OVERVIEW OF THE

SOUTH AFRICAN RETAIL TRADE

Prepared for: Exhibition Management Services (Pty) Ltd

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1.0 Brief Overview of the Retail Sector in South Africa

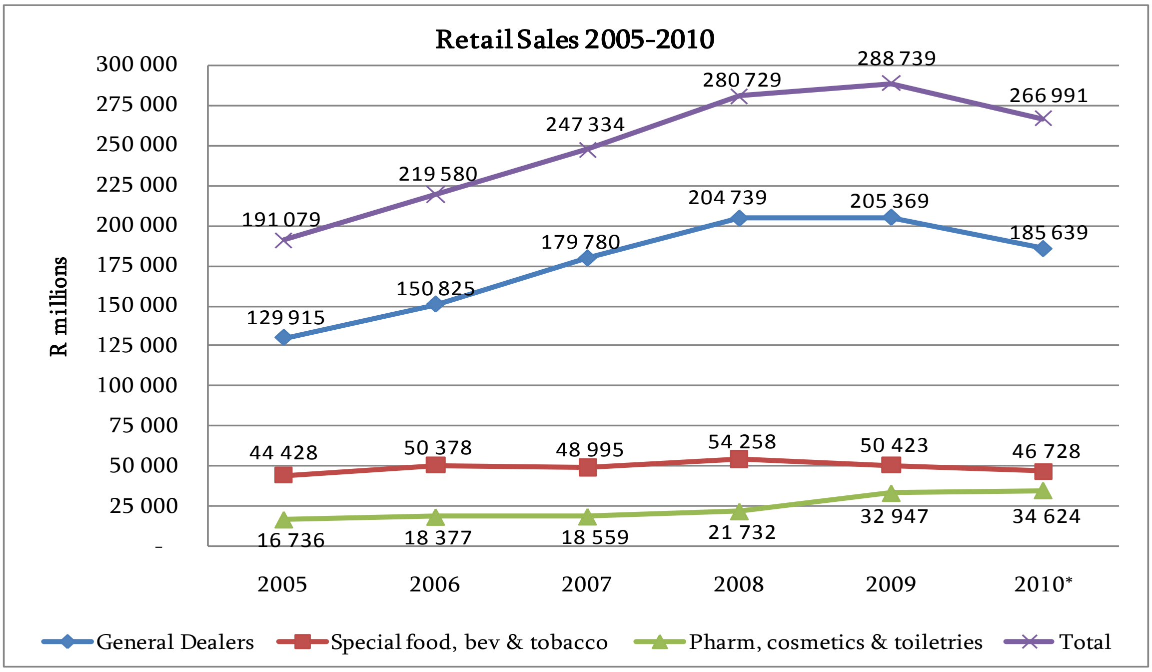
The South African retail sector is sophisticated and is supplied by both local and imported products. According to the Bureau of Market Research (BMR) total retail sales were in the region of R600 billion in 2010, of which about 30% represents food sales. BMR forecasts a 3.4% real growth rate for formal retail sales in 2011. South African retailers are also leading the drive into untapped markets in other African countries.

A defining characteristic of the South African consumer is that income distribution is skewed with some 4% of the adult population earning 39% of total personal income[1]. The split of income across provinces is also very interesting, with two-thirds of personal income being earned in Gauteng, KwaZulu-Natal and Western Cape provinces.

2.0 Market Size

2.1 Size of the Retail Market in South Africa

According to Statistics South Africa, retail food, beverage and toiletry sales at current prices in 2009 were R288.7 billion, indicating a 51% growth in sales from 2005 to 2009. General dealers account for 70% of retail sales, while specialist outlets account for 17% and pharmacy, cosmetic and toiletry retailers account for the remaining 13%. The table below shows the retail sales by store type from 2005 to November 2010:

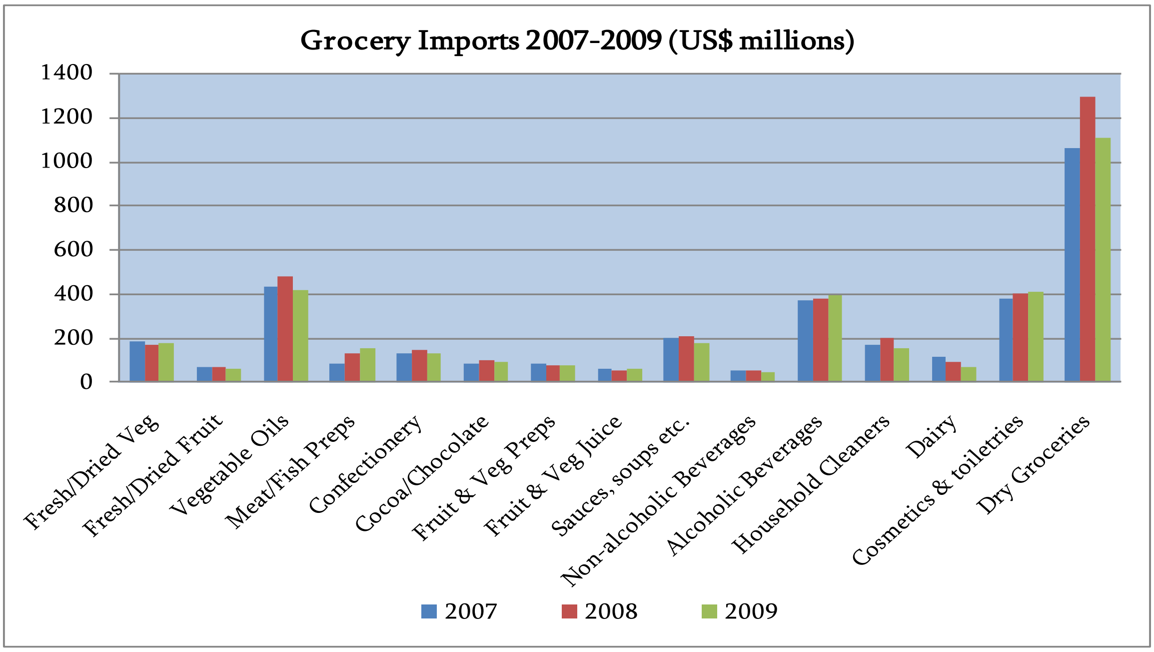


Note: Retail Trade Sales are currently available for 11 months (Jan-Nov) in 2010.
Source: Statistics South Africa

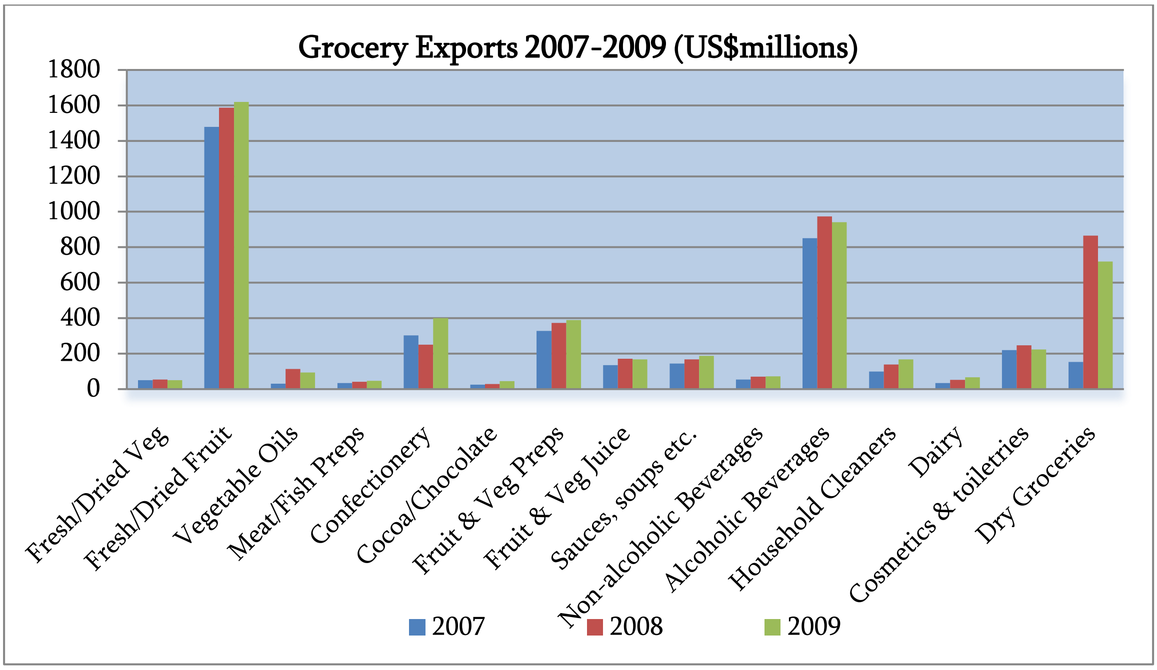
[1] Bureau of Market Research "Personal Income Patterns and Profiles for South Africa 2009",March 2010

2.2 Imports and Exports

South Africa imported groceries worth US$3.5 billion in 2009, of which dry groceries accounted for 31% of the total, followed by vegetable oils and cosmetics and toiletries at 12%, respectively, and alcoholic beverages at 11%. The chart below gives an indication of imports of the key food, toiletry and beverage imports for the three-year period 2007-2009:



In 2009, South Africa exported groceries to the value of US$5.2billion. Fresh and dried fruit accounted for 31% of South Africa's grocery exports, followed by alcoholic beverages at 18%, dry groceries at 14% and confectionery and fruit and vegetable preparations at 8%, respectively. The chart below shows the key grocery exports for the period 2007-2009:



Source: UN Comtrade

3.0 Structure of the Retail Sector

The retail market is dominated by large retail chain supermarkets and hypermarkets such as Shoprite Checkers, Pick n Pay, Spar, Woolworths, and New Clicks. The range of outlets also includes convenience stores / petrol station forecourt stores, small general dealers (Seven Eleven stores and the like), specialty stores handling a single product line (such as health foods, confectionery, fish or meat), and the other independents such as general dealers, cafes, spaza shops, street vendors, and hawkers.

According to AC Nielsen, some 70% of all retail sales are done through 6% of retail stores, which include the major supermarkets, the branded forecourt stores and franchises. The more than 80,000 independents and spazas market the remaining 30% of goods.

The major retail chains have enormous purchasing power and are in a position to dictate their buying terms to suppliers who are generally required to deliver products to central depots or warehouses, where the products are then distributed to supermarkets and retail outlet stores nationally. Access to the smaller formal retailers is generally through agents and distributors. The informal retailers and spaza shops generally procure in bulk through wholesalers such as Makro, Trade Centre and the hypermarkets in the large cities.

Retail Group	Turnover 2010	Footprint
Pick n Pay 40 years — Passionate about quality	R54.7 billion	Hypermarkets (20); Supermarkets (157); Franchise Stores (281); Express (7); Liquor Corporate (72); Liquor Franchise Stores (33) Pharmacies (17).
SHOPRITE HOLDINGS LTD	R67.4 billion	Shoprite supermarkets (319); Checkers Supermarkets (141); Shoprite Hypers (3); Checkers Hyper (22); Usave (169); OK Minimark (26); OK Foods (15); OK Grocer (67); OK Value (25); Megasave (22); Sentra (61); Shoprite Liquor (50); Checkers Liquorshop (30); Retail stores in rest of Africa (162)
WOOLWORTHS the difference	R21.2 billion	Food Stores (367); Engen Food Stops (43); Retail stores in rest of Africa/UAE (45)
SPAR Good For You	R35.2 billion	Superspar (256); Spar (458); Kwikspar (132), TOPS Liquor(459); Pharmacy (1)
YOU PAY LESS CLICKS	R13.3 billion	369 stores

Source: Company Annual Reports

4.0 Regulations and Policies

4.1 Import Tariffs

The framework of the external tariff is the 2-column Harmonised Commodity Coding and Description System (HS). Import duties are levied ad valorem on the fob value. Value-added tax of 14% is payable on all imports. VAT is levied on the value for customs duty plus 10% plus any additional duties paid. Certain basic foodstuffs are exempt from VAT. The import tariffs on foodstuffs, toiletries and other groceries range from zero to 55%.

Import Tariffs (as at February 2011)					
HS Codes	Description	General	EU Rate	EFTA	SADC
0701-0709	Fresh & Chilled Vegetables	0-15%/0.44-325c/kg	0-1.95%	0-37%/0.44-325c/kg	0%
0710	Frozen Vegetables	0-30%	0-3.9%	10-30%	0%
0712-0714	Dried Vegetables	0-30% / 4c/kg	0-2.6%	0-30%	0%
08	Fruit & Nuts Fresh & Dries	0-35%	0-2.6%	0-35%	0%
0901-0903	Coffee & Tea	0-20% / 6-400c/kg	0-15% / 300c/kg	0-10% / 400c/kg	0%
0904-0910	Spices	0-25%	0-3.25%	0-25%	0%
10	Cereals	0-5%	0%	0-5%	0%
11	Products of the milling industry; malt; starches; etc	0-20% / .65-2.75c/kg	0-20% / 0.085-0.111c/kg	0-20% / .65-2.75c/kg	0%
1509-1517	Vegetable oils	0-10%	1.3-7.5%	0-10%	0%
16	Preparations of meat, of fish or of crustaceans	0-40% / 2.25-240c/kg	0-40% / 2.25-240c/kg	0-40% /100-240c/kg	0%
17	Sugars and sugar confectionery	0-37%	0-25%	0-37%	0%
18	Cocoa and cocoa preparations	0-21%	0-2.73%	0-21%	0%
19	Preps of cereals, flour, starch or milk; etc	0-30% / 3-5.5c/kg	0-3.25%	0-21% / 3-5.5c/kg	0%
2001-03 / 2005-08	Fruit, Vegetable & Nut Preparations	0-55% / .99-111/kg	0-22.55% / 3-9.2c/kg / 154c/li	0-55% / .99-110/kg	0%
2009	Fruit & Vegetable Juice	0-25%	0-2.6%	0-25%	0%
2004	Frozen Vegetables	20-25% / 4.15c/kg	0-2.6%	10-25% / 4.15c/kg	0%
2101-2104 / 2106	Sauces, condiments, soups, and other misc products	0-30% / 3-9.2c/kg / 154c/li	0-3.9%	0-12.5% / 77c/li	0%
2105	Ice Cream & Edible Ice	10-25%	10-25%	10-25%	0%
2201-2202	Non Alcoholic Beverages excl Fruit Juice	0-21% / 3.3-4.6c/l	0%	0-10.5% /1.65-2.18c/l	0%
2203-2208	Alcoholic Beverages	5-25% / 136-317c/l	0-30.94/li	0-25% / 68-77/li	0%
34	Household Cleaners	0-20%	0-2.6%	0-10%	0%
0401-0406 / 0410	Dairy Products	0-500c/kg	0-500c/kg	0-500c/kg	0%
33	Perfumes, cosmetic & toiletries	0-20%	0-2%	0-8%	0%

Source: South African Revenue Services
Note: Price per kilogram is in South African cents

4.2 Regulatory Issues

South Africa is a signatory member of the World Trade Organisation Agreement on Sanitary and Phytosanitary Measures (WTO-SPS) as well as the International Plant Protection Convention (IPPC). The following regulations control the import of foodstuffs into South Africa:

- The Foodstuffs, Cosmetics and Disinfectants Act of 1972 (http://www.doh.gov.za/docs/legislation/acts/1972/act54.htm) and the Agricultural Pest Act of 1983 control the import of foodstuffs into South Africa. In terms of these Acts, certain products require an import permit issued by either the International Trade Administration Commission (ITAC) or the Department of Agriculture. The Foodstuffs, Cosmetics and Disinfectants act of 1972 also contains regulations governing the labelling and advertising of foodstuffs.

- Certain goods require a compulsory inspection at the port of entry into South Africa by the Port Health Officer along with Port Quality Control and the South African Agricultural, Food, Quarantine &. Inspection Services (SAAFQIS). The Port Health Officer also ensures comply with local labelling requirements.

4.3 Standards

The South African Bureau of Standards is responsible for the promotion of quality and standardisation of products in South Africa, and maintains certain compulsory national standards for goods along with various labeling requirements. These can be downloaded from the SABS website at www.sabs.co.za.

4.4 Compulsory Specifications

The National Regulator for Compulsory Specifications (NRCS) administers and enforces compulsory specifications in the interest of public health, safety and protecting the environment on behalf of the Minister of Trade and Industry. Further information can be downloaded from the NRCS website at www.nrcs.org.za

4.5 Manufacturing Incentives

Government manufacturing incentives are available through Trade and Investment South Africa. For further information, please go to the TISA website: http://www.thedti.gov.za/thedti/organisation1f.htm