

Review of operations

Bidvest Australasia

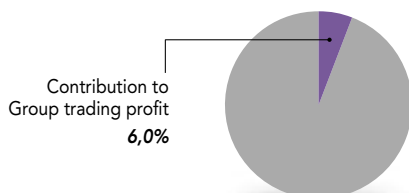


Bidvest Australasia operates as Bidvest First for Foodservice in Australia and as Crean First for Foodservice in New Zealand. It is the industry leader in these markets and the only foodservice company to provide a national service.

- ▶ Bidvest Australasia's revenue increases 11,0% to A\$1,4 billion
- ▶ Trading profit reaches A\$45,6 million for the first time, a rise of 30,0%
- ▶ Return on funds employed reaches a record 35,7%
- ▶ Organic growth and efficiencies drive positive performance
- ▶ Strong performance in Australia by all three divisions
- ▶ Business draws benefit from expanded national footprint in both Australia and New Zealand
- ▶ Strategic acquisition enables Crean to begin the development of a fresh produce division; a logistics division is also planned



Bernard Berson
Chief executive



Introduction

The business derived growing benefit from the targeted acquisitions and investment in new branches and depots made in the previous period. Successful integration of the new business units and constant focus on operational efficiencies enabled Bidvest Australasia to achieve a pleasing rise of 30,0% in operating profit to A\$45,6 million.

Revenue rose by 11,0% to A\$1,4 billion. Sales were buoyed by steady increases in market-share and the growing success of house brands.

In Australia, strong growth in sales and income has been achieved from our strategy of national expansion, particularly in the Queensland market where our presence was further enhanced with the acquisition of a wholesaler in Mackay in July 2005.

In New Zealand, a strategic acquisition has provided a platform for further growth into the fresh produce business. Distribution capabilities have also been strengthened, setting the scene for the imminent launch of a New Zealand logistics division.

In both markets, Bidvest Australasia entrenched its position as industry leader.

BIDVEST FIRST FOR FOODSERVICE – AUSTRALIA

Revenue rose by over 10% while trading profit grew by 27% in local currency and the return on funds employed increased to 35%. The business also generated more than A\$20 million in cash, which was utilised to reduce borrowings.

Organic growth accounted for 80% of the sales success while further improvements in operational efficiencies and enhanced purchasing ability supported the rise in profitability.

The house-brand programme has been extended, with highly satisfactory results.



First for Foodservice
the leading national broadline foodservice products distributor in New Zealand



Crean
provides total food supply solutions to customers



Crean
our customers in Australia and New Zealand range from small restaurants to large institutional caterers



Bidvest Australasia
provides quality home-brand products giving great value to their customers

Operations in Sydney and Melbourne were affected by mounting costs and an even tighter labour market in these major metropolitan centres. Despite these difficulties, our operations in both markets experienced growth and performed at better levels.

The quick-service restaurant division, bolstered by its Yum! contract and the take-on of the Hungry Jacks business in early 2005, achieved a pleasing increase in profitability. However, the division only contributes 4.5% to overall profitability, despite contributing 20% to total revenues.

Macro-economic factors

The Australian economy did not perform as strongly as in previous years, with GDP growth at about 2.5%. Unemployment remained at historically low levels below 5% while inflation moved higher. The economy was also affected by an increase in official interest rates and the prospect of further rate rises.

Substantial increases in the price of fuel are having an inflationary effect. Retail spending has started to dip and

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consumer confidence is beginning to fall. Despite the challenges, the economy has held up well and the federal budget remains in surplus.

Industry-related issues

The principal industry challenges relate to higher fuel prices and their effect on operational costs and consumer spending patterns. Every spike in the fuel price puts a brake on consumer spending, including discretionary spending on food. Fortunately, growth in the overall market for foodservice products has continued.

Low unemployment rates are reflected in skills shortages and the need for premium pay rates to attract certain grades of staff.

Business risks

Strategic business risks are little changed. A continuing concern is the skills shortage and the effect this has on labour and recruitment costs. In relative terms, smaller, less well-resourced competitors are worse affected than we are.

Bidvest First for Foodservice is the country's leading distributor of multi-temperature foodservice products. We can offer career development opportunities to ambitious industry entrants, backed by quality training.

All business in Australia is affected to some extent by the nation's dependence on imported fuel and commodity exports. Concern has again surfaced about reliance on the long-running commodities boom while recent rises in the cost of fuel come as a reminder that Australia's energy needs are met entirely by imports.

Terrorism is acknowledged as a potential threat to the region's tourism industry. The hospitality sector in nearby Bali was dramatically affected by bomb attacks. However, Australia has been spared and out-of-home eating in restaurants and hotels is as popular as ever.

Sensitivity analysis

The propensity of the consumer to spend is the key area of sensitivity. Rising inflation, a spike in oil prices and the overall performance of the economy affect spending and consumer confidence. All factors are beyond the control of management. Some "cushioning" is provided by the range of operations, with the institutional and healthcare sectors well represented in the customer-base while basic foods and ingredients have a central place in the product mix. This means there is not total vulnerability to discretionary spending by the consumer. However, falling consumer spending and low confidence levels would affect growth prospects and further sharpen the expense management challenge in view of the high level of fixed costs at a distribution business.

Structures and growth

The only acquisition was that of a foodservice wholesaler in Mackay, North Queensland, in July 2005. This operation performed in line with expectations and was rapidly integrated into the business.

Bidvest First for Foodservice benefited from the full-year effect of recent geographic expansion and improvements to existing facilities.

Our online ordering system, FindFoodFast, continues to grow and has become a significant source of competitive advantage.

Organic growth, continual improvements in existing working practices and operational efficiencies drove the business.

New investment

No significant investments were made in infrastructure. Training investment is continual and reached A\$1,5 million last year.

Although no new businesses were acquired in 2006, Bidvest First for Foodservice remains an acquisitive company. Further acquisitions will be made should appropriate opportunities emerge on both a geographic and range-extension basis.



Bidvest Australia
are market leaders in innovation, a status supported by continued investment in technology

Innovations

We are the market leaders in innovation, a status supported by continued investment in technology. More than 30% of our sales transactions are now handled electronically and we have now launched online product reference information (OPRI), putting our full catalogue of over 50 000 products on view over the internet.

Challenges

Labour and skills shortages are the principal challenges. The issues are addressed through our extensive training programmes, safe and congenial working conditions and the opportunity for career development.

Challenges in the field of service quality and occupational safety are addressed through the Bidvest Quality Management System, which incorporates our ISO 9002 and HACCP certifications.

Bidvest First for Foodservice operates in a well-regulated environment. Environmental issues are controlled by state and federal legislation. The business is scrupulous in its observance of all relevant statutes.

The future

The Australian economy is expected to remain resilient, though inflationary pressures have begun to mount. In July 2006, Australian inflation moved up to 4% (well above the 3% target) and interest rates were increased in response. However, personal tax cuts that same month are expected to stimulate the consumer economy and should be positive for the hospitality and food industries.

Any further significant increases in fuel prices will again affect consumer confidence and spending, though overall prospects are buoyed by the continuing resources boom.

Bidvest First for Foodservice will pursue continued efficiencies and seek further growth in market share. It is estimated that the business holds 20% of the national foodservice market, suggesting there is substantial scope for continued sales growth.

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CREAN FIRST FOR FOODSERVICE – NEW ZEALAND

Strong cash flows were generated and the business increased revenue by 26% and trading profit by 13% in local currency. These results were highly satisfactory in view of a challenging trading environment and maintain the momentum built up in 2005

Sales successes were the result of both organic and acquisitive growth as we continued to expand our geographic footprint and entrench our position as market leader.

The acquisition of Auckland Fresh in May 2005 has provided a catalyst for the creation of new divisional structures and the pursuit of renewed growth across the foodservice industry.

Macro-economic factors

The New Zealand economy has slowed. The economy contracted slightly in the first two quarters of 2006, though a modest 1% increase in GDP is forecast for the year.

Interest rates are rising; so are fuel and electricity costs. The New Zealand dollar has weakened against the currencies of major trading partners and inflation has again moved higher. Consumer spending has begun to fall. However, unemployment remains low and many sectors – including the distribution and foodservice industries – are affected by labour shortages.

Industry-related issues

Industry challenges reflect the macro-economic environment. Skills shortages constrain all growth-minded companies.

Crean is no exception. Attractive remuneration packages are necessary when recruiting. This can result in knock-on wage inflation across the existing pay structure. Higher distribution costs and higher general inflation also put pressure on margins.

As the only broadline foodservice company with nationwide distribution capabilities, Crean operates as a partner of

leading national brands. Simply passing on price rises is not an option. Efficiencies have to be sought and a measure of cost inflation must be absorbed until this can be dissipated through all industry participants.

All efficiencies and synergies flowing from Crean's larger footprint have to be exploited to protect our competitive advantage.

Business risks

Risks to the business are little changed and mirror those encountered in Australia. New Zealand's recent economic challenges are a reminder that the food industry is not immune to a downturn in the business cycle. Trading conditions are strongly affected by consumer confidence and the effect of fuel price increases on discretionary spending.

Sensitivity analysis

Key sensitivity factors are similar to those affecting our Australian operations.

Structures and growth

The acquisition of Auckland Fresh, a fresh produce distribution business, created an opportunity to further extend our reach and expand Crean's operational structure.

Auckland Fresh has been integrated into the Fresh Rotorua and the Southern Lakes Fresh businesses to create a focused fresh produce division. The division is in an early stage of development and the full benefits will not be apparent until 2007.

In addition, operational and cost efficiencies have been achieved by merging our Queenstown business with business units from Southern Lakes.

A distribution subsidiary based on Auckland's North Shore has been given a dedicated logistics role, providing an opportunity to create a new logistics division.



Crean is the innovation pacesetter in the New Zealand foodservice industry

New investments

To strengthen the distribution arm of the business, new trucks were purchased and leased vehicles replaced. New IT investments will strengthen the systems infrastructure.

Work began on the Bidvest Logistics distribution centre in Auckland. This will entail an investment of approximately A\$8 million.

Innovations

Crean is the innovation pacesetter in the New Zealand foodservice industry.

A process of constant incremental improvement ensures we maintain our lead in service quality, e-commerce, quality of cool-chain management and the marketing and promotion of our comprehensive product range.

Challenges

Recruitment, talent retention and training are the principal challenges. We invest in quality people and train constantly. The training investment topped A\$0,3 million.

The future

The economy is expected to show low or no growth, while inflation threatens to move higher. The prospect of “stagflation” is a concern for both business and the consumer.

Crean has strengthened its operational structure and is in a position to achieve continued efficiencies. Rigorous expense management will be necessary. Further growth in both sales and trading profit will be sought, despite sombre macro-economic conditions.