COBUS ZWENNIS
DIVISIONAL MANAGER:
SHOPRITE NORTHERN DIVISION

ANDREW GARDENER
DIVISIONAL MANAGER:
SHOPRITE GAUTENG

MAURITZ ALBERTS
DIVISIONAL MANAGER:
WESTERN CAPE

Sales growth in RSA	14,4%
Value per transaction growth in RSA	7,2%
Number of stores in RSA	297 (2006: 286)
Number of staff in RSA	36 422 (2006: 36 739)

The Shoprite brand is one of the leaders in South African food retailing sector and is, according to independent market research, the brand of choice of the highest percentage of South African consumers. In August 2006 it was rated the country's foremost food retailer when it won the Grocery and Convenience Store category in the annual Sunday Times/Markinor Top Brands survey. In 2004 it was placed third while in 2005 it moved into the number two position.

It remains the mainstay of the Group's operations and is not only its biggest business by far within the RSA but is also the name under which it operates almost exclusively outside the country. Therefore the wellbeing of the Shoprite brand to a large extent determines the wellbeing of the Group.

The brand trades from 297 stores in South Africa and from 69 outside its borders, having opened 20 outlets during the review period and closed two. Its RSA operations in the 2007 financial year represented 46,7% of Group turnover while it employs more than half of the Group's 68 987 employees.

Supported by aggressive above-the-line and direct marketing campaigns and a buoyant economy, the brand increased turnover within South Africa by 14,4%. It grew the number of customer transactions by 6,5% and the value per transaction by 7,2%.

To reap the maximum support from the emerging middle class with its increasing disposable income, it continued its approach of retaining its basic ranges but extending its offerings upwards to include a substantially greater number of aspirational products. In upgrading stores, lay-outs were changed to turn the specialist departments as well as the value-added and perishable product offerings into the focal attractions. In addition, the higher-margin non-food ranges were further expanded to increase their contribution to overall turnover and benefit trading profit.

In addition, bakeries, meat markets, wine departments and delicatessen counters assisted in turning outlets into destination stores. The improved and extended product ranges were enhanced by upgraded and new stores, which in their layout and presentation accentuated the aspirational nature of the offering. However, in doing so great care was taken not to estrange the brand's traditional lower-end supporter.

In the first quarter of the financial year, the chain's operations were affected by countrywide industrial action. Despite substantial turnover losses for the duration of the strike, the brand quickly recovered lost ground and ended the reporting period with both turnover and trading profit above budget.

Stock levels remained relatively high but were nevertheless lower than last year. This was necessitated by the rate of new store openings and particularly by the erratic deliveries from suppliers, which called for the stockpiling of merchandise to ensure an even flow of merchandise to individual stores.

Although the brand opened a relatively small number of new outlets during the past year, it believes considerable potential still exists in the previously disadvantaged areas of the country where developers, having learnt to manage the risks, are now more willing to invest in bricks and mortar. Elsewhere the opening of new stores in 2008 will be driven mainly by the development of new commercial and residential areas.

operating review CHECKERS AND CHECKERS HYPER

HENNIE VAN ROOYEN
DIVISIONAL MANAGER:
CHECKERS AND CHECKERS HYPER GAUTENG

JACO DE SWARDT
DIVISIONAL MANAGER:
NORTHERN CAPE & FREE STATE

JOHANN FOURIE
DIVISIONAL MANAGER:
EASTERN CAPE

Sales growth in RSA	15,0%
Value per transaction growth in RSA	6,7%
Number of stores in RSA	24 Hypers (2006: 24)
	111 supermarkets (2006: 110)
Number of staff in RSA	16 609 (2006: 15 605)

The Checkers brand continued to grow strongly within the RSA and has established for itself a clearly defined niche at the top end of the consumer income profile. Turnover and trading profit have shown the best growth in the Group's RSA operations. The number of customer transactions was increased by 7,8% and value per transaction by 6,7% across 135 outlets. Since 2005 it has grown its LSM 8 to 10 customer base. Unlike Shoprite, it was barely affected by the industrial action in the first quarter of the financial year.

The more upmarket repositioning of Checkers has been virtually completed, with most stores upgraded in terms of layout, appearance and product display. Ranges have been expanded and improved, also in the non-food area. However, in line with upper-income lifestyle changes, the biggest shift has been in the convenience and perishable product areas. The product offering in the service departments – in particular the bakery, meat market, fruit and vegetables as well as the delicatessen and wine departments – was comprehensively reviewed and then matched to the needs of more demanding consumers. Departments offering fresh fish and other seafood which were introduced where consumer demand justified their presence are proving highly popular.

Longer shopping hours in selected Checkers stores have increased the convenience value of the brand, catering particularly to the needs of time-strapped consumers as well as those who prefer shopping for fresh produce and other perishables on a more or less daily basis.

In the process, a distinctly own identity has been created for Checkers so different from Shoprite's that cannibalisation between the brands has been virtually eliminated. The differentiation is mainly in the area of lifestyle while much attention is also being paid to improving customer relations and service delivery. The image upgrade was supported all along by a highly successful above-the-line marketing and advertising campaign focusing particularly on the service departments and their specialist products.

Consumers responded with increasing support, which is also coming increasingly from a growing number of emerging middle-class shoppers, and the brand continues to gain market share. Checkers in the northern area of the country in particular experienced strong turnover growth in its supermarkets as well as in its Hypers, of which it has the biggest complement in the Group. Although the turnover growth in the latter is lower than in the supermarkets, the Hypers, with their very high sales volumes per store, remain important income generators.

operating review USAVE

GUSTAVE MÖLLER
DIVISIONAL MANAGER:
USAVE

Sales growth in RSA	21,0% (stores trading for 12 months)
Number of stores in RSA	77 (2006: 68)
Number of stores outside RSA	22 (2006: 24)
Number of staff	1 301 (2006: 920)

The Usave brand with its limited assortment philosophy is continuing to build consumer acceptance. During the reporting period it grew market share in the RSA considerably and, in doing so, increased the number of customer transactions by 16,9%. It continues to provide the Group with a return on investment in excess of 30% per annum.

The limited range concept on which Usave is based has been further refined since the opening of the first outlet four years ago. The number of lines offered was initially pared down substantially but still also includes a small selection of non-food items. At the same time the chain has extended its target market to the middle market, thereby addressing a wider audience.

Instrumental in its success was the introduction of private labels of good quality that would further enable the chain to adhere to its promise of "You pay less, everyday".

Usave's ability to remain profitable in a low-price environment is due to a focus on cost control, total adherence to its pricing policy and fewer but better trained staff who are advanced through the ranks. In addition, the in-stock situation has been improved markedly with the introduction of automatic replenishment.

During the review period there was a net gain of seven stores. This was due to the closure of a number of shops in the vicinity of Foodworld outlets in the Western Cape when this chain was acquired by the Group. A number of new sites are under investigation, both within and outside the RSA, which will accelerate the roll-out of stores in the new financial year.

In addition to being a profit contributor, Usave also fulfils a strategic role for the Group by providing it with a presence in a greater number of areas. Outside the RSA it often functions on a satellite basis for larger supermarket units.

operating review OK FRANCHISE

GERHARD KRIEL
GENERAL MANAGER:
OK FRANCHISE

TOM VOGES
MARKETING MANAGER:
OK FRANCHISE

In line with the rest of the Group, the franchise division experienced a year of solid growth with total turnover 14,1% and trading profit 21,1% higher. The division ended the reporting period with a net gain of seven new members to bring the total to 260. It signed up 34 new members for the year while terminating 27 non-viable accounts, mainly for failing to meet the required level of purchases.

OK Franchise grew out of the strategic acquisition of the Sentra organisation several years ago. The Group's objective was threefold: to develop a commanding presence in the local food franchise market; to extend convenience shopping for consumers across the country as well as in neighbouring states; and to help small retailers, on a partnership basis, grow their businesses by providing them with the benefits of, inter alia, bulk buying, consistent deliveries and staff training. To build the OK brand in the franchise environment and promote sales in members' stores, the Group conducts umbrella advertising programmes on an ongoing basis.

To enable franchisees to achieve and maintain the required standards staff is offered a range of training opportunities. Personnel can attend any of the Group's specialist training schools, undergo on-the-job training at any conveniently located Shoprite or Checkers supermarket and train at the facilities of major suppliers.

When Sentra was acquired, it had a diverse membership that is still reflected in its present composition, with many members still trading under their own brands. However, there has been an ongoing campaign to convert members to the OK brand which consists of four formats – OK Foods, OK Grocer, OK MiniMark and OK Value, each with its own requirements in terms of standards, size and product range.

At the end of the reporting period, 26 members traded under the OK Foods banner, the largest of the three formats, 61 under OK Grocer, and 29 under OK MiniMark. In addition, there were 79 Sentras and buying partners, as well as 56 Megasaves, the wholesale format the Group operates on a franchise basis. OK Value, a new format introduced in the previous financial year, sets slightly lower entry standards in terms of finishes and services. This has proved to be a useful option for franchisees with limited finances, and during the reporting period nine such outlets were opened. From this platform franchisees can grow their businesses into any of the other formats, should they so wish.

Another innovation has been the creation of a franchise liquor outlet under the trademark Enjoy during the reporting period. The first such outlet was opened in December 2006, and a number of members with existing unbranded liquor outlets are in the process of converting to the Enjoy brand. With its bulk-buying capacity for the growing number of the Group's own liquor stores the Enjoy format was a logical extension of its franchise brands.

For historical reasons OK Franchise has always had a strong rural orientation with most of its members operating in the country's smaller towns. It also services members in neighbouring countries such as Namibia, where there are 42 franchise holders, Botswana with six, Lesotho with one and Swaziland with two.

In the past few years there has been a concerted effort to expand the OK footprint in the larger towns and urban areas. However, this drive is inhibited by the limited number of trading opportunities available in suitably located shopping centres.

operating review SUPERMARKETS OUTSIDE RSA

GERHARD FRITZ
GENERAL MANAGER:
AFRICA

RAM HARISUNKER
GENERAL MANAGER:
MOZAMBIQUE, INDIAN OCEAN ISLANDS & INDIA

PAUL MALAN
GENERAL MANAGER:
NAMIBIA & ANGOLA

ANGOLA

Angola is, for the Group, one of the best performing countries in Africa. For the reporting period it again showed strong growth in turnover and trading profit, boosted by the opening of two new supermarkets, the one in Lobito, south of the capital, Luanda, in September 2006, and the other in Luanda itself in December last year. The latter is the Group's second supermarket in the capital of close on six million people and the possibility of a third is being investigated. Due especially to rich fossil oil deposits, the economy is booming. However, despite the government's heavy investment in roads and other facilities, the infrastructure is not coping with the growth. The harbour in particular cannot handle the volume of freight and endless delays occur. Shoprite has consequently been making considerable use of more expensive but much quicker road transport via Namibia, while fresh produce is being flown in. For the new financial year the Group is planning a new shopping centre in commodities-rich Cabinda in the north, while other developments are under consideration.

BOTSWANA

In line with many other countries in Africa the economy of Botswana also benefited from the substantial increase in commodity prices on world markets. This followed three years of low growth that impacted negatively on the retail industry. During the reporting period the Group's four existing supermarkets considerably improved turnover and margins as the disposable income of consumers grew. A fifth outlet, opened in April in Molopolole, was in operation for too short a time to materially influence the results for the year. As management believes the present economic growth is sustainable, six Usaves are being planned in smaller towns that cannot sustain fully fledged supermarkets.

GHANA

Expanding gold mining operations on the back of record commodity prices are boosting economic activity and generating extensive investments in infrastructure and property. With Ghana located right next to Nigeria, it is possible to operate cost-effectively in a number of areas. The Group was on the verge of taking occupation of its first supermarket in a new centre in Accra in March when the building was severely damaged by fire. The store will open in November. In the meantime the Group is investigating two more sites in Accra for possible development. As elsewhere in Africa, obtaining suitable land is fraught with difficulties due to the complexities of land ownership.

INDIA

There is general consensus that India is on the brink of a retail explosion and the Group believes its firmly established presence in the country's commercial capital can only work in its favour when that does happen. Judging by the strong increase in the number of customer transactions conducted in its franchise hyperstore in Mumbai's first mega shopping centre, more and more local consumers are discovering the benefits of supermarket shopping. However, the value per transaction is still small with, on average, fewer items being bought per transaction, and at substantially lower prices than in South Africa. The Group's business in India, which also includes a wholesale division, is moving closer to profitability. Just before year-end Shoprite received a wine and beer licence and will start trading in these products early in the new financial year.

LESOTHO

The Group now operates four supermarkets in this Mountain Kingdom, two in the capital, Maseru, one in Leribe in the north near the massive Katse Dam and one in the south in Mafeteng. The latter opened during the reporting period. All four operate profitably in a stable economic environment.

Management is at present investigating a possible third supermarket in Maseru. However, the main thrust in the new financial year will be in the opening of Usave branches in smaller towns to increase the Group's penetration of the local food retail market.

MADAGASCAR

A highly unstable and exorbitantly expensive electricity supply, often available only four to five hours a day, badly disrupted the island economy in the early part of the reporting period. In the second half the situation stabilised somewhat, inflation came down and disposable income went up. During the period the Group opened an eighth store – in the capital, Antananarivo – bringing to three the number opened since acquiring five small supermarkets in 2003. Although relatively good sales growth was achieved, a further two stores are needed for achieving critical mass and hence profitability.

MALAWI

The economy of Malawi, based mainly on small-scale agriculture and tourism, showed little growth during the year, while the local currency weakened further. The Group's two supermarkets (in Blantyre and Lilongwe) and three Usaves performed well and ended the reporting period in profit. The store in Lilongwe, where parliament moved three years ago, benefited from the continuing capital investment in infrastructure and construction. The store's enlargement, completed early in the financial year, facilitated the introduction of more extensive higher-margin non-food ranges. The store in Blantyre, located in a recently upgraded centre, attracted more shoppers.

MAURITIUS

The single hyperstore, opened four years ago, experienced strong growth throughout the year and has not only established a formidable presence for itself on the island but has also achieved profitability.

The Group is at present investigating possible acquisitions. The island's tax-free port has become a major conduit for merchandise from other countries flowing to Mozambique and Madagascar, and has enabled the Group to increase gross profit in those markets.

MOZAMBIQUE

The GDP growth of the country is one of the highest in Africa, although off a low base. The Group is trading successfully here, with strong growth in both turnover and trading profit. All outlets performed well. The country's currency stabilised while the value of the rand has no longer been a hindrance in importing merchandise from South Africa as in the previous financial year. In November a new supermarket, the Group's fifth, will open in Matola, a suburb of Maputo, while the trading potential of smaller towns is being investigated with a view to opening Usaves there. Management is satisfied with the progress made in Mozambique. A stable business has been created. The present stores already provide critical mass, an efficient infrastructure is in place and the business as a whole is moving towards maturity.

NAMIBIA

The business in Namibia is a well-established operation consisting of 11 Shoprite and three Checkers supermarkets as well as nine Usave outlets. Despite lower seasonal rainfall, the agriculturally based economy grew well, providing consumers with increased disposable income. Turnover was boosted by an aggressive marketing campaign. The three Checkers supermarkets, all located in Windhoek where the consumer profile closely matches its target audience, fared particularly well. During the year a Usave was opened in Oshikuku in the far north. Two new supermarkets are being planned for the new financial year, located in new shopping centres in the northern towns of Tsumeb and Rundu.

NIGERIA

Despite high overhead costs, Shoprite's single store in Nigeria is performing well after less than 18 months of business, providing convincing evidence of the retail potential of Africa's most populous country. Located in the largest and most modern of the shopping centres in Lagos, Shoprite's supermarket quickly became the benchmark for food retailing in the city with its nine million inhabitants. Plans are already afoot to almost double the size of the centre with another 2 000 m² added to the supermarket.

Negotiations are in an advanced stage for the opening of a second supermarket in Lagos about 20 km from the first. The Group is also investigating the possibility of a supermarket in the capital, Abuja, as well as the prospects of opening a further three new stores.

Nigeria is an expensive country in which to do business and suitable land is extremely expensive and difficult to come by. The electricity supply is mostly erratic and contributes to the high cost of doing business in this country. There are also considerable import restrictions aimed at protecting an inadequate local manufacturing sector. However, at the same time the government is keen to assist foreign investors. There is a widespread understanding of business, there are 149,8 million people living in the country and the economy is flourishing due to the high oil price. Taken together, these factors provide considerable potential for retail development.

SWAZILAND

The Group operates two Shoprite supermarkets in Manzini and one each in Mbabane and Siteki, as well as Usaves in Piggs Peak and Matsapa. It acquired three supermarkets in November 2006, of which two have been converted to the Shoprite brand, while the third will house a Usave and an OK Furniture branch. The acquisition has enabled the Group to double turnover in Swaziland in the last six months of the year and it is now the dominant food retailer in this country.

TANZANIA

The increase in mining operations in the interior, which has seen a shift from tourism to mining as the main driver of the economy, is creating new opportunities for retailers. It will however be some time before the necessary infrastructure is in place to make new stores viable in those developing areas. During the year, Shoprite opened a new outlet in the upmarket Mlimani City in Dar es Salaam. As the centre is to date only 70% completed and access roads are still under construction, the store is trading below budget. Two of the three stores acquired when the Group established itself in the country was closed as it did not fit the profile the Group is establishing. Although turnover grew satisfactorily, the operation in Tanzania has not as yet reached break-even.

UGANDA

Although the Group already runs a profitable operation in Uganda, the outlook for the future has turned considerably brighter with the discovery of substantial oil and gas reserves in the country. The Group owns or part-owns two large, fully-let shopping centres in the capital, Kampala, which also houses its two Shoprite supermarkets. It therefore has a solid base with established supply lines from which to grow. However, the reporting period was a difficult one because of the chronic shortage of electricity along all of East Africa. The frequent power outages had a devastating effect on the manufacturing sector in Uganda, while back-up power generators serving our stores had to keep essential services going.

ZAMBIA

The local economy, boosted by record-high commodity prices, is growing at such a rate that fears of overheating are starting to surface. Mining operations are growing exponentially to keep pace with the demand for especially copper. However, as the economy spurts ahead, competition from especially South African retailers is also growing. The core of its complement of 17 supermarkets and one Megasave was acquired from the government when the Group expanded its operations to Zambia. Most of these are located in central business districts. In addition to upgrading existing ones, new stores are being moved increasingly to the outskirts where they can compete more effectively. Shoprite in Zambia is now a mature operation and the Group is reaping the benefits of its substantial investments over the years.

ZIMBABWE

The Group operates a single store in Bulawayo which, despite hyperinflation, remains profitable at operating level. However, it is experiencing cash flow problems as it is not possible for a single store to buy ahead sufficient merchandise to provide protection against rising prices. The vast majority of Zimbabweans are becoming poorer by the day which results in a change in buying patterns to more basic merchandise.

operating review FURNITURE

AUBREY KARP
GENERAL MANAGER:
OK FURNITURE

Sales	R2,139 billion (2006: R1,875 billion)
Trading profit	R204,8 million (2006: R200,5 million)
Number of stores: House & Home	31 (2006: 27)
Number of stores: OK Funiture	170 (2006: 158)
Number of stores: OK Power Express	15 (2006: 13)
Number of staff	3 591 (2006: 3 023)

The retail furniture sector continued to operate in an environment of very low inflation. Prices of home entertainment products in particular continued to drop as new technology such as Plasma and LCD screens continues to become more affordable. The current devaluation of the Chinese currency may put upward pressure on prices once new consignments of merchandise have to be paid for.

Deflationary conditions force all retailers and discounters to drive volumes to increase turnover and the furniture division was no exception as it too continued to focus on volume business in a highly competitive environment. The low-margin volume business was balanced, with the higher returns achieved on direct imports and furniture sales.

To maintain profit levels, management is focused on increasing direct imports as a percentage of the total product mix. Furniture is mainly imported from Malaysia, China and Vietnam, with white and brown goods coming primarily from China and sold locally under the Bauer brand, strongly supported by aggressive marketing campaigns.

The intense competition took place in a buoyant market in which consumer confidence remained high for the greater part of the year. In this environment the furniture division experienced a satisfactory year, with both turnover and gross profit appreciably higher than in 2006.

The industrial action in the first quarter of the reporting period disrupted operations in certain areas and resulted in lost turnover, but did not affect the furniture division to the same extent as some other Group operations. Nevertheless, its impact, coming at the end of an already subdued sales period, was appreciable.

However, from November 2006 there was an upsurge in sales and the division ended the reporting period well ahead of the previous year.

The more up-market House & Home grew sales by almost 20% which was considerably faster than the other two chains, and virtually twice the rate of the sector as a whole. This probably results from the fact that higher-LSM customers, and more particularly the emerging middle class, are at present driving the economy.

Although new outlets of House & Home are still being opened in close proximity to Checkers Hypers, more and more stand-alone stores are being located in new shopping centres, underscoring the growing independence of the House & Home brand.

The furniture division's cross-border business also fared well, with the exception of Lesotho that did not grow at the same pace as that of the other countries. The Group now operates 11 furniture stores in Namibia, five in Botswana, one in Swaziland, four in Lesotho and one in Mozambique, and it is also looking at further expansion to Angola and Zambia.

A great deal of time and effort was directed towards the facilitation of changes to bring all systems and documentation in line with the requirements of the new National Credit Act, and in training staff for its implementation. The division was ready to go live on the implementation date on 1 June. Staff were naturally cautious in handling credit applications, as penalties are onerous if the correct procedures are not followed and although it affected trading in June 2007, so did the public sector strike and it is thus unclear at this early stage to what extent the Act will affect trading in the furniture industry, the only known fact being that the effect will be felt and results will certainly not be neutralised by higher charges.

Furthermore, towards the end of the review period there were also indications of gradual economic slowdown, caused by the effects of higher interest rates, and this added to the aggregate implication of the strict implementation of the various sections of the new Credit Act. It is thus expected that turnover will not show the same vigorous growth in the new financial year as that achieved in previous years, however the focus on store expansion can alleviate the status quo somewhat.