

Review of operations

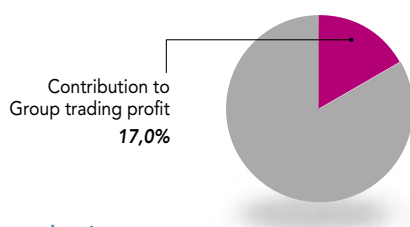
Bid Auto



Bid Auto is South Africa's second largest motor retail organisation, with nationwide representation across more than 100 wholly owned dealerships. Its activities span vehicle import and distribution, new and used vehicle sales, parts and service, financial services and fleet support, vehicle auctioneering, online retailing and vehicle and truck rental. McCarthy represents most vehicle marques and is the importer and distributor of all Yamaha products in South Africa.

- ▶ Best ever year for McCarthy for both vehicle sales and financial performance
- ▶ Total revenue rises 18,8% to R16,2 billion
- ▶ Trading profit increases by 30,9% to R621,3 million
- ▶ Operating margin reaches record high of 3,8%
- ▶ Return on funds employed significantly above budget at 59,3%
- ▶ Total new and used units sold up 16,2% to 84 393
- ▶ Service bay utilisation hits new peak, with more than 700 000 vehicles serviced
- ▶ Strong jobs growth – up from 5 289 to 5 795 – with more to come
- ▶ McCarthy Insurance Services becomes top profit-earner at Bid Auto

Brand Pretorius
Chief executive



Introduction

Due to favourable macro-economic conditions as well as enhanced vehicle affordability, the new-vehicle market fired on all cylinders. McCarthy optimised favourable trading conditions by recording its best ever year. Total vehicle sales approached 85 000 units, an increase of nearly 13 000 units.

The retail network was extended and substantial investments were made in the upgrade of facilities.

Revenue reached R16,2 billion, a rise of 18,8%, while trading profit increased by 30,9% to R621,3 million. Margins were at a record high of 3,8%. At 59,3%, the return on funds employed was well ahead of budget.

McCarthy job creation was also at record levels. The staff complement rose from 5 289 to 5 795. It is anticipated that

expansion plans could generate up to 900 more jobs in the coming year.

Despite intense competition from finance packages marketed by the vehicle manufacturers, our financial service business has emerged as a strong contributor to the bottom-line. McCarthy Insurance Services is the biggest single profit-earner within McCarthy.

Macro-economic factors

For almost the entire period, strong GDP growth bolstered business confidence while relatively low interest rates and inflation encouraged a high level of consumer spending. Salary and wage increases above the prevailing CPI added to disposable income, while ready access to credit increased the propensity to purchase.

The 0,5% rise in interest rates in early June occurred too late in the period to have any material effect on sales patterns for the year or on the generally upbeat mood of the new-vehicle market.



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McCarthy's flagship new Mercedes-Benz dealership in Berea, Pretoria was completed during the financial year



Mitsubishi's Pretoria
operations were relocated to a stand-alone dealership in Hatfield



Fiat and Alfa
McCarthy's first freestanding Fiat and Alfa dealership was opened in Germiston in May 2006



Toyota's
dealerships have earned a reputation for committed service and have won many prestigious awards from Toyota SA over the past 35 years

Continual increases in the cost of fuel created inflationary concerns (and were a particular worry for the automotive industry), but had only a limited impact on buoyant trading conditions.

Industry-related issues

Positive business sentiment was reflected in high levels of fleet-buying. In general, company orders account for 60% of all new car sales. Vehicle sales were also supported by increased deliveries to Budget Rent a Car.

The emergence of a new black middle class kept new car sales at full throttle throughout the year. Industry-wide, it is estimated that upwardly progressive black families now account for one out of every three cars sold to private consumers.

For three years, the market for new vehicles has witnessed price deflation in real terms. A key factor has been our stable currency. However, a new bout of rand weakness has set in.

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Strong, sustained demand has encouraged an increasing number of international vehicle manufacturers to participate in our market. Forty-eight marques and more than 1 200 different models are now on offer in South Africa; an incredibly wide range for what is a small market in world terms. This explosion in vehicle options increases competition and puts constant pressure on margins.

New-vehicle price deflation continues to depress values in the used-vehicle sector, creating a buyer's market in quality used stock.

Last year, just over 618 000 vehicles of all types were sold in South Africa, a 28% rise. This is the third consecutive year in which sizeable increases have been achieved in new-vehicle sales. As the vehicle population grows, capacity pressures mount. The need is becoming acute across the automotive sector for new investment in service facilities and in the training of technicians and other specialists.

Business risks

Business cycle sensitivity is accentuated in the automotive market because new vehicle sales are a key indicator of consumer and business confidence. However, the risk affects all retailers of durable goods.

Interest rate hikes and low economic growth affect purchasing decisions and lengthen the vehicle replacement cycle. However, interest rates were at a 25-year low until recently, while sound financial management by national policymakers has resulted in steady economic growth.

Exchange-rate risk also applies and the issue was again highlighted. Managing volatility will always be a challenge. But, in general terms, the rand has tended in recent years to move in a much narrower band than previously.

Policy risk cannot be avoided in a strategic sector such as transport. Policy changes, budgetary allocations to road building, fringe-benefit taxation, environmental legislation and competition issues can all affect the industry.

However, transport infrastructure continues to enjoy a high priority with national planners. In the 2006 Budget, Treasury ear-marked R15,1 billion over three years to the provincial infrastructure grant (part of which funds provincial road construction and maintenance). Another R1,9 billion has been committed for national roads. At the same time, the automotive industry has shown itself well able to cope with the introduction of cleaner fuels and other environmental measures.

Risks associated with competitive activity and capacity challenges have tended to grow in recent years, but create a relative advantage for well-resourced industry players (of which McCarthy is one).

Brand image is key for vehicle manufacturers. They demand a retail showcase which reflects their up-market brand values. This puts continual pressure on dealers to increase their level of fixed investment.

Further investment is required in service facilities and technical training as the vehicle population grows. New models use sophisticated technology. This means a high calibre of recruit has to be attracted, trained and retained.

Advances in engine technology and warranty one-upmanship by manufacturers add to vehicle servicing pressures. Extended warranties and comprehensive maintenance plans increase the service-bay workload. The widespread adoption of loyalty programmes increases customer retention (which is good), but also increases the demand on service capacity (which can be a challenge).

Technology can lessen as well as add to pressure. More reliable and sophisticated engines enable service intervals to be extended. The use of long-life components, less aggressive low-sulphur, low-alcohol fuels and smart solutions such as self-adjusting cambelts and platinum-tipped spark plugs enable trouble-free motoring and reduce service frequency.



Toyota

McCarthy Toyota's new facility in Paarl was the first Toyota dealership in the Cape to conform to Toyota South Africa's 2010 dealer standards

Certain industry trends also contain implicit, long-term risks to the business. Deflationary pricing and intense competition by a growing number of marques have resulted in constant margin erosion. Year after year, dealers have been rescued by higher volumes. In consequence, vehicle retailing has become a high-volume, low-margin business. If volumes stall, some retailers will stumble – especially as fixed costs have been driven to unrealistically high levels by brand image demands from some of the manufacturers.

The best protection is a constant, rigorous business model and judicious margin management by well-run operations. In future, motor retailers will need a reliable plan B should their A game (volume business) take a knock.

Opportunistic attacks by “grey importers” is a risk. Yamaha Distributors have to deal with importers who bring in recently discontinued lines from overseas markets and retail them at

cut rates, but provide no service support. These activities are addressed by collaboration with consumer groups and the authorities to encourage these entrepreneurs to behave with a sense of responsibility to their customers.

In this case, the Consumer Protection Act has been used to good effect. Grey importers are now required to repackage these goods so there can be no implication that the products come directly from Yamaha and enjoy factory support. In addition, the customer has to be informed that the product has not been sourced through an authorised importer.

Sensitivity analysis

Macro-economic factors have a material impact on business growth. The key concern is fluctuating business and consumer confidence and its effect on vehicle sales volumes. A degree of vulnerability is acknowledged in view of high fixed costs. Should confidence (and sales) slide, defensive action would include cost-cutting and rigorous asset management. Fortunately, the McCarthy model has become more robust thanks to the strength of McCarthy Financial Services and Yamaha Distributors. In a declining new vehicle

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market, dealers would hope to receive more favourable business terms and lucrative performance incentives.

Structures and growth

The most material change to the business structure involved the creation of the McCarthy vehicle import and distribution division, comprising Gaz Southern Africa and AutoChina SA.

Gaz Southern Africa – a partnership with the South African Taxi Council (SANTACO) to distribute Gaz commercial vehicles from Russia – was formed in 2005. Its core offering is a competitively priced taxi range. Marketing plans, however, were affected by delays in government's taxi recapitalisation programme. We are well positioned to benefit as the recapitalisation plan moves forward.

AutoChina SA was created following an agreement signed in 2005 for the importation and distribution of vehicles manufactured in China. Distribution and marketing of these exciting introductions to our market will not begin until the first half of calendar year 2007. The time-lag was unavoidable in view of the need to convert the new range to right-hand drive.

The import and distribution capability brings a new dimension to McCarthy operations and reduces our reliance on established franchises, creating a better balance to the overall business.

The launch of Budget Van Rental was followed by the roll-out of outlets in all major metropolitan centres. The new business leverages off the Budget Rent a Car brand. Some outlets are wholly owned; some are franchises.

Renewed growth in fleet business is being aggressively pursued following the re-launch of McCarthy Fleet Services as a provider of the full spectrum of fleet services, including management information, lease products, maintenance packages, buy-back options and fleet management expertise.

Black economic empowerment

Bidvest's BEE credentials support our activities in the fleet sector, especially among government departments and major corporate groups which increasingly expect their procurement programme partners to have a strong BEE profile. A black commercial director was appointed in November and is pursuing new business opportunities.

Our partnership with SANTACO not only covers the Gaz initiative. They are also McCarthy's partners at the highly successful Toyota dealership in Gezina, Pretoria.

McCarthy gave an industry lead in BEE by launching joint-ventures with black entrepreneurs and providing seed capital. Enterprise development remains a point of focus. The franchise component of the Budget Van Rental business provides new opportunities to foster BEE. A minimum 26% BEE shareholding is required of all prospective Budget Van Rental franchisees.

New investments

A total of R200 million was invested in new facilities and the upgrade of existing facilities. The largest single franchise investment involved a R45 million commitment to our new Toyota/Lexus mega-dealership in Kingsmead, Durban. The upgrading of dealerships and other premises is undertaken in partnership with Bidvest Properties; a collaboration which delivers ongoing efficiencies.

Innovations

Innovative product structuring was a feature of the new business success achieved by McCarthy Financial Services.

McCarthy Call-a-Car created a South Africa "first" by introducing vehicle search-and-buy via cellphone. The concept was piloted in 2005 and went live in early 2006. The innovation provides a direct line to South Africa's estimated 26 million cellphone users as they upgrade to 3G standards. The mobile browse-to-buy facility requires GPRS (General Packet Radio Service) enablement. Searches can be conducted according to price, make, series and region. McCarthy Call-a-Car now offers access to its database of



Renault
McCarthy's first Renault operations opened for trading in Pietermaritzburg and Johannesburg

new and used vehicles across call-centre, on-line and mobile platforms.

A revamped used-vehicle customer-satisfaction survey was introduced in October 2005. The survey poses fewer questions, but they are more pertinent to the customer experience of McCarthy. The more streamlined research tool is a key element in the strategy to provide a consistently high standard of customer service.

Time constraints have been identified as a key issue with consumers. One demand is for rigorous appointment scheduling of service business; driving in on the hour, driving out one or two hours later. Another is for vehicle servicing outside normal business hours. A pilot operation was launched to explore the practicalities of double-shift operations, but at the moment labour legislation, industry regulations and staff transport problems inhibit this type of innovation.

Market response to the McCarthy Student Wheels concept has been positive and three outlets are in operation. Student Wheels offers reliable small cars plus a McCarthy warranty and insurance package for R55 000 or less. The major constraint to more rapid growth is a shortage of quality stock in this price range.

Yamaha Distributors has begun marketing the new Yamaha robotics range. Expansion of the product portfolio makes

Yamaha Distributors the only Yamaha partner worldwide to carry the brand's entire range, from motorcycles to leisure craft to home entertainment to industrial and micro robots.

To entrench our reputation for recruiting the brightest and the best, Bid Auto plans to launch an on-line talent procurement engine, careers@mccarthy. A national advertising campaign will help drive potential candidates to our site.

Challenges

The need to attract and retain excellent human capital has never been more important. It is pleasing to report that employee satisfaction reached the highest level over the last decade.

Leadership in training was underlined when McCarthy Training Centre became the only employer-owned, fully SAQA-accredited institution in the motor industry able to offer National Certificates in servicing and maintaining vehicles, in autotronics and sales and support services across levels NQF 2 and NQF.

The McCarthy Training Centre provides training to 1 100 technical trainees a year – an estimated third of all such trainees in the automotive industry. Seventy-seven percent of all technical trainees are black.

McCarthy's reputation for training excellence is such that a number of manufacturers and retail groups entrust technical training to our teams.

Increased vehicle sophistication demands increased investment. McCarthy responded in 2006 with a R1 million commitment to advanced electronic training modules.

Today's changing customer-profile was anticipated in 1998 by the launch of sales-cadet training, with strong emphasis on HDI candidates. Today, 80% of the intake is young, ambitious and black.

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During the year, 63 sales and 383 technical learnerships were managed while 725 were managed for other companies. A further 66 competency-based management training apprenticeships were facilitated. More than 75% of all learners were black. The development of young managers has become a key focus and, to support this, a 24-month NQF 5 level emerging business leader programme (EBLP) was launched involving 45 delegates, 85% of whom are black.

In all, 5 372 course attendances were recorded spanning 12 423 training days and 190 different courses. Eighty-five black staff received adult basic education and 14 bursaries were granted. Four ex-bursars were employed in the year. These previously employed ex-bursars and EBLP students form the core of a new group of prospective managers. Fifty-five staff participated in the mentorship programme.

McCarthy Training and Development began conducting courses for various other Bidvest divisions.

In the non-technical area, the syllabus continues to grow. An emerging business leader's programme has been introduced. Management understudies and "shadow managers" will be appointed to provide an on-the-job insight into managerial responsibilities.

Fourteen high-potential McCarthy employees attended the Bidvest Academy. The intense and varied content went far to develop their ability to contribute at a higher level in the future. Their exposure to the entrepreneurial ethic and management best practice within The Bidvest Group and to business school case studies, plus the intense monitoring of and feedback regarding their use of positive energy, combined to make their learning experiences memorable and meaningful – with noticeable changes back at their places of work.

Total training investment topped R10 million.

McCarthy has been proactive in the provision of a safe and healthy working environment. HIV/Aids poses a continuing

challenge. The creation of a corporate wellness programme has been well received. Major points of focus are the personal, family, social and health challenges associated with HIV/Aids.

In May 2006, Rally to Read, McCarthy's social investment flagship aimed at facilitating English literacy in rural areas, reached a milestone when the fiftieth rally took place. In total, nine rallies set out, reaching 30 500 children and 1 079 educators at 133 schools, involving 96 sponsors and 1 311 participants using 438 vehicles. About R5 million in cash and kind was raised. The McCarthy community is proud that Rally to Read won the 2005 Mail & Guardian's Investing in the Future Award in the category Best Corporate Employee Involvement Programme. The rally celebrates its tenth anniversary in 2007.

The Empowerdex "BBB" rating of McCarthy awarded particularly high ratings for social investment and skills development. McCarthy plans to seek a new BEE rating in 2007.

The future

The clarity of the regulatory environment is a key factor in vehicle retailing and the wider motor industry. Crucial policy and legislative issues are currently under review and will have a material effect on the industry.

South Africa's Motor Industry Development Plan (MIDP) is being reviewed by the Department of Trade & Industry. The MIDP system of import and export "complementation" has been criticised by some countries as a method of providing subsidies to vehicle-makers and component manufacturers which are contrary to World Trade Organisation (WTO) guidelines.

Government obviously has to be sensitive to criticism from trading partners and the WTO, but the developmental and job creation needs of the country must be carefully considered. Wholesale changes to the MIDP at this stage would be highly disruptive.



Toyota
the introduction of new product
ranges helped boost new vehicle
sales

South Africa currently exports about 200 000 vehicles a year to 52 countries. Component manufacturers' exports total approximately R22 billion a year. Our vehicle and component exporters earn more income a year for South Africa incorporated than exports by the gold mining industry. It is vital the export gains of recent years are not jeopardised.

A new National Credit Act is expected to be introduced next year. This will affect the way in which vehicles are sold and finance and insurance are provided. The consumer has to be protected and responsible marketing practices must be supported. However, it is important that "red tape" be kept to a minimum.

Budgetary policy is another critical area. The vehicle population has grown substantially. Transport infrastructure is under increasing pressure. It is vital to maintain appropriate infrastructure investment in the road and rail network.

Fringe benefits have been a frequent target of the Finance Ministry. Yet company vehicles are an essential business tool in a rapidly expanding economy reliant on its job-creating entrepreneurs. Some relaxation of fringe benefit tax as it applies to company cars and allowance-receivers is desirable.

Interest-rate policy and foreign-exchange rates provide another challenge. A measure of rand softness and price inflation is positive for Bid Auto, but volatility must be avoided. Business confidence has to be maintained.

Significant price increases will obviously have an adverse effect on new vehicle sales. However, there are grounds for confidence that greater profitability can be achieved on used vehicle sales. In the last three years, a strong swing from used to new vehicle purchasing was evident, the result of price deflation on new units. The value gap between new and used vehicles narrowed substantially and a significant write-down in used stock valuations ensued. A three-year process of restoring the gap has now borne fruit, setting the scene for an upswing in used vehicle sales at acceptable margins.

Growth in the vehicle-owning population brings the challenge of retaining profitable customer relationships. McCarthy's customer relationship management (CRM) programme, Client for Life is an industry leader. It was recently adopted by Toyota South Africa for eventual roll-out to all Toyota dealers in South Africa. Client for Life, designed and driven by our Eliance business unit, will be a vital tool as we serve our expanded owner-base. Many owners have a new vehicle for the first time in their lives. They have new expectations and needs. These must be met or, ideally, exceeded.

The franchise portfolio will be significantly expanded. We have already launched our first Renault dealership. We will launch Ford, Mazda and Mini dealerships while introducing SEAT, the new Spanish brand, to the South African market.

Early indications are that 2007 may be more challenging than the last two years in terms of volume growth. However, McCarthy is well positioned to maintain its strong position in the marketplace. Several opportunities beckon, including the taxi recapitalisation programme, growing acceptance of electronic vehicle-retailing (where McCarthy is the market leader), a stronger fleet services offering and the prospects for growth with our new Chinese partners in the vehicle import and distribution business.

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McCarthy expects to make another strong contribution to Group profitability in the year ahead and is determined to deliver sustainable growth and quality earnings.

MCCARTHY MOTOR HOLDINGS

McCarthy VW/Audi/SEAT/Commercials

Excellent results were recorded, well ahead of budget.

Profit contributions from the sale of used vehicles equalled those from new vehicle sales. This was achieved by opening additional stand-alone Mastercar outlets and the launch of South Africa's first Audi pre-owned, stand-alone site.

Consolidation of the Pretoria North and Gezina dealerships proved successful and results at the new Wonderboom dealership exceeded all expectations. Brand profitability is set to improve following the revision by Audi SA of the variable margin structure. The model line-up is also to be expanded.

The business was awarded the SEAT franchise for Durban and the Volkswagen truck range is set for launch in early 2007, factors which will add further impetus to growth.

Work on the Silver Lakes dealership was delayed by rain, but the premises are nearing completion.

McCarthy GM: Opel/Isuzu/Chevrolet

New vehicle sales, particularly of Isuzu and Corsa Utility, exceeded expectations. Used vehicle sales were disappointing. However, our recently completed used-car facility in Gezina, Pretoria, will add significant capacity.

The Chevrolet brand was introduced to our Villieria and Menlyn dealerships. Work will soon begin on a new Menlyn facility, an opportunity to introduce premium offerings such as Cadillac, Hummer and Saab.

A new dealership to be developed at Silver Lakes, Pretoria East, will create a showcase for the planned debut of GM medium- and heavy-commercial vehicles.

McCarthy Land Rover/Volvo

Both marques achieved good sales growth. Land Rover's introduction of Discovery 3 and the Range Rover Sport was well received, with more new products to come. Volvo faced a challenging year in the premium segment of the market, but is well positioned to benefit from new product launches.

The newly opened Land Rover sales boutique in Tygervalley proved a success. Further rationalisation of our Bellville facilities is imminent. Relocation of the Land Rover dealership to N1 City, Cape Town, is planned.

Among award successes was the "Sales Dealer of the Year" accolade for Volvo Tygervalley and recognition for the Durban operation as "The Most Improved Land Rover Dealer".

McCarthy Nissan/Fiat/Alfa/Nissan Diesel/Iveco/Renault

The separation of the Nissan and Fiat operations was completed in May with the opening of Germiston's first stand alone Fiat/Alfa dealership. This development concluded the upgrading programme to ensure compliance with international corporate image standards. Over R7,2 million was spent on image upgrades and new buildings.

In the new financial year, our first Renault operations opened for trading in Pietermaritzburg and Johannesburg South.

The commercial truck business performed exceptionally well and received multiple awards for sales, administration, parts and service. The expansion of truck operations in the Alberton/Alrode area has begun. The new operation is scheduled for completion by next February.

McCarthy BMW/Mini (Forsdicks)

Commendable results were recorded despite the September sale of the Germiston dealership (in line with BMW SA's market-share rules).



Mercedes-Benz
the launch of several outstanding
new models drove overall
performance

Forsdicks were awarded the Mini franchise, a chance to involve our first BEE joint-venture partner. A new sales facility is being built at this Tygervalley franchise. The acquisition of Tygerberg Coachworks was concluded and will be integrated into the Tygervalley business unit.

The upgrading of our Sandton dealership has been completed.

McCarthy Peugeot

We opened a new dealership in Rivonia to augment operations in Rosebank, Tygervalley, Umhlanga, Pinetown, Pietermaritzburg and the East Rand. A commercial-vehicle facility is soon to be added to the Pinetown dealership.

It was a challenging year in the highly competitive luxury car market. The imminent arrival of the new Peugeot 207 is expected to drive new marketplace gains.

McCarthy Toyota/Lexus

Profit and margins showed pleasing improvements. The introduction of new model ranges such as the Yaris and Fortuner and the launch of new derivatives in existing ranges (RAV 4, Verso, Lexus RX350) helped boost new vehicle sales by 21%.

Used vehicle sales were slower, but still rose 8,5%. The introduction of service plans on new models and the

continued success of after-sales programmes helped lift profit contributions from the parts and service operations.

Our first mega-dealership was opened at Kingsmead, Durban, in March and during July 2006 we opened new facilities for our Paarl and Ballito dealerships. We plan to move our Tableview dealership to new premises in the second quarter of 2007. In support of the new strategy for establishing stand alone Lexus facilities we plan to open Lexus Kingsmead in August 2006 and Lexus Midrand in April 2007.

McCarthy DaimlerChrysler: Jeep/Chrysler/Mercedes-Benz/smart/Mitsubishi

The launch of several outstanding new models drove overall performance. They include the S Class, the all-terrain M Class, the B Class and, from Chrysler/Jeep, the highly successful 300C.

As part of DaimlerChrysler's network infrastructure upgrade, we moved to a new branch for Mercedes passenger vehicles at Fountains, Pretoria. Mitsubishi's Pretoria operations were relocated to a stand alone dealership in Hatfield. Work began on a new Mitsubishi branch in Midrand and renovations at our Witbank dealership were completed. At Witbank, sales of medium- and heavy-commercial vehicles went well. Our parts- and service-teams also put in a strong performance.

McCarthy Pre-owned

Used car sales grew by 12% year-on-year in a challenging market, though margins declined slightly. The number of outlets was reduced to six following the expiry of leases on some McCarthy Pre-owned sites and the conversion of other sites to manufacturer-branded used-car outlets.

An exciting new concept, scheduled for launch in early 2007 will strengthen the McCarthy presence in the used car market.

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MCCARTHY FINANCIAL SERVICES

Production showed significant growth and by year-end the McCarthy Finance book had grown to R4,8 billion across 50 000 accounts. Profit fell, however, due to a lower rate yield and a marginal increase in bad debt.

Competition is expected to intensify while higher interest rates may affect consumer confidence. A key challenge is the provision of skilled staff to support the anticipated growth in the McCarthy dealer network.

Cost control, operational efficiencies, customer service and managing bad debt remain key focus areas for management. New initiatives and dealer network expansion create opportunities for further growth.

Within the insurance business, continued focus on value-added products and pursuit of new opportunities led to a significant revenue increase and rise in the number of active policies. McLife achieved strong sales of single-premium client protection policies. Further earnings growth is expected following the launch of the Executive Plan policy. Claims experience at both McLife and McSure was well managed.

McCarthy Insurance, a joint venture with Hollard Insurance, had a successful year. The performance of its Shortfall Protection product was particularly pleasing.

Results were enhanced by superior investment returns.

MCCARTHY FLEET SERVICES

Results exceeded expectations in the first year of trading as a self-supporting business. The unit previously acted as a broker for a financial institution. McCarthy Fleet Services designed and implemented the relevant business systems while recruiting a quality team to deliver the full range of fleet solutions, including finance and leasing.

Both sales volumes and revenue exceeded our target while expenses were well controlled. A strong platform has been established for further significant growth.

McCarthy Corporate Fleet Marketing was set up to provide specialist advice to national and multi-franchise clients and has formed strong relationships with numerous blue-chip companies. The creation of fleet turnkey operations on the premises of some of these companies enabled McCarthy to benefit from demand for lifestyle solutions.

CLUB MCCARTHY

Loyalty programme membership continued to grow. More than 125 000 customers are now covered. New car sales and higher rates of renewal – the result of an enhanced menu of services – have driven growth.

MCCARTHY CALL-A-CAR

McCarthy Call-a-Car maintained its market positioning as the South African leader in electronic vehicle retailing and helped McCarthy dealerships and franchised Call-a-Car dealerships to sell 7 859 vehicles, a 21% increase over the previous year.

Call-a-Car Platinum and Call-a-Car Mobile were launched. The first innovation helps buyers search for top-brand luxury vehicles priced above R200 000. Call-a-Car Mobile enables customers to browse our database by cellphone.

Call-a-Car is well placed to take full advantage of anticipated improvements in the used car market and will continue to innovate and enhance its market offering.

ELIANCE

In view of increased focus on new business growth outside McCarthy and Bidvest, McCarthy On-Line changed its name to Eliance. We secured contracts to provide CRM and other applications to external customers such as Toyota SA, DaimlerChrysler SA and Mahindra SA.

Eliance continues to develop motor retail innovations and electronic media for McCarthy while running the systems platform for McCarthy Call-a-Car. In addition, Eliance has developed and implemented the McCarthy CRM application, Client for Life in all Bid Auto dealerships.



Budget Rent a Car
is located throughout southern
Africa

BURCHMORE'S AUCTIONS

Burchmore's increased profit before tax by 45% as initiatives to develop synergies with McCarthy dealerships and Bidvest began to bear fruit. These extra sources of stock into our three strategically placed auction centres in Cape Town, Johannesburg and Durban were a major factor in our improved performance.

BUDGET RENT A CAR AND BUDGET VAN RENTAL

Increased economic activity and a marginal increase in market-share led to significant growth. The van rental division was launched and new computer operating systems were introduced. A revitalisation programme is under way following changes to senior management. These initiatives will contribute to further growth in the year ahead.

A focused approach will be taken to the industry's major challenges – a continuing "rate war" and worrying levels of theft and road accidents.

YAMAHA DISTRIBUTORS

The product portfolio was further diversified through the acquisition of the Yamaha Intelligent Machinery (robotics) franchise. This consolidates the Yamaha brand offerings under McCarthy while adding industrial products to the predominantly leisure range.

A strong focus on customer service across all Yamaha business units has been initiated. The process involves new staff appointments, staff and dealer training programmes, system upgrades and the introduction of Yamaha's international technical academy.

Despite a competitive environment and significant growth in parallel imports, Yamaha Distributors' contribution was slightly ahead of budget.

MCCARTHY VEHICLE IMPORT AND DISTRIBUTION

This new business unit was created to handle the Gaz business (via Gaz Southern Africa) and the importation of vehicles from China (through AutoChina SA).

Gaz, a joint-venture with SANTACO and Russian Automobile Industries (SA) had a challenging first year. Quality concerns were addressed and, despite some uncertainties around the taxi recapitalisation programme, Gaz Southern Africa sold 414 Gazelle taxis. The business incurred a loss, but a modest profit is anticipated in the coming year as the recapitalisation programme is now scheduled for implementation.

McCarthy secured the distribution rights to a range of vehicles from China late in 2005. Infrastructure is being established to support a proposed dealer network and handle the import and distribution of the vehicles. Trading is planned to start in the 2007 financial year.