

## chairman's report



**CH Wiese** CHAIRMAN



The past reporting period was an eventful one for Shoprite Holdings. At an operational level it produced one of the most successful years in a long time. On an investment level it was overshadowed by an approach from Brait Private Equity involving the restructuring of the business and its ultimate delisting from the JSE Limited.

### OUR OPERATIONAL SUCCESS

Although the whole of the retail sector enjoyed a very successful year, the Group was able to manage the growth in consumer demand so efficiently it could reap the full benefit of substantially higher profits. This was largely due to it having built up a highly efficient infrastructure both in terms of technical sophistication and skills. To quote an example: the decrease in local supplier service levels during the year could have had a far more negative effect on results were it not for the Group's ability to source replacement products anywhere in the world at the optimum landed price.

In this annual report we report more fully on the value-added services with which we have augmented our core food offering. This was done mainly for two reasons – to satisfy the changes in consumer buying patterns and to turn our supermarkets into destination stores that meet as many of the daily needs of consumers as possible. These changes in buying patterns are particularly noticeable in the growing preference for perishable products and the consequent higher frequency of store visits.

Some of our value-added services such as meat markets, bakeries and fresh-produce departments have formed part of our food offering for years, but they have been dramatically reformatted. The meat markets now increasingly sell prepackaged branded products that not only promote a healthier lifestyle but also reflect the Group's environmental concerns. The fresh-produce department in turn imports fruit from northern hemisphere countries to make certain summer varieties

available almost the year round while also offering a growing range of microwave-ready products well suited to the needs of time-strapped consumers. A similar sophistication distinguishes the ranges of prepared meals offered by the delicatessens located in all stores.

However, the extension of services is more immediately visible in the growing number of in-store pharmacies and standalone liquor stores located at the entrance to supermarkets. With the departure of so many chemists from especially the rural areas, these pharmacies are also playing an increasingly important role in communities with the health-care advice given to shoppers at their request. The liquor stores, which complement the wine departments within supermarkets, are designed to enhance the image of the products on offer.

The objective of turning supermarkets into destination stores is, however, nowhere better illustrated than in the Money Market concept, which has been greatly expanded with the acquisition of Computicket, the country's foremost booking agency, that now enables consumers to book their seats for major cinema, entertainment and sports events while doing their food shopping at any of the Group's Hypers and supermarkets. Following the introduction of secure, cost-effective money transfers between all our branches in South Africa, we are developing further financial services in addition to the ones already offered. This is an area we believe holds enormous growth potential for the Group and substantial benefits for consumers, and for this reason we will be further expanding our range of financial services.



The Group's **VALUE-ADDED SERVICES** have been **DRAMATICALLY REFORMATTED** – turning its supermarkets into destination stores

#### THE BRAIT PROPOSAL

When the reporting period started, the Group had been operating for almost three months under a cautionary notice following an approach from Brait Private Equity involving the restructuring and ultimate delisting of your company.

As required by the rules of the JSE and the SRP, Absa Bank was appointed to undertake an independent evaluation of the proposal should a formal offer be received from Brait. The bank indicated that, on the assumption that such an offer would conform to certain requirements and based on the prevailing economic and financial market conditions, it would consider it to be fair and reasonable. The Board consequently decided to recommend to shareholders they accept the offer should those requirements be met. Another compelling reason for the Board's support was that all existing shareholders, had they wanted, would have been able to reinvest in the new unlisted entity. More importantly and against the background of the growing drive for increased black participation in the economy, the capital structure of the new business would have greatly facilitated the accommodation of a broad-based black economic empowerment (BBBEE) consortium in the shareholding. Such a consortium would have included a trust representing the Group's own employees.

In addition, the company's new structure would also have enabled more members of management to own equity in the business. This was an important consideration against the background of the continuing skills drain from South Africa and the challenge of recruiting sufficient numbers of talented young professionals and retaining the services of experienced senior managers who are considered attractive targets by international retail groups.

However, given the changes that had taken place in market and share prices since the initial cautionary announcement, Brait Private Equity decided in May 2007 not to pursue its plans to submit a final offer. Although that step ended the immediate prospect of restructuring the Group, it has not removed the challenge to the Board of finding alternative ways of increasing broad-based black economic involvement in the ownership of Shoprite Holdings or of broadening the base for management participation in the financial wellbeing of the Group.

#### ACKNOWLEDGEMENT

Managing the growth of the past financial year to maximise the benefits for the Group made considerable demands on everyone involved. It required innovative thinking, meticulous planning and dedicated teamwork to maintain the flow of merchandise from the manufacturer to a supermarket environment meeting the aspirations of the consumers. The Group is fortunate in having at its disposal people who are able to meet these challenges to the extent the results reflect. I therefore want to express my deepest gratitude to my fellow directors for their guidance and support, to the members of management for the way they tackled and overcame the numerous challenges, and to every member of staff for their unstinting hard work.

CH Wiese  
Chairman

31 August 2007