Review of Operations

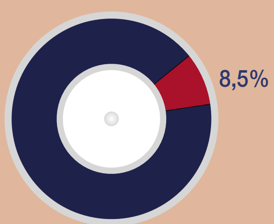
The Automotive Products Division – McCarthy

McCarthy Limited

McCarthy is South Africa's second largest motor retailer, boasting a proud history dating back to 1936 and an even more exciting future. Its network comprises 90 wholly owned dealerships, representing the top franchises in all the major centres.

- *McCarthy Franchise dealers*
- *Budget Rent a Car*
- *McCarthy Call-a-Car*
- *Burchmore's Car Auctions*
- *Yamaha Distributors*
- *McCarthy Fleet Services*
- *McCarthy Financial Services*
- *McCarthy On-Line*
- *McCarthy Pre-owned*

Contribution to Group trading income



Budget Rent a Car:
Has over 60 car rental locations in southern Africa

Burchmore's:
Regarded as the country's leading authority on vehicle auctions

Toyota:
The McCarthy Toyota showroom in Arcadia, Pretoria

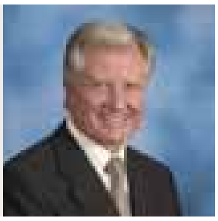
McCarthy Pre-owned:
Is a newly established chain extending McCarthy's reach into the used vehicle market

Revenue increased by 21,9% to R11,9 billion for the year

Trading margin of 3,6% at an 11-year high

McCarthy dealerships retailed 66 410 vehicles

McCarthy Insurance:
Offers value-added insurance and assurance products, including comprehensive motor and personal household cover



Brand Pretorius
Chief Executive
Brand has thirty years' experience in the motor industry (manufacturing and retail) and is a member of various advisory boards. He is a current board member of the Marketing Federation of Southern Africa and is currently a member of the main board of the Business Initiative and the President of the South African Retail Motor Industry Association.

Bidvest's acquisition of McCarthy was effective from January 1 2004. Whilst the financial results are only included in Bidvest's results from this date, this review encompasses the entire year. Membership of a major group of international trading, service and distribution companies creates numerous opportunities. McCarthy responded with record earnings, a signal that South Africa's second largest automotive retailer is already benefiting from Bidvest's empowerment credentials, financial strength, internal support and synergies across business units.

Operational environment

The motor industry experienced buoyant trading conditions owing to a favourable macro-economic environment, vehicle price stability, low financing costs and relatively high levels of business and consumer confidence. The national dealer market grew by 18% from 277 183 units for the year ended June 30 2003 to 329 700 units.

McCarthy's motor franchises increased new vehicle sales despite the loss of nine DaimlerChrysler and four BMW dealerships in the comparative year. These sales rose during the 12-month period by 14,6% from 30 483 units to 34 921 units.

Effective price deflation on new vehicles impacted both new and used vehicle margins. In some instances, manufacturers also reduced dealer gross margins on new vehicles. Used vehicle margins were sacrificed in an effort to align the stand-in values of existing inventory to lower market values.

Attractive offerings on new vehicles led to a swing from used to new, as evidenced by the modest growth in national used vehicle dealer sales. McCarthy used vehicle sales increased marginally from 30 487 units to 31 489 units.

McCarthy's financial services business benefited from the growth in new vehicle sales while the strong rand assisted the margins of Yamaha Distributors, who had a record year.

Operational, financial and cash flow highlights

McCarthy generated revenue of R5,9 billion and trading income of R217,6 million for the six months ended June 30 2004. All major business units contributed to this growth.

The operating margin for the year increased from 3,3% to 3,6% representing a new milestone for McCarthy and is the highest margin achieved in the last 11 years.

The motor franchise operations experienced an excellent trading year, reporting an increase in revenue and pre-tax profit. The General Motors, Toyota, Nissan, DaimlerChrysler and Peugeot franchises posted particularly impressive results. The growth in pre-tax profit was achieved despite the disposal of one BMW dealership on July 1 2003 and the sale of the McCarthy Toyota UK and Jersey operations on September 30 2003.

Budget Rent a Car, Burchmore's Car Auctions and McCarthy Fleet Services reported excellent results for the year. Budget Rent a Car's increase was mainly due to the impact of stable new vehicle pricing, some increases in the average daily rental rates and the lower cost of funding. Burchmore's operating profit increase was primarily due to the cost-containment initiatives in the prior financial year. Unfortunately for the Burchmore's business model, the level of bank repossessions is still at an all-time low.

Yamaha Distributors produced an outstanding set of results for the year. The business benefited from favourable exchange rates, robust growth in the motorcycle market and improved trading results from the Balanced Audio division.

McCarthy Financial Services, comprising the division's insurance and financing activities, reported an increase in revenue and operating profit. The increase in operating profit reflects increased vehicle financing volumes despite pressure from the vehicle manufacturers to allocate more vehicle finance business to their in-house finance operations. The operating income of insurance operations improved on the strength of an improved performance from the equity investment portfolios, increased policies written and an impressive performance from the Hollard joint venture (McInsurance).

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Peugeot:
The Bryanston sales operation relocated to Rosebank. A "Blue Box" dealership will be established in Sandton

Forsdicks BMW:
The new 5-series became available in 2004

Net operating interest paid decreased and interest cover improved as a result of a decrease in the cost of borrowed funds following four prime overdraft rate reductions in the first half of the financial year; tight working capital management during the year, resulting in significant amounts of cash being generated from operating activities; more favourable borrowings rates since the acquisition by Bidvest; and the release of the provision for interest on the RAG liquidation dividend as a result of the indemnity provided by the consortium of banks following the Bidvest transaction.

McCarthy concluded the year in a net positive cash position. This is the first time since 1997 that McCarthy has generated positive cash flow by a reduction in its investment in working capital.

The decrease in working capital was largely as a result of stable new vehicle pricing – used vehicle prices follow new vehicle price increases and consequently we have seen a similar pricing trend with used vehicles; the strong trading conditions resulting in certain franchises holding very low levels of new vehicle stock at certain times during the year; and strict working capital management.

Business risks

Robust mechanisms are in place to manage all commercial risks. Perhaps the most fundamental risk is that some dealer agreements could be terminated. This risk is minimised by a record of outstanding sales performance, high levels of customer satisfaction, excellent locations and strong relationships with suppliers embedded over decades.

Further strengthening of the rand could lead to more margin pressures. This is addressed by rigorous inventory management and conservative trading policies. On the positive side, a strong rand will enhance vehicle affordability even further, which will lead to further volume growth.

People risk always applies as sales and service are driven by skilled and enthusiastic staff members. Recruitment of high potential individuals is assisted by McCarthy's status as sector leaders while people development is fostered by a significant and sustained training investment. Credit risk is a standard facet of all sales activity but is well controlled by stringent credit systems at all units and closeness to the business and the market.

Empowerment

A key focus is personal empowerment. Almost R8,5 million was spent on training and 69 vehicle salesperson learnerships were launched. One hundred and thirteen technical learnerships and 172 CBMT apprenticeships were facilitated by McCarthy's state-of-the-art technical

training centre. McCarthy learners were the first in the industry to complete sales and technical learnerships. Over 70 new jobs were facilitated through skills development legislation.

Eight hundred and sixty four staff benefited from technical skills transfer and 2 866 from other training, 4 449 training days were logged, 77 black staff members received adult basic education and 10 bursaries were granted. A pilot mentorship scheme involving 14 black protegés proved successful. Seventy protegés enrolled on the follow-up programme. In March 2004 alone our Skills Act training claim itemised over 500 different courses.

The supplier list in the BEE procurement programme includes 129 black empowered organisations. Over R71 million in goods and services is sourced from them.

Social involvement is showcased by Rally to Read (an initiative to boost English literacy in rural areas). Seventy two McCarthy managers worked on nine Rallies involving 1 222 individuals, 368 4x4s, 368 box libraries and 36 450 learners in 123 schools. One hundred co-sponsors gave almost R5 million in cash and kind.

Yamaha Distributors

Yamaha Distributors achieved significant growth and strong profit-to-sales ratios across its product range (motorcycles, all-terrain vehicles (ATVs), accessories, outdoor motors, boats, industrial engines and musical instruments). Turnover rose, exceptional net asset returns were achieved and return on funds employed exceeded projections. Motorcycles and ATVs put in an exceptional performance as did the marine category.

Falling interest rates contributed to buoyant sales. On balance, rand strength was positive as it helped assure competitive pricing on new units. However, this repricing led to some write-downs on stocks of spare parts.

Yamaha's 44-year local vehicle park creates a strong annuity business stream, but substantial stock holding exposes the business to currency risk. Astute risk management ensured minimal impact.

Re-exports into 12 African countries grew and heartening results were achieved by the new audio range in the first full year in which we have held the distributorship.

Growth through brand extension is no longer possible as Yamaha Distributors now handles all Yamaha ranges. Greater penetration has to be achieved across the existing base. Another year of growth and strong cash flows is projected.

Forsdicks BMW

All outlets – Germiston, Sandton, Tygervalley and Pinetown – experienced a difficult year. Volumes were maintained but severe margin pressure was experienced. Since January 2003, the strong rand has contributed to a price standstill on new BMWs, squeezing the differential between prices of new and quality used vehicles and constricting the trade-in "pipeline". To move stock, dealerships across the sector have engaged in heavy price-cutting.

Deferred purchasing was also apparent as owners waited for new product launches from mid-2004. The new 5-series became available in early 2004, though significant numbers have not yet come through.

New investments included R13,5 million on a new Approved Repair Centre in Linbro Park (launched in August 2004) and R2,4 million on upgraded and expanded showrooms in Tygervalley. A R6 million upgrade is planned in Sandton.

Competition is expected to remain intense in the year ahead. However, new model excitement around the 1- and 3-series will contribute to improved sales and a better year overall.

DaimlerChrysler (DCSA)

No new models were introduced but the current product offering remains exciting.

The business drew benefit from DCSA's new margin system by which dealers receive a fixed margin and "earn" a further variable margin based on performance, facility and excellence criteria. Our variable "earnings" consistently beat the DCSA dealer average.

Focus on the pre-owned market proved successful and prompted the opening of another pre-owned operation in Hatfield, Pretoria. In Witbank we opened a new Market Centre facility for commercial vehicles. Results in its first nine months exceed expectation.

Plans are well advanced for a new lifestyle centre for Mercedes-Benz passenger vehicles in Pretoria. We will also develop new service-oriented branches in Pretoria, Midrand and Centurion.

The Automotive Products Division – McCarthy

McCarthy new vehicle sales increased over twelve months by 14,6% to 34 921 units

Used car sales up 3,3% to 31 489 units

Yamaha benefits from the stronger rand and buoyant consumer demand

Fiat:
Dealerships did exceptionally well in the awards programmes run by Fiat

VW/Audi:
The new Audi A6 was launched in the country in 2004

General Motors
General Motors, previously a minority shareholder in Delta, returned to South Africa during the year, took 100% control and changed the name to General Motors South Africa. This level of commitment from the world's largest motor vehicle manufacturer augurs well for the future. A far wider product range will become available. The launch of the new Isuzu KB range sets the tone for an upbeat 2005.

Land Rover/Volvo
A decline in Land Rover's market share contributed to a challenging year. The Volvo brand also came under pressure, but the launch of the new XC90 4x4 and S40 models will create opportunities for growth in the coming months.

McCarthy Fleet Services
Membership of Bidvest has enabled McCarthy Fleet Services to assess new business models. Improved access to funds and the availability of well established financial products create opportunities for significant growth.

McCarthy Toyota
In support of Toyota South Africa's dealership revitalisation programme we revamped and refurbished all new vehicle showrooms at a cost of over R7 million. In addition, we extended and upgraded our Arcadia and Pinetown dealerships into state-of-the-art operations at a cost of R6,5 million.

Revenue rose and profitability showed encouraging growth. New vehicle revenue increased significantly while used vehicle sales tracked this rise. Contributions from parts and service operations were boosted by campaigns to recapture business from out-of-warranty vehicles. Profitability benefited from rationalisation programmes, leading to new

efficiencies, higher productivity and lower expenses. Lower interest rates and better stock control reduced interest costs significantly.

Peugeot

The Cape Town (Central) dealer point was relinquished. The six remaining operations had a good year. New and used vehicle retail sales rose with good after sales growth.

Bryanston sales operations have relocated to Rosebank until our new Blue Box Dealership is completed in Sandton. Prospects continue to improve as the vehicle parc grows and exciting models are launched such as the 307CC and 206CC. The 407 will replace the 406 during the new financial year.

Nissan/Alfa/Fiat

The year was disappointing for Fiat as inconsistent supply affected vehicle availability and profitability.

Nissan improved market coverage following the launch of the X-Trail range and the 350Z sports car. The marque will further extend its coverage by introducing an exciting small car in the second half of 2004. Our dealerships did exceptionally well in the awards programmes run by Fiat and Nissan.

VW/Audi

A clear swing from used to new vehicles was evident during the period. New vehicle sales increased significantly against growth of only 1,6% in used vehicle volumes. A key concern is the continued erosion of new vehicle trading margins.

The franchise continued its programme of premises upgrades and relocations. By the first quarter of 2005, it is planned that only two of the old-style facilities will remain in operation.

McCarthy was recently awarded the Volkswagen Commercial LT franchise at one of its outlets and volume growth is anticipated. Prospects for 2005 across the VW/Audi marque are promising, with several new product launches on the horizon.

Burchmore's/Car Bar

Burchmore's achieved significant improvement in profits and returns after adjusting for the lower supply of bank repossessions for auction. Tight asset control improved returns substantially.

Autohaus

This joint venture dealership grew strongly in sales and returns as we expanded into the Audi Pre-owned Used Car programme. The operation also carried out a major Volkswagen refurbishment to the new vehicle showroom. Further expansion of the after-sales facility is planned. Autohaus is now a true mega dealership for both Volkswagen and Audi.

Budget Rent a Car

Budget holds the car rental franchise for South Africa, Namibia, Botswana and Mozambique. The business operates from all state airports and has 64 branches. McCarthy dealers are used to source and dispose of most of Budget's vehicles, creating strong synergies.

Car rental demand continues to grow, rising 9% during the year. Budget maintained its market share and overall profitability rose despite a continuing price war.

During the final quarter, Budget opened a pilot operation for van rental, which could be the forerunner of a franchise network and the platform for job creation. Investment in a new computer system is imminent.

McCarthy On-Line (MOL)

MOL, now wholly owned by McCarthy, develops motor retail innovations to create and retain customers and enhance marketing efficiency. Its Eliance Commerce division is implementing the Client for Life programme. The new vehicle module was launched and the used vehicle module is nearing completion. A service module is in development. Eliance Communications, another MOL division, is McCarthy's brand custodian and in-house advertising agency. It is increasingly used by McCarthy franchises to enhance their marketing strategies.

McCarthy Call-a-Car

McCarthy Call-a-Car leads electronic vehicle retailing in South Africa, selling 6 842 vehicles through its dealer network. One hundred and fifty dealers received over 6 000 customer enquiries a month via Call-a-Car. The website hosts 50 000 unique visitors each month.

McCarthy Call-a-Car relocated its call centre to Cape Town in an outsourcing strategy to contain costs. A used vehicle customer satisfaction index is also conducted from this centre.

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McCarthy Finance joint venture with WesBank exceeds 42 000 customers

McCarthy Call-A-Car assists dealers to sell 6 842 vehicles

Car rental demand up 9% and Budget maintains market share at 13% of rental days

Volvo: The new S40 was launched in South Africa in September 2004

Land Rover: The McCarthy Land Rover dealership in Durban

Club McCarthy

McCarthy's loyalty programme spearheads its customer contact and retention strategies. Dealers increasingly use its database of more than 95 000 members in marketing campaigns. On average 1 800 members use the Roadside Assistance service each month. Twenty four hour roadside and medical assistance, discounts on vehicle service, and discounted holiday accommodation are currently offered. Benefits are soon to be upgraded to include household assistance, legal assistance and movie club membership.

McCarthy Pre-owned

This newly established chain extends McCarthy's reach into the used vehicle market. Eight "Pre-owned dealers" cover the four main metropolitan areas. The aim is to grow Pre-owned into a national chain. The network is supported by the McCarthy franchise management infrastructure. On average 140 vehicles are sold each month.

McCarthy BEE joint ventures

All BEE joint ventures delivered outstanding financial results. Foster's Motor Group increased net profit substantially as did McCarthy Busa Toyota in Hillcrest. Both Foster's and Busa reported strong demand for Toyota Hi-Ace taxis. McCarthy Kunene Witbank retained its status as one of our group's top ten dealerships with a solid improvement in profits. McCarthy Kunene has opened an impressive commercial vehicle centre and its pre-owned operation is ranked number 1 nationwide.

McCarthy Insurance Services

McCarthy Insurance Services offers value added insurance and assurance products, including comprehensive motor and personal household cover. The brokerage also provides financial consulting services while McLife and McSure underwrite low risk, life and short-term insurance.

Premium income and brokerage commission continue to grow.

McCarthy Finance

McCarthy Finance, the division's joint venture with WesBank, had an excellent year. The improved performance was due in the main to excellent support from the dealer network, improved interest turn, increased vehicle sales and lower bad debts.

The joint venture now has more than 42 000 customers and its debtor's book has grown to more than R3 billion.

Procurement

The proceeds of procurement activities are paid to franchises as a dividend. During the year, R1 million was rebated to the franchises.

The BEE procurement initiative (McBEEP) spent R71 million with 129 BEE suppliers between January and July 2004. A purchase order system has been installed at 90% of dealers, creating price uniformity while eliminating duplicate payments.

A programme of support for other Bidvest companies has also been launched.

Prospects

Macro-economic conditions are expected to remain favourable. Business and consumer confidence, interest rates and vehicle affordability are the key drivers. Against this backdrop, we forecast further growth of approximately 5% in both the new and used vehicle markets. Our wide franchise portfolio positions McCarthy to take full advantage of the positive trading environment.

Plans are in place to arrest margin erosion and drive growth. McCarthy is confident it will show a meaningful increase in earnings in real terms during the current financial year.