



**OVERVIEW**

The results for the year ended 31 December 2006 reflect that Control Instruments is well on the way to achieving the strategic goals it set two years ago.

By 2004 it became clear that fundamental changes, driven primarily by globalisation, were taking place in the local and international automotive markets in which the Group operates. The Group responded by implementing a strategy to rapidly increase the critical mass of each of its businesses; become a global player in its chosen niche markets; and increase the level of development expenditure.

To achieve these objectives, Control Instruments made a number of acquisitions (detailed below) during 2005 and 2006. These acquisitions were identified at the start of the process. The board believed they were exceptional opportunities that would not arise again and therefore the risk and possible short-term disruptions that could arise out of this extensive expansion in a short period of time were justified. The high level of change has resulted in an extremely challenging period for the Group's management and staff.

The primary focus in 2006 was to maintain the momentum of each business and to service their customers. This was achieved. During 2007 the focus will be on the integration of the acquisitions and working capital and expense management.

**Acquisitions made during 2005**

**Business of Autocom**  
• Distributor of aftermarket components for the automotive industry in Southern Africa, based in Johannesburg;  
• Acquired in January 2005 for R9.5 million.

**Dana South Africa (Pty) Limited**  
• Distributor of aftermarket components for the automotive industry in Southern Africa, based in Johannesburg;  
• Acquired with effect from 1 October 2005 for R120 million.

**Acquisitions made during 2006**

**Tripmaster**  
• Supplier of fleet management products based in Dallas, USA;  
• 51% of the shares acquired with effect from 1 March 2006 for R23 million;  
• Purchase agreement includes put and call options in respect of the remaining shares over a three-year period.

**Business of Sagery Group**  
• Manufacturer of plastic products for the automotive industry, based in Port Elizabeth;  
• Acquired with effect from 1 March 2006 for R111 million.

**Business of Gabriel South Africa**  
• Manufacturer and distributor of ride control products (shock absorbers, struts and gas springs) to the automotive industry in sub-Saharan Africa;  
• Acquired with effect from 5 September 2006 for R85 million.

**Business of Pi Technology**

• Electronic design consultancy providing services to the international automotive industry;  
• Offices in the United Kingdom, Germany and Detroit, USA;  
• Acquired with effect from 1 December 2006 for R72 million.

**BUSINESS**

While the Group's operations remain focused on supplying niche sectors of the worldwide automotive and transportation industries, the R420 million spent on acquisitions over the past two years has dramatically changed the nature and size of the Group.

Besides its South African offices, the Group now has offices in the UK (Cambridge), USA (Dallas and Detroit) and Germany. In addition to its world-class design and manufacturing facilities in Pietermaritzburg, the Group also has manufacturing operations in Port Elizabeth, Cape Town and Johannesburg. The number of employees has grown from 570 at the end of 2004 to 1 950 at the end of 2006.

Following the growth and changes, the Group operates in two distinct areas: (i) fleet and vehicle management products and systems, and (ii) automotive components and products.

**Fleet and vehicle management products and systems**

The Fleet Management business performed extremely well with its onboard computers (OBCs) being sold on every continent in more than 43 countries around the world. Sales of OBCs increased 38% to 31 500 units sold during 2006, with the largest increase coming from the international markets. Annuity-based revenue derived from the bureau service, introduced in the first half of 2004, more than doubled during the year and now makes a meaningful contribution to profitability. Tripmaster in the United States achieved its budgeted results.

The Fleet Management business is expected to continue to show strong growth and it is actively seeking further opportunities to expand internationally.

**Automotive components and products**

The Automotive Aftermarket business has expanded significantly and will continue to do so as a result of the acquisition of Gabriel South Africa. This business now sells a comprehensive basket of high quality branded replacement parts into a rapidly growing market place.

Control Instruments has repositioned itself during the past eighteen months to face the challenges in the OEM market. Changes taking place in this market relate to global cost pressures and local manufacturers being fully integrated into the worldwide operations of their various parent companies.

The acquisition of the business of Pi Technology will give the Group a significant "front end" into the specialised niche markets in the UK, Germany and the USA. The first orders resulting from the combined business have already been won and provided the strategy continues to be successful, it will result in sustainable and meaningful export opportunities.

**RESULTS**

Revenue increased 95% from R395 million to R772 million. This increase indicates the growth in the Group, but does not include the full impact of the acquisitions as only ten months of Tripmaster and Sagery, three full months of Gabriel and one month of Pi Technology were applicable for the year ended 31 December 2006.

**IFRS**

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

Earnings per share increased 105% to 60.8 cents and headline earnings per share decreased 102% to a loss of 0.7 cents. The major reason for this disparity is the IFRS requirement with respect to accounting for negative goodwill.

**Normalised earnings (unaudited)**

The core metrics the Group uses in managing its businesses are turnover, operating profit and profit after interest, but before certain IFRS adjustments, once-off items and tax. It is the opinion of the directors that certain of the requirements of IFRS distort the results from a business perspective. A normalised income statement for the twelve months ended 31 December 2006 is therefore presented separately.

Normalised earnings exclude the negative goodwill of R60 million that was raised primarily on the acquisition of Gabriel because it is a non-recurring adjustment made in terms of IFRS. Normalised earnings also exclude amortisation of intangible assets raised on the acquisitions of R13 million and restructuring expenses of approximately R7 million that relate directly to the acquisitions.

On a normalised basis, operating profit increased by 57% from R36 million to R57 million and profit before tax increased 29% from R29 million to R38 million.

Normalised earnings per share decreased 4% to 40.3 cents. This is mainly due to the increase in the number shares in issue and the fact that the acquisitions of Gabriel and Pi Technology made a lower than expected contribution in the short period that they were part of the Group.

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

**SHARE CAPITAL**

In February 2006 the directors authorised the issue of 16 667 000 Control Instruments ordinary shares, with a par value of five cents each, at a price of R6.00 per share in a vendor placement with selected institutions to settle the purchase consideration of R100 million for the business of Sagery.

On 23 June 2006 Control Instruments cancelled and delisted 8 148 672 ordinary shares with a par value of five cents each. These shares were bought back by a subsidiary company (Control Instruments Management Services (Pty) Limited) during the period January 2003 to September 2004.

4 400 000 ordinary shares, with a par value of five cents each, were issued at a price of R5.55 per share in a private placement to public shareholders in December 2006. This was in terms of the general authority to issue shares for cash granted to directors at the Company's annual general meeting held on 2 May 2006. The shares were issued at a 1.1% premium to the Control Instruments 30-day volume weighted average traded price, calculated on 30 November 2006.

**AUDIT OPINION**

PricewaterhouseCoopers Incorporated's unmodified review report on the condensed financial statements contained in this provisional report is available for inspection at the Company's registered office.

**PROSPECTS**

The Group continues to operate in niche sectors of global markets and is therefore subject to local and international disruptions that are not under its control. Nevertheless, the recent acquisitions and increased focus on expense and working capital management should have a positive effect from 2007.

The board of directors continues to look for ways to enhance shareholder value. Although the strategy initiated at the end of 2004 has resulted in a re-rating of the Group's share price, the directors are of the opinion that there is further underlying value in the Group. They are therefore reviewing a number of options in this regard.

**CAUTIONARY ANNOUNCEMENT**

The Group is currently under cautionary and hopes to be able to make an announcement in this regard in early May 2007. Until a further announcement is made shareholders must exercise caution when dealing in the Company's securities.

**DIVIDEND**

It is the board's intention to declare a final dividend in respect of the year ended 31 December 2006 in early May 2007.

On behalf of the board

JPS O'Leary Chairman R Friedman CEO and Group Managing Director

19 March 2007

**Consolidated income statements**

for the year ended 31 December 2006

	Group 31/12/06 Reviewed R 000	Group 31/12/05 Audited R 000
<b>Revenue</b>	<b>772 155</b>	<b>395 060</b>
Cost of sales	(511 470)	(233 168)
<b>Gross profit</b>	<b>260 685</b>	<b>161 892</b>
Other operating income	86 113	14 791
Interest income	–	845
Other operating expenses	(96 327)	(45 559)
Administrative expenses	(127 329)	(83 036)
Marketing and selling expenses	(41 779)	(18 886)
<b>Operating profit</b>	<b>81 363</b>	<b>30 047</b>
Finance costs	(19 498)	(7 357)
Net profit from joint ventures	1 939	2 765
<b>Profit before tax</b>	<b>63 804</b>	<b>25 455</b>
Tax	(7 085)	(4 737)
<b>Profit for the year</b>	<b>56 719</b>	<b>20 718</b>
<b>Additional information</b>		
Total shares in issue (excluding treasury shares) (000)	100 434	78 956
Weighted average number of shares in issue (000)	93 247	69 687
Adjustment for share options (000)	6 374	5 173
Weighted average number of shares for diluted earnings per share (000)	99 621	74 860
Earnings per share (cents)		
– basic	60.8	29.7
– diluted	56.9	27.7
– headline (loss)/earnings	(0.7)	28.3
Dividends per share (cents)	7.5	6.0
<b>Reconciliation of EPS to Headline EPS (cents)</b>		
EPS	60.8	29.7
Profit on disposal of property, plant and equipment	(1.3)	(0.1)
Profit on disposal of joint venture	–	(0.3)
Negative goodwill on acquisitions	(63.9)	(4.5)
Impairment of "available-for-sale" financial assets	3.4	2.3
Impairment of development costs	0.3	1.2
	(0.7)	28.3

**Normalised consolidated income statements**

for the year ended 31 December 2006

	Year ended 31/12/06 Unaudited R 000	Year ended 31/12/05 Unaudited R 000	Variance %	6 months ended 30/06/06 Unaudited R 000
<b>Revenue</b>	<b>772 155</b>	<b>395 060</b>	<b>95.5</b>	<b>333 595</b>
Cost of sales	(499 449)	(233 168)	114.2	(203 874)
<b>Normalised gross profit</b>	<b>272 706</b>	<b>161 892</b>	<b>68.4</b>	<b>129 721</b>
Other operating income	26 573	11 693	127.3	7 282
Interest income	–	845	–	80
Administrative expenses	(111 889)	(79 252)	41.2	(56 698)
Marketing and selling expenses	(41 779)	(18 704)	123.4	(17 872)
Other operating expenses	(91 706)	(43 955)	108.6	(30 123)
Profit from joint ventures before tax	3 144	3 938	(20.2)	2 710
<b>Normalised operating profit</b>	<b>57 049</b>	<b>36 457</b>	<b>56.5</b>	<b>35 100</b>
Finance costs	(19 498)	(7 357)	165.0	(7 462)
<b>Normalised profit before tax</b>	<b>37 551</b>	<b>29 100</b>	<b>29.0</b>	<b>27 638</b>
<b>Weighted average number of shares in issue (000)</b>	<b>93 247</b>	<b>69 687</b>	<b>33.8</b>	<b>90 190</b>
<b>Normalised earnings per share before tax (cents)</b>	<b>40.27</b>	<b>41.76</b>	<b>(3.6)</b>	<b>30.64</b>
<b>Normalised earnings per share before interest and tax (cents)</b>	<b>61.18</b>	<b>52.32</b>	<b>16.9</b>	<b>38.92</b>
<b>Reconciliation between profit before tax and normalised profit before tax</b>				
Profit before tax	63 804	25 455	–	37 864
IFRS 3: Business Combinations – Negative goodwill	(59 540)	(3 098)	–	(14 213)
IFRS 3: Business Combinations – Amortisation of intangible assets created on acquisition	12 930	215	–	326
IFRS 2: Share-based Payment – Share option expense	4 904	3 751	–	2 661
IAS 39 (Amendment): Fair Value Option – Impairment of "available-for-sale" financial asset	3 208	1 604	–	–
Restructuring and once-off costs	7 328	–	–	–
Unrealised exchange loss on Tripmaster purchase price	3 712	–	–	–
Tax on profit from joint venture	1 205	1 173	–	1 000
<b>Normalised profit before tax</b>	<b>37 551</b>	<b>29 100</b>	<b>–</b>	<b>27 638</b>

**Consolidated statements of changes in equity**

for the year ended 31 December 2006

	Share capital R 000	Share premium R 000	Treasury shares R 000	Fair value and other reserves R 000	Retained earnings R 000	Total R 000
<b>GROUP</b>						
<b>Balance at 1 January 2005</b>	4 213	43 591	(22 658)	2 349	59 328	86 823
As previously reported	4 213	43 591	(22 658)	3 953	57 724	86 823
Change in accounting policy	–	–	–	(1 604)	1 604	–
Net losses not recognised in the income statement	–	–	–	(140)	(140)	(140)
– Cash flow hedges, net of tax	–	–	–	1 604	–	1 604
– Impairment of "available-for-sale" financial asset	–	–	–	–	–	–
Profit for the year	–	–	–	–	20 718	20 718
Employee share option scheme:	–	–	–	–	–	–
– Value of services provided	–	–	–	3 751	–	3 751
– Movement of treasury shares	–	–	1 966	–	(635)	1 331
Shares issued	613	54 295	–	–	–	54 908
Dividends paid	–	–	–	–	(3 968)	(3 968)
<b>Balance at 31 December 2005</b>	4 826	97 886	(20 692)	7 564	75 443	165 027
Net gains not recognised in the income statement:	–	–	–	–	–	–
– Cash flow hedges, net of tax	–	–	–	95	–	95
Profit for the year	–	–	–	–	56 719	56 719
Employee share option scheme:	–	–	–	–	–	–
– Value of services provided	–	–	–	4 904	–	4 904
– Movement in foreign currency translation reserve	–	–	–	5 370	–	5 370
– Movement of treasury shares	–	–	482	–	580	1 062
Shares issued	1 053	123 277	–	–	–	124 330
Cancellation of treasury shares	(407)	(97)	9 928	–	(9 521)	(97)
Dividends paid	–	–	–	–	(7 179)	(7 179)
<b>Balance at 31 December 2006</b>	5 472	221 066	(10 282)	17 933	116 042	350 231

**Consolidated balance sheets**

at 31 December 2006

	Group 31/12/06 Reviewed R 000	Group 31/12/05 Audited R 000
<b>ASSETS</b>		
<b>Non-current assets</b>	<b>510 557</b>	<b>193 179</b>
Property, plant and equipment	229 747	124 831
Intangible assets	273 273	57 727
Investments in joint ventures	2 177	2 765
Financial assets	–	3 208
Non-current receivables	366	–
Deferred tax assets	4 994	4 648
<b>Current assets</b>	<b>403 602</b>	<b>175 792</b>
Inventories	176 656	84 846
Trade and other receivables	212 888	90 702
South African Revenue Services	5 676	–
Cash and bank balances	8 382	244
<b>Total assets</b>	<b>914 159</b>	<b>368 971</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and reserves</b>	<b>350 231</b>	<b>165 027</b>
Share capital	5 472	4 826
Share premium	221 066	97 886
Treasury shares	(10 282)	(20 692)
Fair value and other reserves	17 933	7 564
Retained earnings	116 042	75 443
<b>Non-current liabilities</b>	<b>300 072</b>	<b>111 853</b>
Borrowings	221 764	96 065
Retirement benefit obligations	600	600
Deferred tax liabilities	77 142	14 356
Provisions	566	832
<b>Current liabilities</b>	<b>263 856</b>	<b>92 091</b>
Trade and other payables	154 748	65 108
South African Revenue Services	3 037	213
Derivative financial liabilities	466	599
Borrowings	93 842	24 095
Provisions	11 763	2 076
<b>Total equity and liabilities</b>	<b>914 159</b>	<b>368 971</b>
Net asset value per share (cents)	349	209

**Consolidated cash flow statements**

for the year ended 31 December 2006

	Group 31/12/06 Reviewed R 000	Group 31/12/05 Audited R 000
<b>Cash flows from operating activities</b>		
Cash generated from operations	40 776	7 203
Interest received	–	845
Finance costs	(19 498)	(7 357)
Dividends received	2 526	–
Dividends paid	(7 179)	(3 968)
Tax paid	(8 509)	(7 778)
	8 116	(11 055)
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(32 240)	(31 701)
Proceeds from disposal of property, plant and equipment	9 998	2 622
Increase in intangible assets	(20 173)	(13 808)
Disposal of joint venture	–	512
Acquisition of subsidiaries and operations, net of cash	(54 370)	(8 359)
Increase in investments and non-current receivables	(366)	–
	(97 15	