



Brand Pretorius
Chief executive

One of South Africa's largest motor vehicle retailing and service groups. Bid Auto offers leading motor brands through over 130 dealerships and service outlets, backed by financial and fleet services, a loyalty programme and the country's leading online retailer of new and pre-owned vehicles.

- > Trading profit growth of 16,6% to R724,3 million
- > Revenue up 15,4% to R18,7 billion
- > 39,5% return on funds employed
- > Total retail sales rose to 88 989
- > Acquisition of Shell Autoserv network
- > R1 billion acquisition of Transnet's fleet management and leasing business, Viamax Holdings, effective September 2007

Value proposition

The preferred quality and value provider of automotive products and services for private and corporate customers across all market segments.

Introduction

Bid Auto has achieved a succession of stellar results since the McCarthy acquisition and its integration into Bidvest three years ago, but a slowdown was experienced after a series of adverse macro and industry developments. The effects were particularly evident in the last quarter of the financial year.

Continued diversification from the historical reliance on new car retailing cushioned the impact and has given the business a strong platform for ongoing growth in a reshaped trading environment.

Macro factors

The lower interest rate environment came to an end in June 2006 and over the next 12 months the Reserve Bank's monetary policy committee pushed up rates by 250 basis points. The effect on consumer spending in the automotive sector was marked. Vehicle repossessions by the financial institutions moved higher. Our auctioneering business derived some advantage, but the net effect is negative as this environment has an impact on consumer confidence.

Consumer confidence moderated and increased buyer caution in the passenger car market was apparent by year end. The authorities continued to express concern at the high level of household debt – which reached a record high of 73,7% of disposable income in the first quarter of calendar 2007. The lending practices of financial institutions came under increasing official scrutiny, culminating in the promulgation of the National Credit Act on June 1 2007.

Only one month of trading activity was affected in the current period, but the Act's effects were significant. The debt disclosure and verification requirements not only filter out over-extended consumers, but also delay the sales process. We are confident that processes can be accelerated while still respecting the Act and the consumer's interests. However, it may take some time to bed in new procedures.

Though exchange rates were generally stable, the net trend was toward rand weakness.

Higher fixed investment by government, the parastatals and the private sector was beneficial for the construction industry and associated activities. Business confidence remained high.

Industry factors

A weaker rand translated into price increases for some vehicle buyers for the first time in three years while a year of fuel price increases pushed up the overall cost of motoring.

New vehicle sales slowed, but the slowdown has to be put into context. The single most important industry dynamic is positive – unprecedented growth. Five years ago, new vehicle sales appeared to have stalled at 350 000. In calendar 2007, the motor industry expects new vehicle sales to reach almost 700 000 units.

Fifty-four vehicle brands today crowd a South African market that represents just 0,8% of world sales. Customers can now choose from more than 1 300 model derivatives. Competition has become intense while manufacturer demands for brand support from their dealers continue to mount. The result is constant margin pressure. The Bid Auto margin improved from 3,7% to 3,85% due to diversification and good equity portfolio returns.

A major structural change is also evident in our industry. The historical pattern was for low and mid-income families to graduate to new-car purchasing via the used-car market. This has changed following the market entry of so many manufacturers offering competitively priced new cars. Approximately 40,0% of new passenger car sales fall into the entry level and small categories. This means many first-time owners now buy new, putting pressure on used vehicle margins even at times when new vehicle sales slacken.

The surge in construction activity has helped to support stronger commercial vehicle sales across the motor industry. Bid Auto's new vehicle sales are traditionally split 70/30 in favour of passenger vehicles. Our long-term efforts to strengthen the commercial element will receive a boost early in the new financial year with the launch of our range of Chinese light commercial vehicles.

Contribution to Group trading profit
2006: 17,0%

15,9%



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Response has been positive to the first offerings, a range of pick-ups and a mini-bus taxi, a unit well positioned to benefit from government's taxi recapitalisation programme. Our new entrant satisfied all the requirements of the South African Bureau of Standards and was soon placed on the Department of Transport's "approved list".

South Africa's shift to infrastructure-led growth is expected to underpin the market penetration of our new McCarthy Heavy Equipment business, dubbed Yellow Metal by the press. The new operation, launched in February, imports, distributes and provides after-sales support for heavy equipment from China, including bulldozers and excavators.

Challenges of national growth

The rapid creation of a new, upwardly progressive middle class is one of the most obvious consequences of government's strategy of combating poverty through higher economic growth and black economic empowerment. The principal effect in our industry is a doubling of the size of the new vehicle market in a little over three years. This puts huge pressure on industry resources, including skilled manpower and physical infrastructure such as service bays and parking areas.

Bid Auto has responded with extended facilities and the deployment of increasingly sophisticated customer information platforms to speed the job-flow. Ambitious expansion plans are in progress while the training of more technical apprentices has been stepped up.

Risks

Business risks stay the same, though they are accentuated by the intensity of competition.

Principal risks relate to interest rates, exchange rates, consumer and business confidence and the one-sided nature of franchise agreements. Implementation of the NCA is confirmation that legislative risk can sometimes be substantial. Legislators are now finalising the Consumer Protection Bill.

Macro factors are beyond the control of any business unit risk committee, but the industry as a whole has a credible voice and is widely consulted before any legislative or regulatory action. Furthermore, the industry has shown itself to be extremely adaptable.

We have moved from a totally protected industry with 115,0% protection to a 30,0% duty environment characterised by intense competition.

Bid Auto has adopted a proactive stance in an increasingly consumer-friendly legislative environment. We endorse ethical marketing practices and train all staff – from technicians to showroom personnel – to be pro-consumer, open and scrupulously fair.

Adverse effects springing from the dominance of franchise principals can be cushioned by improving the balance of the business, widening the spread of activities and, most importantly, meeting the expectations of our suppliers.

Sensitivity analysis

New and used vehicle sales remain very sensitive to business and consumer confidence, as well as vehicle affordability. Exchange rate movements and interest rate changes remain key indicators.

Fifty percent of the models in our passenger vehicle market are fully imported. The import component varies across the "domestic" brands. Rand weakness ultimately leads to price increases, but competitive and inventory factors can delay the impact.

Interest rates obviously affect affordability, but the precise relationship between, say, a 1,0% rise and sales is difficult to calculate in a market with the growth dynamics of the last four years. Vehicle purchasing can also be affected by emotional factors.

Proudly Bidvest

Pride in Bidvest is underpinned by the practical benefit of our membership of a group with such strong positions in the leisure, hotel and travel markets. We believe much of the increased growth of Budget Rent a Car – with market share up from 13,0% to 18,0% in a highly competitive sector – can be attributed to Bidvest influence. Our dealerships also enjoy substantial support from Bidvest subsidiaries.

Substantial funding facilities available to us through the Bidvest treasury have enabled us to expand and accelerate strategic diversification.

Bidvest's impressive empowerment credentials help us to win customers and build new relationships, notably in the municipal and parastatal sectors. At the same time, they address a key area of manufacturer concern – that their dealerships rapidly develop a credible empowerment profile.

Our people's participation at The Bidvest Academy is an increasingly important motivator for executives eager to build a career within the Group's "successor generation". The ultimate benchmark for our top performers has become recognition at the Bidvest Chief Executive Awards.

Differentiation

Bid Auto differentiates itself in terms of service quality and value. We strive to be the first choice in the eyes of all our customers in terms of quality and service.

We support this commitment by investing in our own customer research and customer satisfaction indexes. All incentive programmes are linked to customer satisfaction, from sales staff to senior executives.

We lead the retail motor industry in the application of customer satisfaction indexing to the used-car market. The level dropped in 2006 and became the subject of intense turnaround efforts. The score has subsequently risen to an all-time high of 86,8%.

New structures

The scope of our activities has widened as a result of the diversification programme while added emphasis has been given to activities such as used-car sales and our parts and service business.

McCarthy PreOwned has been rebranded as McCarthy Call-a-Car Direct and McCarthy Call-a-Car Virtual (for those who prefer a Net platform to a showroom). At the same time the used-vehicle footprint has been expanded with the addition of seven McCarthy Value Centres. Though margin pressures remain a concern, we believe the used-vehicle market will make a comeback. Broader infrastructure is necessary to exploit the opportunity, as well as to create more capacity for the disposal of Budget Rent a Car and Viamax buy-backs.

We launched our McCarthy Value Centre concept in March and by mid-year seven operations had been established. Ten will be in operation by the end of 2007, the majority close to shopping centres to encourage the habit of dropping the family car off for a service when the consumer pops to the shops.

Synergies

McCarthy Value Centres will not only sell affordable quality used cars, but act as the marketing channel for a growing range of affordable Chinese vehicles. The intention is to create the preferred showcase for value-sensitive customers whether they are in the market for new or quality used vehicles.

Other synergies will also be exploited. For example, our Budget Rent a Car and Budget Van Rental operations show exceptional growth. Their fleets have expanded from 3 800 in 2003 to 8 000 units. When the rental cars come to the end of their nine-month life at Budget, these units will be fed into the quality used-vehicle market through the value centres and our franchise dealerships.

Acquisitions and investments

We invested R280,0 million in new dealerships, facility expansion and refurbishment.

In February, we acquired Shell Autoserv, a national chain of 28 standalone service centres; though the effective date was April 1 as Competition Commission approval had to be sought. We retained all staff. The chain has now been rebranded as McCarthy Value Serv and will give added momentum to our strategic drive



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to expand our parts and service business. The chain will focus on out-of-warranty vehicles and provide long-term support infrastructure for our Chinese vehicle brands.

The industry forecast is for the market segment for four to seven year-old vehicles to increase in the medium term from 20,8% to just under 30,0% of the vehicle population. This equates to more than 3 000 000 vehicles. South Africa has a vehicle population of 7 000 000. Franchise dealers service only 1 500 000 of them.

We have also begun importing Chinese heavy equipment, the Shantui and Yuchai brands, and believe our heavy equipment division will receive strong market support.

Further diversification is on the near-term horizon when the Viamax fleet management and leasing operation is integrated into Bid Auto. It represents a major expansion of our fleet management capability.

The range of Budget activities was extended in 2007 with the introduction of point-to-point Chauffeur Drive. In addition, we bought a majority share in Inyanga Motors, giving us DaimlerChrysler representation in two growth areas, Empangeni and Vryheid.

Training

Our spending on development was R18,5 million while 20 610 days' training took place involving 10 190 course attendances and 7 352 training days being delivered to external clients.

The company's training centres remain the only employer-owned, fully SAQA-accredited institutions in the motor industry able to offer national certificates across levels 2 to 5 of the National Qualification Framework (NQF) in vehicle service and maintenance, autotronics, sales and support services. McCarthy's Automotive Artisan Academy managed 500 internal and 387 external automotive learnerships. McCarthy technical trainees achieved 252 qualifications at the NQF2 to 5 levels.

A further 41 learners were trained on our sales cadet programme. A management skills programme has been successfully piloted while 12 high potential managers and staff attended The Bidvest Academy and graduate academy.

Diversity management receives increasing support. All executives have attended a series of transformational experiences over five days and 1 082 managers and staff benefited from a two-day diversity training programme.

Black economic empowerment

Broad-based black economic empowerment and transformation remain a moral, strategic and business imperative for us. We have positioned our transformation agenda in accordance with the finalised BBBEE codes of good practice and Bidvest inter-divisional transformation structures.

Enterprise development remains a point of focus. Small medium micro enterprises projects have been implemented at our Nissan Diesel and Toyota dealerships and we have partnered a black businessman at our East London Value Centre.

Our partnership with the South African Taxi Council at Toyota Gezina goes from strength to strength and through Budget Van Rental we continue to give opportunities to historically disadvantaged South Africans.

Interventions such as the McCarthy emerging business leaders programme and the management understudy programme are in place to accelerate employment equity.

Corporate social investment

CSI spend increased year-on-year to R3,0 million. The focus remains on community upliftment and education.

In May, McCarthy coordinated the tenth year of the Rally to Read programme, an initiative focused on English literacy at primary schools in rural areas. Nine rallies, funded by 94 sponsors, set out in 450 vehicles to reach 143 rural schools employing 1 040 educators and serving 32 800 learners. Funds raised reached a record R5,5 million. A book of celebration, *New Chapters* was published in April and has been widely acclaimed.

Innovation

The McCarthy Value Centre-concept is groundbreaking and has the potential to create South Africa's first fully integrated value-for-money vehicle parts and service network.

The world-class status of our state-of-the-art Client for Life customer relationship management programme was confirmed when Toyota SA signed a five-year contract with our Eliance subsidiary. The programme, which cost us R30 million to develop, is being rolled out to all local Toyota dealerships. The possibility of a follow-up international roll-out is being investigated.

Our call a car business continues to set the benchmark for electronic vehicle retailing. The system celebrated its tenth anniversary in August 2007. More than 50 000 units have been sold since inception via the internet and associated call centres.

Challenges and disappointments

The plan to source Russian vehicles for the mini-bus taxi market created a succession of challenges, despite our efforts in collaboration with SANTACO to ensure these vehicles met the demands of this testing market. In view of product quality and reliability concerns, we recalled all GAZ units. We spent R15 million on this customer-support programme, keeping our promise to the market. McCarthy will continue to provide aftersales support to existing owners, but will not import any new Gazelles. However, the local distribution of other vehicles from the GAZ International stable is under consideration.

It was decided at year end to close the student wheels division as the concept received limited market support. No staff retrenchments are envisaged as personnel will be absorbed into the growing chain of value centres.

HIV/Aids remains a continuing concern. Aids awareness and education were integrated into our wellness programmes at an early date and our Lifeline counselling service continues to do sterling work. These efforts have to be continually reinforced.

The future

The interest rate climate is expected to remain challenging and further exchange rate weakness may adversely affect vehicle affordability. South African consumers have taken on board a record level of debt. The net result in the automotive industry is expected to be a marginal decline in total vehicle sales and increased pressure on margins.

Despite these challenges, Bid Auto intends to pursue profit growth in 2008. This is a bold target. It reflects our confidence in the momentum being built up by our diversification strategy. However, we acknowledge that growth-focused initiatives such as the heavy equipment division, the importation and distribution of vehicles from China and the nationwide value centres are still under development, and will require substantial investment in the initial phases. This may affect the level of returns. We anticipate meaningful growth in the construction sector and will further broaden the brand bouquet at McCarthy Heavy Equipment.

In 2008, we will derive only a nine-month benefit from the operation of Viamax, but thereafter we expect this fleet management business to make a substantial contribution to Bid Auto. We are also upbeat about the contribution of our financial services and import and distribution activities.

Diversification has reached critical mass. Motor retailing accounted for 47% of our profit. In 2008, these activities will remain the biggest single contributor to the bottom line, but will probably account for just 38% of profit. The financial services' share of the pie is expected to grow from 33% to 36%, while imports and distribution activities should double their contribution, from 7% to 15%.

Some short-term challenges are in sight, but we are confident about the continued growth of the South African economy, our industry and Bid Auto. We have a strong management team that has shown itself well able to meet the challenges of the future.



MOTOR RETAIL

BMW/Mini (Forsdicks)

Growth in new vehicle sales proved challenging at our dealerships in Pinetown, Sandton and Tygervalley, though used-vehicle trading staged a recovery and pleasing results were achieved by aftersales. Tygervalley repair centre came into operation in July and the Tygervalley dealership began trading out of their new Mini facility in February 2007.

General Motors

New vehicle sales were on target, but used vehicle sales were disappointing. Aftersales performance was strong. A McCarthy Call-a-Car Direct facility opened in Gezina and a large dealership will open early in the new period at Menlyn, Pretoria. It will carry the full GM range and is expected to boost our aftersales business. A new parts warehouse is nearing completion in Montana, Pretoria.

Land Rover/Volvo

Land Rover performed exceptionally well, with outstanding Range Rover Sport and Discovery 3 sales and improved aftersales profits. The model line-up has been refreshed by the introduction of the all-new Freelander 2 and a new-look Defender. Intense competition in the premium passenger car segment inhibited Volvo sales growth. Our Parow Land Rover dealership has been relocated to N1 City. McCarthy Volvo in Pietermaritzburg was named most improved Volvo dealer of the year.

DaimlerChrysler

Car-buying activity at Mercedes-Benz was affected by a pause ahead of the imminent launch of a new C class. Mercedes-Benz commercial vehicles did well. Sales of Chrysler, Jeep, Dodge and Mitsubishi were disrupted by new model introductions and vehicle shortages. The luxury used-car market remains challenging, though aftersales performance was positive.

We have opened a new Mitsubishi dealership in Midrand. A Mercedes-Benz/Chrysler/Jeep/Dodge branch campus in Centurion is nearing completion and we have begun the development of a Mercedes-Benz lifestyle centre in Menlyn, Pretoria. An exciting development was the acquisition of Inyanga Motors which boasts two outlets in KwaZulu-Natal North (Empangeni and Vryheid).

Nissan/Fiat/Alfa/Renault

Nissan SA recognised McCarthy Nissan Sandton as the best in its category and overall dealer of the year while McCarthy Nissan Germiston won the annual accolades for aftersales and service. Fiat and Alfa continued to grow and in 2008 will open a new parts distribution centre. Renault dealerships performed strongly and made good progress with aftersales. Our heavy commercial division was the star performer, with excellent sales and returns and won gold awards from Nissan Diesel SA in most categories. The performance of our two Renault dealerships is improving, with our outlet at The Glen (Johannesburg South) making particularly good progress.

Peugeot

The Peugeot brand struggled to retain market share, though we managed to maintain a significant portion of the marque's unit sales. Aftersales showed pleasing growth. Improved performance is expected in the coming year as the marque refocuses its marketing and representation. The launch of the new 308 should also have a positive effect.

Toyota

Trading profit and return on sales improved. Passenger vehicle sales were enhanced by the introduction of the Yaris T1 and the Avanza range while the launch of three Lexus models and the opening of our Kingsmead Lexus facility boosted Lexus sales tenfold. Commercial sales increased by 23,9%. Profits from used vehicles fell, but after-sales achieved strong growth as most vehicles are now covered by free service plans, resulting in high service customer retention.

Our Midrand Lexus and Tableview Toyota dealerships will open later this year. Further Toyota dealerships are planned for Gezina, Lynwood and Woodmead while another Lexus dealership is planned for Pretoria. McCarthy Toyota Trucks in Midrand was nominated as Toyota South Africa's truck dealer of the year.

Volkswagen/Audi/Seat

Net profit before tax rose 39,0%. Increased used vehicle focus resulted in the sale of equal numbers of new and used units while both parts and service departments achieved combined growth of more than 41,3%. Relocation of our Prince's Park dealership to Silver Lakes went well. We plan to open a specialist commercial

dealership in Witbank in December following steady growth of the VW commercial range. We anticipate a challenging 2008 as no significant model launches are planned.

Our associate company, Autohaus Centurion, has undergone a major revamp with the separation of Audi and VW into two independent dealerships which comply with all corporate branding. In spite of this disruption, net profit before tax rose 10,3% and return on net assets was excellent at 169,0%.

BURCHMORES

Burchmores increased profit before tax by 105,7% in a record year. Synergies with the McCarthy group and an increase in bank reposessions contributed to the good performance while our "Wholesale to the Public" concept ensured continual walk-through traffic. Unit sales rose 67,5%. We have invested in a new IT system and are positioned for another successful year.

IMPORT AND DISTRIBUTION

Vehicle Import and Distribution

Direct sourcing of two Chinese brands has been finalised. Foton is supplying a 13-seater mini-bus taxi and a panel van while Meiya, a subsidiary of FAW, China's largest vehicle manufacturer, is providing a range of single and double-cab one-ton pick-ups and a sports utility vehicle. The launch takes place early in the 2008 period. The product base will be broadened over the medium term to create a comprehensive range of affordable passenger and commercial vehicles.

McCarthy Value Centres and Value Serv

A national network of McCarthy Value Centres and Value Serv outlets has been established to support our new Chinese brands. By mid-2007 10 value centres and 28 standalone Value Serv outlets were in operation. The used-vehicle departments of the value centres will trade under the McCarthy Call-a-Car Direct banner, and their service departments as Value Serv.

The value centre in Parow has obtained the Mahindra franchise as well, and the Klerksdorp outlet has added Tata vehicles to its range. It represents our group's first foray into sales of vehicles of Indian origin.

GAZ SA

Problems with vehicle reliability resulted in poor retail sales of the Gazelle mini-bus taxi and GAZ SA incurred

significant losses. The retail and wholesale operations of GAZ SA have been incorporated into the vehicle import and distribution division and the McCarthy Value Centres, realising significant savings.

McCarthy Heavy Equipment

We have sole distribution rights for the Shantui and Yuchai ranges and began operations by establishing a base in Boksburg. The opening of a Cape Town branch is imminent. Market entry has progressed well and we sold 18 units by year end. Negotiations with another Chinese brand, SANY are well advanced and we plan new equipment offerings, including lifting, concrete-, asphalt- and earth-moving equipment.

Yamaha Distributors

A record first quarter was followed by a succession of challenges, including the NCA's introduction, the launch of the eNaTIS registration system and restrictions on the use of all-terrain vehicles. Even so, the business achieved budget. The music division has moved into new premises with a state-of-the-art demonstration studio theatre, leading to improved sales of high-end professional audio equipment.

New boat packages, a redesigned Yamaha golf car range and the introduction of Hitachi LCD and plasma technology to our audio visual range bode well for 2008.

FINANCIAL SERVICES

McCarthy Insurance Services

Significant growth was achieved with over 100 000 policyholders joining our customer-base. However, the NCA will affect future revenue and cash flows as



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the sale of certain single-premium or term policies has been disallowed.

The performance of all business units exceeded expectations and claims and expenses were effectively managed. All business units increased their profitability with the exception of the "motor comprehensive" category which incurred a small underwriting loss.

McCarthy Finance

Our book grew by 14,2% and the number of accounts topped the 57 000 mark. Profit fell due to an increase in bad debts, a lower rate yield and margin squeeze. Continued expansion of Bid Auto's dealer network creates growth opportunities, but next year's environment will be challenging in view of the full-year impact of the NCA, lower consumer confidence and interest rate pressure. Bad debt management is a focus area.

McCarthy Fleet Services

We more than doubled our debtor book while maintaining our record for zero bad debt. All new business is priced for profit. Staff numbers remained stable despite the massive increase in volumes. The main focus in 2008 is the integration of the Viamax and McCarthy Fleet Services operations, giving us a 10 000-strong fleet and market share of 15,0%. This creates the strongest platform in the industry for the financing, leasing and management of both state-owned and corporate vehicle fleets. Significant group synergies will also be exploited.

CAR AND VAN RENTAL

Despite worldwide competition, we were proud recipients of the Budget Rent a Car franchise of the year award, thanks to dedicated staff and the support of Bidvest companies. We have improved market share and have expanded our product offering with the launch of Budget Door 2 Door transfer and chauffeur services in Gauteng, KwaZulu-Natal and Western Cape. We opened van rental operations in the West Rand, Vaal Triangle, East Rand, KwaZulu-Natal and Eastern Cape. This gives us coverage across southern Africa, allowing us to expand into major accounts. We plan to invest R5 million on a new Windhoek depot to cater for expected growth in tourist volumes.

SUPPORT SERVICES and CORPORATE SERVICES

McCarthy Call-a-Car

We entrenched our position as South Africa's leading online motor retailer and despite difficult trading conditions in the used-car market, generated sales of 7 500 vehicles. We have now sold more than 50 000 vehicles since inception. We have begun to move from a purely virtual platform to a clicks-and-mortar model. The call-a-car brand is being extended to McCarthy's used-car retail outlets, utilising the McCarthy Call-a-Car Direct brand. Call a car direct outlets are being rolled out nationally.

Club McCarthy

Increased sales of new and used cars and higher loyalty rates drove our continued growth. The benefits package, which includes roadside and household emergency assistance and a broad range of discount offers, was further enhanced. Membership has reached 134 000.

Corporate Marketing

We continue to exploit Bidvest opportunities through dedicated relationship management and trouble-shooting. Special attention is paid to government and parastatal relationships. A business development forum was formed to identify further key accounts, harness McCarthy divisional synergies and help McCarthy benefit from 2010 opportunities.

Eliance

We develop business improvement solutions, with specific emphasis on customer management software and its integration into internet, mobile and e-mail marketing initiatives. Toyota SA has bought our "Automotive" product suite and its full implementation across Toyota's dealer network will take more than a year. Increased investment in facilities and infrastructure will enable faster deployment of software solutions via new state-of-the-art telephony services and computers. Acquisition of international customers will be a focus area in 2008.