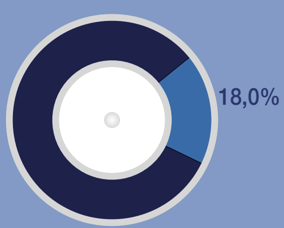
The Foodservice Products Division – Bidvest United Kingdom

3663 Bidvest United Kingdom

3663 First for Foodservice is the United Kingdom's leading foodservice company.

- *Trading (Multi-Temperature and Frozen)*
- *Logistics (Central Distribution and Ministry of Defence)*

Contribution to Group trading income



3663 First for Foodservice:
Is the sole supplier to the Ministry of Defence

3663 First for Foodservice:
Values and develops its people

Product ranges:
Have been extended into Fresh and Chill

Non-food items:
For caterers are growing

3663 margin up to 3,4% from 3,0% with profits up 25% to £40 million

Consolidation of Swithenbank **into 3663's business was point of focus**

New Kuwait depot, **opened in February 2003, highly efficient**

Snacks:
Consumer taste for snacking products is increasing

Fred Barnes
Chief Executive
Fred has extensive international foodservice and distribution experience.

Operational environment
3663 First for Foodservice is one of Britain's two major national broadline foodservice distributors with two trading divisions (operating a multi-temperature and a frozen and chilled service) and a logistics division. 3663 operates in a fragmented market. Though few industry players have credible national operations, the operating environment is characterised by intense competition at local, regional and metropolitan level.

UK inflation remains low (1,5% per annum CPI in May 2004), with GDP growth of about 3,4%. Product inflation has been minimal for a number of years, although the first signs of upward pressure are now becoming evident. The year ended with a rise in interest rates (to 4,75%) and further rate increases are expected in the year ahead.

The overall market for foodservice products has shown low or no growth. The industry expectation is that, as in the US, lifestyle factors will drive significant growth in food consumption away from home or "food on the run". This has not happened in recent years but confidence remains high that macro-economic conditions will facilitate this development in future.

Operational highlights
Despite the constraints of a flat market, 3663 First for Foodservice achieved high levels of growth while investing in future success. The strategy driving growth involves aggressive product extensions whilst maintaining 3663's traditional base in grocery and frozen food distribution.

As the Frozen division extended into other temperature controlled areas (specifically fresh and chill), the consolidation of Swithenbank into 3663's business was a point of focus. This Bradford-based short-life product distributor was bought in 2003 and its national capability has a key role in the growth strategy. Late in the period, the assets of nationally represented Barton Meat Company were also acquired, creating another area for growth.

A major initiative within the multi-temperature business saw the creation of a joint venture with Matthew Clark, a leading purveyor of beers, wines and spirits. This joint venture provides cost-effective distribution for Matthew Clark and enables the multi-temperature business to offer a comprehensive range of beers, wines and spirits through its own catalogue.

Other key developments include the launch of snacking and non-food initiatives, growth areas that complement the traditional range of products.

The acquisition of Wilson Watson, the Scottish catering equipment business, strengthens 3663's existing catering equipment operations and creates a truly national presence in this sector.

3663 maintained its position as the sole supplier to the Ministry of Defence worldwide. Our new Kuwait depot, opened in February 2003, is proving a highly efficient hub for the supply of Her Majesty's forces in Iraq.

As 3663's growth has continued during the year, its workforce has also grown and it now employs in excess of 5 300 people, an increase of 6,6%.

3663 recognises the importance of its impact on the environment and has been awarded ISO 14001 accreditation (which recognises 3663's awareness, management procedures, policies and training in relation to the environment). 3663 is the first major distribution company to attain such an award in respect of all its depots.

Financial review
The revenue of 3663 First for Foodservice increased by 10,4% to £1,2 billion (2003: £1,1 billion). Trading income rose by 25,0% to £40,0 million (2003: £32,0 million) as a result of sales growth, assisted by the focus on chill sales by the Frozen division and the additional investment in marketing. Results reflect the strong cost management of all contributors to the business and the realisation of efficiencies arising from earlier infrastructure investments. Strong cash flows were generated.

Business risks
Many regions of Britain are fast approaching full effective employment. Skills shortages are already apparent in some areas and commercial vehicle drivers are in short supply. 3663 has responded with a strategic commitment to up-skilling and multi-skilling

The Foodservice Products Division – United Kingdom

£28 million capex spent on depot renewal and alleviation of inefficiencies

Barton Meat (51%) and Wilson Watson (catering equipment) acquired

Alcoholic beverages joint venture launched with Matthew Clark UK

3663:
Demand for healthy menu options is increasing

Growth:
3663 now employs in excess of 5 300 people

Strategy:
Branded suppliers are key to our customers' offering

while promoting a total service ethic through its successful First For Service quality management programme.

The investment in training is considerable. During the year, specific leadership courses were held for senior management, reflecting the additional requirements that are being placed on them as a result of the growth in the business. Separate management courses were also held for middle managers to assist with their progression and, including the First for Service training, a total of 12 140 days of training was recorded by staff at all levels during the year.

Labour shortages can be compounded by restrictions on hours worked. The latest European Union (EU) directive on working times creates a challenge in view of pressure on communication infrastructure. Parts of the British road network are overstretched at peak periods.

The logistics industry is concerned about the prospect of congestion creating longer journey times just as the EU institutes a shorter working week. 3663 is better able to cope than some of its competitors in view of its extensive depot network.

Recent increases in fuel prices will affect the entire industry. Higher input costs create opportunities to increase 3663's competitive edge as an efficient operator using advanced systems and well-trained personnel.

Prospects

The market will remain highly competitive in 2005. There will be strong emphasis on margin management and further improvements in business efficiency. Growth opportunities will continue to be exploited in the highly fragmented fresh produce industry.

The impact of rising interest rates on consumer behaviour is problematic. Some commentators predict rates could go as high as 5,5% next year, with a potentially significant impact on consumer spending. 3663 is well positioned to respond to shifts in the market in view of its extended range and market position.

The full benefit of the consolidation of the Swithenbank business into 3663 operations has yet to materialise, but should be more evident in the coming year. Opportunities arising from the acquisition of Barton Meat and Wilson Watson will be vigorously pursued.

Significant investment is anticipated in a comprehensive depot renewal programme and the process is already under way. The meat depots and the Scottish equipment depot were added to the network in 2004 and a new regional frozen and chilled food distribution centre was established in the south east of England. This brings the number of depots to 42.

One depot renewal project was completed and two were in progress as the period came to a close. In the coming 12 months, work on another three replacement depots will start. In addition, a new multi-temperature depot will be opened to the west of London.

Further investment will also be made in new IT systems as a springboard to further efficiency gains.

The business achieved exceptional growth in challenging trading conditions in 2004. The intention is to maintain momentum in 2005, expand the business and the infrastructure, and achieve further growth.

Review of Operations

The Foodservice Products Division – Australasia

Bidvest Australasia

Bidvest Australasia includes Bidvest First for Foodservice in Australia and Crean First for Foodservice in New Zealand.

- *Australia*
- *New Zealand*

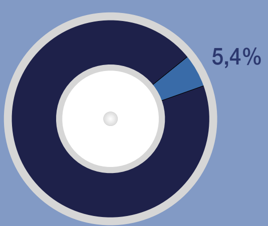
New Zealand:
Our customers in Australia and New Zealand range from small restaurants to large institutional caterers

Australia:
We service the market nationally in both Australia and New Zealand

Australasia:
There are over 40 000 products in our range

Expanded range:
Quality Home Brand products give great value to our customers

Contribution to Group trading income



Trading income up 25,3% **to A$28,3 million; trading margin maintained at 2,7%**

Fresh meat distribution reached A$20 million **in year one**

New depots opened **in Toowoomba (Queensland) and Darwin (Northern Territory)**

Vehicle fleet:
Our Australasian distribution fleet consists of over 600 temperature-controlled vehicles

Bernard Berson

Managing Director

Bernard has seventeen years of international financial and administrative management experience.

AUSTRALIA

Operational environment

Australia enjoyed GDP growth of 3,75% and modest inflation of 2 to 3% per annum. The tourism and hospitality sectors rapidly recovered from the shock of the Bali bombings and SARS while the success of the Rugby World Cup contributed to positive consumer and business sentiment.

Strategic planning was complicated, however, by foreign exchange volatility, with the Australian dollar strengthening dramatically followed by some weakening.

The foodservice sector remains extremely fragmented. The industry is far from mature and authoritative industry statistics are not compiled, making it difficult to benchmark performance.

Operational highlights

Bidvest First for Foodservice continued to grow and increased its market share. Organic sales growth of over 9% was achieved; a satisfactory result following the 8% rise in 2003. Operating profits increased.

On July 1 2003, we concluded the purchase of Macmont Hospitality Supplies, the Adelaide-based supplier of tableware and light equipment previously identified as a target for acquisition.

We then acquired the assets of a distribution business that holds the five-year contract to supply Yum! International, owner of the KFC and Pizza Hut franchises in Australia.

These strategic acquisitions enabled the creation of a new divisional structure comprising the Foodservice division, the Quick Service Restaurant (QSR) division and the Hospitality Supplies (HS) division.

Foodservice enjoyed significant success with its strategy of using existing channels to carry an expanded range of products to market. The most notable achievement was the division's entry into fresh meat distribution, reaching A$20 million in sales from a zero-base in year one.

FindFoodFast, the online ordering system, continues to grow. Bidvest Australia now electronically transacts in excess of A$180 million a year with its customers, enabling efficiencies and technological competitiveness.

New depots were established in Toowoomba, Queensland and Darwin, Northern Territory. The Darwin opening marks our re-entry into this port city as a true foodservice operator. We exited in 2003 by selling back to the vendors our retail-focused Darwin and Alice Springs businesses. Focus on core competence will promote the drive for efficiencies and synergies.

Financial review

Bidvest First for Foodservice in Australia grew trading income by 19% in local currency.

Revenue for the year increased by 28% from A$716 million last year to A$915 million, which includes an A$131 million contribution from the new QSR division. Although the QSR division traded at anticipated loss levels for the year, overall operating profit in the business was up 19%. Significant focus on asset management coupled with the disposal of the Alice Springs business resulted in an A$22 million generation of cash flow in the year. The HS division contributed positively.

Business risks

Foodservice risks in Australasia are similar to those in other countries, including normal commercial risks, attracting and developing the right people and the extent to which sales can be influenced by lifestyle trends.

Two special risks apply in Australia and New Zealand – heavy reliance on tourism and the fact that all petroleum products are imported. Strengthening of the local currency and the higher cost of aviation fuel can affect the desirability of Australia and New Zealand as long-haul tourist destinations, denting foodservice demand. Higher fuel prices affect operating costs and squeeze margins.

However, in such highly fragmented markets, smaller players with limited resources are more acutely affected than a truly national business. The backing of blue-chip customers and the potential for national efficiencies help Bidvest's Australasian operations manage these pressures while exploiting opportunities for growth through acquisition.

The Foodservice Products Division – Australasia

FindFoodFast logs A$180 million in online ordering

Quick Service Restaurant and Hospitality Supplies divisions launched

Crean contracted to supply NZ$5 million in food to the New Zealand Army

Quality assurance: Quality assurance and HACCP compliance are cornerstones of our business

Hospitality Supplies: We have invested in upgrading our facilities to enable growth

New Zealand: People and their relationships are our greatest assets

Prospects

Benefits flowing from recent acquisitions by Bidvest First for Foodservice and the expansion of the national footprint are only now coming on stream. The new divisional structure creates three platforms for growth and will help management unlock value and synergies.

After the successful entry into the fresh meat category the foodservice division will further expand the product offering. Fresh foods (including salads, sandwiches and prepared meals) have been identified as a growth area.

The QSR division serves most of the East Coast stores of Yum! International. As a strategic partner of one of the leaders of the Australian fast food sector it enjoys strong industry credibility, providing a basis for further growth through contract acquisition.

The HS division will seek national growth by establishing dedicated hospitality supply units in strategic centres, as well as driving growth through our established network of foodservice distribution centres.

Bidvest First for Foodservice is well positioned to continue to increase market share and operating income. Investments in technology to drive efficiencies through the supply chain are also envisaged.

NEW ZEALAND

Operational environment

A stable macro-economic environment created a climate for expansion and effective margin management. GDP growth of 3,6% was recorded while inflation remained steady at 2,4%. Tourism rebounded strongly, with New Zealand successfully positioning itself as an exciting alternative destination. Foodservice was a major beneficiary of buoyant tourist inflows.

Operational highlights

Strong growth was achieved in sales volumes, market share and revenues. Crean First for Foodservice entrenched its position as the country's only national foodservice company.

Geographic coverage was expanded through a series of strategic acquisitions.

A distributor in Auckland was acquired and has been integrated into our Auckland facility. Small distributors were also acquired in Hawke's Bay and Palmerston North. In addition, a new state-of-the-art depot was built in Rotorua.

The route business grew strongly following the winning of the Streets ice cream sales and distribution contract in the major metro areas of New Zealand.

Crean First for Foodservice won a prestigious contract in May when it became the food supplier to the New Zealand Army.

The FindFoodFast Internet ordering system was introduced to the New Zealand market early in 2004. By the end of the financial year, a small base of online customers had been established.

Financial review

Sales volumes increased by 25%, with revenues of NZ$168 million while trading income increased by 48% to NZ$6 million. In addition, asset management continued to improve leading to a return on funds employed of 80%.

In line with the business strategy of strong growth 50% of the operating revenue was reinvested in infrastructural and operational assets to ensure the business maintains its high standard of service delivery.

Prospects

Organisational efficiencies across the national infrastructure will add to the competitive advantage currently enjoyed by Crean First for Foodservice. This creates a solid foundation for further growth in market share and revenue. The benefits of recent acquisitions are yet to be fully unlocked, and will materialise as these operations are fully absorbed. A substantial increase in online food orders is expected, though admittedly from a low base.

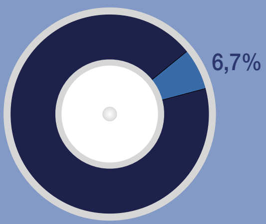
The Foodservice Products Division – Caterplus

Caterplus

Caterplus is a leading broadline foodservice distributor of a comprehensive range of products to the catering, hospitality and leisure industries through strategically located, independent business units situated in all urban and tourist centres in southern Africa.

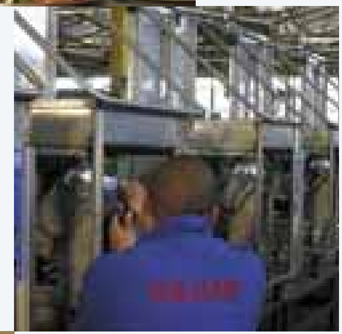
- *Catering Supplies*
- *Frozen Foods*
- *Speciality*
- *Catering Equipment*

Contribution to Group trading income



Catering Supplies:
A leading supplier of groceries and allied products to the catering, hospitality and foodservice industry

Frozen Foods:
Leading supplier of seafood, vegetable, poultry, red meat, dairy and pasta products



Catering Equipment:
Vulcan-Caars increasingly operates as a strategic partner to its customers

Catering Supplies:
Eighteen strategically located business units operate across South Africa

Trading margin slips to 8,7% from 9,1%

Adaptation to price deflation averaging 3% across the basket

Patleys acquired the right of use and distribution rights of the Weigh-Less brand of food products

Speciality:
Food products are marketed to wholesale, retail and industrial sectors via Patleys

Colin Kretzmann

Chairman

Colin has vast experience in the food manufacturing industry and joined Bidvest twelve years ago from which time he has been instrumental in developing the Group's food interests through local and international acquisitions.

Operational environment

The catering industry faced a difficult year largely as a result of the strong rand's deflationary impact on the hospitality market. This not only had the effect of limiting the country's ability to attract visitors but also influenced each visitor's holiday spending power. The consequence of this is the negative impact on the hotel, restaurant and tourist sectors of the market.

In the domestic market no increase has yet been seen in out-of-home food consumption. International lifestyle trends suggest out-of-home food sales will grow over time, but locally there is little evidence of this to date.

Competition intensified across a contracting market and price deflation as a result of a strengthening rand had a detrimental effect on the performance of the division. Rigorous margin management was essential and energetic steps were taken to secure new business. Efficiency improvements were also achieved. Despite challenging trading conditions, the division suffered no overall job losses and still sustains a consistent staff complement.

Long-term prospects are positive. Management is of the opinion that South Africa's great attractions as a tourist destination will in future generate growing inflows of international visitors, underpinning the ongoing development of the foodservice sector.

Operational highlights

During the year, Patleys discontinued distribution arrangements for a no-name range of retail products and embarked on an energetic new business drive to replace lost volumes while protecting margins. As a result, two new speciality opportunities were acquired and added to the Patleys brand portfolio; Cook 'n Bake (a non-stick spray) and the Weigh-Less range of approved foods for consumers on a weight reduction programme.

The first branch installation of a new customised computer system was completed during the latter part of the year. This is a significant initiative involving a major capital investment over two to three years, in which time the system will be installed at all of the division's business operations.

At the end of the year, Caterplus acquired Hotel Amenity Supplies, which supplies shampoos, soaps, foam bath and related items to the hotel industry. The aquisition creates synergies with the existing Caterplus range to a common customer base.

Financial review

Caterplus' revenue remained flat at R2,0 billion whilst trading income fell 5,3% to R170,3 million (2003: R179,8 million). The return on funds employed remains one of the highest in the industry, a commendable performance in a challenging year. Strong cash flows were generated.

Business risks

There is relatively low technology risk in the foodservice distribution industry. The risk of losing management expertise has always been well managed at Caterplus. There is a long-standing policy of people development and promotion from within, contributing to a stable management structure and a motivated workforce.

There is very low risk of a breakdown in service to customers. The Caterplus distribution operation serves the entire country. Many major centres are served by more than one operation. If facilities in one operation become inoperable, customers can be served from sister companies.

Normal commercial credit risk occurs, but is actively managed by decentralised credit control programmes and market intelligence. Credit risk at a company such as Patleys is low as it deals primarily with a blue-chip client base.

There is some business renewal risk as firm, long-running contracts are unusual in the sector. Renewals are performance-based. The operations of Caterplus are highly efficient, with strong focus on quality management. The industry's accent on day-to-day performance is an opportunity to grow market share.

As is the case in all agent-principal relationships, there is a risk that principals of Patleys could withdraw agency rights. Caterplus has managed this risk by consistently meeting or beating the expectations of principals and by building its own premium brand, GoldCrest. Our policy is not to become reliant on the business of any single principal.

The macro risks relate to crime and exchange rates. The hospitality industry is a large market. If tourism falls because of crime or a strong rand, volumes are affected. Local crime affects the propensity of South Africans to eat out.

Review of Operations

The Foodservice Products Division – Caterplus

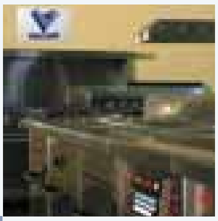
Hotel Amenity Supplies **acquired.**

Vulcan-Caars **projects strong growth for catering equipment**

Lufil packaging **supplier to the fast food industry acquired after year-end**

Multi-temperature depot **opened in Durban, trading as 3663 First for Foodservice**

Catering Equipment:
Is the country's premier catering equipment maker and marketer



3663 – First for Foodservice:
The new multi-temperature depot in Durban enables Caterplus to market products across three temperature levels

Caterplus:
Is southern Africa's foremost distributor of dry groceries, frozen and chilled foods

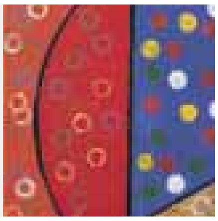
Empowerment
Caterplus serves corporate customers, many of whom have introduced BEE scorecards. Bidvest's improved BEE credentials represent an opportunity to grow market share.

The catering supply industry is not driven by tender processes. Government, municipal and quasi-government institutions form a relatively small market segment. Even so, opportunities exist for growth in these areas.

Training
Staff development is constant. Training investment remained at around the previous year's level at R1,3 million. This level of spend, two years in a row, should be seen against an increase of 30% in training spend in 2003 when compared to 2002 and therefore high levels of training investment continue. The number of training days reached 1 498 for the year.

Most training is in support of the First for Service quality management programme. Every manager and employee is expected to attend.

The HIV/Aids policy introduced in 2003 emphasises prevention and education. The aim is to constantly reinforce Aids awareness through ongoing communication.



Catering Supplies

This division maintained its position as the country's leading national foodservice distributor of dry groceries and consumables. Eighteen strategically located business units operate across South Africa. In a difficult year, the emphasis was on operational efficiency, service quality and additions to the existing "basket" of products.

Operational companies trade under various names, including Chipkins Catering Supplies, First Foods Distributors and Pyramid Catering Supplies, RFS Catering Suppliers, Catersales, M.M Quality Choice, Nelpack, CCW Catering Supplies, Lou's Wholesalers and D&R Lowe.

Frozen Foods division

In South Africa, the Frozen Foods division operates under two national brand names, Seaworld and Blue Marine. The regional identity, East Cape Foods, is preferred in the Eastern Cape. The Blue Marine name is used in Namibia while the Caterplus identity has been adopted in Botswana. This division is southern Africa's foremost distributor of frozen and chilled foods, to the foodservice industry.

In a challenging period, the emphasis was on rigorous asset and margin management while energetically supporting an extended "basket" of product lines.

Speciality

Speciality food products are marketed to wholesale, retail and industrial sectors via Patleys. The range covers both local and international brands. Because of the strengthening of the rand a difficult year was experienced. The business operated in a climate in which the rand continually strengthened while prices fell constantly. This necessitated extremely strict control of stockholding.

Catering Equipment

After several years of exceptional growth Vulcan-Caars, the country's premier catering equipment maker and marketer, faced an extremely challenging operational environment. Volumes fell at its Industria factory. Even so, the company achieved some sales success and recorded above average returns on funds employed.

A contributing factor to these successes was proactive marketing. Vulcan-Caars increasingly operates as a strategic partner of its customers, advising them on appropriate catering equipment solutions after searching needs analysis.

Toward year-end an improvement in the trading climate became evident and the company secured substantial contracts with a one- and two-year timeframe, providing a solid base for further growth. Particularly satisfying was a significant breakthrough into the Botswana market.

For the first time, plans are being made to institute a night shift at the factory, which will be the springboard for new job creation. The accent will be on work opportunities for the historically disadvantaged.

Prospects

Greater exchange rate stability is expected in the coming year. This stability will be beneficial to the sector, though much depends on the level at which the rand settles and the success of the national effort to attract bigger tourist inflows. South Africa currently attracts about 1,75 million overseas visitors a year and has the potential to grow this number significantly, given the attractions our country has to offer.

A new multi-temperature depot has been completed in Durban. This development brings a new dimension to marketing efforts as it enables Caterplus to simultaneously bring to market products across three temperature levels. The new facility will give fresh impetus to the Caterplus strategy of securing volume growth by taking a bigger basket of products to its major national customers. This exciting new initiative will trade under the name of 3663 – First for Food Service.

Vulcan-Caars projects strong growth for catering equipment. South Africa's status as host of the 2010 Soccer World Cup holds major significance for the business. Over the next five years, this prospect will underpin demand for new or upgraded catering facilities in the hospitality industry and at sporting facilities in several major centres.

The division anticipates improved profitability in the forthcoming year.

The Foodservice Products Division – Combined Foods

Combined Foods

Combined Foods manufactures and distributes a comprehensive range of products to the bakery, meat and food processing industries.

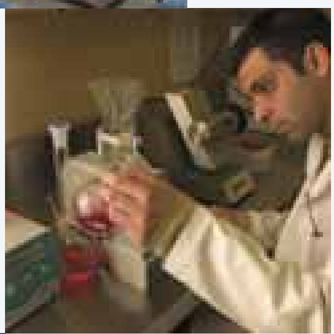
Bidbake

- *NCP Yeast*
- *Chipkins Bakery Supplies*

Crown National

Crown National:
A new state-of-the-art factory was built in Montague Gardens, Cape Town

Bidbake:
Manufactures and distributes a wide range of pre-mixed convenience products and ingredients and bakery consumables



Chipkins Bakery Supplies:
Continuing research and development is essential

Crown National:
Is one of South Africa's largest manufacturers and suppliers of spices, seasonings, additives and condiments

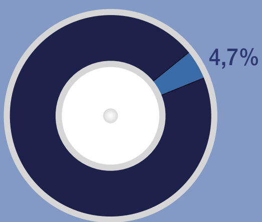
Trading margin improves from 11,0% to 12,6%

New spice factory **became operational**

NCP Yeast and Chipkins Bakery Supplies **merged into Bidbake**

Bidbake acquired IBI/Trimark

Contribution to Group trading income



Crown National:
Adheres to HACCP standards and product safety aspects

Colin Kretzmann

Chairman

Colin has vast experience in the food manufacturing industry and joined Bidvest twelve years ago from which time he has been instrumental in developing the Group's food interests through local and international acquisitions.

Operational environment

The division of Bidbake (NCP Yeast, Chipkins Bakery Supplies) and spices company Crown National, supplies the bakery, meat and food processing industries with a comprehensive range of products and ingredients. Market contraction is evident in some segments. For example, the national "appetite" for commercial bread appears to be static as the population increasingly follows the international trend toward more westernised eating patterns and habits.

Another key development is competition between small, in-store bakeries and the plant bakeries of major milling companies. Plant bakery quality has improved significantly in recent times, encouraging the consumer to move away from in-store bakeries – a market segment in which Chipkins Bakery Supplies is well represented. There may be adverse long-term consequences for Chipkins Bakery Supplies if in-store units continue to lose market share as we could feel the knock-on effect. However, the smaller bakery relies on "smart solutions" from Chipkins Bakery Supplies to maintain a qualitative edge. Chipkins has grown its volumes despite the pressure felt by this customer segment. Competition in the distribution of pre-mixes and ingredients continues to be aggressive. The opportunity for growth in confectionery products remains attractive.

Combined Foods achieved very good results with improvement in both volumes and operating profits. The accent was on efficiency improvements, improved market share and margin increase. The challenging environment also created opportunities for growth through acquisition.

Operational highlights

The two ageing factories of Crown National in Blackheath, Cape Town and City Deep, Johannesburg, were replaced by a new, state-of-the-art plant in Montague Gardens, Cape Town.

Factory efficiency and productivity have improved and some new Cape Town jobs have been created since the new factory came on stream in October 2003. In addition to blending spices, flavours and additives for the food industry, the factory also customises specific products for major clients.

At the end of the reporting period, Conti Spice, a Johannesburg spice manufacturing business, was acquired. Crown National has strong focus on meat and poultry while Conti Spice products are used in a complementary set of food processes and customer bases.

During the year Crown National also acquired the exclusive distribution rights of the Tari International range. This German company uses advanced technology to create ingredients for the meat and poultry industry. Tari has a world leadership position in this field and will increase Crown National's competitive advantage in its market.

Crown National redefined its market and grew market share as a result of product extension and its innovative approach to the development of new solutions. This redefinition resulted in the successful marketing of new products to customers outside its established meat and poultry base.

In the second half of the year, the management teams of NCP Yeast and Chipkins Bakery Supplies were merged into a unified structure, Bidbake. By avoiding duplication and taking a broader product range to the customer base, significant distribution and marketing efficiencies will be achieved.

Financial review

Bidbake achieved some volume improvement while operating profits also improved, creditable results in an intensely competitive market. Gains in volumes and profitability were even more marked at Crown National which had a highly satisfactory year.

Combined Foods' revenue increased by 12,7% to R960,7 million (2003: R852,7 million) and operating income rose by 28,8% to R121,3 million (2003: R94,2 million). The division's return on funds employed was again exceptionally high.

Strong cash flows were generated by all business units and the return on funds employed was well above the industry average.

Business risks

Combined Foods serves an industry that produces and sells staple foods – bread, meat and poultry. Though food fads and consumer eating habits change over time, staples remain at the heart of the family shopping basket, ensuring solid demand.

The Foodservice Products Division – Combined Foods

Conti Spice acquired
focusing on niche markets

Innovation of new product opportunities improves Crown's volumes

Very satisfactory recovery **of bakery ingredients businesses**

Chipkins Bakery Supplies:
Supplies smaller bakeries with "smart solutions" so they maintain a qualitative edge

Combined Foods:
Food and service quality remain key to Combined Foods

Credit risk is managed by strong, decentralised systems, closeness to the market and enduring relationships with customers.

A special though small risk attaches to the availability of a core ingredient – cultures. This risk has been addressed by arranging for supplies from alternative external sources.

Empowerment
Combined Foods commits to constant training. Modern training facilities were incorporated into the new Crown National Montague Gardens factory. Training investment rose 94% to R1,731 million. The number of training days logged reached 1 711 for the year.

The company's HIV/Aids policy is education-based.

Prospects
At the beginning of the new reporting period, Combined Foods completed an acquisition of IBI/Trimark, a bakery ingredients manufacturer based in KwaZulu-Natal. IBI/Trimark supplies the retail and cash-and-carry market segment and is being integrated into Bidbake and in the year ahead will strengthen divisional operations in an important regional market.

Continuing benefits are expected to flow from the integration of management structures within the bakery business. Integration took place late in the year.

Early indications suggest the unified structure will become the platform for further growth in the months to come.

Efficiencies were rapidly achieved by Crown National's new Cape Town plant. However, there is still great potential for further gains in productivity. This potential will be energetically exploited.

Crown National anticipates further market penetration across an extended customer base. The full effects of synergies with the Conti Spice range will only be felt during 2005. Distribution of the Tari International range will also add to forward momentum in the year ahead. The innovative team at Crown National is upbeat about prospects for further growth, though the overall market is expected to remain extremely competitive.

The division has budgeted for improved results for 2005.