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Chief executive

Comprises Bidvest Australia, Bidvest New Zealand, Angliss Singapore and Angliss Hong Kong and China. Bidvest leads the foodservice industry and offers a full end-to-end national distribution service.

- > Trading profit for the expanded business rose 58,0% to R346,6 million
- > Revenue up 36,2% to R8,9 billion
- > Acquisitions in Australia and New Zealand strengthened leadership
- > Acquisition of Angliss Singapore and Angliss Hong Kong and China provide foothold in one of the world's fastest growing markets

Value proposition

Bidvest Asia Pacific offers the most comprehensive range and widest coverage of its core markets, delivering economies of scale and one-stop solutions while giving customers the assurance of professionalism and reliability in an otherwise fragmented industry.

Introduction

The Angliss acquisition was effective from May and therefore the contribution to overall performance was limited to the last two months of the year. Though the contribution to date is limited, exciting opportunities are evident across the Angliss operations in Singapore, Hong Kong and mainland China.

Local management remains in place and will be strongly supported as we begin the task of improving the returns from these dynamic, but highly competitive markets.

The markets in which Angliss is active have many unique characteristics. This is also true of our Australian and New Zealand operations as macro factors at the two ends of the Tasman Sea are often dissimilar. The challenge is to exploit unique opportunities by respecting the special nature of each operation.

The decentralised Bidvest model is a proven performer in these circumstances as local managers are encouraged to optimise local knowledge while leveraging Group resources to achieve competitive advantage – a process that is well under way in both Australia and New Zealand. We see great scope for the Bidvest approach in the markets served by Angliss.

In our Australian and New Zealand businesses the principal challenge was to achieve continued growth following previous strong performances. Both operations rose to the challenge and achieved highly satisfactory results, thanks to stable local management backed by well-motivated teams. The Australian contribution was especially pleasing.

BIDVEST AUSTRALIA

Trading profit rose 33,2% to A\$44,6 million off revenue growth of 9,0%. All business segments performed well, and our return on funds employed was an all-time high of over 50%.

Macro factors

Australia's economic fundamentals are generally favourable, with GDP growing by 3,0% a year and inflation controlled within the 2,5% to 3,0% band. The economy continues to benefit from the resources boom. This supports a high level of both business and consumer confidence. Interest rates have been relatively stable at around the 6,25% level for the year, though they were recently increased by 0,25%.

The Australian dollar remains strong but volatile. However, this has had no significant effect on tourist arrivals. The tourism and leisure sectors continue to do well.

Industry factors

The national feel-good factor underpins the trend toward increased out-of-home eating by the average family. This is good for restaurants and good for Bidvest Australia.

In full-employment Australia another key development is for employers to enhance the working environment. One aspect of this effort to improve an employee's on-the-job experience is to provide more staff amenities and eating alternatives at the office – a positive trend for our business.

Business drivers

The principal factor driving our own growth is the continuing success of the three-legged divisional structure put in place over a year ago. We have a core foodservice operation supported by a focused QSR business (serving the industry's quick service restaurant segment) while a specialist hospitality industry supplies business. Our managers understand their focus areas and add value by anticipating customer demands.

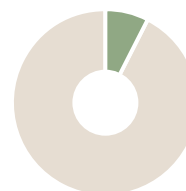
The stability of seasoned management teams working within a logical, uncluttered structure has contributed to growth across the board. Geographical expansion by the three divisions is ongoing, but strong organic growth within the existing customer-base continues to be a key feature of our performance.

New structures

A series of acquisitions has strengthened the foodservice and hospitality businesses.

Contribution to Group trading profit
2006: 6,0%

7,6%



Review of operations – Bidvest Asia Pacific

Hospitality supply businesses have been purchased in Geelong (Victoria), Perth (Western Australia), Sydney and Melbourne. The Sydney acquisition is effective from July 2007. The Melbourne business has been amalgamated with our existing operation in the port city.

In May we bought a foodservice wholesaler in Ipswich in south-eastern Queensland and (effective from July 2007) purchased wholesale business operations in Tamworth and Armidale, New South Wales.

Earlier in the year, the foodservice operation was strengthened by the acquisition of two small businesses (one in Melbourne, one in Sydney) that specialise in supplying businesses with tea, coffee and refreshments for their employees. Activities on this pattern are highly fragmented at the moment, but offer us a growth and cross-selling opportunity.

These acquisitions give us a chance to study this niche and develop an appropriate strategy for possible roll-out in commercial centres across the country.

There were no acquisitions by the QSR division. However, this business continues to secure strong organic growth and is a major beneficiary of our infrastructure growth strategy.

New investments

Our Perth warehouse has been expanded while capacity at our operations in Townsville, Northern Queensland, has been augmented following the purchase of a large frozen storage facility. In addition, we are expanding warehouses or building new facilities at Cairns, Mackay and Sunshine Coast (all in Queensland) and at Wollongong, New South Wales.

Infrastructure investment is designed to cater for both current growth and anticipated expansion in the medium term.

Risks

Business risks are little changed. However, one risk area has come into greater focus – political change. This is an election year. After 11 years in opposition, the Labour Party is about to launch a strong challenge. Should there be a change of government there is a risk that new policy initiatives will affect the national mood and perhaps put a brake on growth. Caution rather

than confidence might then set in; for business as well as the consumer.

This could affect foodservice demand in some categories. The only mitigation strategy in the face of this type of risk is to provide a comprehensive range of products that responds to all needs and tastes.

Sensitivity analysis

In common with all foodservice businesses, the economic variable to which we are most exposed is the consumer's level of disposable income. A family's propensity to spend on items other than basic foods has a major influence on our volumes, the development of our ranges and the growth of our businesses in general.

Australia's level of unemployment is at a record low (4,0%). In effect, this is a full-employment economy. Wages are therefore high and the current level of inflation and interest rates puts little pressure on disposable income. This may be an area of sensitivity, but the analysis is favourable and will remain so for the foreseeable future.

Proudly Bidvest

The strength of the Bidvest connection was demonstrated by the Angliss acquisition. Access to group resources puts us in a position to pursue strategic opportunities. We not only mount expansion strategies, but sustain them in the long term. The backing of Bidvest resources is obviously crucial to us.

Our business units all carry the Bidvest name and livery.

Differentiation

We are the only truly national player in a highly fragmented industry. Our localised competitors lack our resources and infrastructure. We can secure national accounts and assure our customers of uniformly high standards of service across Australia. Ongoing investment in infrastructure reinforces this unique positioning.

Innovation

Our continuing investment in IT systems keeps us at the forefront of electronic marketing and customer service. The incidence of electronic sales mounts by the month and now approaches 30,0% of all transactional volume.

Thanks to our investment in systems, our teams have become proactive interpreters of sales patterns from specific customers and regions. By making use of a constantly refreshed database, we up-sell, cross-sell and anticipate customer needs on a scale without precedent in our sector.

Our quality management system and HACCP and ISO compliance programmes lead the industry.

Social commitments

We have been nominated for a Prime Minister's Award for our job creation efforts on behalf of people with disability. Unlike South Africa, our labour legislation does not set employment equity targets for people with disability. However, we have made it a policy to do what we can to offer productive work to disabled people whenever possible. Several of our businesses have employed people who are considered intellectually challenged or have various levels of physical disability. Results are so positive we are encouraging other employers to follow our example. Nomination for a Prime Minister's Award means our efforts have been noted at national level.

Training

Training investment continues within our business. We differentiate ourselves not only in terms of our comprehensive range and geographic reach, but the quality of our service. Increasing emphasis is therefore being given to sales training and customer service.

Challenges

In a full-employment economy, individual productivity is the key challenge. We have to equip our people with the tools and skills to perform to the optimum. We also have to create working environments that foster superior output. We can grow our systems and infrastructure, but we can't grow the payroll to the same extent when job applicants are in short supply.

A further challenge is to deliver growth on top of growth in the face of manpower constraints. Our management teams have proved themselves capable of meeting this challenge and we are confident further significant gains can be made.

The future

We will pursue double-digit gains in both revenue and trading profit. We are investing in more and better trained sales people. Smart systems have to be

complemented by smart people who are capable of managing the face-to-face interaction with a growing customer-base.

Better understanding of customer needs is fostered by infrastructure development. In the past, many QSR customers were serviced through general foodservice distribution centres. Continual expansion of QSR warehousing enables this category of customer to receive dedicated service from QSR teams, pushing up customer satisfaction levels.

We estimate that we currently hold 20% of the national foodservice market. Substantial growth is possible through range extension, expansion of the customer-base and geographic expansion. Further acquisition opportunities will be explored. Simultaneously, we will investigate growth possibilities in niche activities in new markets, such as the office amenities and refreshment market.

BIDVEST NEW ZEALAND

Trading profit in local currency grew by 23,3% while revenue increased by 19,3%, a result of both acquisition and organic growth. This represents a highly satisfactory performance in a challenging market.

Macro factors

Low GDP growth of less than 2,0%, the highest interest rates in the developed world (8,0%) and an extremely strong currency are the principal features of the domestic economy. Labour costs remain high and labour shortages continue as the unemployment rate runs at close to 3,0% (a record low).



Review of operations – Bidvest Asia Pacific

Inflation is controlled at about 2,5% and consumers have benefited from competitively priced imports, courtesy of the strong New Zealand dollar. Import activity, however, has hit some local industries hard. The country remains a major exporter of agricultural products and the farming sector has looked to capitalise on high world prices for dairy products. The strong local currency diluted some of these gains, however.

Interest rates were driven higher by the authorities in a failed attempt to cool the overheated housing market. The net effect has been to dent business confidence and keep economic growth in check.

Industry factors

The strong currency has also inhibited the growth of tourism, with knock-on effects among one of our major customers – the hospitality industry. In addition, we are affected by high wage costs and the rising fuel bill. New Zealand's petrol and diesel prices are totally unregulated. Any adjustment in world prices is immediately felt by distribution businesses. The effects were mildly positive in the first half of the year when the oil price dropped, but in the second half the pressure was constant.

Business drivers

We benefited from the full-year effect of the new structure. Crean, our core foodservice business, is now complemented by a fast-growing fresh produce division supported by a focused logistics operation.

Several acquisitions have extended our national footprint while contributing to growth.

Staff continuity and stability have become critical factors in management planning. We retained all key staff during the year. The contribution of dedicated, experienced and enthusiastic managers enabled us to maintain focus while pursuing a vigorous growth strategy. Challenges to the further growth of our business are similar to those faced by our Australian counterparts.

Investment and acquisitions

Fresh produce businesses have been acquired in Hamilton and Wellington on the North Island and Christchurch on the South Island. They join the existing

network to form a group of eight fresh wholesaling businesses throughout New Zealand.

The latest acquisitions move the fresh business to the next level – the development of a truly national player in the fresh produce sector. The concept is unprecedented in New Zealand where local operations predominate.

Complementary, nationally based foodservice and fresh businesses create opportunities to offer customers one-stop solutions and achieve continued growth.

The creation of the Bidvest Logistics division – announced last year – proceeded as planned and its new Auckland distribution centre was completed in October 2006.

The concept of logistics support from a focused operation rapidly proved itself and has led to the further planning of logistics distribution centres in other key areas of the country.

Work is nearing completion on a new distribution centre in Wellington at an investment of NZ\$6,5 million. It should be fully operational by August. In addition, construction has begun on another centre at Palmerston North (an investment of approximately NZ\$5 million). Work will be completed by the beginning of 2008.

Differentiation

Recent investment has underlined our value proposition as the only national player capable of meeting the customers' quality requirements in a consistent and professional manner. Our range is unmatched. We set the industry benchmark for quality service.

We can also optimise management resources. All systems, codes and procedures are uniform in all operations and branches; enabling high productivity and minimal disruption when internal promotion and transfer takes place.

Our IT investment allows us to better manage customer relationships and supply complementary product ranges with a single delivery. Through

innovation in e-commerce, over 20% of our business is now transacted electronically. Customers and suppliers are finding it easier and more efficient to deal with Bidvest than other foodservice wholesalers. Sophisticated systems not only enable optimum control of our own inventory, but provide insights into the stock levels and demand patterns at our customers' premises.

Risks

Business risks mirror those faced by our sister-company in Australia. In highly regulated developed markets, sensitivity to change in the policy environment is ever-present.

For example, new labour laws will soon drive up labour costs still further. Mandatory paid leave will increase while all employers will have to contribute to a superannuated pension fund for the benefit of their employees.

The impact of such legislation is felt across all industries. We mitigate the risk of new industry-specific regulations in areas like food hygiene and safety by applying world best practice.

The future

Recent acquisitions and continued infrastructure investment provide a platform for further growth. The general economic environment is expected to remain challenging. Even so, we will pursue continued growth in revenue and trading profit through increased market share and product range development.

Specifically, we intend to pursue incremental growth at Crean while looking for strong penetration of the fresh produce market. Our fresh division is still at the developmental stage, but we believe this market offers huge potential for a company with our resources and infrastructure.

Opportunities for range extension will also be pursued. Further acquisitions may be explored.

ANGLISS

Angliss is one of Asia's leading foodservice wholesalers and distributors with annual sales of more than R2,0 billion and facilities in Singapore, Hong Kong and Guangzhou in the People's Republic of China. It also operates distribution centres in Beijing, Shanghai and Shenzhen.

Angliss manages the supply chain of high-volume, temperature-controlled foods, including frozen and chilled meat and poultry, frozen seafood and vegetables and dairy and pastry products. It is one of Singapore's top two importers of frozen and chilled protein and the number one service provider to the Hong Kong foodservice industry.

Angliss has a qualitative competitive advantage in its core markets following sustained investment in world-class cold storage facilities. It services customers with its own fleet of vehicles and offers tailored solutions to more than 5 000 customers in the foodservice, retail wholesale, airline kitchen, catering, hospitality and ships chandler sectors.

It makes use of a sourcing network of 650 suppliers in more than 30 countries.

One of the initial points of focus for local management will be more active integration of the Singapore and Hong Kong businesses to promote greater purchasing synergies. Possibilities for range extension are also being investigated with the aim of leveraging the strength of Angliss's blue-chip customer-base by supplying a broader spectrum of their needs.

The Angliss businesses have performed above our expectations, and we expect this to continue.

