

## Chairman's report

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The past year has been one of tremendous change for Control Instruments.

I reported last year that the Group is in the process of repositioning itself to meet the major changes taking place in its domestic and international markets. The focus over the past two years has been to increase the critical mass in all components of the Group's business and to increase its global footprint. Two acquisitions were undertaken in 2005 and a further four acquisitions were concluded in 2006, at a total cost of R420 million. While these acquisitions have dramatically changed the nature and size of the Group, the Group's operations remain focused on supplying niche sectors of the worldwide automotive and transportation industries.

Subsequent to the year-end, it was announced that Control Instruments has bought back the distribution rights for its FM range of products from Siemens VDO and acquired Siemens VDO's UK based fleet management and commercial vehicle outfitting businesses (Datatrak UK and One-Stop-Shop) at a cost of approximately £5 million. At the time of going to print, the agreement was still subject to the fulfilment of certain conditions precedent. The FM range of products has been sold by Siemens VDO for the past ten years and following this transaction Control Instruments will control its own distribution channels for these products.

The Group now has sales offices in South Africa, the United Kingdom, the USA and Germany; manufacturing facilities in South Africa; and comprehensive design facilities in South Africa, the United Kingdom and the USA. The number of employees has grown from 570 at the end of 2004 to 1 950 at the end of 2006.

During 2006 a considerable amount of management time was spent on addressing the challenges that arise when combining and integrating diverse businesses, people and cultures. A great deal has been achieved. However, on average the new businesses were part of the Group for only six months in 2006 and it will take time for the enlarged Group's levels of working capital, expenses and other efficiencies to be brought in line with the Group's norms. The full financial and operational benefits of the acquisitions are therefore only expected to be felt in and beyond 2007.

The Group is in advanced stages of negotiations to merge its worldwide fleet management interests with an independent third party with a view to a separate listing of the merged

entity and the Group's interest in the new business being unbundled to its shareholders.

I would like to welcome all new members of the Group and would like to thank all of the executives and staff for their efforts and commitment to the Group, and in particular for their passion and the sacrifices they have made over the past year:

Immediately after the annual general meeting, Herc Hefer will be retiring as a director. Herc has been a director of the Group since its listing on the JSE Limited in 1987 and was chairman for 16 years. My and the board's special thanks go to him for his unwavering dedication and commitment over the past 20 years.

In July 2006 Richard Bruyns joined the board as a non-executive director. Richard is extremely well qualified for this position and is already making significant contributions to the Group.



JPS O'Leary  
Chairman

18 May 2007

## Managing director's review of operations

### RESULTS

The Group's operations are focused on supplying niche sectors of the worldwide automotive and transportation industries.

The Group's strategic course, embarked upon in late 2004 focused on globalising, increasing the critical mass of its businesses and investing in the development of products in which the Group owns the Intellectual Property. The purpose of this strategy was to strengthen the Group and create options for the longer term. To achieve these objectives the Group made a number of acquisitions and increased its investment in the development of products and its facilities.

Wherever possible borrowings were used to fund the growth and, where required, this was augmented by the issue of shares (to the least extent necessary). In many respects this is similar to the business model employed by Private Equity Funds, with the differential being that if successful the benefits will be primarily enjoyed by the Group's shareholders.

I am happy that considerable progress has been made, although in measuring it I believe it is important to have a longer time horizon than is often used in financial markets.

Revenue increased 95% from R395 million to R772 million. This increase does not fully indicate the growth in the Group.

During the year ended 31 December 2006 Sagercy and Tripmaster were part of the Group for ten months, Gabriel for three full months and Pi Technology for one month. The full impact of the acquisitions will therefore only be felt in 2007.

Gross profit increased 61%, from R162 million to R261 million. Operating profit increased 171% from R30 million to R81 million. Profit before tax increased 151% to R64 million and profit for the year was up 174% to R57 million.

The number of shares in issue has grown 30% since the end of 2004 to 109 436 754 at the end of 2006.

Net asset value per share increased 67% from R2.09 to R3.49.

The challenges associated with our high level of growth include integrating different international and corporate cultures and managing across different time zones and in different product markets. This has stretched my management team; nevertheless I believe they have performed admirably under the circumstances. Our major priority has been to keep the momentum of the businesses in terms of sales and order intake moving forward and to ensure as little disruption of supply to our customers as possible. For the main part we have achieved this, albeit at the cost of higher levels of working capital and expenses than originally anticipated. The level of expenses was also negatively affected by acquisition costs and

the timing impact of taking on new businesses. During 2007 the Group will be focusing on reducing these to more appropriate levels.

### BUSINESS OVERVIEW

Arising out of the strategy set in 2004 and the resulting size of the Group, the business is moving into two distinct areas – (i) fleet and vehicle management products and systems, and (ii) automotive components and products.

#### Fleet and Vehicle management Products and Systems

CI OmniBridge designs and develops a range of vehicle and fleet management products (the FM range of products) that are sold around the world. These products are in use in more than 43 countries (on every continent) and the majority have been sold under the Siemens VDO brand name. Significant growth (38%) in unit sales was experienced during 2006, with over 31 500 units being sold (22 800 in 2005). The major growth took place in the United Kingdom, Europe and the Americas.

The acquisition of 51% of Tripmaster Incorporated in the USA became effective from the beginning of March 2006. This provided us with our own North American distribution network, an area that Siemens VDO had not focused on for our products.

Tripmaster products have traditionally been supplied into the upper-end of the onboard computer ("OBC") market in North America. Our strategy for the North American market is two-fold, first to sell our OBCs under the Tripmaster brand into the mid and lower OBC markets and secondly to engineer additional functionality into our existing products so as to be able to sell them into the market space currently addressed by the Tripmaster product range.

Although Tripmaster achieved its financial objectives in 2006, the introduction of CI OmniBridge's fleet management products into the upper-end of the market was delayed due to capacity constraints in our development teams. These products will therefore only be released during 2007. The sale of CI OmniBridge's current product range into the USA market commenced and the first significant order (1 200 units) has been obtained.

A number of changes were made to Tripmaster's senior management team in the fourth quarter of 2006, which had a disruptive effect on the business. The new management team has settled down and should provide more momentum.

The CI OmniBridge bureau service, introduced in the first half of 2004, continues to grow. Its annuity based income more than doubled during the year and now makes a meaningful contribution to profitability.

## Managing director's review of operations

Subsequent to the year-end, we announced that the Group will reacquire the worldwide distribution rights for its FM product range. The worldwide sale and distribution of these products has been managed by Siemens VDO out of Germany. This transaction plus the Group's acquisition of Tripmaster means that we now own and control a global distribution network for our fleet management products in the key fleet management markets of the USA, the United Kingdom and continental Europe. We will continue to use Siemens VDO's regional and sub-regional distribution networks, but will be free to expand our distribution through other channels.

As part of the transaction the Group also acquired Datatrak UK, a vehicle tracking, fleet management and vehicle telematics business with its own proprietary communication network that covers the whole of the United Kingdom and One-Stop-Shop, a specialised vehicle fitment business that, *inter alia*, installs fleet management products. These businesses are profitable and generating cash and give Control Instruments a solid base from which to expand.

The United Kingdom and continental European markets will be managed through Datatrak UK, with technical and sales support provided out of Germany. North America is already being managed through Tripmaster in Dallas and sales and distribution to Australasia, Africa, the Middle East and South America will be managed from South Africa.

In terms of the agreement, Control Instruments has the right to use the VDO brand name on its FM products for a two year period.

We have also announced that the Group is in advanced stages of negotiations for the merger of all its fleet management interests with an independent third party with a view to the separate listing of the merged entity and the unbundling of the Group's interest in this business to its shareholders.

### Automotive Components and Products

As part of the agreement with Siemens VDO, outlined above, Control Instruments will retain the distribution rights in sub-Saharan Africa for Siemens VDO's automotive aftermarket products.

A number of acquisitions were made during 2005 and 2006. These were Autocom, TruckLite and Dana South Africa in 2005 and in 2006, the businesses of Sagercy and Gabriel South Africa in March and September respectively. The business of Pi Technology, a leading electronic and design consultancy which has operations in the United Kingdom, USA and Europe, was acquired in December 2006.

The Group now has a comprehensive basket of high-quality, branded automotive components and products that it sells into

the sub-Saharan African aftermarket. It also has significant capabilities to service its OEM customers worldwide.

The acquisition of Pi Technology has provided us with a "front end" into the mainstream of the European and US OEM automotive industries. Our strategy, to be implemented over a period of time, is to convert Pi Technology from a business that is totally dependent on consultancy services, into the worldwide sales and development arm for the Group. Pi Technology is ideally placed to fulfil this role. The Group has already won its first orders using this business model and will start to supply an advanced electronic engine control unit to a major OEM in the latter part of 2007. This strategy, if successful, should result in sustainable export opportunities for products designed and manufactured by the Group.

In the event that the plan to merge and unbundle the fleet management business is successful, this automotive components and products segment of the business will be the core of Control Instruments Group Limited going forward. In order to remain competitive it will continue to focus on specialised niche markets in the OEM and aftermarket automotive industry.

### GENERAL PROSPECTS

The Group operates in niche sectors of global markets and is therefore subject to local and international disruptions that are not under its control. Nevertheless, the prospects remain good. During 2007 management will focus primarily on expenses, efficiencies and attaining the benefits from the acquisitions.

Despite the increase in the Group's share price that has taken place over the last two and a half years, the directors are still of the opinion that there is underlying value in the Group's operations. As the prime objective of the Group's directors and management is to create value for shareholders in an environment in which employees can achieve their potential, we will continue to investigate ways to do this.

One of the options that is being considered in this regard is the merging and unbundling of the Group's fleet management interests. Negotiations are currently in advanced stages to merge our fleet management interests with an independent third party with a view to a separate listing of the merged entity and the Group's interest in the new business being unbundled to its shareholders.



R FRIEDMAN  
CEO and Group Managing Director

18 May 2007