Mr Price Group Limited

MILADYS

sheet street

Registration number 1933/004418/06 • Incorporated in the Republic of South Africa
• ISIN: ZAE 000026951 • JSE share code: MPC

AUDITED GROUP RESULTS FOR THE YEAR ENDED 31 MARCH 2006

Highlights

- **CORE HEADLINE EARNINGS PER SHARE UP 46%**
- **DISTRIBUTIONS PER SHARE INCREASED BY 35%**
- **CONTINUING OPERATIONS**
  - **– REVENUE UP 24% TO R5 BILLION**
  - **– OPERATING PROFIT UP 53% TO R534 MILLION**

Commentary

RESULTS

There has been strong growth in consumer spending in South Africa over the past few years in an environment of stable interest rates and lower taxation. Cash retailers, in particular, are now benefiting fully from the trading conditions which initially favoured credit-oriented chains. The Mr Price group, having launched its expansion strategy four years ago, has been well positioned to meet this growing demand. The four retail chains, Mr Price, Mr Price Home, Miladys and Sheet Street, all performed well during the year under review. This performance helped compensate for the loss of the contribution from the non-core Hub and Galaxy chains, which were sold during the year.

Retail sales from continuing operations grew by 24% to R5,0 billion for the 53 weeks ended March 2006. Sales for the comparable 52 week period were 22% higher with comparable sales growing by 14,8% and weighted average trading space by 11,8%. Operating margins increased in all retail chains with the group growing its operating margin for the 52 weeks to 10,2%, a target which had originally been set for the 2007 financial year. Operating profit from continuing activities was 53% higher at R534 million.

Comparison of the results for the current financial year with the previous financial year has been made more difficult by two matters, namely:

- the sale of the Hub and Galaxy chains whose results are reflected under discontinued operations; and
- the adjusted accounting treatment of the contributions to export partnerships in compliance with International Financial Reporting Standards ('IFRS'), which has required the restatement of base earnings in the 2005 financial year.

In order to assist a meaningful comparison, details of the earnings attributable to core operations, which exclude the effect of the abovementioned matters, have been provided.

Headline earnings per share rose by 49% to 161,7 cents off the restated base of 108,8 cents. After adjusting for the impact of the sale of the two chains and the accounting treatment referred to above, core headline earnings per share increased by 46% from 104,4 cents in the previous financial year to 152,2 cents for the year under review.

The total distribution of 81 cents per share, based on a cover of two times, represents an increase of 35% on last year's 60 cents. The compound growth in the distribution to shareholders over the past five years has been 46%. In lieu of a final dividend, the group will make a distribution by way of a reduction of its share premium account, subject to the approval of shareholders, as detailed in the accompanying declaration.

TRADING (52 weeks on 52 weeks)

The apparel chains (Mr Price and Miladys) grew sales by 18% with retail selling price inflation of 5,2% and increased operating profits by 41%. Sales of the home chains (Mr Price Home and Sheet Street) were 31% higher with retail selling price inflation of 22,2% attributable to the growing contribution of furniture and other changes in merchandise mix, and operating profits were 72% higher. The number of stores operated by the continuing operations increased from 710 to 761.

The Mr Price chain grew sales by 17% to R2,6 billion with weighted average trading space growing by 9%. Comparable sales were 14,6% higher with retail selling price inflation of 5,5%. Improvements in merchandise assortments and delivery coupled with excellent fashion interpretations resulted in a strong profit performance and this has continued into the new financial year.

Miladys sales were 21% higher at R0,76 billion, with a growth in weighted average trading space of 6% and comparable sales growth of 14,8%. Over the last two years, Miladys has experienced 7% retail selling price deflation, and a 52% growth in units. The store revamp programme has proved extremely successful with renovated stores recording a marked improvement in sales levels and branch profitability.

Mr Price Home grew sales by 28% to R1,1 billion with weighted average trading space increasing by 24% during the year. With retail selling price inflation of 17,6% (caused by the growing contribution of furniture), comparable sales were 14,8% higher. The ultra stores (>2500 square metres) which opened recently and which carry larger assortments of furniture, have proven to be very successful.

Sheet Street increased sales by 37% to R0,46 billion with weighted average trading space increasing by 13%. Comparable sales were 16,7% higher with retail selling price inflation of 36,1%, resulting from the discontinuance of certain low priced hard goods departments.

FINANCE

The balance sheet remains strong with cash resources of R625 million. As reported previously, the sale of the Hub and Galaxy chains generated positive cash flows of R188 million. These resources and future cash flows will allow the group to continue its expansion programme and more than R1 billion is planned to be invested in new stores, expansions, revamps and new concepts over the next five years.

The test of credit in Mr Price, Mr Price Home and Sheet Street throughout KwaZulu-Natal and the Eastern Cape, and more recently the Western Cape, has been positive and in line with expectations. The take up of the offer and the impact on the average basket size indicates not only a strong demand for credit but also supports the role of credit in driving additional sales. A national rollout has now commenced and it is expected that this will be completed within the first half of the new financial year. Notwithstanding the launch of credit in the former cash operations, cash sales as a percentage of total sales was 89% and the group will remain a predominantly cash retailer. Credit is tightly controlled in the group with net bad debt at 1,1% of credit sales and 2,6% of the debtors book.

PROSPECTS

Prospects for the coming year are positive and another year of earnings growth is anticipated. The group remains committed to its 2010 targets of revenue of R10 billion at an operating margin in excess of 10%.

For and on behalf of the board
S B Cohen – Joint non-executive chairman
L J Chiappini – Joint non-executive chairman
A E McArthur – Chief executive officer

DECLARATION OF CASH DISTRIBUTION

The directors have proposed a cash distribution to shareholders of 56,7 cents per ordinary and unlisted B ordinary share, in lieu of a final dividend for the year ended 31 March 2006, by way of a reduction of the share premium account ('the distribution'). The distribution is subject to shareholder approval at a general meeting of the company to be held on Thursday 15 June 2006.

The following dates are applicable:

Last date to trade 'cum' the distribution	Friday	23 June 2006
Shares trade 'ex' distribution	Monday	26 June 2006
Record date	Friday	30 June 2006
Payment to shareholders on	Monday	3 July 2006

Shareholders may not dematerialise or rematerialise their share certificates between Monday 26 June 2006 and Friday 30 June 2006, both days inclusive.

On behalf of the board — Durban
C S Yuill - Secretary — 25 May 2006

TRANSFER SECRETARIES

Computershare Investor Services 2004 (Pty) Ltd.,
70 Marshall Street, Johannesburg, 2001.
P O Box 61051, Marshalltown, 2107.
Telephone: (011) 370 5000.

SPONSOR

Rand Merchant Bank (a division of FirstRand Bank Limited),
1 Merchant Place, Cnr Fredman Drive and Rivonia Road, Sandton, 2196.
P O Box 786273, Sandton, 2146.

DIRECTORS

L J Chiappini* (Joint chairman), S B Cohen* (Joint chairman), A E McArthur† (Chief executive officer), M M Blair†, S A Ellis†, K Getz*, C Hultzer*, M R Johnston*, Prof. L J Ring* (USA), W J Swain*, S van Niekerk†, C S Yuill†

*Non-executive director †Executive director

Consolidated INCOME STATEMENT

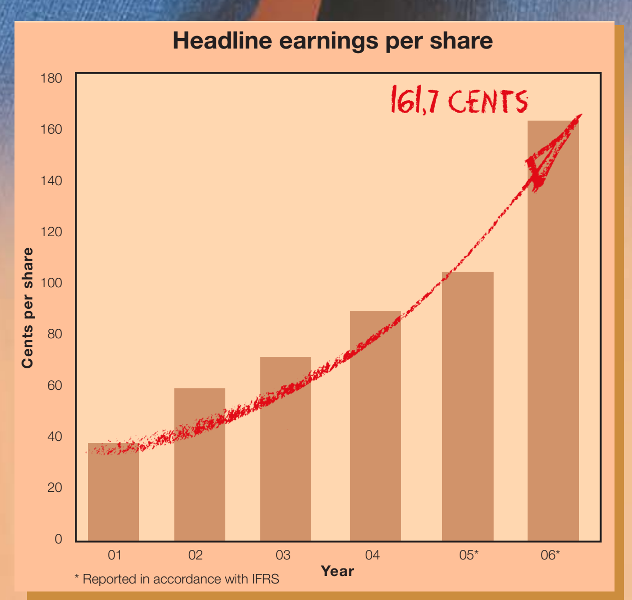
R'000	2006 March 53 weeks	2005 March 52 weeks (Restated)	% change
Revenue	5 284 842	4 636 380	14
Continuing operations	5 048 643	4 058 055	24
Discontinued operations	170 850	525 503	(67)
Finance income	65 349	52 822	24
Continuing operations			
Retail sales	5 007 591	4 023 414	24
Other income	41 052	34 641	19
Total revenue	5 048 643	4 058 055	24
Costs and expenses	4 514 578	3 708 607	22
Cost of sales	2 980 810	2 434 682	22
Selling expenses	1 159 329	953 207	22
Administrative and other operating expenses	374 439	320 718	17
Profit from operating activities	534 065	349 448	53
Net finance income	31 087	7 745	
Profit after net finance income	565 152	357 193	58
Net amortised cost adjustment of contributions to export partnerships	15 201	(21 689)	
Profit before taxation	580 353	335 504	73
Taxation	193 489	107 160	81
Net profit from continuing operations	386 864	228 344	69
Discontinued operations			
Profit from operating activities	8 350	44 848	
Profit arising from discontinuance	1 376	647	
Net finance (costs)/income	(98)	849	
Profit before taxation	9 628	46 344	(79)
Taxation	4 022	13 387	
Net profit from discontinued operations	5 606	32 957	(83)
Total group			
Net profit attributable to shareholders	392 470	261 301	50
Weighted average number of ordinary and unlisted B ordinary shares in issue (net of shares held by staff share trust) (000)	245 697	241 470	2
Earnings per ordinary and unlisted B ordinary share (cents)			
- basic	159,7	108,2	48
- headline	161,7	108,8	49
- core headline	152,2	104,4	46
- diluted basic	152,8	104,0	47
- diluted headline	154,7	104,7	48
- diluted core headline	145,5	100,4	45
Distributions per share (cents)	81,0	60,0	35
Distribution cover (times)	2,0	1,8	11

Consolidated BALANCE SHEET

R'000	2006 March	2005 March (Restated)
Assets		
Non-current assets	570 810	446 723
Property, plant and equipment	344 007	277 987
Intangible assets	6 137	7 581
Long-term receivables and prepayments	216 096	155 758
Deferred taxation assets	4 570	5 397
Current assets	1 456 029	1 394 505
Inventories	535 467	568 393
Trade and other receivables	296 039	332 981
Cash and cash equivalents	624 523	493 131
Total assets	2 026 839	1 841 228
Equity and liabilities		
Equity attributable to shareholders	1 025 647	770 951
Non-current liabilities	280 340	322 998
Lease obligations and loan	101 673	98 486
Deferred taxation liabilities	171 554	214 107
Post retirement medical benefits	7 113	10 405
Current liabilities	720 852	747 279
Trade and other payables and provisions	550 904	639 741
Current portion of long-term liabilities	16 347	30 908
Taxation	153 601	76 630
Total equity and liabilities	2 026 839	1 841 228

Consolidated CASH FLOW STATEMENT

R'000	2006 March 53 weeks	2005 March 52 weeks (Restated)
Cash flows from operating activities		
Operating profit before working capital changes	606 135	446 065
Working capital changes	(132 027)	107 664
Net interest received	65 427	52 644
Restraints of trade	(48 333)	-
Taxation paid	(162 284)	(78 608)
Net cash inflows from operating activities	328 918	527 765
Continuing operations	319 356	496 860
Discontinued operations	9 562	30 905
Cash flows from investing activities		
Net advances in respect of long-term receivables	(59 154)	(73 611)
Acquisition of subsidiary	(4 800)	-
Disposals of discontinued operations	187 670	4 480
Additions to intangible assets	(3 799)	(2 890)
Replacement of property, plant and equipment	(106 708)	(44 344)
Additions to property, plant and equipment	(61 056)	(49 268)
Proceeds on disposal of property, plant and equipment	145	347
Net cash outflows from investing activities	(47 702)	(165 286)
Continuing operations	(231 455)	(160 644)
Discontinued operations	183 753	(4 642)
Cash flows from financing activities (continuing operations)		
Proceeds from issue of share capital	30 856	17 888
Proceeds from disposal of investments by staff share trust	726	836
Decrease in lease obligations and loan	(6 550)	(126 460)
Distributions to shareholders	(171 509)	(97 227)
Net cash outflows from financing activities	(146 477)	(204 963)
Net increase in cash and cash equivalents	134 739	157 516
Cash and cash equivalents at beginning of the year	493 131	334 389
Exchange (losses)/gains	(3 347)	1 226
Cash and cash equivalents at end of the year	624 523	493 131



Notes:

1. The results have been audited by Ernst & Young. A copy of their unqualified audit report is available for inspection at the company's registered office.
2. The results are prepared in accordance with IFRS. The impact of the first time adoption of IFRS and circulars issued by the South African Institute of Chartered Accountants ('SAICA') resulted in the following amendments:

2.1 Circular 7/2005 issued by SAICA requires that operating lease expenses be recognised on a straight line basis over the lease term. Previously, lease expenses were recognised in accordance with the payment terms of the lease agreements. This change in accounting policy has had a retrospective application.

A lease in respect of buildings, previously recognised as an operating lease, was deemed to be a finance lease on the adoption of IAS 17 Leases. This lease has been reclassified with retrospective effect.

2.2 On the adoption of IAS 21 The Effects of Changes in Foreign Exchange Rates, the group has selected functional currencies in respect of non South African subsidiaries. This has resulted in foreign exchange translation differences being taken to a separate component of equity instead of the previous disclosure in the income statement. This policy has been applied with retrospective effect from the opening transitional balance sheet date of 1 April 2004, in terms of the exemption permitted under the standard. Furthermore, the standard requires that all balance sheet items be translated at spot rate at balance sheet dates. Previously, only items defined as monetary items were translated at spot rate. In accordance with the new standard, inventories and property, plant and equipment owned by subsidiaries are now translated at spot rate, whereas they had previously been accounted for at the historic rate.

2.3 IAS 2 Inventories requires that the carrying value of inventories include all costs of purchase, costs of conversion, and other costs incurred in bringing inventories to their present location and condition. Accordingly, the valuation of inventories now includes primary carriage costs to stores, which were previously not included.

Furthermore, in accordance with the recommendation by SAICA regarding the treatment of settlement discounts, the valuation of inventories and measurement of cost of sales have been adjusted by the settlement discounts received from suppliers in respect of merchandise purchases, with retrospective effect.

2.4 The adoption of IAS 39 Financial Instruments: Recognition and Measurement has resulted in imputed interest on interest free debtors being recognised. Accordingly, a portion of credit sales revenue has been deemed to be interest recognised on a time apportionment basis. Previously, the entire transaction was recognised as a sale with no interest implication. This policy has been applied with retrospective effect.

2.5 IFRS 2 Share-based Payments requires that equity-settled share-based payments transactions be measured at fair value and the cost be recognised as an expense in the income statement over the vesting period. Prior to the adoption of IFRS 2, the group did not recognise the financial effect of these share-based payments. In accordance with the transitional provisions of IFRS 2, the standard has been applied retrospectively to all share options granted to associates after 7 November 2002 that were unvested as of 1 April 2004. The share options are valued using a binomial valuation model and are expensed in the income statement, with a corresponding amount being taken to a separate equity reserve.

2.6 As referred to in the announcement of the results for the six months to 30 September 2005, the group has sought external advice to ensure that the accounting treatment of its participation in export partnerships was in compliance with IAS 39. Following on an evaluation of the advice received, the policy has been changed in respect of the discount rate applied to the contributions made in order to arrive at an amortised cost value. The discount rate adopted represents a combination of the risk free rate and a risk premium established at the date that each contribution was made to the partnerships, whereas this was previously calculated using an effective interest rate. The amortised cost adjustments reflected in the statement of changes in equity will be recovered through the income statement over the repayment period to ultimately reflect the full amount due.

2.7 Deferred receivables were previously measured at amortised cost at inception using the original effective interest rate. In accordance with IAS 39 these have now been measured at fair value using a market rate at inception.

Statement OF CHANGES IN EQUITY

R'000	Notes	2006 March	2005 March (Restated)
Total equity attributable to shareholders at 1 April (previously stated)		1 135 154	925 214
Lease restatement and transition to IFRS		(367 609)	(339 631)
- Leases	2.1	(79 649)	(74 998)
- Foreign exchange	2.2	(1 432)	(1 548)
- Inventories	2.3	(3 928)	(3 538)
- Imputed interest	2.4	(1 964)	(1 762)
- Share-based payments	2.5	(4 337)	(1 146)
- Contributions to export partnerships	2.6	(269 122)	(249 233)
- Deferred receivables	2.7	(7 177)	(7 406)
Recognition of share-based payments		4 337	1 146
Currency translation adjustments		(931)	(878)
Total equity attributable to shareholders at 1 April (restated)		770 951	585 851
Net profit for the year (restated)		392 470	261 301
Net profit for the year (previously stated)			289 279
Lease restatement and transition to IFRS			
- Leases	2.1		(4 651)
- Foreign exchange	2.2		116
- Inventories	2.3		(390)
- Imputed interest	2.4		(202)
- Share-based payments	2.5		(3 191)
- Contributions to export partnerships	2.6		(19 889)
- Deferred receivables	2.7		229
Shares issued		30 856	17 888
Recognition of share-based payments		6 776	3 191
Distributions to shareholders		(171 509)	(97 227)
Currency translation adjustments		(3 897)	(53)
Total equity attributable to shareholders at 31 March		1 025 647	770 951

Segmental REPORTING

Business segments

The group's retail activities are organised into two divisions for operational and management purposes.

R'000	2006 March 53 weeks	2005 March 52 weeks (Restated)	% change
Revenue from continuing and discontinued operations			
Continuing operations	5 048 643	4 058 055	24
Apparel	3 431 000	2 847 547	20
Home	1 615 855	1 205 663	34
Central services	16 611	13 696	
Eliminations	(14 823)	(8 851)	
Discontinued operations	170 850	525 503	(67)
Total	5 219 493	4 583 558	14
Profit from operating activities of continuing and discontinued operations			
Continuing operations	534 065	349 448	53
Apparel	442 031	312 896	41
Home	143 569	83 311	72
Central services	(53 960)	(33 815)	
Other	(155)	(14 973)	
Eliminations	2 580	2 029	
Discontinued operations	8 350	44 848	(81)
Total	542 415	394 296	38

Supplementary INFORMATION

	2006 March	2005 March (Restated)
Number of ordinary and unlisted B ordinary shares in issue (net of shares held by staff share trust) (000)	248 756	243 005
Net asset value per share (cents)	412	317
R'000		
Reconciliation of headline and core headline earnings		
Net attributable profit	392 470	261 301
Profit from discontinuance	(1 376)	(647)
Loss on disposal and scrapping of property, plant and equipment in continuing operations	3 187	3 115
Taxation adjustment	3 098	(934)
Headline earnings	397 379	262 835
Net amortised cost adjustment of contributions to export partnerships	(15 201)	21 689
Net attributable profit from operating activities of discontinued operations	(8 252)	(32 310)
Core headline earnings	373 926	252 214
Depreciation and amortisation for the year	87 266	83 954
Capital expenditure		
- expended during the year	171 563	96 502
- authorised or committed at year end	181 485	140 603

Borrowing powers are limited to R1 538 million and unutilised borrowing facilities amount to R448 million.

Contingent liabilities

In giving effect to the disposal of the discontinued operations, the group has provided support to the purchasers:

- *as security for operating lease obligations. The maximum theoretical exposure in this regard has been quantified at R225 million but it is estimated that, in the event that the guarantees are called upon, the practical potential liability to the group would be reduced, through sub-leasing and conversion to own use, to approximately R47 million.*
- *to guarantee the performance of trade debtors sold to the purchasers of Galaxy for a period of three years, subject to a maximum of R27 million. The debtors are ceded back to the company in the event of the guarantee being called upon.*

Other guarantees extended by the group amount to R87 million (2005: R60 million).

This report and the supporting presentation are available on our website: www.mrpricegroup.com