

# Notes to the annual financial statements

For the year ended 31 December 2006

## I. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### I.1 BASIS OF PREPARATION

The consolidated and entity financial statements have been prepared in terms of International Financial Reporting Standards ("IFRS").

The accounting policies are consistent with those applied in the annual financial statements for the year ended 31 December 2005 except for the adoption of IAS 39 (Amendment), The Fair Value Option, which became effective from 1 January 2006. As a result the preference shares of Multenet Technologies (Pty) Limited were reclassified as an "available-for-sale" financial asset. Changes in fair value are recognised directly in equity and impairments are recognised in the income statement. As a result an impairment of R1.6 million was recognised in the income statement in 2005.

The financial statements have been prepared on the historical cost basis as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, as well as available-for-sale financial assets.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note I.21.

### STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET EFFECTIVE

The Group has considered all new standards, interpretations and amendments to existing standards that are not yet effective.

The following new standards, interpretations and amendments have been published that are relevant for the Group's accounting periods beginning on or after 1 January 2007 or later periods, but which the Group has not adopted early:

- *IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007)*  
IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.
- *IFRIC 9, Reassessment of Embedded Derivatives (effective from 1 June 2006)*  
An entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required.
- *IFRIC 10, Interim Financial Reporting and Impairment (effective from 1 November 2006)*  
An entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.
- *IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective from 1 March 2007)*  
Under IFRS 2 an entity receiving employee services under a share-based payment arrangement would record an expense. The standard is less clear on classification of the share-based payment when holding company instruments are granted to a subsidiary's employees. IFRIC 11 clarifies that in the separate accounts of the subsidiary, the classification depends on who assumes the obligation to deliver those instruments to the employees.
- *IFRS 8, Operating Segments (effective from 1 January 2009)*  
IFRS 8 supersedes IAS 14 *Segment Reporting*. Under IAS 14 segments were identified and reported on a risk and return analysis. Under IFRS 8, segments are components of an entity that are regularly reviewed by an entity's chief operating decision-makers. Items will be reported based on the internal reporting rather than using the accounting policies used for external reporting as currently required.

IFRIC 11 will result in the Company's share-based payment reserve being identical to that of the Group, with an equivalent adjustment to its investment in subsidiaries.

The Group is currently assessing the impact of the other changes.

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## 1.2 CONSOLIDATION

### 1.2.1 Subsidiaries

The Group financial statements incorporate those of the Company and its subsidiaries. Subsidiaries are those entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, equity instruments or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Investment in subsidiaries are disclosed at cost less provision for impairment. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

### 1.2.2 Associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

### 1.2.3 Joint ventures

The equity method is used to account for investments in jointly-controlled entities. These are long-term investments where the Company has a contractual agreement that enables it to exercise joint control over the financial and operating policies of the companies concerned. Under the equity method of accounting the carrying amount of the Group's investment is adjusted to take account of the attributable share of changes in the net equity of the jointly-controlled entity since acquisition.

## 1.3 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at historical cost less depreciation and impairment. Costs include expenditure that is directly attributable to the acquisition of the items. They are depreciated on the straight-line basis estimated to write each asset down to estimated residual value over the term of its useful life at the following rates:

Buildings	2% per annum
Plant and machinery	5% – 25% per annum
Furniture and fittings	10% – 20% per annum
Vehicles	25% per annum
Office equipment	16% – 33% per annum

Land is shown at cost and is not depreciated. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

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The residual values and useful lives are reviewed and adjusted if appropriate at each balance sheet date. The residual value is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

## 1.4 LEASED ASSETS

Leases of property, plant, and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges using the effective interest rate method to determine the lease finance cost, which is charged against operating income, and the capital repayment, which in turn reduces the liability to the lessor.

The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term. Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

## 1.5 INTANGIBLE ASSETS

### 1.5.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Goodwill is allocated to cash-generating units ("CGUs") for the purposes of impairment testing. The allocation is made to these CGUs or groups of CGUs that are expected to benefit from the business combinations in which the goodwill arose.

### 1.5.2 Engineering and development

In Group companies that have an established record of recovering capitalised development costs by way of subsequent sales, direct costs of product development and an appropriate proportion of overhead costs are capitalised and recognised as an intangible asset when it is probable that the project will be a success, commercially and technically, and only if the cost can be measured reliably. Other development expenditures are recognised as expenses when incurred.

Development costs previously expensed are not recognised as an asset in a subsequent period. Capitalised engineering and development costs are amortised on a straight-line basis over the period of its expected benefit (five to eight years).

Useful lives are reviewed and adjusted if appropriate at each balance sheet date.

### 1.5.3 Other intangible assets

Intangible assets other than goodwill that are acquired by the Group are recognised at cost. They have a finite useful life and are carried at cost less accumulated amortisation. Customer relationships, trademarks and patents and distribution rights acquired in business combinations are reflected at the open market value at the date of acquisition less accumulated amortisation. Amortisation is calculated on a straight-line basis over their estimated useful lives (four to twenty years).

### 1.5.4 Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their useful lives (three to six years).

Costs associated with developing or maintaining computer software programmes are recognised as expenses as incurred.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group and that will probably generate economic benefits exceeding the costs beyond one year, are recognised as intangible assets. Direct costs include the costs of software development, employee costs and an appropriate portion of relevant overheads.

Computer software development costs are recognised as assets and amortised over their estimated useful lives (three to six years).

## 1.6 IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying

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amount of the asset exceeds its recoverable amount, that is, the higher of an asset's net selling price and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## 1.7 FOREIGN CURRENCY TRANSLATION

### 1.7.1 Group companies

The results and financial positions of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity.

When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### 1.7.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying investment hedges.

## 1.8 FINANCIAL ASSETS

The Group classifies its financial assets in the following categories: held to maturity; at fair value through profit or loss; available-for-sale; and loans and receivables. The classification is dependent on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at the time of the purchase and re-evaluates such designation at every reporting date.

### 1.8.1 Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value with changes in fair value recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement. If the market for available-for-sale assets is not active, the Group uses discounted cash flow analyses to calculate the fair value.

### 1.8.2 Loans and receivables

Loans and receivables are non-derivative assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after balance sheet date.

Loans and receivables are carried at amortised cost using the effective interest rate method. Interest on loans and receivables are calculated using the effective interest rate method and recognised in the income statement.

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## 1.9 DEFERRED TAX

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Currently enacted or substantially enacted tax rates are used in the determination of deferred tax.

The principal temporary differences arise from property, plant and equipment, intangible assets, prepayments, provisions and tax losses carried forward. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

## 1.10 INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

The cost of finished goods and work in progress includes materials, direct labour and an appropriate portion of overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business less the cost of completion and selling expenses. Cost of inventories includes the transfer from equity of gains/losses on qualifying cash flow hedges relating to inventory purchases.

## 1.11 TRADE RECEIVABLES

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method less provision for impairment. A provision for impairment of trade receivables is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. This provision is recognised in the income statement.

## 1.12 CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held on call with banks and investments in money market instruments, net of bank overdrafts. Bank overdrafts are included in borrowings in current liabilities in the balance sheet.

## 1.13 SHARE CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

Where subsidiaries of the Company hold treasury shares in the Company's share capital, the consideration paid, including any attributable incremental costs is deducted from the equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and income tax effects, is included in equity attributable to the Company's equity holders.

## 1.14 BORROWINGS

Borrowings are classified as financial liabilities and are recognised initially as the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any differences between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

## 1.15 PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made. Provisions are not recognised for future anticipated operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the obligation.

## 1.16 REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services, net of value added tax, rebates and discounts and after eliminating sales within the Group. Revenue from the sale of goods is recognised when a Group entity has delivered products to the customer; the customer has accepted the products and the collectability of the related receivables is reasonably assured.

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Interest income is recognised on a time proportion basis, which takes into account the effective yield on the asset over the period it is expected to be held. Dividends and management fees are recognised when the right to receive payment is established. Revenue relating to service contracts is recognised in the accounting period in which the services are rendered, by reference to the completion of the specific transaction, assessed on the basis of the actual service provided as a proportion of the total services to be provided.

## 1.17 SEGMENTAL REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

## 1.18 DIVIDENDS

Dividends distributed to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's board.

## 1.19 FINANCIAL RISK MANAGEMENT

### 1.19.1 Financial risk factors

The Group's activities expose it to a variety of financial risks including foreign exchange risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments, such as foreign exchange contracts, to hedge certain exposures and the board provides written principles for overall risk management as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and the use of derivative financial instruments. Refer to note 27.

### 1.19.2 Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques.

The Group uses a discounted cash flow method and makes assumptions that are based on market conditions existing at balance sheet date. The fair value of forward foreign exchange contracts is determined using quoted forward foreign exchange rates at the balance sheet date.

### 1.19.3 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or hedges of highly probable forecast transactions (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

#### (i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

#### (ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled in the income statement in the period when the hedged item will affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-derivative asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of cost of the asset or liability.

When a hedging instrument expires or is sold or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no

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longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 27. Movements on the hedging reserve in equity are shown in note 11.

## 1.20 EMPLOYEE BENEFITS

### 1.20.1 Pension obligations

The Group operates a defined contribution pension plan, the assets of which are held in separate trustee administered funds. The pension plan is generally funded by payments from employees and the relevant Group companies, taking account of the recommendations of independent actuaries. The Group's contribution to the defined contribution pension plan is charged to the income statement in the year to which it relates. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods. The plan is governed by the Pension Funds Act 24 of 1956. The majority of employees are covered by the plan.

### 1.20.2 Other post-retirement obligations

Some Group companies provide post-retirement health care benefits to their retirees. The entitlement to these benefits was dependent upon the employee remaining in service until retirement age and completing a minimum service period. The expected costs of these benefits were accrued over the period of employment.

### 1.20.3 Share-based remuneration

The Group operates an equity-settled, share-based remuneration plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates in the income statement, with a corresponding adjustment to equity.

### 1.20.4 Profit sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit sharing where contractually obliged or where there is a past practice that has created a constructive obligation.

## 1.21 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### 1.21.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below.

#### (i) Estimated impairment of goodwill

The Group assesses possible goodwill impairment annually. The details are disclosed in note 3.

#### (ii) Intangible assets

Trademarks and other intangibles that are acquired through acquisition are capitalised on the balance sheet. These trademarks and other intangibles are valued on acquisition using a discounted cash flow methodology and assumptions and estimates regarding future revenue growth, prices, marketing costs and economic factors are made in valuing a trademark. These assumptions reflect management's best estimates but these estimates involve inherent uncertainties, which may not be controlled by management.

The cost of trademarks and other intangibles with a finite life are amortised using a methodology that matches management's estimate of how the benefit of the assets will be extinguished. Each year the remaining useful life of the trademarks and other intangibles is re-evaluated. If the estimate of the remaining useful life changes, the remaining carrying value is amortised prospectively over that revised remaining useful life.

#### (iii) Share-based payment expense calculations

The Group uses the binomial valuation model to determine the fair value of the options granted. The significant inputs into the model are disclosed in note 10.

#### (iv) Purchase price liability

Refer to note 12.

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	<b>GROUP</b>			
	Land and buildings R 000	Plant, machinery and equipment R 000	Vehicles R 000	Total R 000
<b>2. PROPERTY, PLANT AND EQUIPMENT</b>				
<b>Year ended 31 December 2006</b>				
Opening carrying value	66 150	56 344	2 337	124 831
Exchange rate adjustments	–	99	–	99
Additions	1 271	29 794	1 175	32 240
Disposals	–	(8 534)	(237)	(8 771)
Acquisition of subsidiaries	1 315	99 581	502	101 398
Depreciation charge	(1 512)	(18 148)	(389)	(20 049)
Closing carrying value	67 224	159 136	3 388	229 748
<b>At 31 December 2006</b>				
Cost	73 514	227 874	5 789	307 177
Accumulated depreciation	(6 290)	(68 738)	(2 401)	(77 429)
Closing carrying value	67 224	159 136	3 388	229 748
<b>Year ended 31 December 2005</b>				
Opening carrying value	39 660	47 796	841	88 297
Additions	16 193	15 235	273	31 701
Disposals	(99)	(2 457)	(3)	(2 559)
Acquisition of subsidiaries	11 505	6 332	1 499	19 336
Depreciation charge	(1 109)	(10 562)	(273)	(11 944)
Closing carrying value	66 150	56 344	2 337	124 831
<b>At 31 December 2005</b>				
Cost	70 928	116 799	4 665	192 392
Accumulated depreciation	(4 778)	(60 455)	(2 328)	(67 561)
Closing carrying value	66 150	56 344	2 337	124 831
<b>LEASED ASSETS INCLUDED ABOVE COMPRISE:</b>				
<b>At 31 December 2006</b>				
Cost	–	13 845	1 261	15 106
Accumulated depreciation	–	(4 806)	(421)	(5 227)
Closing carrying value	–	9 039	840	9 879
<b>At 31 December 2005</b>				
Cost	–	6 936	451	7 387
Accumulated depreciation	–	(4 742)	(40)	(4 782)
Closing carrying value	–	2 194	411	2 605

Depreciation of R15 828 000 (2005: R7 820 000) is included in cost of sales in the income statement; R nil (2005: R1 813 200) in operating expenses; R261 000 (2005: R nil) in selling and marketing costs and R3 960 000 (2005: R2 310 800) in administrative expenses.

Borrowings are secured by property, plant and equipment (refer to note 12).

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	GROUP		COMPANY	
	31/12/06 R 000	31/12/05 R 000	31/12/06 R 000	31/12/05 R 000
<b>3. INTANGIBLE ASSETS</b>				
<b>Goodwill</b>				
Opening carrying value	4 595	2 338	-	-
Acquisition of subsidiaries	67 307	2 257	-	-
Exchange rate adjustments	(242)	-	-	-
Closing carrying value	71 660	4 595	-	-
<b>At 31 December</b>				
Cost and closing carrying value	71 660	4 595	-	-
<b>Trademarks, patents and distribution rights</b>				
Opening carrying value	27 771	523	-	-
Exchange rate adjustments	4 505	-	-	-
Acquisition of subsidiaries	88 350	26 089	-	-
Additions	150	1 396	-	-
Amortisation charge	(6 218)	(237)	-	-
Closing carrying value	114 558	27 771	-	-
<b>At 31 December</b>				
Cost	122 659	29 654	-	-
Accumulated amortisation	(8 101)	(1 883)	-	-
Closing carrying value	114 558	27 771	-	-
<b>Capitalised product development costs</b>				
Opening carrying value	22 678	18 151	-	-
Exchange rate adjustments	732	-	-	-
Capitalised during the year	17 658	10 577	-	-
Acquisition of subsidiaries	4 970	-	-	-
Amortisation charge	(7 527)	(5 251)	-	-
Impairment	(282)	(799)	-	-
Closing carrying value	38 229	22 678	-	-
<b>At 31 December</b>				
Cost	63 361	40 336	-	-
Accumulated amortisation and impairment	(25 132)	(17 658)	-	-
Closing carrying value	38 229	22 678	-	-

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	GROUP		COMPANY	
	31/12/06 R 000	31/12/05 R 000	31/12/06 R 000	31/12/05 R 000
<b>3. INTANGIBLE ASSETS (continued)</b>				
<b>Customer relationships</b>				
Acquisition of subsidiaries	51 953	–	–	–
Amortisation charge	(6 296)	–	–	–
Closing carrying value	45 657	–	–	–
<b>At 31 December</b>				
Cost	51 593	–	–	–
Accumulated amortisation	(6 296)	–	–	–
Closing carrying value	45 657	–	–	–
<b>Other intangible assets</b>				
Opening carrying value	2 683	1 450	–	–
Exchange rate adjustments	219	–	–	–
Additions	2 365	1 835	–	–
Acquisition of subsidiaries	7 464	16	–	–
Amortisation charge	(1 716)	(618)	–	–
Closing carrying value	11 015	2 683	–	–
<b>At 31 December</b>				
Cost	15 396	5 339	–	–
Accumulated amortisation	(4 381)	(2 656)	–	–
Closing carrying value	11 015	2 683	–	–
<b>Total intangible assets</b>	<b>281 119</b>	<b>57 727</b>	<b>–</b>	<b>–</b>

Amortisation of R18 793 000 (2005: R5 251 000) is included in cost of sales in the income statement; R2 102 000 (2005: R265 000) in other operating expenses; R nil (2005: R182 000) in marketing and selling expenses and R862 000 (2005: R408 000) in administrative expenses.

Capitalised product development costs principally comprise internally generated expenditure on development costs on projects. Development costs are only capitalised in Group companies that have an established record of recovering development costs by way of subsequent sales of such developed products.

Impairment charges arise when a project is cancelled and there will be no future sales relating to the development costs. An impairment loss of R282 000 (2005: R799 000) has been included in cost of sales. The carrying amount of the capitalised product has been reduced to its recoverable amount.

Borrowings are secured by intangible assets. Refer to note 12.

Goodwill of R2 338 000 relates to the Southern Africa Fleet Management ("FM") distribution rights repurchased from Matrix Vehicle Tracking (Pty) Limited in October 2001.

Goodwill of R2 257 000 is attributable to the acquisition of Transport Lighting and Fleet Products (Pty) Limited ("TFL") in the prior year. Refer to note 24.3.

Goodwill of R48 137 000 is attributable to the acquisition of the Sagercy business in March 2006 and has been allocated to the individual cash-generating units ("CGUs") identified, namely Sagercy PE, Ariston and Specialised Plastics Engineering ("SPE"). Refer to note 24.3.

Goodwill of R405 000 is attributable to the acquisition of Tripmaster in March 2006. Refer to note 24.3.

Goodwill of R18 523 000 is attributable to the acquisition of the Pi Technology ("Pi") business in December 2006. Refer to note 24.3.

## Notes to the annual financial statements

For the year ended 31 December 2006

### 3. INTANGIBLE ASSETS (continued)

#### Impairment tests for goodwill

Goodwill has therefore been allocated to TFL, the Group's Fleet Management Services division ("FMS"), Sagercy PE, Ariston, SPE, Tripmaster and Pi and they have been identified as the CGUs for purposes of impairment testing.

A summary of the goodwill allocation is presented below.

	<b>GROUP</b>	
	<b>31/12/06</b>	31/12/05
	<b>R 000</b>	R 000
FMS	<b>2 338</b>	2 338
TFL	<b>2 257</b>	2 257
Sagercy PE	<b>15 833</b>	–
Ariston	<b>25 175</b>	–
SPE	<b>7 129</b>	–
Tripmaster	<b>405</b>	–
Pi	<b>18 523</b>	–
<b>Total</b>	<b>71 660</b>	4 595

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial strategic projections approved by management and the board of directors covering a four year period. Cash flows beyond the four-year period are extrapolated using the estimated growth rates stated below.

Key assumptions used for value-in-use calculations:

	Growth rate <sup>(i)</sup>	Discount rate <sup>(ii)</sup>
FMS	6.0%	15.7%
TFL	7.0%	20.7%
Sagercy PE	5.0%	18.1%
Ariston	5.0%	18.8%
SPE	5.0%	18.1%
Tripmaster	5.0%	10.7%
Pi	5.0%	9.3%

<sup>(i)</sup> Weighted average growth rate used to extrapolate cash flows beyond the strategic projection period

<sup>(ii)</sup> Pre-tax discount rate applied to the cash flow projections

These assumptions have been used for analysis of each CGU. Management has determined gross margins for strategic projections based on past performance and its expectations for market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

# Notes to the annual financial statements

For the year ended 31 December 2006

	<b>COMPANY</b>	
	<b>31/12/06</b>	31/12/05
	<b>R 000</b>	R 000
<b>4. INTEREST IN SUBSIDIARIES</b>		
<b>Non-current</b>		
Investments in subsidiaries		
Unlisted shares at cost	<b>201 344</b>	125 229
Directors' valuation	<b>201 344</b>	125 229
<b>Current</b>		
Loans to/(from) subsidiaries		
Loans to subsidiaries		
Control Instruments Gabriel (Pty) Limited	–	18 288
Control Instruments Development (Pty) Limited	<b>2 876</b>	5 330
Control Instruments Automotive (Pty) Limited	<b>16</b>	–
Pi Shurlok Limited	<b>44 832</b>	–
Loans to indirectly held subsidiaries		
Control Instruments Shurlok Engineering (Pty) Limited	–	8 557
Control Instruments Gabriel (Pty) Limited	<b>531</b>	–
Loan to The Control Instruments Share Incentive Scheme	<b>9 995</b>	11 133
	<b>58 250</b>	43 308
Provision for diminution in value of loans	–	(7 091)
Net interest in loans	<b>58 250</b>	36 217
Loans from subsidiaries		
Control Instruments (Pty) Limited	<b>(7 511)</b>	(7 781)
Control Instruments Shurlok (Pty) Limited	<b>(3 403)</b>	(3 440)
Loan from indirectly held subsidiaries		
Control Instruments Shurlok Engineering (Pty) Limited	<b>(468)</b>	–
	<b>(11 382)</b>	(11 221)

The loans to/(from) the Company are unsecured, interest free and are repayable on demand. The loan to The Control Instruments Share Incentive Scheme is secured by a pledge of 9 002 546 (2005: 9 413 746) Control Instruments Group Limited shares with a market value of R54 010 276 (2005: R51 775 603).

## Notes to the annual financial statements

For the year ended 31 December 2006

	GROUP		COMPANY	
	31/12/06 R 000	31/12/05 R 000	31/12/06 R 000	31/12/05 R 000
<b>5. INVESTMENTS IN JOINT VENTURES</b>				
The Group has a 50% interest in Aquapay (Pty) Limited and a 49% interest in Lear Shurlok Electronics (Pty) Limited, but with joint control of the companies.				
<b>5.1 Lear Shurlok Electronics (Pty) Limited</b>				
Share of accumulated profit before dividends since acquisition				
	4 704	2 765	-	-
Accumulated dividends received since acquisition				
	(2 526)	-	-	-
<b>Net carrying value</b>				
	<b>2 178</b>	2 765	-	-
The following amounts represent the Group's share of the assets, liabilities and profits of Lear Shurlok Electronics:				
Current assets				
	5 956	6 587	-	-
Current liabilities				
	(3 778)	(3 822)	-	-
<b>Interest in equity</b>				
	<b>2 178</b>	2 765	-	-
Comprising:				
Share capital*				
	-	-	-	-
Share of accumulated profit				
	2 178	2 765	-	-
Profit before tax				
	3 144	3 938	-	-
Tax				
	(1 205)	(1 173)	-	-
<b>Profit after tax</b>				
	<b>1 939</b>	2 765	-	-
<b>Operating cash flows</b>				
	<b>(1 656)</b>	5 398	-	-
*Issued: 100 ordinary shares of R1 each				
<b>5.2 Aquapay (Pty) Limited</b>				
Unlisted shares at cost				
	1 582	1 582	1 582	1 582
Net asset value				
	-	-	-	-
Goodwill				
	1 582	1 582	1 582	1 582
Accumulated impairment				
	(1 582)	(1 582)	(1 582)	(1 582)
<b>Net carrying value</b>				
	-	-	-	-
At 31 December				
Cost				
	1 582	1 582	1 582	1 582
Accumulated impairment				
	(1 582)	(1 582)	(1 582)	(1 582)
	-	-	-	-
<b>Total investment in joint ventures</b>				
	<b>2 178</b>	2 765	-	-

There were no contingencies or capital commitments relating to the Group's interest in joint ventures.

# Notes to the annual financial statements

For the year ended 31 December 2006

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>31/12/06</b> <b>R 000</b>	31/12/05 R 000	<b>31/12/06</b> <b>R 000</b>	31/12/05 R 000
<b>6. FINANCIAL ASSETS</b>				
<b>Available-for-sale financial assets – unlisted</b>				
<b>Multenet Technologies (Pty) Limited</b>				
Beginning of the year	<b>3 208</b>	4 812	<b>3 208</b>	4 812
Impairment of investment	<b>(3 208)</b>	(1 604)	<b>(3 208)</b>	(1 604)
End of the year	–	3 208	–	3 208
Less: non-current portion	–	(3 208)	–	(3 208)
Current portion	–	–	–	–
Directors' valuation	–	3 208	–	3 208
The preference shares are fully paid par value convertible redeemable shares that are not convertible or redeemable before May 2007.				
In 2005 the fair value of the preference shares was based on cash flows discounted using a rate based on the market interest rate and a 22.8% risk premium specific to the investment.				
<b>7. DEFERRED TAX</b>				
The following deferred tax balances are reflected on the balance sheet:				
Deferred tax assets	<b>4 994</b>	4 648	<b>66</b>	22
Deferred tax liabilities	<b>(81 169)</b>	(14 356)	–	–
	<b>(76 175)</b>	(9 708)	<b>66</b>	22
Deferred tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable.				
Movements:				
Balance at the beginning of the year	<b>(9 708)</b>	(1 989)	<b>22</b>	38
Temporary differences	<b>2 392</b>	(1 767)	<b>44</b>	(15)
Changes in the rate of taxation	–	67	–	(1)
Exchange rate adjustments	<b>(1 706)</b>	–	–	–
Acquisition of subsidiaries	<b>(67 114)</b>	(6 070)	–	–
Tax (charged)/credited to equity	<b>(39)</b>	51	–	–
Balance at the end of the year	<b>(76 175)</b>	(9 708)	<b>66</b>	22
The balance comprises:				
Capital allowances	<b>(42 147)</b>	(16 307)	–	–
Provisions	<b>4 689</b>	5 058	<b>67</b>	22
Prepayments	<b>(505)</b>	(114)	<b>(1)</b>	–
Assessable losses	<b>13 442</b>	8 937	–	–
Intangible assets	<b>(51 542)</b>	(7 513)	–	–
Hedging reserve	<b>135</b>	174	–	–
Other temporary differences	<b>(247)</b>	57	–	–
	<b>(76 175)</b>	(9 708)	<b>66</b>	22
The deferred tax included in equity at the end of the year is as follows:				
Fair value reserves in equity – hedging reserve	<b>135</b>	174	–	–

## Notes to the annual financial statements

For the year ended 31 December 2006

	GROUP		COMPANY	
	31/12/06 R 000	31/12/05 R 000	31/12/06 R 000	31/12/05 R 000
<b>8. INVENTORIES</b>				
Raw materials	<b>49 823</b>	19 836	–	–
Work in progress	<b>16 823</b>	7 314	–	–
Finished goods	<b>118 862</b>	65 186	–	–
Merchandise purchased for resale	<b>233</b>	105	–	–
	<b>185 741</b>	92 441	–	–
Provision for inventory write-down	<b>(9 085)</b>	(7 595)	–	–
	<b>176 656</b>	84 846	–	–
Borrowings are secured by inventory. Refer to note 12.				
<b>9. TRADE AND OTHER RECEIVABLES</b>				
External trade receivables	<b>171 201</b>	77 423	–	–
Internal trade receivables			<b>9 239</b>	11 594
	<b>171 201</b>	77 423	<b>9 239</b>	11 594
Provision for impairment of receivables	<b>(3 815)</b>	(11 021)	–	–
	<b>167 386</b>	66 402	<b>9 239</b>	11 594
Prepayments	<b>7 505</b>	1 305	<b>4</b>	–
Other receivables	<b>23 574</b>	10 492	<b>825</b>	75
Value Added Tax	<b>5 430</b>	3 598	–	–
Receivables from Lear Shurlok Electronics (Pty) Limited	<b>7 144</b>	7 376	–	–
Short-term loan to Multenet Technologies (Pty) Limited	<b>1 849</b>	1 529	<b>1 849</b>	–
	<b>212 888</b>	90 702	<b>11 917</b>	11 669

The loan to Multenet Technologies (Pty) Limited is unsecured, interest-free and repayable on demand. An impairment provision of R370 000 (2005: Rnil) has been recognised against this loan. Refer to note 12 for details of cession of receivables.

# Notes to the annual financial statements

For the year ended 31 December 2006

	GROUP		COMPANY	
	31/12/06 R 000	31/12/05 R 000	31/12/06 R 000	31/12/05 R 000
<b>10. SHARE CAPITAL, SHARE PREMIUM, TREASURY SHARES AND SHARE OPTIONS</b>				
<b>Share capital</b>				
<b>Authorised</b>				
The total authorised number of ordinary shares is 200 million shares (2005: 200 million) with a par value of 5 cents per share (2005: 5 cents per share).				
<b>Issued</b>				
96 518 426 (2005: 84 268 426) at the beginning of the year	4 826	4 213	4 826	4 213
21 067 000 (2005: 12 250 000) issued during the year	1 053	613	1 053	613
8 148 672 (2005: nil) repurchased and cancelled during the year	(407)	–	(407)	–
109 436 754 (2005: 96 518 426) at the end of the year	5 472	4 826	5 472	4 826
All the issued shares are ordinary shares with a par value of 5 cents per share and are fully paid. All the unissued shares are under the control of the Company's directors until the next annual general meeting.				
<b>Share premium</b>				
Balance at the beginning of the year	97 886	43 591	97 886	43 591
Share premium on shares issued during the year	123 369	54 513	123 369	54 513
Share issue/cancellation costs	(189)	(218)	(189)	(218)
Balance at the end of the year	221 066	97 886	221 066	97 886
<b>Treasury shares</b>				
Nil (2005: 8 148 672) shares held by Control Instruments Gabriel (Pty) Limited	–	(9 927)	–	–
9 002 546 (2005: 9 413 746) shares held by The Control Instruments Share Incentive Scheme	(10 282)	(10 765)	–	–
	(10 282)	(20 692)	–	–
Total issued share capital, share premium and treasury shares	216 256	82 020	226 538	102 712

## Buy-back of shares

During the year 8 148 672 shares (2005: nil) were repurchased from a subsidiary of the Group and cancelled. The net effect of shares sold by The Control Instruments Share Incentive Scheme was 411 200 shares (2005: 1 706 250 shares sold).

	GROUP	
	31/12/06 Number of options 000	31/12/05 Number of options 000
<b>Share options</b>		
<i>The Control Instruments Share Incentive Scheme</i>		
The movements in the number of shares in the Share Incentive Scheme for the year were as follows:		
Available for allocation at the beginning of the year	9 425	11 131
Paid for and taken up by participants	(411)	(1 706)
Total available for allocation	9 014	9 425
Employee entitlement	(10 865)	(10 476)
Paid for but not yet transferred at the end of the year	(10)	–
Shortfall at the end of the year	(1 861)	(1 051)

## Notes to the annual financial statements

For the year ended 31 December 2006

### 10. SHARE CAPITAL, SHARE PREMIUM, TREASURY SHARES AND SHARE OPTIONS (continued)

#### Share options (continued)

Share options are granted to directors and to employees. All options vest in tranches of 12.5% every six months. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding are as follows:

	GROUP		GROUP	
	31/12/06	31/12/06	31/12/05	31/12/05
	Average	Number	Average	Number
	exercise price	of options	exercise price	of options
	Rand		Rand	
Share options at the beginning of the year	1.17	10 475 965	0.78	7 938 125
Shares granted	4.65	911 600	2.62	4 281 640
Shares paid for and taken up by participants	2.53	(411 200)	0.78	(1 706 250)
Shares lapsed	3.20	(111 650)	0.86	(37 550)
Share options at the end of the year	1.75	10 864 715	1.17	10 475 965

6 904 165 share options are exercisable at year-end (2005: 5 792 705).

Share options outstanding at the end of the year have the following terms:

	Exercise price	31/12/06	31/12/05
	cents	Number	Number
		of options	of options
	65	3 937 500	3 937 500
	75	78 125	78 125
	86	1 391 200	1 503 700
	100	75 000	75 000
	160	600 000	600 000
	200	2 000 000	2 000 000
	300	300 000	400 000
	320	1 571 290	1 881 640
	460	500 000	–
	470	411 600	–
		10 864 715	10 475 965

Share options outstanding at the end of the year expire in the following years:

	Expiry dates	31/12/06	31/12/05
		Number	Number
		of options	of options
	2006	–	4 090 625
	2007	5 275 000	1 246 875
	2008	206 825	256 825
	2009	4 171 290	4 481 640
	2010	711 600	400 000
	2011	500 000	–
		10 864 715	10 475 965

The fair value of options granted during the year, using the binomial valuation model, was R1 450 255 (2005: R10 783 121). The option expense for the year was R4 904 453 (2005: R3 750 859). The significant inputs into the model were share prices between R4.26 and R6.00 on various grant dates (2005: between R3.30 and R5.00); exercise prices shown above; standard deviations of expected share price returns of between 23.46% and 30.60% (2005: between 50.06% and 67.95%); dividend yields of between 1.55% and 1.66% (2005: 2.69%); and option life mentioned above.

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the past seven years. During the year 911 600 (2005: 4 281 640) share options were granted to employees.

# Notes to the annual financial statements

For the year ended 31 December 2006

	GROUP		COMPANY	
	31/12/06 R 000	31/12/05 R 000	31/12/06 R 000	31/12/05 R 000
<b>11. FAIR VALUE AND OTHER RESERVES</b>				
<b>Reserves comprise:</b>				
Hedging reserve	(330)	(425)	–	–
Foreign currency translation reserve	5 370	–	–	–
Share-based payment reserve (IFRS 2)	12 893	7 989	5 088	3 318
	<b>17 933</b>	<b>7 564</b>	<b>5 088</b>	<b>3 318</b>
<b>Movements:</b>				
<b>Foreign currency translation reserve</b>				
Currency translation differences	5 370	–	–	–
Balance at the end of the year	<b>5 370</b>	–	–	–
<b>Hedging reserve</b>				
Balance at the beginning of the year	(425)	(285)	–	–
Fair value adjustment	134	(314)	–	–
Deferred tax on fair value adjustments	(39)	174	–	–
Balance at the end of the year	<b>(330)</b>	<b>(425)</b>	–	–
<b>Share-based payment reserve (IFRS 2)</b>				
Balance at the beginning of the year	7 989	4 238	3 318	1 810
Share option expense for the year	4 904	3 751	1 770	1 508
Balance at the end of the year	<b>12 893</b>	<b>7 989</b>	<b>5 088</b>	<b>3 318</b>
<b>12. BORROWINGS</b>				
<b>Current</b>				
Bank overdraft	46 372	1 484	–	–
Current portion of mortgage loans, finance leases and long-term loans	39 075	21 609	–	–
Purchase price liability	8 359	–	8 359	–
Current loans	36	1 002	–	–
<b>Total current borrowings</b>	<b>93 842</b>	<b>24 095</b>	<b>8 359</b>	<b>–</b>
<b>Non-current</b>				
<b>Secured</b>				
Mortgage loans	16 087	17 663	–	–
Finance leases	10 699	3 712	–	–
Long-term loans	221 891	95 633	–	–
	<b>248 677</b>	<b>117 008</b>	–	–
<b>Unsecured</b>				
Purchase price liability	20 521	–	20 521	–
Long-term loans	–	666	–	–
	<b>20 521</b>	<b>666</b>	<b>20 521</b>	<b>–</b>
Less: Short-term portion included in current borrowings	(47 434)	(21 609)	(8 359)	–
<b>Total non-current borrowings</b>	<b>221 764</b>	<b>96 065</b>	<b>12 162</b>	<b>–</b>
<b>Total borrowings</b>	<b>315 606</b>	<b>120 160</b>	<b>20 521</b>	<b>–</b>

Mortgage loans are secured by land and buildings with a book value of R20 183 000 (2005: R20 466 000).

Included in long-term loans:

- (i) R75 000 000 borrowed by the Group to finance its acquisition of Dana in October 2005 (refer to note 24). The loan is repayable in semi-annual instalments over a five-year period ending October 2010. The loan is secured by land and buildings with a book value of R38 389 000; a General Notarial Bond for R60 000 000 over plant and equipment, inventory and other movable assets; and an unrestricted pledge of shares in CI Automotive (Pty) Limited, formerly Dana South Africa (Pty) Limited.

## Notes to the annual financial statements

### For the year ended 31 December 2006

#### 12. BORROWINGS (continued)

Included in long-term loans: (continued)

- (ii) R50 000 000 borrowed by the Group in March 2006 for working capital requirements. The loan is repayable in quarterly instalments over a five-year period ending April 2011. The loan is secured by a General Notarial Bond for R20 000 000 over plant and equipment; inventory; and other movable assets.
- (iii) R35 000 000 borrowed by the Group to finance its acquisition of the Gabriel business (refer to note 24). The loan is repayable in quarterly instalments over a five-year period ending September 2011. The loan is secured by trademarks with a book value of R37 493 000; a General Notarial Bond for R60 000 000 over plant and equipment; inventory; and other movable assets.
- (iv) R69 986 000 borrowed by the Group to finance its acquisition of the Pi Technology business (refer to note 24). Interest on the loan is repayable quarterly over a six-year period ending April 2011 with a final settlement payment at the end of November 2012. The loan is secured by an unrestricted charge over the shares in Pi Shurlok Limited.

There are financial covenants in terms of the above loans, in respect of income and assets based on earnings, debt and tangible assets that are normal for transactions of this type.

Other long-term loans and finance lease liabilities are secured by plant, vehicles and equipment with a book value of R18 788 000 (2005: R19 950 000).

The bank overdraft is secured by unlimited cross suretyship and unrestricted cession of book debts.

The unsecured loan relates to the deferred purchase liability for the acquisition of Tripmaster Corporation (refer to note 24). The liability is based on the forecast earnings before interest, tax, depreciation and amortisation ("EBITDA") over the next three years compared to a pre-determined target EBITDA per the acquisition agreements.

	GROUP		COMPANY	
	31/12/06 R 000	31/12/05 R 000	31/12/06 R 000	31/12/05 R 000
<b>Maturity of unsecured purchase price liability:</b>				
Within 1 year	8 359	–	8 359	–
Between 1 and 2 years	4 141	–	4 141	–
Between 2 and 5 years	8 021	–	8 021	–
	<b>20 521</b>	–	<b>20 521</b>	–

#### The exposure of the Group's borrowings to interest rate changes and contractual repricing dates at the balance sheet date are as follows:

At fixed interest rates:				
1 – 6 months	–	47	–	–
7 – 12 months	–	45	–	–
1 – 5 years	–	105	–	–
At floating interest rates	295 085	119 297	–	–
Interest free	20 521	666	20 521	–
	<b>315 606</b>	120 160	<b>20 521</b>	–

#### The weighted average effective interest rates at the balance sheet date were as follows:

Bank overdraft	12.5%	10.5%	12.5%	10.5%
Current loans	12.5%	5.6%	–	–
Mortgage loans	10.9%	9.1%	–	–
Finance lease liabilities	10.2%	8.5%	–	–
Long-term loans	11.3%	9.4%	–	–

#### Maturity of non-current borrowings (excluding finance lease liabilities):

Between 1 and 2 years	49 564	21 269	4 141	–
Between 2 and 5 years	89 804	70 399	8 021	–
5 years and later	75 377	2 562	–	–
	<b>214 745</b>	94 230	<b>12 162</b>	–

## Notes to the annual financial statements

For the year ended 31 December 2006

### 12. BORROWINGS (continued)

#### Finance lease liabilities – minimum lease payments:

<b>2006</b>	<b>Up to 1 year</b>	<b>1–5 years</b>	<b>Total</b>
Total lease payments due	4 530	8 326	12 856
Finance costs included in total lease payments	(850)	(1 307)	(2 157)
Present value of finance lease liabilities	3 680	7 019	10 699
<b>2005</b>	<b>Up to 1 year</b>	<b>1–5 years</b>	<b>Total</b>
Total lease payments due	2 118	2 017	4 135
Finance costs included in total lease payments	(241)	(182)	(423)
Present value of finance lease liabilities	1 877	1 835	3 712

#### Borrowing powers

The borrowing powers of the Company in terms of its Articles of Association are unlimited.

<b>GROUP</b>		<b>COMPANY</b>	
<b>31/12/06</b>	31/12/05	<b>31/12/06</b>	31/12/05
<b>R 000</b>	R 000	<b>R 000</b>	R 000

### 13. RETIREMENT BENEFIT OBLIGATIONS

Post-retirement medical benefits	<b>600</b>	600	–	–
----------------------------------	------------	-----	---	---

Certain Group companies have unfunded obligations to provide certain post-retirement medical aid benefits to a number of their retirees. It is no longer the Group's policy to provide these benefits to retirees other than the pension scheme. The entitlement to these benefits was dependent upon the employee remaining in service until retirement age and completing a minimum service period and is subject to periodic review.

The unfunded accumulated medical aid benefit obligation at 31 December 2006 was R600 000 (2005: R600 000) for nine past employees (2005: ten past employees).

## Notes to the annual financial statements

For the year ended 31 December 2006

	<b>GROUP</b>			
	<b>31/12/06</b>			
	<b>Total</b>	<b>Warranty</b>	<b>Maintenance</b>	<b>Other</b>
	<b>R 000</b>	<b>R 000</b>	<b>R 000</b>	<b>R 000</b>
<b>14. PROVISIONS</b>				
Balance at the beginning of the year	2 908	2 822	86	–
Charged to the income statement	4 589	137	3 905	547
Additional provision	6 140	824	4 769	547
Unused amounts reversed	(1 551)	(687)	(864)	–
Acquisition of subsidiaries	7 629	6 023	–	1 606
Exchange rate adjustments	169	73	–	96
Utilised during the year	(2 966)	(1 510)	(1 456)	–
Balance at the end of the year	<b>12 329</b>	<b>7 545</b>	<b>2 535</b>	<b>2 249</b>
	<b>GROUP</b>		<b>COMPANY</b>	
	<b>31/12/06</b>	31/12/05	<b>31/12/06</b>	31/12/05
	<b>R 000</b>	R 000	<b>R 000</b>	R 000
Non-current	566	832	–	–
Current	11 763	2 076	–	–
	<b>12 329</b>	2 908	–	–
<b>Warranty provision</b>				
The Group gives warranties on certain products and undertakes to repair or replace items that fail to perform satisfactorily. Management estimates the related provision for future warranty claims based on historical warranty claim information, the product life time, as well as recent trends that might suggest that past cost information may differ from future claims.				
<b>Maintenance provision</b>				
The Group provides maintenance contracts on bureau services. Management estimates the related provision of future maintenance costs per vehicle.				
<b>15. TRADE AND OTHER PAYABLES</b>				
External trade payables	92 530	42 741	760	94
Internal trade payables			190	1 559
Accrued expenses	43 461	22 367	499	1 403
Deferred revenue	3 964	–	–	–
Value Added Tax	6 085	–	743	–
Other payables	8 708	–	134	–
	<b>154 748</b>	65 108	<b>2 326</b>	3 056
<b>16. REVENUE</b>				
Sale of goods	730 269	381 319	–	–
Rendering of services	41 323	13 741	6 012	10 044
Royalties	563	–	–	–
Dividends received	–	–	–	69 509
	<b>772 155</b>	395 060	<b>6 012</b>	79 553

# Notes to the annual financial statements

For the year ended 31 December 2006

	GROUP		COMPANY	
	31/12/06 R 000	31/12/05 R 000	31/12/06 R 000	31/12/05 R 000
<b>17. OPERATING PROFIT/(LOSS)</b>				
Operating profit/(loss) is arrived at after taking into account the following:				
Profit on disposal of property, plant and equipment	<b>(1 227)</b>	(63)	-	-
Auditors' remuneration				
Audit fee	<b>2 482</b>	1 333	<b>222</b>	43
Under-/over-provision in prior year	<b>374</b>	(7)	<b>(20)</b>	-
Other services	<b>523</b>	20	<b>62</b>	-
	<b>3 379</b>	1 346	<b>264</b>	43
Depreciation on property, plant and equipment				
Owned	<b>15 747</b>	8 505	-	-
Under finance lease	<b>4 302</b>	3 439	-	-
	<b>20 049</b>	11 944	-	-
Repairs and maintenance expenditure on property, plant and equipment	<b>9 853</b>	3 006	-	-
Amortisation of intangible assets				
Trademarks, patents and distribution rights	<b>6 218</b>	237	-	-
Capitalised product development costs	<b>7 527</b>	5 251	-	-
Customer relationships	<b>6 296</b>	-	-	-
Other intangible assets	<b>1 716</b>	618	-	-
	<b>21 757</b>	6 106	-	-
Impairment of development costs	<b>282</b>	799	-	-
Operating lease expenses				
Land and buildings	<b>2 848</b>	1 086	-	-
Equipment	<b>12 184</b>	2 020	-	-
Vehicles	<b>101</b>	40	-	-
	<b>15 133</b>	3 146	-	-
Inventory				
Write-down of inventory	<b>2 296</b>	1 508	-	-
Reversal of prior year inventory write-down	<b>(673)</b>	(3 367)	-	-
Receivables				
Impairment charge for bad and doubtful debts	<b>2 675</b>	2 176	<b>370</b>	-
Reversal of prior year bad and doubtful debts	<b>(876)</b>	(343)	-	-
Net fair value losses/(gains) on foreign exchange contracts				
Fair value hedges	<b>133</b>	(599)	-	-
Net foreign exchange losses/(gains)	<b>4 663</b>	(402)	-	-
Research and development costs	<b>4 494</b>	-	-	-
Negative goodwill on acquisitions	<b>(59 539)</b>	(3 098)	-	-
Impairment of available-for-sale financial asset	<b>3 208</b>	1 604	<b>3 208</b>	1 604
Reversal of provision against investments and loans			<b>(6 691)</b>	(5 197)
Income from subsidiary companies			<b>6 012</b>	79 553
Management fees			<b>6 012</b>	10 044
Dividends received			-	69 509
Directors' emoluments (see note 28)			<b>12 063</b>	10 830

## Notes to the annual financial statements

For the year ended 31 December 2006

	GROUP		COMPANY	
	31/12/06 R 000	31/12/05 R 000	31/12/06 R 000	31/12/05 R 000
<b>18. STAFF COSTS</b>				
Wages and salaries	152 085	79 717	4 342	6 496
Social security costs	7 801	3 546	166	155
Share options granted to directors and employees	4 904	3 751	1 770	1 508
Retirement benefit costs	11 697	8 438	544	739
Termination benefits	751	1 013	–	–
Other post-retirement benefits	85	(390)	–	–
	<b>177 323</b>	96 075	<b>6 822</b>	8 898
Number of employees at the end of the year				
Full time	1 639	837	2	3
Part time	304	75	–	–
	<b>1 943</b>	912	<b>2</b>	3
<b>19. NET FINANCE (COSTS)/INCOME</b>				
Interest received				
Current account	10 475	6 810	4 911	29
Interest paid	(29 973)	(14 167)	(2 584)	(1 073)
Bank borrowings	(13 867)	(8 758)	(2 584)	(1 073)
Mortgage loans	(1 641)	(1 381)	–	–
Finance leases	(464)	(518)	–	–
Long-term loans	(13 602)	(2 891)	–	–
Other	(399)	(619)	–	–
	<b>(19 498)</b>	(7 357)	<b>2 327</b>	(1 044)
<b>20. NET PROFIT FROM JOINT VENTURES</b>				
The following items are included in this amount:				
Share of profits in Lear Shurlok Electronics	1 939	2 765	–	–

# Notes to the annual financial statements

For the year ended 31 December 2006

	GROUP		COMPANY	
	31/12/06 R 000	31/12/05 R 000	31/12/06 R 000	31/12/05 R 000
<b>21. TAX</b>				
<b>Normal taxation</b>				
Current tax				
– Current year	<b>8 060</b>	1 887	<b>186</b>	89
– Prior year underprovision	–	518	–	–
Secondary tax on companies	<b>1 025</b>	632	<b>1 025</b>	632
Deferred taxation				
– Current year	<b>(2 392)</b>	1 767	<b>(44)</b>	15
– Rate change	–	(67)	–	1
Foreign taxation	<b>392</b>	–	–	–
	<b>7 085</b>	4 737	<b>1 167</b>	737
	%	%	%	%
<b>Tax rate reconciliation</b>				
Standard rate	<b>29</b>	29	<b>29</b>	29
Adjusted for:				
Net profit from joint ventures	<b>(1)</b>	(3)	–	–
Permanent differences	<b>(18)</b>	4	<b>(36)</b>	(29)
Prior year underprovision	–	2	–	–
Utilisation of assessed loss	–	(7)	–	–
Secondary tax on companies	<b>2</b>	2	<b>(49)</b>	1
Deferred tax previously not recognised	<b>(1)</b>	(9)	–	–
Effective rate	<b>11</b>	18	<b>(56)</b>	1
	<b>R 000</b>	R 000	<b>R 000</b>	R 000
Estimated assessable losses available for set-off against future taxable income:				
Total assessable losses	<b>46 351</b>	32 588	–	–
Applied to reduce deferred taxation	<b>(46 351)</b>	(30 821)	–	–
	–	1 767	–	–

In 2005 the Group did not recognise deferred tax assets on the R1 767 000 assessable loss as future profitability was uncertain.

## Notes to the annual financial statements

For the year ended 31 December 2006

### 22. EARNINGS PER SHARE

#### Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of shares in issue during the year; excluding the average number of ordinary shares purchased by the subsidiary company and trust and held as treasury shares.

	<b>GROUP</b>	
	<b>31/12/06</b>	31/12/05
	<b>R 000</b>	R 000
Profit for the year	<b>56 719</b>	20 718
Weighted average number of shares in issue (000)	<b>93 247</b>	69 687
Basic earnings per share (cents)	<b>60.8</b>	29.7

#### Diluted earnings per share

The diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares, namely share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined at the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The monetary value of the subscription rights is adjusted for the value of future service costs in accordance with IFRS 2. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the share options had been paid for. The difference is added to the number of ordinary shares outstanding as an issue of ordinary shares for no consideration. No adjustment is made to earnings.

Weighted average number of shares in issue (000)	<b>93 247</b>	69 687
Adjustments for share options (000)	<b>6 374</b>	5 173
	<b>99 621</b>	74 860

Profit for the year	<b>56 719</b>	20 718
Diluted earnings per share (cents)	<b>56.9</b>	27.7

#### Headline (loss)/earnings per share

Profit for the year	<b>56 719</b>	20 718
Profit on disposal of property, plant and equipment	<b>(1 227)</b>	(63)
Profit on disposal of joint venture	<b>–</b>	(220)
Negative goodwill on acquisitions	<b>(59 539)</b>	(3 098)
Impairment of available-for-sale financial assets	<b>3 208</b>	1 604
Impairment of development costs	<b>282</b>	799
Headline (loss)/earnings	<b>(557)</b>	19 740

Weighted average number of shares in issue (000)	<b>93 247</b>	69 687
Headline (loss)/earnings per share (cents)	<b>(0.6)</b>	28.3

#### Diluted headline (loss)/earnings per share

Weighted average number of shares in issue (000)	<b>93 247</b>	69 687
Adjustments for share options (000)	<b>6 374</b>	5 173
	<b>99 621</b>	74 860
Headline (loss)/earnings	<b>(557)</b>	19 740
Diluted headline (loss)/earnings per share (cents)	<b>(0.6)</b>	26.4

# Notes to the annual financial statements

For the year ended 31 December 2006

	GROUP		COMPANY	
	31/12/06 R 000	31/12/05 R 000	31/12/06 R 000	31/12/05 R 000
<b>23. DIVIDENDS</b>				
<b>Cash dividends</b>				
Final dividend of 4.0 cents in respect of 2005 financial year (2004: 3.0 cents), paid on 10 April 2006	4 527	2 528	4 527	2 528
Interim dividend of 3.5 cents in respect of 2006 financial year (2005: 3.0 cents), paid on 18 September 2006	3 677	2 528	3 677	2 528
	<b>8 204</b>	5 056	<b>8 204</b>	5 056
Dividends attributable to treasury shares	<b>(1 025)</b>	(1 088)		
	<b>7 179</b>	3 968	<b>8 204</b>	5 056
<b>24. NOTES TO THE CASH FLOW STATEMENT</b>				
<b>24.1 Cash generated from/(utilised in) operations</b>				
Profit/(loss) before tax	63 804	25 455	(2 076)	71 151
Adjusted for:				
Depreciation of property, plant and equipment	20 049	11 944	-	-
Amortisation and impairment of intangible assets	22 039	6 905	-	-
Profit on disposal of property, plant and equipment	(1 227)	(63)	-	-
Profit on disposal of joint venture	-	(220)	-	-
Negative goodwill on acquisitions	(59 539)	(3 098)	-	-
Reversal of retirement benefit obligations	-	(500)	-	-
Reversal of provision against investments and loans	-	-	(6 691)	(5 197)
Interest income	-	(845)	-	-
Net finance costs/(income)	19 498	7 357	(2 327)	1 044
Dividend income	-	-	-	(69 509)
Impairment of "available-for-sale" financial asset	3 208	1 604	3 208	1 604
Write-down of inventory	2 296	1 508	-	-
Reversal of prior year inventory write-down	(673)	(3 367)	-	-
Reversal of prior year impairment charges for bad and doubtful debts	(876)	(343)	-	-
Impairment charge for bad and doubtful debts	2 675	2 176	-	-
Foreign exchange loss on loans	4 101	-	3 712	-
Share option expenses	4 904	3 751	1 770	1 508
Net profit from joint ventures	(1 939)	(2 765)	-	-
	<b>78 320</b>	49 499	<b>(2 404)</b>	601
Changes in working capital:				
Increase in inventory	(45 718)	(11 990)	-	-
(Increase)/decrease in trade and other receivables	(35 062)	(20 950)	(15 190)	39 294
Increase/(decrease) in trade and other payables and provisions	43 237	(9 356)	(569)	11 910
	<b>40 777</b>	7 203	<b>(18 163)</b>	51 805
<b>24.2 Disposal of investments in joint ventures, net of cash</b>				
On 1 January 2005, the Group sold its 50% share in Authority On Line (Pty) Limited.				
The fair value of assets and liabilities disposed of was as follows:				
Plant and equipment	-	3	-	-
Current assets	-	217	-	-
Non-current borrowings	-	(106)	-	-
Current borrowings	-	(34)	-	-
Net fair value of assets	-	80	-	-
Loan to joint venture	-	212	-	-
Profit on disposal	-	220	-	-
Net cash inflow	-	512	-	-

# Notes to the annual financial statements

For the year ended 31 December 2006

**GROUP**  
31/12/06      31/12/06  
R 000            R 000

## 24. NOTES TO THE CASH FLOW STATEMENT (continued)

### 24.3 Acquisition of subsidiaries and operations (business combinations)

#### (i) Sagercy business

With effect from 1 March 2006, the Group acquired a 100% interest in the businesses of Sagercy PE, Ariston and Specialised Plastics Engineering ("SPE").

Sagercy PE manufactures plastic products for the automotive battery industry. Ariston and SPE manufacture plastic products for the automotive OEM industry.

Details of the net assets acquired and goodwill are as follows:

Purchase consideration:

Paid	<b>109 062</b>
Direct costs relating to the acquisition	<b>1 502</b>
<b>Total purchase consideration</b>	<b>110 564</b>
Less: Fair value of net assets acquired	<b>62 427</b>
<b>Goodwill on acquisition</b>	<b>48 137</b>

The goodwill is attributable to the significant synergies and opportunities, particularly in the OEM portion of the business, that are expected to arise following the Group's acquisition of this business.

	Fair value	Acquiree's carrying amount
The assets and liabilities arising from the acquisition are as follows:		
Property, plant and equipment	<b>20 596</b>	<b>6 360</b>
Intangible assets	<b>39 136</b>	<b>25</b>
Inventories	<b>7 011</b>	<b>7 011</b>
Trade and other receivables	<b>11 743</b>	<b>11 743</b>
Trade and other payables	<b>(873)</b>	<b>(873)</b>
Deferred tax liabilities	<b>(15 186)</b>	<b>-</b>
	<b>62 427</b>	<b>24 266</b>

**31/12/06**

Purchase consideration	<b>110 564</b>
Purchase consideration settled in shares issued	<b>(100 000)</b>
<b>Cash outflow on acquisition</b>	<b>10 564</b>

#### (ii) Tripmaster Corporation ("Tripmaster")

With effect from 1 March 2006, the Group acquired a 51% interest in Tripmaster.

In terms of the purchase agreement, the Company has call options to acquire the remaining interest, while the seller has identical put options. As a result, 100% of the interest in Tripmaster has been consolidated.

Tripmaster is incorporated in the United States of America and is a well-established supplier of fleet management products.

Details of the net assets acquired and goodwill are as follows:

Purchase consideration:

Paid	<b>38 529</b>
Direct costs relating to the acquisition	<b>1 195</b>
<b>Total purchase consideration</b>	<b>39 724</b>
Less: Fair value of net assets acquired	<b>39 319</b>
<b>Goodwill</b>	<b>405</b>

# Notes to the annual financial statements

For the year ended 31 December 2006

	<b>GROUP</b>	
	<b>Fair value R 000</b>	<b>Acquiree's carrying amount R 000</b>
<b>24. NOTES TO THE CASH FLOW STATEMENT (continued)</b>		
<b>24.3 Acquisition of subsidiaries and operations (business combinations) (continued)</b>		
(ii) Tripmaster (continued)		
The assets and liabilities arising from the acquisition are as follows:		
Property, plant and equipment	806	806
Intangible assets	38 741	4 982
Inventory	2 682	2 682
Trade and other receivables	10 746	10 746
Cash and cash equivalents	7 799	7 799
Trade and other payables	(8 236)	(8 236)
Provisions	(1 132)	(1 132)
Deferred tax liabilities	(12 087)	(609)
	<b>39 319</b>	<b>17 038</b>
		<b>31/12/06</b>
Purchase consideration		39 724
Deferred purchase consideration included in borrowings		(16 809)
Cash and cash equivalents in subsidiary acquired		(7 799)
Cash outflow on acquisition		<b>15 116</b>
(iii) Business of ACSA Cape (Pty) Limited		
With effect from 1 April 2006, the Group acquired a 100% interest in the business of ACSA Cape (Pty) Limited.		
Details of the net assets acquired and negative goodwill are as follows:		
Purchase consideration:		
Paid		-
Direct costs relating to the acquisition		-
Total purchase consideration		-
Less: Fair value of net assets acquired		1 320
Negative goodwill on acquisition		<b>(1 320)</b>
		<b>31/12/06</b>
	<b>Fair value</b>	<b>Acquiree's carrying amount</b>
The assets and liabilities arising from the acquisition are as follows:		
Property, plant and equipment	605	605
Inventory	859	859
Trade and other receivables	1 213	1 213
Trade and other payables	(1 766)	(1 766)
Cash and cash equivalents	409	409
	<b>1 320</b>	<b>1 320</b>
		<b>31/12/06</b>
Purchase consideration		-
Cash and cash equivalents in subsidiary acquired		(409)
Cash inflow on acquisition		<b>(409)</b>

## Notes to the annual financial statements

For the year ended 31 December 2006

	<b>GROUP</b>	
	<b>31/12/06</b>	<b>31/12/06</b>
	<b>R 000</b>	<b>R 000</b>
<b>24. NOTES TO THE CASH FLOW STATEMENT (continued)</b>		
<b>24.3 Acquisition of subsidiaries and operations (business combinations) (continued)</b>		
(iv) Business of Gabriel		
With effect from 6 September 2006, the Group acquired a 100% interest in the business of Gabriel South Africa.		
Gabriel manufactures and distributes ride control products (shock absorbers, struts and gas springs) to the automotive aftermarket in southern Africa.		
Details of the net assets acquired and negative goodwill are as follows:		
Purchase consideration:		
Paid		<b>82 733</b>
Direct costs relating to the acquisition		<b>1 824</b>
Total purchase consideration		<b>84 557</b>
Less: Fair value of net assets acquired		<b>142 776</b>
Negative goodwill on acquisition		<b>(58 219)</b>
	<b>Fair value</b>	<b>Acquiree's carrying amount</b>
The assets and liabilities arising from the acquisition are as follows:		
Property, plant and equipment	<b>76 836</b>	<b>14 103</b>
Intangible assets	<b>47 800</b>	<b>–</b>
Trade and other receivables	<b>26 336</b>	<b>26 336</b>
Inventories	<b>31 158</b>	<b>31 158</b>
Trade and other payables	<b>(23 000)</b>	<b>(23 000)</b>
Provisions	<b>(6 498)</b>	<b>(6 498)</b>
Cash and cash equivalents	<b>22 138</b>	<b>22 138</b>
Deferred tax liabilities	<b>(31 994)</b>	<b>–</b>
	<b>142 776</b>	<b>64 237</b>
		<b>31/12/06</b>
Purchase consideration		<b>84 557</b>
Purchase consideration settled in long-term borrowings		<b>(35 000)</b>
Cash and cash equivalents in subsidiary acquired		<b>(22 138)</b>
Cash outflow on acquisition		<b>27 419</b>
(v) Business of Pi Technology, UK ("Pi")		
With effect from 1 December 2006, the Group acquired a 100% interest in the business of Pi.		
Pi is incorporated in the United Kingdom and is an electronic design consultancy that provides services to the international automotive industry.		
Details of the net assets acquired and goodwill are as follows:		
Purchase consideration:		
Paid		<b>69 827</b>
Direct costs relating to the acquisition		<b>1 682</b>
Total purchase consideration		<b>71 509</b>
Less: Fair value of net assets acquired		<b>52 744</b>
Goodwill on acquisition		<b>18 765</b>
The goodwill is attributable to the potential for the Group to capitalise on Pi's excellent reputation and working relationship with all the major international OEMs and the opportunities that this is expected to create for the Group to develop business relationships with these OEMs.		

# Notes to the annual financial statements

For the year ended 31 December 2006

	<b>GROUP</b>	
	<b>Fair</b>	<b>Acquiree's</b>
	<b>value</b>	<b>carrying</b>
	<b>R 000</b>	<b>amount</b>
		<b>R 000</b>
<b>24. NOTES TO THE CASH FLOW STATEMENT (continued)</b>		
<b>24.3 Acquisition of subsidiaries and operations (business combinations) (continued)</b>		
(v) Business of Pi (continued)		
The assets and liabilities arising from the acquisition are as follows:		
Property, plant and equipment	2 555	2 555
Intangible assets	27 060	–
Trade and other receivables	37 651	37 651
Inventories	5 712	5 712
Trade and other payables	(12 387)	(12 387)
Deferred tax liabilities	(7 847)	–
	<b>52 744</b>	<b>33 531</b>
		<b>31/12/06</b>
Purchase consideration		<b>71 509</b>
Purchase consideration settled in long-term borrowings		<b>(69 828)</b>
Cash outflow on acquisition		<b>1 681</b>
The accounting for the Pi acquisition has been determined provisionally in terms of IFRS 3. As a result these figures may change when the intangible asset valuations have been completed.		
		31/12/05
(vi) Transport Lighting and Fleet Products (Pty) Limited ("TFL")		
On 15 January 2005, the Group acquired a 100% interest in TFL.		
TFL is incorporated in South Africa and manufactures automotive products.		
Details of the net assets acquired and goodwill are as follows:		
Purchase consideration:		
Total purchase consideration		4 150
Less: Fair value of net assets acquired		1 893
Goodwill on acquisition		2 257
The goodwill is attributable to the high profitability of the acquired business and the significant synergies expected to arise following the Group's acquisition of TFL.		
	Fair	Acquiree's
	value	carrying
		amount
The assets and liabilities arising from the acquisition are as follows:		
Property, plant and equipment	50	50
Inventories	621	621
Trade and other receivables	77	77
Trade and other payables	(143)	(143)
Deferred tax asset	1 288	–
	<b>1 893</b>	<b>605</b>
Purchase consideration		4 150
Less: Purchase consideration paid after year-end		(517)
Cash outflow on acquisition		3 633

## Notes to the annual financial statements

For the year ended 31 December 2006

**GROUP**  
31/12/05      31/12/05  
R 000          R 000

### 24. NOTES TO THE CASH FLOW STATEMENT (continued)

#### 24.3 Acquisition of subsidiaries and operations (business combinations) (continued)

##### (vii) Business of Autocom

On 15 January 2005, the Group acquired a 100% interest in the business of Autocom.

Autocom assembles and distributes automotive products.

Details of the net assets acquired and negative goodwill are as follows:

Total purchase consideration	5 350
Less: Fair value of net assets acquired	6 780
Negative goodwill on acquisition	(1 430)

	Fair value	Acquiree's carrying amount
The assets and liabilities arising from the acquisition are as follows:		
Property, plant and equipment	599	599
Intangible assets	3 437	–
Inventories	2 324	2 324
Trade and other receivables	2 012	2 012
Trade and other payables	(318)	(318)
Borrowings	(122)	(122)
Provisions	(155)	(155)
Deferred tax liabilities	(997)	–
	6 780	4 340

	31/12/05
Purchase consideration	5 350
Less: Purchase consideration outstanding at year-end	(669)
Cash outflow on acquisition	4 681

##### (viii) Dana South Africa (Pty) Limited ("Dana")

On 1 October 2005, the Group acquired a 100% interest in Dana.

Dana has subsequently been renamed CI Automotive (Pty) Limited. It is incorporated in South Africa and is a leading distributor of aftermarket components for the automotive and heavy-duty truck markets in South Africa.

Details of the net assets acquired and negative goodwill are as follows:

Purchase consideration:	
– Paid	114 683
– Direct costs relating to the acquisition	4 846
Total purchase consideration	119 529
Less: Fair value of net assets acquired	121 197
Negative goodwill on acquisition	(1 668)

# Notes to the annual financial statements

For the year ended 31 December 2006

## 24. NOTES TO THE CASH FLOW STATEMENT (continued)

### 24.3 Acquisition of subsidiaries and operations (business combinations) (continued)

(viii) Dana South Africa (Pty) Limited ("Dana") (continued)

	<b>GROUP</b>	
	Fair value R 000	Acquiree's carrying amount R 000
The assets and liabilities arising from the acquisition are as follows:		
Cash and cash equivalents	44 484	44 484
Property, plant and equipment	18 687	12 087
Intangible assets	22 668	16
Inventories	37 127	37 127
Trade and other receivables	22 074	22 074
Trade and other payables	(16 716)	(16 716)
Deferred tax (liabilities)/assets	(6 361)	2 122
Provisions	(766)	(766)
	121 197	100 428

31/12/05

Purchase consideration	119 529
Purchase consideration settled in long-term borrowings	(75 000)
Cash and cash equivalents in subsidiary acquired	(44 484)
Cash outflow on acquisition	45

See note 32 for disclosures regarding the business combinations that took place after the balance sheet date but before the approval of these financial statements.

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>31/12/06</b> R 000	31/12/05 R 000	<b>31/12/06</b> R 000	31/12/05 R 000
<b>24.4 Cash and cash equivalents</b>				
Cash and bank balances	<b>8 382</b>	244	<b>42 253</b>	42 020
Bank overdrafts	<b>(46 372)</b>	(1 484)	-	-
	<b>(37 990)</b>	(1 240)	<b>42 253</b>	42 020

## 25. COMMITMENTS

### Capital expenditure commitments

Authorised by directors and contracted for:

Property, plant and equipment	<b>20 225</b>	1 111	-	-
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The capital expenditure is to be financed as follows:

Internally generated funds	<b>235</b>	-	-	-
Existing credit facilities	<b>19 990</b>	1 111	-	-
	<b>20 225</b>	1 111	-	-

### Operating lease commitments

The future lease payments under non-cancellable operating leases are as follows:

Up to 1 year	<b>11 424</b>	2 188	-	-
Over 1 year but not more than 5 years	<b>47 179</b>	3 424	-	-
	<b>58 603</b>	5 612	-	-

The Group leases various office equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The effect of the straight-line method is that a cash payment of R4 678 000 (2005: R618 000) was made in 2006, but an expense of R4 851 000 (2005: R1 030 190) was included in administration expenses.

## Notes to the annual financial statements

For the year ended 31 December 2006

	GROUP		COMPANY	
	31/12/06 R 000	31/12/05 R 000	31/12/06 R 000	31/12/05 R 000
<b>26. CONTINGENT LIABILITIES</b>				
Guarantees issued by the Group	–	1 119	–	–
Warranty claim	3 955	–	–	–
	<b>3 955</b>	<b>1 119</b>	<b>–</b>	<b>–</b>

Cross-suretyships are in place between the different entities in the Control Instruments Group for the various loan agreements.

### 27. FINANCIAL INSTRUMENTS

The Group's financial instruments consist mainly of cash and cash equivalents, trade and other receivables, financial assets, trade and other payables, borrowings and derivative instruments.

#### Risk management

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk, interest rate risk, liquidity risk and fair value fluctuations.

#### Foreign currency risk

The Group enters into foreign exchange contracts to buy and sell specified amounts of various foreign currencies in the future at a predetermined exchange rate. The contracts are entered into in order to manage the Group's exposure to fluctuations in foreign currency exchange rates on specific transactions. The contracts are matched with anticipated future cash flows in foreign currencies primarily from sales and purchases. The Group does not use derivative financial instruments for speculative purposes.

At 31 December 2006 and 31 December 2005 the settlement dates of open foreign exchange contracts ranged between one and six months. All forward exchange contracts have been marked to market at the year-end.

The Group's outstanding foreign exchange contracts at year-end comprise:

	Closing rate of exchange	Foreign amount 000	Rand amount R 000	Fair value R 000	Loss R 000
<b>Year ended 31 December 2006</b>					
Foreign exchange purchases					
British Pounds	13.71	51	718	699	(19)
US Dollar	7.07	1 089	7 891	7 703	(188)
Euro	9.27	735	7 019	6 813	(206)
Japanese Yen	0.06	13 755	868	815	(53)
			<b>16 496</b>	<b>16 030</b>	<b>(466)</b>
<b>Year ended 31 December 2005</b>					
Foreign exchange purchases					
US Dollar	6.35	1 483	9 834	9 420	(414)
Euro	7.57	520	4 122	3 938	(184)
Japanese Yen	0.06	539	31	30	(1)
			<b>13 987</b>	<b>13 388</b>	<b>(599)</b>

Receivables and trade payables at 31 December 2006 include aggregate net unhedged receivables of R7 443 000 (2005: R11 234 000) in respect of sales proceeds and purchases due in foreign currency.

# Notes to the annual financial statements

For the year ended 31 December 2006

	31/12/06		31/12/05	
	Denominated		Denominated	
	GBP R 000	USD R 000	GBP R 000	USD R 000
<b>27. FINANCIAL INSTRUMENTS (continued)</b>				
<b>Foreign currency risk (continued)</b>				
Non-current assets	38 510	42 165	–	–
Current assets	55 531	23 811	–	–
Non-current liabilities	–	25 335	–	–
Current liabilities	14 843	17 392	–	–

These assets and liabilities relate to the foreign subsidiaries acquired during 2006.

### Credit risk

Financial assets which potentially subject the Group to concentrations of credit risk consist of cash and receivables. The Group's cash is placed with recognised financial institutions. Trade receivables are disclosed net of provision for impairment. Credit risk with respect to receivables is limited due to the large number of customers comprising the Group's customer base. Accordingly the Group has no significant concentration of credit risk.

### Interest rate risk

The Group's interest rate risk at balance sheet date relating to financial liabilities is set out in note 12. At 31 December 2006 cash and cash equivalents to the value of R8 382 000 (2005: R244 000) are exposed to interest rate risk.

A one percentage movement in the effective interest rate would have the following effect on profitability for the year:

	+1%	-1%
Cash and cash equivalents	(271)	271
Mortgage loans	(151)	151
Finance leases	(45)	45
Long-term loans	(1 202)	1 202
Other	(40)	40
	(1 709)	1 709

### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market position.

	31/12/06		31/12/05	
	Carrying value	Fair value	Carrying value	Fair Value
	R 000	R 000	R 000	R 000

### Net fair values

The estimated values of the Group's financial instruments are:

#### Financial instruments held or issued to finance the Group's operations

##### Financial assets

Cash and bank balances	8 382	8 382	244	244
Non-current receivables	366	366	–	–
Trade and other receivables	199 953	199 953	89 397	89 397
Financial assets	–	–	3 208	3 208

##### Financial liabilities

Trade and other payables	144 699	144 699	65 108	65 108
Current portion of non-current borrowings	47 434	47 434	21 609	21 609
Current loans	36	36	1 002	1 002
Bank overdrafts	46 372	46 372	1 484	1 484
Non-current borrowings	221 764	221 764	96 065	96 065

#### Financial instruments held or issued to hedge the currency exposure on expected future transactions

Foreign exchange contracts	(466)	(466)	(599)	(599)
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# Notes to the annual financial statements

For the year ended 31 December 2006

	<b>COMPANY</b>	
	<b>31/12/06</b>	31/12/05
	<b>R 000</b>	R 000
<b>28. DIRECTORS</b>		
28.1 <b>Directors' remuneration</b>		
<b>Executive directors</b>		
Remuneration for services paid for by:		
Company	<b>6 437</b>	8 020
Subsidiaries*	<b>4 912</b>	2 460
	<b>11 349</b>	10 480
<b>Non-executive directors</b>		
Fees for services as directors paid for by:		
Company	<b>714</b>	350
	<b>12 063</b>	10 830

\* Control Instruments (Pty) Limited and Control Instruments Shurlok (Pty) Limited

	Directors' fees	Basic salary	Share-based payment expense	Expense allowance	Bonuses and performance-related payments	Pension scheme contributions	Total
	R	R	R	R	R	R	R
<b>Year ended 31 December 2006</b>							
Executive directors							
R Friedman	–	931 896	442 546	446 023	800 000	240 568	2 861 033
RJ Fraenkel	–	895 704	442 546	327 919	800 000	225 308	2 691 477
TE Buzer	–	945 540	442 546	168 746	800 000	216 607	2 573 439
RB Forrester	–	2 154 008	442 546	37 284	200 000	389 002	3 222 840
Non-executive directors							
JPS O'Leary	250 000	–	–	–	–	–	250 000
EPH Bieber	200 000	–	–	–	–	–	200 000
HV Hefer	200 000	–	–	–	–	–	200 000
SR Bruyns	64 231	–	–	–	–	–	64 231
<b>Total</b>	<b>714 231</b>	<b>4 927 148</b>	<b>1 770 184</b>	<b>979 972</b>	<b>2 600 000</b>	<b>1 071 485</b>	<b>12 063 020</b>

	Directors' fees	Basic salary	Share-based payment expense	Expense allowance	Bonuses and performance-related payments	Pension scheme contributions	Total
	R	R	R	R	R	R	R
<b>Year ended 31 December 2005</b>							
Executive directors							
R Friedman	–	870 390	377 108	432 907	800 000	224 507	2 704 912
RJ Fraenkel	–	770 504	377 108	401 754	800 000	206 678	2 556 044
TE Buzer	–	893 940	377 108	180 117	800 000	199 483	2 450 648
RB Forrester	–	1 455 603	377 108	79 460	538 672	317 948	2 768 791
Non-executive directors							
JPS O'Leary	133 333	–	–	–	–	–	133 333
EPH Bieber	100 000	–	–	–	–	–	100 000
HV Hefer	116 667	–	–	–	–	–	116 667
<b>Total</b>	<b>350 000</b>	<b>3 990 437</b>	<b>1 508 432</b>	<b>1 094 238</b>	<b>2 938 672</b>	<b>948 616</b>	<b>10 830 395</b>

All share-based payment expenses relating to share options granted to directors in prior years had been recognised in full by December 2003 and recorded in equity. Additional options were granted to directors during 2005.

# Notes to the annual financial statements

## For the year ended 31 December 2006

### 28. DIRECTORS (continued)

#### 28.2 Directors' interest in shares

The direct and indirect interests of the directors and their immediate families in the issued share capital of the Company at 31 December 2006 were 17 395 391 (2005: 18 129 632) shares. R Friedman is the only director who beneficially holds, directly or indirectly, in excess of 1% of the shares of the Company.

	DIRECT		INDIRECT		TOTAL Shares	%
	Beneficial Shares	Non- beneficial Shares	Beneficial Shares	Non- beneficial Shares		
<b>31 December 2006</b>						
R Friedman	6 459 242	–	1 028 100	7 399 406	14 886 748	13.60
RJ Fraenkel	908 600	–	72 538	–	981 138	0.90
TE Buzer	613 285	–	–	–	613 285	0.56
RB Forrester	–	–	532 220	–	532 220	0.49
HV Hefer	250 000	–	–	–	250 000	0.23
JPS O'Leary	100 000	–	–	–	100 000	0.09
EPH Bieber	32 000	–	–	–	32 000	0.03
					17 395 391	15.90

#### 31 December 2005

R Friedman	6 459 242	–	1 028 100	8 107 647	15 594 989	16.16
RJ Fraenkel	908 600	–	72 538	–	981 138	1.02
TE Buzer	613 285	–	–	–	613 285	0.64
RB Forrester	–	–	532 220	–	532 220	0.55
HV Hefer	276 000	–	–	–	276 000	0.29
JPS O'Leary	100 000	–	–	–	100 000	0.10
EPH Bieber	32 000	–	–	–	32 000	0.03
					18 129 632	18.79

#### 28.3 Directors' share options

During the year nil (2005: 1 600 000) share options were granted to the directors of the Company. The expiry date of 3 350 000 share options previously granted to directors, which were due to expire on 31 December 2006, has been extended to 31 December 2007.

Details of directors' share options are shown below.

Number of options:

	At	Taken up	Granted	At	Option price	Date received	Expiry date
	31/12/2005	during the year	during the year	31/12/2006			
R Friedman	612 500	–	–	612 500	0.65	9-Oct-1999	31-Dec-2007
	300 000	–	–	300 000	0.65	7-Jul-2000	31-Dec-2007
	400 000	–	–	400 000	2.00	2-Sep-2005	2-Sep-2009
RJ Fraenkel	612 500	–	–	612 500	0.65	10-Oct-1999	31-Dec-2007
	300 000	–	–	300 000	0.65	7-Jul-2000	31-Dec-2007
	400 000	–	–	400 000	2.00	2-Sep-2005	2-Sep-2009
TE Buzer	312 500	–	–	312 500	0.65	10-Oct-1999	31-Dec-2007
	300 000	–	–	300 000	0.65	7-Jul-2000	31-Dec-2007
	400 000	–	–	400 000	2.00	2-Sep-2005	2-Sep-2009
RB Forrester	612 500	–	–	612 500	0.65	10-Oct-1999	31-Dec-2007
	300 000	–	–	300 000	0.65	7-Jul-2000	31-Dec-2007
	400 000	–	–	400 000	2.00	2-Sep-2005	2-Sep-2009



# Notes to the annual financial statements

For the year ended 31 December 2006

	<b>GROUP</b>	
	<b>31/12/06</b>	31/12/05
	<b>R 000</b>	R 000
<b>29. RELATED PARTY DISCLOSURE (continued)</b>		
<b>29.5 Year-end balances arising from sales/purchase of goods/services (continued)</b>		
Management fees earned from subsidiaries		
Control Instruments Automotive (Pty) Limited	<b>1 365</b>	663
Control Instruments Gabriel (Pty) Limited	<b>505</b>	–
Control Instruments Shurlok (Pty) Limited	<b>1 365</b>	4 821
Control Instruments Shurlok Engineering (Pty) Limited	<b>812</b>	–
Control Instruments OmniBridge (Pty) Limited	<b>–</b>	870
Control Instruments (Pty) Limited	<b>1 965</b>	3 690
	<b>6 012</b>	10 044
Dividends received from subsidiaries		
Control Instruments (Pty) Limited	<b>–</b>	62 500
Control Instruments Software Development (Pty) Limited	<b>–</b>	609
Control Instruments OmniBridge (Pty) Limited	<b>–</b>	6 400
	<b>–</b>	69 509

## 29.6 Repurchase and cancellation of treasury shares

During the year 8 148 672 shares (2005: nil) were repurchased from Control Instruments Gabriel (Pty) Limited and cancelled.

## 30. PENSION AND OTHER POST-RETIREMENT OBLIGATIONS

### Pension scheme

The Group administers a defined contribution pension scheme governed by the Pensions Fund Act 24 of 1956 and covering substantially all eligible employees. Other employees are members of funds within the various industries in which they are employed. The assets of the pension scheme are held in administered trust funds separate from the Group's assets. The pension scheme is valued actuarially.

The cost of retirement benefits charged to the income statement during the financial year under review amounts to R11 697 000 (2005: R8 438 000).

## Notes to the annual financial statements

### For the year ended 31 December 2006

#### 31. SEGMENTS

##### Primary reporting format – business segments

At 31 December 2006, the Group is organised on a worldwide basis into the following business segments:

- Fleet management products and systems
- Automotive components and products

The segment information for the year ended 31 December 2006 is as follows:

	Fleet Management R 000	Automotive Components R 000	Eliminations R 000	Total R 000
Revenue	206 200	612 890	(46 935)	772 155
Total assets	180 764	770 267	(29 025)	922 006

The segment information for the year ended 31 December 2005 was as follows:

Revenue	89 269	334 694	(28 903)	395 060
Total assets	116 466	295 108	(42 603)	368 971

##### Secondary reporting format – geographical segments

At 31 December 2006, the Group is organised into the following geographical segments:

- Africa: Sales to markets in sub-Saharan Africa
- Rest of the world: Sale of products mainly in the USA and the United Kingdom

The segment information for the year ended 31 December 2006 is as follows:

	Africa R 000	Rest of the world R 000	Eliminations R 000	Total R 000
Revenue	709 575	66 295	(3 715)	772 155
Total assets	798 433	168 225	(44 652)	922 006

The segment information for the year ended 31 December 2005 was as follows:

Revenue	395 060	–	–	395 060
Total assets	368 971	–	–	368 971

#### 32. POST BALANCE SHEET EVENTS

##### Acquisition of distribution rights and fleet telematics, data management and commercial vehicle outfitting businesses

It was announced on 2 May 2007 that Control Instruments will acquire the distribution rights in respect of FM Europe and the businesses and assets of Datatrak UK and One-Stop-Shop from Siemens VDO Trading for a purchase consideration of £5 045 000. The acquisition is subject to certain conditions precedent, including South African Reserve Bank approval being obtained. Control Instruments will use a combination of debt, equity and vendor finance to finance the transaction. The effective date is expected to be on or around 30 June 2007.

##### Negotiations to merge fleet management interests with an independent third party

It was also announced on 2 May 2007 that the Group is in advanced stages of negotiations for the merger of all its fleet management interests, including those being acquired from Siemens VDO, 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. Further details of this transaction, if successfully concluded, should be announced before the end of May 2007.