Restructuring of Group into four divisions
  - Acquisition of Furnex (390 members)
  - Operating profit exceeds R500 million
- 2003
  - Integration of Furnex
  - Acquisition of Builders Warehouse (five outlets) and Tile Warehouse (four outlets)
  - Sales exceed R20 billion

Letter from the executive directors

Overview

In its third year as a public company, Massmart's growth of market share was sustained by a 13th consecutive year of record sales, contributing to its sixth successive year of record profits and profitability. This was achieved despite a challenging economic and competitive environment.

The performance was a consequence of three major imperatives, which have fuelled performance for some years. Each division produced strong **organic growth** while refining its value proposition, increasing operating efficiencies and further strengthening the quality and depth of management. Sales and profits were enhanced by **acquisitions** as the 2002 Furnex acquisition was fully integrated and Builders Warehouse and Tile Warehouse were acquired in March 2003. The performance of individual divisions was substantially enhanced by more disciplined **inter-divisional collaboration**, significantly influencing operational and strategic performance.

Throughout the year significant movements in economic variables shaped the wholesale and retail operating environment. The lagging effects of the sharp deterioration of the Rand against the currencies of South Africa's trading partners in late 2001, its equally dramatic recovery to date and the consequent impact on inflation and interest rates, influenced pricing, consumer sentiment and buying behaviour. These factors resulted in distinctly different trading conditions during the financial year.

In the first half, sales growth was enhanced by rising inflation, higher volumes resulting from improving consumer confidence, and direct and indirect export opportunities arising from a relatively weak Rand, which also enhanced foreign sales reported in Rands.

As the four interest rate increases of 2002 took effect around December, volume growth slowed, concurrent with a firming Rand, which curtailed exports and rendered certain imported stocks on hand uncompetitive. Inflation declined sharply and retail consumers held back in anticipation of promotional activity and lower imported prices. Wholesale customers correctly deemed it prudent to reduce stock holdings, on the assumption of declining prices.

The impact of these changing trends differed across Massmart's broad geographic and product portfolio. Certain product categories, which produced peaks of 40% sales growth around October 2002, were showing no or slightly negative growth by May 2003. Highly competitive, directly imported general merchandise and liquor with long lead-times became overpriced as the year progressed, as did indirect imports or products with a Dollar-influenced

cost. Within the food category, the cost prices of selected products were driven higher by shortages arising from drought, exports and feeding schemes in neighbouring states.

The result of the above was an exceptional first half in which sales grew 32% and earnings per share grew 42%, in contrast to a more subdued second half when sales and earnings per share growth slowed to 13% and 20% respectively, mainly as a result of lower inflation. Group sales for the full year grew 22% to R20,4 billion and operating profit grew 39% to R748 million. The 30% increase in headline earnings before acquisitions to R464 million grew to 33% or R480 million after acquisitions, resulting in a 32% increase in headline earnings per share to 242,4 cents. Cash flow from operations rose 17% to R785 million, substantially strengthening the balance sheet.

A detailed report on the financial performance and position of the Group appears on pages 42 to 47 followed by the audited financial statements.

This report reflects our dedication to the continual improvement in qualitative and quantitative disclosure however uncomfortable this may be in times of underperformance.

Environment

The following environmental developments influenced Massmart's results and created some unique trading challenges in the second half.

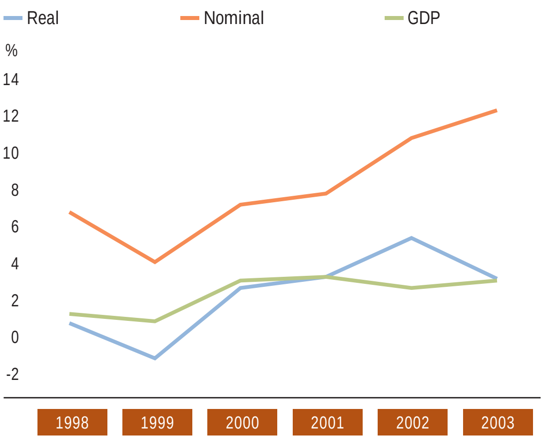
Economic

During the reporting period the retail and wholesale environment was shaped by four factors, two of which significantly altered their trend in the latter part of 2002:

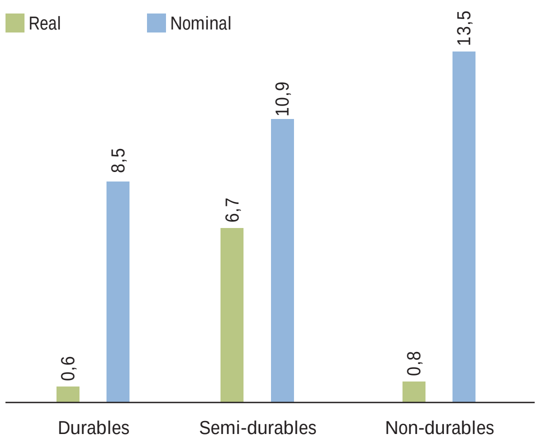
- Exchange rate – The volatility reflected in the 44,9% weakening and the subsequent 52% strengthening in the Rand/Dollar exchange rate over the 24 months prior to June 2003 had a significant impact on purchasing, inventory, margin and pricing decisions on Dollar-based merchandise, particularly in those merchandise categories with longer lead times or slower stock turns. During the financial year under review, the Rand/Dollar exchange rate strengthened 39,8% from R10,39/$ to R7,43/$.
- Interest rates – The cumulative effect of four interest rate increases in 2002 slowed consumer expenditure towards the end of 2002 and into the early part of 2003. Prime interest rates were 13% at January 2002, 17% at September 2002 and 15,5% by the end of June 2003.
- Inflation – Retail inflation rose steadily from 4,1% in May 2001, accelerating in response to the sharp exchange rate deterioration in late

South African retail industry growth

Retail industry sales growth
12 months to June (%)



Retail industry category growth
(2003 vs. 2002) (%)



2001, peaking at 10,9% in November before declining to 6,1% by the end of June 2003. Average retail inflation for the six months to December 2002 was 9,77% compared to 4,68% for the comparable period in 2001. Producer price inflation fell from 15,3% in the first quarter of the financial year to 2,3% in the final quarter.

- Consumer confidence – In the second quarter of 2002, retailer and wholesaler confidence rose to a 14-year high and consumer confidence to seven-year highs. The latter declined as Massmart's financial year commenced, falling sharply in the important quarter to December 2002, depressing consumer expenditure in the early part of 2003.

Within this environment, the management of prices, promotions, margins, inventories, expenses and foreign earnings assumed unprecedented levels of complexity, mitigated only by exceptional management information, thorough analysis, and a rapid response.

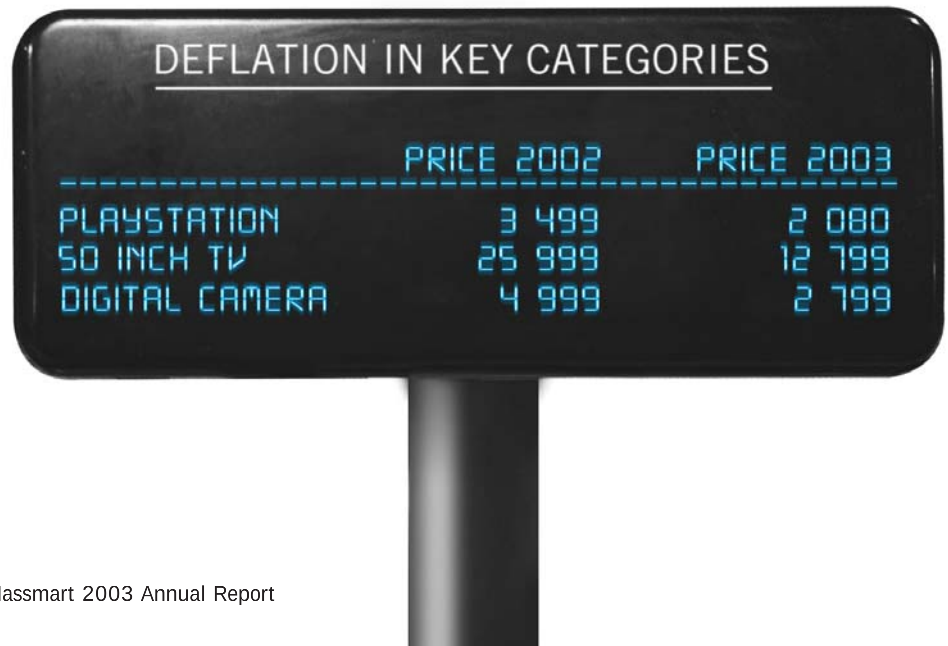
Competitors

For some years we have noted and commented on the phenomenon of retail convergence – a development typical of mature or overtraded markets – where market participants, struggling to achieve growth in their chosen category, forsake their historic product/market positioning to enter into the product or category domains of other retailers known for such products. This trend accelerated over the reporting period with a number of organic and acquisitive growth initiatives by participants who have now become competitors.

In the first quarter of 2003 competitive activity was heightened as the sustained strength of the Rand forced some competitors to aggressively clear overpriced imported merchandise bought during 2002 at a much weaker exchange rate.

Regulatory

In recent times we have been consistent in acknowledging the role of the South African Revenue Service (SARS) in improving tax and duty compliance by distributors of consumer goods. While substantial progress has been registered, there remains widespread evidence of evasion, which continues to deprive the fiscus of revenue and undermine the competitiveness of legitimate tax paying entities. In product categories where the average gross margin is lower than the 14% VAT rate, considerable competitive advantage is created by the total or partial evasion of VAT either by way of "VAT free" cash sales or "exports" which never leave the country. We are encouraged by SARS'



efforts to curtail evasion and particularly by their investigation into medium sized, privately owned wholesalers, where most of the abuse takes place.

The promulgation of the new Liquor Bill has followed a tortuous path based on the flawed premise that the creation of a "three-tier structure" will enhance empowerment in the liquor industry. While there are many laudable aspects to it, the legislation currently before Parliament does little to strengthen the position or empowerment credentials of the extraordinarily fragmented distribution component of the industry and equally little to weaken the dominance of key manufacturers. Secondly, there has been inconsistency in the manner in which the legislation has been applied to manufacturers, wholesalers, and retailers. Finally, discrepancies in the interpretation and implementation of the law by provincial authorities may undermine the efficiencies of national chains. Despite extensive and consistent representation, Massmart's concerns have been ignored at the national level. A failure to secure the right of retailers to sell to other retailers, to the extent that it is within the powers of the provincial authority to preserve that trading right, would be to the ultimate detriment of those end-consumers who will be burdened with higher prices arising from a less efficient liquor supply chain.

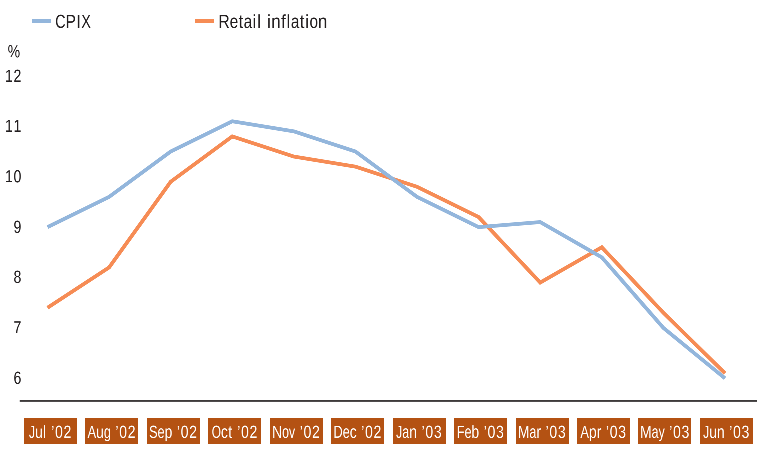
Strategy

In 1990, facing formidable competition and a mature distribution infrastructure, Massmart was founded on the belief that retail and wholesale assets could be successfully assembled, configured and grown to achieve industry prominence in the distribution of consumer goods in southern Africa. The Group's progress in this endeavour since then has been underpinned both by formal strategic planning and by constant strategic management – a daily awareness of and response to those forces that affect competitive advantage.

Competitive positioning, growth strategies, organisational structures and performance metrics have flowed from this and, in response to environmental and competitive threats, their evolution has been refined and captured in a comprehensive strategic review every three years, punctuated by annual interim reviews.

At the 2003 interim review the Executive Committee and Board reaffirmed their commitment to the three major objectives, which are the essence of Massmart's "Channel & Chain" strategy. The first – growth through aggressive organic and acquisitive development of a portfolio of focused retail and wholesale formats (the Chains); the second – collaboration between the chains to create value in addition to that

Retail inflation



which they could achieve as standalone entities (the Channel); the third – superior Group capability, leadership and control (the holding company). These objectives require the management of each chain to operate a discrete business model, dedicated to the needs of a well defined target market, while concurrently participating in collaborative activities that enhance value by leveraging the resources, influence and talent of the Group, within strategic, operating and governance parameters defined by Group leadership. The balance between these seemingly contrary objectives is ensured by structures, processes, and incentives that fuel entrepreneurship at the expense of bureaucracy.

During the previous financial period we advised shareholders that strategies and plans to sustain high quality growth and returns at the forefront of the sector had resulted in a "Vision for Growth", a performance goal to June 2005. During the past year this Vision for Growth was projected forward to June 2007.

The foundations of the 2007 sales and earnings per share objectives are: continued real sales growth from existing outlets; expansion into new categories and formats; new outlets; and selected acquisitions that conform to Massmart's strategic and acquisition criteria. Improved efficiencies throughout the supply chain and inter-divisional collaboration will enable superior operating margins, cash flow and returns on capital.

Detailed research and analysis during the year resulted in two important refinements to our long-term plans. The first is a commitment to open or acquire at least 44 stores in southern Africa over that period comprising new Makro, CBW, Jumbo, Builders Warehouse and Tile Warehouse outlets in South Africa with Game and CBW stores opening in southern Africa. The second arises from a detailed investigation, which commenced in December 2002, into the viability of expansion beyond the African continent. The conclusion of this study is that such expansion is not necessary to secure the required growth and although all intercontinental opportunities will be evaluated, Massmart will not actively seek growth beyond Africa before 2007.

The Chains

To mitigate the risks of rapid organic and acquisitive growth, the development of the Massmart portfolio of chains is reliant 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 96% of Massmart's sales.
- The development of an expanding regional presence.
- Favourable cash characteristics.
- A quest for high comparable store sales growth.
- 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 these principles, led to improved performance in all divisions and an acquisition that added two new chains to the portfolio.

Divisional performance is fully described in the reports on pages 16 to 21 and the segmental analysis on pages 22 and 23.

The Channel

The Channel refers to any centralised, shared, or collaborative activity that enhances profitability beyond that which would otherwise be achieved independently by the chains. All costs and benefits of any such activity, including those of the holding company, are allocated to the Chains. The Channel continues to be a core element of the Massmart Business Model and an increasing source of profitability.

A detailed report appears on page 24.

Acquisition performance and integration

Furnex

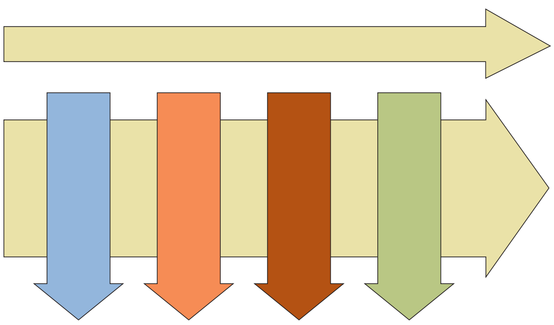
As promised in the 2002 report, by June 2003 Furnex was fully integrated with Shield to form Masstrade. The businesses now operate under one management team, out of one head office, sharing those functions that create back office economies, while clearly separating those functions that ensure differentiation with customers and suppliers.

Builders Warehouse and Tile Warehouse

Builders Warehouse and Tile Warehouse were acquired effective from 1 March 2003 for a consideration of R174 million, including costs. This acquisition builds on Massmart's already considerable presence in DIY and home improvement through Makro, Game and Dion, but extends the Group's participation in this burgeoning consumer segment into allied building supplies purchased either by the home owner or the small to medium sized building contractor. It is Massmart's intention to rapidly expand this chain to achieve market leadership and a national footprint over the next four years.

For the four months to June, this latest acquisition contributed sales of R191 million and, following the application of Massmart's conservative accounting policies, operating profits of R16 million and profit before tax of R17 million.

The Massmart Business Model



Holdings
- Strategy
- Portfolio
- Capital allocation
- Performance
- Executive development

Channel collaboration
- Procurement (forums)
- Coordinated retailing (positioning, pricing and promotion)

Central Services
- Non-differentiating services rendered at lower cost to divisions
- Human Capital management

Divisional growth
- Differentiated competitive offerings • Dominant in complementary product categories • Multiple target markets and regional reach
- Favourable cash characteristics • Sound organic growth • Strict acquisition criteria

Builders and Tile Warehouse have been housed within the Masswarehouse division and integration has commenced with a view to the appropriate sharing of selected non-differentiating services and processes with Makro, while maintaining the distinctive operating characteristics, supplier relationships, and market positioning of the Builders and Tile Warehouse chains.

Organisation structure and Human Capital

Since Massmart was founded in 1990, substantial investment has been made to ensure that the risks of fast growth were mitigated by appropriate structures and the attraction, development and retention of the best available talent and leadership in South African distribution.

The extent of the Group's commitment to the alignment of human effort with strategic objectives is reflected in a detailed report on Human Capital on pages 26 to 29.

Societal responsibility

In the context of a society where many are disadvantaged, unemployed or denied opportunity, the directors and management of Massmart are highly conscious of the company's obligations to the broader community and determined to establish a leadership position as a responsible corporate citizen.

Our approach to this endeavour is described on pages 30 and 31.

Board and senior executive development

In keeping with the company's commitment to the principles of good governance, details of which appear on pages 36 to 41, the following enhancements were made to the Massmart Board:

- Messrs. Dods Brand, Zitulele Combi, and Peter Maw were appointed as independent, non-executive directors on 25 February 2003.
- On 1 July 2003 Mark Lamberti resigned as Executive Chairman and was appointed Deputy Chairman while retaining his responsibilities as Chief Executive Officer.
- Chris Seabrooke was appointed independent non-executive Chairman on 1 July 2003, concurrently relinquishing his position as Chairman of the Audit Committee in favour of Nigel Matthews, an independent non-executive director.

Following five years as an executive director, Steve Leggatt retired as Director of Strategy and Corporate Finance on 25 February 2003 to become a non-executive director of the Board.

The executive capability of Massmart Holdings was strengthened by the creation of two new positions. Grant Pattison, previously Managing Director of Massdiscounters, was promoted to the position of Group Commercial Executive, serving on the Massmart Executive Committee and the Boards of all four divisions. Aubrey Cimring joined Massmart as Group Finance Executive and Company Secretary.

Fanus Nothnagel was appointed Managing Director of Massdiscounters and a member of the Massmart Executive Committee.

Appreciation

The success of Massmart is attributable to the 16 763 people who choose to follow the leadership of a growing, multi-disciplined cadre of executives, whose quest is to learn and contribute to the art and science of retail and wholesale distribution in a manner that benefits all stakeholders. We are deeply grateful for their contribution during a challenging year.

Prospects

Massmart has budgeted very low sales growth in the first quarter, increasing gradually as the anniversary of last year's sales growth decline is reached towards the end of 2003, with moderate real growth in 2004 as lower interest rates take effect. During the current year, the 142 store Massmart portfolio will be increased by eight new CBW outlets, two Builders Warehouse stores, two Tile Warehouse stores, and one store each in the Jumbo and Game chains.

While recognising the difficulty and arrogance of forecasting in the new millennium, there is evidence of a reduction in the economic volatility that distorted underlying performance and presented serious challenges for South African retailers and wholesalers of consumer goods over the past 18 months.

It is however difficult to predict the enthusiasm with which the South African consumer will respond to falling interest rates and inflation, and equally difficult to predict the contrary effect of a firming Rand on sales and margins. The management of Massmart has favoured action over prediction, devoting its energies to achieving high returns, by providing customers with excellent value, through innovative aggressive merchandising and a low cost operating philosophy, while mitigating the negative effects of uncontrollable economic volatility through tight working capital management and a rapid response to relevant performance metrics.

Our unique approach to these obvious imperatives will ensure earnings growth at the forefront of the retail sector in the current year, and sound progress towards our 2007 strategic and financial objectives.

MJ Lamberti
Chief Executive Officer and Deputy Chairman

D Barrett
Deputy Chief Executive Officer

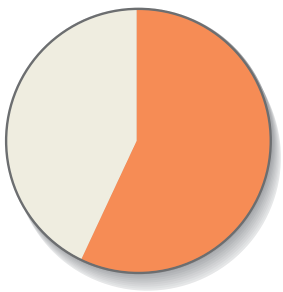
GRC Hayward
Chief Financial Officer

Regional and segmental reach

Stores by region

South Africa	**2003**	2002
Gauteng	**45**	33
KwaZulu-Natal	**35**	35
Western Cape	**9**	10
Eastern Cape	**17**	16
Other	**25**	24
Subtotal	**131**	**118**
Outside South Africa		
Namibia	**3**	3
Botswana	**2**	2
Zimbabwe (results not consolidated)	**2**	2
Zambia	**1**	1
Lesotho	**2**	2
Mauritius	**1**	1
Subtotal	**11**	**11**
Total	**142**	**129**

Sales by customer segment



Divisional review

Massdiscounters

Massdiscounters comprises a chain of 66 retail discount stores, trading under the Game and Dion brands in South Africa, Namibia, Botswana, Zambia and Mauritius, offering a wide range of general merchandise and non-perishable groceries to the value-seeking customer, in the LSM 6-10 market segment.

Divisional overview

Aggressive merchandising and marketing resulted in Game South Africa increasing its market share under extremely competitive conditions. Sales growth was enhanced by inflation in the first half but undermined in the second by declining inflation and a strengthening Rand, which resulted in lower Rand earnings and translation losses from foreign stores.

Comparable store sales grew 17,3%. Total sales grew 17,9% to R6,2 billion, enhanced by the opening of Mauritius in November 2002, the relocation of Game Gaborone, and the refurbishment of Game Pinetown and Game City. Total trading space at year-end was 274 082m^2.

Following the high sales growth trend of early 2002 and in anticipation of a buoyant Christmas season, first half purchases were increased significantly. A slowing of demand in late November, an up-weighted import programme, and overstocking in two major categories resulted in inventory ratios being exceeded at the half year. The strengthening Rand exacerbated this situation as merchandise could be imported at substantially lower cost, rendering selected stocks on hand uncompetitive. The excess and uncompetitive inventory was effectively reduced in the second half. The costs of clearance activity were offset by improved operating efficiencies leading to a 42,0% increase in trading profit before interest to R297 million. Increased interest charges arising from the higher stockholdings resulted in a profit before tax growth of 27,5% to R227 million. The appreciation of the Rand against the Zambian Kwacha and the Mauritian Rupee resulted in foreign exchange losses of R31 million compared to a profit of R3 million in the previous year.

Steven Whiley was appointed Financial Director in May 2003. Subsequent to the year-end Fanus Nothnagel was appointed Managing Director of Massdiscounters following the promotion of Grant Pattison to the position of Massmart Group Commercial Executive from July 2003.

Divisional prospects

Innovative store development, marketing and merchandising has positioned Game as southern Africa's leading general merchandise discounter, with Dion playing an important role in securing share in the densely populated Gauteng province of South Africa. Rigorous market research has led to the conclusion that while additional new store opportunities within South Africa are limited, the opening, closure and relocation of selected stores will optimise alignment with the chains' target markets, leading to higher sales per store and significantly

higher chain profits. Six to eight stores are planned to open in sub-Saharan Africa by June 2007 with a new store due to open in Kampala in May 2004.

In the medium term, Massdiscounters performance will be further enhanced by a supply chain re-engineering project, designed to improve customer service concurrent with a reduction in working capital. This project has commenced with the restructuring of the management of planning, replenishment, and logistics and the addition of new skills, systems and business processes. This project will underpin new store and new merchandise development opportunities to enable Massdiscounters to further its progress towards the division's medium-term targeted profit before tax return on sales of 5%.

Masswarehouse

Masswarehouse comprises the 14-store Makro warehouse club trading in food, general merchandise, and liquor; six Builders Warehouse outlets trading in DIY and builders' hardware and five Tile Warehouse outlets trading in tiles and sanitary ware.

Divisional overview

The Masswarehouse division became a reality, under the leadership of Joe Owens, following the acquisition of the Builders Warehouse and Tile Warehouse chains in March 2003. With target markets and operating philosophies similar to Makro, the full potential of these chains will be realised over time through rapid expansion and improved divisional efficiencies.

The acquisitions and a new Makro outlet increased divisional sales by 27,9% to R5,7 billion. Comparable store sales grew 13,9%. Trading profit before interest increased 45,8% to R160 million with after tax profits rising 33,2% to R173 million. Trading space at year-end was 141 452m^2.

Makro

The first new Makro store in six years was opened in Strubens Valley, Johannesburg, in October 2002, performing ahead of sales and profit expectations in its first eight months. Underperformance in general merchandise, particularly in the first half, resulted in comparable store growth of 13,9%. The chain's only remaining freestanding Makroffice outlet was closed in June 2003. At year-end, trading space totalled 103 664m^2. Due to difficulties relating to the repatriation of funds, the results of Makro's two stores in Zimbabwe are not consolidated.

Makro's profit before interest increased 31,6% to R145 million while profit after interest growth of 20,3% to R156 million, was depressed by high stock levels arising from lower than budgeted first half general merchandise sales.

Rod Salmon joined Massmart as Group Executive International Development. Following completion of an investigation into Massmart's intercontinental growth prospects, he was appointed Commercial Director of Makro.

Massdiscounters operating highlights

- Record sales and market share
- Record profits and profitability
- Foreign sales contribute 9,7% to total sales
- Continued merchandise and marketing innovation
- Commencement of supply chain re-engineering project

Masswarehouse operating highlights

- Builders Warehouse and Tile Warehouse acquired in March 2003
- Masswarehouse constituted as a three-chain division
- Makro's profit before interest and tax growth exceeds 25% for the fifth consecutive year
- Makro's first new outlet in six years exceeds expectations
- Leading-edge customer relationship management processes implemented in Makro

The leadership of Makro was further strengthened with the internal appointments of Derek Kalan as General Merchandise Executive and Graham Booysen as Liquor Executive.

Following the success of the SAP Retail software installed in the prior year, SAP CRM (Customer Relationship Management) was implemented to further leverage Makro's unique database of warehouse club, cash customers. When successfully implemented, this application will enable higher quality customer relationships at a lower cost through marketing and merchandising more aligned with the needs of individual Makro customers.

Builders Warehouse and Tile Warehouse

Within the constraints of Massmart's strict acquisition criteria, the Builders Warehouse and Tile Warehouse chains were purchased effective 1 March 2003 for a consideration of R174 million. Building on Massmart's substantial participation in these markets through Makro, Game and Dion, these formats distribute to the burgeoning middle and upper income DIY, building contracting and home improvement markets on a mainly cash and carry basis.

On 38 358m^2 of space, Builders Warehouse and Tile Warehouse contributed sales of R191 million over the four months and, following the application of Massmart's conservative accounting policies, operating profits of R16 million and profit before tax of R17 million.

While the proven success of these businesses under the leadership of founder and Managing Director Linton Lewis demands adherence to their entrepreneurial values, the strengthening of management and the selective implementation of Massmart's strategic and operating methodologies and systems will ensure improved growth and profits. Store development plans in the current financial year include the expansion of the Centurion store and new stores on the West Rand and Rustenburg.

Divisional prospects

While highly profitable, three Makro outlets are in sub-optimal locations. Their staged relocation over the medium term together with benefits arising from the SAP Retail software installed in 2001, will ensure progress towards the chain's growth and profitability targets.

Builders Warehouse and Tile Warehouse are targeted to open at least 15 stores each by June 2007, creating an important national leader in the distribution of DIY, and builders' hardware. This growth will be founded on refined strategies and market positioning and underpinned by stronger management and systems.

These developments will ensure Masswarehouse's continued progress towards the division's medium-term targeted profit before tax return on sales of 4%.

Masscash

Masscash comprises 46 CBW and six Jumbo wholesale cash and carry outlets serving independent traders who target lower income consumers (LSM 2-6). CBW distributes basic food and groceries in peri-urban and rural areas in South Africa, Lesotho, and Namibia. Jumbo distributes cosmetics, food, and general merchandise in urban areas in South Africa.

Divisional overview

The total integration of the 2001 Browns and Weirs acquisition, the strengthening of management, increasing co-operation between CBW and Jumbo and the opening of three new stores, resulted in divisional sales 21,4% up to R5,7 billion with comparable store growth of 19%. Profit before interest increased 24,9% to R209 million and profit before tax 26,1% to R234 million. At year-end, trading space was 170 496m^2.

CBW

Following the successful integration of Browns and Weirs and despite an extremely challenging environment characterised by volatile commodity prices, heightened competition and the impact of new store opening costs, CBW enjoyed an excellent year with profit growth well ahead of sales growth. This was due primarily to CBW's decentralised operating formula, which allocates significant authority and responsibility to highly incentivised, high calibre entrepreneurial leaders who manage customers, margins, costs, and assets within the parameters of a tightly defined business model.

The new stores opened in Nelspruit and Vereeniging in late 2002 made a positive contribution to the year's profits.

The CBW board was strengthened with the appointment of Rob Masefield as Information Technology Director.

Jumbo

Under the able leadership of Surendra Bhawan, Jumbo extended its market leadership in the cash and carry distribution of ethnic toiletries, hair care, cosmetics, patent medicines and associated general merchandise.

The chain maintained its high profitability but absolute profits declined as gross margins were sacrificed to retain market share in its flagship store, located in the Crown Mines area, now a highly concentrated, competitive node of cash and carry distribution, where VAT evasion oftentimes constitutes an additional competitive threat. Since year-end the underperforming Isipingo store has been closed and this, together with at least one new

Masscash operating highlights

- Strong market share gains
- Excellent returns on sales and investment
- CBW poised for rapid growth
- Jumbo less reliant on flagship store

Masstrade operating highlights

- Record sales and profits
- Full integration of Furnex and Shield into Masstrade
- Financial objectives achieved despite organisation transformation
- Exceptional growth of membership base

CBW WHOLESALERS

JUMBO

Shield

FURNEX

store opening and one relocation planned for the current year, will ensure Jumbo's progress towards a more balanced contribution from each store.

Divisional prospects

CBW has now established the scale, management, systems, processes, and performance record to embark on a more aggressive acquisitive and organic growth strategy. Since the year-end, nine additional new stores have been acquired or committed to in Botswana and South Africa with opportunities in Gauteng, Western Cape and Swaziland under consideration.

The growth and profitability of Jumbo will be enhanced by the elimination of illegal competition, improved operating practices, selective new store development and, following Robin Wright's appointment as Masscash Managing Director from July 2003, a closer association with CBW.

Although Masscash has exceeded its medium term target of a 4% profit before tax return on sales, rapid expansion and competitive conditions make this a realistic return for a low cost cash and carry business.

Masstrade

Masstrade is a voluntary buying association comprising Shield and Furnex. Shield serves 695 independent food wholesale and retail trading outlets, targeted primarily at lower income LSM 2-6 consumers, in South Africa, Lesotho, Swaziland, Namibia and Botswana. Furnex supplies 699 independent furniture, appliance and home electronics outlets targeting middle to upper income, LSM 6-10 consumers in South Africa.

Divisional overview

Since its founding 30 years ago, Shield has added value to independent food wholesalers and retailers by providing them with credit, and lower prices resulting from the agglomeration of their purchases, simultaneously providing suppliers with a risk-free route to market by guaranteeing the independent trader's debt.

In late 2001, a strategy was formulated to transform the Shield business model by implementing more efficient technology and processes and to create a trading hub able to serve the independent trade with a broader range of merchandise. The implementation of the strategy commenced in 2002 with the installation of new systems, the purchase of Furnex, which extended the merchandise offering, and the

creation of the Masstrade division to house both businesses and to facilitate greater efficiency.

Masstrade's first full year saw the relocation of the Shield head office to the Furnex premises, the restructuring of the board and the rationalisation of staff structures in support of the major system and process changes. Notwithstanding these developments, the Masstrade team, lead by divisional Managing Director Ingo Meyer, remained focused on the key strategic, operating and financial objectives, dramatically increasing the number of independent traders served by both Shield and Furnex.

A full year contribution from Furnex and an increase of members from 792 to 1 168 resulted in divisional sales increasing 20,7% to R2,7 billion with comparable member growth of 6,1%. Profit before interest increased 55,3% to R81 million and profit before tax 38,4% to R78 million.

The executive was strengthened with the appointment of Warren Prinsloo as Financial Director, and John Loomes as Food Director.

Shield

The decision to cease trading with a major customer, together with numerous systems, process, organisation and personnel changes pursuant to the transformation of Shield and the creation of Masstrade, did not prevent Shield from producing real sales growth. Tight cost control and a 23,5% increase in the customer base resulted in record pre- and post-interest profits substantially ahead of sales.

Furnex

Furnex, now fully integrated into Masstrade, produced an excellent result in its first full year. The demise of a major competitor in the fourth quarter created an opportunity to enhance service levels and extend the Furnex value proposition to a new customer base. This allowed Furnex to increase its member base by 72% to 674.

Divisional prospects

Masstrade's medium-term profit before tax return on sales target of 3% will be achieved by exploiting technology to provide innovative value propositions to an expanded base of independent retailers and wholesalers, while fostering loyal trading relationships that have been the hallmark of the Shield and Furnex businesses for many years.

Divisional contribution

Divisional contribution to 2003 sales

- 31% Massdiscounters
- 28% Masswarehouse
- 28% Masscash
- 13% Masstrade

Divisional contribution to 2003 profit (EBITA)

- 40% Massdiscounters
- 21% Masswarehouse
- 28% Masscash
- 11% Masstrade

Segmental analysis

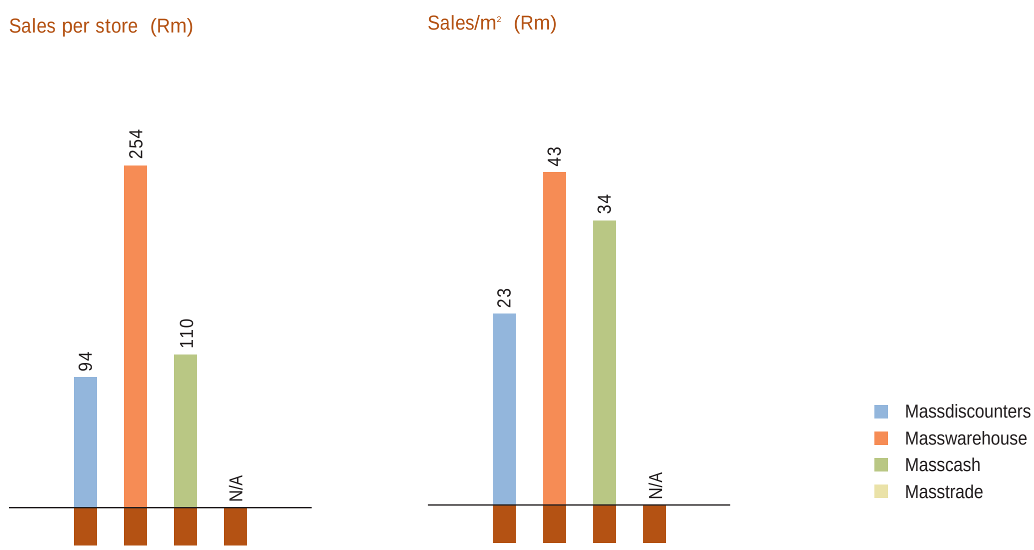
		Group*			Massdiscounters		
		2003	2002	*% change*	**2003**	2002	*% change*
Financial information							
Sales	Rm	**20 370**	16 709	*22*	**6 229**	5 285	*18*
EBITA	Rm	**748**	539	*39*	**298**	210	*42*
Operating profit before amortisation	Rm	**697,3**	524,7	*33*	**227,0**	178,0	*28*
Inventories	Rm	**2 237**	1 982	*13*	**1 212**	1 065	*14*
Total assets	Rm	**5 794**	4 945	*17*	**1 846**	1 649	*12*
Total liabilities	Rm	**4 106**	3 518	*17*	**1 799**	1 602	*12*
Net capital expenditure	Rm	**276**	119	*132*	**83**	39	*113*
Cash flow from operating activities	Rm	**502**	474	*6*	**144**	247	*(42)*
Operational information							
Number of stores		**142**	126	*13*	**66**	65	*2*
Trading area	m^2	**586 030**	533 334	*10*	**274 082**	271 633	*1*
Number of employees		**16 763**	14 882	*13*	**8 367**	8 129	*3*
Operational statistics							
Sales per store (excluding Masstrade)***	R'000	**124 465**	114 881	*8*	**94 379**	81 308	*16*
Sales per m^2 (excluding Masstrade)	R'000	**30**	27	*11*	**23**	19	*21*
Sales per employee	R'000	**1 216**	1 123	*8*	**744**	650	*14*
EBITA per employee	R'000	**45**	36	*25*	**36**	26	*38*

* *Group includes consolidation and head office figures.*

** *Masswarehouse excludes the two Makro Zimbabwe outlets, but includes the Makro Moore Road outlet closed on 30 June 2003 and the 11 Builders Warehouse and Tile Warehouse stores acquired in March 2003 (These four-month figures have been annualised when calculating the operational statistics).*

*** *Masstrade is shown as average sales to each independently owned outlet (ie this represents only a portion of the outlet's sales).*

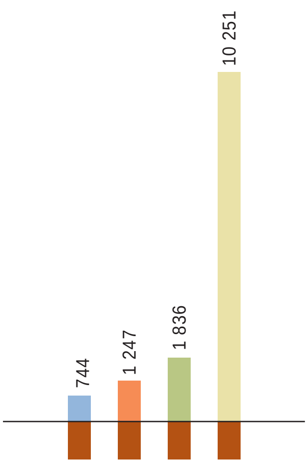
Space productivity



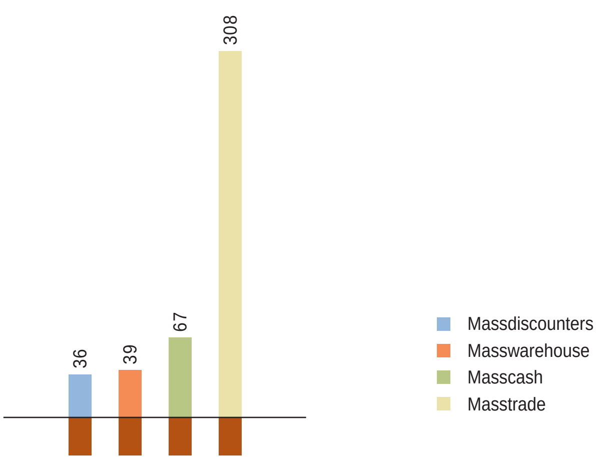
	Masswarehouse**			Masscash			Masstrade		
	2003	2002	*% change*	**2003**	2002	*% change*	**2003**	2002	*% change*
	5 705	4 460	*28*	**5 740**	4 730	*21*	**2 696**	2 234	*21*
	160	110	*45*	**209**	167	*25*	**81**	52	*56*
	173,1	130,0	*33*	**234,0**	185,6	*26*	**77,8**	56,2	*38*
	557	489	*14*	**463**	416	*11*	**5**	12	*(58)*
	1 511	1 072	*41*	**1 359**	1 221	*11*	**841**	646	*30*
	1 502	1 074	*40*	**1 271**	1 275	*–*	**712**	577	*23*
	101	54	*87*	**35**	20	*75*	**29**	3	*867*
	137	23	*496*	**170**	276	*(38)*	**(41)**	(40)	*(3)*
	24	12	*100*	**52**	49	*6*	**–**	–	
	141 452	96 679	*46*	**170 496**	165 022	*3*	**–**	–	
	4 881	3 683	*33*	**3 126**	2 672	*17*	**263**	293	*(10)*
	253 697	371 667	*(32)*	**110 385**	96 531	*14*	**1 934**	2 096	*(8)*
	43	46	*(7)*	**34**	29	*17*	**–**	–	
	1 247	1 211	*3*	**1 836**	1 770	*4*	**10 251**	7 625	*34*
	39	30	*30*	**67**	63	*6*	**308**	177	*74*

People productivity

Sales/employee (Rm)



EBITA/employee (Rm)



Inter-divisional collaboration review

The “Channel” refers to any centralised, shared or collaborative activity that enhances profitability beyond that which would otherwise be achieved independently by the chains. This activity is planned and co-ordinated through a series of forums representative of the core trading and functional components of Massmart. The forums comprise pooled expertise from around the Group and are led by an individual acknowledged by the business to be the expert in his/her particular discipline. All costs and benefits of any such activity, including those of the holding company, are allocated to the chains.

As a core element of the Massmart business model, channel activity is an increasing source of profitability.

During the past year, through increased co-ordination and process leadership by Massmart Holdings, attention was given to better planning, structuring and resourcing of the channel. The focus, agendas and attendance of the trading forums (food and general merchandise) were renewed with emphasis placed on detailed category analysis in order to better understand the industries and markets in which we currently trade, and to proactively analyse potential new market opportunities. This attention to the groupwide gathering, consolidation and analysis of business intelligence has allowed us to generate new insights on which to plan and better manage product categories.

The focus going forward is to explore opportunities to utilise this knowledge to the benefit of specific chains and/or to extract further value through collaboration. Designated projects include development of private label brands across selected categories, the further development of market share tracking and analysis, promotional effectiveness, collaborative planning and forecasting with suppliers, and value chain initiatives.

Collaborative opportunities between the chains, and with suppliers, were identified and will be pursued in terms of product category and industry.

Procurement

Over and above the day-to-day purchasing activity of the chains, the management of the strategic relationship with suppliers continued to be co-ordinated by the forums. This involves optimising the benefits to be gained from constructive and collaborative supplier interactions, in terms of contractual relationships (trading terms and conditions) and trading term recoveries.

Improved efficiencies in our rebates management and administration systems were initiated, and associated systems upgrades initiated.

Cost reduction

Where viable, non-merchandise procurement is agglomerated and co-ordinated across the chains. Leveraging off established and sustained relationships with service providers, the business has been able to identify areas of potential cost reduction and, through renewed contractual negotiations, achieve reduced input costs of goods and services. There is a significant opportunity for further cost rationalisation, which will be targeted in the forthcoming year.

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

Information technology

The consolidation and rationalisation of information technologies throughout the Group continued during 2002/3, culminating in the completion of a number of key systems improvements. These included the successful implementation of the Great Plains financial system in Masstrade and Masscash. Massdiscounters embarked on, and successfully completed the re-implementation of the core merchandise transactional system, and have also made significant progress in implementing new replenishment, forecasting and supply chain systems. Makro has completed phase one of its SAP implementation and is now seeking to develop tighter integration and increased system functionality to realise the full benefits of SAP including enhanced customer attraction, retention and growth via the SAP CRM module.

These important developments will enable the Group to achieve the business benefits associated with improved efficiencies in information management and distribution.

From a governance perspective, the technology, information and process (TIP) forum actively applies a peer review system to oversee IT standards and project expenditure across the Group. This extends to collaboration on common standards where beneficial and to extracting cost synergies across the chains through shared infrastructural services and vendors. Massmart's outsource contracts are structured to contain costs and preserve flexibility wherever possible.

The TIP forum will continue to be the driver of Massmart's IT strategy and the central hub co-ordinating the management of information technology and business process across the Group.

Store development

The rate and nature of new store development is critical to the success of Massmart.

With greater diversity than most retail wholesale organisations, Massmart comprises nine chains, distributing a broad range of food, liquor and general merchandise to lower, middle and upper income consumers in eight countries in southern Africa. Store development decisions therefore extend beyond the conventional assessment of whether an individual chain would achieve satisfactory returns from a given location or capital investment, to a portfolio decision which seeks to optimise market penetration, asset utilisation and profitability for the Group.

Over the past year a major research project was mounted to establish the optimal penetration of markets by Massmart's existing chains by 2010. The findings of this research were used as a foundation for the financial modelling of an ideal portfolio. While the project is not yet complete, there is clear evidence of improved profits and returns from more accurate placement of stores within the changing geographic locations of their target markets. Through the opening, closure and relocation of selected stores, higher sales and much higher profitability will be achieved with a net increase of approximately 40 stores by 2007.

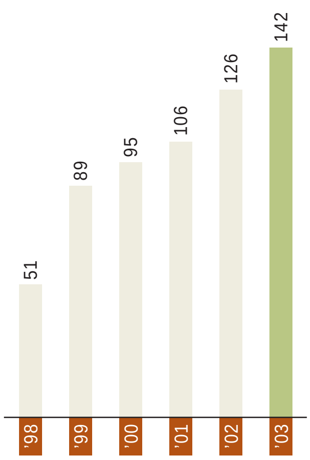
External relationships

Massmart has experienced considerable benefits from active external networking and through our membership and participation in various industry bodies. We are an active participant in the Consumer Goods Council of South Africa (and its affiliate organisations, ECR and EAN) through which we are able to engage other players in the consumer goods industry on non-competitive issues to meet consumer needs better, faster and at lower cost.

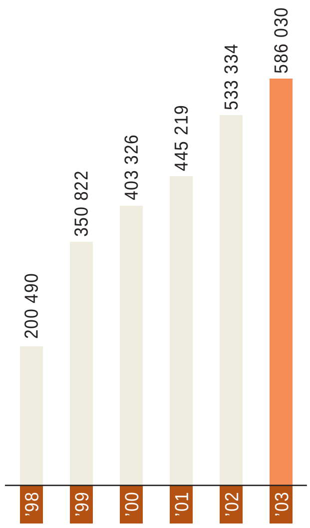
Massmart is also a founding member of the ECR Crime Prevention Programme, with a shared objective to directly address and thereby minimise the impact and costs of crime prevalent in our industry.

Resource trends

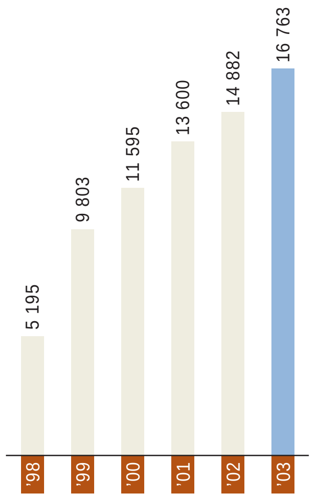
Stores



Trading space (m^2)



Employees



Human Capital review

As indicated by the 2003 financial results, Massmart continues to demonstrate a trend of rapid growth, the rate of which is anticipated to continue in terms of the 2007 Vision for Growth strategy. A significant enabling element of this strategy is the quality and leadership of our people.

Given that growth also equates to organisational scale which in turn demands increased leadership and executive resource capacity, we have determined that it is no longer sufficient simply to target efficiency and effectiveness of our existing human resource management practices if we are to achieve our 2007 objectives. We require deeper understanding of the anticipated demands on our people and renewed intent concerning the identification and development of Massmart's human potential. We are also now challenged to develop a more effective performance measurement attitude concerning the productive return from our human capital.

On the basis of an established trend of delivering sound results and in line with our confidence to extend this trend, we have embarked on a new phase of human capital development for Massmart. This is detailed under "Human Capital strategy" below.

Human Capital strategy

Human resource planning for the future growth of Massmart has become an essential ongoing activity. During the past year, Human Capital was identified as an area of our business where considerable under-utilised potential resides which, if successfully identified and developed, represents a source of increased competitive advantage for Massmart. Considerable thought has therefore gone into the preparation of a forward-looking Human Capital strategy for the Massmart Group.

Our approach is founded on certain philosophies and principles. Massmart's stated intent is to be an attractive, innovative and responsible employer of the country's best retail skills. During 2002 we were placed 7th in Deloitte & Touche's "Best Companies to Work For" survey, the top placing by a retailer, indicating some success in achieving our intention. However, within the framework of Massmart's Mission and Vision, we believe that we have not yet fully optimised the inherent performance capacity and potential of our people. This represents an opportunity for a higher level of achievement, establishing a new base of potential on which the planning and implementation of future activities is conducted.

We have identified the following, as our key strategic themes relating to Human Capital:

- To renew our drive on employment equity, in accordance with our culture as a truly South African organisation in which we value and promote diversity;
- To actively pursue a new era in employee relations characterised by more proactive and opportunity-driven engagement with key stakeholders;
- To build on the platform established through our executive succession and development process to identify and grow future executive potential;
- To review and further optimise the opportunities presented by our compensation and reward schemes to incentivise the performance and growth of our businesses and the Group as a whole;
- To enhance our delivery of training and thereby raise the foundation of skills on which we grow our businesses, all within our belief in the holistic development of the person.

These themes are owned and driven by the leaders of the divisions and their line managers who are responsible for institutionalising the actions required to ensure success. Our approach takes into account both transformational processes that enable the qualitative growth and development of our organisations, as well as day-to-day transactional and administrative processes that support more immediate business requirements. The challenge to Human Capital practitioners is to enable achievement of our strategic themes by ensuring that certain basic operational requirements are addressed. As a minimum we expect:

- sound organisation design and development;
- clear, explicit and actively applied human resource incentive, performance and reward management policies; and
- measurement and tracking of key Human Capital management indicators.

Group influence and authority

Greater influence and authority will be assumed by Massmart Holdings over Group Human Capital, both from the perspective of ensuring consistency in the application of policy where required, but also in terms of making available high levels of expertise and Human Capital proficiency from the centre.

The Human Capital Forum, under the leadership of the Group Organisation Executive, assumes the responsibility for overseeing the execution of this approach across our businesses. This is in support of line management in their application of Human Capital management practises, methodologies and techniques associated with our strategic themes. The forum will also manage and coordinate a new drive on Group Human Capital policy development.

This will be without detracting from Chain operating requirements, however, and the unique demands of each business model. The principle will continue to apply that Human Capital strategy and management will occur in relation to the unique business model of each Chain, however within the context of agreed group strategy and with consideration for common shared approaches where this is in the interest of Massmart as a whole. This satisfies the principle of balancing common, shared activities with highly localised, unique activities.

It is our firm belief that the Human Capital strategy will become a core determinant of the further success of Massmart and its Vision for growth.

Human Capital review 2003

Due to new store growth and acquisitions, Massmart's employee complement increased to 16 763 full time equivalents during 2002/3. Employment costs totalled R1 168 billion for the year to June 2003, representing 5,74% of turnover, which represents a significant decrease compared to 6,09% in the previous year.

Demographics

As a truly representative South African organisation our employee complement is extremely diverse. During the past year we continued to demonstrate our commitment to the management of diversity by actively managing plans in all our divisions that ensure a balanced gender and demographic representation amongst our employees.

Our employment equity plans are regularly reviewed with representative stakeholders through divisional committee structures, with progress reports being submitted by each division in accordance with the requirements of the Department of Labour.

A key strategic theme of our Human Capital strategy going forward is equity and empowerment in terms of which a major objective is to continue to pursue the necessary alignment between our immediate socio-economic environment, our business partners and the internal character of our organisations. In particular this should reflect in more equitable representation of previously disadvantaged individuals in our executive management structures.

Employment equity indicators

	% Equity employees		
	Male	Female	Total
Executive management	22	1	23
Management	37	19	56
Total permanent staff	49	34	83
Total non-permanent staff	49	45	94

HIV/AIDS

This remains a critical area of focus for Human Capital practitioners across the Group. During the past year we extended our voluntary, anonymous HIV prevalence survey to more divisions and to our group office. We have now surveyed 7 946 employees representing 47% of the workforce. Results to date indicate 6,3% prevalence among permanent staff and 13,5% prevalence among part-time employees. The outcomes of the surveys have established the basis for our responses and a basis to determine the cost implications of future interventions in managing the disease.

We have made notable progress in our proactive management of the epidemic. While our focus is still primarily on widespread employee education and awareness in all divisions, through our highly active peer educator network, we have also placed greater attention on the development and application of group HIV/AIDS policy. This serves as a pragmatic guideline for managing HIV/AIDS in the workplace and sets minimum expectations for the various disease management programmes.

We are positive that our management practises are having a desired effect on containing HIV/AIDS within Massmart, as evidenced by the increased numbers of employees utilising the voluntary testing and counselling facilities available to them. The provision of suitable, affordable healthcare alternatives for all employees remains a challenge.

Training

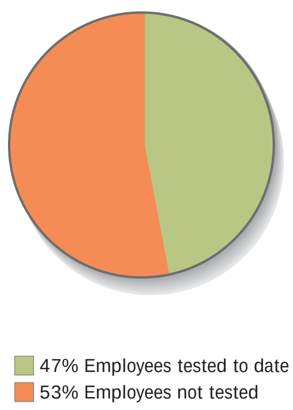
Taking our lead from the National Skills Development Strategy, a concerted effort was made during 2002/3 to achieve both quantitative and qualitative improvements in the management and delivery of our various training programmes, with some success. Significant improvements have been made in the divisions in identifying specific training needs more accurately, in most cases on the basis of identified and profiled positional competencies, and scheduling training accordingly. As a result we increased the numbers of participants in formal training and put considerably more people through skills training than in previous years.

Our training is competency-based and accredited where necessary through our relationships with certain educational institutions. We have complied with the requirements of the Wholesale and Retail Sector Education and Training Authority (SETA) by submitting workplace skills plan and, as a result, have received back from the SETA levies in return for the high levels of training conducted. Significantly, we increased the numbers of people on learnerships under the National Qualifications Framework (NQF) structure.

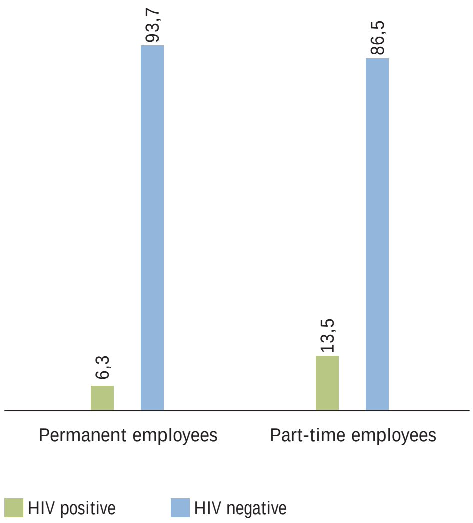
At executive levels we have made extensive use of individual profiling and career review processes to identify specific training needs. To address the needs we have utilised programmes available at local and international business schools focusing on depth of skill (for example, focused retail programmes), and breadth of competence (for example, MBA programmes).

Massmart continues to pride itself on the funding of the Chair of Retail at UNISA, through which the Bachelor of Commerce in Retail degree is offered and actively subscribed.

HIV testing: Massmart employee participation



HIV prevalence: of the employees tested (%)



Executive succession and development

The consolidation of our chains into four divisions, segmented on the basis of similar target markets and business models, has laid a foundation for the organisational growth of Massmart. Besides enabling divisional management teams to focus on identifying synergies and opportunities for enhanced productivity across the chains within each division, the structure also provides a succession framework for executive development.

As a result, the past year saw increased attention given to the management and development of our executive teams. Numerous redeployments and new appointments were made, and team effectiveness processes initiated. While this has contributed significantly to the strengthening of the divisional executive teams, and to certain corporate divisions, it has also highlighted the urgent need to further invest in future general management talent from both a quantitative and qualitative perspective. This is not only in order to satisfy the demand for senior executive talent, but for incumbents of key positions such as store managers.

Similarly, greater efficiency of structure and process was created in the Channel, enabling the forums to harness the collective skills and expertise of the various trading and functional disciplines and thereby extract greater value from collaborative activities. Two effects have been firstly, to highlight the future trading and functional skills requirements to support our core business activities, and secondly to highlight the value of "collaborative development", that is the learning, coaching and mentoring opportunities inherent in collaborative activity and thereby in the development of our future executive talent.

Our managed programme of executive succession planning and development therefore remains a high priority in terms of which more detailed attention will be given to the selection, growth, career progress, and competitive remuneration, incentivisation and reward of new and existing executives. Psychometric assessment and individual profiling will continue to be at the centre of our executive development programme, and the method through which we achieve the match between individual aspirations and Massmart's desired leadership profiles.

Employee relations

Our Human Capital management practises are constructed on a strong base of agreed principles and values. Accordingly, our approach to employee relations is founded on our belief in the holistic development of the individual and, as an extension, the value of teamwork.

We strive to be as inclusive as possible regarding our evolution as an organisation and are therefore highly attentive to creating participative and interactive relationships with our employees. This is underpinned by our sound experience and competence in applying fair and procedurally sound industrial relations practices. We have become increasingly aware in the past year, however, of the need to utilise this foundation to construct a new, even more progressive mindset of employee engagement as a basis for workplace stability that allows us to plan confidently for growth.

Part of maintaining a stable and productive workforce is also the provision of competitive employee benefits. The Massmart Health Plan offers competitive healthcare benefits to its members, while employees have a choice of a defined contribution pension or provident retirement fund offering market-related retirement, death and disability benefits. These funds are presided over by educated trustees, supported by sound strategy and investment policy where applicable.

Societal responsibility

The Directors and Management of Massmart acknowledge the Group's responsibility and obligation to the broader societies in which it operates.

Our belief is that successful business is built on the foundations of good corporate citizenship, which we take to mean acting responsibly and with the highest standards of ethics and integrity in our dealings with all stakeholders.

The quest for positive, long-term relationships with all stakeholders is the foundation of Massmart's strategic and operating decisions. All stakeholders are engaged openly and fairly, within the spirit and letter of the laws of the countries in which we operate, free of racial, gender or class bias and respectful of universal human rights.

Our desired response from stakeholders is reflected in our Vision.

Every reasonable effort is taken to ensure that customers and their possessions are safeguarded within our operations, in the use of products purchased from our outlets and when for any reason products or services fail to meet the standards represented by the company or its suppliers.

In a sub-continent plagued by poverty and unemployment, the reliance of our employees and their dependents on Massmart represents a weighty responsibility. Our response is firstly to create new posts only when there is a high probability that they are sustainable. Secondly, to improve competence, productivity and confidence and to help individuals to enhance their own employability, through constant training and development. Thirdly, with remuneration policies that are equitable with reference to employees' skills, qualifications, experience and performance, or are the result of settlements negotiated with employees chosen representative unions.

As intermediaries in the supply chain, we view our suppliers locally and internationally as partners in our endeavour to offer customers competitively priced, quality merchandise. While there will always be a commercial tension in our relationship with suppliers, we strive to overlay this with an appreciation, and whenever feasible, a support of their strategic and marketing objectives. We recognise the considerable potential for the abuse of power in our dealings with suppliers and take care to inculcate and monitor trading practices that are ethical, fair and resistant to corruption. Violation of these principles is dealt with rapidly and harshly.

The most senior management of Massmart is available at all times to receive opinions, guidance and criticism from shareholders and will act on such input when the Board believes it is in the long-term interests of the company. Our desire is that shareholders are able to make well-informed decisions on their investment in Massmart and we strive to be proactive in this regard by providing generous, frequent but equal disclosure, regardless of how difficult this may be in periods of difficulty or underperformance. We will not allow shareholders' rights of ownership to be undermined by inadequate or selective information, arrogance or success.

Massmart is committed insofar as it is capable, to accelerating the progress of our young democracy, by working closely with Government agencies but not political parties, to enable and assist in the maintenance of social stability, the curtailment of crime and the development and upliftment of previously disadvantaged individuals. This commitment is demonstrated, inter alia, by Massmart's:

- Participation with other members of the distribution trade in the work of the ECR Crime Prevention Programme. This entails a financial contribution, dedicated managerial effort and the attention of Massmart directors.
- Active involvement and leadership in the implementation of a Sector Education and Training Authority which ensures non-discriminatory quality training as part of the Government's NQF. As a member of the Standards Generating Body, Massmart played an active role in creating the standards and qualifications for the retail and wholesale sector.
- Proactive co-operation with the South African Revenue Services to outlaw tax and duty evasion.

As a Group comprising distribution outlets Massmart has little impact on the Environment. We do not generate any type of effluent that may be damaging to the environment or noise that may be offensive. Insofar as we are able, we ensure that vehicular traffic congestion caused by suppliers or customers is not disruptive to the neighbourhoods in which we are located. We design and construct facilities that are aesthetically congruent with their surroundings and we maintain high standards of cleanliness. Massmart is acutely aware of the potential negative impact of plastic bags on the environment and only distributes bags with a minimum thickness of 30 microns.

Insofar as the broader society is concerned, Massmart strives to identify and integrate with, those communities in close proximity to our outlets, and those non-governmental organisations and interest groups whose objectives are aligned with those of Massmart.

Massmart sustains an intensive social investment programme across all nine provinces in South Africa as well as in Namibia, Botswana and Zambia. The primary focus of this investment is in education and training, with a secondary emphasis on disadvantaged children and the disabled. Massmart is committed to invest approximately 1% of pre-tax profits to the upliftment of the community.

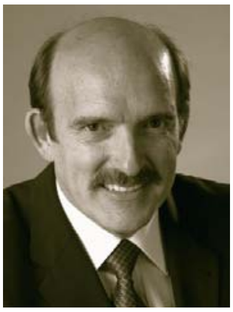
Noteworthy examples of the above are:

- Through fund-raising activity in the past financial year Massdiscounters raised and distributed a total of R7,7 million to needy organisations. This is over and above the Game and Dion Wheelchair Project contribution to disadvantaged, disabled schoolchildren, of wheelchairs to the value of more than R2 million.
- The Makro Employee Social Responsibility and Education Trust made considerable donations to numerous charities, most notably awarding 367 bursaries to children of employees for secondary and tertiary education. A significant portion of the funds raised by the Trust was by employees.
- Within Masscash, each branch has chosen and been involved in a local community-based project, examples including school feeding schemes, crèches, old age homes and donations to charities. Jumbo made a significant contribution to the Johannesburg Institute of Social Services, and the Crown Mines store once again led a Christmas toy collection and distribution project for the benefit of hospitalised and/or disadvantaged children.
- Additional significant donations by Massmart Holdings went to numerous needy individual and institutional educational initiatives.

Within guidelines, individual Massmart outlets are encouraged to identify with the specific needs of their local communities by donating time and effort to assist underprivileged citizens.

Massmart directorate

Executive directors



Mark James Lamberti (53)

BCom, MBA, PPL (Harvard)
Chief Executive Officer and
Deputy Chairman of the Board
Chairman of the Executive Committee
Appointed 1 August 1988
Following progress through a multi-functional retail career that began in 1975, Mark was appointed Managing Director of Makro in 1988. With the successfully repositioned Makro as a base, he founded Massmart in 1990 as a vehicle for multi-chain growth in food, liquor, and general merchandise distribution. His role as architect and leader of Massmart's growth strategy was recognised with his appointment as Executive Chairman of Massmart in 1996. From 1 July 2003 Mark was appointed CEO and Deputy Chairman of the Board.

Dan Barrett (51)*

BSc (Hons), BCompt (Hons), CA (SA)
Deputy Chief Executive Officer
Member of the Risk Committee
Appointed 13 November 1998
Dan has been involved in the retail industry in financial and general management for 20 years. He was the Chief Executive Officer of Game where he defined and led its turnaround strategy from 1993 until 1998 when Massmart acquired the business. He was appointed Chief Executive Officer of the newly formed Massdiscounters in 1999, Chief Operating Officer of Massmart in 2000 and Deputy Chief Executive in 2001. Since 1 July 2003 Dan has moved into a transitionary role, handing over responsibilities to other Group executives while remaining available for consultation until the end of December 2003, whereafter he will remain on the Board as a non-executive director.

Guy Hayward (38)

BCom, CTA, CA (SA)
Chief Financial Officer
Member of the Risk and King Committees
Secretary to the Remuneration & Succession Committee
Appointed 15 May 2001
Guy graduated from the University of Cape Town in 1986 and qualified as a Chartered Accountant with Deloitte Haskins & Sells in 1989. Previous work experience includes senior financial roles at Malbak, CNA Gallo and investment bank, Goldman Sachs, in London. Guy joined Massmart as Group Financial Executive in 2000 and was appointed Chief Financial Officer in 2001.

Non-executive directors

Chris Seabrooke (50) ‡

BCom, BAcc, MBA, FCMA
Chairman of the Board, Chairman of the Remuneration & Succession Committee
Member of the Audit Committee
Appointed 1 February 2000
Chris is CEO of Sabvest Limited. He is also a director of the JSE-listed companies Datatec, MGX, Primedia, Primeserv and Setpoint and is Chairman of the State Theatre of South Africa and Deputy Chairman of Business & Arts South Africa. Internationally, he chairs financial services groups in London and Luxembourg. Chris was appointed Non-executive Chairman of the Board from 1 July 2003.

Dods Brand (60) ‡

Appointed 25 February 2003
Dods is the Chairman and majority shareholder of P.O.S.S.E. Management Group (Pty) Ltd and P.O.S.S.E. Investment Holdings Ltd. He has extensive experience in the field of retail and was Chief Executive Officer of Moregro (Morkels Retail Group Ltd.), in which he had held a number of directorships and senior positions in both the Group and its chains. He was also a director of KAP Beteiligungs AG, a Frankfurt-listed company. He is now retired from these positions.

Zitulele ("KK") Combi (51) ‡

Appointed 25 February 2003
KK is currently the Executive Chairman of Master Currency. He is also holds directorships at the VAT Refund Company and the Western Cape Board of ABSA. In 2001 he was awarded the Cape Times Business Personality of the Year, the IMM Award for Outstanding Achievement and was named Ernst & Young's World Entrepreneur of the Year Award for Managing Change.

Derk Doijer (53)**

Master of Laws (Rotterdam)
Alternate to Folkert Schukken
Appointed 20 August 2001
Derk joined SHV in 1974 and since 1981 has been involved in Makro in various financial and general management positions in Brazil, Argentina and the Netherlands. In 1998 he was appointed President and CEO of Makro South America with overall responsibility for the South American operations. Derk was appointed a member of the Executive Board of Directors of SHV Holdings N.V. in July 2001 with responsibility for Makro worldwide.

William Kirsh (42) ‡
BCom, BAcc, CA (SA), H Dip Tax Law
Appointed 1 July 1997
William was one of the founders of Primedia Limited and has been Chief Executive since that group listed on the JSE. After serving articles with Fisher Hoffman Stride and concluding his education, he worked in the United States from 1988 to 1991 for investment banker Lehman Brothers in their mergers and acquisitions division. Thereafter he returned to South Africa as a founding partner of Merhold Kirsh Capital.

Stephen Leggatt (54)*
FCA
Member of the Audit Committee
Appointed 1 October 1997
Steve qualified as a Fellow of the English Institute of Chartered Accountants in the early 1970s. After holding several senior positions in the UK electronics and oil sectors, he joined AMIC in South Africa in 1981 as senior divisional financial manager. Steve has been a director of several large JSE-listed companies including Asea Electric, Frasers and Frame Group Holdings and was a consultant with various international consulting groups, and now has his own consulting practice. He joined Massmart as Chief Financial Officer in 1997. Steve moved into a non-executive role with effect from 25 February 2003.

Nigel Matthews (58) ‡
MA (Oxon.), MBA (UCT)
Chairman of the Audit, Risk and King Committees
Member of the Remuneration & Succession Committees
Appointed 1 November 2001
Nigel's career in the South African hotel and tourism industry included the positions of Managing Director of Holiday Inns and Executive Director of Rennies. He later started his own business, Sentry Group, and was Chairman of the company when it was sold to an international group in 2001. He is a non-executive director of City Lodge Hotels Limited and Kersaf Investments and non-executive Chairman of Prism Holdings.

Peter Maw (42) ‡
BCom, BCom (Hons), CA (SA), H Dip Tax Law
Member of the Audit Committee
Appointed 25 February 2003
Peter is a specialist in private equity and corporate finance. He was a founding shareholder of Primedia and, as an executive director from 1992 to 2003, was responsible for all of its corporate finance activities. Peter remains a non-executive director and Audit Committee member of Primedia. Prior thereto, following the completion of his articles at Coopers & Lybrand in 1987, Peter spent two years in corporate finance at Standard Merchant Bank before co-founding Merhold Kirsh Capital in 1991.

Dawn Mokhobo (54) ‡
BA
Member of the King Committee
Appointed 1 June 2002
Dawn is presently Chairperson of Fedics and non-executive director of Sanlam, Capacity Outsourcing, Comair, Engen, Nozala Investments and Random House Publishing. She has had a pioneering career spanning the public, private and parastatal sectors and was an influential member of the management board of Eskom prior to establishing her own company, MBM Change Agents, in November 1996. Dawn is a previous recipient of the South African Businesswoman of the Year Award and has occupied influential positions on numerous Government-appointed committees.

Mavuso Msimang (61)
BSc, MBA
Appointed 1 May 2002
Mavuso is Chief Executive of SETA and was previously CEO of South African National Parks. He has previously held influential positions in the South African tourism industry and during his career has made a considerable contribution to rural development throughout Africa. Mavuso is also a non-executive director or trustee of Grintek, Robben Island Museum, Umnotho We Sizwe, UNISA Board of Trustees and Green Trust.

Michael Rubin (53) ‡
BSc, MBA (UCT), MBA (Columbia)
Appointed 30 August 1990
Michael worked as a specialised retail consultant in New York and Toronto for nine years. After returning to South Africa, he joined Massmart as Development Director in 1989. Michael left Massmart in 1997 to become involved in private equity management and property development.

Folkert Schukken (67)**
MSc
Member of the Remuneration & Succession and King Committees
Appointed 1 February 1996
Folkert graduated from Delft University with a degree in mechanical engineering. He is the former Chief Executive Officer of SHV Makro NV, Netherlands, and was previously a member of the Executive Board of SHV. Folkert is currently a non-executive director of several companies in the Netherlands.

*Ã‚Â Ã‚Â *United Kingdom*
** *Netherlands*
‡ *Independent*

Massmart executive committee

The Executive Committee, chaired by Mark Lamberti, comprises Guy Hayward and the following executives:

Steve Glendinning (42)

BSocSci (Hons), MEd

Steve was appointed Group Organisation Executive in May 2002, with Group responsibility for Human Capital and the co-ordination of Group Organisation Development. He has 13 years of varied experience in industry and consulting and spent four years with Deloitte & Touche Consulting Group. He was previously an executive in the Mondi division of Anglo American and an executive director of Massdiscounters.

Ingo Meyer (39)

BCom, ACMA, CFA, MBA

Ingo was appointed Managing Director of the recently formed Masstrade division in August 2002. Having spent 17 years in financial management including experience at Price Waterhouse as a management consultant, he joined Massmart as Financial Director of Dion in November 1998, and was appointed Financial Director of Massdiscounters in 1999 and Managing Director of Shield in March 2001.

Fanus Nothnagel (41)

BCom, MdipAcc, CMA

Fanus was appointed Massdiscounters Managing Director in July 2003. His early career was spent at Lever Brothers and South African Breweries, whereafter he joined SC Johnson & Son as Financial Director, South Africa, before spending three years in marketing and sales in the United States. In 1999, Fanus returned to South Africa as Managing Director of SC Johnson & Son South Africa, which was followed by his promotion to General Manager SC Johnson throughout sub-Saharan Africa.

Gareth (“Joe”) Owens (54)

Joe, the Managing Director of Masswarehouse and Chief Executive Officer of Makro, joined Makro as the non-foods Manager in 1971. Following a period with the Checkers group from 1978, he returned to Makro in October 1988, was appointed Merchandise Director in 1989 and Managing Director in 1993. In March 2003 he was appointed Chairman of Builders Warehouse on acquisition of that company. Joe has 30 years of mass merchant, general merchandise and FMCG experience.

Grant Pattison (32)

BSc

Grant was appointed Group Commercial Executive in July 2003, with responsibility for inter-divisional collaboration and Group strategic interventions. Grant obtained an Electrical Engineering degree with honours in 1991 from the University of Cape Town. After four years with the Anglo American group he spent two years consulting with The Monitor Company. Grant joined Massmart in 1998 as assistant to the Executive Chairman and since then has held various positions, most recently Managing Director of Massdiscounters.

Robin Wright (47)

BCom, CA (SA)

Robin is the Managing Director of Masscash and Managing Director of CBW. After studying at Natal University and serving articles with Ernst & Young, he qualified as a chartered accountant in 1978 and spent six years in retailing and wholesaling at WG Brown before founding CCW together with the current Marketing Director, Terry Warren. From 1 July 2003 he was appointed Chairman of Jumbo.

Divisional directorate

(as at 1 October 2003)

Massdiscounters

Mark Lamberti
Chairman

Guy Hayward
Massmart

Grant Pattison
Massmart

Stephanus Nothnagel
BCom
Managing Director
Joined Massdiscounters 2003

Stephen Whiley (37)
BCom, ACA (ICAEW)
Financial Director
Joined Massdiscounters 2003

Rob Barrell (46)
Store Operations Director
Joined Game 1981

Patrick Bennett (37)
BCom
Marketing Director
Joined Massdiscounters 2001

Jay Currie (29)
BSc
Systems & Supply Chain Director
Joined Massdiscounters 1999

Brad Evelyn (50)
BCom, Dip.Acc
African Development Director
Joined Game 1986

Neville Hatfield (37)
IMM
Merchandise Director
Joined Game 1992

Masswarehouse

Makro

Mark Lamberti
Chairman

Guy Hayward
Massmart

Grant Pattison
Massmart

Gareth Owens
Chief Executive
Joined Makro 1988

Michael Jordan (48)
ACIS, ACMA, EDP, MBA
Financial Director
Joined Makro 1999

Masswarehouse

(Continued)

Graham Booysen (39)
MBA
Liquor Executive
Joined Makro 1993

Bruce Cayzer (42)
Food Director
Joined Makro 1999

John Hudson (48)
BCom, MBA
Human Resources Director
Joined Makro 1985

Derek Kalan (35)
General Merchandise Executive
Joined Makro 1986

Alison Lambert (45)
BA, HDE
IT & Projects Director
Joined Makro 1989

Gert Lourens (49)
Operations Director
Joined Makro 1992

Chris Nezar (45)
BCom, MBA
Marketing Director
Joined Makro 1989

Rod Salmon (42)
Commercial Director
Joined Massmart 2002

Builders Warehouse

Gareth Owens
Chairman and CEO

Mark Lamberti
Massmart

Guy Hayward
Massmart

Rod Salmon
Makro

Linton Lewis (58)
Managing Director
Founded Builders Warehouse 1967

Chris Crossman (42)
Managing Director Tile Warehouse
Joined Tile Warehouse 1998

Hamish Middleton (32)
BCom, CA (SA), CFA
Financial Director
Joined 2003

Alex Rymaszewski (51)
Operations Director
Joined 2003

Masstrade

Mark Lamberti
Chairman

Guy Hayward
Massmart

Grant Pattison
Massmart

Ingo Meyer
BCom, ACMA, CFA, MBA
Managing Director
Joined Massmart 1998

Warren Prinsloo (30)
BCom, BAcc, CA (SA)
Financial Director
Joined Massmart 2000

David Brouze (39)
BCom, CA (SA)
General Merchandise Director
Joined Furnex 1999

Ahmed Goondiwala (63)
New Business Director
Founded Shield 1973

John Loomes (35)
MBA
Food Director
Joined Masstrade 2003

Cindy Shacklock (31)
BEcon
Organisational Effectiveness Director
Joined Shield 2001

Masscash

CBW

Mark Lamberti
Chairman

Guy Hayward
Massmart

Grant Pattison
Massmart

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

Neville Dunn (34)
BCom, CA (SA)
Financial Director
Joined CBW 2002

Robert Masefield (42)
MBA
IT Director
Joined CBW 2003

Terry Warren (47)
Marketing Director
Founded CCW 1987

Jumbo

Robin Wright
Chairman

Mark Lamberti
Massmart

Guy Hayward
Massmart

Surendra Bhawan (54)
Managing Director
Joined Jumbo 1983

Yunus Moolla (53)
BCom, BCompt (Hons), CA (SA)
Financial Director
Joined Jumbo 1988

Fred Cresswell (36)
BSc, MBA
Merchandise Director Designate
Joined Massmart 2001

Corporate governance

The Board and executive

The Board of Massmart is responsible for directing the Group towards the achievement of the Massmart Vision. The Board is ultimately accountable for the development and execution of the Group's strategy, operating performance and financial results, practiced within the Group's formal Governance Authorities. The Board is responsible for its own composition, the appointment of the Chairman and Chief Executive Officer and the constitution and composition of its sub-committees.

The Massmart Board comprises three executive directors and 12 non-executive directors, including one alternate director, eight of whom are independent of Massmart and its shareholders. The role of all directors is to bring independent judgement and experience to Board deliberations and decisions.

Chris Seabrooke is Chairman of the Board and Mark Lamberti is Deputy Chairman and Chief Executive Officer. Brief biographical details of each Board member are reported on pages 32 and 33.

All directors retire by rotation every three years. If requested to serve a further term by the Board, those retiring directors can offer themselves for re-election by the shareholders. In addition, shareholders must ratify the initial appointment of all directors at the first general meeting of shareholders following that director's appointment.

Directors' attendance at Board meetings:

	Aug 2002	Nov 2002	Feb 2003	May 2003
CS Seabrooke	✓	✓	✓	✓
MJ Lamberti	✓	✓	✓	✓
DG Barrett	✓	✓	✓	✓
MD Brand	–	–	–	✓
ZL Combi	–	–	–	✓
GRC Hayward	✓	✓	✓	✓
W Kirsh	✓	✓	✓	✓
S Leggatt	✓	✓	✓	✓
IN Matthews	✓	✓	✓	✓
P Maw	–	–	–	✓
DNM Mokhobo	✓	✓	X	✓
M Msimang	✓	✓	✓	✓
MJ Rubin	✓	✓	✓	✓
F Schukken	✓	✓	✓	X
D Doijer (Alternate to F Schukken)	X	X	X	✓

Board process

The Board meets quarterly and on an ad hoc basis should a situation demand the Board's attention. The authority of the Board is devolved sequentially through the Massmart Executive Committee, the Divisional Boards and the Divisional Executive Committees as prescribed by the Massmart Governance Authorities. In addition, the Board has delegated certain specific responsibilities to Board sub-committees, as described more fully below.

The Board works to a formal agenda covering strategy, structure, operating performance, growth initiatives and any other matters the Board deems worthy of discussion and decision, as well as reviewing the key activities of the Group, and receives formal papers to enable it to do so effectively. Minutes of all Board sub-committees, except the Remuneration & Succession Committee that are available to directors on request, are included in Board papers.

Directors are encouraged to take independent advice, at the cost of the company, in the proper execution of their duties and responsibilities. They have direct access to the external auditors, our professional advisers and to the advice and services of the Company Secretary, Mr Aubrey Cimring.

During the year the Remuneration & Succession Committee carried out a formal performance evaluation of the Chief Executive Officer. In addition, all Board members completed detailed self-assessments probing the composition, duties, responsibilities and process of the Board. The feedback from the assessment was most constructive and will be used to enhance the effectiveness of the Board.

Board sub-committees

Audit Committee

The Audit Committee comprises Messrs Chris Seabrooke, Nigel Matthews, Peter Maw and Steve Leggatt. With effect from May 2003, the chairmanship was transferred from Mr Chris Seabrooke to Mr Nigel Matthews. Where necessary, the Chief Executive Officer, the Chief Financial Officer, senior financial executives of the Group and representatives from the external and internal auditors attend Committee meetings by invitation.

The Audit Committee has the responsibility to review and report that:

- Adequate books and records are maintained;
- Appropriate accounting policies have been adopted and applied;
- Robust internal control systems, designed in response to identified key business and control risks, are in place and have been effective throughout the period; and
- The going-concern assertion remains appropriate.

The internal and external auditors have unencumbered access to the Audit Committee and present formal reports to the meetings.

The Audit Committee met twice during the year and members of the Committee also met with the head of internal audit and the external auditors.

Attendance at Audit Committee meetings:

	Aug 2002	Feb 2003
CS Seabrooke	✓	✓
W Kirsh	✓	✓
S Leggatt	–	–
IN Matthews	✓	✓
P Maw	–	–

During the year Messrs. Steve Leggatt and Peter Maw were invited onto the Committee while Mr William Kirsh stepped down.

During the year Audit Committee members completed detailed self-assessments probing the composition, duties, responsibilities and process of the Committee.

Remuneration & Succession Committee

The Remuneration & Succession Committee, comprising Messrs Chris Seabrooke (Chairman), Nigel Matthews, Folkert Schukken and, by invitation, Mark Lamberti, is responsible for the Group's remuneration policy and the short-term and long-term incentive policies for directors, executives, management and staff. It considers and approves the remuneration and incentives for directors and executive management, and requests the Trustees of the Massmart employee share incentive scheme to award shares granted in terms of the policy and rules of the scheme.

The Committee is responsible for the recruitment and nomination of new non-executive directors and for ensuring that succession plans are in place for the Chief Executive, the executive directors and divisional heads.

The Remuneration & Succession Committee met four times during the year. Mr Nigel Matthews joined the Committee from November 2002.

Attendance at Remuneration & Succession Committee meetings:

	Aug 2002	Nov 2002	Feb 2003	May 2003
CS Seabrooke	✓	✓	✓	✓
IN Matthews	–	✓	✓	✓
F Schukken	✓	✓	✓	X

During the year Remuneration & Succession Committee members completed detailed self-assessments probing the composition, duties, responsibilities and process of the Committee.

Risk Committee

The Risk Committee, comprising Messrs Nigel Matthews (Chairman), Dan Barrett, Guy Hayward and Norman Gray (Head of Massmart Internal Audit), is responsible for ensuring material compliance with the principles of risk management as outlined in the King Report on Corporate Governance for South Africa 2002 (the King II Report). The Committee is therefore responsible for monitoring and managing risk in the Group on an ongoing basis.

After having initiated a formal process that identified and assessed all significant risks facing the Group, the Committee tabled the Group's risk register at the February 2003 Board meeting. The risk register was adopted without amendment and will be reviewed and updated on an annual basis.

The Risk Committee met three times during the year.

Attendance at Risk Committee meetings:

	Jul 2002	Aug 2002	Apr 2003
IN Matthews	✓	✓	✓
DG Barrett	✓	✓	✓
GRC Hayward	✓	✓	✓
N Gray	✓	✓	✓

During the year Risk Committee members completed detailed self-assessments probing the composition, duties, responsibilities and process of the Committee.

King Committee

The King Committee, comprising Messrs Nigel Matthews (Chairman), Folkert Schukken, Guy Hayward, Grant Pattison and Ms Dawn Mokhobo, was responsible for:

- Examining the compliance of the Group with the detailed principles laid down in the King Report;
- Reporting to the Board on the degree of that compliance; and
- Making recommendations to the Board as to what steps should be taken in order for the Group to materially comply with the King Report.

The Committee formally tabled its report at the May 2003 Board meeting and its findings were adopted without amendment. As the Board has responded positively to the report's findings and recommendations, and as all substantial aspects of King II have now been implemented in Massmart, the King Committee will disband in December 2003 and its duties and responsibilities will be passed onto the Audit Committee.

The King Committee met three times during the year.

Attendance at King Committee meetings:

	Jul 2002	Aug 2002	Jan 2003
IN Matthews	✓	✓	✓
GRC Hayward	✓	✓	✓
DNM Mokhobo	✓	X	✓
F Schukken	X	X	X
G Pattison	✓	✓	✓

Executive Committee

The Massmart Executive Committee is the most senior executive decision-making body in the Group. The Committee comprises the Chief Executive Officer (Chairman), the Chief Financial Office, the Group Commercial Executive, the Group Organisation Executive and the four divisional Managing Directors. The Committee deliberates, takes decisions or makes recommendations on all matters of strategy and operations. In some cases, the decisions or recommendations will be referred to the Board or its relevant sub-committee for final approval, while in other cases the power to take decisions is delegated to individual subsidiary boards, or subsidiary executive Committees.

The Executive Committee has specific responsibility, inter alia, for:

- Monitoring and measuring the structures, trends and performance of markets and competition;
- Strategic planning;
- Defining, configuring, financing and structuring the Group's portfolio of assets;
- Shaping and approving the competitive strategies, operating plans and budgets of the divisions and functional departments;
- Measuring, monitoring and taking proactive corrective action on divisional performance;
- Ensuring adequate risk management, controls and governance throughout the Group; and
- Shaping and approving succession plans and senior executive management appointments.

The Massmart Executive Committee has a formal process by which each monthly meeting is preceded by a two hour session, during which the individual and collective performance of committee members is discussed relative to personal and corporate performance priorities.

In many respects, the relationship between the Massmart Board and the Executive Committee is analogous to the Supervisory Board and Management Board relationship found in the European governance model.

Remuneration of directors and senior executives

Massmart aims to have remuneration policies that enable it to recruit, retain and motivate the executive talent needed to achieve superior performance. The Remuneration & Succession Committee, with advice from external executive remuneration consultants, ensures the provision of executive remuneration packages that are competitive by reference to other major South African retail companies as well as other companies similar to Massmart in size, spread and complexity. Two such surveys were conducted during the year.

The Massmart remuneration policy strives for fixed remuneration at the median of comparable positions but places a heavy emphasis on annual performance incentives for both executive directors and executive management. This policy, communicated to and understood by the Group's executives, codifies a range of performance incentives linked to annual earnings per share growth targets in excess of 20% for the Group, or profit before tax targets in excess of 20% for each division, as appropriate. This minimum growth is adjusted for changes in the medium-term official inflation rate. The Remuneration & Succession Committee also has the discretion to reward superior individual performance.

In addition, longer-term equity incentive plans ensure the alignment of executive reward with shareholders' interests, in particular, the sustained creation of shareholder value. Here the Committee, in conjunction with the trustees of the employee share incentive scheme, has adopted a new policy of issuing annual tranches of shares or options, when Massmart's growth of earnings per share exceeds 20%, based upon a factor of the executive's total prior year remuneration plus incentive bonus.

With effect from July 2002, only members of the Massmart Executive Committee can elect to receive scheme shares, all other participants receive options. In addition, the December 2002 annual general meeting approved the reduction of the period available to participants to exercise future options and shares from ten to six years.

Non-executive directors receive fees in the top quartile for their role as directors and for their roles on Board sub-committees.

Details of individual directors' remuneration are provided on page 77.

Shareholder communication

Massmart reports formally to shareholders twice a year (in February and August) when its half-year and full-year results, together with an Executive Review, are announced and issued to shareholders and the media. On both occasions the Chief Executive Officer, Chief Financial Officer and selected senior management give presentations to institutional investors, analysts and the media.

Early in January and July, shortly after the conclusion of the half and full year trading periods, on release of the annual report and at the Group's annual general meeting in November, Massmart releases trading statements reporting on the Group's year to date sales performance.

During the year, apart from closed periods, the Chief Executive Officer and Chief Financial Officer meet regularly with institutional shareholders and, in addition, are available for meetings with analysts and any existing or prospective Massmart shareholder.

Massmart's website, www.massmart.co.za, provides financial and business information about the Group and includes electronic copies of all recent formal announcements, public statements and presentations made by Massmart.

Share buy-back programme

At the 2001 and 2002 annual general meetings, the shareholders gave the company the authority, valid until this year's annual general meeting and subject to the Listings Requirements of the JSE Securities Exchange (JSE), to purchase its own shares up to a maximum of 15% of the issued shares at a price not greater than 10% above the preceding five-day weighted-average. Shareholders have been asked to renew this authority at the forthcoming November 2003 annual general meeting.

In the year to June 2003, 1 417 454 shares were repurchased by a Massmart subsidiary at an average price of R16,92. All these shares were sold to the Massmart share trust before the financial year-end and so there were no treasury shares at year-end. The amount and timing of future purchases will be determined by the Board and are dependent on prevailing market conditions and other factors. The share trust will also acquire shares from time to time to partially mitigate the dilution caused by the company issuing new shares when options are exercised.

Share dealings

No director, executive or employee may deal, directly or indirectly, in Massmart shares where that person may be aware of unpublished price-sensitive information. There is a strict closed period where all directors, executives and employees are not allowed to deal in Massmart shares in the period beginning one month prior to the end of each reporting date (31 December and 30 June) until the release of the Group results or at any time when Massmart has issued a cautionary announcement. All directors, executives and employees are not allowed to deal in Massmart shares in the final hour of trading on the JSE.

Accountability, risk and control

The Board recognises its responsibility to report a balanced and accurate assessment of the Group's financial results and position, its business, operations and prospects. Aspects of how this is achieved are covered in the section below.

Internal control framework

Massmart maintains clear principles and procedures designed to achieve accountability and control across the Group. These are codified in our Governance and Approvals Framework that describes in detail the specific levels of authority and the required approvals necessary for all major decisions at both Group and divisional level. Through this framework, operational and financial responsibility is formally and clearly delegated to the Divisional and Chain Boards. This is designed to provide an environment of centralised but collective leadership, with local autonomy, for day-to-day operations as the framework for the exercise of accountability and control in the Group.

Audit Committee

The Audit Committee, whose responsibilities were outlined earlier in this section, receives regular reports on, inter alia, the Group companies' financial performance, internal controls, consistent adherence to accounting policies and areas of significant risk. After considering these reports, the Committee reports twice a year to the Board on the overall framework and effectiveness of controls.

The Committee reviews the scope, as well as the independence and objectivity, of the external auditors. The nature and extent of non-audit services provided by the external auditors are reviewed annually to ensure that fees for such services do not become so significant as to call into question their independence of Massmart.

The Audit Committee recommends the appointment of the external auditors for the Board and shareholder approval. During the financial year, Deloitte & Touche were the external auditors for all Group companies with the exception of the recently acquired Builders Warehouse. Upon completion of the June 2003 audit, at the request of the Audit Committee and Board, the encumbent auditor resigned and Deloitte & Touche were appointed external auditors of Builders Warehouse.

During the year, Deloitte & Touche provided certain non-audit services including tax reviews and advice, reviews of information technology systems and applications and an executive remuneration and incentivisation survey.

The Audit Committee has adopted a guideline that fees to the Group auditors for non-audit services (excluding due diligence investigations) should not exceed the level of audit fees charged to the Group. If it appears that this guideline will be breached on a consistent basis at any time, non-audit services will be outsourced to third party auditors.

The head of Massmart's Internal Audit department reports only to the Audit Committee, with an administrative reporting relationship with the Chief Financial Officer.

The Committee reviews the scope and coverage of the Internal Audit department, and has approved that department's coverage and work-plan for the forthcoming year.

Risk

The Board assesses the risks in the Group's business environment with a view to their elimination or reduction in the context of the Group's strategies and operations.

The Risk Committee will be responsible to the Board for the Group's risk management and the assignment of designated managers to manage significant risks. Where appropriate, reports from the Risk Committee will be provided to the Audit Committee and the external and internal auditors.

Compliance

The Board is of the opinion that the Group currently complies with all the significant requirements incorporated in the Code of Corporate Practice and Conduct as set out in the King II Report.

Litigation and legal

In the normal course of business, Massmart is subject to various legal proceedings, actions and claims. These matters are subject to risks and uncertainties that cannot be reliably predicted. The Board does not believe that there is any material pending or threatened legal action.

The matter, reported in the prior year's annual report, between a wholly-owned subsidiary of Massmart, appearing as a third party, Lesotho Bank Limited (as plaintiff) and Nedcor Bank Limited (as defendant) went to arbitration in January 2003. The arbitrator ruled in favour of Massmart/Nedcor and so Massmart's legal costs were recovered from the plaintiff.

Information technology

Protecting Massmart's electronic assets is increasingly complex as networks, systems and electronic data expand and, in some cases, are shared with third parties and business partnerships. Depending upon the Internet for communication brings additional risk. Ensuring proper system security, data integrity and business continuity is the responsibility of the Board but is practiced by the Audit Committee, the Risk Committee, the Massmart Technology, Information and Process Forum and Massmart's formally contracted information technology business partners and providers.

Corporate ethics and compliance

Massmart is committed to preventing and detecting misconduct by practicing and promoting ethical behaviour, compliance with all laws and regulations and corporate citizenship. Since July 2003, Grant Pattison, the Group Commercial Executive, has been leading a process to develop, in conjunction with all levels of staff and employees in the business, a code of ethics for formal adoption by the Board and the Group.

Product safety

As a wholesale and retail Group, Massmart distributes and sells millions of products produced, manufactured or assembled by third parties annually. Every effort is made to ensure that all products offered by the Group are compliant with the appropriate standards of health and safety and compliance with South African Bureau of Standards specifications where required. Where a product is found to be unsafe or presents a health risk, it is immediately withdrawn from all the Group's operations and returned to the supplier or destroyed.

Environment and safety

The safety and physical wellbeing of our employees and customers, and of the employees of our service providers and suppliers whilst on our business premises, is paramount. Effective prevention and detection measures are in place to ensure that the Group offers a safe, comfortable and secure shopping and working environment, as required in terms of NOSA.

Financial risk and appraisal

Financial targets agreed in Group budgets and strategy processes are predicated on assumptions about the future that are uncertain and may prove incorrect or inaccurate. The monitoring and management of this risk is the responsibility of the Executive Committee. Monthly performance is measured and compared to the budget and prior year and corrective or remedial action taken as appropriate.

Despite extensive financial, accounting and management controls and procedures, including reviews by internal and external auditors, there are risks arising from the Group's cash management and treasury operations, direct and indirect taxation, and employee or third party fraud or economic crime.

Financial review

Economic environment

The strengthening of the South African Rand against all major currencies and the volatility of most key South African economic measurements during the year to June 2003, forms the backdrop to this review of the financial performance of the Massmart Group.

Due to the longer lead-times (three to six months) for orders of general merchandise, and Massmart's policy of always purchasing forward cover for imports, the Group's purchase prices of general merchandise overall only began decreasing from March 2003. For this reason, up to that time general merchandise inflation had steadily increased due to the weaker Rand. Although difficult to measure accurately, we believe that annual inflation in general merchandise for the year to June 2003, using our mix of purchase, averaged 9%. From March 2003, however, purchase prices fell rapidly and deflation in many categories was reported.

Food inflation was dramatic in certain categories but we believe that annual inflation, using our mix of purchases, was 9% – 14% for this financial year. Basic foodstuffs, oils and maize reported inflation levels closer to 9%, whilst food with some exposure to imported content or packaging reported the higher inflation figure.

Acquisitions

The results for Builders Warehouse are for the four months since acquisition on 1 March 2003 and are included in the Masswarehouse division. The businesses, assets and liabilities of Builders Warehouse and Tile Warehouse were acquired for a total purchase price, including transaction costs, of R174 million. Sales for the four months were R191 million and profit before tax was R17 million. In terms of Massmart's accounting policy, the goodwill arising on acquisition of R143 million will be amortised over ten years, but will be written down should its value be permanently impaired.

Furnex results represent a full year but only six months in the prior year (acquired January 2002), and are included with Shield's results in the Masstrade division.

Income statement

This review covers the consolidated income statement shown on page 52.

Sales

Total sales of R20 369 million increased by 22% over the prior year. This was a 52-week trading year whereas the prior year was a 53-week year, adjusting for the additional week increases sales growth to 24%. Of the sales growth of 22%, existing businesses and stores contributed 18%, new stores added 1% and the Builders Warehouse and Furnex acquisitions added the remaining 3%. The Group opened four new stores increasing its trading area by 3%, and including acquisitions, by 10% to 586 030m^2.

Gross profit

Gross profit of R2 619 million reflects a 12,86% gross margin that is lower than the prior year's 13,45%. The current year's gross margin was a consequence of the promotional and mark-down activity required to move the excess stock in Massdiscounters reported at December 2002, lower than planned first-half general merchandise sales in Makro and the aggressive competitive stance taken by Jumbo. While Massdiscounters' and Makro's gross profit margins have been reinstated since year-end, Jumbo will continue to trade as aggressively as necessary to retain market share and build a sustainable base for future growth, while the inclusion for a full year of Builders Warehouse's higher gross margins will positively impact the Group's gross margin.

Other income

Other income of R82 million comprises royalties and franchise fees, property rentals, income from investments (excluding interest), finance charges from Massdiscounters' consumer credit book, and sundry management and administration fees. These are shown in more detail on note 2 on page 61.

Expenses

Total expenses, excluding goodwill amortisation, of R1 954 million represent 9,6% of sales, a significant improvement on the prior year equivalent figure of 10,6%. The focus on costs and cost-productivity during the year, was a response to the risk of cost inflation lagging the higher rate of sales inflation and potentially undermining operating profit.

Due to continual store improvements and refurbishments, and new stores, the annual depreciation charge (R108 million) will generally increase over the prior year as it reflects the higher capital costs of these investments. Goodwill amortisation (R50 million) includes goodwill arising from the Jumbo, Furnex and Builders Warehouse acquisitions. Goodwill amortisation is excluded from the headline earnings and earnings per share (EPS) calculations.

Employment costs of R1 169 million are 14,9% higher than the prior year but, excluding acquisitions, are 12,5% higher. Due to the significant degree of incentivised remuneration for staff, management and executives in the Group, total employment costs will generally increase at a rate greater than inflation when exceptional performance is achieved. At 5,7% of sales, employment costs are lower than last year's equivalent figure of 6,1% but remain the Group's single largest operating cost. The Group's salary and wage increase settlements averaged 8%–9% for the current financial year. Despite the South African Reserve Bank's medium-term inflation targets of 4%–6%, there is still little acceptance by either salaried or waged employees that annual increases should be at those levels.

Occupancy costs, the Group's second biggest operating cost, increased 8,8% before acquisitions, rising to 11,7% to R409 million after acquisitions. As a percentage of sales, this figure at 2,0% is lower than the prior year equivalent of 2,2%. Although approximately 30% of the stores in the Group have turnover clauses in their lease agreements, very few of these have been triggered by high turnovers, and therefore this operating cost category will increase by an annual average lease escalation of 8% – 9%. In the same vein as salary and wage increases, there are currently very few landlords who will accept escalations lower than 8%.

Operating profit

After accounting for the above, Group operating profit of R698 million is 40% ahead of prior year and has improved from 3,0% to 3,4% of sales. This dramatic growth is largely due to the fixed cost nature of the business that, through operating leverage, produces a significantly greater increase in operating profit for a given increase in sales above the breakeven point. Given the cost increases highlighted above and the expected lower level of sales inflation, cost control and real sales growth remain key imperatives.

Included in operating profit is a net loss on foreign exchange translations of R28 million, compared to a net gain in the prior year of R3 million. Approximately half this amount is unrealised and relates mainly to Massdiscounters' African stores. Unless the Rand strengthens further during 2004, foreign exchange losses of this magnitude will not be incurred again.

Net interest paid

Net interest paid of R50 million is significantly higher than the prior year figure of R14 million. Given the higher South African commercial interest rates in the past year (four increases of 1% each), total Group interest paid was expected to increase. The Massdiscounters overstocked situation adversely affected working capital by approximately R300 million for six months and therefore interest paid by approximately R20 million. Makro's general merchandise stock levels were too high for part of the year and adversely impacted interest paid by approximately R5 million.

In the absence of unforeseen adverse circumstances, with lower interest rates and improved working capital management, net interest paid for the year to June 2004 is expected to decline. (Refer also to the net funding position and cash flows commentary below.)

Taxation

The Group's total effective taxation rate decreased from 33,6% to 32,9%. These figures include the impact of exceptional items, excluding these produces an effective headline earnings tax rate of 30,6%, marginally lower than the prior year's equivalent figure of 31,0%. Adjusting for taxation relating to prior years and secondary tax on companies (STC) reduces the rate by 1,8% to 28,8%. Excluding the impact of STC, Massmart expects its future effective tax rate to be at or near the South African corporate rate of 30% although higher tax rates in certain foreign jurisdictions may marginally increase this.

Massmart is not concerned about any specific element of tax risk in the Group's historical tax returns, but there is the uncertainty that adjustments arising from potentially unfavourable tax assessments from the past tax returns could impact future earnings.

Associated company

Massmart no longer has any associated company investments. With effect from 2002 Affinity Logic Holdings (Pty) Limited was accounted for as an investment and, after the June 2003 financial year-end, this investment was sold to UCS Holdings Limited.

Headline earnings

Adjusting for goodwill amortisation and certain capital items (see note 8 on page 64), headline earnings of R480 million are 33% greater than the prior year. Slightly more shares in issue reduced the headline EPS increase to 32%. After adjusting for the potential future conversion of 5,7 million share options, diluted headline EPS of 235,6 cents is lower than actual headline EPS of 242,4 cents (calculated in terms of AC104).

Balance sheet

This review covers the consolidated balance sheet shown on page 53.

Fixed assets

Property, plant and equipment of R546 million and goodwill of R500 million together represent the greater proportion of non-current assets. During the year there was a significant investment in property, plant and equipment. Of the R283 million spent, R84 million was replacement capital expenditure while the balance was invested in new capital assets. The single largest investment was Makro's new Strubens Valley store with a capitalised building lease of R51 million and fixtures, fittings, plant and equipment of R27 million. In addition, R51 million was spent on freehold land and buildings in Masscash where the Jumbo Crown Mines property was acquired for R27 million and CBW acquired three new properties for R26 million. The Group continues to invest heavily in upgrading and installing new IT equipment, spending R12 million on the former and R29 million on the latter. This IT expenditure occurred primarily in Shield, Massdiscounters and CBW. With annual depreciation of R108 million, the linkage between ongoing replacement capital expenditure (R84 million) and depreciation remains sound.

Goodwill increased by R166 million, primarily from the acquisition of Builders Warehouse, and R50 million was amortised in the year.

Investments and loans

Other investments of R115 million are slightly higher than the prior year figure of R106 million. Included here is a permanent shareholders' loan of R21 million owed by Affinity Logic that was repaid in cash, after the financial year-end, in September 2003. Loans of R163 million primarily comprise an interest-free balance of R126 million owed by the Massmart employee share purchase trust. In addition, a finance lease deposit of R23 million, linked to the financing of Makro Strubens Valley, arose this year.

Deferred tax

The deferred tax asset reduced during the year from an opening balance of R236 million to R157 million. The prime contributors to this reduction were the charges to income in respect of assessed losses utilised during the year and the current tax benefit of deductions for trademarks previously written off to shareholders equity for accounting purposes. Greater detail on the main components of the deferred tax asset is shown in note 13 on page 68.

Current assets

Inventories of R2 237 million represent approximately 46 days sales (using the historic basis), an improvement on the prior year's figure of 50 days. Massdiscounters, as a retail discounter with 66 stores, has the highest balance and its sales days in inventory is almost double that of Massmart's wholesale businesses (Masswarehouse and Masscash). Certain general merchandise inventory, imported earlier in the year on a weaker Rand, was written down from cost to net realisable value as at June 2003. This inventory totalled R231 million.

Total accounts receivable and prepayments, net of provisions, of R1 464 million have increased by 33% over the prior year figure of R1 101 million. In the context of total sales growth of 22%, the increase in accounts receivable is slightly higher than expected for the reasons given below. Of Massmart's total sales, only 2% represent consumer credit sales whilst cash accounts for 73% and trade credit for 25% of total sales respectively. Included in accounts receivable and prepayments are trade accounts receivable of R713 million and consumer accounts receivable of R237 million. Consumer accounts receivable are found only in Massdiscounters and increased during the year from R197 million to R237 million, or from six month's sales to seven month's sales as the higher interest rate cycle forced customers to slightly reduce or delay their repayments. (Refer also to the commentary on credit risk in the Financial Risk section below.)

Other accounts receivable of R380 million (up from R110 million last year) represent rebates owed by suppliers that are paid at month-end. As the actual accounting calendar cut-off was 29 June, many suppliers had not paid their rebate debts that were due on 30 June.

Due to creditor payments being made shortly after each month-end, cash balances in the Group at year-end are not representative of the average level of cash during the remaining period. The Group operates in a net borrowed position for most of the financial year.

Non-current liabilities

These comprise medium-term bank loans and finance leases, deferred tax and long-term provisions. The medium-term bank loans represent the remaining balance, after two years, of five-year loans with two South African banks. Massmart will always have non-current debt funding amounting to a gearing level of approximately 30%. Depending upon the requirements of the Group and the economic environment, Massmart may take on further medium-term debt in the 2004 financial year.

Details of non-current liabilities, excluding deferred tax, are included in notes 20 and 21 on pages 71 and 72. The long-term provisions represent the actuarial valuation of the Group's potential liability arising from post-retirement medical aid contributions owed to current and future retirees. With effect from 1999, post-retirement medical aid benefits are no longer offered to new employees.

Current liabilities

Accounts payable of R3 599 million represent approximately 54 days of cost of sales (using the historic basis), which is lower than the prior year figure of 59 days. One factor influencing this is the deliberate increase by management in the quantum of the Group's direct imports that do not enjoy supplier funding. Massmart is able to directly land imported merchandise at lower cost than it could have obtained through third parties.

The current taxation liability of R69 million has also been affected by the calendar cut-off 29 June, with most of this liability paid on 30 June through second provisional tax payments.

Cash flow statement

The consolidated cash flow statement is shown on page 54.

Cash flow from trading of R849 million is 35% higher than prior year and approximates operating profit before depreciation and amortisation of R856 million, demonstrating the quality of Massmart's earnings and its high cash generation.

Cash taxation paid in 2004 will increase significantly as a Massmart subsidiary's assessed loss reduces to nil and the company begins paying tax for the first time. Due to having fully provided deferred tax there will however be no earnings impact.

Financial risks

Liquidity risk

Liquidity risk is considered low due to the Group's conservative funding structure and its high cash generation. Massmart's liquidity requirements are continually assessed through the Group's cash management and treasury function. The Group has total banking facilities, incorporating overnight, short- and medium-term borrowings, letters of credit, forward exchange contracts and electronic fund transfers, of R1 847 million. As at June 2003, total interest-bearing debt amounted to R353 million. (Refer also to note 33 on page 81.) As the Group begins to build inventory levels for the festive season, net interest-bearing debt increases up to a total of approximately R800 million in October, November and December.

Interest risk

Interest rate exposure is actively monitored due to the Group's significant intra-month cash movements and the seasonal changes in its funding profile during the financial year. Of the two R150 million five-year working capital loans, the interest rate on one loan was fixed and the other bears interest at a rate linked to the 90-day JIBAR.

Credit risk

Trade credit is available at Masswarehouse, Masscash and Masstrade and is adequately controlled by using appropriately trained personnel, applying strict credit granting criteria, continual monitoring and the use of software tools. A major portion of the trade debtors book in Shield is insured with an international insurance company.

Massmart is only exposed to consumer debt through its hire-purchase and revolving-credit debtors books in Massdiscounters. The net book of R237 million at June 2003 is conservatively managed, is adequately provided for and represents approximately seven months' credit sales. (Refer also to note 33 on page 82.)

Currency risk

Currency risk in the Group is actively managed. All foreign-denominated trading liabilities are covered by matching forward exchange contracts. Foreign-denominated assets are not covered by forward exchange contracts as the permanent assets are held for the long term and the Board does not believe that the cost of forward cover brings a higher benefit. Shorter-term foreign-denominated assets tend to have a "natural hedge" being the associated Rand-denominated liability with a South African Massmart subsidiary.

Accounting policies

The Board believes that the appropriate accounting policies, supported by sound and prudent management judgement and estimates, have been consistently applied except as noted below.

AC133 (Financial Instruments: Recognition and Measurement) was adopted with effect from 1 July 2002. The impact of applying this new accounting policy did not have a material impact on Massmart's financial results. Retained income was reduced by R6 million as a result of the application of AC133 and the effect on the current year's profit before taxation was a net loss of R1 million.

Due to the ongoing foreign currency crisis in Zimbabwe, the financial results and position of Makro's two stores in that country are still excluded from the Group results. Depending upon the exchange rate used (the official Zimbabwean Dollar rate is significantly below actual traded market rates), the pre-tax earnings excluded from Massmart's results are R1 – R2 million.

Going-concern assertion

The Board has formally considered the going-concern assertion for Massmart and its subsidiaries and believes that it is appropriate for the forthcoming financial year. See page 51 for more detail.

Dividends

Massmart's new dividend policy is to pay total annual dividends representing a 2,5 time cover ratio, unless circumstances dictate otherwise. Given the cash-generative nature of the Group, it is anticipated that these dividends will generally be cash. In the appropriate circumstances, the Board will further reduce the Group's dividend cover ratio.

Returns

Massmart is committed to delivering superior returns to shareholders. As part of this process, the divisions are recapitalised annually with shareholders' funds that are equivalent to the book value of long-term assets in each chain. Each business therefore must fund its net working capital position through cash or interest-bearing debt, depending upon the characteristics of each business model. This process enables business or divisional returns to be evaluated and compared on a consistent basis across the Group.

This recapitalisation policy has not yet been applied in CDW due to minority shareholders in that business, but this will be addressed in the coming financial year.

The Group's medium-term targets are to exceed a 35% return on average capital employed (excluding goodwill and deferred tax assets) and to exceed a 25% return on average shareholders' equity (excluding intangibles previously written off). During the year, the return on average capital employed was a pleasing 71% and the return on average shareholders' equity was 31%.

Adjusting for intangibles (goodwill and trademarks) previously written off, the return on average shareholders' equity exceeded 20%. Depending upon the purchase price, acquisitions in the retail and wholesale industry tend to generate significant accounting goodwill due the relatively low net asset values of these business models.

Annual financial statements as at 30 June 2003

Approval of the annual financial statements

The annual financial statements were approved by the Board of directors on 14 October 2003 and signed on their behalf by:

MJ Lamberti
Chief Executive Officer and Deputy Chairman

GRC Hayward
Chief Financial Officer

Company Secretary certificate

I, Aubrey Cimring, 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.

A Cimring
Company Secretary

Annual compliance certificate for issuers with a primary listing on the JSE

I, the undersigned, Guy Robert Charles Hayward being duly authorised hereto, certify to the JSE Securities Exchange South Africa ("the JSE") that Massmart Holdings Limited and its directors have, during the twelve months ended 30 June 2003 complied with all Listings Requirements and every disclosure requirement for continued listing on the JSE imposed by the JSE during that period.

GRC Hayward
Duly authorised hereto, for and on behalf of the directors of the company

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 49 to 92 for the year ended 30 June 2003. 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 2003, 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.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants (SA)
Johannesburg
14 October 2003

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 Massmart Holdings Limited and its subsidiaries ("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 adoption of AC133.

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 financial results of the Group are set out in the income statement on page 52. The financial position of the Group is set out in the balance sheet on page 53.

Share capital

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

Opening balance	197 823 992
Shares issued to Share Trust	763 500
Closing balance	198 587 492

Dividend policy

The Board decided during the year to decrease the dividend cover. Factors influencing this decision included the expected cash generation of the Group over the foreseeable future.

Massmart's dividend policy is to declare and pay an interim dividend representing a three times dividend cover ratio but a total annual dividend of two and a half times cover, unless circumstances dictate otherwise.

Dividends

With regard to the final dividend, the directors resolved to propose to shareholders, registered in the books of the company on 12 September 2003, a final cash dividend of 49 cents (2002: 36 cents) per share, bringing the total distribution for the year to 97 cents (2002: 61 cents) per share.

Directorate and Secretary

The current directorate of the company is shown on pages 32 and 33.

The Company Secretary is Mr A Cimring, CA (SA).

Messrs MD Brand, ZL Combi and P Maw were appointed non-executive directors in February 2003.

In accordance with the provisions of the company's articles of association, Messrs GRC Hayward, IN Matthews, MD Brand, ZL Combi and P Maw retire by rotation at the annual general meeting and, being eligible, offers themselves for re-election. Mr JD Newton resigned in August 2002.

Mr CS Seabrooke was appointed non-executive Chairman of the Board in July 2003, when the roles of Chairman and Chief Executive Officer were separated. Mr MJ Lamberti was appointed Deputy Chairman and Chief Executive Officer at this time. Mr D Barrett stepped down as Deputy Chief Executive Officer with effect from August 2003 but remains an executive director until December 2003 and thereafter will remain on the Board as a non-executive director.

Interests of directors in the company's shares

At 30 June 2003, 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:

	2003				2002			
	Shares		Options		Shares		Options	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial	Beneficial	Non-beneficial	Beneficial	Non-beneficial
Non-executive directors								
CS Seabrooke	–	**100 000**	**118 300**	–	30 000	–	118 300	–
D Brand	–	–	–	–	–	–	–	–
ZL Combi	–	–	–	–	–	–	–	–
W Kirsh	–	–	**19 500**	–	–	–	78 000	–
S Leggatt	**1 194 500**	–	–	–	1 194 500	–	–	–
IN Matthews	–	–	–	–	–	–	–	–
P Maw	–	–	–	–	–	–	–	–
DNM Mokhobo	–	–	–	–	–	–	–	–
M Msimang	–	–	–	–	–	–	–	–
JD Newton	–	–	–	–	–	–	–	–
MJ Rubin	**84 785**	**2 245**	–	–	87 028	6 760	–	–
F Schukken	–	–	–	–	–	–	–	–
Executive directors								
MJ Lamberti	–	**7 804 040**	–	–	270 835	6 429 205	–	–
DG Barrett	**517 500**	–	**325 000**	–	972 500	–	300 000	–
GRC Hayward	**208 643**	–	**950 000**	–	208 643	–	900 000	–

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

	Shares		Options	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
Non-executive directors				
CS Seabrooke	–	100 000	118 300	–
D Brand	–	–	–	–
ZL Combi	–	–	–	–
W Kirsh	–	–	19 500	–
S Leggatt	1 094 500	–	–	–
IN Matthews	–	–	–	–
P Maw	–	–	–	–
DNM Mokhobo	–	–	–	–
M Msimang	–	–	–	–
MJ Rubin	84 785	2 245	–	–
F Schukken	–	–	–	–
Executive directors				
MJ Lamberti	–	7 804 040	–	–
DG Barrett	217 500	–	325 000	–
GRC Hayward	208 643	–	825 000	–

MJ Lamberti owns 1 954 236 (2002: 1 850 236) shares non-beneficially that were purchased on the JSE and not through the Massmart share incentive scheme. These shares are included in the above tables.

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 23 on page 73.

Directors' service contract

At the 2002 annual general meeting, the company obtained shareholders' approval of a new four-year service contract with Mr MJ Lamberti. This has been concluded effective from 1 July 2003 and contains the following salient points:

- The duration of the contract is until 30 June 2007.
- There has been no change to his remuneration package as a result of the new contract.
- He has received an upfront allocation of one million shares from the share trust, which will vest over the four-year period of the contract, but he will not be eligible for future annual allocations which would have been usual in terms of the Group's incentive scheme.
- In the event of the company wishing to terminate his contract early, his payout will be limited to one month for each year of service to the Group or the remaining period of the contract, whichever is the shorter.

Subsidiaries

Details of the company's interests in material subsidiaries are set out in note 31 on page 79.

Borrowing powers

In terms of the articles of association, the Group has unlimited borrowing powers. At 30 June 2003, borrowings were R353 million (2002: R361 million).

Going concern

The directors are of the opinion that the business will be a going concern in the year ahead. In reaching this opinion, the directors considered the following factors:

- strong positive cash flows from trading;
- no recurring operating losses;
- well controlled working capital and good quality inventory;
- approved short and long-term financing, with sufficient additional short-term borrowing capacity if required;
- key executive management is in place;
- there have been no material changes that may effect the Group in any of our customer, product or geographic markets; and
- budgets to June 2004 reflect a continuation of the above positive issues.

Address

The company's registered office and postal address are shown on the inside back cover of this annual report.

Subsequent events

In August 2003, an additional cash payment of R25 million was paid to the vendors of Builders Warehouse, in terms of the purchase agreement.

In August 2003, the Board concluded the purchase of the remaining shares held by minority shareholders of CCW Wholesalers (Pty) Limited for an amount of R68 million. CCW Wholesalers (Pty) Limited is now a wholly-owned subsidiary of Massmart Holdings Limited.

In September 2003, the Board concluded the sale of the 11,8% investment in Affinity Logic Holdings (Proprietary) Limited to UCS Holdings Limited for R25 million including shareholders loan repayments. During the year, the Group incurred a R2 million loss on write down of this investment and loan (note 5 on page 62).

In September 2003 the Board concluded the acquisition of Trident Holdings (Pty) Limited. The price payable is dependent on the audited accounts of Trident as at 30 September 2003. Trident owns six cash and carry outlets in Botswana and will form part of Masscash.

On behalf of the Board

Aubrey Cimring
Company Secretary
14 October 2003

Consolidated income statement

for the year ended 30 June 2003

	Notes	GROUP 2003 Rm	GROUP 2002 Rm
Revenue	2	**20 479,4**	16 804,5
Sales		**20 369,5**	16 709,2
Cost of sales		**(17 750,0)**	(14 462,0)
Gross profit		**2 619,5**	2 247,2
Other income		**81,8**	68,9
Depreciation		**(107,8)**	(106,2)
Amortisation	10	**(49,5)**	(39,7)
Employment costs		**(1 168,5)**	(1 017,2)
Occupancy costs		**(408,8)**	(366,0)
Other operating costs		**(268,5)**	(287,9)
Operating profit	3	**698,2**	499,1
Net interest paid	4	**(50,4)**	(14,1)
Exceptional items	5	**6,7**	5,2
Net profit before taxation		**654,5**	490,2
Taxation	6	**(215,2)**	(164,4)
Net profit after taxation		**439,3**	325,8
Share of associated company loss		**–**	(1,2)
Net profit before minority interests		**439,3**	324,6
Minority interests	19	**(10,0)**	(2,9)
Net profit for the year		**429,3**	321,7
Headline earnings	8	**480,0**	361,6
Earnings per share (cents)			
Attributable	8	**216,8**	163,0
Headline	8	**242,4**	183,2
Diluted attributable	8	**210,7**	161,8
Diluted headline	8	**235,6**	181,9
Dividend per share (cents)			
Interim	7	**48,0**	25,0
Final*	7	**49,0**	36,0

** Declared and paid after the financial year-end.*

Consolidated balance sheet

as at 30 June 2003

		GROUP	
	Notes	**2003** **Rm**	2002 Rm
Assets			
Non-current assets		**1 480,8**	1 230,1
Property, plant and equipment	9	**546,2**	380,7
Goodwill	10	**499,7**	383,7
Other investments	11	**114,7**	105,9
Loans	12	**163,1**	123,6
Deferred taxation	13	**157,1**	236,2
Current assets		**4 313,2**	3 714,8
Inventories	14	**2 236,7**	1 981,9
Accounts receivable and prepayments	15	**1 464,1**	1 100,8
Taxation		**0,3**	8,6
Bank balances and cash		**612,1**	623,5
Total assets		**5 794,0**	4 944,9
Equity and liabilities			
Capital and reserves		**1 666,1**	1 414,0
Share capital	16	**2,0**	2,0
Share premium	17	**494,5**	479,6
Non-distributable reserves	18	**159,7**	186,9
Retained profit		**1 009,9**	745,5
Minority interests	19	**22,4**	12,7
Total equity		**1 688,5**	1 426,7
Non-current liabilities		**305,7**	281,9
Non-current liabilities	20	**248,5**	240,2
Non-current provisions	21	**31,5**	30,6
Deferred taxation	13	**25,7**	11,1
Current liabilities		**3 799,8**	3 236,3
Accounts payable		**3 598,8**	3 042,7
Provisions	22	**24,6**	34,3
Taxation		**68,8**	34,8
Bank overdrafts		**48,7**	73,2
Current borrowings		**58,9**	51,3
Total equity and liabilities		**5 794,0**	4 944,9

Consolidated cash flow statement

for the year ended 30 June 2003

		GROUP	
	Notes	2003 Rm	2002 Rm
Cash flow from operating activities			
Cash flow from trading	32.1	**848,9**	629,8
Working capital movements	32.2	**(63,6)**	38,9
Cash generated from operations		**785,3**	668,7
Interest received		**28,1**	26,4
Interest paid		**(78,5)**	(40,5)
Investment income		**11,0**	1,1
Taxation paid	32.3	**(77,5)**	(90,9)
Dividends paid		**(166,6)**	(90,7)
Net cash inflow from operating activities		**501,8**	474,1
Cash flow from investing activities			
Investment to maintain operations	32.5	**(83,6)**	(76,3)
Investment to expand operations	32.6	**(216,6)**	(73,1)
Proceeds on disposal of property, plant and equipment	32.7	**23,8**	39,3
Investment in businesses/subsidiaries	32.8	**(173,6)**	(44,5)
Loans and other investments		**(59,0)**	(42,0)
Net cash outflow from investing activities		**(509,0)**	(196,6)
Cash flow from financing activities			
Shares issued (net of costs)		**14,9**	6,7
Increase/(decrease) in non-current liabilities		**56,6**	(65,4)
Increase in current borrowings		**7,6**	50,0
Long-term borrowings raised		**–**	300,0
Long-term borrowings repaid		**(48,3)**	(23,0)
Amount paid to vendors		**–**	(502,2)
Net cash inflow/(outflow) from financing activities		**30,8**	(233,9)
Net increase in cash and cash equivalents		**23,6**	43,6
Foreign exchange (losses)/profits taken to statement of changes in equity		**(10,5)**	7,9
Cash and cash equivalents at beginning of year		**550,3**	498,8
Cash and cash equivalents at end of year	32.9	**563,4**	550,3

Consolidated statement of changes in equity

for the year ended 30 June 2003

GROUP

	Share capital Rm	Share premium Rm	Non-distributable reserves* Rm	Translation reserve* Rm	Retained profit Rm	Minority interests Rm	**Total Rm**
Balance as at 30 June 2001	**2,0**	**474,1**	**237,6**	**9,6**	**481,3**	**11,1**	**1 215,7**
Net profit for the year	–	–	–	–	321,7	–	**321,7**
Exchange differences on translation	–	–	–	7,9	–	–	**7,9**
Release of NDR on deregistration of subsidiary	–	–	(34,5)	–	34,5	–	**–**
Transfers from/(to) retained profit arising as a result of:							
– amortisation of trademarks	–	–	7,2	–	(7,2)	–	**–**
– release of deferred taxation on trademarks previously written off against shareholders' equity	–	–	(41,4)	–	3,1	–	**(38,3)**
– share trust income	–	–	–	–	2,8	–	**2,8**
Issue of shares (net of costs)	–	5,5	–	–	–	–	**5,5**
Changes in minority interests	–	–	0,5	–	–	(1,3)	**(0,8)**
Income attributable to minorities	–	–	–	–	–	2,9	**2,9**
Dividends declared (note 7)	–	–	–	–	(90,7)	–	**(90,7)**
Balance as at 30 June 2002	**2,0**	**479,6**	**169,4**	**17,5**	**745,5**	**12,7**	**1 426,7**
Accounting policy change (note 33)	–	–	–	–	(6,1)	–	**(6,1)**
Net profit for the year	–	–	–	–	429,3	–	**429,3**
Exchange differences on translation	–	–	–	(10,5)	–	–	**(10,5)**
Transfers from/(to) retained profit arising as a result of:							
– amortisation of trademarks	–	–	4,5	–	(4,5)	–	**–**
– release of deferred taxation on trademarks previously written off against shareholders' equity	–	–	(21,2)	–	15,7	–	**(5,5)**
– share trust loss	–	–	–	–	(3,4)	–	**(3,4)**
Issue of shares (net of costs)	–	14,9	–	–	–	–	**14,9**
Changes in minority interests	–	–	–	–	–	(0,3)	**(0,3)**
Income attributable to minorities	–	–	–	–	–	10,0	**10,0**
Dividends declared (note 7)	–	–	–	–	(166,6)	–	**(166,6)**
Balance as at 30 June 2003	**2,0**	**494,5**	**152,7**	**7,0**	**1 009,9**	**22,4**	**1 688,5**

** These reserves have been combined in the balance sheet as non-distributable reserves.*

Notes to the consolidated annual financial statements

1. Accounting policies

The financial information of the Massmart Group is prepared on the historical cost basis modified by the restatement of financial instruments to fair value.

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 for the adoption of AC133 "Financial Instruments: Recognition and Measurement". In accordance with the requirements of this statement, comparatives have not been restated.

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.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the effective date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair value of the assets and liabilities recognised.

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

Intercompany transactions and balances have been eliminated.

Segmental information

The Group is organised into four divisions for operational and management purposes. Massmart reports its primary business segment information on this basis and on a secondary basis by significant geographical region based on location of assets.

Comparative figures

When an accounting policy is altered, comparative figures are restated if required by the applicable accounting statement and where material.

Discontinuing operations

Discontinuing operations are significant, distinguishable components of an enterprise that have been sold, abandoned or are the subject of formal plans for disposal or discontinuance. Once an operation has been identified as discontinuing, or is reclassified as continuing, comparative information is restated.

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 acquisition.

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

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 asset and is amortised using the straight line method over its estimated useful life. Current estimates of goodwill's useful life do not exceed ten years.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition over the cost of acquisition.

Negative goodwill is presented as a deduction from assets and is released to income based on an analysis of the circumstances from which the balance resulted. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is released to income immediately.

Property, plant and equipment

Freehold land is shown at cost and is not depreciated. As the Group has no properties that meet the definition of investment properties, all other property, plant and equipment is shown at cost less accumulated depreciation, and reduced by any impairment. Expenditure not resulting in a new asset or an increase in the revenue-generating capacity of an asset is expensed.

Computer software is capitalised where expenditure incurred will lead to future economic benefits accruing to the Group. Depreciation is provided on a straight-line basis at rates calculated to write off the cost, less the estimated residual value, over the expected useful life of the asset, as follows:

• Fixtures, fittings, plant, equipment and motor vehicles	4 to 6 years
• Computer equipment and software	3 to 5 years
• Leasehold improvements	Lease period
• Buildings	50 years

Assets held under finance leases, lease premiums and leasehold improvements are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount for an individual asset, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. The amount of impairment loss treated as a revaluation loss is limited to the existing revaluation reserve relating to that asset.

Other than for goodwill, where an impairment loss subsequently reverses, the carrying amount of an asset (cash-generating unit) is increased to the revised estimate of its recoverable amount. This is done so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. A reversal of an impairment loss is recognised in the income statement.

Financial instruments

Financial instruments recognised on the balance sheet include trade receivables, cash and cash equivalents, investments, accounts payable, interest bearing debt and derivative instruments. Financial instruments are initially measured at cost. The subsequent measurement of the different classes of financial instruments are dealt with below. Where legally enforceable right of offset exists for recognised financial assets and financial liabilities and the intention is to settle the liability and realise the asset simultaneously, such related financial asset and financial liabilities are offset.

Accounts receivable are stated at cost reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents are measured at fair value. For purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and investments in money market instruments, net of bank overdrafts. In the balance sheet, bank overdrafts are disclosed as current liabilities.

Investments in securities are recognised at trade date (the date the entity commits itself to purchase or sell a financial instrument). Subsequently, investments that the Group has the intention and ability to hold to maturity (held to maturity investments) are measured at amortised cost, using the effective interest rate method, less any impairment losses recognised to reflect irrecoverable amounts.

Investments other than held-to-maturity investments are classified as either held for trading or available for sale, and are subsequently measured at fair value. Listed investments are carried at market value, which is calculated by reference to stock exchange quoted selling prices at the close of business on the balance sheet date. Other investments are shown at fair value.

Loans originated or created by the Group are held at amortised cost, comprising original debt less principal repayments and amortisations.

Financial liabilities, other than derivative instruments, are recognised at amortised cost, comprising original debt less principal payments and amortisations.

Financial liabilities 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 conversion is certain.

Financial liabilities include finance lease obligations, interest-bearing bank loans and overdrafts and trade and other payables. The accounting policy adopted for finance lease obligations is outlined below.

Interest-bearing bank loans and overdrafts 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 stated at their nominal value.

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

The Group uses derivative financial instruments including currency forward contracts and options to hedge its exposure to interest rate and foreign currency fluctuations. It is the policy of the Group not to trade in derivative financial instruments for speculative purposes. Such derivatives are initially measured at cost, if any, and are subsequently remeasured to fair value.

Unrealised gains and losses on available-for-sale investments are recognised directly in equity until the disposal or impairment of the relevant investment, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

Other gains and losses from the change in the fair value of financial instruments that are not part of a hedging relationship are included in net profit or loss in the period in which the change arises.

Changes in fair value of derivative financial instruments that are designated and effective as hedges of future cash flows relating to firm commitments and forecasted transactions are recognised directly in equity. If the hedged firm commitment or forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had been previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged firm commitment or forecasted transaction affects net profit or loss, for example, when the future sale actually occurs.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

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

Foreign currencies

Transactions in currencies other than the Group reporting currency are initially recorded at the rates of exchange ruling on the dates of the transactions. Massmart has a policy of covering forward all its foreign exchange liability transactions of a trading nature.

Monetary assets and liabilities denominated in foreign currencies are translated at the rates ruling on the balance sheet date. Exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded are recognised as income or expenses in the period in which they arise. Non-monetary items are recorded at the rate applicable when the asset or liability was acquired.

Foreign investments

Foreign subsidiaries are classified either as foreign entities or integrated foreign operations for the purposes of foreign currency translation. Massdiscounters stores operating in various African countries are classified as foreign operations. On consolidation, the monetary assets and liabilities of the Group's foreign operations are translated into South African Rand at exchange rates ruling on the balance sheet date. Non-monetary assets and liabilities are translated at the rate applicable at the acquisition date of those assets and liabilities. Income and expense items are translated at the weighted-average exchange rates for the period. Exchange differences arising in respect of foreign entities, if any, are classified as equity and transferred to the Group's translation reserve, while exchange differences arising on the translation of integrated foreign operations are taken to the income statement. Translation differences that are transferred to the Group's translation reserves are recognised as income or expenses in the period in which the operation is disposed of.

Should a foreign currency crisis or long-term currency restriction arise in a country that the Group operates in, the results and financial position of the stores in that country would remain unconsolidated. Earnings would be accounted for on a cash-received basis. Summarised results would only be shown as a supplementary note, if material.

Leases

With effect from 1 July 2000 new leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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

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.

The present value of long-term provisions are determined using a market-related discount rate.

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 healthcare 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 are accrued 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.

Deferred taxation is accounted for using the balance sheet method in respect of temporary differences arising from differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases 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 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, property rentals and management and administration 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.

Exceptional items

Exceptional items cover those amounts which are not considered to be typical of the ongoing business, and generally include profit and loss on disposal of investments and other non-current assets and impairment losses.

Government grants

Government grants for staff training costs are recognised as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense. Income is not recognised until there is reasonable assurance that the grants will be received.

Participation in export partnerships

Participation in export partnerships is measured at amortised cost using the effective interest rate method. Amortised cost is the Group's cost of original participation less principal subsequent repayments received, plus the cumulative amortisation of the difference between the initial amount and the maturity amount less any write down for impairment.

Treasury shares

Shares in Massmart Holdings Limited held by a wholly-owned Group company are classified as treasury shares. These are treated as a deduction from the issued and weighted average number of shares and the cost price of the shares deducted from Group equity. Dividends received on treasury shares are eliminated on consolidation. Shares held in the Share Trust are not treated as treasury shares as the trust is not consolidated with the Group.

	GROUP	
	2003	2002
	Rm	Rm
2. Revenue		
Sales	**20 369,5**	16 709,2
Royalties and franchise fees	**13,3**	3,5
Property rentals	**0,8**	0,9
Interest received from investments	**28,1**	26,4
Income from investments	**11,0**	12,9
Finance charges	**53,6**	45,5
Dividends received	**36,6**	32,8
Less: Interest paid on related liability	**(36,8)**	(30,9)
Management and administration fees	**3,3**	4,2
	20 479,4	16 804,5
3. Operating profit		
Credits to operating profit include:		
Foreign exchange profit	**20,8**	19,3
Net profit on disposal of property, plant and equipment	**3,5**	1,2
Charges to operating profit include:		
Depreciation (owned assets):		
Buildings	**2,4**	4,1
Fixtures, fittings, plant and equipment	**66,6**	61,5
Computer equipment	**26,1**	31,0
Leasehold improvements	**3,8**	4,0
Motor vehicles	**3,4**	3,8
Depreciation (leased assets):		
Buildings	**1,6**	–
Fixtures, fittings, plant and equipment	**0,2**	–
Computer equipment	**1,7**	0,2
Motor vehicles	**2,0**	1,6
Goodwill amortisation	**49,5**	39,7
Foreign exchange loss	**48,8**	15,9
Operating lease charges:		
Land and buildings	**342,8**	304,1
Plant and equipment	**13,1**	6,6
Computer equipment	**6,6**	5,0
Motor vehicles	**5,6**	7,4
Net loss on disposal of property, plant and equipment	**4,0**	8,7
Fees payable:		
Administrative and outsourcing services	**88,1**	95,6
Consulting	**11,0**	6,3
Auditors' remuneration:		
Current year fee	**4,4**	3,1
Prior year underprovision	**0,1**	0,3
Tax advice	**0,6**	0,9
Consulting and business reviews	**3,4**	2,7
Contract assignments	**1,3**	1,6

	GROUP	
	2003 Rm	2002 Rm
4. Net interest paid		
Interest received from investments	**28,1**	26,4
Interest paid on borrowings	**(78,5)**	(28,2)
Interest accrued to vendor	**–**	(12,3)
Net interest paid	**(50,4)**	(14,1)

	GROUP			
	Net profit before taxation Rm	Taxation Rm	Minority interests Rm	Net profit Rm
5. Exceptional items				
2003				
Impairment of investment in Affinity Logic Holdings (Proprietary) Limited	**(2,3)**	**–**	**–**	**(2,3)**
Bad debt recovery on prior year VAT settlement	**9,0**	**(2,7)**	**–**	**6,3**
	6,7	**(2,7)**	**–**	**4,0**
2002				
Profit on disposal of The Retail Value Chain (Proprietary) Limited	1,2	–	–	1,2
Loss on disposal of Sip 'n Save	(9,7)	–	–	(9,7)
Profit on disposal of NetActive Limited	0,7	–	–	0,7
Donation of Affinity Logic Holdings (Proprietary) Limited shares by Wooltru Limited	0,9	–	–	0,9
Insurance proceeds	35,1	(7,3)	(1,4)	26,4
Impairment of investment in Affinity Logic Holdings (Proprietary) Limited	(7,1)	–	–	(7,1)
Bad debt related to VAT settlement	(15,9)	4,8	–	(11,1)
	5,2	(2,5)	(1,4)	1,3

	GROUP	
	2003	2002
	Rm	Rm
6. Taxation		
Current year:		
South African normal tax		
Current tax	**90,4**	57,2
Secondary tax on companies	**16,3**	7,5
Deferred tax	**102,2**	67,7
Foreign tax		
Current tax	**16,3**	27,1
Deferred tax	**(11,5)**	2,8
Tax effect of participation in export partnerships	**(0,7)**	0,4
	213,0	162,7
Prior year under/(over) provision:		
South African normal tax		
Current tax	**1,1**	–
Deferred tax	**4,7**	0,8
Foreign tax		
Current tax	**(3,6)**	0,3
Deferred tax	**–**	0,6
	2,2	1,7
Total	**215,2**	164,4

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.

Following the introduction of capital gains tax, all significant assets (including business units) will be valued for submission to the authorities with the tax return following 30 September 2004. During the current reporting period no significant capital gains were realised.

	%	%
The rate of taxation is reconciled as follows:		
Standard rate	**30,0**	30,0
Exempt income	**(2,7)**	(2,6)
Disallowable expenditure	**3,3**	4,7
Assessed losses	**(0,1)**	(0,7)
Withholding taxation	**(0,7)**	0,1
Adjustments to prior year	**(0,9)**	0,3
Secondary tax on companies	**2,5**	1,5
Other	**1,5**	0,3
Effective rate	**32,9**	33,6

	GROUP	
	2003 Rm	2002 Rm
7. Dividends paid		
Final cash dividend No 5	**71,3**	41,4
Interim cash dividend No 6	**95,3**	49,3
Total dividends paid	**166,6**	90,7

No 5 of 36 cents declared on 21 August 2002 and paid on 16 September 2002 (R71,3 million).
No 6 of 48 cents declared on 26 February 2003 and paid on 24 March 2003 (R95,3 million).
No 7 of 49 cents declared on 19 August 2003 and paid on 15 September 2003 (R97,3 million).

	GROUP			
	2003 Rm	2002 Rm	**2003 Cents**	2002 Cents
8. Earnings per share				
Attributable and headline earnings per share				
The calculation of attributable and headline earnings per share is based on a weighted average of 198 050 019 (2002: 197 339 420) ordinary shares.				
The calculation is reconciled as follows:				
Net profit attributable to ordinary shareholders	**429,3**	321,7	**216,8**	163,0
Adjustments after taxation and minorities:				
Exceptional items – capital	**2,3**	(12,4)	**1,2**	(6,2)
Restraint of trade payments	**–**	7,9	**–**	4,0
Loss on disposal of movable assets	**(0,5)**	5,2	**(0,3)**	2,6
Goodwill amortisation	**48,9**	39,2	**24,7**	19,8
Headline earnings	**480,0**	361,6	**242,4**	183,2
Diluted attributable and diluted headline earnings per share				
The calculation of diluted attributable and diluted headline earnings per share is based on a weighted-average of 203 762 636 (2002: 198 793 299) ordinary shares.				
The calculations are reconciled as follows:				
Net profit attributable to ordinary shareholders	**429,3**	321,7	**216,8**	163,0
Adjustment for impact of issuing ordinary shares	**–**	–	**(6,1)**	(1,2)
Diluted attributable earnings	**429,3**	321,7	**210,7**	161,8
Headline earnings	**480,0**	361,6	**242,4**	183,2
Adjustment for impact of issuing ordinary shares	**–**	–	**(6,8)**	(1,3)
Diluted headline earnings	**480,0**	361,6	**235,6**	181,9

	GROUP		
	Cost/ carrying value Rm	Accumulated depreciation Rm	Net book value Rm
9. Property, plant and equipment			
2003			
Owned assets			
Freehold land and buildings	**110,2**	**2,6**	**107,6**
Fixtures, fittings, plant and equipment	**602,1**	**334,1**	**268,0**
Computer equipment	**145,6**	**91,0**	**54,6**
Leasehold improvements	**53,7**	**21,8**	**31,9**
Motor vehicles	**22,4**	**10,0**	**12,4**
	934,0	**459,5**	**474,5**
Capitalised leased assets			
Freehold land and buildings	**57,8**	**1,6**	**56,2**
Fixtures, fittings, plant and equipment	**3,0**	**0,2**	**2,8**
Computer equipment	**4,6**	**1,9**	**2,7**
Motor vehicles	**13,7**	**3,7**	**10,0**
	79,1	**7,4**	**71,7**
Total	**1 013,1**	**466,9**	**546,2**
2002			
Owned assets			
Freehold land and buildings	82,2	4,0	78,2
Fixtures, fittings, plant and equipment	481,3	264,5	216,8
Computer equipment	106,5	57,8	48,7
Leasehold improvements	31,3	13,2	18,1
Motor vehicles	18,3	10,1	8,2
	719,6	349,6	370,0
Capitalised leased assets			
Computer equipment	1,7	0,2	1,5
Motor vehicles	11,4	2,2	9,2
	13,1	2,4	10,7
Total	732,7	352,0	380,7

A register of land and buildings as required by the Companies Act is available for inspection by members at the registered offices of the companies in the Group.

Certain capitalised leased property, plant and equipment is encumbered as per note 20 (page 70).

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment

	GROUP						
	Opening net book value Rm	Additions Rm	Additions through acquisitions Rm	Disposals Rm	Depreciation Rm	Foreign exchange gain/(loss) Rm	Closing net book value Rm
2003							
Owned assets							
Freehold land and buildings	**78,2**	**50,5**	**–**	**(18,7)**	**(2,4)**	**–**	**107,6**
Fixtures, fittings, plant and equipment	**216,8**	**105,5**	**9,7**	**(2,7)**	**(66,6)**	**5,3**	**268,0**
Computer equipment	**48,7**	**37,2**	**2,0**	**(0,7)**	**(26,1)**	**(6,5)**	**54,6**
Leasehold improvements	**18,1**	**15,4**	**1,4**	**–**	**(3,8)**	**0,8**	**31,9**
Motor vehicles	**8,2**	**6,7**	**2,0**	**(1,1)**	**(3,4)**	**–**	**12,4**
	370,0	**215,3**	**15,1**	**(23,2)**	**(102,3)**	**(0,4)**	**474,5**
Capitalised leased assets							
Freehold land and buildings	**–**	**57,8**		**–**	**(1,6)**	**–**	**56,2**
Computer equipment	**1,5**	**2,9**		**–**	**(1,7)**	**–**	**2,7**
Office equipment	**–**	**3,0**		**–**	**(0,2)**	**–**	**2,8**
Motor vehicles	**9,2**	**4,0**		**(1,1)**	**(2,0)**	**(0,1)**	**10,0**
	10,7	**67,7**		**(1,1)**	**(5,5)**	**(0,1)**	**71,7**
Total	**380,7**	**283,0**	**15,1**	**(24,3)**	**(107,8)**	**(0,5)**	**546,2**
2002							
Owned assets							
Freehold land and buildings	56,0	9,5	17,7	(0,9)	(4,1)	–	78,2
Fixtures, fittings, plant and equipment	221,1	60,6	1,3	(4,3)	(61,5)	(0,4)	216,8
Computer equipment	58,2	29,5	1,5	(9,7)	(31,0)	0,2	48,7
Leasehold improvements	15,0	7,2	0,2	(0,3)	(4,0)	–	18,1
Motor vehicles	9,5	4,0	0,3	(1,8)	(3,8)	-	8,2
	359,8	110,8	21,0	(17,0)	(104,4)	(0,2)	370,0
Capitalised leased assets							
Computer equipment	–	1,7		–	(0,2)		1,5
Office equipment	0,3	–		(0,3)	–		–
Motor vehicles	8,1	5,1		(2,4)	(1,6)		9,2
	8,4	6,8		(2,7)	(1,8)		10,7
Total	368,2	117,6	21,0	(19,7)	(106,2)	(0,2)	380,7

	GROUP		
	Cost Rm	Accumulated amortisation Rm	Net book value Rm
10. Goodwill			
2003			
Goodwill	**598,0**	**98,3**	**499,7**
2002			
Goodwill	432,5	48,8	383,7

		2003 Rm	2002 Rm
Reconciliation of goodwill:			
Opening book value		**383,7**	340,2
Acquisition of subsidiaries		**165,5**	83,2
Amortisation charge (written off over ten years)		**(49,5)**	(39,7)
Closing book value		**499,7**	383,7

	GROUP	
	2003 Rm	2002 Rm
11. Other investments		
Unlisted investments		
Available for sale		
Shares at cost	**12,4**	12,4
Less: Impairment	**(8,3)**	(7,1)
Shares at carrying value	**4,1**	5,3
Amounts owing	**22,1**	22,1
Less: Impairment	**(1,1)**	–
Amounts owing at carrying value	**21,0**	22,1
	25,1	27,4
Held for trading		
Shares at carrying value	**5,0**	5,0
Amounts owing	**23,1**	13,0
	28,1	18,0
Originated loans and receivables		
Amount owing	**13,1**	12,0
Held to maturity		
Preference share investment	**273,2**	236,6
Less: Set-off of related long-term liability	**(225,1)**	(188,4)
Other investments	**0,3**	0,3
	48,4	48,5
	114,7	105,9

The directors' value the unlisted investments at R114,7 million (2002: R105,9 million). The preference share investment represents cumulative preference shares in Fullimput 65 (Proprietary) Limited. A long-term liability of the Group is secured by a cession of the preference shares and legal set-off is permitted.

For AC133 accounting treatment of these investments, see note 33, 'Financial risk management'.

	GROUP	
	2003	2002
	Rm	Rm
12. Loans		
Housing loans to Massmart Holdings Limited directors:		
Balance at the beginning of the year	**1,5**	1,5
Repayments	**(0,3)**	–
Balance at the end of the year	**1,2**	1,5
Other housing and staff loans	**5,2**	7,5
Employee share trust	**125,6**	107,6
Finance lease deposit	**22,8**	–
Other	**8,3**	7,0
	161,9	122,1
	163,1	123,6

These loans are classified as 'Originating loans and receivables' for AC133 purposes. See note 33, 'Financial risk management', for AC133 accounting treatment.

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

13. Deferred taxation		
The major movements during the period are analysed as follows:		
Net asset at the beginning of the year	**225,1**	333,7
Written off to income for the year	**(95,4)**	(70,3)
Adjustment to equity arising on changes to tax value of trademarks	**(5,5)**	(38,3)
Arising from acquisitions	**7,2**	–
Net asset at the end of the year	**131,4**	225,1
The major components of deferred taxation are analysed as follows:		
Trademarks previously charged to shareholders' equity	**122,4**	154,8
Assessed loss unutilised	**0,9**	45,7
Export partnerships	**(4,5)**	(10,3)
Debtors provisions	**9,5**	3,6
Prepayments	**(32,0)**	(19,6)
Creditor's provisions	**34,5**	33,0
Fixed assets	**(6,7)**	2,5
Finance leases	**1,2**	0,5
Long-term provisions	**13,5**	8,2
Deferred income	**6,8**	7,7
Other temporary differences	**(14,2)**	(1,0)
	131,4	225,1
The net deferred tax position is reconciled as follows:		
Deferred taxation asset	**157,1**	236,2
Deferred taxation liability	**(25,7)**	(11,1)
	131,4	225,1

At the balance sheet date, the Group has unutilised tax losses of R172,0 million (2002: R90,5 million) available for offset against future taxable profits which have not been recognised as deferred tax assets due to uncertainty concerning the recoverability of those assets.

	GROUP	
	2003 Rm	2002 Rm

14. Inventories

Merchandise	**2 236,7**	1 981,9
Inventories are carried at the lower of cost and net realisable value		
Inventories carried at net realisable value included above	**231,3**	84,3

15. Accounts receivable and prepayments

Net trade accounts receivable	**712,9**	680,1
Net consumer accounts receivable	**237,2**	196,7
Prepayments	**134,4**	114,5
Other accounts receivable	**379,6**	109,5
	1 464,1	1 100,8

Accounts receivables and prepayments are classified as 'Originated loans and receivables' for AC133 purposes. See note 33, 'Financial risk management' for AC133 accounting treatment.

16. Share capital

Authorised		
500 000 000 (2002: 500 000 000) ordinary shares of 1 cent each	**5,0**	5,0
Issued		
198 587 492 (2002: 197 823 992) ordinary shares of 1 cent each	**2,0**	2,0

Except for the issue of 763 500 shares in terms of the employee share incentive scheme, there were no movements in the share capital of the company during the current reporting period.

In terms of the share buyback authority granted by shareholders, Massmart acquired a total of 1 417 454 shares during the year, representing 0,7% of the shares in issue at June 2003. The shares were acquired at an average price of R16,92 for a total consideration of R24,0 million by a wholly-owned subsidiary of Massmart and were sold to the Massmart Share Trust during the year.

The directors have the authority, until the next annual general meeting, to issue the unissued ordinary shares of the company.

17. Share premium

Opening balance	**479,6**	474,1
Premium on shares issued during the year (net of costs)	**14,9**	5,5
	494,5	479,6

	GROUP	
	2003	2002
	Rm	Rm
18. Non-distributable reserves		
Foreign currency translation reserve	**6,8**	17,3
Capital redemption reserve fund	**0,2**	0,2
Deferred taxation on trademarks written off against shareholders equity	**74,3**	95,5
Amortisation of trademarks	**77,9**	73,4
Change in minority interests	**0,5**	0,5
	159,7	186,9
19. Minority interests		
At the beginning of the year	**12,7**	11,1
Acquisition of minority interests	**(0,3)**	(1,3)
Share of net profit of subsidiaries	**10,0**	2,9
At the end of the year	**22,4**	12,7
20. Non-current liabilities		
Unsecured		
Minority shareholders' loans	**3,4**	3,6
Secured		
Medium-term bank loans	**228,7**	277,0
Less: Included in current borrowings	**(54,9)**	(48,9)
	177,2	231,7
For AC133 classification of these loans see note 33, 'Financial risk management'.		
Capitalised finance leases	**75,3**	10,9
Less: Included in current borrowings	**(4,0)**	(2,4)
	71,3	8,5
Total non-current liabilities	**248,5**	240,2

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

The medium-term loans, raised in the prior year, are repayable in ten equal instalments over five years. One loan bears interest at a fixed rate of 6,6% and the other bears interest at a floating rate linked to the ninety-day JIBAR. The loans are secured by intra-group cross-suretyships.

Finance leases include vehicle and property leases, repayable in monthly instalments varying from one to five years at varying interest rates, some linked to the prime overdraft rate and one fixed at 13,8%.

The vehicle finance leases are secured by moveable assets of R10,0 million (2002: R9,2 million) and the property lease by the value of the underlying land.

20. Non-current liabilities (continued)

The maturity profile of amounts payable under finance lease and the medium term bank loan is as follows:

	Repayable within 1 year*	Repayable in 2 – 4 years	Repayable after 5 years	Total
Bank loans				
Amount owing	81,8	204,6	–	286,4
Less: Future finance charges	(26,9)	(30,8)	–	(57,7)
Present value of obligations	54,9	173,8	–	228,7
Finance leases				
Amount owing	13,8	60,3	85,3	159,4
Less: Future finance charges	(9,8)	(45,3)	(28,9)	(84,0)
Present value of lease obligations	4,0	15,0	56,4	75,4

** Included in current borrowings on the balance sheet.*

For AC133 accounting treatment, see note 33, 'Financial risk management'.

	GROUP 2003 Rm	GROUP 2002 Rm
21. Non-current provisions		
Provision for profit warranty (note 22)	–	13,5
Less: Payable within one year included in current provisions	–	(13,5)
Onerous lease provision	**6,0**	–
Less: Payable within one year included in current provisions	**(0,9)**	
Provision for post-retirement medical aid contributions and other medical aid provisions	**29,3**	30,6
Less: Included in current provisions	**(2,9)**	–
	31,5	30,6

	Repayable within 1 year*	Repayable in 2 – 4 years	Repayable after 5 years	Total
Non-current provisions	3,8	3,0	28,5	35,3

** Included in current provisions in note 22.*

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 the projected unit credit method. This liability is unfunded. The main assumptions used in calculating the costs and provisions are an annual discount rate of 12% per annum and long-term medical cost inflation of 10% per annum.

	GROUP 2003 Rm	GROUP 2002 Rm
21. Non-current provisions (continued)		
The last valuation of the liability for post-retirement medical aid contributions was performed as at 30 June 2003. The current year costs have been assessed in accordance with the advice of independent actuaries.		
The net expense recognised in the income statement is:		
Net release/(expense) recognised as part of employment costs	**1,3**	(4,0)

22. Provisions

	GROUP 2003 Rm	GROUP 2002 Rm
Restructuring costs raised on acquisition	**18,1**	20,8
Property refinancing costs	**2,7**	–
Medical aid under-funding	**2,9**	–
Onerous lease provision	**0,9**	–
Provision for profit warranty	**–**	13,5
	24,6	34,3

Provisions raised against specific assets, for example inventories and accounts receivable, are set-off against those assets.

The provision for profit warranty in 2002 relates to the 1998 agreement entered into with Affinity Logic Holdings (Proprietary) Limited. The balance of R13,5 million at June 2002 was paid during the current year.

	GROUP			
	Opening balance Rm	Amounts provided Rm	Amounts utilised Rm	Closing balance Rm
Reconciliation of provisions				
2003				
Property refinancing costs	**–**	**2,7**	**–**	**2,7**
Restructuring costs raised on acquisition	**20,8**	**13,2**	**(15,9)**	**18,1**
Post retirement medical aid	**–**	**2,9**	**–**	**2,9**
Onerous lease provision	**–**	**1,6**	**(0,7)**	**0,9**
Provision for profit warranty	**13,5**	**–**	**(13,5)**	**–**
	34,3	**20,4**	**(30,1)**	**24,6**
2002				
Property refinancing costs	1,9	–	(1,9)	–
Restructuring costs raised on acquisition	7,3	13,5	–	20,8
Provision for profit warranty	50,3	–	(36,8)	13,5
	59,5	13,5	(38,7)	34,3

	GROUP 2003 000's	GROUP 2002 000's
23. Employee share incentive scheme		
Total shares and options available to the scheme	**39 500**	31 300
Opening balance of shares and options	**28 621**	21 716
New shares and options offered to employees and executive directors	**4 025**	8 282
Shares sold by employees and directors	**(2 662)**	(733)
Shares repurchased from/forfeited by employees and options lapsed/forfeited	**(781)**	(644)
Closing balance of shares and options	**29 203**	28 621

The closing balance includes 13 469 365 (2002: 13 717 909) shares and 15 733 617 (2002: 14 903 521) options.

Shares and options previously issued to employees who subsequently left the Massmart Group are excluded from the figures above. This has the effect of enabling these shares and options to be re-issued in terms of the employee share incentive scheme.

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

Offer date	Exercise price (R)	NUMBER OF OPTIONS 2003	NUMBER OF OPTIONS 2002
13 October 1994	13,54		3 692
13 October 1994	4,29		1 118
15 August 1997	2,42		7 962
15 August 1997	4,29		3 364
1 October 1998	4,29	**147 575**	289 346
22 September 1999	12,37	**1 445 340**	1 464 021
10 March 2000	14,61	**1 014 324**	1 450 800
13 November 2000	12,25	**1 354 695**	1 858 695
12 April 2001	8,00	**232 500**	270 000
27 August 2001	10,95	**6 465 398**	6 855 107
16 January 2002	12,03	**450 000**	450 000
11 March 2002	11,00	**300 000**	300 000
22 May 2002	13,88	**1 862 412**	1 949 416
31 October 2002	15,23	**41 137**	
15 November 2002	17,30	**51 324**	
19 November 2002	17,43	**150 000**	
1 December 2002	17,80	**49 000**	
1 January 2003	18,30	**57 231**	
1 February 2003	18,90	**117 987**	
1 March 2003	18,80	**24 913**	
1 April 2003	17,82	**597 141**	
1 May 2003	18,06	**111 453**	
27 May 2003	18,98	**1 261 187**	
		15 733 617	14 903 521

23. Employee share incentive scheme (continued)

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

In terms of the scheme rules, all share loans must be repaid or options exercised no later than ten years from the offer date. It was agreed at the December 2002 annual general meeting that this period is reduced to six years for the 22 May 2002 offer and all subsequent offers.

24. Retirement benefit information

All full-time permanent Massmart staff are members of the Massmart pension fund, the Massmart provident fund or the SACCAWU National 49 provident fund. These funds are defined contribution funds and are subject to the Pension Funds Act, 1956. The Massmart pension fund and the Massmart provident fund require an actuarial valuation every three years. These funds came into existence on 1 March 2001 as a result of the rationalisation of the Massmart Group retirement fund with various funds taken over in the acquisition of Game. The valuator certified that the funds are financially sound and that the assets are suitable in nature, in terms of the liabilities as at the valuation date. The next actuarial valuation will be at 28 February 2004.

Contributions received by the funds for the year ended 30 June 2003 amounted to R86,0 million. The company contribution of R52,0 million was included in the income statement for the year.

	GROUP	
	2003	2002
	Rm	Rm
25. Commitments		
Commitments in respect of capital expenditure approved by directors:		
Contracted for	**103,1**	41,4
Not contracted for	**47,5**	46,1
	150,6	87,5

Contracted expenditure includes the purchase of various computer assets from Affinity Logic and the planned Ugandan Massdiscounters store.

In October 2003, an additional amount of R9,3 million is payable arising from the January 2002 acquisition of Furnex Stores.

Massmart has options to purchase the minority shareholdings in various CBW stores. Historically, Massmart has exercised these options. The amount to be paid in future, should the options be exercised, totals R119 million.

	GROUP	
	2003	2002
	Rm	Rm

26. Operating lease commitments

Land and buildings		
Year 1	**411,6**	355,5
Years 2 to 5	**1 820,6**	1 612,8
Subsequent to year 5	**1 946,0**	2 208,8
	4 178,2	4 177,1
Plant, furniture and equipment		
Year 1	**7,5**	5,0
Years 2 to 5	**14,1**	10,2
Subsequent to year 5	**–**	–
	21,6	15,2
Other		
Year 1	**11,8**	8,1
Years 2 to 5	**11,9**	10,5
Subsequent to year 5	**–**	–
	23,7	18,6

Promissory notes that represent commitments under non-cancellable operating leases of R1 452 million (2002: R1 529 million) 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 and have a discounted present value of R620 million (2002: R636 million). In accordance with AC105, the rentals paid are amortised over the entire remaining lease period.

27. Contingent liabilities

Forward exchange contracts	**–**	150,4
Guarantees in respect of creditors of subsidiary company	**0,8**	4,6
	0,8	155,0

In 2003 forward exchange contracts have been accounted for in terms of AC133. See note 33, 'Financial risk management'.

There are no legal or arbitration proceedings, of which the Group is aware, which would have a material effect on the Group's financial position.

	GROUP	
	2003 **Rm**	2002 Rm
28. Related-party transactions		
As at the date of this report, the largest shareholder of the Massmart Group is Netherlands-based SHV with a holding of 30,9% (2002: 31%).		
Trading transactions		
During the period, Group companies entered into the following trading related transactions.		
Fees paid		
Affinity Logic Holdings (Proprietary) Limited*	**86,7**	69,4
Fees received		
Affinity Logic Holdings (Proprietary) Limited	**3,3**	4,2
The above transactions were carried out at market-related prices.		
Financing transactions		
During the period, Group companies entered into the following financing related transactions.		
Interest received		
Wooltru Finance (Proprietary) Limited	**–**	1,3
The above transactions were carried out at market-related rates.		

** These are outsourcing fees for information technology services.*

Subsequent to year-end, Massmart Holdings Limited bought out the minority shareholders, including Mr R Wright, a member of the Massmart Executive Committee, in CCW Wholesalers (Proprietary) Limited for approximately R68,4 million. The Massmart Group now owns 100% of this subsidiary company. This was done by way of cash and an issue of Massmart Holdings Limited shares.

In August 2003, Mr R Wright's minority shareholding in certain subsidiary property companies was bought by CBW Holdings (Proprietary) Limited. These property companies lease stores, on an arm's length basis and at market-related rates to CCW Wholesalers (Proprietary) Limited and its subsidiaries.

Mr L Lewis, the vendor of Builders Warehouse, has remained on as a director of the company since its acquisition by Massmart in March 2003. Mr Lewis is a shareholder in certain property companies that lease stores, on an arm's length basis and at market-related rates, to Masstores (Pty) Limited, the owner of Builders Warehouse and Tile Warehouse.

In October 2003, an additional amount of R9,3 million is payable to Mr D Brouze, a director of Furnex Stores (Proprietary) Limited, arising from the January 2002 Furnex acquisition.

29. Directors' emoluments

	Services as directors of Massmart Holdings Ltd R'000	Salary and allow-ances R'000	Bonuses and perfor-mance related pay-ments[5] R'000	Other benefits R'000	Retire-ment and related benefits R'000	Other-wise in connec-tion with the affairs of Massmart Holdings Ltd R'000	Sub-total R'000	Fringe benefit of interest-free loans used to finance shares[6] R'000	Gains on exercise of share options[6] R'000	Total R'000
For the year ended 30 June 2003										
Executive directors										
Lamberti, MJ		2 400	2 850	390	194	–	5 834	4 608	–	10 442
Barrett, DG		1 600	1 594	152	171	–	3 517	700	429	4 646
Hayward, GRC		1 210	1 349	195	130	–	2 884	380	–	3 264
Leggatt, S[1]		962	–	132	37	–	1 131	695	–	1 826
Total	**–**	**6 172**	**5 793**	**869**	**532**	**–**	**13 366**	**6 383**	**429**	**20 178**
Non-executive directors										
Seabrooke, CS[2]	600						600			600
Brand, MD[3,4]	65						65			65
Combi, ZL[4]	45						45			45
Kirsh, W	200						200		640	840
Leggatt, S[4]	67					4 700[7]	4 767			4 767
Matthews, IN	485						485			485
Maw, P[4]	67						67			67
Mokhobo, DNM	200						200			200
Msimang, M	135						135			135
Rubin, MJ	135						135	133		268
Schukken, F	265						265			265
Total	**2 264**	**–**	**–**	**–**	**–**	**–**	**6 964**	**133**	**640**	**7 737**
Total	**2 264**	**6 172**	**5 793**	**869**	**532**	**4 700**	**20 330**	**6 516**	**1 069**	**27 915**
For the year ended 30 June 2002										
Executive directors										
Lamberti, MJ		2 478	3 200	375	178		6 231	4 170		10 401
Barrett, DG		1 400	1 400	142	150		3 092	539		3 631
Hayward, GRC		1 100	1 100	171	118		2 489	–		2 489
Leggatt, S		1 192	1 150	130	63		2 535	545		3 080
Total	**–**	**6 170**	**6 850**	**818**	**509**	**–**	**14 347**	**5 254**	**–**	**19 601**
Non-executive directors										
Seabrooke, CS	280						280			280
Kirsh, W	120						120			120
Matthews, IN	180						180			180
Newton, JD	180						180			180
Rubin, MJ	120						120	152		272
Schukken, F	180						180			180
Total	**1 060**	**–**	**–**	**–**	**–**	**–**	**1 060**	**152**	**–**	**1 212**
Total	**1 060**	**6 170**	**6 850**	**818**	**509**	**–**	**15 407**	**5 406**	**–**	**20 813**

1 Retired as executive director 25 February 2003
2 Appointed Chairman 1 July 2003
3 Individual not recipient of fees – fees paid to company
4 Appointed 25 February 2003
5 In order to align incentive awards with the performance to which they relate, bonuses above reflect the amounts accrued in respect of each year and not the amounts paid in that year
6 Held in terms of the rules of the company's share scheme
7 This comprises consulting and success fees from the due diligence and acquisition of Builders Warehouse and Tile Warehouse effective 1 March 2003. These fees were based upon the purchase price and budgeted level of enhancement of Group earnings in the 2004 financial year.

For information regarding MJ Lamberti's service contract see page 51 of the Directors' report.

30. Interests of directors in the company's share scheme

Options allocated to purchase shares/shares issued

	Number of shares/options	Issue date	Issue price (R)	Expiry date	Shares/ options opening balance	Shares/ options closing balance
For the year ended 30 June 2003						
Executive directors						
Lamberti, MJ	1 000 000	13 March 2003	17,42	13 March 2009	5 120 641	5 849 805
Barrett, DG	100 000	19 November 2002	17,43	19 November 2008	1 272 500	842 500
Hayward, GRC	50 000	19 November 2002	17,43	19 November 2008	1 108 643	1 158 643
Non-executive directors						
Leggatt, S					1 194 500	1 194 500
Seabrooke, CS					118 300	118 300
Kirsh, W					78 000	19 500
Rubin, MJ					80 925	80 925
For the year ended 30 June 2002						
Executive directors						
Lamberti, MJ	600 000	27 August 2001	10,95	27 August 2011	4 520 641	5 120 641
Barrett, DG	290 000	27 August 2001	10,95	27 August 2011	982 500	1 272 500
Hayward, GRC	300 000	27 August 2001	10,95	27 August 2011	808 643	1 108 643
Leggatt, S	200 000	27 August 2001	10,95	27 August 2011	994 500	1 194 500
Non-executive directors						
Seabrooke, CS					118 300	118 300
Kirsh, W					78 000	78 000
Rubin, MJ					130 925	80 925

Gains on the exercise of share options or sale of shares

	Number of shares/options	Issue date	Issue price (R)	Exercise/Sale date	Exercise/Sale price (R)	Gain R'000
For the year ended 30 June 2003						
Lamberti, MJ	270 836	17 February 1997	4,62	3 October 2002	15,10	2 840
Barrett, DG	250 000	1 October 1998	4,29	28 October 2002	16,15	2 965
Barrett, DG	205 000	1 October 1998	4,29	8 April 2003	17,97	2 804
Barrett, DG	75 000	13 November 2000	12,25	8 April 2003	17,97	429
Kirsh, W	58 500	1 October 1998	4,29	1 October 2002	15,23	640
Total						9 678
For the year ended 30 June 2002						
Rubin, MJ	50 000	2 June 1993	0,80	19 September 2001	11,97	559
Total						559

31. Principal subsidiaries

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

Name of company	Number of shares in issue 000's	Effective holding %	Shares at book value Rm	Indebtedness Rm
CBW Holdings (Proprietary) Limited	–	100	1,0	61,6
Furnex Stores 2002 (Proprietary) Limited	1	100	–	56,3
Jumbo Cash & Carry (Proprietary) Limited	–	100	74,5	336,0
Massmart Management & Finance Company (Proprietary) Limited	–	100	–	169,6
Masstores (Proprietary) Limited	5 218	100	–	(370,1)
Shield Buying & Distribution (Proprietary) Limited	4 443	100	30,4	(22,9)
			105,9	230,5

	2003 Rm	2002 Rm
Aggregate trading profits	**409,7**	307,7
Aggregate trading losses	**(28,4)**	22,3

All subsidiaries listed above are incorporated in South Africa.

Given the long-term currency restrictions due to the economic crisis in Zimbabwe, the results and financial position of Makro's two stores in that country remain unconsolidated.

	GROUP	
	2003 Rm	2002 Rm

32. Notes to the cash flow statement

32.1 Cash flow from trading

	2003 Rm	2002 Rm
Net profit before taxation	**654,5**	490,2
Adjustment for:		
Depreciation and amortisation	**157,3**	145,9
Net loss on disposal of property, plant and equipment	**0,5**	7,5
Exceptional items not relating to trading activities (note 32.4)	**2,3**	(16,8)
Interest income	**(28,1)**	(26,4)
Interest expense	**78,5**	40,5
Investment income	**(11,0)**	(2,1)
Other non-cash movements	**(5,1)**	(9,0)
	848,9	629,8

	GROUP	
	2003 Rm	2002 Rm
32. Notes to the cash flow statement (continued)		
32.2 Working capital movements		
Increase in inventories	**(190,1)**	(334,7)
Increase in accounts receivable and prepayments	**(317,9)**	(248,9)
Increase in accounts payable	**474,2**	687,7
Decrease in provisions	**(29,8)**	(65,2)
	(63,6)	38,9
32.3 Taxation paid		
Normal taxation:		
Amounts owing at beginning of year	**26,2**	24,2
Amounts owing at end of year	**(68,5)**	(26,2)
Deferred taxation:		
Amounts charged to the income statement	**(95,4)**	(71,5)
Taxation charged to the income statement	**215,2**	164,4
	77,5	90,9
32.4 Exceptional items not relating to trading activities		
Writedown of an investment	**2,3**	7,1
Profit on disposal of associate	**–**	(1,2)
Loan write off on disposal of business	**–**	9,7
Profit on sale of investments	**–**	(1,6)
Insurance settlement proceeds	**–**	(30,8)
	2,3	(16,8)
32.5 Investment to maintain operations		
Land and buildings/leasehold improvements	**12,2**	2,4
Vehicles	**5,0**	8,2
Plant and equipment	**54,6**	39,5
Computer equipment	**11,8**	26,2
	83,6	76,3
32.6 Investment to expand operations		
Land and buildings/leasehold improvements	**111,5**	14,3
Vehicles	**5,7**	0,9
Plant and equipment	**52,4**	21,1
Computer equipment	**29,8**	5,0
Goodwill	**17,2**	31,8
	216,6	73,1

	GROUP	
	2003	2002
	Rm	Rm

32. Notes to the cash flow statement (continued)

32.7 Proceeds on disposal of property, plant and equipment

Land and buildings/leasehold improvements	**21,4**	2,9
Vehicles	**1,5**	3,6
Plant and equipment	**0,7**	26,7
Computer equipment	**0,2**	6,1
	23,8	39,3

In 2002, proceeds on disposal of property, plant and equipment include insurance proceeds in respect of the Makro Woodmead fire, included in exceptional items (note 5).

32.8 Investment in businesses/subsidiaries

Fair value of assets and liabilities acquired in businesses/subsidiaries:		
Cash and cash equivalents	**(0,7)**	–
Inventories	**65,7**	88,3
Accounts receivable and prepayments	**45,6**	18,6
Property, plant and equipment	**15,1**	21,0
Deferred tax	**5,1**	–
Trade payables	**(75,7)**	(107,9)
Provisions	**(16,4)**	(26,9)
Loans	**(8,4)**	–
Goodwill	**142,6**	51,4
Total purchase price	**172,9**	44,5
Less: Cash and cash equivalents of subsidiary	**0,7**	–
Cash impact of acquisition, net of cash and cash equivalents acquired	**173,6**	44,5

32.9 Cash and cash equivalents at end of year

Cash on hand and balances with banks	**612,1**	623,5
Bank overdrafts	**(48,7)**	(73,2)
Cash and cash equivalents at the end of the year	**563,4**	550,3

33. Financial risk management

During the year, the Group adopted AC133 "Financial Instruments: Recognition and Measurement". This resulted in an adjustment to opening retained earnings of R6,1 million.

Interest rate management

The funding requirements/investment of surplus funds are 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.

33. Financial risk management (continued)

	GROUP	
	2003	2002
Total banking and loan facilities	**1 847,3**	1 230,0
Actual interest-bearing debt	**(352,7)**	(361,1)
Unutilised banking facility	**1 494,6**	868,9

Banking facilities incorporate, amongst others, letters of credit, forward exchange contracts and electronic fund transfers. These facilities have been secured by cross-suretyships between Group companies.

Credit risk management

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

Potential areas of credit risk include trade accounts receivable and short-term cash investments.

Trade accounts receivable consist primarily of a large, widespread customer base. Group companies regularly monitor the financial position of their customers. Where considered appropriate, credit guarantee insurance is used. The granting of credit is controlled by application and account limits. Provision is made for both specific and general bad debts, and at the year-end management did not consider there to be any material credit risk exposure that was not already covered by credit guarantee insurance or bad debt provision.

The following table shows the split of credit exposure:

	2003	2002
	%	%
Trade accounts receivable	**75**	78
Consumer accounts receivable	**25**	22
	100	100

Currency risk management

All foreign denominated trading liabilities are covered by forward exchange contracts. Foreign denominated assets are not covered by forward exchange contracts.

Fair values of financial instruments

All financial instruments have been classified according to the relevant AC133 category, and accounted for as follows:

Financial assets

Available for sale investments

These are held at fair value and any adjustment to fair value is taken to equity. The total value taken to equity in the year was R nil.

Held to maturity investments

These are held at amortised cost less any impairment losses recognised to reflect irrecoverable amounts.

Held for trading

These are held at fair value and any adjustment to fair value taken to the income statement. Listed investments are carried at market value by reference to stock exchange quoted selling prices.

Originated loans

These are held at cost less any impairment losses recognised to reflect irrecoverable amounts.

33. Financial risk management (continued)

Financial assets (continued)

Financial liabilities

All financial liabilities are held as non-trading liabilities and are shown at amortised cost.

The cash flows expected from the Group's participation in export partnerships over the next ten to 15 years cannot, in the opinion of the directors be accurately fair valued and therefore have not been discounted. For fair presentation purposes, it is noted that any fair value impairment in the amounts due to the Group by virtue of its participation in such partnerships would result in a corresponding reduction in the fair value of the related deferred tax liability. Consequently such fair value impairment would have no impact on either cash flow statement or income statement of the Group.

Forward foreign exchange contracts

Forward exchange contracts are entered into 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.

In the current year, forward foreign exchange contracts have been accounted for according to AC133. Fair value has been determined using money market derivative rates at 29 June 2003 and the net gain or exposure on the contracts has been reflected in the financial statements.

At year-end, the open forward foreign exchange contracts were as follows:

	Foreign currency R'm	Fair value adjustment R'm	Contract equivalent R'm	Average rate
2003				
USD	**36,3**	**(7,7)**	**298,2**	**8,21**
GBP	**0,2**	–	**2,6**	**12,67**
Euro	**1,1**	**0,1**	**9,7**	**9,08**
CHF	**0,1**	–	**0,5**	**6,47**
	37,7	**(7,6)**	**311,0**	
2002				
USD	13,6	–	145,8	10,75
GBP	–	–	0,5	16,0
Euro	0,4	–	3,6	9,89
CHF	–	–	0,5	7,09
	14,0	–	150,4	–

The latest maturity date is 15 April 2004. The fair value adjustment in 2003 is included in accounts payable in the balance sheet.

34. Segmental reporting

The Group is organised into four divisions for operational and management purposes, being Massdiscounters, Masswarehouse, Masscash and Masstrade. Massmart reports its primary business segment information on this basis.

	GROUP					
	Total 2003 Rm	Corporate 2003 Rm	Mass-discounters 2003 Rm	Masswarehouse* 2003 Rm	Masscash 2003 Rm	Masstrade 2003 Rm
Primary business segments						
Sales	20 369,5	–	6 229,3	5 704,7	5740,1	2 695,4
EBITA	747,7	–	297,4	160,1	208,8	81,4
Net interest (paid)/received	(50,4)	(14,6)	(70,4)	13,0	25,2	(3,6)
Exceptional items	6,7	(2,3)	–	–	–	9,0
Total assets	5 794,0	238,3	1846,0	1 510,5	1 358,6	840,6
Total liabilities	4 105,5	(1 178,3)	1798,7	1 501,8	1 270,9	712,4
Net capital expenditure	276,2	28,7	83,0	101,3	34,7	28,5
Depreciation and amortisation	157,3	33,1	57,3	30,3	26,8	9,8
Impairment losses	(2,3)	(2,3)	–	–	–	–
Non-cash items other than depreciation	(4,6)	(5,0)	3,7	–	(3,0)	(0,3)
Cash flow from operating activities	501,8	92,3	144,0	136,6	169,5	(40,6)
Cash flow from investing activities	(509,0)	(233,5)	(79,1)	(134,2)	(34,5)	(27,7)
Cash flow from financing activities	30,8	(119,5)	(39,6)	266,2	(62,7)	(13,6)

The Corporate column includes certain consolidation entries.

** Includes Builders and Tile Warehouse for the four months from 1 March 2003 to 30 June 2003.*

GROUP

	Total 2002 Rm	Corporate 2002 Rm	Mass-discounters 2002 Rm	Massware-house 2002 Rm	Masscash 2002 Rm	Masstrade* 2002 Rm
Primary business segments						
Sales	16 709,2	–	5 285,2	4 459,8	4 730,3	2 233,9
EBITA	538,8	–	209,4	109,8	167,2	52,4
Net interest (paid)/received	(14,1)	(25,1)	(31,3)	20,2	18,4	3,7
Exceptional items	5,2	(13,9)	–	28,0	7,0	(15,9)
Total assets	4 944,9	357,4	1 649,2	1 071,8	1 220,7	645,8
Total liabilities	3 518,2	(1 009,8)	1 601,9	1 073,9	1 275,2	577,0
Net capital expenditure	119,0	2,8	38,7	54,2	20,1	3,2
Depreciation and amortisation	145,9	30,6	63,5	19,6	24,3	7,9
Impairment losses	(7,1)	(7,1)	–	–	–	–
Non-cash items other than depreciation	5,4	(3,4)	9,0	(0,1)	0,2	(0,3)
Cash flow from operating activities	474,1	(31,0)	246,4	23,1	275,4	(39,8)
Cash flow from investing activities	(196,6)	25,4	(45,5)	(48,3)	(69,5)	(58,7)
Cash flow from financing activities	(233,9)	(268,2)	(72,2)	63,6	(4,1)	47,0

The Corporate column includes certain consolidation entries.

** Includes Furnex for the six months from 1 January 2002 to 30 June 2002.*

GROUP

	Total 2003 Rm	**South Africa 2003 Rm**	**Rest of Africa* 2003 Rm**	Total 2002 Rm	South Africa 2002 Rm	Rest of Africa 2002 Rm
Geographic segments						
Sales	**20 369,5**	**18 961,1**	**1 408,4**	16 709,2	15 338,5	1 370,7
Segment assets	**5 794,0**	**5 544,5**	**249,5**	4 944,9	4 712,5	232,4
Net capital expenditure	**276,3**	**243,4**	**32,9**	119,0	117,5	1,5

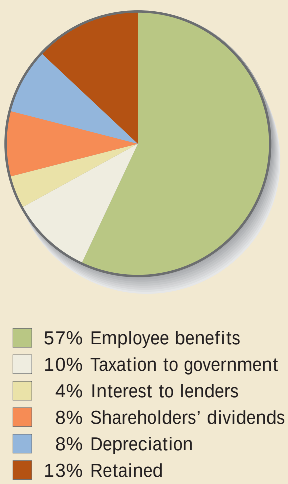
** Includes Mauritius*

Value added statement

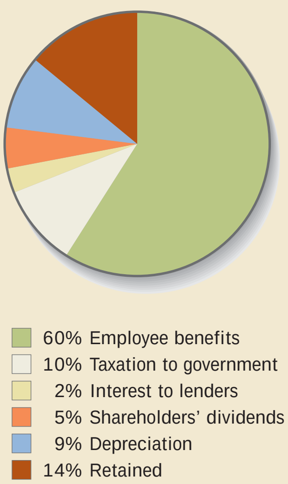
for the year ended 30 June 2003

GROUP	2003 Rm	2003 %	2002 Rm	2002 %
Sales, royalties, franchise fees, rentals and management and administration fees	**20 386,9**		16 717,7	
Cost of sales	**(17 750,0)**		(14 462,0)	
Interest and investment income	**92,5**		86,7	
Net cost of services and other operating expenses	**(677,3)**		(653,8)	
Share of associated company retained (loss)/profit	**–**		(1,2)	
Exceptional items	**6,7**		5,2	
Value added	**2 058,8**	**100**	1 692,6	100
Applied as follows:				
To employees as salaries, wages and other benefits	**1 168,5**	**57**	1 017,2	60
To government as taxation	**215,2**	**10**	164,4	10
To lenders as interest	**78,5**	**4**	40,5	2
To shareholders as dividends	**166,6**	**8**	90,7	5
Minorities	**10,0**	**–**	2,9	–
Depreciation and amortisation	**157,3**	**8**	145,9	9
Net earnings retained	**262,7**	**13**	231,0	14
	2 058,8	**100**	1 692,6	100

Value added 2003



Value added 2002



Massmart Holdings Limited
Company income statement
for the year ended 30 June 2003

		COMPANY	
	Notes	**2003 Rm**	2002 Rm
Revenue	1	**269,6**	150,1
Management and administration fees received		**12,0**	8,1
Dividends received		**257,3**	110,3
Other costs		**(8,4)**	(9,5)
Operating profit		**260,9**	108,9
Net interest received/(paid)	2	**0,3**	(12,3)
Exceptional items	3	**(2,3)**	(9,2)
Net profit before taxation		**258,9**	87,4
Taxation	4	**(16,2)**	(7,4)
Net profit attributable to shareholders		**242,7**	80,0
Dividends per share (cents)			
Interim		**48,0**	25,0
Final*		**49,0**	36,0

** Declared and paid after the financial year-end.*

Massmart Holdings Limited
Company balance sheet
as at 30 June 2003

		COMPANY	
	Notes	**2003 Rm**	2002 Rm
Assets			
Non-current assets		**639,7**	531,3
Interest in subsidiaries	5	**335,6**	265,6
Other investments and loans	6	**304,1**	265,7
Current assets		**2,2**	21,7
Dividends receivable from subsidiary		**–**	19,5
Accounts receivable and prepayments		**2,2**	2,2
Total assets		**641,9**	553,0
Equity and liabilities			
Capital and reserves		**634,4**	546,8
Share capital	7	**2,0**	2,0
Share premium	8	**494,5**	479,6
Retained profit		**137,9**	65,2
Total equity		**634,4**	546,8
Current liabilities		**7,5**	6,2
Accounts payable		**7,5**	6,2
Total equity and liabilities		**641,9**	553,0

Massmart Holdings Limited
Company cash flow statement
for the year ended 30 June 2003

	Notes	COMPANY 2003 Rm	2002 Rm
Cash flow from operating activities			
Cash flow from trading	10.1	**3,6**	(1,4)
Working capital movements	10.2	**20,3**	4,2
Cash generated from operations		**23,9**	2,8
Interest received/(paid)		**0,3**	(12,3)
Investment income		**220,8**	78,6
Taxation paid		**(16,3)**	(7,4)
Dividends paid		**(166,6)**	(90,7)
Exceptional items not relating to trading activities		**–**	(9,2)
Net cash inflow/(outflow) from operating activities		**62,1**	(38,2)
Change in subsidiary shareholding		**(0,5)**	–
Loans and other investments		**(76,5)**	28,5
Net cash (outflow)/inflow from investing activities		**(77,0)**	28,5
Cash flow from financing activities			
Shares issued (net of costs)		**14,9**	6,7
Net cash inflow from financing activities		**14,9**	6,7
Net increase in cash and cash equivalents		**–**	–
Cash and cash equivalents at the beginning of the year		**–**	–
Cash and cash equivalents at the end of the year		**–**	–

Massmart Holdings Limited
Statement of changes in equity
for the year ended 30 June 2003

COMPANY	Share capital Rm	Share premium Rm	Retained profit Rm	**Total Rm**
Balance as at 30 June 2001	**2,0**	**474,1**	**71,9**	**548,0**
Net profit for the year	–	–	80,0	**80,0**
Share trust profit	–	–	2,8	**2,8**
Issue of shares (net of costs)	–	5,5	–	**5,5**
Dividends declared	–	–	(90,7)	**(90,7)**
Other	–	–	1,2	**1,2**
Balance as at 30 June 2002	**2,0**	**479,6**	**65,2**	**546,8**
Net profit for the year	–	–	242,7	**242,7**
Share trust loss	–	–	(3,4)	**(3,4)**
Issue of shares (net of costs)	–	14,9	–	**14,9**
Dividends declared	–	–	(166,6)	**(166,6)**
Balance as at 30 June 2003	**2,0**	**494,5**	**137,9**	**634,4**

Notes to the annual financial statements

	COMPANY	
	2003 **Rm**	2002 Rm
1. Revenue		
Dividends received	**257,3**	110,3
Interest received	**0,3**	31,7
Management and administration fees	**12,0**	8,1
	269,6	150,1
2. Net interest received/(paid)		
Interest received	**0,3**	–
Interest accrued to vendor	**–**	(12,3)
	0,3	(12,3)
3. Exceptional items		
Impairment of investment in Affinity Logic Holdings Limited	**(2,3)**	(7,1)
Loss on deregistration of Makro SA (Pty) Limited	**–**	(5,7)
Profit on sale of NetActive Limited	**–**	0,7
Profit on sale of The Retail Value Chain (Proprietary) Limited	**–**	11,5
Loan write off on sale of Sip 'n Save	**–**	(9,5)
Donation of shares in Affinity Logic Holdings (Proprietary) Limited by Wooltru Limited	**–**	0,9
	(2,3)	(9,2)
4. Taxation		
This balance represents secondary tax on companies applied to net dividends paid at the standard rate of 12,5%.		
5. Interest in subsidiaries		
Shares at cost, less amounts written off	**105,9**	153,7
Amounts owing by subsidiaries	**229,7**	111,9
	335,6	265,6
6. Other investments and loans		
Unlisted investments		
Preference shares – Fullimput 65 (Pty) Ltd[1]	**273,2**	236,6
Investment in Imagegate Limited (UK)[2]	**4,1**	1,7
Affinity Logic Holdings (Proprietary) Limited – Shares at carrying value[3]	**4,1**	5,3
– Amounts owing[3]	**21,0**	22,1
Loan to Massmart share purchase trust[2]	**1,7**	–
	304,1	265,7

The directors' valuation of the unlisted investments at 30 June 2003 is R304 million (2002: R266 million). The preference share investment represents cumulative preference shares in Fullimput 65 (Proprietary) Limited. A long-term liability of the Group is secured by a cession of the preference shares.

Notes

1 Classified as a "held to maturity" financial asset for AC133 purposes.

2 Classified as a "originated loan and receivable" financial asset for AC133 purposes.

3 Classified as a "available for sale" financial asset for AC133 purposes.

For AC133 accounting treatment of these financial assets, see note 33 in the Group accounts.

	COMPANY	
	2003 **Rm**	2002 Rm

7. Share capital

Authorised		
500 000 000 (2002: 500 000 000) ordinary shares of 1 cent each	**5,0**	5,0
Issued		
198 587 492 (2002: 197 823 992) ordinary shares of 1 cent each	**2,0**	2,0

Except for the issue of 763 500 shares in terms of the employee share incentive scheme, there were no movements in the share capital of the company during the current reporting period.

In terms of authority granted by shareholders, Massmart acquired a total of 1 417 454 shares during the year, representing 0,7% of the shares in issue at June 2003. The shares were acquired at an average price of R16,92 for a total consideration of R24,0 million by a wholly-owned subsidiary of Massmart and were sold to the Massmart Share Trust during the year.

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 employee share incentive scheme have not yet been exercised: 15 733 617 (2002: 14 903 521) Massmart ordinary shares at considerations ranging from R2,42 to R19,98 (2002: R2,42 to R14,61). Details are shown in note 23 under the Group annual financial statements.

	COMPANY	
	2003 **Rm**	2002 Rm

8. Share premium

Opening balance	**479,6**	474,1
Premium on shares issued during the year net of costs	**14,9**	5,5
	494,5	479,6

9. Contingent liabilities

Cross-suretyships under banking facilities (See note 33 in Group annual financial statements)	**1 847,3**	1 230,0
	1 847,3	1 230,0

	COMPANY	
	2003 **Rm**	2002 Rm
10. Notes to the cash flow statement		
10.1 Cash flow from trading		
Net profit before taxation	**258,9**	87,3
Adjustment for:		
Interest income	**(0,3)**	12,3
Investment income	**(220,8)**	(78,6)
Exceptional items not relating to trading activity (note 10.3)	**2,3**	9,2
Other non-cash movements	**(36,5)**	(31,6)
	3,6	(1,4)
10.2 Working capital movements		
Decrease in dividends receivable	**19,5**	10,2
Increase/(decrease) in accounts payable	**0,8**	(6,0)
	20,3	4,2
10.3 Exceptional items not relating to trading activities		
Write down of investment	**(2,3)**	(7,1)
Profit on sale of investments	**–**	3,6
Loss on deregistration of subsidiary company	**–**	(5,7)
	(2,3)	(9,2)

Registered shareholding

The following analysis of shareholders was extracted from the shareholders register as at June 2003:

	Number	%	Number of shares	%
Shareholder spread				
1 – 1 000 shares	4 093	69,00	983 065	0,50
1 001 – 10 000 shares	1 299	21,90	4 151 677	2,09
10 001 – 100 000 shares	366	6,17	12 405 713	6,25
100 001 – 1 000 000 shares	154	2,60	47 866 813	24,10
1 000 001 shares and over	20	0,33	133 180 224	67,06
	5 932	100,00	198 587 492	100,00

	Number	%	Number of shares	%
Distribution of shareholders				
Individuals	4 185	70,55	4 553 658	2,28
Listed companies	31	0,52	233 924	0,12
Banks	56	0,94	11 500 872	5,79
Nominee companies or trusts	767	12,93	21 267 315	10,71
Pension and provident funds	246	4,15	35 220 198	17,74
Insurance companies	28	0,47	21 430 656	10,79
Growth funds/unit trusts	184	3,10	26 490 041	13,34
Private companies	184	3,10	4 010 060	2,02
Close corporations	49	0,83	58 414	0,03
Trustee of a trust	51	0,86	26 474	0,01
Other corporate bodies	81	1,37	41 793 143	21,05
Investment companies	70	1,18	32 002 737	16,12
	5 932	100,00	198 587 492	100,00

	Number	%	Number of shares	%
Public/non-public shareholders				
Non-public shareholders:				
Directors of the company	6	0,08	9 911 712	4,99
Share incentive trust	2	0,05	5 720 537	2,88
Strategic investor (SHV)	2	0,03	61 438 624	30,94
Public shareholders	5 922	99,84	121 516 619	61,19
	5 932	100,00	198 587 492	100,00

The following shareholders held beneficially, directly or indirectly, more than 5% of the company's shares:

SHV Investments N.V.	40 560 182	20,4%
Holding Maatschappij Afidema B.V. (an SHV subsidiary)	20 878 442	10,5%
Old Mutual Group	28 542 674	14,4%
Massmart Share Incentive Trust	13 260 158	6,7%

For details of directors' shareholdings see page 50 of the directors' report.

Notice of annual general meeting

Notice is hereby given that the annual general meeting of the company will be held at 09:00 at Massmart House, 16 Peltier Drive, Sunninghill Ext 6, Sandton on Tuesday, 18 November 2003, 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 2003;
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 2003, circulated together with this notice, be and are hereby adopted."

2. "Resolved that Mr GRC Hayward, 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 IN Matthews, 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 Mr ZL Combi, who was elected to the Board of directors of the company with effect from 25 February 2003 and who now 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."

5. "Resolved that Mr P Maw, who was elected to the Board of directors of the company with effect from 25 February 2003 and who now 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."

6. "Resolved that Mr MD Brand, who was elected to the Board of directors of the company with effect from 25 February 2003 and who now 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."

7. "Resolved that the non-executive directors' annual remuneration, for the 2004 financial year be set as follows:

Chairman	R380 000
Directors	R145 000
Committee chairmen	R150 000
Committee members	R70 000"

8. "Resolved that Messrs Deloitte & Touche be and are hereby re-elected as the company's auditors for the ensuing financial year."

9. "Resolved that the declaration of the final cash dividend of 49 cents per ordinary share in respect of the year ended 30 June 2003, payable to holders of ordinary shares registered as such at the close of business on 12 September 2002, be and is hereby approved."

10. "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 ("the 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 but not exceeding 5% of the number of shares already in issue. Such allotment will be in accordance with the Act and the Listings Requirements of the JSE Securities Exchange South Africa ("JSE").

11. "Resolved that, subject to the Listings Requirements of the 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:

11.1 the shares shall be of a class already in issue;

11.2 the shares shall be issued to public shareholders (as defined in the JSE Listings Requirements) and not to related parties;

11.3 the issues in the aggregate in any one financial year shall not exceed 5% (five percent) of the number of shares already in issue;

11.4 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;

11.5 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."

11.6 Once the securities have been issued the company shall publish an announcement in accordance with paragraph 11.22 if the JSE Listings Requirements.

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 JSE Listings Requirements, 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 JSE Listings Requirements, 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 affected;

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

1.4 the repurchase of securities will be effected through the order book operated by the JSE trading system and will be done without any prior understanding or arrangement between the company and the counter party;

1.5 the company will only appoint one agent to effect the repurchases on the company's behalf;

1.6 the company will only undertake a repurchase of securities if, after such repurchases, the company complies with the JSE listing shareholder spread requirements;

1.7 neither the company nor its subsidiaries will repurchase securities during a prohibited period as defined by the JSE Listing Requirements."

Although the JSE Listings Requirements 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 JSE Listings Requirements, 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 2003;
   - 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.

The company will ensure that its sponsor provides the necessary sponsor letter on the adequacy of the working capital in terms of the JSE Listings Requirements, prior to the commencement of any purchase of the company shares on the open market.

2. "Resolved that the company's share premium account be reduced, in terms of section 90 of the Act and article 25.11 of the Articles of Association of the company, on a date to be determined by the Board of directors of the company, in lieu of dividends in respect of its financial year ended 30 June 2004, or such lesser amount as may be determined by the Board of directors, by way of a payment of such amount to the shareholders of the company, provided that

this will not exceed 20% of the company's share capital".

Statement by the Board of directors

The directors of the company, do hereby confirm that in our opinion we are satisfied that, for a twelve-month period after the date of the notice of the annual general meeting, upon the reduction of the company's share premium account –

- the company and the Group will be able to pay its debts as they become due in the ordinary course of business; and
- the consolidated assets of the company and the Group fairly valued, in accordance with South African Statements of Generally Accepted Accounting Practice, will exceed the consolidated liabilities of the company, and the Group,
- the share capital and reserves of the company and the Group will be adequate for ordinary business purposes,
- the working capital of the company and the Group, will be adequate for ordinary business purposes,
- the company will ensure that its sponsor provides the necessary sponsor letter on the adequacy of the working capital in terms of the JSE Listing Requirements, prior to the reduction of the share premium account and effecting of the payment,

and accordingly, the requirements of section 90(2) of the Act will be met.

Prior to the payment an announcement will be made in accordance with paragraph 11.31 of the JSE Listings Requirements.

Reasons and effects

The reason for special resolution number 1 is to give a 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 to allow the company to pay shareholders by a reduction of the share premium account, where permissible, rather than from profits.

The effect of special resolution number 2 will be that the company will return invested capital to its shareholders.

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.

If you hold certificated shares (i.e have not dematerialised your shares in the company) or are registered as an own name dematerialised shareholder, then:

- you may attend and vote at the annual general meeting; alternatively
- you may appoint a proxy to represent you at the annual general meeting by completing the attached form of proxy and returning it to the registered office of the company by no later than 48 hours prior to the time appointed for the holding of the meeting.

If you own dematerialised shares (i.e. have replaced the paper share certificates representing the shares with electronic records of ownership under the JSE's electronic settlement system, Share Transactions Totally Electronic ("STRATE")) and are not registered as an "own name dematerialised shareholder" (i.e specifically instructed your Central Security Depository Participant ("CSDP") to hold your shares in your own name on the Company's sub-register), then subject to the mandate between yourself and your CSDP or broker:

- if you wish to attend the annual general meeting you must contact your CSDP or broker, as the case may be, and obtain the relevant letter of representation from it; alternatively

- if you are unable to attend the annual general meeting but wish to be represented at the meeting, you must contact your CSDP or broker, as the case may be, and furnish it with your voting instructions in respect of the annual general meeting. You should not complete the attached from of proxy. The instructions must be provided in accordance with the mandate between yourself and your CSDP or broker, as the case may be, within the time period required by your CSDP or broker, as the case may be.

CSDPs, brokers or their nominees, as the case may be, recorded in the company's sub-register should, when authorised in terms of their mandate or instructed to do so by the owner on behalf of whom they hold dematerialised shares in the company, vote by either appointing a duly authorised representative to attend and vote at the annual general meeting or by completing the attached form of proxy in accordance with the instructions thereon and returning it to the registered office of the company not less than 48 hours prior to the time appointed for the holding of the meeting.

In terms of the JSE Listing Requirements for special resolutions one and two, general information is included in the annual report attached, including:

(i) Directors and management (pages 32 – 34);
(ii) Major shareholders (page 93);
(iii) Material change (page 51);
(iv) Directors interest in securities (page 50);
(v) Share capital of the company (page 69); and
(vi) Litigation (page 75)

The directors whose names appear on page 32 of the annual report collectively and individually accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no facts that have been omitted which, would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the circular (the notice to the annual general meeting) contains all information required by law and the JSE Listings Requirements.

By order of the board

Aubrey Cimring
Company Secretary

Johannesburg
14 October 2003

Form of proxy

For use by certificated and own name dematerialised shareholders only

Massmart Holdings Limited

Registration number 1940/014066/06
JSE share code MSM
ISDN Code ZAE000029534

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 09:00 on 18 November 2003 and at every adjournment of that meeting.

Signed at this

day of 2003

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 GRC Hayward to the Board of Directors			
3. Re-election of Mr IN Matthews to the Board of Directors			
4. Re-election of Mr ZL Combi to the Board of Directors			
5. Re-election of Mr P Maw to the Board of Directors			
6. Re-election of Mr MD Brand to the Board of Directors			
7. Approval of the non-executive directors' annual remuneration			
8. Re-election of Messrs Deloitte & Touche as the company's auditors			
9. Approval of the final dividend of 49 cents per share			
10. Placement of the unissued share capital under the control of the directors			
11. Authorisation for the directors to issue shares for cash, limited to 5% of the shares in issue			
Special resolution 1. Authority for the company to buy back its own shares			
2. Reduction of share premium in lieu of dividend			

A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend, speak and 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.

Notes to proxy

1. A form of proxy is only to be completed by those ordinary shareholders who are:

   1.1 holding ordinary shares in certified form; or

   1.2 recorded on sub-register electronic form in "own name".

2. If you have already dematerialised your ordinary shares through a Central Securities Depository Participant ("CSDP") or broker and wish to attend the annual general meeting, you must request your CSDP or broker to provide you with a letter of representation or you must instruct your CSDP or broker to vote by proxy on your behalf in terms of the agreement entered into between yourself and your CSDP or broker.

3. A member may insert the name of a proxy or the names of two alternative proxies of the member's choice in the space provided. The person whose name stands first on the form of proxy and who is present at the annual general meeting of shareholders will be entitled to act as proxy to the exclusion of those whose names follow.

4. A member's instructions to the proxy must be indicated by the insertion of the relevant numbers of votes exercisable by the member in the space provided. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of all the member's votes exercisable thereat. A member or the proxy is not obliged to use all the votes exercisable by the member or by the proxy, but the total of the votes cast and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the member or by the proxy.

5. Forms of proxy must be lodged with or posted to the company's registered office, Massmart House, 16 Peltier Drive, Sunninghill, Ext 16, Sandton, 2196 (Private Bag X4, Sunninghill, 2157), to be received no later than 12:00 on 16 November 2003

6. The completion and lodging of this form of proxy will not preclude the relevant member from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.

7. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity or other legal capacity must be attached to this form of proxy, unless previously recorded by the transfer secretaries or waived by the chairman of the annual general meeting.

8. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies.

9. Notwithstanding the aforegoing, the chairman of the annual general meeting may waive any formalities that would otherwise be a prerequisite for a valid proxy.

10. If any shares are jointly held, the first name appearing in the register shall, in the event of any dispute, be taken as a member.

Administration

Company Secretary	A Cimring, CA (SA)
Registered office	Massmart House, 16 Peltier Drive, Sunninghill Ext 6 Sandton, 2196
Postal address	Private Bag X4, Sunninghill, 2157
Telephone number	+ 27 (0) 11 517 0000
Fax number	+ 27 (0) 11 517 0020
Website	http://www.massmart.co.za
Company registration number	1940/014066/06
JSE share code	MSM
ISIN code	ZAE000029534
Transfer secretaries	Computershare Limited, Investor Services Division, 70 Marshall Street Johannesburg, 2000
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

GRAPHICOR 28735

Massmart Annual Report 2003

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