



chairman's report

Fliot Osrin

Overview

The retail sector in South Africa has experienced substantial growth in the last six years, with consumer spending being extremely strong. This began to change for our group in June 2007 as the retail cycle started to move downwards.

The advance in profit achieved by our group this year was more modest than in the previous six years, with headline earnings per share increasing by 2,4% and diluted headline earnings per share increasing by 4,5%. This reflects the more difficult trading environment which prevailed, particularly in the credit non-durables sector.

Nevertheless, having regard to our very strong balance sheet and the satisfactory level of ongoing cash flow, we have maintained our final dividend at 170,0 cents per share. This means that the total dividend for the year has been increased by 6,7% to 288,0 cents per share.

Economy and operating environment

A combination of a possible recession in the USA, global equity market volatility, high interest rates, implementation of the National Credit Act, fuel price increases and food inflation have collectively created a mood of negativity among South African consumers as they enter a lean year after a period of relatively plenty. This is not the first time that there has been a bleak outlook in the retail industry which happens each time our economy adjusts from an overheated position back to more reasonable levels. It has happened before and undoubtedly will happen again. I am confident that in the medium term, our economy has the strength and resilience to recover and continue to grow. Internally, we have taken strong measures to ensure that our stakeholders have good reason to retain their confidence in the group.

The prime interest rate has increased to 15,0%. There is reason to hope that it will start declining from the middle of next year. This should once again allow consumer sentiment to become positive and spending to resume at a greater rate than currently.

There is, however, risk that CPIX inflation will remain outside the Reserve Bank's inflation target range in the forthcoming year, and this could delay the inevitable reduction in interest rates.

We are concerned that if the Reserve Bank only uses interest rates as its tool to achieve its inflation target, the inevitable increase in interest rates could have the effect of seriously harming our economy.

Even though household debt as a percentage of total disposable income has risen to a new record high of 77%, the ratio of household debt-servicing costs to disposable income remains manageable at around 9,5%, which compares favourably to historical ratios.

Infrastructural development spending will gather pace this year, but short-term investment spending in the private sector may be placed on hold until confidence in the outlook for household demand and for lowered interest rates is restored.

Our next financial year is likely to be one of considerable political fluidity. The African National Congress' conference in December 2007 settled many issues, but left others open, with much remaining unclear.

Staff and directors

Our group's greatest asset continues to be its 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.

Doug Murray was appointed as Group CEO on 1 January 2008. Doug has been with our group for 22 years, the past eight as Retail Director, with all divisions except the Foschini division reporting directly to him. Doug is an outstanding retailer who has a wide knowledge of all aspects of the group and thus he has picked up the reins quickly and deftly and I am confident that he will steer the group to new heights in the future.

Leslie Bergman resigned as a director of Foschini Limited on 14 April 2008. Leslie had been a director since 2002 and we thank him for the role he played during this time.

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 mindful of the critical role that business has to play in the upliftment of the community and for this reason we continue to invest in the development of society. We make charitable donations to more than 100 national and local non-governmental organisations, with our primary focus areas being education; skills development; arts, culture and the environment; special projects and

combating HIV/AIDS, with specific emphasis on women and children. Full details of our CSI endeavours are covered in the sustainability report in this document.

Transformation

Our transformation committee, with myself as chairman, has the task of driving the group's broad-based black economic empowerment (BBBEE) strategy into the future. Our various internal transformation sub-committees tackle, on a daily basis, the various issues underlying BBBEE in order to ensure that our group plays its rightful role in the advancement of historically disadvantaged communities. In the Financial Mail's Top Empowerment Companies Report of 2008, our group has once again fared well.

Governance

The directors consider responsible corporate governance to be integral to the success of the group and our commitment to it is outlined in our corporate governance report, which appears elsewhere in this document.

Assessment starts at the top with a comprehensive annual peer review of the performance of all board directors. The board's various sub-committees, which cover the fields of audit, remuneration, risk, nominations and transformation, keep ongoing observation of all significant factors within their purview. The group has formulated and abides by a code of ethics which includes a set of clear goals to achieve in its relationships with customers, suppliers, staff, the general public and the communities among which we operate. The increasingly complex field of compliance with the laws and regulations governing our businesses is another among the many issues on the governance agenda.

Looking ahead

Consumers are facing testing times as the economy slows down and inflation rises. These circumstances will have an inevitable impact on the group, but nevertheless all our divisions remain, in all respects, in good shape. Overall, in attempting to maintain or improve our performance, the group will be reliant on achieving good turnover levels while tightly containing costs.

The strategies which the group has devised and which it is now implementing to retain and grow its market position and its profitability are multi-faceted, but the following deserve special mention:

- we have been cautious in the past in the opening of new stores, and whilst this remains our approach, there are certain of our formats which are ready for further roll-out and we anticipate opening in excess of 100 new stores in the year ahead;

- our supply chain initiative, designed to improve lead times and cut distribution costs, has reached the point where implementation is already occurring and benefits can be expected to be derived progressively as it evolves; and
- credit sales, as well as interest revenue are likely to be boosted by providing customers with a 12-month account as an alternative to the current 6-month option.

In addition, the performance of our retail debtors' book appears to be far better than the norm in the retail industry, demonstrating the value of our conservative credit extension policies of the past.

The 2009 financial year will undoubtedly be a tough year, but at the same time we are well placed to maximise the benefits of any upturn in the economy, therefore making our group even stronger for the future.

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

11 June 2008





chief executive officer's

Doug Murray

Group overview

In last year's annual report we indicated that the year to 31 March 2008 would be one of the most difficult that the group would experience for many years.

This year has been a tale of two halves. While trading conditions in the first half were challenging, the group nevertheless achieved acceptable performance in this period, with retail turnover increasing by 8,8% and headline earnings per share increasing by 12,2%. The tempo of business started to slow considerably towards the end of June and the second half of the year proved to be difficult, with turnover growth of 3,7% and a reduction in headline earnings per share of 4,0%. For the year as a whole turnover was up 6,1% over the previous year while headline earnings per share increased by 2,4%. Diluted headline earnings per share were up 4,5%.

Prior to the introduction of the National Credit Act (NCA) our group adopted a conservative approach to the opening of new pre-approved accounts, thus opening far fewer accounts than our major competitors and other credit providers. Whilst this negatively affected the level of our retail turnover, it seems that it was the correct strategy for current economic conditions, as it has resulted in our group entering these more challenging times with a healthy retail debtors' book, in contrast to what appears to be happening in the credit industry.

The businesses in which we trade are cyclical in nature and after our previous six years of above-average compound growth in earnings it was inevitable that a slowdown would occur. It is still not known how long and how severe the current downturn is likely to be. However, the group is positioned as favourably as possible to weather any downturn and emerge stronger than ever to continue our above-average growth when the economy turns. All our divisions are in good shape, with strategies in place to contend with difficult times, with no areas requiring additional corrective action or restructuring. The retail debtors' book is moreover performing well in the current climate, in contrast to what appears to be taking place in the wider economy. The emphasis next year will be on cost containment to levels appropriate to expected trading activity, whilst continuing with strategic initiatives to ensure above-average growth in the future.

Trading environment

Having approached this year with a good deal of caution, the group had an acceptable first six months. The second half turned out to be difficult, particularly from the end of June, after the introduction of the NCA. A combination of the consequences of the NCA, interest rates which have been increased nine times since June 2006, frequent petrol price hikes and above-average food inflation, has considerably dampened the economy and placed severe constraints on the budgets of most South African consumers.

In the last annual report, issued at the end of May 2007, we expressed the view that the interest rate cycle was at or very close to its peak and that interest rates might be expected to start declining towards the end of the 2008 financial year. Inflation has however been higher than anticipated, with the result that the Reserve Bank continued to increase interest rates. The prime overdraft rate is now 15,0% and the outlook for interest rates is still unclear. There is potential for further increases, particularly as the inflation numbers have not stabilised, and as matters now stand we do not see interest rates starting to decline before the middle of 2009.

The consumer environment is likely to deteriorate still further before it starts to improve and we are under no illusions about trading conditions, which we expect to be challenging in the next financial year.

Areas of particular concern to the group in the next year are the rate of exchange of the South African currency and expected inflation in the price of merchandise coming from China, both of which have the potential to cause greater inflation in our product supply line than we have seen for many years.

In addition, the electrical power outages currently being experienced throughout the country may continue. Whilst our head office and distribution centres are not affected, as they are covered by backup power generators, our stores in shopping centres are not able to trade as there is insufficient lighting in these centres. Discussions are presently under way with our major landlords in order to provide adequate lighting and some sort of airflow into shopping centres when the power is down, and it remains to be seen whether these discussions will be successful.



Financial performance

Whilst the group's detailed financial performance for the year is described in the Financial Director's report, I would like to draw attention to the following:

- operating margin was 24,8%, close to our record of 26,1%;
- net profit before tax in excess of R1,7 billion;
- the final dividend being maintained at 170,0 cents per share;
- good performance from our retail debtors' book; and
- the group's return on equity of 29,6%.

Trading performance

All our divisions performed satisfactorily in the first half of the year, but since mid-June trading conditions have become difficult. Product inflation averaged approximately 4% for the year. Sales and sales growth in the various divisions were as follows:

	Number of stores	Retail turnover Rm	% Change
@home	61	458,0	11,1
Exact!	182	707,2	3,6
Foschini division	400	3 070,5	5,5
Jewellery division	328	1 090,7	6,7
Markham	201	1 190,9	6,6*
Sports division	221	1 151,4	8,4
Total	1 393	7 668,7	6,1

* Growth excludes the discontinued R.J.L. brand.

Total same store turnover for the year grew by 2,2%, with apparel growing 2,2%, cosmetics 6,6% and jewellery 3,5%. Homeware declined by 0,3% and cellphones by 0,7%.

Cash sales as a percentage of total sales increased from 33,3% to 36,4%.

The @home division continued to expand, increasing its number of stores to 61 during the year and growing its turnover by 11,1% to R458,0 million. Trading results were encouraging at the three @homelivingspace stores and the number of these stores will be expanded over the next two years to ten. In an extremely competitive sector this division's same store results showed a decline of 0,3%.

Exact!, which has a lower LSM customer base than most of the group's trading divisions, traded marginally worse than expectation, yielding growth in turnover of 3,6% and same store growth of 1,7%. Customers with limited disposable income bought less than had been expected in the summer season and it was necessary to take more markdowns than planned.

Of the division's total turnover, 44% is generated in shopping malls as opposed to high streets and rural areas and this percentage will continue to increase with planned store expansion.

The Foschini division achieved turnover growth of 5,5% and unsatisfactory same store growth of 1,2%. Particular emphasis is being placed on the Foschini stores business and the results of this focus should become evident in the forthcoming summer season. The Donna-claire and Fashionexpress brands continued to trade satisfactorily and are now well established in the marketplace. Both of these brands are under-represented and will be actively expanded in the next year.

The jewellery division, comprising American Swiss Jewellers, Sterns and Matrix, performed better than expected with turnover growth of 6,7% and same store growth of 3,3%. The division remains the dominant player in the mass middle market jewellery sector. It has been severely impacted by the increase in the gold price and by movements in the rand/dollar rate of exchange, the combined effect of which has been an increase of more than 30% in the input gold price during the year. This required proactive planning to ensure that the product mix was adjusted to soften the impact on price points.

The Markham division, which had a disappointing first half, traded more successfully in the second half and achieved turnover growth of 6,6% for the full year. Same store growth was 3,4%. The repositioning exercise undertaken in the past few years towards a younger and more fashionable customer is now beginning to bear fruit and its new "Markham Relay" casual range format has been well received in the marketplace.

The sports division, trading as Totalsports, Sportscene and DueSouth, traded satisfactorily and achieved turnover growth of 8,4% and same store growth of 3,7%. Ongoing focus remains on gaining maximum benefit from the World Cup 2010, where the division is the partner of choice for some of the major brands.



chief executive officer's report continued

FG Financial Services, the retail debtors' book, which amounts to R2,4 billion, grew by 8,0% during the year. Because of the group's conservative approach to new account openings before the implementation of the NCA, the performance of the debtors' book continues to be satisfactory. Net bad debt as a percentage of credit transactions increased marginally from 3,0% to 3,5% and net bad debt as a percentage of the closing debtors' book increased from 7,4% to 8,3%. During the next financial year, in line with current market practice, we will provide customers with a 12-month account as an alternative to the current 6-month option. This should positively impact our interest revenue as well as retail turnover.

RCS Group

The RCS Group provides a range of broader financial services to customers of the group and also to customers of unrelated retailers. This group consists of two separate business units, namely Transactional Finance and Fixed Term Finance. At present the Transactional Finance business comprises the RCS general-purpose card and other private label card programmes. The Fixed Term Finance business comprises RCS Personal Loans and RCS Home Loans. The division experienced a challenging year having been affected by the introduction of the NCA, which resulted in a reduction in the number of new loans advanced and accordingly a reduction in the loan receivables book. Net bad debt and provisions increased significantly in line with current market trends. Profit before tax for the year reduced from R322,7 million to R269,6 million. Loan advances to customers following the year-end will remain tightly controlled, though an increase in advances and profitability in this division is anticipated. RCS is in the process of acquiring the consumer credit division of Massdiscounters, which is awaiting final Competition Commission approval. The group's shareholding in the division has been 55% from 1 April 2007, with the balance being held by The Standard Bank of South Africa Limited.

Strategy

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

A key element of the group's strategy is to optimise the efficiency of its supply chain, ensuring that lead times in ordering, acquiring and distributing stock are reduced to the minimum. In consultation with an external consultant the group set up its supply chain project during the year to deal with supplier relationships, replenishment and merchandise

pipelines. This will result in improved lead times and increased stock turns, ensuring our ability to be first to market with key products, whilst at the same time reducing overheads. The benefits of this initiative will take time to make their impact, but a good start has been made.

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

Prospects

In the last number of years we have been cautious in the opening of new stores. Whilst this remains our approach, there are certain of our formats which are ready for further roll-out and accordingly we anticipate opening in excess of 100 new stores in the year ahead.

Retail turnover for the first ten weeks of the new financial year remains difficult. Budgeted costs for the new year have been curtailed to levels appropriate to the expected turnover. Notwithstanding the downturn in the economy, all the trading divisions are in good shape which places the group in good stead to weather the current consumer downturn, although we are mindful of the uncertain and challenging macroeconomic environment.

Thanks

Having been appointed as CEO on 1 January 2008, I was aware that I was taking over the position in difficult times. I have had tremendous support from my colleagues, for which I thank them. I look forward to working with them to steer the group to new heights and achieving much with them in future years.

Thanks are extended to the group's 15 000 staff members for their contributions to its development and success. I extend my sincere appreciation to each and every one of them.

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

To our shareholders, I extend thanks for their support of the group. I trust that their loyalty will continue to be rewarded.

Finally, I would like to express the group's appreciation to our suppliers, advisers, corporate stakeholders and customers for their contributions to the group's activities and its successes.

Doug Murray
CEO

11 June 2008



financial director's report

Ronnie Stein

Overview

This year was a difficult year for our group. The first half of the year, whilst challenging, produced acceptable performance with retail turnover growth of 8,8% and headline earnings per share increasing by 12,2%. The second half became extremely difficult, particularly from the third week of June after the introduction of the NCA. This, together with above-average food inflation, substantial petrol price hikes and interest rates which have now increased nine times since June 2006, have increased the cost of living of the average South African consumer, which has taken its toll on the semi-durable retail sector. Second-half turnover grew by 3,7% with a reduction in headline earnings for the half of 4,0%.

For the year as a whole retail turnover increased by 6,1% to R7,7 billion. Headline earnings per share increased by 2,4% to 547,0 cents, whilst diluted headline earnings per share increased by 4,5% to 538,0 cents. The compounded annual growth in headline earnings per share over the past seven years is 40,7%.

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



Key performance indicators	2008	Medium-term target	2007
Turnover (Rm)	7 668,7		7 230,0
Turnover growth	6,1%		14,6%
Gross margin	41,6%		42,0%
Operating margin	24,8%	24%	26,1%
Profit before tax (Rm)	1 786,3		1 782,3
Profit after tax (Rm)	1 206,1		1 192,0
Headline earnings per share (HEPS) (cents)	547,0		534,2
HEPS growth	2,4%		15,4%
Diluted headline earnings per share (HEPS) (cents)	538,0		514,8
Diluted HEPS growth	4,5%		14,5%
Dividend per ordinary share (cents)	288,0		270,0
Dividend per ordinary share growth	6,7%		22,7%
Return on average equity	29,6%	35%	32,5%
Gearing	36,2%	40%	18,8%
Net asset value per share (cents)	1 862,7		1 789,4
Net asset value per share growth	4,1%		17,5%
Stock turn (times)			
– jewellery	2,21		2,18
– @home	2,31		2,43
– other	3,21		3,20

Accounting policies and standards

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) 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 increased disclosure requirements of IFRS 7: Financial Instruments.

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

Further information regarding restatements can be found in note 36.

Income statement

Retail turnover

Retail turnover of R7,7 billion increased by 6,1% on the previous year. Same store turnover for the year grew by 2,2%. As is usual in more difficult times our cash turnover growth of 16,1% outpaced credit turnover growth of only 1,1%.

Retail turnover by merchandise category	2008 Rm	2007 Rm	% growth
Clothing	4 989,2	4 727,4	5,5
Jewellery	1 010,0	944,1	7,0
Cellphones	721,6	706,8	2,1
Cosmetics	488,2	435,7	12,1
Homeware and furniture	459,7	416,0	10,5
Total	7 668,7	7 230,0	6,1

The poorest performing merchandise category was cellphones with turnover growth of 2,1% after its frenetic growth in the past few years. There has been a lack of new generation phones this year which we feel has reduced the churn factor.

Surprising on the upside was the level of jewellery turnover as historically, when the economy gets tough, luxury goods tend to suffer more than other products.

Homeware and furniture, as well as cosmetics, performed reasonably well with double digit turnover growth, whilst clothing turnover grew by 5,5%.

Overall product inflation for the year was approximately 4%.

Retail turnover by division	2008 Rm	% Growth	% Same store growth	Number of stores	% Space growth
@home	458,0	11,1	(0,3)	61	8,1
Exact!	707,2	3,6	1,7	182	2,8
Foschini division	3 070,5	5,5	1,2	400	6,3
Jewellery division	1 090,7	6,7	3,3	328	2,2
Markham	1 190,9	6,6*	3,4	201	5,3
Sports division	1 151,4	8,4	3,7	221	10,2
Total	7 668,7	6,1	2,2	1 393	6,0

* Growth excludes the discontinued RJL brand.

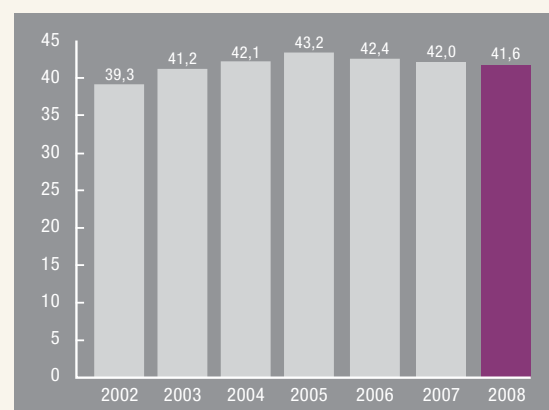
Prior to the introduction of the NCA our group adopted a conservative approach to the opening of pre-approved accounts, having opened far fewer new accounts than other credit providers in the country. This negatively affected the level of our retail turnover for the year, although it has resulted in our group entering these more difficult times with a healthy retail debtors' book in contrast to what appears to be happening in the wider economy. The percentage of account holders at the year-end who were able to purchase was 82,0%, almost identical to the 82,1% in the previous year.

Trading area in the first six months of the year grew by 3,2% and for the year reached a total of 6,0% growth.

During the year, cash sales as a percentage of total sales once again increased to 36,4% from 33,3%.

Our gross margin decreased by 0,4% from 42,0% to 41,6%. Our budgeted input margins remained constant and although we had budgeted stock levels conservatively for Christmas, Christmas trading was softer than expected resulting in marginally higher markdowns. Markdowns as a percentage of turnover increased from 12,5% last year to 13,9% this year.

Gross margin trend analysis





financial director's report continued

Interest received

Interest received increased by 20,4% to R1 056,4 million from R877,4 million primarily due to the growth in all the debtors' books, with the exception of the loans book which declined, combined with higher interest yields on all debtors' books.

Expenses

Expenses before bad debts were well controlled at 12,8%.

Depreciation and amortisation grew by 17,6% reflecting the costs associated with new stores as well as enhanced IT systems.

Employment costs of R1 120,0 million are our group's biggest operating cost and increased by 16,1% over the previous year. The increase in these costs is due to normal staff salary increases which this year averaged 6,5%, as well as the appointment of new staff to service new store openings. Included in these costs are restraint payments which are paid to ensure the retention of key staff. Restraint payments amounted to R35,4 million and we now have in excess of 60 of our key executives covered by four-year restraints. There should be minimal restraint payments paid in the next four years. This year, no incentive bonuses were paid to staff as performance targets were not met. The IFRS 2 share option charge this year amounted to R30,7 million, whilst an amount of R19,2 million was recognised as an expense last year.

Store occupancy costs, the group's second largest operating cost, increased by 12,1% to R583,5 million, and as a percentage of sales increased to 7,6% from 7,2% last year. The increase in this cost is due mainly to the opening of new stores. During the year 76 new stores were opened whilst 15 stores were closed. In addition 12 stores were enlarged whilst 14 were relocated. This year an amount R7,7 million was charged to store occupancy costs, exactly the same amount as in the prior year in order to comply with IAS 17: Leases.

Net bad debt and movement in provisions in our retail debtors' book increased by 15,7% to R217,2 million, reflecting the healthy state of this book. In contrast the net bad debt and movement in provisions in the RCS Group, which was more severely impacted by the NCA grew by 91,6% to R253,7 million. More detail on the group's bad debt and provisions is dealt with in the Financial Services review elsewhere in this report.

Interest paid increased to R120,1 million from R104,7 million, of which R97,7 million relates directly to the funding of the RCS Group. Included in this amount is a reversal of an interest provision of R35,6 million which is

no longer required. This R35,6 million is a non-recurring income item which in the current year is balanced by the non-recurring restraint payments of R35,4 million. The increase in interest paid is due to the increase in interest rates, as well as the increased capital requirements of our group relating to new stores and receivables.

Income from associate

During the year our RCS subsidiary acquired a net 60% share in Effective Intelligence, a data intelligence company and the income from associate reflects our share of the profit of that company for the year.

Profit before tax

Profit before tax marginally increased from the prior year to R1 786,3 million. The group experienced a sharp downturn in turnover in the last quarter of the financial year and although cost cutting measures were immediately introduced, they had little effect on this year, the full impact of which will be evident next year. This resulted in the group's operating margin being reduced to 24,8% from 26,1%, still however above our medium-term target of 24%.

Taxation

The group's effective tax rate reduced from 33,1% to 32,5%. Further details are contained in the notes to the Financial Statements.

Earnings

Headline earnings increased by 0,8% from R1 119,2 million to R1 128,4 million, whilst headline earnings per ordinary share increased from 534,2 cents per share to 547,0 cents per share, an increase of 2,4%. Headline earnings per share has been calculated on the weighted average number of ordinary shares in issue of 206,3 million, down from 209,5 million in the prior year as a result of continued share buy-backs.

Diluted headline earnings per share increased from 514,8 cents to 538,0 cents, an increase of 4,5%.

The group's return on equity (ROE) of 29,6% remains at a satisfactory level, but is down on last year's ROE of 32,5%. Our medium-term target remains at 35%.

Dividends

Having regard to our strong balance sheet and cash flow, we have maintained our final dividend at 170,0 cents per share and together with the interim dividend of 118,0 cents per share, the total dividend for the year of 288,0 cents per share is 6,7% higher than the previous year.

financial director's report continued

Balance sheet

The tangible net asset value per share grew by 4,1% to 1 862,7 cents per share (2007: 1 789,4 cents). Total assets now amount to R7 074,4 million and grew by 4,3%.

Assets

Property, plant and equipment

Property, plant and equipment increased by 8,4% to R847,4 million from last year's R782,1 million primarily due to:

- the opening of new stores, store enlargements and refurbishments in line with our strategy to increase our total trading area; and
- the introduction of new IT systems.

Trade receivables – retail

The group's net retail trade receivables increased by 8,0% to R2 414,9 million on credit turnover growth of 1,1%. As mentioned elsewhere in this report, prior to the introduction of the NCA our group adopted a conservative approach to the opening of new pre-approved accounts. Whilst this negatively affected the level of our retail turnover, it has resulted in our group entering the next year with a healthy retail debtors' book. Net bad debt as a percentage of credit transactions increased from 3,0% to 3,5%, which is a good performance in the current economic climate. The key debtors' statistics are detailed in the FG Financial Services section of this report.

There has been speculation regarding credit retailers divorcing their financial services from their retail operations. In our case, our retail financial services are an integral part of our business and we have no intention of divorcing them from our retail business.

Inventory

Total inventory on hand decreased by 0,2% to R1 290,0 million from R1 292,9 million. Inventory of merchandise for resale increased by 2,7% to R1 227,5 million in line with our stringent control on stock levels. The group moves into the next financial year with a clean stock position. Stock turns in our business need to be improved and are being addressed through our supply chain initiative. Our stock turn in respect of jewellery merchandise at 2,21 is satisfactory in terms of world benchmarks, whilst the group's stock turns on other merchandise categories fall well below world standards. Adequate provision has been made for markdowns, shrinkage and inventory obsolescence.

RCS Group

This division provides a range of broader financial services to both customers of the group, as well as to customers of retailers outside the group. This division experienced a challenging year, having been affected by the introduction of the NCA, which resulted in a reduction in the number of new loans advanced and accordingly a reduction in the loans receivable book to R716,2 million from R866,5 million.

Its private label card receivables however increased by 29,2% to R1 068,3 million from R826,7 million. The group's non-retail receivables now total R1 784,5 million, an increase of 5,4% over last year.

Profit before tax reduced from R322,7 million to R269,6 million for the year, with net bad debt costs and provisions increasing significantly in line with current market trends. The key debtors' statistics are detailed in the RCS Group section of this report.

This division currently represents 15,1% of our group's profit before tax, reducing from last year's 18,1%.

Equity

The group's attributable equity increased to R3 845,2 million from R3 823,6 million, translating into tangible net asset value of 1 862,7 cents per share. During the year 12,5 million shares were repurchased at a cost of R760,4 million. At the financial year-end treasury shares held by subsidiaries, including the share trust, amounted to 35,9 million shares, representing 14,9% of the total issued shares.

Minority interest

The minority interest of R290,9 million relates to the minority shareholding in the RCS Group. At the financial year-end the group's shareholding in this division was 55% with the balance being held by The Standard Bank of South Africa Limited (SBSA).

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 36,2%, which is below the group's revised medium-term objective of 40%.

R1,2 billion of the group's debt relates directly to the funding of the RCS Group, where the group's facility is fixed at R750 million, the balance being funded by SBSA. The SBSA funding 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.

Accordingly the group's debt relating to the retail business is only R298,7 million, which is equivalent to our usual month-end creditors' payment. This year the March month-end creditors' payments amounting to R289,7 million were paid on the last day of the financial year, whilst in the previous year, because the month-end occurred on a weekend, the month-end creditors were paid after the year-end.

Having regard to the current instability in financial markets, the group has secured three-year term funding of R700 million which is almost equivalent to our agreed facility to the RCS Group. Thus, should financial markets deteriorate further, the group should not be impacted.

Trade and other payables

Trade and other payables reduced from R1 171,7 million to R741,8 million. It would thus appear that we have substantially paid down our creditors, which is not the case. As already mentioned, in the 2007 financial year, March month-end trade creditors amounting to R286,9 million were paid on 2 April 2007, after the year-end, whilst those in respect of the current year amounting to R289,7 million were paid prior to the year-end. Our group's policy of paying all suppliers 30 days from statement date remains consistent with prior years.

Capital expenditure

Total capital expenditure for the year amounted to R274,4 million, most of which relates to the opening of new stores and refurbishments, as well as investment in IT systems. R27,1 million was incurred this year in respect of the RCS Group's move to their new premises.

Due to our continuing expansion in new stores, budgeted capital expenditure for 2009 is R315 million.

Cash flow

Cash flows from operating activities before working capital changes amounted to R1 074,2 million, marginally down on the previous year's R1 187,9 million. There were larger working capital requirements during the year primarily as a result of an increased investment in private label card receivables of R241,6 million, as well as a reduction in trade and other payables of R429,9 million which is due primarily to timing of the year-end trade creditors' payments. Cash generated by operations amounted to R505,9 million.

The net cash outflow from investing activities amounted to R52,2 million with investment of R274,4 million having been made in IT equipment and shopfitting.

Included in cash inflows from financing activities are share purchases by the share trust amounting to R760,4 million.

Due to these outflows, interest-bearing debt increased by R741,8 million which resulted, as mentioned previously, in our group's net gearing increasing to 36,2% from 18,8% last year.

Financial targets

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

Ronnie Stein
Financial Director

11 June 2008

