The Commercial Products Division – Bidoffice

Bidoffice

Bidoffice is engaged in the supply, distribution and manufacture of commercial office products including stationery, office furniture, computer consumables and other office automation products, including printing, through a network of branches throughout southern Africa and in continental Europe.

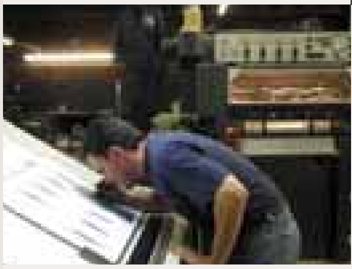
- *Stationery*
- *Printing and Related*
- *Office Automation*
- *Office Furniture*

Contribution to Group trading income

Stationery:
Waltons is the only national company to supply the complete range of commercial and school stationery, office products and furniture, computer consumables and retail items

Office Automation:
Supplies a range of office products under the Konica Minolta and Océ brands

Office Furniture:
Seating is South Africa's largest manufacturer of office seating

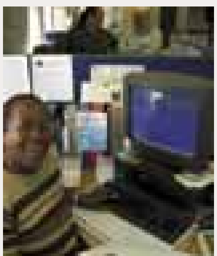


Printing and Related
Lithotech is a dynamic business positioning itself as a print-related solutions company

Trading margin down marginally to 8,1% from 8,3%

Kolok unit sales increased by 33%

Minolta's digital colour division maintained its number one market position **with a 36% market share**



Stationery:
Kolok is the country's leading supplier of printer consumables and data storage products

Len Chimes

Chairman

Len has over forty years' experience in the office products industry, including office furniture, and has been with Bidvest since the acquisition of Waltons in 1997.

Operational environment

The value of Bidvest's decentralised, entrepreneurial business model was apparent in a challenging year characterised by continued rand strength and strong pressure on prices and margins. The rand had varying effects on various businesses. It was up to each unit to manage the impact or optimise the opportunity. In general terms, the robust rand was negative for stationery, less so for office furniture and marginally positive for office automation. Lithotech produced solid results.

Bidoffice's focus was on increased efficiency and effective asset management. Management teams maintained or grew market share and increased their sales volumes in a highly competitive environment.

Considerable dynamism is evident across all Bidoffice markets. The challenge is to constantly reinvent the business to capitalise on new opportunities.

Bidoffice's offshore subsidiary, Lithotech France, faced a challenging year, but is now better positioned to reclaim market share lost over the period of its receivership and during its initial incorporation into Bidvest.

Operational highlights

Strong cash flows were maintained across the local business while assets were aggressively managed to achieve results broadly comparable to but improved from the previous year.

The launch of Walton's new division – Walton's Promotional Gifts – proved successful. The initiative is still a very recent product extension but it is already evident that strong growth prospects exist.

Kolok continued to expand its regional footprint with the opening of new branches in Port Elizabeth and Botswana.

Developments during the year confirmed the appropriateness of the Bidoffice strategy in the printing sector where we place increasing emphasis on value-added services. Lithotech has successfully been repositioned as a creator of business communication solutions. This helped the printing division to secure substantial returns.

The outsourcing and insourcing of copying facilities – a business aggressively pursued by Bidoffice – witnessed continued growth. Minolta SA put in an exceptionally strong performance.

The office furniture businesses performed well, with Cecil Nurse entrenching its position as the market leader in the area of distribution. Continued growth is expected following significant investment in new systems and plant in the manufacturing units.

Within the stationery sector, Kolok performed well in the context of the pricing pressures created by the resurgent rand. Sales volumes rose significantly, helping to negate some of the impact of declining prices.

Financial review

Bidoffice revenue increased 0,5% to R4,8 billion (2003: R4,7 billion) but trading income fell 2,5% to R383,9 million (2003: R393,8 million). Excluding Lithotech France, revenue increased by 2,0% and trading income by 5,8%.

Business risks

Diversification and product extension help manage key risks. (The varying effects of currency movements have already been noted.) Closeness to the business by ex-owners also reduces risk. An example over the last decade is the successful management of the transition from analogue to digital technology in the copying industry. In the printing industry, the current transition involves the move from traditional forms printing to business communication solutions and label production and distribution and the migration to electronic communication from paper-based media.

Close relationships with world leaders such as Hewlett Packard and Minolta ensure that Bidoffice remains close to international product developments.

The Commercial Products Division – Bidoffice

Océ acquisition benefits automation

Minolta secures official agency for Konica Minolta brand

Kolok expands in Port Elizabeth and Botswana

Stationery:
The Waltons Stationery Company includes Waltons, SA Diaries, Hortors and Atomic

Office Furniture:
Cecil Nurse is active across all sectors, including home office, small office and corporate environment

Empowerment

BEE programmes are being introduced at all business units following workshops earlier in the year to obtain buy-in at all levels. Implementation of specific BEE initiatives is entrusted to operational units within the division. The issue is being actively pursued at operational level as BEE is seen as an opportunity.

Corporate business accounts form a large proportion of the client base. Almost all of these companies have instituted preferential procurement programmes. The recent partnership with Dinatla Trust has reassured these clients and strengthened relationships.

The possibility of growth into Government, parastatal and municipal sectors is another positive flowing from the BEE commitment and will be a point of focus within the portfolio of sustainable development for the division's new Commercial Director, Mojaki Finger.

STATIONERY

Contract Office Products

Contract Office Products is a Gauteng-based commercial stationer with strong focus on the supply of computer consumables, a business it helped pioneer in South Africa. The strong rand and pricing pressures created challenges for the team, but satisfactory results were achieved thanks to strong relationships with a loyal customer base.

Kolok

Kolok is the country's leading supplier of printer consumables and data storage products. The extensive product range (toner and ink

cartridges, storage media, diskettes, tapes, CDs and speciality paper and printer and thermal ribbons) creates a one-stop shop for consumables across the world's leading brands – Hewlett Packard, Epson, Canon, Sony, Verbatim, Avery and Pelican.

Despite competitive pressures, Kolok maintained its market share and improved its volumes off the back of continued growth in the market for office consumables and stationery, a creditable performance in view of the high base from which Kolok operates.

Kolok Africa

In South Africa, Kolok Africa was first to market with the local conversion of thermal ribbons and has held a strong position ever since. The business faced increased competition from new entrants to the local market while the strong rand encouraged import competition. As a result, Kolok Africa was affected by pressure on both margins and volumes.

Statmark

Statmark is the exclusive distributor of high quality stationery brands and office products, including Stabilo Boss, Helix, Esselte and Dymo, bringing its premium products to market via resellers such as Contract, Waltons and others.

The value proposition of Statmark's imported product lines was assisted by the stronger rand. Energetic asset management, high service levels and the strength of its line-up of leading brands enabled the company to maintain market share in a fiercely competitive sector. Efficient margin management also contributed to an encouraging result.

Waltons Stationery Company (including SA Diaries, Hortors and Atomic)

Waltons felt the impact of the stronger rand with consequent pressure on prices and margins. Competitive pressure in the strategically important Gauteng market also had an effect on performance, resulting in a disappointing year.

Waltons is the only national player in the market for the complete range of commercial stationery, office products, computer consumables, office furniture, school stationery and retail items. Waltons is subject to competition across a highly fragmented industry, but offers superior service, reliability and pricing efficiencies due to its national infrastructure. To better leverage these advantages in the high-volume Gauteng market, Walton's created two dedicated regional teams, one serving greater Johannesburg and the other Pretoria and areas to the north and east.

This move assures greater closeness to key commercial customers and enables an even speedier response to the activities of supposedly "nimble" competitors. The new structure has only recently been put in place, but is seen as the platform for renewed growth by the country's largest stationery supplier.

Waltons is not only growing its geographic base, through the opening of new stores, but also its range. Promotional items will increasingly form a distinct retail line following the successful launch of Waltons Promotional Gifts.

Significant investment was and will continue to be made in new business management systems to enable further efficiencies across the entire business. The benefits will not be fully felt until future reporting periods.

PRINTING AND RELATED SERVICES

Lithotech

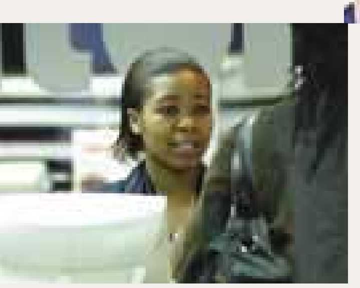
Lithotech is traditionally known as a leading printer of business forms. Clients include Government departments, the financial service industry and the corporate sector. In fact, Lithotech is a dynamic business that harnesses new technology while positioning itself as a print-related solutions company. Lithotech increasingly complements its continuous paper and forms business with label production and value added services, including the outsourcing of company print runs and corporate mailings. A R40 million investment was made in new machinery to support continued growth into identified markets.

Review of Operations

The Commercial Products Division – Bidoffice

Office Furniture:
Manufactures and distributes a wide range of office furniture and associated products for the corporate and commercial markets

Stationery:
Kolok's extensive product range includes the world's leading brands – Hewlett Packard, Epson, Canon, Sony, Verbatim, Avery and Pelican



Stationery:
Statmark is the exclusive distributor of stationery brands and products, including Helix, Stabilo Boss, Esselte and Dymo

Lithotech's mailing and laser services and activities such as electronic bill presentment enjoyed significant marketplace success while the traditional business around forms production showed little growth. This broader range of activities enabled Lithotech to maintain strong cash flows. For the second consecutive year, excellent results were achieved as the benefits of the Paragon acquisition and consolidation materialised.

Lithotech, through the acquisition of Paragon, an industry pacesetter in the creation of value-added print-to-post services, also drew increasing benefit from the rationalisation and consolidation of facilities. Strong growth was achieved by a highly motivated team.

As anticipated, E-Mail Connection (in which Bidoffice has a controlling share) and fully owned Expressed Solutions provided a solid platform for the growth of services based on email communication and sophisticated scanning and archiving technology. Opportunities for further growth across electronic formats will be energetically pursued in line with market demand.

Lithotech France

The principal challenge facing Lithotech France was falling turnover in its forms printing business as long-running contracts came to a close and were not renewed over the period of its receivership and during its initial incorporation into Bidvest. Lithotech France planned to turn this situation around as the business demonstrated its quality and reliability under new South African ownership. The process, however, took longer than anticipated.

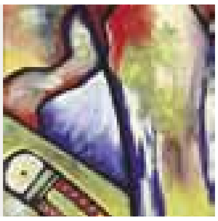
As the year came to a close, Bidoffice and the local management team strongly communicated their vision for Lithotech France. Customers were reassured by the strong commitment to quality and service and the fact that the new owners are in the business to stay.

Some contract renewals are now being signed, new customers are placing fresh orders and Lithotech France is being invited to tender for work at major companies that were previously not part of the customer base. The signals are positive. The accent will now shift from halting the slide to growing the business.

OFFICE AUTOMATION

Minolta

After two years of minimal operating income growth, Minolta recorded exceptional results thanks to buoyant trade, effective margin



management and lower input costs. For the past two years, the focus was on the implementation of new business systems and internal efficiencies. Following successful implementation, the focus could again shift to growing the business and winning new customers.

In addition to sales success, continued growth was achieved by value-added services.

Minolta South Africa offers outsourced or insourced solutions to commercial customers, in effect taking on document copying responsibilities within a business or operating off-site to produce copied documents after receipt of the client's data. The team helped pioneer this service three years ago and since then has consistently grown the base.

Internationally, the overseas principals of Minolta SA were bought by Konica. Revised arrangements around branding and representation are taking place worldwide. Minolta SA has a strong presence in the local market and is well positioned to assist Konica Minolta in implementing their strategy here.

Océ Printing Systems was acquired in early 2003 and is being managed as a separate brand to Minolta. Océ widens the copier range, but the target markets of Océ and Minolta are quite distinct. The new acquisition has been integrated into Océ South Africa, suppliers of high quality, top-end printing equipment.

OFFICE FURNITURE

The office furniture division performed to or above expectation while significant new investment was made in the manufacturing plant.

Cecil Nurse

Significant growth was achieved thanks to a strong branding strategy around the Cecil Nurse name in conjunction with the launch in 2003 of new showrooms in Johannesburg, Cape Town, Port Elizabeth and East London. Expansion of the range, the impact of exclusive new lines and the success of the Cecil Nurse catalogue created a distinct competitive edge across all sectors – home office, small office and corporate environments. As a result, Cecil Nurse increased sales volumes and market share for the second successive year.

Dauphin Office Seating

A satisfactory result was returned by Dauphin, manufacturers and distributors of European-style office seating under licence from the brand's German principals. Performance is heavily influenced by the flow of corporate projects. The highly proficient sales team secured a succession of high-profile projects in the first half of the year, but witnessed a decline as the volume of project work diminished. On balance, the overall result was reasonable as many large companies deferred refurbishment programmes or new installations as the year drew to a close. The team is well placed to secure new project business in the year ahead.

Nuclear

The team faced a testing year in view of extensive restructuring. Manufacturing and distribution have been refocused on fourth-generation furniture – the modular office furniture solution that enjoys growing market acceptance.

Dedicated focus on fourth-generation solutions plus Nuclear's strong design capability will enable management to differentiate the brand and pursue the benefits of more streamlined structures in the year to come.

Seating

In line with projections, South Africa's largest manufacturer of office seating achieved satisfactory growth. The benefits of recent rationalisation and concentration of most production at the Queenstown factory enabled assets to be aggressively managed, contributing to improved cash generation.

New investment in the latest wood-cutting technology will enable Seating to pursue further growth and differentiate itself from its competitors in the year ahead.

Pago Designs

Further consolidation and continued restructuring and repositioning of the sector participants in couch manufacture and distribution occurred. An important

The Commercial Products Division – Bidoffice

Stationery:
Kolok opened new branches in Port Elizabeth and Botswana

Waltons Promotional Gifts **launched**

Cecil Nurse a market leader in office furniture

Lithotech France volumes improving

Printing and Related:
Lithotech is traditionally known as a leading printer of business forms

Office Automation:
Minolta South Africa offers outsourced or insourced solutions to commercial customers

aspect of Pago's business is the distribution of the imported range of Kusch benches, with particular focus on airport installations. There was limited local demand for these installations in 2004 and Pago experienced lower levels of activity. However, re-export opportunities into the rest of Africa show growth potential and will be pursued in the coming months.

Offurn Clearance House

This Gauteng-based retailer of new and used office furniture recorded satisfactory results when seen in the context of greater competition from new entrants to the sector. In this price-sensitive market, competition immediately translates into margin and volume pressures. The team did well to resist the inroads of a number of new competitors.

Stenochair

The UK-based chair manufacturer had a much-improved year. This was partly a function of improved economic conditions in Britain and mainland Europe and partly the result of energetic marketing. The team's newly launched "X-chair" made an instant impact on customers, contributing to better volumes in a highly competitive market.

PROSPECTS

Less currency volatility is anticipated in the year ahead. This stability will assist business planning and margin management.

Ongoing manufacturing investment is planned in support of the growth areas of the business. Further investment in IT and business systems will also be made as constant improvements in efficiency are essential to maintain the division's competitive edge.

The market will remain competitive across all areas of the Bidoffice business, but the benefits of restructuring and renewed focus will become evident as the year progresses, creating the potential for improved performance and better returns.

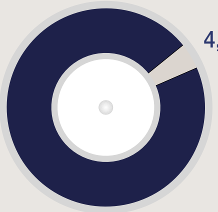
The Commercial Products Division – Bidpac

Bidpac

Bidpac is the market and technology leader of nailing, stapling, packaging closures, strapping, adhesive tape, stretchfilm, marking and coding, construction fasteners, labels and stationery products. These products are distributed through a nationwide branch network to the commercial, industrial, mining, agricultural, construction and retail sectors.

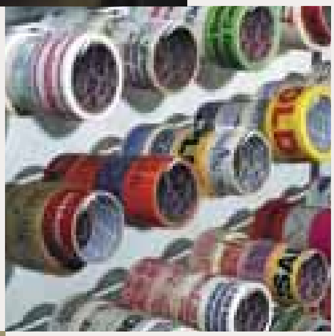
- *Packaging Closures*
- *Paper Conversion*

Contribution to Group trading income



Paper Conversion:
Silveray is a manufacturer and wholesaler of a comprehensive range of paper-based and sundry stationery products

Bidpac:
At the Afcom-GE Hudson factory producing quality strapping



Packaging Closures:
Afcom-GE Hudson's brands are the acknowledged market leaders – Signode, Paslode, Senco, Rapid and Sellotape

Paper Conversion:
Synergies across Silveray's product range create marketing opportunities and service efficiencies

Trading margins up to 14,8% **from 14,1%**

Features include customer destocking, rand strength **and manufacturing weakness**

Strong cash flows **were maintained at all business units**

Alan Salomon

Chairman

Alan has twenty-five years' experience in the fields of manufacturing and distribution, specialising in productivity and efficiency improvements and customer service excellence programmes.

Operational environment

All operating companies were called on to display versatility and resilience in the face of significant changes in the operational environment. Despite the dramatic shift from manufacturing growth to recession and client destocking, management achieved positive results thanks to an intense focus on the business. Profits from all business units improved off last year's high base.

The previous year was characterised by high interest rates and inflation, local import substitution through rand currency weakness, pre-emptive buying and rising sales. The weak rand boosted exports, encouraged manufacturing growth and contributed to buoyant sales by Bidpac units serving the secondary export market with strapping and packaging closure products.

In contrast, we saw declining interest rates, low inflation, price deflation, a strong rand, a shift from locally produced products to cheaper imports, sluggish exports, significant destocking by customers, pressure on sales and margins and intense domestic competition. Manufacturing went into recession.

The situation was complicated by the pricing rigidity of major suppliers of local raw materials. "Import parity pricing" kept the cost of manufacturing inputs unreasonably high at a time when producers were hard stretched to create value at a profit. Maintaining high raw material prices in the face of local and international marketplace realities is not sustainable, undermining the nation's quest for global competitiveness and threatening manufacturing jobs.
A review of such pricing practices is urgently required.

The strong rand had limited effect on Bidpac exports as the export effort had been largely curtailed. Exclusive licence agreements with international partners inhibit a full-blown commitment to export markets. A more selective approach was implemented. The exception was our penetration of African markets. During the reporting period, Bidpac aggressively expanded its base in several African states, creating momentum for the year ahead.

Operational highlights

Bidpac is proud to report that no jobs were lost among permanent employees despite the challenging operating environment. The division has created lean, flexible staffing structures, complemented by contract labour arrangements during peak periods. The staffing strategy proved its worth.

Bidpac factory volumes declined marginally. However, high inventory levels allowed sales volumes to be maintained. Inventory had been built up as a precaution against dramatic shifts in the market. Leadership was maintained in all sectors in which Bidpac is active. Market share grew.

Aggressive and effective management of expenses, assets and margins protected profitability. Capital expenditure was low. There were no new acquisitions and no new factory infrastructure was commissioned during the year. The focus was on selected extensions to the product range and improvements to quality and efficiency. Streamlined distribution in our stationery business effectively improved direct-to-customer delivery.

Strong cash flows were maintained at all business units. Return on funds employed improved significantly as Bidpac stock levels reduced and debtors' collections improved.

All members of the team can take pride in these achievements. They showed high motivation and a strong work ethic in a testing environment. We thank them.

Financial review

Bidpac's revenue increased by 2,4% to R748,2 million (2003: R730,6 million) and trading income rose 7,6% to R110,9 million (2003: R103,1 million).

Business risks

The indispensable nature of consumables such as packaging closures, stapling, nails, stationery and related products assures regular replenishment. Underlying demand is not subject to shifts in fashion. Regular ordering and re-ordering translate into solid customer relationships, low bad debt and low stock obsolescence. The broad customer base gives built-in protection against reliance on any single client or sector.

Infrastructure needs are substantial if a comprehensive range of products is to be supported, pushing up the cost of industry entry. This makes it unlikely that Bidpac can be surprised by the rapid emergence of a new competitor able to serve a range of markets. Bidpac's vulnerability to new competition is further reduced by constant efficiency improvements to maintain our position as the industry's leading low-cost producer and distributor.

The strategy of unrelenting leadership in all operational sectors is a vital method of managing competitive and technology risk. Bidpac has licence agreements with the world's leading packaging, adhesive tape and stationery brands, keeping us close to new developments. Trusted brands proved their strength in the review period as the market showed its preference for high-profile products of proven quality over no-name generic substitutes.

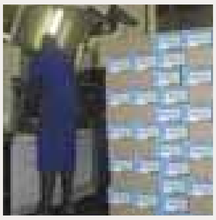
The Commercial Products Division – Bidpac

Bidpac:
Afcom-GE Hudson is unique because it produces and distributes both consumables and capital equipment

Licence agreement with Esselte gives access to a high-end stationery market

Strength of well established brands ensured

Paper Conversion:
Silveray has the most extensive distribution network in its industry



Empowerment
At the beginning of the decade, Bidpac companies had good claim to be the leaders in skills transfer within their industries. On-the-job learning was the springboard to promotion into supervisory and executive positions for many black employees. A renewed commitment to people development is being made.

As a first step, an independent economic empowerment rating agency is being commissioned to audit all relevant processes within operational companies. This audit will shape a sustainable skills transfer strategy while enabling progress in all BEE areas.

The commitment to BEE influence in senior management was reflected in the appointment of Commercial and Operations Director, Bongi Kgaka.

Afcom-GE Hudson (incorporating Ramset)
The division produces and distributes strapping, tape, nailing, stapling, stretch film and packaging closures. Its brands – Signode, Paslode, Senco, Rapid and Sellotape – are the acknowledged market leaders, locally and internationally.

Sector leadership was entrenched as a series of proactive sales programmes was launched to better serve the customer base. The sales team increasingly takes on a consultative role rather than a traditional sales function, carrying out extensive needs analysis before customising a specific solution for a client's business.

This approach leverages off a key differentiator for the extensive range of packaging enclosures produced by Afcom-GE Hudson. No competitor offers such product choice. The range is so comprehensive that total objectivity is assured. There is no reason to skew the sales rationale in favour of any specific solution as products from Afcom-GE Hudson cover the entire packaging closure and fastening horizon.

Another strategic differentiator is the company's unique position as a producer and distributor of both consumables and capital equipment. Competitors focus mainly on consumables. Afcom-GE Hudson takes a broad-based, systems approach to marketing as the "one-stop shop" for all client needs and is therefore positioned as a strategic partner of its customers. This marketplace positioning proved valuable as the manufacturing sector recession worsened in late 2003. As recessionary pressures eased in early 2004, Afcom-GE Hudson was quick to seize the new marketing opportunities.

Ramset had particular reason to applaud South Africa's successful bid to host the 2010 Soccer World Cup. Ramset supplies construction tools and specialised fasteners to the construction sector. As construction companies feel the benefit of infrastructure contracts ahead of the World Cup, demand for the Ramset product line will grow even more. Ramset delivered pleasing sales and profit growth.

Buffalo Executape

Buffalo Executape manufactures and converts self-adhesive tape for the packaging, speciality and retail sectors, distributing the leading brands in the field such as Sellotape, Tesa, Nashua, Sontape and Scapa.

Over the past five years, Buffalo Executape has delivered an impressive record of sustained, substantial sales and profit growth. The team put in yet another exceptional performance, cementing their position as sector leaders. In a low growth environment Buffalo Executape was still able to grow both market share and volumes. Healthy improvement in profitability was a notable achievement in view of the challenging operating environment.

Momentum was achieved by constant product diversification to meet new customer needs. Further developments are in the pipeline for the year ahead.

Silveray Stationery Company

Silveray is a manufacturer and wholesaler of a comprehensive range of paper-based and sundry stationery products. Silveray carries the market-leading brands, Croxley, Sellotape, Rapid, Penguin and Pelican. Synergies across the product range create one-stop selling and marketing opportunities and service efficiencies.

The team put in a tremendous effort to maintain their record of sustained profit growth. Distribution efficiencies were a particular point of focus.

Closeness to customer needs is reinforced by geographic closeness. Silveray has the most extensive distribution network in its industry, with representation and infrastructure in every major centre. Silveray is a true national player while most competitors are regional operators. This strategic point of difference was underlined in a difficult trading year as Silveray exploited its strong distribution network to demonstrate its competitive edge in the realm of service delivery.

Growth was driven by the combination of strong brands, product quality and close-to-customer service.

Significant expansion of the range was achieved by entering a licence agreement with Esselte, the world's largest manufacturer of stationery, the benefits of which will accrue in the year ahead. The partnership with Esselte will enable a strong drive into the quality end of the retail stationery market.

Prospects

The past two years were extremely volatile. Market behaviour took on a Jekyll and Hyde character, with one trading period a total reversal of the other. Abnormalities such as this now appear to be over. Manufacturing began to move out of recession in the early part of 2004 and firmer demand was evident by mid-year. We foresee a continued strengthening of demand across all product lines and a more stable operational environment. All business units are well positioned to pursue these opportunities.

Substantial capital expenditure is budgeted for the coming year. Plant modernisation will enable us to expand our range still further while improving product quality and manufacturing efficiencies.

Completion of a thorough BEE audit of all operations will be a springboard to further development of our people. Improved BEE credentials will also enable Bidpac to explore new opportunities for growth with Government, parastatals and municipalities. Substantial room for growth exists in these areas.

The self-imposed export-pause of the last two years is coming to an end. While respecting all licensing provisions agreed with our overseas partners, Bidpac will look to penetrate selected export markets with specific product lines. This strategy is not a tactical foray that depends on rand weakness. The rand has shown great resilience in the last year. Bidpac will base its export strategy on product quality, the efficiency of our processes, reliability of service delivery and becoming competitive as a low-cost producer.

The enduring strength of well-established brands was advertising campaigns in support of Bidpac's brand leaders are planned in the year ahead to entrench market leadership and create a springboard for renewed sales success.

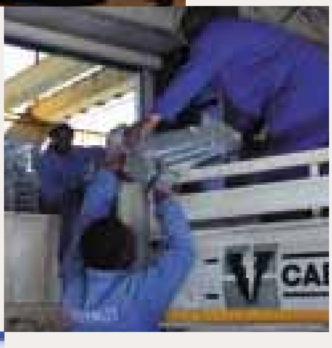
In view of these initiatives and expected improvements in the business climate, the division projects growth in both revenues and operating profit in the coming year.

Review of Operations

The Commercial Products Division – Voltex

Atlas Cable:
Remains competitive in the cable supply market

The Berzack Division:
Is the leading distributor of industrial sewing and embroidery machinery



Cabstrut:
Is the division's distributor of cable and reticulation management systems

Voltex Lighting:
Has expertise in energy-saving management and smart lighting solutions

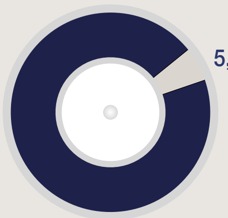
Voltex

Voltex is the pre-eminent distributor and wholesaler in South Africa of electric cable, electrical accessories and all related electrical products used in the industrial, reticulation, domestic and general electrical markets.

Voltex also supplies security products through Sanlic and distributes industrial and domestic sewing and embroidery machines as well as a range of leading appliances through Berzack Brothers.

- *The Voltex Electrical Distribution Division*
- *The Berzack Division*

Contribution to Group trading income



5,6%

Trading margin improves to 6,3% from 5,5% **in spite of copper price gyrations**

One of first companies accredited **an energy service company**

Acquisition **opportunities continually explored**

Myron Berzack
Chairman
Myron has thirty-four years' experience in the electrical industry, specialising in the marketing, distribution, financial control and reporting functions.

Operational environment
The operational challenges faced by Voltex related to volatility and the substantial difference in the trading environment between 2003 and 2004. In the previous period, high inflation meant margin pressures were largely under control. In 2004, lower inflation and the continuing strength of the rand kept margins under constant threat. The lower trend in prices at certain stages of the year contributed to an element of de-stocking by some customers.

Gyrations in the world copper price created uncertainty and also influenced stocking patterns. Copper shortages caused in part by labour problems in some international centres pushed copper prices higher. Shortages were compounded by temporary interruptions to supply from South Africa's only copper producer in Phalaborwa. As problems eased toward year-end, prices once again fell back.

The business had to anticipate changes in demand and pricing while protecting margins and trying to drive up volumes. Voltex business units were largely successful in these efforts. Market share improved and higher volumes were achieved.

Operational highlights
Acquisition opportunities are continually explored, but criteria are rigorous. Voltex is the only true national player in the distribution of electrical products and related items and by far the biggest company in the sector. Voltex faces intense competition from strong regional players. Any acquisitions have to be highly selective. No new acquisitions took place in the year. The East Rand opportunity referred to in the last annual report was not pursued.

No major investments were made in new systems or distribution infrastructure. Voltex opened new branches in Lydenburg and Hillcrest. There were no branch closures. Cash flows remained strong. Expenses were tightly controlled and efficiencies pursued. Rigorous asset management was a feature of the year.

The main operational highlight was strategic: the pursuit of large industrial accounts and the drive to form relationships with multinationals and major corporates to complement the traditional customer base among contractors and resellers of electrical equipment.

The vehicle for this strategic thrust is the national energy saving programme developed by the National Electricity Regulator (NER), backed by the Department of Mineral and Energy Affairs and administered by Eskom. The national aim is energy savings of 150 megawatts a year. The Eskom Demand Side Management strategy was officially initiated 18 months ago and supported by the NER in its regulatory policy document in May 2004.

In January, Voltex became one of the first companies in the sector to be accredited as an Energy Service Company (Esco). This enables Voltex to take a proactive approach in the quest for energy efficiency by becoming a facilitator of Demand Side Management at the premises of major industrial and commercial groups. As an Esco, Voltex is authorised to carry out an energy audit of the premises and make energy efficiency proposals to the company and Eskom. Proposals typically focus on lighting requirements and the potential savings that can be achieved by a retrofit. This process involves the replacement of ageing technology by modern, energy-efficient systems. The total capital cost of a retrofit will be shared by Eskom and the company concerned, provided certain criteria are met.

By the end of June, Voltex had carried out Esco audits at several multinational companies and major local groups and was able to effect substantial energy savings.

Voltex adjusted its training programme to equip selected staff members in various regions with proactive marketing skills. They spearhead the new strategy by identifying long-established installations and promoting energy saving to corporate customers.

Review of Operations

The Commercial Products Division – Voltex

Voltex Electrical Distribution:
Electric Centre in the West Rand, one of the division's wholesale outlets

Voltex:
Is active in the industrial, reticulation, domestic and general electric markets

The audits reveal substantial scope for energy saving. Voltex's broad agency portfolio enables the team to offer objective advice backed by appropriate solutions.

In return for Eskom's support in sharing the capital cost, client companies agree to maintain replacement systems over an agreed time period, either by themselves or utilising the Esco's. The end result for Voltex is deeper penetration of a blue-chip customer base and the potential for long-term relationships.

These strategic opportunities were energetically pursued, though benefits were only beginning to come through at year-end.

Financial review

Voltex's revenue increased by 7,2% to R2,3 billion (2003: R2,1 billion) and trading income rose 22,1% to R142,2 million (2003: R116,4 million). Expenses were tightly controlled and reflected an increase of 4,7% over the previous year. The division's return on average funds employed was 35,8% as opposed to 29,2% in 2003.

The division's capital expenditure amounted to R25,7 million, which in the main related to the replacement of vehicles in the division's fleet of more than 300 vehicles.

Business risks

Voltex has a risk management task force of experienced executives. The team's job is to identify areas of risk and develop containment strategies. One priority is more energetic succession planning as key leaders approach their mid-50s.

Voltex is an electrical equipment wholesaler and distributor. Technology risk is low. Voltex has long-standing relationships with a wide range of international principals in every sector of the industry; from tools to electrical management systems, lighting luminaires to cables. As the biggest wholesaler in South Africa, Voltex is alerted at an early stage to changes in technology. Manufacturers communicate any change in the product line-up in good time, enabling the risk of stock obsolescence to be actively managed. Reliable reporting systems allow arbitrary monitoring at any stage of the month, not only month-end. Slow-moving stock is automatically flagged.

There is little "fashion risk" as consumer fads have only limited impact on sales volumes. Core items of the range are a basic requirement of electrical contractors, equipment resellers and any customer in the market for electrical equipment and products.

Credit risk is managed on several levels. Credit control is stringent at each business.

Voltex acknowledges a degree of currency risk as a stronger rand in combination with falling inflation sharpens the need for active management of margins. Currency fluctuations also affect the mining sector, an important customer of some business units. Voltex's client base is already wide and efforts are continually being made to widen the base of industrial clients even further, thereby reducing currency risk even more.

Risks relating to sudden changes of Government policy are minimal. There is national consensus on the need to improve access to electricity as one of the keys to community upliftment.

People risk relating to the recruitment and motivation of the right personnel is addressed by constant training across numerous subjects. The division sustains 2 100 jobs. The workforce is stable and cohesive, so is the management team. The challenge of HIV/Aids is addressed by educational programmes. Every branch runs awareness courses. All staff members are encouraged to attend.

Government and quasi-government bodies form an important customer segment. However, black economic empowerment is a strength rather than a weakness, especially following the successful Dinatla transaction.

Empowerment

People empowerment is fostered by ongoing training. The skills transfer investment locally is a little under 2% of payroll and rising. A total of 1 333 days of training was logged in 2004. Training is registered with the industry SETA and is supported by a cadet training programme to fast track HDIs into supervisory and management positions.

Voltex has instituted a preferential procurement programme by requesting information on BEE status from more than 2 000 suppliers. Response has been positive.

The Voltex Electrical Distribution Division

The division takes on an increasingly proactive role, assisting customers with their planning and helping them develop optimum solutions. Customers include industry, the mines, Government, municipalities, manufacturers, contractors and resellers.

The business put in a satisfactory performance, growing market share and deepening the relationship with important customers. New branches were opened in Lydenburg and Hillcrest. They are performing in line with expectations. There are now 60 branches in the national network.

The division trades as Bellco Electrical, Club-bok Electrical, Crew Electrical, Electric Centre, Electrostar, Globe Electrical, H&T Electrical, Keens Electrical, Leonard & Co., Litecor and Voltex.

Specialists

Specialist branches supply both divisional branches and outside customers.

Atlas Cables and Association Cables

The cable supply market remained highly competitive while price fluctuations created an added challenge. Margin pressure was intense, but some volume growth was achieved. Rigorous asset management by an experienced team that is very close to its market ensured satisfactory returns. The breadth of the range and ready stock availability remain a source of competitive advantage.

Waco Industries

The division's wholesaling arm offers a broad basket of products. A key differentiator is the ability to add

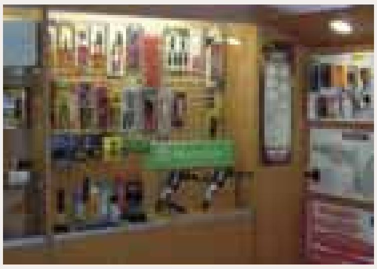
Review of Operations

The Commercial Products Division – Voltex

Waco Industries:
The division's wholesaling arm offers a broad basket of products

New branches **opened in Lydenburg and Hillcrest**

Preferential procurement from over 2 000 suppliers



Voltex:
Are the agents for the international brand Metabo Tools in South Africa

value by providing technical assistance and training in support of more technically complex products.

All operations – Johannesburg, Cape Town, Durban and Port Elizabeth – had to manage margin pressures while seeking volume growth.

Cabstrut

The division's distributor of cable and reticulation management systems faced another challenging year. Growth opportunities are beginning to emerge, however, as the construction sector shows some sign of revival.

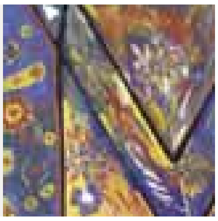
Sanlic

Sanlic has achieved leadership in its niche (locksmith supplies, locks, keys and related products). Satisfactory results continue to come through following the efficiency improvements that were instituted in 2002 and 2003. Sanlic is well positioned to continue to contribute positively to Group profitability.

Voltex Lighting

Expertise in energy-saving management and smart lighting solutions was the platform for significant growth. Substantial inroads were made into the industrial segment of the market, though admittedly from a low base.

Alignment of the company's marketing efforts with the national drive for energy efficiency has positioned Voltex Lighting as a potential strategic partner of all companies eager to reduce lighting costs. Voltex Lighting's national presence and technical and design resources give the business



a strong competitive edge when dealing with major groups.

Voltex Transmission and Distribution and Electrification and Distribution Technologies

These business units have dedicated focus on the reticulation market. The continuing national effort to take electricity to all communities underpins its marketing. A stronger presence has been achieved in the Eastern Cape and the company has positioned itself as a cross-border player following its successful support of major projects in Swaziland. Results were satisfactory.

The Berzack Division

The division is the leading distributor of industrial sewing and embroidery machinery and accessories to the clothing, embroidery, upholstery and luggage industries. In addition, Berzack holds the agency for leading domestic appliance brands such as Moulinex, Krupps, Teflon and Rowenta. Strong brands coupled with a gradual improvement in consumer confidence and business sentiment enabled the division to grow both volumes and earnings.

Eastman Staples United Kingdom

The business unit – represented in both the United Kingdom and Morocco – supplies ancillary products and industrial sewing machines to the garment industry. Eastman's market remains highly competitive. However, the benefits of last year's restructuring efforts and efficiency improvements are beginning to materialise.

Prospects

Volume growth in the industrial sector is expected to continue as a result of the national energy saving programme. Eskom's sharing of the capital cost of an approved retrofit is expected to contribute to our growth strategy as most large companies are engaged in a constant search for operational efficiencies. Support plus substantial savings on energy running costs make a persuasive case for the replacement of outdated systems.

Activities linked to Voltex's status as one of the country's leading Esco's could underpin marketing efforts for several years as the current focus on lighting can be complemented in due course by emphasis on items such as heating, ventilation and air-conditioning.

The construction industry, which has shown signs of revival, should also contribute to further volume growth.

Another promising signal is growing local interest in "building automation". This term refers to installations that are characterised by remote or automatic activation of lighting, air-conditioning, geysers and security systems. Automatic load-sharing to achieve cost efficiency is another key feature of these systems. Overseas, sophisticated electrical installations like these are increasingly specified for commercial and residential installations. The trend is beginning to gather momentum in the South African market.

This combination of factors suggests that strong cash flows will continue and further growth will be achieved.