

## Shoprite Holdings Ltd

Interim results for the 6 months ended 31 December 2003

(Reg. No. 1936/007721/06)  
(ISIN: ZAE 000012084)  
(JSE Share code: SHP)  
(NSX Share code: SRH)  
(LuSE Share code: SHOPRITE)  
("the Group")

### Key information

- Total revenue increased by 5.8% from R12,694 billion to R13,436 billion.
- Non-RSA operations achieved a 28% sales growth in stable currency terms.
- Operating profit before exchange differences up by 17.2% to R315,7 million.
- Headline earnings per share up by 45.0%.
- Dividend per share increased by 17.9% to 16,5 cents.
- Net asset value per share increased by 23.0% to 380 cents.
- Basket size increased by 1.2% with a customer growth of 4.9%.

### Whitey Basson, chief executive, commented:

*"The extremely low food inflation following on a period when it was peaking at 18% presented many challenges to the Group. Increasing the operating profit by 17.2% despite a strike action in a deflationary environment is commendable and indicative of the versatility of a professionally managed company. Within South Africa we will continue to eschew unprofitable market share in favour of increased profitability while advancing our business growth elsewhere in Africa and the Indian Ocean in search of higher returns."*

### Enquiries:

Shoprite Holdings Limited. Tel: (021) 980 4000  
Whitey Basson, Chief Executive  
Carel Goosen, Deputy-managing Director

De Kock Communications. Tel: (021) 422 2690  
Ben de Kock 082 905 6274

### Operating environment

Food inflation was extremely low during the review period continuing into December despite the general expectation that it would start accelerating again. The drop in interest rates did increase the disposable income of the average Checkers customer but had little influence on Shoprite customers. However, the latter did benefit to the extent that lower interest rates tend to stimulate job creation, which recently for the first time in three years showed signs of positive growth. The continuing strength of the rand threatens even that small employment gain as local manufacturers struggle to compete in international markets.

### Comments on the results

#### Income statement

Total turnover increased by 5.8% from R12,629 billion to R13,360 billion. Management is satisfied with the results achieved under conditions in which cost inflation exceeded food inflation. In addition, the nationwide strike in October and November 2003, following the implementation of the new Sectoral Determination Act, and the reduced contribution in rand terms by the Group's non-RSA operations, also put pressure on turnover growth.

The operating margin, excluding foreign exchange differences, grew from 2.13% to 2.36% due to increased efficiencies, improvements in distribution and a further reduction in the already very low level of shrinkage, partly offset by higher inflation in overhead costs.

The implementation of the requirements of the Sectoral Determination Act affected industry wage levels and conditions of employment of both full and part-time employees substantially. In countries other than South Africa the Group also granted salary increases commensurate with the high inflation rates experienced there.

During the period under review the rand strengthened by a further 9% against the US dollar compared to 15% in the corresponding six months. This slower rate of strengthening produced a currency loss of R31,5 million as against R61,0 million in the same period in 2002.

Exceptional items of R80,7 million (2002: R48.0 million) relate mainly to the amortisation of negative goodwill

The tax payable shows an increase of 40.3% to R96,5 million but is in line with the growth in profit.

Earnings per share increased by 50.0% to 54,3 cents and headline earnings per share by 45.0% to 39,0 cents. Once adjusted for exchange differences, headline earnings per share was 24.5% higher at 44,2 cents.

### **Balance sheet**

Although stock levels increased for the period, procedures are in place to manage this better over the remainder of this financial year.

The Group ended the review period with cash and cash equivalents of R1,648 billion compared to R1,072 billion at the end of December 2002. The increase in cash is balanced by the increase in accounts payable.

### **Operational review**

#### **Supermarkets**

The combined revenue of the three supermarket brands – Shoprite, Checkers and Usave and including the non-RSA operations – increased by 4.9% to R12,588 billion. The total number of customers served increased by 4.9%. Due to the tough economic conditions and low food inflation the increase in basket value did not match the increase in the number of customers.

Some 28 supermarkets were refurbished during the review period.

#### **Shoprite**

With its 257 supermarkets within South Africa, the Shoprite brand is still by far the biggest contributor to group turnover and operating profit. Total sales growth in Shoprite stores, negatively influenced by inflation of less than 1% due to their customer profile, product mix and industrial action, was 7.0%. By the end of the review period several new stores were still coming on stream and consequently did not contribute significantly to sales. Customer numbers surged strongly by 5.9%, but the increase in basket size was only 1.1% in value.

The countrywide industrial action in October and November 2003 was particularly disruptive as most of the stores that closed as a result of the strike, trade under the Shoprite banner. However, the chain soon recovered and December saw sales growth of 10.4% as the business started to regain lost ground.

#### **Checkers**

The repositioning of the Checkers brand with its own distinct profile is increasingly bearing fruit. Offering a wider selection of especially perishable produce in an amenable shopping environment, it is receiving increasing consumer support. However, in line with group policy, the chain is not pursuing growth at the expense of profitability. Operating profit grew 34.0% compared to the same period in 2002.

Suffering from the same industrial action but to a lesser extent than Shoprite, it nevertheless increased existing store sales by 8.0% during the period under review. Basket size increased 2.8% in value while customer numbers grew 5.2%. Stores in the Gauteng area, supported by the new distribution facility in Centurion, fared particularly well.

#### **Usave**

Usave continued with an aggressive new-store programme and 30 outlets were opened in the past year to bring the total to 41. This no-frills chain with its limited product range of core consumables is positioned for accelerated growth. Customers in rural areas have responded favourably to the format, not only in South Africa but also outside the country's borders, where 14 of the stores are located. In the past six months Usave opened its first outlets in Angola and Ghana. Almost without exception the stores are trading profitably.

#### **Operations outside South Africa**

The Group's non-RSA operations performed well, with a sales growth of 24% on existing store sales and 28% on total sales at constant conversion rates. However, the further strengthening of the rand led to sales in rand terms dipping 3.4% to R1,115 billion for the period under review.

Shoprite now trades in 15 countries outside South Africa. Of these Zambia and Namibia were the biggest contributors to group income. In both Egypt and Tanzania progress in achieving breakeven has been slower than anticipated, but operations are improving month by month. To date trading on the islands in the Indian Ocean has been lacklustre and the businesses there need time to establish a solid base.

The Group's new stores in Angola are performing well and are trading ahead of budget.

#### **OK Franchise**

After a severe shakeout of doubtful debtors during the last financial year that saw the closure of 80 outlets, the

OK Franchise business, which operates in South Africa, Namibia and Botswana, is now well positioned for future growth off a solid base of 320 stores. To date 102 supermarkets are trading under the OK brand, which has retained its high standing amongst the target market.

### **Furniture**

This non-core business, which includes both OK Furniture and House & Home stores, increased revenue by 22.6% to R847,8 million and operating profit by 34.8% to R73,6 million. The growth in revenue was achieved despite a reduction in selling prices in most furniture categories due to a stronger rand.

The chain opened six new outlets during the review period when other furniture retailers tended to consolidate operations. Growing off a low base after being acquired by the Group, OK Furniture is moving to the point where it is starting to generate industry acceptable returns.

### **Group prospects and outlook**

No material changes are envisaged in the business environment in which the Group operates during the second half of the financial year. In the absence of any industrial action the major supermarket chains are expected to further improve turnover growth and we are confident that the Group will be able to at least maintain its present level of profitability.

### **Corporate governance**

Shoprite acts in accordance with the principles as embodied in the Code of Corporate Practice and Conduct in the King Report 2002 ("the Code"). The Group complies with the significant requirements incorporated in the Code and the JSE Securities Exchange SA listing requirements.

### **Thanks to management and staff**

To be successful in the highly competitive environment in which the Group operates, requires bold decision-making and strong leadership, coupled with total dedication and sheer hard work, not only from management but also from staff at all levels. That we were able to overcome the challenges facing us is a tribute to the quality of our people and the level of their commitment. In thanking them we also want to extend our heartfelt appreciation to our colleagues on the board for their support and wise counsel.

### **By order of the Board**

**C H Wiese**  
Chairman

**J W Basson**  
Chief Executive

**16 February 2004**

### **Dividend**

The Board has declared an interim dividend of 16,5 cents (2003: 14 cents) per share, payable to shareholders on 15 March 2004. The last day to trade cum dividend will be 5 March 2004. As from 8 March 2004 all trading of Shoprite Holdings Ltd shares will take place ex dividend. The record date is 12 March 2004.

Share certificates may not be dematerialised or rematerialised between Monday, 8 March 2004, and Friday, 12 March 2004, both days inclusive.

### **Accountability**

These condensed consolidated interim results have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice ("GAAP") and Schedule 4 of the South African Companies Act (Act No 61 of 1973), as amended. The accounting policies are consistent with those used in the annual financial statements for the year ended 30 June 2003.

Where necessary, comparative figures have been adjusted to conform to changes in presentation made in the current period. In particular, the cash flow statement and related disclosure for the period ending 31 December 2002, have been adjusted with the elimination of all unrealised exchange differences.

Adjusted headline earnings is calculated by excluding the after tax effect of exchange gains and losses from headline earnings.

### **Directorate and administration**

**Executive directors: J W Basson (chief executive), C G Goosen (deputy managing director), B Harisunker, B Rogut, A N van Zyl, B R Weyers**

**Non-executive directors: C H Wiese (chairman), J J Fouché, T R P Hlongwane, J A Louw, J F Malherbe, J G Rademeyer**

**Company secretary: A N van Zyl**

**Registered office:**

Cnr William Dabs and Old Paarl Roads, Brackenfell, 7560, South Africa  
PO Box 215, Brackenfell, 7561, South Africa  
Telephone: +27 (0) 21 980 4000; Facsimile: +27 (0) 21 980 4050

**Auditors: PricewaterhouseCoopers Inc**

1 Waterhouse Place, Century City, 7441, South Africa  
PO Box 2799, Cape Town, 8000, South Africa

**Transfer secretaries: Computershare Ltd**

70 Marshall Street, Johannesburg, 2001, South Africa  
PO Box 1053, Johannesburg, 2000, South Africa  
Telephone +27 (0) 11 370 5000; Facsimile +27 (0) 11 370 5272

**Sponsor: Nedbank Corporate**

1 Newton Avenue, Killarney, 2193, South Africa  
PO Box 582, Johannesburg, 2000, South Africa  
Telephone +27 (0) 11 480 1780; Facsimile +27 (0) 11 480 1630