



Overview

The retail sector in South Africa has experienced unprecedented growth in the last five years, with consumer spending being extremely strong and growing at a far faster rate than the economy as a whole.

Against this background, I am pleased to report that this has been another good year for our group, with an 18,5% growth in comparable headline earnings per share, which follows compounded growth in the past five years of 56%. I must, once again, congratulate and thank our chief executive officer Dennis Polak, his management team and our entire staff of over 15 000 for their fine efforts, dedication and commitment.

Our group's retail turnover now exceeds R7 billion and is well on the way to reaching the R10 billion mark. Our pre-tax profit is one of the highest in our sector and has grown this year to R1,78 billion. Whilst the historic rating awarded to our group by the market is not the highest in our sector, the arrival of the private equity industry to our shores has demonstrated the undervaluation of our share, and its re-rating together with that of the retail sector as a whole has recently moved our share price to a level reflecting a historic price earnings ratio in excess of 14 times.

Having regard to our expectation of the continued strength of the economy and our business, as well as our very strong balance sheet and cash flow, we have reduced our dividend cover this year from 2,1 to 2,0 times resulting in the total dividend for the year being increased by 22,7% to 270 cents per share. Whilst we are of the view that next year will be one of the most difficult that the group has experienced for many years, we do believe that this will be short-lived and that the economy will once again continue its upward momentum in the build-up to the Soccer World Cup in 2010.

Economy

Notwithstanding the strong economy over the last five years and the adverse effect of the continued increases in the petrol price, our optimism and GDP outlook for the future remains positive which is supported by strong business and consumer confidence. There has been and continues to be, a continual upward shift in the income demographics of consumers, as reflected in the living standards measurement (LSM), particularly in so far as our market is concerned. This is particularly dominant in the emerging black middle class.

Employment growth, improving confidence across racial groups and government infrastructure spend of R259 billion over the next two years all bode well for the economy as a whole. Government spending will be supported by corporate investment and we have already seen announcements by Transnet and Eskom totalling more than R145 billion over the next five years, and major construction companies show two-year order books totalling in excess of R30 billion. These factors, combined with low inflation, real wage increases of the consumer, and the continued economic stability have all resulted in the continual increase in the disposable income of consumers.

Interest rates, which are at all-time lows, are expected to remain static or only increase marginally during the next year. Thereafter the expectation is that interest rates will again start declining which together with the other factors mentioned, will once again allow consumer confidence and spending to grow at a far greater rate than the economy as a whole which will be extremely positive for our group and the retail sector in general.

As a result of the low interest rate cycle, the ratio of household debt servicing costs to disposable income remains manageable at around 9%, up from 6% two years ago. Growth in overall buying power continues to be boosted by the black middle class, which grew 30% in the 2006 calendar year to 2,6 million according to a survey by the University of Cape Town and TNS Research.



Chairman's Report

Our Operating Environment

Our new democracy has continued to evidence political stability in South Africa that is most gratifying and beneficial for doing business. The economy under the guidance of President Mbeki has been extremely well managed and it is hoped that at the end of the year the ANC will elect a successor who is qualified and capable of continuing the good work done thus far by the president and his Minister of Finance, Trevor Manuel.

The National Credit Act becomes effective on 1 June 2007 and our group is expected to be completely compliant with the new regulations before the implementation date. This Act will go some way to ensuring that consumer credit levels do not become dangerously high, and at the same time, it will have benefits for our business by enabling us to utilise risk-based pricing.

A quota system was introduced from 1 January 2007 for a two-year period, restricting the quantity of ready-made garments and fabric imports from China. The bulk of our group's clothing is manufactured locally in South Africa, so whilst the new quota system does present challenges to our group, particularly in regard to fabric, we are better placed than most similar companies and we thus do not expect these quotas to adversely affect our business. By way of example, the number of ready-made garments affected by the quota system in the case of our group is expected to amount to only 3% of next year's total garment purchases.

We are one of the biggest users in the country of the local manufacturing industry, and this year we acquired in excess of 5,5 million South African-made garments via our TFG Apparel Supply division. We will continue to grow our local supply base, thereby promoting the local clothing manufacturing industry, and in the process provide employment for many in the garment manufacturing industry.

Staff and Succession

Our group's greatest asset continues to be its current excellent management. To ensure that this situation continues in the years ahead, we pay considerable attention to retention and succession planning in all facets of our business.

In February of this year Dennis Polak, who has been the CEO for the last ten years, announced that he would be retiring from this position at the end of 2007. Dennis will have spent 39 years with the group, the last ten as CEO. He has been an outstanding CEO and under his stewardship, the company has not only annually produced outstanding results (increasing earnings per share from 82,7 cents in 1998 to 534,2 cents in 2007), but it has considerably increased the number of divisions which constitute the group by adding Exact!, fashionexpress, Totalsports, DueSouth, @home, Luella and RCS financial services to the group's offerings. I am delighted that Dennis will be remaining on as a non-executive director of the group and am confident that his successor, Simon Bowley, who has a proven retail track record, will ensure the continued prosperity of the group.

Starting in 2005 the board embarked on a comprehensive succession process to select an internal candidate. Simon's appointment as CEO Designate with effect from 19 February 2007 was done to facilitate an orderly eleven-month transition, during which time Dennis and Simon will adjust their respective roles to accommodate a seamless change in leadership on 1 January 2008 when Simon will be appointed as CEO. Simon has been with the group for 20 years, the past seven as MD of the Foschini Stores division and prior to that as MD of the Markham division.

At the same time that Simon was appointed as CEO Designate, Doug Murray, previously Retail Director of our group, who has been with our group for 22 years, was appointed as Group MD Designate. We are delighted to have two such able internal candidates who we are confident will steer the group to new heights in the future.

Both Simon and Doug have now joined the Foschini Limited board.

Community Responsibility

We remain committed to achieving a balance between economic performance and the part we can and must play for our society and the community in which we operate. We are very mindful of the critical role that business has to play in the upliftment of the community and for this reason we are committed to continuing investment in the development of society. We make charitable donations to well over 100 national and local non-governmental organisations with our primary focus areas being education, job creation, staff bursaries, poverty alleviation, welfare and combating HIV/AIDS. Full details of our CSI endeavours are covered in the sustainability section of this report.

Transformation

Our transformation committee, with myself as Chairman, has the task of driving the group's Black Economic Empowerment (BEE) strategy into the future. Our various internal transformation subcommittees tackle, on a daily basis, the various pillars of BEE to ensure that our group plays its rightful role in the development of historically disadvantaged communities. In the Financial Mail's Top Empowerment Companies Report of 2007, our group has once again fared extremely well and achieved the second highest rating in our sector. Now that the final BEE codes have been issued, we will start focusing in earnest on our BEE ownership endeavours as each South African corporate must inevitably do.

Governance

Your directors consider responsible corporate governance as integral to the success of the company, and our commitment thereto is outlined in our corporate governance report, which appears elsewhere in this document.

Looking Ahead

Having regard to the economic factors referred to above and a satisfactory increase in turnover in the first eight weeks of the new financial year, we are confident that, in the absence of unforeseen circumstances, the company will enjoy another year of satisfactory growth.

Thanks

On behalf of my board I wish to extend appreciation and thanks to:

- all employees for their continued excellent performance during the year;
- our customers for their continued and growing support;
- our shareholders for their continued confidence in the group;
- our suppliers, advisers and business associates for their co-operation and contribution to the continued growth of the business; and
- my fellow directors for their ever ready support, guidance and valuable input.

Eliot Osrin
Chairman

31 May 2007





Dennis Polak

Group Overview

The financial year to the end of March 2007 comprises 52 weeks compared to the corresponding period of 53 weeks in 2006, which makes direct comparisons misleading.

Our group has enjoyed a superb five years with compounded growth in headline earnings per share over that period increasing by 56%. Against this very high base, the current year's growth of 15,4% (18,5% in the case of 52 weeks) is extremely pleasing.

Over this very buoyant period our group has continued with its strategy of reinventing, extending and revitalising our brands and I can say with confidence, that all our stores are excellent in regard to their appearance and layout, systems, merchandise offering and customer service. Over the last five years all of our stores have advanced to new levels of excellence and bear little resemblance to our stores of five years ago.

I'm also pleased to be able to report that the calibre of our staff, our most valuable asset, continues to improve year-on-year and we have detailed succession plans in place at all levels of our business.



Trading Environment

Having approached this year with a confident feeling, we had a very good first six months as we continued to benefit from the favourable economic climate in this country. The second half proved to be a little more challenging particularly due to the stock shortages experienced by our Foschini division during the period up to November 2006. The political stability in our country combined with the low interest rate environment and low inflation, has certainly assisted retailers to produce above normal results. In addition, the growth of the emerging black middle class has enabled the retail environment to grow at a faster rate than the overall economy which is evidenced by our comparable turnover growth for the 52 weeks of 14,6% compared to the product inflation in our company of approximately 4%.

Whilst these favourable trading conditions are expected to continue, it will become increasingly more difficult to sustain these exceptional results, having regard to the very high growths achieved in the last five years and accordingly the extremely high base created. The increase in interest rates over the past short while together with the petrol price hikes, will make the trading environment in the next financial year more difficult as consumer spending must inevitably be impacted.

Having said that, it would appear that the interest rate cycle is now at or very close to its peak. We expect that towards the end of our next financial year interest rates could start declining which should result in an increase in consumer demand. This will be good for our group.

An area of concern for the next year relates to the introduction of the new National Credit Act which becomes effective on 1 June 2007. Whilst this Act will in the medium term be beneficial to our group, in the short term, it will present some unique challenges for us. It is inevitable that, post the implementation of this Act, the opening of new accounts will become more difficult, until the marketplace has absorbed the practicalities of applying the new provisions.

Chief Executive Officer's Report

Financial Performance

Whilst our group's detailed financial performance for the year is set out in the Financial Director's Report, I would like to draw attention to the following highlights:

- Record retail sales of R7,2 billion, an increase of 14,6% for the comparable 52 weeks on our product inflation of approximately 4%
- Operating margin of 26,1%, the highest ever achieved
- Net profit before tax of almost R1,8 billion
- An increase in the annual dividend of 22,7%
- Our group's return on equity of 32,5%

Trading Performance

As already mentioned, the lower interest rate environment and buoyant trading conditions experienced in the first half of the financial year continued into the second half, albeit at a reduced tempo. All our divisions performed well, once again substantially above our product inflation of approximately 4%, the exception being our Foschini division which suffered stock shortages during the period August to November. We estimate that the loss in turnover arising from this out-of-stock position was approximately R100 million. Sales and sales growth in the various divisions were as follows:

	No. of stores	Retail turnover 52 weeks ended 31.03.07 Rm	% change 52 versus 53 weeks	% change 52 versus 52 weeks
@home	51	412,4	26,3	28,6
Exact!	180	682,6	15,2	17,4
Foschini division	386	2 911,8	9,4	11,6
Jewellery division	316	1 022,5	14,5	16,3
Markham	191	1 138,3	15,9*	18,6*
Sports division	208	1 062,4	17,4	20,0
Total	1 332	7 230,0	12,4	14,6

* Growth excludes the discontinued RJL brand.

Total comparable 52-week same store sales for the year grew by 8,0%, with apparel growing 4,8%, cosmetics 15,5%, cellphones 26,9%, jewellery 10,7% and homewares 2,6%. During the year the group's trading area grew by 7,3% with 96 new stores added and 36 stores closed. At the year-end our group was trading out of 1 332 stores.

Our gross margins were marginally down on the previous year, primarily as a result of a change in the sales mix, with cellphones and cosmetics growing at a higher rate than our other products.

Whilst the positioning, performance and strategy of our trading divisions are outlined in some detail later in this report, I would like to comment on some of the highlights of each division.

The **Foschini division** started off the year with impressive sales growth growing by 16,5% for the first four months to July 2006. From August to November, which is our key opening summer period, sales were negatively impacted by approximately R100 million as a result of stock shortages. These stock shortages were caused, in the main, by changes to the in-house manufacturing process as well as the procurement lead time being reduced too aggressively in order to improve stock turns and flexibility. These problems were resolved from December onwards. Overall therefore, this division had a disappointing year with comparable 52-week growth of 11,6% and same store growth of only 3,7%. Cosmetic sales continue to grow very well, gaining market share, with turnover now in excess of R430 million annually. Luella, the newly-created standalone footwear and accessory chain continues to improve and will be expanded in the future to more than 50 stores.





The **Markham division** traded well with comparable 52-week same store growth of 8,2%, excluding the discontinued RJL brand. The repositioning of the Markham brand that started in 2005 has been extremely successful and has now been rolled out to 72 stores, with the remainder still to be completed. The level of markdown sales has been particularly well controlled, with markdowns improving to 10,5% of turnover. Its RJL brand was discontinued during the year with its real estate being converted into other group formats – in the main Luella.

The **Exact! division** continues to grow and maintained its strong performance with sales densities improving still further. Its new-format stores now number 97 and its two larger stores which were developed this year in Pretoria and Durban have experienced an exceptional response from the market. This chain has found its niche and is well positioned to capitalise on the growing emerging middle class. Comparable 52-week sales growth for the year was 17,4% and a very satisfactory same store growth of 12,9%.

The **Sports division**, trading as Sportscene, Totalsports and DueSouth, traded well with growth in comparable 52-week turnover of 20,0% and same store growth of 10,9%. For the first time this division achieved turnover in excess of R1 billion. Its relatively new DueSouth division consisting of 16 stores is now recognised as a key player in the outdoor lifestyle market, with a vastly improved product range.

Our **Jewellery division**, comprising American Swiss, Sterns and Matrix retains its position as the leading jeweller in the middle mass market in the country. Given that jewellery is a luxury item, sales surprised on the upside with comparable 52-week growth at 16,3% and turnover for the first time exceeding R1 billion.

Our **@home division** continued with a substantial increase in its store base during the year and grew its turnover to R412,4 million, an increase of 28,6% for the comparable 52 weeks. Its first two lifestyle stores branded as @homelivingspace have improved considerably and will be rolled out in the next few years to at least 7 stores country-wide. In addition we plan to expand the size of certain @home stores in order to include an additional décor range. Comparable 52-week same store growth was only 2,6% primarily due to its own cannibalisation as additional stores are rolled out.

Our **Foschini Group Financial Services (FG Financial Services) division**, which has, *inter alia*, responsibility for the group's accounts receivable function has had another successful year. In our interim profit announcement at the end of September 2006 we indicated that there was evidence that the credit cycle had entered a new phase where conditions are not as favourable as they had been in recent years. Our credit division responded to this change in the market by strengthening their collection procedures which resulted in our collections from debtors remaining very satisfactory. Our retail debtors book, which amounts to R2,2 billion, increased by 5,6% during the year, whilst credit turnover increased by 8,5% compared to the previous corresponding period. Cash sales as a percentage of total sales increased from 30,8% to 33,3%. Net bad debts as a percentage of credit transactions increased only marginally from 2,4% to 2,6% which in the current economic cycle is extremely good.

On 1 June 2007 the National Credit Act (NCA) will be implemented. The NCA makes provision for more stringent evaluation of new and existing account holders to service the credit which we grant them. Whilst the NCA will make it more difficult for credit providers to operate with the same freedom as before, we are supportive of the intent of the NCA and have applied substantial time and resources to ensuring that on 1 June our policies, systems and processes will be compliant with the NCA, whilst ensuring that the impact on our business is minimal.

Financial Services “RCS Group”

Our **RCS Financial Services** division comprises RCS Personal Finance, our group's personal loans business, and RCS Cards, which offers credit to customers of merchants outside of the group. This division continued to show strong growth during the year, growing its pre-tax profits by 27,5%. Since the sale of a minority stake in this business to the Standard Bank of South Africa Limited (SBSA), this division has embarked on a number of new initiatives such as the introduction of private label cards for other retailers, home loans granted to RCS customers, and the pending introduction of a dual card between FG Financial Services and RCS Financial Services as well as launching our vehicle finance product. As from 1 April 2007, our group's shareholding in this division is now at 55%, with the remainder being held by the Standard Bank of South Africa Limited.



My Successor and Management Changes

This is my last CEO's report, as my retirement from this position was announced in February of this year after 39 years with the group, the last ten as CEO. I have had a great experience with the group and the last ten years, whilst being challenging, have been stimulating and fulfilling with the group during this period growing its turnover and earnings from R2,4 billion to R7,2 billion and from 82,7 cents per share to 534,2 cents per share respectively. This could not have been achieved without the assistance of a dedicated management team and the contribution of each of our 15 000 staff members.

Whilst the choice of a CEO is a board's most onerous decision, we embarked in 2005 on a comprehensive succession process to select an internal candidate. Simon Bowley's appointment as CEO Designate with effect from 19 February 2007 was done to facilitate an orderly eleven-month transition, during which time Simon and I will adjust our roles to accommodate a seamless change in leadership on 1 January 2008 when Simon will be appointed as Group CEO. Simon has been with the group for 20 years.

At the same time that Simon was appointed as CEO Designate, Doug Murray, previously Retail Director of our group, who has been with our group for 22 years, was appointed as Group MD Designate.

The detailed succession planning and development of staff in our group has made my retirement and the reshuffling of senior staff an easy task. I am very happy and pleased that we have senior executives such as Abigail Bisogno, who has headed our Exact! division for many years who can move within our group to new challenges. Abi will be moving to the MD role in our Foschini division to fill the gap which will be left by Simon. Her position in Exact! will be ably filled by Suzanne Annenberg, previously the marketing and planning director of that division. During the year Adrienne Kleinman moved as General Manager of our jewellery division to replace Ken Schreuder who has moved to head our Group Property division. I wish all of them every success in their new positions in which I'm confident they will all excel. It is significant that three of our trading divisions are now led by women.

During the year Shani Naidoo and Brent Curry were appointed to the operating board and just prior to the year-end Abigail Bisogno and Martin Mendelsohn were appointed as well. I am confident that our enlarged operating board will be in a position to meet all challenges and ensure that the group grows from strength to strength.

My thanks and gratitude to our chairman, Eliot Osrin, for his personal support and guidance during my tenure as CEO.



Strategy

The strategic focus across our divisions is to improve our customers' experience by targeted expansion of our store base and constantly developing our merchandise offering according to identified needs of our customers.

Core to the success of this strategy is optimisation of our supply chain and a steering committee has been formed which will focus on optimising lead times, supplier conformance, replenishment and merchandise pipelines.

Strategies of the individual divisions are referred to in the divisional review section of this report.

Prospects

We anticipate opening in excess of 80 new stores across all divisions in the year ahead.

Whilst these favourable trading conditions are expected to continue, it will become increasingly more difficult to sustain these exceptional results, having regard to the very high growths achieved in the last five years and accordingly the extremely high base created. As mentioned previously, the increase in interest rates over the past short while together with the petrol price hikes, will make the trading environment in the next financial year more difficult as consumer spending must inevitably be impacted.

Turnover for the first eight weeks of the new financial year is in line with budget, and in the absence of unforeseen circumstances we remain confident that we will be able to produce another year of satisfactory growth.

Thanks

The contribution of each of our 15 000 staff is reflected in these good results as well as in the development of our group which has enabled us to produce sustained superior performance and I extend to each and every one my sincere appreciation.

Thanks are also due to all the members of the board for their wisdom, guidance and direction.

To our shareholders, thank you for your support and we trust that your loyalty will continue to be rewarded. Finally, a word of appreciation goes to our suppliers, advisers, corporate stakeholders and customers.

Dennis Polak
CEO

31 May 2007



Ronnie Stein

Overview

Our group has once again had a good year delivering pleasing results against the high base set in the previous few years.

It is common practice within the retail industry to treat a week of trading as a business period and to consider a year to consist of 52 weeks. Since 52 weeks translates into only 364 days, each year the retail trading calendar is one day short of a calendar year. This, together with leap years in between, requires a correction approximately every five years by having a 53-week retail trading calendar. The group took this extra week during 2006. Since last year consisted of 53 weeks versus only 52 weeks in 2007, the results of the group must thus be seen against this background. Where applicable, the results for the comparable 52 weeks are shown in brackets.

The key financial indicators for the year are as follows and are discussed in more detail elsewhere in this report.

Key performance indicators	52 weeks ended 31.03.2007	Medium-term target	53 weeks ended 31.03.2006
Turnover (Rm)	7 230,0		6 432,1
Turnover growth (52 vs 53 weeks)	12,4%		21,8%
Turnover growth (52 vs 52 weeks)	14,6%		21,8%
Gross margin	42,0%		42,4%
Operating margin	26,1%	24%	24,3%
Profit before tax (Rm)	1 782,3		1 488,2
Profit before tax growth	19,8%		29,8%
Profit after tax (Rm)	1 192,0		1 009,0
Headline earnings per share (HEPS) (cents)	534,2		463,0
HEPS growth (52 vs 53 weeks)	15,4%		28,8%
HEPS growth (52 vs 52 weeks)	18,5%		25,4%
Dividend per ordinary share (cents)	270,0		220,0
Dividend per ordinary share growth	22,7%		34,1%
Return on average equity	32,5%	35%	33,6%
Gearing	18,8%	25%	16,2%
Tangible net asset value per share (cents)	1 789,4		1 523,4
Tangible net asset value per share growth	17,5%		23,5%
Stock turn (times)			
– jewellery	2,18		1,91
– @home	2,43		2,31
– other	3,20		3,31

Financial Director's Report

Accounting Policies and Standards

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) since 2006 and comply with the requirements of the South African Companies Act. The principal accounting policies are consistent with those applied in the previous year, except for the adoption of the following Standards and Interpretations:

- IFRIC 4 – determines the treatment of operating and finance leases. The adoption of this statement did not require any changes as there are currently no arrangements falling within the scope of this statement.
- IAS 21 – determines the treatment of exchange rate differences arising on translation. The adoption of this statement had no material impact on the group results.

The group reclassified certain balance sheet items in order to achieve improved disclosure.

Further information regarding all restatements can be found in note 33.



Income Statement

Retail turnover

Retail turnover of R7,2 billion for the 52 weeks for the first time exceeded the R7 billion mark – an increase of 12,4% (14,6% in the case of 52 weeks) on the previous year. Comparable same store turnover growth for the 52 weeks was 8,0%. The buoyant sales growth of 16,6% achieved in the first half continued into the second half, albeit at lower growth levels, growing at 12,9%, having regard to the high base.

All product categories performed reasonably well, with apparel growing 10,7%, jewellery 14,3%, cellphones 31,6%, cosmetics 25,0% and homewares 28,6% for the 52-week period. Our divisions performed well, once again substantially above our product inflation rate of approximately 4%, the exception being our Foschini division which suffered stock shortages during the period August to November 2006 resulting in a loss in turnover of approximately R100 million.

Trading area in the first six months of the year grew by 4,3%, but accelerated towards the end of the financial year reaching a total of 7,3% growth.





During the year, cash sales as a percentage of total sales once again increased to 33,3% from 30,8%.

	Retail turnover	Retail turnover	% change	% change
	52 weeks ended	53 weeks ended	52 versus 53 weeks	52 versus 52 weeks
	31.03.07	31.03.06		
@home	412,4	326,3	26,3	28,6
Exact!	682,6	592,4	15,2	17,4
Foschini division	2 911,8	2 660,6	9,4	11,6
Jewellery division	1 022,5	893,4	14,5	16,3
Markham	1 138,3	1 054,7	15,9*	18,6*
Sports division	1 062,4	904,7	17,4	20,0
Total	7 230,0	6 432,1	12,4	14,6

* Growth excludes the discontinued RJL brand.

Our gross margin decreased by 0,4% from 42,4% to 42,0%, primarily as a result of a change in the sales mix where again this year, cellphone and cosmetic turnover grew at faster rates of 31,6% and 25,0% respectively. Gross margins in these categories are lower than our other product lines and hence the reduction in the overall gross margin.

Expenses

Expenses were well controlled during the year, with total net expense growth for the year at 12,7%. This increase in expenses has been impacted by a larger than normal growth in new stores as well as ongoing store improvements and refurbishments resulting in an increase of 7,3% in floor space. The annual depreciation charge of R172,6 million increased by 16,4%.

Store occupancy costs, the group's second biggest operating cost, increased by 11,6% to R512,7 million, and as a percentage of sales remains at 7,1%. The increase in this cost is due mainly to the opening of new stores. During the year 96 new stores were opened whilst 36 stores were closed. In addition 18 stores were enlarged whilst 38 were relocated.

This year an amount of R7,7 million was charged to store occupancy costs, an increase of R14,5 million over the R6,8 million credit in the previous year in order to comply with IAS 17 (Leases).

Employment costs of R945,3 million are our group's biggest operating cost and increased by 9,3% over the previous year. The increase in these costs is due to normal staff salary increases, the appointment of new staff to service the new store openings, as well as to fill positions necessary in terms of our group's capacity issues. Included in these costs are incentive bonuses and restraint payments which are paid in line with the group's performance as well as to ensure the retention of key staff. These payments

this year amount to R24,4 million, a reduction from the R51,9 million paid last year.

The IFRS 2 share option charge to the income statement this year amounted to R19,2 million. An amount of R19,0 million was recognised as an expense last year.

Included in other operating costs of R620,2 million are the group's net bad debt writeoffs. Details of our group's credit operations are dealt with more fully in the review of Foschini Group Financial Services elsewhere in this report.

Interest paid increased to R104,7 million primarily due to increased investment in receivables of R514,2 million with the most significant increase being in private label card receivables.

Profit before tax

As a result of operational efficiencies profit before tax of R1,78 billion increased by 19,8% on an increased turnover of 12,4%. Our pre-tax profit is approaching the R2 billion level.

Our group's operating margin increased still further to 26,1% from 24,3% exceeding our medium-term target of 24%.

Taxation

The group's effective tax rate increased to 33,1% primarily as a result of increased secondary tax on companies (STC) on increased dividend payments. Further details are contained in the notes to the Financial Statements.

Earnings

Headline earnings increased by 13,4% from R986,9 million to R1 119,2 million, whilst headline earnings per ordinary share increased from 463,0 cents per share to 534,2 cents per share, an increase of 15,4%. Headline earnings per share has been calculated on the weighted average number of ordinary shares in issue of 209,5 million, down from 213,1 million in the prior year as a result of continued share buybacks.

The group's return on equity (ROE) of 32,5%, remains at a satisfactory level, marginally down on last year's restated ROE of 33,6%. Our medium-term target remains at 35%.

Dividends

A final dividend of 170 cents per share has been declared, and together with the interim dividend of 100 cents per share, the total dividend for the year of 270 cents per share is 22,7% higher than the previous year. Having regard to the group's financial performance, cash flow and strong balance sheet, the dividend cover has been further reduced from 2,1 to 2,0 times headline earnings per share.

Balance Sheet

Assets

Property, plant and equipment

Property, plant and equipment of R782,1 million increased from last year's restated R654,4 million primarily as a result of:

- the opening of new stores, store enlargements and refurbishments in line with our strategy to increase our total trading area;
- the introduction of new IT systems; and
- an amount of R26,1 million in respect of an enlargement to our head office complex at Duminy and Jenkinson Streets in Parow East.

The restatement of the prior year amount relates to shopfitting work in progress that has now been reclassified to property, plant and equipment. This amount was previously disclosed as part of other receivables and prepayments.

Trade receivables

The group's net retail trade receivables increased by 5,6% to R2 235,2 million on credit turnover growth of 8,5%, reflecting a very sound trade receivables book. In our interim profit announcement at the end of September 2006, we indicated that there was evidence that the credit cycle had entered a new phase where conditions are not as favourable as they had been in recent years. In light of this, we took corrective action by focusing on the earlier stages of delinquency which resulted in our collections from our debtors being satisfactory. Net bad debts as a percentage of credit transactions increased only marginally from 2,4% to 2,6%, which we believe is extremely good in the current economic cycle.

Inventory

Inventory on hand increased by 15,8% to R1 292,9 million from R1 116,7 million. Shopfitting stock and consumables previously reflected in other receivables and prepayments, have been reclassified and are now disclosed as part of inventory. Stock turn in respect of jewellery at 2,18 was an improvement over the previous year's 1,91, whilst the stock turn on other merchandise of 3,20 was slightly below last year's 3,31. Adequate provision has been made for markdowns, shrinkage and inventory obsolescence.

Financial services "RCS Group"

Our financial services division comprises RCS Personal Finance, our group's personal loans business, and RCS Cards, which offers credit to customers of merchants outside of the group. This division continued with its strong performance with growth in profit before tax and minority interest of 27,5% over last year.

As a result of the growth in this division, the combined loan receivables reflected under both non-current and current assets increased by 6% to R866,5 million. The more recently-established private label card business which is growing very fast increased its private label card receivables by 72,2% to R826,7 million. Our group's non-retail receivables now total R1 693,2 million. Bad debts in this division continue to be well managed, although the net bad debt experienced is at a higher level than that experienced with our retail trade receivables, as reflected in more detail in the review of RCS Financial Services.

This division currently represents 18,1% of our group's profit before tax, increasing from last year's 17,0%. It is anticipated that this will grow in the years ahead to around 20%.

Equity

The group's attributable equity increased to R3 823,6 million from the restated R3 267,9 million, translating into tangible net asset value of 1 789,4 cents per share. At the financial year-end treasury shares held by subsidiaries, including the share trust, amounted to 28,5 million shares, representing 11,9% of the total issued shares.

Minority interest

The minority interest of R181,3 million relates to the minority shareholding in our RCS Group financial services division, RCS Investment Holdings (Pty) Ltd (RCSIH). At the financial year-end our group's shareholding in this division was 65% with the balance being held by the Standard Bank of South Africa Limited (SBSA). On 1 April 2007, SBSA acquired the final 10% of RCSIH increasing its shareholding in this division to 45%, the maximum possible in terms of our agreement. Subsequent to the year-end the group received cash proceeds of R211,5 million in respect of this transaction. Our group's holding in this division is now 55%. Refer to note 15 for further details.

Debt profile

Our group's operations are financed primarily by means of its own cash flow as well as banking facilities. This debt, offset by the group's cash and its "near cash" preference share investment of R200 million, represents net gearing of 18,8%, which is below our group's revised medium-term objective of 25%.

Included in interest-bearing debt is an amount of R389,7 million advanced by SBSA to RCSIH and its subsidiaries in terms of a funding agreement between the parties. This funding agreement is not subject to any guarantee or security from Foschini Limited or any of its subsidiaries, and accordingly the debt is ring-fenced within the RCS Group financial services division.

Trade and other payables

Trade and other payables increased by 16,4% to R1 139,1 million from R978,5 million. Our group's policy of paying all suppliers 30 days from statement date remains consistent with prior years.

Cash Flow

Cash flows from operating activities before working capital changes amounted to R1 191,5 million, an increase of 11,1% over the previous year. Due to the improved trading activities during the year, there were larger working capital requirements primarily as a result of a high investment in private label card receivables of R346,6 million and inventory of R176,2 million. This is partially offset by an increase of R161,9 million in trade and other payables, all of which resulted in cash generated by operations amounting to R973,4 million.

The net cash outflow from investing activities amounted to R112,7 million, investments being made in IT equipment and shopfitting and R26,1 million in respect of an enlargement to our head office complex in Parow East. Share purchases by the share trust amounted to R288,4 million. Due to these outflows, interest-bearing debt increased by R217,6 million which resulted, as mentioned previously, in our group's net gearing increasing to 18,8% from 16,2% last year.

Subsequent to the year-end, our group received cash proceeds of R211,5 million in respect of the transaction with SBSA referred to above. As has been our stated intention, the group will apply these funds to share buybacks.

Financial Targets

Our group's financial targets have been included in the Financial Highlights section of this annual report.

Ronnie Stein
Financial Director

31 May 2007

