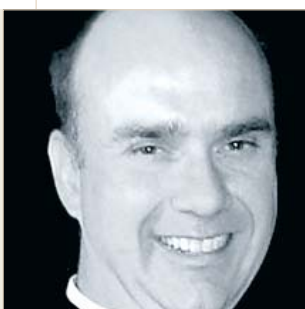




Brent Varcoe
Managing director Caterplus



Charles Singer
Chief executive Bidfood Ingredients



Masly Notrica
Managing director Speciality

A leading multi-range manufacturer and distributor of food products and ingredients. Bidfood operates through strategically located independent business units in southern Africa, aimed at servicing the catering, hospitality, leisure, bakery, poultry, meat and food processing industries.

- > Trading profit increases to R279,8 million
- > Revenue reaches R3,8 billion
- > Continued employment creation
- > Reorganisation programme within division; three distinct entities, Caterplus, Bidfood Ingredients and Speciality

Value proposition

Bidfood offers customers efficiencies of scale, national support and the assurance of consistent quality. International and local alliances and our own food technology capabilities enable Bidfood to work in partnership with clients to develop quality, market-leading solutions backed by food safety programmes that set the industry benchmark.

Macro factors

Largely stable exchange rates were beneficial for Speciality Foods, while continued GDP growth was positive for all operational units. The hospitality sector is a major beneficiary of the country's continued economic upturn, with strong growth evident in both general tourism and business travel. These developments were positive for Caterplus and contributed to improved overall performance.

Crown National, a division of Bidfood Ingredients, and Patley's drew particular benefit from the economic upturn.

Higher interest rates and somewhat stronger consumer inflation had little overall impact on our business.

Industry developments

Management successfully addressed the key challenge of managing the transition from very low food inflation in 2006 to higher food inflation in 2007. However, the significant increase in food inflation in the second half of the year could be cause for concern if a worsening trend leads to substantially increased prices.

Some shortages have become evident in some food categories, notably seafood and certain spices, while

the prices of some major commodities such as maize have risen as a result of lower local production.

National challenges

Growing pressure on South Africa's road infrastructure and constant increases in the price of fuel have showcased a continuing challenge for all distribution businesses – delivery efficiency. Within Bidfood operations, the strategic goal is to bring the biggest basket of the best available products to our customers with each single delivery. This endeavour will result in a longer delivery cost per product delivered. Though higher distribution costs sharpen the challenge, the net effect is to increase our competitive advantage as a national supplier offering the broadest range of products to customers in every corner of the country. Continuing investment in IT support and a significant investment in upgrading distribution infrastructure will tend to entrench this advantage.

Risks

Business risks are little changed. Health scares and outbreaks of a disease such as avian flu affect food consumption patterns. Some risk-proofing is afforded by Bidfood's status as a food safety leader that continues to make strong progress on the road to full compliance with HACCP (hazard critical control point) requirements. As a broadline supplier, we provide alternatives no matter what food group is affected by a sudden shift in demand.

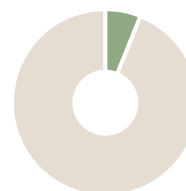
Bidfood operations are "ahead of the curve" when it comes to food safety. International experience indicates this is an area of growing public concern, though South African consumers are not yet as sensitive to the issue as consumers in markets such as western Europe. We encourage more rigorous food safety controls, both on imports and within the domestic market. We believe our proactive positioning will deliver strategic benefits going forward. We are constantly aware of our responsibility to deliver food products that have undergone rigorous food safety tests.

Sensitivity analysis

We provide a balanced mix of premium brands and basic foodstuffs and ingredients. An operational unit such as Speciality Foods may be sensitive to a marked

Contribution to Group trading profit
2006: 7,2%

6,2%



Review of operations – Bidfood

weakness in the exchange rate or lower levels of disposable income, but the impact is cushioned by the breadth of the range across our other operational units.

Crime as it impacts international perceptions is an area of acute sensitivity for all businesses serving the hospitality industry, but the impact cannot be precisely calibrated or fully mitigated. The momentum created on the run-in to the 2010 Soccer World Cup will help to reduce the sensitivity.

In general terms, the key economic variables – GDP growth and relatively stable exchange and interest rates – were broadly favourable in 2007 and are expected to remain so.

Proudly Bidvest

The Proudly Bidvest positioning has been strongly expressed at Group level at exactly the right time for Bidfood as the focus area for our business is to obtain maximum leverage from our national representation and strength as a value-adding partner of our customers.

Proudly Bidvest is prominently featured in vehicle livery and all corporate identity elements. The Bidvest connection is also a source of reassurance for larger clients while the Group's strong BEE credentials are helpful when we are significant contributors to divisional and corporate procurement programmes.

Differentiation

Caterplus is the only company in our industry capable of supporting nationally represented customers with predictable, high quality standards of service. We are strategic players in a market subject to tactical incursion by aggressive local competitors that lack the resources to offer complete solutions.

We constantly invest in quality people and modern facilities. As such, we are the only supplier that can assist customers by developing new solutions to key business challenges, including the constant change in consumer tastes, continuing cost pressures and recurring affordability issues in some income groups.

We are a partner as well as a supplier.

New structures

A series of structural adjustments has been made to address areas of under-performance in some segments of the business. The results of the reorganisation have been positive to date, but benefits will not be fully apparent until 2008.

There were no new acquisitions and no businesses were disposed of. However, several divisional transfers have helped to tighten the focus of our business.

Lufil, the KwaZulu-Natal manufacturer and distributor of paper products, has been re-housed within Bidpaper Plus. Hotel Amenities has moved under the Bidserv banner. Vulcan, the catering equipment manufacturer, is now part of Bid Industrial and Commercial Products. However, some Bidfood operations maintain their position in the equipment and utensil market as high-profile importers and distributors of leading international brands.

Bidbake's performance has been most disappointing, resulting in changes to the management structure. Two separate management teams have been established, one to run yeast manufacturing operations and the second to manage the bakery ingredient business. As a result, the unified Bidbake identity has been discontinued.

Bidfood Technologies no longer resides within the Crown Foods Group. The unit has been given separate status in view of the growing importance of a strong food technology capability as a source of strategic advantage and will focus on developing products and efficiencies for all production units in the Bidfood Ingredients division.

At Caterplus, a single management team has been made responsible for a merged catering supplies and frozen foods operation.

Training

Training investment continues to rise. Training spend per employee rose from R1 171 to R1 337. We supported the managerial aspirations of our top performers by increasing reliance on the leadership courses presented by The Bidvest Academy.

BEE and CSI

Good progress has been made across the various elements of the BEE scorecard while BEE procurement rose to R764,0 million, despite our more streamlined organisational structure.

Corporate social investment continues to have an educational bias, with special attention paid to food hygiene and nutrition.

Innovation

Many South African food manufacturers are still committed to irradiation. However, irradiation as a means of controlling spoilage, killing bacteria and destroying pathogens such as salmonella is becoming increasingly controversial and no longer meets European Union standards.

As consumer awareness of the issue grows in South Africa, our proactive investment in steam sterilisation and food safety systems will further differentiate Bidfood Ingredients as a reliable partner that delivers a quality product.

New investment

Investment in support of HACCP compliance continues across Bidfood while the national roll-out of the Great Plains IT system at Caterplus is continuing.

Challenges

There is continuing need to stay ahead of legislative and regulatory requirements and anticipate consumer concerns in areas such as food safety, quality and hygiene. Bidfood does not regard this as a challenge, but as a potential source of competitive advantage in a market where we are the natural partner of quality-conscious customers.

Future

The macro-economic climate remains supportive while remedial action to streamline the business and eradicate areas of under-performance has helped us to build renewed momentum. We are well positioned to achieve further growth in market share and trading profit.

CATERPLUS

Revenue rose 23,8% to R2,2 billion while trading profit increased 21,2% to R156,5 million. At 71,6%, the return on funds employed is significantly higher.

The frozen foods operation and the catering or grocery supplies businesses were successfully merged, moving from a structure defined by the temperature range to a single entity serving five geographic regions. Seventeen grocery and 12 frozen food units were integrated into the merged business. No new acquisitions were made.

The key feature of the year was the successful alignment of two distinct cultures, enabling Caterplus to aggressively compete for market share with a consolidated range of 8 000 dry products and 1 400 frozen food items. This entrenches our value proposition of a broader solution made available on a national basis.

Success is also being achieved in the strategy of complementing our penetration of large national accounts with strong gains among smaller customers. The efficiency of dealing with a one-stop supplier has to be strongly communicated to this price-sensitive market. Growth opportunities beckon, but we acknowledge that higher interest rates have increased the credit risk among smaller, more localised customers.

Every sales representative and telesales staff member has been exposed to a new sales development programme. Furthermore, driving staff have been equipped with customer-service skills to support their regular face-to-face interaction with customers.



Review of operations – Bidfood

BEE improvements are consistently achieved, though we are still short of our 2009 targets in some categories. However, procurement among small black businesses is ahead of target; so is the representation of black staff in middle management and professional grades.

Our consolidation into a unified culture will receive another boost with the relocation of the Chipkins and Sea World businesses to new, back-to-back head offices at Linbro Park, Johannesburg. We also plan to move two Western Cape operations into a new Cape Town building by the end of 2008.

Transfer to larger, more modern premises will help us address a key challenge – crime. Higher security is part of the design specification at our new premises and should significantly reduce shrinkage.

Strong growth is projected if South Africa's economic fundamentals remain positive. Keeping food inflation below 10,0% will be a key factor in many segments of our business.

We hope to achieve a significant increase in revenue and trading profit and plan to strengthen our Free State infrastructure. Enhanced cross-selling opportunities – a major benefit of the new structure – will be vigorously exploited by all operations.

More job growth is anticipated and the training budget will be doubled yet again. To reinforce the new high-performance culture, incentive programmes are being introduced for every staff member. Each individual will be measured against key performance indicators.

SPECIALITY

Extremely good revenue growth was achieved, up 29,2%. Momentum is still building following the refocusing of the business two years ago and the strategic decision to differentiate ourselves from other food importers and wholesalers by repositioning Patley's as the brand-building partner of our principals. We do not collect, we select brands. Our brand basket is dominated by category leaders or contenders for leadership.

Operating profit was up by 30,6%. A key contributor to the pleasing performance was improved management of our margins despite volatility coming from the rand.

The Alpro range of soya milk products was introduced to the Patley's range and has strengthened our offering of speciality products. The Tabasco brand, acquired a year earlier, further enhanced our profile of handling leading brands and performed in line with expectations.

Continued GDP growth and the emergence of a new middle class were also positive for the business. Patley's is known for aspirational, lifestyle brands. Growing numbers of upwardly progressive consumers entrench the appeal of these imported products.

Crime is a strong negative, necessitating investment in rigorous controls. But there is perverse upside for a business that specialises in aspirational food brands as entertaining in the safety of one's home remains a strong trend.

Stronger inflation had little impact. Our focus on mid- and higher-income consumers provides an element of inflation-proofing. South Africa's industrial relations climate worsened somewhat, but labour relations within the division remain good. Credit risk was not significantly affected by higher interest rates as Patley's has a blue-chip customer-base.

The advantages of our business model were showcased during the year. Barriers to entry are relatively high in a sector serving the retail industry while we continue to occupy a unique position in the industry as a brand partner prepared to invest alongside brand principals in brand development.

The robustness of our model has helped us double our turnover every five years for the last 15 years. Growth has been achieved without acquisition. We remain confident that further organic growth can be achieved in the coming year.

The move to a new Johannesburg head office is imminent. Relocation from Herriotdale to Crown Mines will provide more space without sacrificing the logistic efficiencies of an address close to Johannesburg's distribution hub at City Deep. Warehousing doubles to 11 000m² and will lead to operational efficiencies. Divisional operations in Durban and Cape Town are also expected to relocate to modern and expanded premises during 2008.

Opportunities for expansion into Namibia and Mpumalanga province (South Africa) will be explored. Further widening of the distribution network to convenience stores is also a prospect.

BIDFOOD INGREDIENTS

Crown Foods Group recorded pleasing growth in revenue and trading profit, but Bidbake's performance continued to disappoint. Bidbake achieved some turnover growth, but margin pressure intensified. Remedial action was taken. Two operations were closed and production from Bidbake's KwaZulu-Natal factories was consolidated at Longmeadow, Johannesburg. The yeast production and bakery supplies businesses were separated, while the food technology unit became a subdivision. The new Bidfood Ingredients structure became operational in April.

Overall revenue at Bidfood Ingredients rose to R1,25 billion, an increase of 9,2% while trading profit of R98,6 million was recorded.

Macro conditions were supportive, though competitive pressures grew. Performance was also affected by the disruptive effects of relocation to modern premises at Longmeadow.

The reorganisation houses all food ingredient businesses within a single structure and creates opportunities for supply synergies across the food industry while optimising our managerial resources.

Recent capital expenditure on manufacturing and warehousing facilities is expected to yield significant efficiencies while the establishment of a well-resourced food technology business strengthens our position as a product design innovator.

Increases in food inflation have tended to heighten our competitive advantage. The progression from food deflation to food inflation accentuates the need among our customers for smart solutions that contain costs or add to product appeal. As the industry's food technology partner we are ideally placed to respond.

Our Microsafe food safety programme is the industry benchmark for microbiological and chemical analysis and laboratory evaluations. Microsafe has developed

a comprehensive HACCP programme and has created a strong technical services arm to support our customers. In 2007, a further R10 million was invested in food safety.

New product development and innovation are supported by alliances with international partners. We are sole distributors across southern Africa for the world leaders in meat processing, vacuum-packaging and other equipment.

The Group's Proudly Bidvest image is being leveraged to reinforce the positioning of Bidfood Ingredients as the pre-eminent national player in our industry. Bidvest's reputation as a BEE pacesetter is increasingly important to us and we will seek new BEE ratings in 2008.

In the coming year, the benefit of corrective action will be increasingly felt as will the investment in new facilities in both Johannesburg and Cape Town. Crown Foods is well positioned to derive advantage from largely favourable macro conditions. The yeast manufacturing and bakery supplies businesses have already benefited from tighter focus. Improved performance is anticipated. Bid Bros, the cash-and-carry concept announced last year, will be strongly supported and will roll-out nationally.

Bidfood Ingredients will continue to seek distribution synergies and look to optimise the cross-selling opportunities created by the new structure. Growth in both revenue and trading profit will be energetically pursued.

