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CLICKS GROUP LIMITED

**INTERIM CONDENSED
CONSOLIDATED RESULTS**
for the six months ended 28 February 2014

Group
turnover up
9.6%

Diluted headline
EPS up
10.3%

Interim
dividend up
10.3%

Return on
equity at
55.4%



COMMENTARY

Overview and trading environment

Consumer spending in the country has remained constrained over the past six months, impacting particularly on the middle income segment which is the core target market of the Clicks chain.

In these demanding trading conditions Clicks is maintaining its competitive position and continues to show real growth in comparable stores. The brand's strong value offer is driving sales growth as the health and beauty markets remain resilient.

UPD's integrated wholesale and distribution strategy is working well, reflected in solid growth in turnover and share gains in both the wholesale and distribution markets.

The group continues to invest for longer-term growth in both its retail and distribution businesses. In addition the group has signed an exclusive agreement to launch GNC, a global leader in health and wellness products.

Financial performance

Group turnover increased by 9.6% to R9.3 billion, with retail sales growing by 7.4% and UPD by 14.7%. Selling price inflation averaged 3.5% for the period.

Total income increased by 9.1% and the total income margin was 10 basis points lower at 27.0% as a result of UPD growing at a faster rate than the retail business. The retail total income margin improved by 40 basis points to 33.4% through private label margin growth and well-managed promotional campaigns in Clicks.

Operating expenses grew by 9.7%. Retail costs were 9.8% higher owing to the increased investment in new stores, pharmacies and staff. Comparable retail cost growth was contained below sales growth at 6.6%. The 12.6% cost growth in UPD reflects the investments in wholesale automation and distribution warehouse capacity, as well as additional variable costs relating to distribution contracts secured in the past year. UPD's cost growth is expected to moderate in the second half of the year.

Operating profit grew by 7.3% and the group operating margin declined by 10 basis points to 6.1%. The operating margins for the group, and the retail and distribution segments, are within the targeted ranges despite the investments made in Clicks and UPD during the current tough trading period.

Diluted headline earnings per share increased by 10.3% to 157.4 cents. An interim dividend of 53.5 cents per share was declared, an increase of 10.3% over the prior period.

Inventory days in stock moved from 71 to 75 days. Inventory levels were 15.3% higher at period-end as both Clicks and UPD invested in stock ahead of supplier price increases. Inventory levels are expected to normalise during the second half.

Cash inflow from operations at R400 million reflects good working capital and cash flow management. The group returned R399 million to shareholders through dividend payments and share repurchases, in line with the policy of returning surplus cash to shareholders. Capital expenditure of R129 million was incurred in the first half and the group plans to invest R347 million for the full financial year.

The group's financial and operational performance for the six months has resulted in a sector-leading return on equity of 55.4%.

Trading performance

Clicks increased sales by 8.2% with comparable store sales growing by 5.3%. The brand continued to generate real volume growth, supported by promotional activity which accounted for 26% of sales in the period. Pharmacy sales were 13.1% higher and Clicks increased its retail pharmacy market share to 17.6%. Clicks extended its store footprint to 453, with 333 dispensaries and 133 clinics. The Clicks ClubCard loyalty programme has grown active membership to 4.3 million.

The Body Shop increased turnover by 7.1% with the brand facing margin pressure from the depreciation of the Rand. Musica continued to gain share in all product categories in a declining market.

UPD increased turnover by 14.7%, benefiting from sales to its core customers Clicks and the private hospital groups, and

preferred supply chain partner contracts. UPD has grown its share of the private pharmaceutical market from 25.7% to 26.3%. The completion of the new distribution facility in Johannesburg has increased warehouse capacity by 50%.

Outlook

The current challenging consumer trading environment is expected to continue during the second half of the financial year, while selling price inflation is anticipated to average 4% – 5% for the year.

Management plans to improve delivery in Clicks by growing sales through its value offer, private label, pharmacy and ClubCard. Clicks will also continue to focus on the prudent management of margin and costs.

UPD aims to extract value from the recent investments in wholesale automation and in distribution capacity while continuing to extract cost efficiencies across the business.

The group remains on track to achieve its medium-term financial and operating targets.

Full-year earnings forecast

The directors forecast that diluted headline earnings per share for the financial year ending 31 August 2014 will increase by between 8% and 12% over the 2013 financial year.

The forecast is based on the following key assumptions: Trading conditions will continue to be challenging as consumer spending remains constrained; selling price inflation will be relatively low and stable for the year; and the group will continue to invest for longer-term growth, mainly in new stores and pharmacies.

Shareholders are advised that this forecast has not been reviewed or reported on by the group's independent auditor.

Interim dividend

The board of directors has approved a gross interim ordinary dividend of 53.5 cents per share (2013: 48.5 cents per share). The source of the dividend will be from distributable reserves and paid in cash.

Additional information

No Secondary Tax on Companies (STC) credits have been utilised as part of these declarations.

Dividends Tax (DT) amounting to 8.025 cents per ordinary share will be withheld in terms of the Income Tax Act. Ordinary shareholders who are not exempt from DT will therefore receive a net dividend of 45.475 cents net of DT.

The company has 246 137 763 ordinary shares and 29 153 295 ordinary "A" shares in issue. Its income tax reference number is 9061/745/71/8.

Shareholders are advised of the following salient dates in respect of the interim dividend:

Last day to trade "cum" the dividend	Friday, 27 June 2014
Shares trade "ex" the dividend	Monday, 30 June 2014
Record date	Friday, 4 July 2014
Payment to shareholders	Monday, 7 July 2014

Share certificates may not be dematerialised or rematerialised between Monday, 30 June 2014 and Friday, 4 July 2014, both days inclusive.

The directors of the company have determined that dividend cheques amounting to R50.00 or less due to any ordinary shareholder will not be paid unless a written request to the contrary is delivered to the transfer secretaries, Computershare Investor Services Proprietary Limited, by no later than close of business on Friday, 27 June 2014, being the day the shares trade "cum" the dividend. Unpaid dividend cheques will be aggregated with other such amounts and donated to a charity to be nominated by the directors.

By order of the board

David Janks

Company secretary

24 April 2014

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

R'000	Six months to 28 February 2014 (unaudited)	Six months to 28 February 2013 (restated unaudited)	% change	Year to 31 August 2013 (restated)
Revenue	9 811 411	8 941 276	9.7	18 460 571
Turnover	9 348 825	8 529 084	9.6	17 543 301
Cost of merchandise sold	(7 284 418)	(6 626 166)	9.9	(13 760 770)
Gross profit	2 064 407	1 902 918	8.5	3 782 531
Other income	459 758	409 839	12.2	911 735
Total income	2 524 165	2 312 757	9.1	4 694 266
Expenses	(1 953 569)	(1 780 903)	9.7	(3 590 481)
Depreciation and amortisation	(107 538)	(97 702)	10.1	(200 398)
Occupancy costs	(279 017)	(247 185)	12.9	(500 992)
Employment costs	(1 010 011)	(888 089)	13.7	(1 790 649)
Other costs	(557 003)	(547 927)	1.7	(1 098 442)
Operating profit	570 596	531 854	7.3	1 103 785
Loss on disposal of property, plant and equipment	(3 346)	(3 632)	(7.9)	(7 854)
Profit before financing costs	567 250	528 222	7.4	1 095 931
Net financing costs	(22 700)	(20 048)	13.2	(46 369)
Financial income	2 828	2 353	20.2	5 535
Financial expense	(25 528)	(22 401)	14.0	(51 904)
Profit before taxation	544 550	508 174	7.2	1 049 562
Income tax expense	(154 665)	(144 336)	7.2	(298 873)
Profit for the period	389 885	363 838	7.2	750 689
Other comprehensive (loss)/income:				
Items that will not be subsequently reclassified to profit or loss	-	-		879
Remeasurement of post-employment benefit obligations	-	-		1 221
Deferred tax on remeasurement	-	-		(342)
Items that may be subsequently reclassified to profit or loss				
Exchange differences on translation of foreign subsidiaries	559	(685)		2 009
Cash flow hedges	(3 224)	(2 902)		9 952
Change in fair value of effective portion	(4 476)	(4 031)		13 822
Deferred tax on movement of effective portion	1 252	1 129		(3 870)
Other comprehensive (loss)/income for the period, net of tax	(2 665)	(3 587)		12 840
Total comprehensive income for the period	387 220	360 251		763 529
Profit attributable to:				
Equity holders of the parent	389 733	363 560		750 292
Non-controlling interest	152	278		397
	389 885	363 838		750 689
Total comprehensive income attributable to:				
Equity holders of the parent	387 068	359 973		763 132
Non-controlling interest	152	278		397
	387 220	360 251		763 529
Earnings per share (cents)	158.5	144.3	9.8	299.8
Diluted earnings per share (cents)	156.5	141.7	10.4	296.1

HEADLINE EARNINGS RECONCILIATION

R'000	Six months to 28 February 2014 (unaudited)	Six months to 28 February 2013 (restated unaudited)	% change	Year to 31 August 2013 (restated)
Total profit for the period attributable to equity holders of the parent	389 733	363 560		750 292
Adjusted for:				
Loss on disposal of property, plant and equipment	2 410	2 615		5 655
Headline earnings	392 143	366 175	7.1	755 947
Headline earnings per share (cents)	159.4	145.4	9.6	302.0
Diluted headline earnings per share (cents)	157.4	142.7	10.3	298.3

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

R'000	As at 28 February 2014 (unaudited)	As at 28 February 2013 (restated unaudited)	As at 31 August 2013 (restated)
Non-current assets	1 614 031	1 553 509	1 601 461
Property, plant and equipment	1 067 116	1 036 047	1 058 967
Intangible assets	353 665	319 911	349 018
Goodwill	103 510	103 510	103 510
Deferred tax assets	55 545	66 298	59 098
Loans receivable	12 306	11 701	12 105
Financial assets at fair value through profit and loss	21 889	16 042	18 763
Current assets	4 507 873	3 975 944	3 843 317
Inventories	2 894 162	2 509 186	2 225 372
Trade and other receivables	1 441 857	1 430 093	1 507 766
Cash and cash equivalents	162 394	35 705	92 166
Derivative financial assets	9 460	960	18 013
Total assets	6 121 904	5 529 453	5 444 778
Equity and liabilities			
Total equity	1 375 890	1 268 919	1 376 838
Non-current liabilities	256 162	270 002	252 305
Employee benefits	90 306	87 032	91 489
Deferred tax liabilities	5 048	36 962	9 208
Operating lease liability	160 808	146 008	151 608
Current liabilities	4 489 852	3 990 532	3 815 635
Trade and other payables	3 761 013	3 242 628	3 255 567
Employee benefits	132 200	109 902	148 402
Provisions	6 188	8 828	6 596
Interest-bearing borrowings	549 700	592 962	344 355
Income tax payable	40 677	35 811	58 605
Derivative financial liabilities	74	401	2 110
Total equity and liabilities	6 121 904	5 529 453	5 444 778

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

R'000	Six months to 28 February 2014 (unaudited)	Six months to 28 February 2013 (restated unaudited)	Year to 31 August 2013 (restated)
Operating profit before working capital changes	706 991	652 028	1 350 817
Working capital changes	(118 914)	(234 884)	25 824
Net interest paid	(17 602)	(14 684)	(36 294)
Taxation paid	(170 760)	(159 923)	(328 647)
Cash inflow from operating activities before dividends	399 715	242 537	1 011 700
Dividends paid to shareholders	(298 202)	(273 225)	(394 005)
Net cash effects from operating activities	101 513	(30 688)	617 695
Net cash effects from investing activities	(131 905)	(141 536)	(308 458)
Capital expenditure	(129 024)	(145 460)	(309 886)
Other investing activities	(2 881)	3 924	1 428
Net cash effects from financing activities	100 620	200 789	(224 211)
Purchase of treasury shares	(101 481)	(177 607)	(354 158)
Treasury share cancellation costs	(3 244)	-	-
Other financing activities	205 345	378 396	129 947
Net increase in cash and cash equivalents	70 228	28 565	85 026
Cash and cash equivalents at the beginning of the period	92 166	7 140	7 140
Cash and cash equivalents at the end of the period	162 394	35 705	92 166

SUPPLEMENTARY INFORMATION

		As at 28 February 2014 (unaudited)	As at 28 February 2013 (restated unaudited)	As at 31 August 2013 (restated)
Number of ordinary shares in issue (gross)	('000)	246 138	268 323	268 323
Number of ordinary shares in issue including "A" shares issued in terms of employee share ownership programme (gross)	('000)	275 291	297 477	297 477
Number of ordinary shares in issue (net of treasury shares)	('000)	245 032	249 984	246 880
Weighted average number of shares in issue (net of treasury shares)	('000)	245 958	251 918	250 297
Weighted average diluted number of shares in issue (net of treasury shares)	('000)	249 074	256 652	253 434
Number of ordinary shares purchased	('000)	1 848	3 058	6 187
Net asset value per share	(cents)	562	508	558
Net tangible asset value per share	(cents)	375	338	374
Depreciation and amortisation	(R'000)	112 436	102 121	210 105
Capital expenditure	(R'000)	129 024	145 460	309 886
Capital commitments	(R'000)	217 500	189 540	337 850

NOTES

Accounting policies

- 1.1 These annual financial results for the six months ended 28 February 2014 have been prepared in compliance with International Financial Reporting Standards ("IFRS"), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Council, the disclosure requirements of IAS 34 and the South African Companies Act (71 of 2008, as amended).

The accounting policies used in the preparation of the interim financial results for the six months ended 28 February 2014, are in terms of IFRS and are consistent with those applied in the Audited Financial Statements for the year ended 31 August 2013, except for as disclosed below. In terms of IAS 1 "Presentation of Financial Statements", the relevant comparative information has been restated and the effect on the financial statements is as follows:

- 1.2 The adoption of IAS 19 (Revised) – Employee Benefits has resulted in comparative figures being restated to recognise actuarial gains and losses through other comprehensive income. The impact of this has been to increase employment costs in the year to 31 August 2013 by R1.2 million with a consequent increase in other comprehensive income. The related tax charge has also been reclassified. There was no impact on the interim financial results for the six months ended 28 February 2013.
- 1.3 The adoption of IFRS 10 – Consolidated Financial Statements has resulted in comparative figures being restated in terms of the new definition of control where a structured entity is no longer deemed to be in the group's control. Previously the group consolidated its insurance cell investment. As a result of the implementation of IFRS 10, the net investment in the insurance cell is treated as a financial asset at fair value through profit or loss. The impact of the restatement on the statement of comprehensive income for the six months to 28 February 2013 has been to reduce other income by R0.9 million (31 August 2013: R1.7 million), to increase net financing costs by R0.5 million (31 August 2013: R1.2 million) and to reduce other costs by R1.3 million (31 August 2013: R2.8 million). The impact on the statement of financial position as at 28 February 2013 has been to recognise a financial asset at fair value through profit or loss of R16.0 million (31 August 2013: R18.8 million), to reduce cash and cash equivalents by R20.6 million (31 August 2013: R23.4 million) and to reduce trade and other payables by R4.5 million (31 August 2013: R4.6 million).
- 1.4 The effect on the financial statements of the above restatements are as follows:

R'000	Six months to 28 February 2013 (restated unaudited)	Year to 31 August 2013 (restated)
Increase/(decrease) in operating profit	466	(68)
Increase in financing costs	(466)	(1 153)
Decrease in income tax expense	–	342
Increase in other comprehensive income	–	879
Increase in financial assets at fair value through profit or loss	16 042	18 763
Decrease in cash and cash equivalents	(20 579)	(23 393)
Decrease in trade and other payables	(4 537)	(4 630)
Decrease in earnings per share (cents)		
Basic	–	(0.3)
Diluted	–	(0.3)
Decrease in headline earnings per share (cents)		
Basic	–	(0.4)
Diluted	–	(0.3)

The information contained in the interim report has neither been audited nor reviewed by the group's external auditors. These condensed financial statements have been prepared under the supervision of M Fleming CA(SA), the Chief Financial Officer of the group.

Registered address: Cnr Searle and Pontac Streets, Cape Town 8001. PO Box 5142, Cape Town 8000

Directors: DM Nurek* (Chairman), F Abrahams*, JA Bester*, BD Engelbrecht, M Fleming (Chief Financial Officer), F Jakoet*, DA Kneale* (Chief Executive Officer), NS Matlala*, M Rosen*, KDM Warburton^

* Independent non-executive # British ^ Appointed 18 February 2014

Registration number: 1996/000645/06 **Income tax number:** 9061/745/71/8

Share code: CLS **ISIN:** ZAE000134854 **CUSIP:** 18682W205

Transfer secretaries: Computershare Investor Services Proprietary Limited
70 Marshall Street, Johannesburg 2001. PO Box 61051, Marshalltown 2107

Sponsor: Investec Bank Limited

This information, together with additional detail,
is available on the Clicks Group website:

www.clicksgroup.co.za