
CONTROL INSTRUMENTS GROUP LIMITED
(Incorporated in the Republic of South Africa)
(Registration number: 1964/003987/06)
Share Code: CNL
ISIN: ZAE000001665
("Control Instruments" or "the Company" or "the Group")
RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009

CONTROL INSTRUMENTS GROUP LIMITED
SENS ANNOUNCEMENT
RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009

HIGHLIGHTS

R75m cash generated from operations

19% reduction in operating expenses from continuing operations

R20m invested in product development and capex
Total invested over two years R48m

66% decrease in loss per share from continuing operations

Significant international contracts for OpenECU™ product range

Excellent forward order book for OEM business

MESSAGE FROM THE CHAIRMAN

Globally the automotive industry appears to be recovering. The challenge for us in 2010 as we prepare for our expected future growth is to build on the improvements we have achieved and ensure that the benefits arising out of them are sustained. This will enable us to capitalise on the opportunities that we have created. We are looking forward to the future with confidence.

COMMENTARY

OVERVIEW

What a difference a year can make. This time last year we were implementing survival strategies. Today we are looking at growth strategies.

2009 was extremely tough and uncertain. Decisive action successfully reduced costs and generated cash, containing the knock-on effects of the global recession on the Group.

Towards the end of 2009 the OEM business won a number of international contracts for its OpenECU™ products and for the development and manufacture of other products. These contracts and orders are scheduled to go into full production from late 2010 and the benefits are expected to show from 2011 onwards. This is directly as a result of the Group's decision to continue investing in the development of new products in which it owns the Intellectual Property ("IP") and ongoing capital expenditure in its manufacturing facilities.

Notwithstanding the unprecedented market conditions, over the past two years the Group has invested R47.8 million in product development and capex, R20.2 million in the year under review and R27.6 million in the previous year.

RESULTS AND BUSINESS OVERVIEW

2009 was a year of crisis in the international automotive industry with the demand for new vehicles collapsing in late 2008 and the knock-on effect being felt throughout the supply chain and continuing for most of 2009. Vehicle manufacturers reacted quickly to the crisis at the end of 2008, reducing their production levels overnight and cutting orders for components to virtually zero in early 2009. This had a material impact on revenue and profitability in our OEM business.

Trading conditions stabilised during the second half of 2009, but at lower levels than those experienced in the first half of 2007 and in 2008. In spite of the difficult trading conditions the loss per share from continuing operations reduced 66% to 12.3 cents in the year ended 31 December 2009 compared with a loss per share from continuing operations of 36.4 cents in the previous year.

OEM business - Pi Shurlok

Results

Revenue decreased 32% from R572.7 million in the year ended 31 December 2008 to R387.8 million in the current year. Normalised EBITDA decreased 55% from R27.5 million in the previous year to R12.4 million in the year under review. Under the circumstances a positive normalised EBITDA is an excellent achievement.

We used the downturn as an opportunity to rationalise products in our OEM business. Agreement was reached with customers for one-time last order quantities for products that were uneconomical quantities for us to manufacture and products that had become economically unviable were discontinued.

Business

The decision to invest in an offshore engineering, product development and front-end business to drive the OEM business and to relocate Group CEO, Richard Friedman, offshore to run the new company, Pi Shurlok, was a significant strategic step for the Group. It is satisfying to note that Pi Shurlok has become an international business with a manufacturing facility in South Africa (as opposed to a South African business with offshore design and development facilities).

Pi Shurlok is focused on developing products that contain our own IP, can be manufactured at our factory in Pietermaritzburg and are for supply to customers on a global basis. Our OpenECU™ family of electronic control units ("ECUs") were developed as a result of this strategy. They were first tested in the market in late 2008 and were officially launched in mid 2009. There has been an extremely rapid uptake of the OpenECU™ products, with sales in 2009 almost double our expectations.

Readers who are interested in more detail about Pi Shurlok's OpenECU™ products and the related technology should visit the Pi Shurlok website at www.pi-shurlok.com.

In addition to our OpenECU™ products, our motorcycle and vehicle infotainment products and instrument clusters are also showing excellent growth prospects. The motorcycle and vehicle infotainment products are designed in-house in the UK and manufactured at our factories in South Africa. Instrument clusters are primarily manufactured under licence from technical partners, who are world leaders in Europe and Japan. In addition, instrument clusters for specialist vehicle manufacture are designed in-house and manufactured in smaller volumes at our factories. We also manufacture products for third parties, including customers such as BMW, Eaton, MiX Telematics and Mann and Hummel.

The current forward order position is the best that the Group's OEM business has had in many years. One of the attractions of the OEM business is the long-term nature of contracts. This means that the majority of the contracts won at the end of 2009 will be coming on stream progressively over the next three years. In many cases they should run for in excess of five years.

COMMENTARY

Aftermarket business

Results

The Aftermarket business traded at similar levels to those achieved in 2008, however in real terms and after price increases this means decreased volumes and turnover. Revenue increased by 1% from R450.6 million in the previous year to R454.2 million in the year under review. Normalised EBITDA increased 38% from R15.4 million to R21.2 million.

The strength of the brands owned and/or distributed by the Group as well as longstanding relationships with our customers and suppliers stood the business in good stead during this difficult period.

Contrary to recent history in which a decrease in the sales of new vehicles leads to an increase in the sale of aftermarket products, in late 2008 and into the first half of 2009 consumer spending in the automotive aftermarket shrunk. This negatively impacted the business and drastic steps were taken to right size the business for what potentially could have been an extended period of significantly lower levels of revenue. A number of areas that we felt could become negative contributors in a future of continued lower levels of business were discontinued. This is reflected in the abnormal write-down of stock in the financial statements.

Business

Our Aftermarket business is based in South Africa and our Aftermarket strategy is based on owning or having exclusive rights to premium brands. We provide our customers with an exceptional basket of high quality products, which includes Gabriel shock absorbers, VDO instrumentation and Warn winch products. Demand for these products picked up in the second half of 2009 and indications are that this trend will continue in 2010.

AUDITOR'S REPORT

PricewaterhouseCoopers Inc. has audited the results for the year ended 31 December 2009 and their unqualified audit reports on the Group annual financial statements and the Group abridged financial statements are available on request at the Company's registered office.

PROSPECTS

As has been proven over the last 18 months, the unforeseen can and does happen. The automotive industry and the global economy are not out of the woods and the potential exists for setbacks in our business.

Cash will remain tight during most of 2010 due to world economic conditions, the funding requirements of our development programme, capex for the production of future orders and the general increase in working capital that goes hand in hand with a ramp up in volumes.

Nevertheless, we believe that Pi Shurlok is at the beginning of a period of high growth driven by its OpenECU™, infotainment and instrument cluster product ranges and our manufacturing capabilities. The business offers a compelling mix between volume flexibility, high quality levels and manufacturing experience. This combination is not readily available worldwide and it is enabling Pi Shurlok to win contracts and to become more selective in the work that it accepts.

The Aftermarket business has "best of breed" brands and a critical mass in sub-Saharan Africa. One of the roles of the Aftermarket business is to produce significant positive cash flow for the Group to deploy in funding growth, paying dividends, developing new products and investing in capital equipment.

In 2009 we used the economic crisis as a catalyst to achieve higher levels of efficiency and returns in our businesses. The challenge for us in 2010 as we prepare for our expected future growth is to build on the improvements we have achieved and ensure that the benefits arising out of them are sustained. This will enable us to capitalise on the opportunities that we have created. We are looking forward to the future with confidence.

On behalf of the Board

JPS O'LEARY
Chairman

R FRIEDMAN
CEO and Group Managing Director

18 March 2010

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2009

	GROUP	
	2009	2008
	R 000	R 000
ASSETS		
Non-current assets	286 954	300 908
Property, plant and equipment	127 770	139 788
Intangible assets	129 526	137 247
Investments in joint ventures	565	2 421
Available-for-sale financial assets	648	384
Deferred income tax assets	28 445	21 068
Current assets	252 129	291 003
Inventories	124 694	152 378
Trade and other receivables	97 108	124 746
Derivative financial instruments	-	3 986
Financial assets at fair value through profit or loss	137	81
Current income tax assets	118	1 883
Cash and cash equivalents	30 072	7 929
Total assets	539 083	591 911
EQUITY AND LIABILITIES		
Capital and reserves	295 445	329 924
Share capital	6 972	6 972
Share premium	396 996	396 996
Treasury shares	(3 117)	(3 117)
Foreign currency translation reserve	(12 382)	(3 185)
Other reserves	(1 647)	1 338
Accumulated loss	(91 377)	(69 080)
Non-current liabilities	35 924	109 884
Borrowings	10 753	76 791
Deferred income tax liabilities	21 532	27 699
Provisions	3 639	5 394
Current liabilities	207 714	152 103
Trade and other payables	123 425	106 633
Current income tax liabilities	2 946	9 342
Derivative financial instruments	2 363	1 848
Borrowings	74 478	28 560
Provisions	4 502	5 720
Total equity and liabilities	539 083	591 911

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

	GROUP	
	2009	2008
	R 000	R 000
CONTINUING OPERATIONS		
Revenue	840 404	1 014 229
Cost of sales	(618 989)	(761 533)
Gross profit	221 415	252 696
Other operating income	6 735	12 154
Marketing and selling expenses	(31 767)	(32 370)
Administrative expenses	(94 210)	(133 348)
Other operating expenses	(120 164)	(137 585)
Operating loss	(17 991)	(38 453)
Finance income	303	585
Finance costs	(14 151)	(16 243)
Share of profit from joint ventures	148	418
Loss before taxation	(31 691)	(53 693)
Taxation	14 803	3 520
Loss for the year from continuing operations	(16 888)	(50 173)
DISCONTINUED OPERATIONS		
Loss for the year from discontinued operations	(5 409)	(25 507)
Loss for the year	(22 297)	(75 680)
Attributable to equity holders of the Parent	(22 297)	(75 680)
Loss per share (cents) - continuing operations		
Basic	(12.3)	(36.4)
Diluted	(12.3)	(36.4)
Loss per share (cents) - discontinued operations		
Basic	(3.9)	(18.5)
Diluted	(3.9)	(18.5)
Dividends per share (cents)		
Cash	-	8.0

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

	GROUP	
	2009	2008
	R 000	R 000
Loss for the year	(22 297)	(75 680)
Other comprehensive income for the year, net of taxation	(12 182)	(5 794)
Cash flow hedges		
Current year gross movement	(4 501)	2 123
Current year taxation movement	1 252	(599)
Available-for-sale assets		
Current year gross movement	264	(516)
Foreign currency translation reserve		
Current year gross movement	(9 826)	(6 802)
Current year taxation movement	629	-
Total comprehensive income/(loss) for the year	(34 479)	(81 474)
Attributable to equity holders of the Parent	(34 479)	(81 474)

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

	Share capital	Share premium	Treasury shares	Foreign currency translation reserve	Other reserves	Retained earnings/ (accumu- lated loss)	Total
	R 000	R 000	R 000	R 000	R 000	R 000	R 000
GROUP							
Balance at 1 January 2008	6 972	396 996	(7 634)	4 295	245	21 139	422 013
Total comprehensive income/(loss) for the year				(7 480)	1 008	(75 002)	(81 474)
Transactions with owners							
Employee share option scheme							
Value of services provided					85		85
Movement of treasury shares			4 517			(4 388)	129
Dividends paid						(10 829)	(10 829)
Balance at 31 December 2008	6 972	396 996	(3 117)	(3 185)	1 338	(69 080)	329 924
Total comprehensive income/(loss) for the year				(9 197)	(2 985)	(22 297)	(34 479)
Balance at 31 December 2009	6 972	396 996	(3 117)	(12 382)	(1 647)	(91 377)	295 445

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2009

	GROUP	
	2009	2008
	R 000	R 000
Cash flows from operating activities		
Cash generated from operations	75 114	3 645
Finance income received	303	593
Finance costs paid	(13 859)	(16 889)
Dividends received	2 035	-
Dividends paid	-	(10 829)
Taxation paid	(3 811)	(3 715)
	59 782	(27 195)
Cash flows from investing activities		
Purchase of property, plant and equipment	(11 186)	(17 813)
Proceeds from disposal of property, plant and equipment	441	5 745
Increase in intangible assets	(9 005)	(9 758)
Proceeds from disposal of financial assets	-	3 591
Proceeds from disposal of subsidiaries, net of cash	-	26 046
	(19 750)	7 811
Cash flows from financing activities		
Net (settlement of)/proceeds from non-current borrowings	(237)	7 214
Net proceeds on disposal of treasury shares	-	129
	(237)	7 343
Net cash inflow/(outflow) for the year	39 795	(12 041)
Forex translation adjustments on cash and cash equivalents	569	(2 459)
Cash and cash equivalents at the beginning of the year	(12 110)	2 390
Cash and cash equivalents at the end of the year	28 254	(12 110)

NOTES

FOR THE YEAR ENDED 31 DECEMBER 2009

1. Accounting policies and basis of preparation

The Group financial statements for the year ended 31 December 2009 are prepared in accordance with International Financial Reporting Standards (IFRS), IAS 34 - Interim Financial Reporting, the South African Companies Act, 1973 and in compliance with the Listing Requirements of the JSE Limited.

These are the Group's abridged consolidated financial statements for the year for which annual financial statements have been prepared as stated above.

The principle accounting policies used in preparing the audited results for the year ended 31 December 2009 are consistent with those applied in the annual financial statements for the year ended 31 December 2008 in terms of IFRS, except for the following changes:

- IFRS 8 - Operating Segments
- Annual Improvements to IFRSs
- IAS 1(R) - Presentation of Financial Statements

2. Reconciliation of earnings per share to headline earnings per share (cents)

2009

Weighted average number of shares in issue (000)

137 387

	Continuing operations	Discontinued operations	Total
Loss per share	(12.3)	(3.9)	(16.2)
Reduction to profit on disposal of the fleet and vehicle management businesses	-	3.6	3.6
Loss on disposal and scrapping of property, plant and equipment	1.8	-	1.8
Impairment of intangible assets	0.2	-	0.2
Tax effect	(0.5)	-	(0.5)
Headline loss per share	<u>(10.8)</u>	<u>(0.3)</u>	<u>(11.1)</u>

2008

Weighted average number of shares in issue (000)

137 891

	Continuing operations	Discontinued operations	Total
Loss per share	(36.4)	(18.5)	(54.9)
Loss on disposal of the fleet and vehicle management businesses	-	8.9	8.9
Impairment of intangible assets	0.4	-	0.4
Impairment of property, plant and equipment	1.2	-	1.2
Tax effect	(0.4)	0.1	(0.3)
Headline loss per share	<u>(35.2)</u>	<u>(9.5)</u>	<u>(44.7)</u>

NOTES continued

FOR THE YEAR ENDED 31 DECEMBER 2009

3. Change in accounting estimate

Re-assessment of useful lives of trademarks

The useful life of the Gabriel trademark was re-assessed during 2009 as being indefinite as there is no foreseeable limit to the period over which this trademark is expected to generate net cash inflows for the Group. The market share of this trademark and the duration of its existence support this assessment. The Gabriel trademark is owned by the CI Automotive Gabriel division.

The change in the estimated useful life of this trademark had the following impact on this year's financial results:

	GROUP 2009 R 000
Increase in profit before tax	1 520
Increase in deferred income tax expense	(426)
Net increase in profit for the year	<u>1 094</u>

4. Segmental information

Management has determined the operating segments based on the reports reviewed by the Board of Directors and used by it to make strategic decisions. The Group is organised on a worldwide basis in the following operating segments:

OEM Development and manufacture of electronic products for the international OEM automotive, transportation, industrial and defence markets.

Aftermarket The supply of premium branded products to the automotive aftermarket in sub-Saharan Africa.

Head office Service supplier to the Group including treasury and investment management.

The Board of Directors assesses the performance of the operating segments based on a measure of normalised earnings before interest, tax, depreciation and amortisation (normalised EBITDA). This measurement basis excludes the effects of non-recurring expenditure from operating segments, such as restructuring costs; write-down of inventories (exited and discontinued product lines); and impairments, which are a result of isolated, non-recurring events. The measure also excludes the effects of equity-settled share-based payments; profits and losses on disposal and scrapping of property, plant, equipment and intangible assets; and the results of discontinued operations.

Segmental information for the year ended 31 December 2009

	OEM	Aftermarket	Head office	Unallocated / eliminations	Total
	R 000	R 000	R 000	R 000	R 000
External revenue	386 225	454 179	-	-	840 404
Inter-segment revenue	1 582	-	27 406	(28 988)	-
Total segment revenue	<u>387 807</u>	<u>454 179</u>	<u>27 406</u>	<u>(28 988)</u>	<u>840 404</u>
Normalised EBITDA	<u>12 382</u>	<u>21 209</u>	<u>13 884</u>	<u>(14 954)</u>	<u>32 521</u>
Depreciation and amortisation	(15 914)	(14 688)	(284)	-	(30 886)
Finance income	4 518	6 569	1 514	(12 298)	303
Finance costs	(9 582)	(11 452)	(23 268)	30 151	(14 151)
Share of profit from joint ventures	148	-	-	-	148
Taxation	4 462	9 362	1 608	(629)	14 803
Total assets	298 904	350 135	354 968	(465 489)	538 518
Investments in joint ventures	565	-	-	-	565

NOTES continued

FOR THE YEAR ENDED 31 DECEMBER 2009

4. Segmental information continued

Segmental information for the year ended 31 December 2008

	OEM	Aftermarket	Head office	Unallocated / eliminations	Total
	R 000	R 000	R 000	R 000	R 000
External revenue	563 668	450 561	-	-	1 014 229
Inter-segment revenue	9 030	-	34 444	(43 474)	-
Total segment revenue	<u>572 698</u>	<u>450 561</u>	<u>34 444</u>	<u>(43 474)</u>	<u>1 014 229</u>
Normalised EBITDA	<u>27 495</u>	<u>15 436</u>	<u>11 682</u>	<u>(25 466)</u>	<u>29 147</u>
Depreciation and amortisation	(25 315)	(14 920)	(289)	-	(40 524)
Net finance income	4 313	6 030	2 295	(12 053)	585
Net finance costs	(15 375)	(12 854)	(21 314)	33 300	(16 243)
Share of profit from joint ventures	418	-	-	-	418
Taxation	813	4 683	(1 976)	-	3 520
Total assets	320 523	358 612	373 645	(463 290)	589 490
Investments in joint ventures	2 421	-	-	-	2 421

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated parties.

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, trade and other receivables, deferred income tax assets, available-for-sale financial assets, cash and cash equivalents, financial assets at fair value through profit or loss, current income tax assets and derivatives designated as hedges of future commercial transactions.

Reconciliation of normalised EBITDA to loss for the year from continuing operations

	GROUP	
	2009	2008
	R 000	R 000
Normalised EBITDA	32 521	29 147
Depreciation and amortisation	(30 886)	(40 524)
Impairment of intangible assets and property, plant and equipment	(288)	(2 131)
Write-down of inventories	(14 551)	-
Restructuring costs	(2 264)	(6 674)
Loss on disposal and scrapping of property, plant and equipment	(2 523)	(7)
Loss (Dealstream)	-	(11 650)
Impairment of related party debtor	-	(6 614)
Operating loss	<u>(17 991)</u>	<u>(38 453)</u>
Net finance costs	(13 848)	(15 658)
Share of profit from joint ventures	148	418
Loss before taxation from continuing operations	<u>(31 691)</u>	<u>(53 693)</u>
Taxation	14 803	3 520
Loss for the year from continuing operations	<u>(16 888)</u>	<u>(50 173)</u>

NOTES continued

FOR THE YEAR ENDED 31 DECEMBER 2009

5. Trade receivables securitisation

During 2010 the CIDF securitisation funding arrangement will be replaced by a confidential debtors factoring facility. This will result in the HSBC Bank debentures being repaid within twelve months after year-end. These debentures have been reclassified as current liabilities in the 2009 financial statements of the Group.

6. Contingent liability

The South African Revenue Service has claimed R12 million in respect of a rebate store operated by Pi Shurlok (Pty) Limited. The Board does not believe there is any substance to this claim and based on legal advice received the matter will be defended.

7. Discontinued operations

	GROUP 2009 R 000
Total loss from discontinued operations consists of the following:	
Costs incurred relating to discontinued operations	(409)
Reduction to profit on disposal of the fleet and vehicle management businesses	(5 000)
	<u>(5 409)</u>

Fleet and vehicle management businesses sold to MiX Telematics Limited

With effect from 1 October 2007 the Group sold its fleet and vehicle management businesses to MiX Telematics Limited ("MiX") in return for 50% of the shares in MiX, being 320 000 000 shares. The Group unbundled 278 873 508 of these shares to Control Instruments' shareholders on 16 November 2007. Shareholders received two MiX shares for every one share they held in Control Instruments. MiX was valued by an independent expert, giving a value of R2.05 per MiX share.

A settlement agreement relating to the net working capital dispute was signed with MiX during the year under review and a R5 million settlement has been accounted for under discontinued operations.

Sponsor

Investec Bank Limited

23 March 2010