# Metair Investments Limited
## Annual Report 2005

# Contents



# Financial Highlights

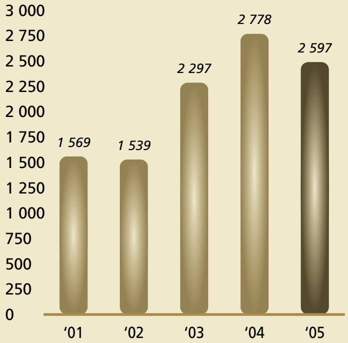
## for the year ended 31 December 2005



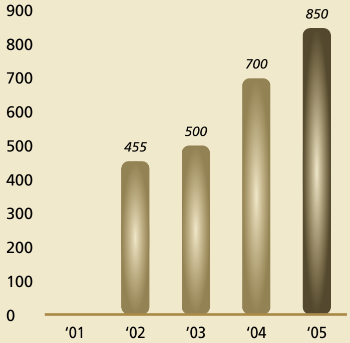
| | **2005 R'000** | 2004 R'000 | 2003 R'000 | 2002 R'000 | 2001 R'000 |
|---|---|---|---|---|---|
| Revenue | **2 151 020** | 1 949 547 | 1 854 208 | 1 612 836 | 1 208 339 |
| Profit before taxation | **241 472** | 233 759 | 189 902 | 117 054 | 107 618 |
| Interest paid | **10 104** | 11 953 | 19 026 | 21 942 | 11 796 |
| Profit attributable to ordinary shareholders | **158 428** | 161 143 | 135 806 | 88 335 | 92 546 |
| Total equity | **986 910** | 834 550 | 686 010 | 582 367 | 518 195 |
| Interest-bearing debt | **69 081** | 84 751 | 99 175 | 92 896 | 75 819 |
| Property, plant and equipment | **502 118** | 439 476 | 337 940 | 279 999 | 228 528 |
| Current assets | **792 889** | 736 278 | 610 250 | 554 804 | 477 580 |
| Total assets | **1 369 026** | 1 251 649 | 1 027 711 | 911 572 | 773 850 |
| Number of shares in issue | **5 995** | 5 949 | 5 898 | 5 898 | 5 826 |
| Weighted average number of shares in issue | **5 984** | 5 937 | 5 898 | 5 841 | 5 819 |
| Net asset value per share (cents) | **16 462** | 14 028 | 11 631 | 9 874 | 8 895 |
| Basic earnings per share (cents) | **2 648** | 2 714 | 2 303 | 1 512 | 1 590 |
| Headline earnings per share (cents) | **2 597** | 2 778 | 2 297 | 1 539 | 1 569 |
| Dividend per share (cents) declared and paid | **850** | 700 | 500 | 455 | |
| Dividend cover (times) (calculated on headline earnings) | **3.1** | 4.0 | 4.6 | 3.4 | |
| Net profit as a % of average total shareholders' funds | **17.4** | 20.9 | 21.4 | 16.1 | 19.6 |
| Profit before interest and tax as a % of average total assets (excluding cash) | **20.4** | 22.7 | 22.6 | 16.8 | 16.6 |
| Total shareholders' funds as a % of total assets | **72.1** | 66.7 | 66.8 | 64.1 | 67.0 |
| Interest cover (times) | **26** | 21 | 11 | 6 | 10 |

**Notes:**
The 2004 year has been restated in accordance with IFRS, the previous years are stated in accordance with SA GAAP.

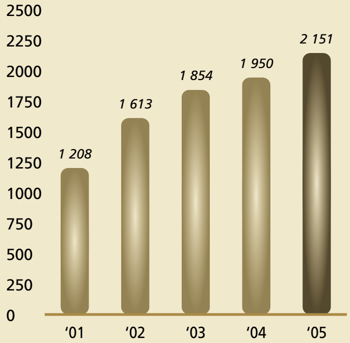
**Headline earnings per share**
*(Cents)*




**Dividends per share[1]**
*(Cents)*




**Revenue**
*(Rmillion)*




**Notes:**
1. The dividend in respect of the 2001 financial year was declared and paid during 2002.

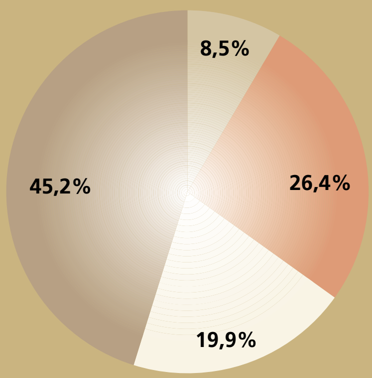
# Group Profile & Turnover by Sector

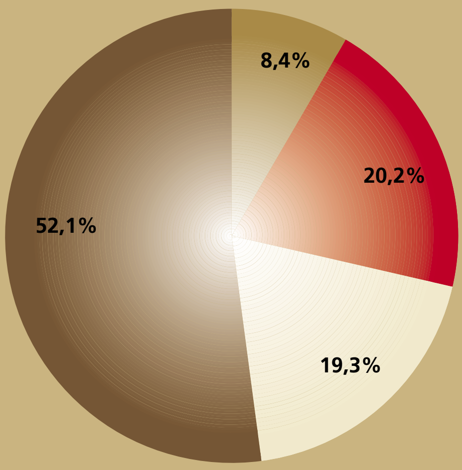
Metair Investments Limited ("Metair") encompasses a portfolio of companies manufacturing and distributing products predominantly for the automotive industry. The seven operating subsidiaries and two associate companies are autonomously managed and each has a specific product focus. Automotive components are supplied primarily to South African assemblers of new vehicles (OEM's), but the group also supplies components for the replacement market and a proportion of output is exported.

Products manufactured include heating and cooling systems, shock absorbers, springs, lead acid batteries, lighting and signalling devices, plastic mouldings, wiring harnesses and front end modules.

Metair is dedicated to the automotive industry and through partnerships and technical relationships, brings a South African focus to a global industry. Ongoing investments in facilities and people ensure that subsidiary companies meet the challenge of continuous quality and efficiency improvements and maintain a competitive edge despite increasing demands from customers to reduce costs.

## Turnover by sector *(R'000)*




### 2004

| | |
|---|---|
| Original equipment | R881 075 |
| Export | R513 871 |
| Aftermarket | R388 014 |
| Non-auto | R166 587 |

### 2005

| | |
|---|---|
| Original equipment | R1 120 665 |
| Export | R434 072 |
| Aftermarket | R415 166 |
| Non-auto | R181 117 |

*Export includes an estimate for the year in respect of those components supplied to OEM's for incorporation into their vehicle export programmes.*

# Group Structure

Metair Investments Limited

## Smiths Manufacturing (Pty) Ltd
75%
- Radiators
- Heaters
- Air-conditioners
- Condensers
- Cooling fans
- Hoses and pipes

## Smiths Plastics (Pty) Ltd
100%
- Plastic injection mouldings

## Smiths Electric Motors (Pty) Ltd
100%
- Blower motors

## Hesto Harnesses (Pty) Ltd
100%
- Wiring harnesses

## Metindustrial (Pty) Ltd First National Battery Division
100%
- Batteries (includes non automotive)

## Metindustrial (Pty) Ltd Supreme Spring Division
100%
- Coil springs
- Leaf springs
- Stabilisers
- Torsion bars

## Hella South Africa (Pty) Ltd
100%
- Headlights
- Plastic injection mouldings
- Lamps
- Wheel trims
- Horns

## Unitrade 745 (Pty) Ltd
100%
- Automotive cable

## Valeo Systems South Africa (Pty) Ltd
49%
- Front end modules

## Tenneco Automotive Holdings SA (Pty) Ltd
25.1%
- Shock absorbers
- Struts
- Track control arms

# Directors and Officers

## AD Plummer*
(58)
*Non-executive chairman*
*FCA (England & Wales)*

## RS Broadley
(73)
*Independent non-executive director*
*Advanced Technical Certificate*

## CT Loock
(41)
*Managing director*
*B. Eng (Industrial)*

## L Soanes*
(69)
*Independent non-executive director*
*National Certificate of Engineering*

## CIJ van der Merwe
(57)
*Finance director*
*M Comm. (Acc), CA (SA)*

## SM Vermaak
(40)
*Company Secretary*
*B. Comm. (Fin. M.) AIRMSA*

## E Bradley
(67)
*Non-executive director*
*BSc, MSc*

## GJ Strydom
(42)
*Non-executive director*
*B. Compt (Hons) CA (SA)*

## Secretary
SM Vermaak

## Transfer Secretaries
Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street, Johannesburg, 2001

## Registered Office
10 Anerley Road, Parktown, 2193

## Registration Number
1948/031013/06

*British

# Chairman's Report



**OVERVIEW**

We take pleasure in announcing the results for 2005 to shareholders. With conditions favourable for a consumer boom, the South African vehicle market experienced record sales in 2005 and this reflected in increased turnover for the group. However, manufacturing companies generally experienced significantly increased competition and Metair was no exception in this respect. Gross margins were lower and overall profitability did not reflect the increase in turnover. The annual report has been prepared on the basis of IFRS and comparative figures adjusted accordingly.

Profit after tax increased by 5,8% but the net profit attributable to shareholders reduced to R158,4 million compared to the R161,1 million achieved in 2004, due to the increase in minority shareholders interest. Headline earnings per share for the full year were 2 597 cents compared to 2 778 cents achieved in the previous year. Headline earnings for the second six months were 1 414 cents compared to 1 463 cents achieved for the comparable period of 2004. A dividend of 850 cents per share has been declared in respect of 2005 compared to 850 cents declared in respect of 2004.

**INDUSTRY REVIEW**

The 2005 year was characterised by an exceptional increase in demand for vehicles in the domestic market. Trading conditions for exports remained difficult. The Rand was stable throughout 2005 at between 6.00 and 6.70 to the Dollar and this together with equally stable interest rates resulted in improved vehicle affordability and an increase in domestic vehicle sales to an all time record. However, the bulk of this growth was achieved by imported vehicles which recorded a substantial gain in market share. The strength of the Rand resulted in continuing pressure not only on export volumes and margins but also on domestic margins and this pressure was exacerbated by significant increases in raw material and commodity prices.

Total sales of passenger and light commercial vehicles in the domestic market (as reported by NAAMSA) increased from 460 000 in 2004 to 590 000 (a 28,3% increase and a cumulative 60% increase over 2003). Sales of locally produced vehicles increased by only 10,6% but imported vehicle sales again increased dramatically by 70,2% in 2005, constituting 50% of passenger car sales.

Exports of built-up vehicles increased by 26,8% from 110 000 in 2004 to 139 500 mainly due to the commencement of the Toyota Hilux export programme. Overall production of passenger and light commercial vehicles increased by 14,5% from 434 000 in 2004 to 497 000.

The review of the Motor Industry Development Programme (MIDP) commenced towards the end of the year with the appointment of independent consultants and their recommendations are expected by the middle of 2006. Despite the growth in imported vehicles, the restructuring of the vehicle manufacturing industry in South Africa became more evident in 2005 with further rationalisation of the number of models and higher production volumes per model produced.

This trend provided component manufacturers with greater opportunities for the supply of components but price competition was intense with more global production moving to low cost producers. This together with the impact of tariff reductions under the MIDP and the stable Rand resulted in the component industry experiencing further substantial pressure on margins. Component exports other than specific categories such as catalytic converters and engine components showed little growth with the Rand exchange rate being the main constraint.

**GROUP STRUCTURE**

As announced in the interim report, Metair sold 25% of the shares in Smiths Manufacturing (Smiths) to Denso Corporation effective 1st May 2005. The consideration was R47 million.

As also announced, Metair signed an agreement on November 8th 2005 to sell 25,1% of the shares in Hesto Harnesses to Yazaki Corporation. The effective date of the sale will be 3 April 2006.

# Chairman's Report



Metair has enjoyed a longstanding relationship with both Denso and Yazaki as licensors and these investments will further strengthen these ties and significantly enhance the group's ability to service its customers with world class products. Both Japanese partners will have staff based in South Africa and will play an active part in the management and operation of the two subsidiaries.

Immediately prior to the sale of the shares in Smiths, the assets of the motors division of Smiths were transferred to a new company – Smiths Motors (Pty) Limited which is wholly owned by Metair. The company had a turnover of R17,0 million for the period and traded profitably.

On 31 December, the assets of the cable division of Hella SA (Pty) Limited (Hella) were sold to Unitrade 745 (Pty) Limited, also wholly owned by Metair. Management responsibility remains with Hella.

**OPERATING RESULTS**

Total group turnover increased by 10,3% to R2 151,0 million compared to R1 949,5 million in 2004. As disclosed in the interim report, the growth in turnover expected in the first six months was constrained by the delay in the introduction and volume ramp up of two major models introduced by customers. The growth in the second six months was more consistent despite the fact that price reductions relating to exchange rate movements were passed on to customers.

The 10,6% increase in locally produced vehicles sold in the domestic market together with the commencement of new contracts in the first six months resulted in a higher OE turnover for the full year. Sales of components to OE customers increased by 27,2% and OE sales constituted 52,1% of turnover – (2004 45,2%).

Export sales declined by 15,5% from R513,9 million in 2004 to R434,1 million. Direct component exports were lower than 2004 due to reduced sales of batteries and constituted 34,5% of total exports. Indirect component exports (components sold to OEM's for incorporation into vehicles destined for export markets) increased from R237,1 million to R241,1 million. Indirect component exports were lower in the first six months but increased in the second six months as a result of the ramp up of the BMW and Toyota export programmes of the 3 Series and Hilux models respectively. Non automotive exports declined from R52,8 million to R42,9 million as the exchange rate made prices less competitive.

Overall exports declined from 26,4% of turnover in 2004 to 20,2%.

Aftermarket sales mainly comprised automotive batteries, air-conditioner kits and parts and automotive lighting products. This market was again characterised by the growth in sales of imported products with significant penetration increases in the case of batteries and lighting products. The increase in vehicle sales however, provided opportunity for growth in air-conditioner kit sales. Overall aftermarket sales increased by 7,0% compared to 2004 to R415,2 million compared to R388,0 million in 2004.

Non-automotive turnover comprised sales of industrial batteries for the mining, fork truck and stand-by use in the domestic market. The turnover in this sector increased by 8,7% to R181,1 million.

Overall gross profit reduced by 4,4% and gross margins achieved were 3,3% lower than 2004 (21,3% compared to 24,6%). The main reason was that the new business won was at lower margins due to the need to meet globally benchmarked prices. Additional costs were incurred during the launch of technically more complex products mainly in the first six months and costs for technical assistance, training and launch costs were also absorbed. Manufacturing performance during this period was disrupted by the delayed introduction of new models by customers and overtime costs incurred in meeting extended operating patterns. The second six months saw much more stable operating conditions at higher volumes.

Selling, administration and distribution expenses were contained at 2004 levels partially due to the reduction in export sales.

Operating profit was higher to that achieved in 2004 but included the R16,2 million profit realised on the sale of the 25% shareholding in Smiths Manufacturing and higher other income (foreign exchange profits, investment incentives, discounts received etc).

Income from associates reflects Metair's share of the profits and losses of two associates – Tenneco Automotive Holdings SA (Tenneco) and Valeo Systems SA (Valeo). Valeo continued to trade profitably and enjoyed higher turnover due to the growth in demand from Volkswagen SA. Losses at Tenneco escalated in 2005 and in August Metair decided to impair the full value of the remaining investment in Tenneco. This resulted in the amount of R12,9 million reflected on the income statement.

Financing costs were very similar to 2004 due to the very strong cash flow despite the capital expenditure incurred and dividends paid during the year. The cash flow generated during the year resulted in net cash increasing to R159,5 million on the balance sheet compared to R145,7 million in December 2004.

The increase in minority shareholders' interest relates predominately to the 25% investment made by Denso in Smiths Manufacturing from 1st May 2005. Two Denso representatives, one commercial and one technical, were seconded to Smiths and joined the Smiths Board. Their presence and the enhanced relationship with Denso in Japan led to improved communications and prospects for greater co-operation in respect of new products, manufacturing and engineering methods and global sourcing of components.

The tax rate was 29,2% in 2005. Of the tax charge of R70,4 million, deferred tax constituted R5,3 million.

From a manufacturing perspective, 2005 was a challenging year with some subsidiaries handling the new product introductions better than others. This is discussed in more detail in the commentaries on each subsidiary. OE customers generally demanded shorter lead times for new product launches and a steeper ramp up to volume production. Reduced inventory holdings and just-in-time delivery meant that where customers were unable to meet their volume requirements in normal time, overtime premium costs had to be incurred to support them.

The group relied increasingly on the introduction of lean manufacturing systems to contain costs and improve responsiveness. Under the direction of lean manufacturing co-ordinators, good progress was made in implementing these manufacturing methods. Significant assistance was received from our Japanese partners in this respect and Toyota also provided specific assistance to Smiths Plastics. The number of visits by staff of licensors and by Metair employees again increased.

Increasing quality requirements from OE customers meant that group companies had to meet targets of component defects of 100 parts per million or less. Whilst compliance with quality systems such as TS16949 and VDA6 and environmental systems such as ISO14001 was maintained across the group, a zero defect objective meant that quality management methods had to be adapted to achieve compliance in a labour intensive environment. Whilst delivered quality levels again improved significantly during 2005, this remains a key focus area. The increasing emphasis on vehicle exports also meant that compliance with European Substances of Concern leglislation (SOC's) became necessary and good progress was made in this respect.

The Metair group participated in the NAACAM sponsored evaluation questionnaire in terms of progress towards BBBEE. Employment equity remains a major element of compliance and all subsidiaries have increased trainee programmes and recorded good progress in trainee development.

Total group headcount increased from 4 912 in December 2004 to 5 186 at year end reflecting the increased activity levels. Labour efficiencies recovered in the second six months when production stabilised following the new product introductions in the first six months.

# Chairman's Report



The balance sheet reflects an increase in the net book value of fixed assets of R62,6 million from R439,5 million to R502,1 million following the commissioning of the new project facilities. Current assets (stock and debtors but excluding cash) increased by R56,0 million reflecting the increase in turnover. The reduction in export sales had a positive effect on debtor's days. The net cash position remained positive.

The balance sheet remained strong with shareholders funds representing 72,1% of total assets at year end (2004: 66,7%).

**PROSPECTS**

**Industry**

The overall prospects for the industry remain positive for 2006. Domestic vehicle sales should again increase but percentage growth may be less than that experienced during the past two years. Much depends on the stability of interest rates and exchange rates. Vehicle exports should increase substantially with the full year effect of the BMW 3 Series and Toyota Hilux export programmes. Whilst imported vehicles may gain further market share in the domestic market, overall production of vehicles should increase. The continuing rationalisation of the number of models produced in South Africa and the focussed export programmes should lead to higher production volumes per model with increased localisation potential.

Price competitiveness remains the key issue for both vehicle and component manufacturers. The substantial growth in the domestic market has not gone unnoticed world wide. Volumes in South Africa, whilst still tiny compared to global production, have increased at a higher rate than most other markets. This has attracted new entrants and further developments in this respect may be expected. For component manufacturers, the continued strength of the Rand will mean further pressure to meet global cost competitiveness.

Component exports will remain under pressure with little expected growth unless the Rand weakens. There will be no shortage of demand for export credit certificates given the high level of vehicle imports but margins and volumes will remain under pressure. The pending review of the programme remains a cause of uncertainty.

Demand in the replacement market should continue to grow given the increase in the vehicle parc but, as with the vehicle market, much of this growth will be met by imported products. The continued fragmentation of the new vehicle market (more than 1000 models and derivatives are listed) means that fewer components can be economically manufactured locally.

Demand for industrial battery products should be stimulated by the major infrastructional projects announced by the Government.

The comments made in the last annual report in terms of the challenges facing the South African component industry flowing from globalisation remain applicable. The acceleration in the growth in the sales of imported vehicles experienced in 2005 and the source of many of these vehicles (Korea and India) emphasises the threat from low cost producing countries.

The same trend is also evident in the sourcing patterns of CKD components where more production is being resourced to the lower cost countries in the Pacific Rim and Eastern Europe and more recently to India and China.

Global relationships will remain a key issue as virtually all sourcing decisions are made outside of South Africa.

**Metair group**

The continued growth expected in the domestic vehicle market in 2006 should have a positive impact on turnover for the group. Toyota's decision to increase production of the Hilux model from the 300 per day targeted in 2005 to 500 per day by the end of 2006 will generate significant additional turnover for the group. Gross margins will however be lower and cost recovery on existing OE business will be difficult particularly if the Rand remains in the current trading range.

Component export volumes and margins will remain constrained by the Rand exchange rate but some niche markets have potential for growth.

The growth of imported products in the domestic replacement market remains a concern but P&A sales should reflect the higher vehicle sales and the group has distribution advantages in terms of the Battery Centre franchise operated by First National Battery. The runout of a high volume model will however impact on Dunair sales of air conditioner kits.

Additional investments will be necessary to meet the higher volumes projected by customers particularly in terms of injection moulding capacity and storage space. Investments made during 2005 in training, new facilities and technology will also assist group companies to meet the expected volume increases and the greater demands from customers in terms of specification, quality, delivery and cost.

2005 saw the culmination of three years of discussions with the signing of agreements with Denso and Yazaki and their 25% participation in Smiths Manufacturing and Hesto Harnesses respectively. Metair is convinced that such equity relationships are essential in meeting the global challenge of component production in South Africa particularly for OE customers. Further discussions commenced in 2005 and will be pursued in 2006. The dilution effect of the minority equity participation will have a negative impact in the short term. However, group companies will benefit in the medium to long term as they become increasingly integrated into their minority partner's global structures.

The exchange rate remains a major determining factor in terms of the overall profitability of the group and at the current level, margins will remain under pressure.

After 22 years as Managing Director of Metair I have decided to retire from this position and Theo Loock has been appointed as my successor with effect from 2nd March 2006. I will continue my association with the company as Non-executive Chairman replacing Mrs Elisabeth Bradley who remains a Board member. We are deeply grateful to Elisabeth for her guidance as Chairman since the death of her father in 1991.

I would like to express my appreciation for the dedication and commitment of the management and staff of Metair and its subsidiaries. As Chairman, I am committed to ensure continuity in the strategic development of the group under the leadership of Theo Loock.

**AD Plummer**
*Chairman*
15 March 2006

# Smiths Manufacturing (Pty) Limited (Smiths)



**Leon Coetzee**
*Managing Director*

Turnover increased by 7,9% over 2004. Original component sales to motor plants increased by 13,9% due to the overall increase in vehicle production volumes which offset the reduction in turnover resulting from the loss of the BMW 3 Series air-conditioner business. Dunair, the Aftermarket Spares and Accessories Division, did particularly well, increasing turnover by 24,5%. However, export competitiveness diminished, causing sales to reduce by 26,2% from 2004 levels.

Price reductions by overseas component suppliers to vehicle manufacturers, combined with the relative strength of the Rand, made it difficult to compete with imported component prices. Consequently, margins deteriorated and PBIT reduced by 10,8% from the high base of 2004 but remained at acceptable return levels.

The Smiths Business Systems (SBS) cost down and visual management activities were timeous considering the growth in local vehicle manufacture. Just in time deliveries of 8 – 12 shipments per day became necessary to support Toyota's minimum stock requirements. A high degree of flexibility was implemented to minimise investment in returnable packaging and to accommodate the daily fluctuation in vehicle variant mix.

Discussions initiated conceptually in 1998, culminated in the acquisition by Denso of a 25% shareholding in Smiths on the 1st May 2005. Two Japanese operational directors (one commercial and one technical) were appointed to the Smiths board. This brought Smiths into the global orbit of Denso who are one of the world's largest component suppliers of air-conditioning, heat transfer, electrical and electronic components. The Denso partnership is resulting in an overall improved capability to meet customer requirements.

The move to the new assembly plant was bedded down early in 2005, after which the focus shifted to the new 6 000 sq meter Denso technology heat exchanger plant. The construction of the building was completed and the new high volume furnace installed prior to the end of 2005. Heat exchangers for the current Corolla will be running from January 2006 with progressive introduction of Hilux radiators, condensers and heater cores starting at the end of April, followed later by Mercedes radiators.

The growth anticipated in 2006/2007 will require additional space. Dunair, the Accessory and Spares division of Smiths Manufacturing, will be relocated to new rental premises early in 2006. An additional warehouse will also be constructed and rented in close proximity to the Smiths site to accommodate the increased volume of imported sub components.

Capital investment of approximately R35,0 million is planned to increase the capacity of the fluid exchanger (pipe and hose) plant to meet increased demand, introduce the newest Denso technology and to relocate the plant to more suitable premises.

The prediction for 2006 is similar to that contained in the last annual report. Production volumes will increase mainly due to the growth of Toyota production. Domestic and export margins will be constrained by the strong Rand and global competition. Despite higher turnover, margins and overall profitability may reduce relative to 2005.

# Smiths Plastics (Pty) Limited (Smiths Plastics)



**Kenneth Lello**
*Managing Director*

Turnover increased by 30% in 2005 based on the additional business secured on the new Toyota Hilux. However significant inefficiencies were incurred in mid year due to the non achievement of launch volumes by the customer and shortage of dunnage resulted in substantial overtime costs. Cost down pressures were experienced on the new business and this together with the higher cost structure required to meet the increased volumes, resulted in a slight decline in profitability compared to 2004.

Toyota's expansion and export program created many new challenges for Smiths Plastics in 2005 during the facilitisation for the Hilux project. The team managed the high level of tool trial runs and placed more than 100 moulding tools for the IMV Hilux project into production. The Smiths Plastics "SBS" Continuous Improvement Program also took root during 2005. A dedicated team was established, including a manager and eight trainees. A full production system was introduced for all injection moulding production machines and most assembly operations. The injection moulding planning system was converted to a visual pattern production system, running every component every day and with fixed stock locations, finished goods stock holding reducing to an average of 2 days, and manufacturing flexibility increased to accommodate customer fluctuations.

Quality remained a major focus of the management team during 2005 with excellent results being achieved. Smiths Plastics received an "A" rating from VWSA, "Green" status from GM, a "PQC" rating of 80% from TSA and retained international ISO 14001 and TS16949 ratings. Overall part rejects from customers were minimal, in line with targets set by them. The management team will focus on achieving the Ford Q1 Award during 2006.

Capital investments authorised in 2005 will be implemented in the first half of 2006 to accommodate volume growth but should also lead to significant improvements in productivity. Additional injection machines have been ordered and robots will be installed on all injection moulding machines above 250 ton. A visual production control system termed "Mould Flow" will improve processes and monitor downtime and scrap control in the injection moulding plant. Logistics will be consolidated into the new premises adjacent to the moulding plant acquired in 2005. The investment in flow racks will ensure that first-in-first-out material control and traceability will meet motor plant requirements.

With Toyota's requirement to increase production capacity for the Hilux to 500 units per day and to accommodate business secured for the next Corolla, further capital expenditure will be required in 2006/2007. A further 20 injection moulding machines with robots, an additional paint plant and additional assembly facilities will require the existing factory to be extended by a further 2000 square meters and an extensive electrical capacity upgrade.

The tremendous learning curve experienced during 2005 will show benefits during 2006. Pricing pressure remains intense but will be offset by the increased volume and efficiency improvements. Profitability should increase accordingly. Significant further growth in turnover is expected over the next three years based on the Toyota expansion program and increased sales to other customers.

# Metindustrial (Pty) Limited
# First National Battery Division (FNB)



**Louis Laubscher**
*Divisional Managing Director*

Contrary to the expectation that profitability may decline in 2005 as a result of the very high LME lead price and the strong Rand, First National Battery managed to increase profit after tax by 7%, despite a 2% decline in turnover. Continued focus on asset management and cost control, rendered a strong positive cash flow for the year under review.

Price pressures were successfully offset by a continued drive for cost savings and improved efficiencies. Investments in battery assembly equipment and a major engineering programme to optimise material usage contributed significantly in this respect.

Due to the strength of the Rand, export business became less attractive and management's decision to scale down battery exports resulted in a reduction of 50% during 2005, to 8% of total turnover.

Difficult trading conditions prevailed and imports caused severe pressure on pricing. Importers substantially increased their activity in the automotive battery replacement market and gained further market share to a current level of approximately 30%. First National Battery's strategy of differentiation through world-class product quality and excellence of service has contributed to contain the loss of market share in this segment.

The company increased its market share in the original equipment automotive business and the projected growth in this segment over the next number of years will put pressure on manufacturing capacity. Projects are under way to increase capacity through improved manufacturing processes and selective capital investment. Continued in-house technical development will facilitate further improvements in product quality and manufacturing processes.

Infrastructural developments in parastatals such as Eskom and Transnet, created local demand for FNB's industrial products and counteracted the negative impact of reduced exports. Strong growth in commodity prices benefited certain sectors in the mining industry, which in turn created opportunities for the mining division. This contributed to a 14% increase in turnover in this market segment.

The ongoing increase in the LME lead price is a concern. The growing level of activity of battery importers is making price recovery of these increases extremely difficult and this could have a negative effect on First National Battery's profitability in this coming year.

# Metindustrial (Pty) Limited
# Supreme Spring Division (Supreme)



**André Becker**
*Divisional Managing Director*

The continued strength of the local vehicle market combined with the start of new contracts for Toyota and Land Rover, resulted in the company's turnover increasing by 25% over 2004.

Despite the setback experienced when MG Rover were liquidated during the second quarter and the pressure on export margins due to the ongoing strength of the Rand, profitability improved significantly over 2004.

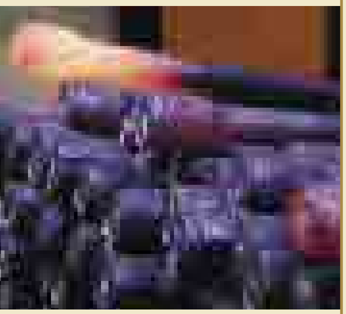
Supreme not only accommodated the increased production requirements but did so efficiently and at a significantly improved quality level. Focused plant maintenance ensured production continuity and investments in robotics were successfully commissioned.

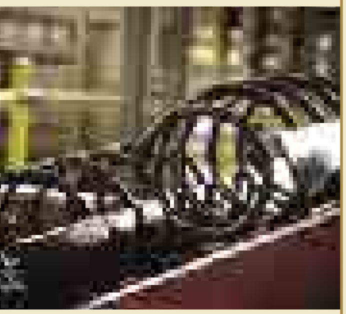
The company also significantly improved its image as a world class spring manufacturer and several new contracts are under development which should come to fruition in 2006/2007 and beyond.

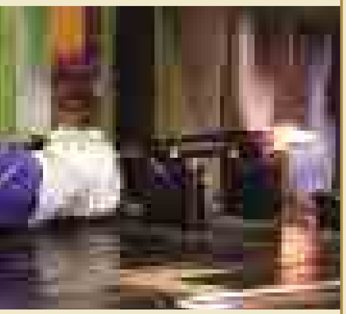
A capital investment of R15 million was authorised for facilities for the manufacture of cold-formed coil springs and stabiliser bars. The equipment will be installed in 2006 and will enable the company to participate in a new and growing market. In addition further investments were made in leaf spring capacity to cater for the ramp-up in Toyota Hilux export volumes and equipment for in-house tooling manufacture.

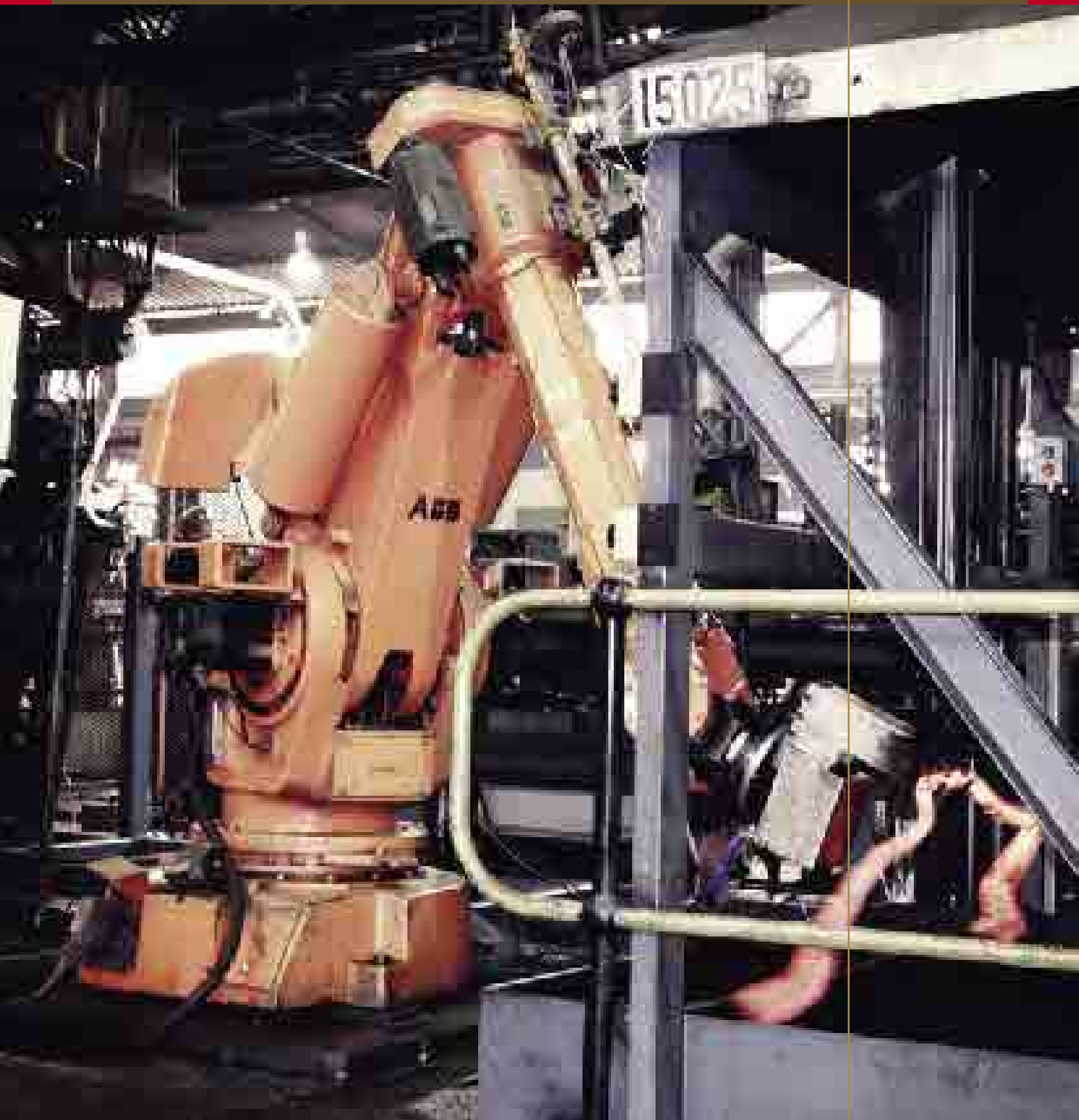
The company also strengthened its development department and has the skills and expertise to design, develop and commission new products and processes.

It is pleasing that the company has been able to sustain the improvements in performance recorded in 2004 and whilst there are ongoing operational and strategic challenges, the company is in an excellent position to tackle these with the strong management team now in place. Supreme is expected to show further growth in turnover and profitability in 2006.





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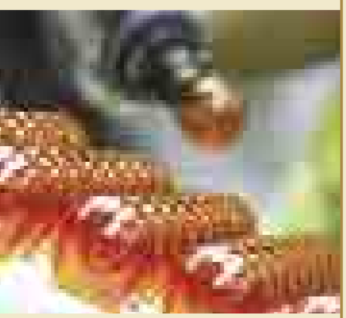
# Hella (South Africa) (Pty) Limited (Hella)



**Chris Rist**
*Managing Director*



The strong national economy was mirrored by buoyant vehicle sales during the review period. This, spurred by new projects which came on stream, increased turnover over the previous year by 22,7%.

Production of two new headlights and one new tail-light commenced during 2005. Unfortunately these launches coincided and exacerbated the normal problems experienced during a new product launch. Tooling, process and material problems resulted in high scrap levels and a lack of capacity and stable supply of good quality product to the end customer was only achieved at a considerable oncost.

The overall profitability was disappointing and fell below 2004 levels despite the considerable efforts expended by management.

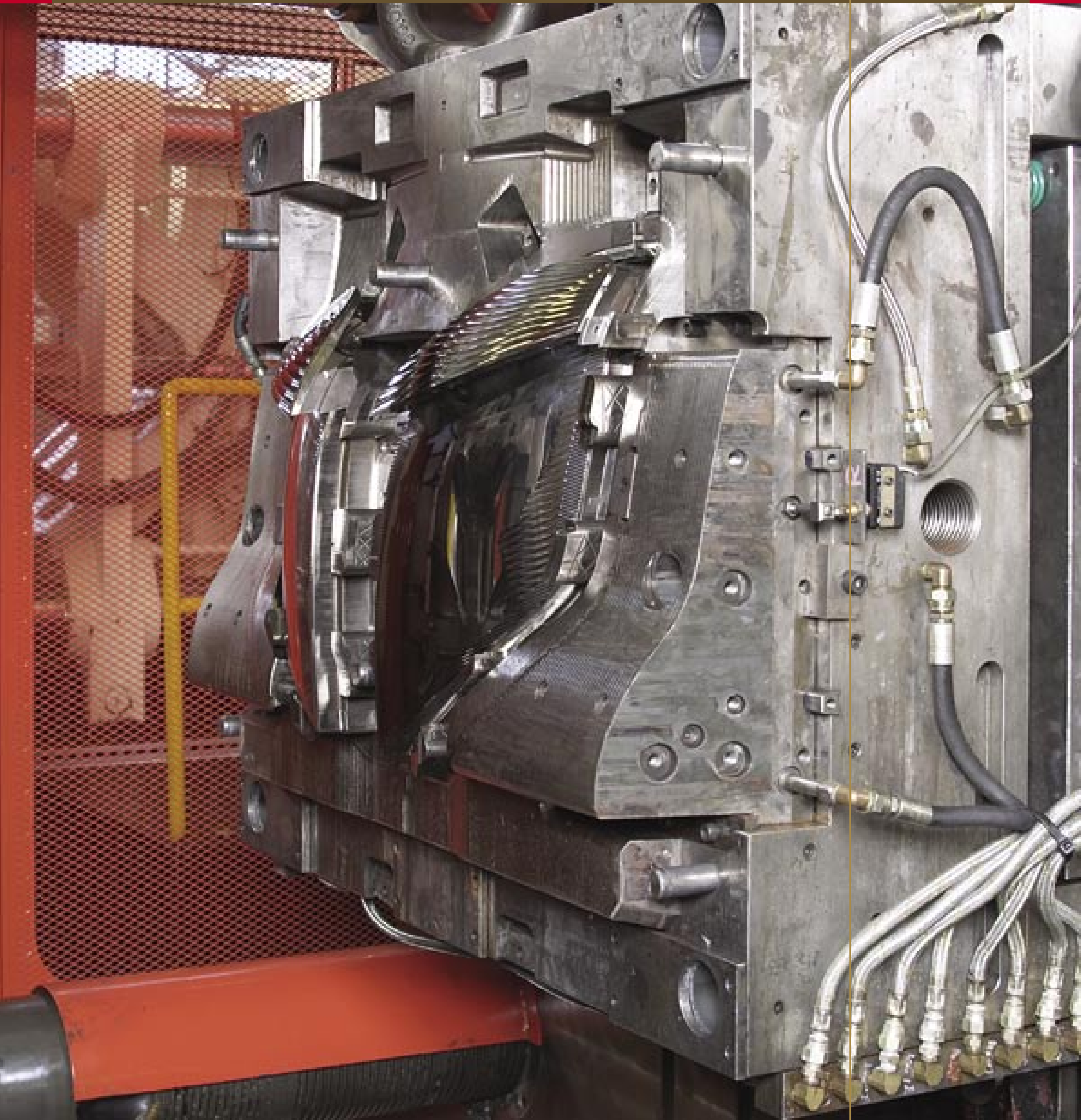
A 1 500 ton injection moulding machine was commissioned during December 2005 to increase moulding capacity and a centralised material handling system was approved to facilitate hygienic handling of plastic materials, at the same time optimising moulding machine efficiencies during changeover. Tools were modified with the assistance of our licensor and discussions held with the supplier of critical materials to improve delivered quality. The aesthetics of modern automotive lighting demand quality perfection. To this end it was found necessary to pressurise critical factory areas with filtered clean air to prevent dust contamination.

These actions will only be completed by the end of the first quarter 2006 and it is important that production stabilises before the advent of additional volume growth anticipated during the second half of 2006. Further capital investment is planned for an additional assembly line, additional injection moulding and metalising capacity and facilities for the production of the Golf A5 taillight assembly.

Both headlight and taillight volumes are expected to increase over the next two years, introducing opportunities for additional localisation. Previously, the high capital investment required for the new processes could not be justified on the volumes available. Extensive research with our technical aid partners on localisation projects will take place in the short term, with the view to extending our manufacturing capability and increasing the local content of our product by early 2007.

Volume demand for cable products was also good during 2005. Extensive resources were committed to localising specialised insulating compounds with success but further development of compounds meeting tighter European SOC requirements will be required in future and discussions for a technical licence have been initiated.

The rationalisation of vehicle production and increased volumes per model, driven mainly by export programmes, provide exciting opportunities for Hella's new products. However, as described above, the manufacturing processes are substantially more complex and the key management focus in 2006 will be manufacturing stability.



# Hesto Harnesses (Pty) Limited (Hesto)



**Tom Clarkson**
*Managing Director*

2005 was an eventful year. With the run out of Toyota's previous Hilux model, the Isithebe factory was vacated and all activities were consolidated in the 18 000 sq m factory in Stanger.

The production for the wiring harnesses for the replacement Hilux commenced in April and was substantially more complex. Much greater flexibility in production facilities and scheduling was required but with the assistance from our Japanese partners – Yazaki, this project raised our level of technology, manufacturing techniques and competitiveness to global standards.

At almost the same time, a second major project, the wiring harnesses for the Ford Focus was launched with Lear as our technical partner and this placed tremendous pressures on our technical, management and people and resources. Additional costs were incurred but we were able to meet both customers' requirements on time without missing any project deadlines. The Hilux and the Focus were global platforms exported from South Africa to a number of countries at higher volumes and this resulted in a 23% increase in turnover for the year.

Global platforms stimulate global competition. Pressure on prices and margins increased dramatically, especially as the Rand appreciated against the currencies of our main competitors in Thailand, Philippines and Turkey. In efforts to contain costs, labour efficiency was improved by 13%, in-house manufacture of specific components was introduced and the reduction of material cost including logistics costs was a major focus activity. The net result was an increase in profitability of 9,5%.

Harness production is a labour intensive process and during 2005, 500 people were trained at the Hesto Training School with specialist trainers being brought in from Europe and Japan and Hesto trainers spending time in the Philippines.

As South African vehicle manufacturers rationalise to produce higher volumes of fewer models destined for increased exports, it is clear that future business will depend on relationships with the original design partners to car manufacturers (source designers). The recently announced equity participation by Yazaki is a significant step in this respect. Yazaki is source designer to both volume models produced by Toyota in South Africa and to a number of other customers' current and future models.

Hesto in partnership with Yazaki has been chosen as the major harness supplier for the replacement of the Toyota Corolla and this will be the next major project in the development stage during 2006. Sales volumes should increase in 2006 as customers' export programmes mature but with the lower margins achieved on the new business introduced in 2005, overall profitability may be lower in 2006.

# Financial Review and Analysis of Shareholders

**FINANCIAL REVIEW**

The measurement of financial performance plays an important role throughout the Metair group. Budgeting systems, monthly reporting and quarterly forecasts are applied and reviewed at subsidiary and group level and the executive directors of Metair actively participate in the regular review of the performance of subsidiaries.

The principal financial objective is to maximise shareholder wealth whilst recognising that the cyclical nature and capital intensity of the motor industry demands a conservative approach to dividend distribution.

The policy of the group has been to maintain a dividend cover of between three and four times

A dividend of 850 cents per share was declared on 15 March 2006 in respect of the 2005 financial year.

**PERFORMANCE MEASURE**

The key measurement of performance used by the group is ROA (return on total assets). This measures earnings before interest and tax (EBIT) as a percentage of gross assets (total assets excluding cash). The target is a return of 22% (2004: 22%) which was confirmed at a board meeting in March 2006 and performance related bonuses for directors are predominantly linked to the achievement of this objective.

The percentage achieved for 2005 was 20,4% (2004: 22,7%) being 1,6% below the target of 22%.

The 22% return, whilst onerous, remains an achievable group objective, but is continually under review.

**TAXATION**

The group tax rate was 29,2% (2004: 30,8%).

**GEARING**

The group objective is that shareholders' funds should always exceed 50% of total assets. The percentage at year-end was at a comfortable 72,1% (2004: 66,7%). Current assets increased compared to 2004 due to increased business.

**RETIREMENT FUNDS**

The group provides retirement benefits to its employees by way of both provident and pension funds, with the latter being a defined benefit fund. Pension fund benefits are provided under the Metair Group Pension Fund – governed by the Pension Funds Act of 1956. The group also provides post employment medical aid to certain employees in the group.

The fund is officially valued every three years on 30 April and the latest actuarial valuation on 30 April 2003 confirmed a sound financial position.

Further detail is presented in the notes to the financial statements.

**ANALYSIS OF SHAREHOLDERS**

AN ANALYSIS OF SHAREHOLDERS AT 31 DECEMBER 2005 SHOWED THE FOLLOWING:

| | Shareholders | | No of shares | |
|---|---|---|---|---|
| | Number | % | '000 | % |
| Shareholders' spread | | | | |
| Public shareholders | 622 | 98,57 | 632 | 11 |
| Non-public shareholders | 9 | 1,43 | 5 363 | 89 |
| Major shareholders with more than 5% holding: | | | | |
| Wesco Investments Ltd and its subsidiaries | | | 2 362 | 39% |
| Old Mutual Nominees (Pty) Ltd | | | 1 269 | 21% |
| South African Trust and Finance Company Ltd | | | 487 | 8% |
| Nedcor Nominees Holdings | | | 422 | 7% |
| Absa Nominees (Pty) Ltd | | | 348 | 6% |
| First National Nominees (Pty) Ltd | | | 328 | 5% |

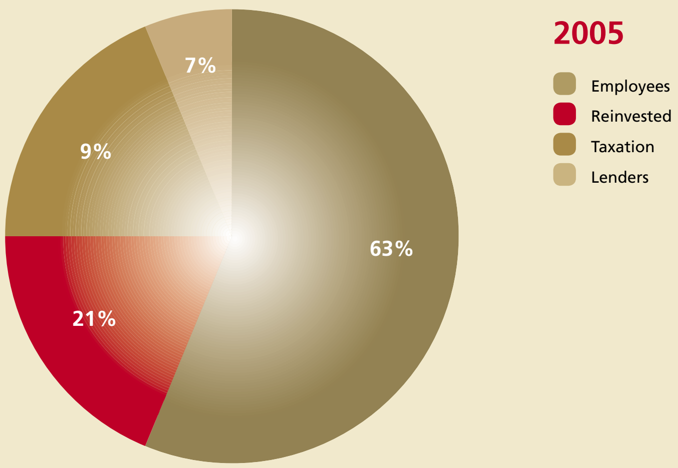
# Value Added Statement

for the year ended 31 December 2005



| | | Group | |
|---|---|---|---|
| | | **2005 R'000** | 2004 R'000 |
| **WEALTH CREATED** | | | |
| Revenue | | **2 151 020** | 1 949 547 |
| Less: Net cost of products and services | | **(1 351 412)** | (1 234 548) |
| Value added | | **799 608** | 714 999 |
| Add: Income from investments | | **4 668** | 13 794 |
| Wealth created | | **804 276** | 728 793 |
| **WEALTH DISTRIBUTION** | % | | |
| Employees | | | |
| Salaries, wages and other benefits | 63 | **503 913** | 435 173 |
| Providers of capital | 7 | **60 911** | 53 505 |
| Interest on borrowings | 1 | **10 104** | 11 953 |
| Dividends to shareholders | 6 | **50 807** | 41 552 |
| Government taxation and levies | 9 | **70 388** | 72 022 |
| Retained in the group | 21 | **169 064** | 168 093 |
| To provide for the maintenance of capital | 6 | **48 787** | 47 908 |
| To provide for expansion | 15 | **120 277** | 120 185 |
| | 100 | **804 276** | 728 793 |
| Total number of employees | | **5 186** | 4 912 |

## Distribution of Value Added %



# Corporate Governance



The directors of the company and its subsidiaries agree with the spirit of the recommendations of the code of corporate practices and conduct as contained in the King Report on corporate governance for South Africa (King II) released in March 2002, and are committed to implementation of these principles where appropriate.

**BOARD OF DIRECTORS**

The board of directors comprises of seven directors, of whom two are executive directors (one being the managing director), three non-executive directors (one being the chairman) and two independent non-executive directors. The board meets at least once a quarter with the responsibility for strategic and policy decisions, the approval of budgets, and the monitoring of group performance. Board meetings were attended by all members of the board in 2005, except for one meeting that was not attended by one of the directors.

A board self-evaluation process was conducted during the year on the board as a whole. This process was co-ordinated by the company secretary and results were discussed at the board meeting in December 2005. The board's attention was drawn to areas which need attention. This process will be co-ordinated and repeated annually to assess progress.

**FINANCIAL**

The directors acknowledge responsibility for the preparation of the annual financial statements, which, in their opinion, fairly present the state of affairs of the company and the group at the end of the year.

The external auditors are responsible for reporting on the fair presentation of these financial statements.

The consolidated financial statements as set out in this report have been prepared by the directors in accordance with International Financial Reporting Standards ("IFRS") and the interpretations adopted by the International Accounting Standards Board ("IASB") and the requirements of the South African Companies Act. They are based on appropriate accounting policies which have been applied consistently and which are supported by reasonable and prudent judgements and estimates. The directors also prepared the other information included in the annual report and are responsible for both its accuracy and its consistency with the financial statements. The financial statements have been audited by the independent auditors, PricewaterhouseCoopers Incorporated, who were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The directors believe that all presentations made to the independent auditors during their audit are valid and appropriate.

The audit report of PricewaterhouseCoopers Incorporated is presented on page 28.

**GROUP RISK ASSESSMENT**

Risk management is the responsibility of the board.

The group's risks have been identified and rated using a well structured and tested methodology. Reporting is done through the board audit committee which monitors and evaluates the whole process, on an ongoing basis, in its efforts to continually improve the group's exposure to risk.

**BOARD AUDIT COMMITTEE**

The company established a board audit committee on 25th August 2003 and an internal audit function was established during 2004. Mrs SM Vermaak was recommended by the audit committee and unanimously appointed by the Metair board as group internal auditor on 23 August 2004. Internal audits were done at all the Metair subsidiaries during October and November 2005 and a detailed internal audit report was presented to the committee.

The committee comprises two non-executive directors, namely Messrs AD Plummer and GJ Strydom, and an independent member Mr P R Robinson, who is also the chairman of the committee. Mrs E Bradley resigned from the committee on 31 December 2005 and Mr AD Plummer was appointed from

1 January 2006. The appropriate terms of reference for the committee are in place.

The main purpose of the committee is to assist the board in carrying out its duties relating to accounting policies, internal controls, financial reporting practices and identification of exposure to significant risk and setting principles for recommending the use of external auditors for non-audit services.

Meetings were held during the year in March, August and November 2005, which were attended by all members of the committee.

The next meeting will be held in March 2006.

**BOARD REMUNERATION COMMITTEE**

The group formalised a board remuneration committee on 25th August 2003. The committee comprises two independent non-executive directors, Messrs RS Broadley, who is also the chairman, and L Soanes and a non-executive director Mr AD Plummer. Mrs E Bradley resigned from the committee on 31 December 2005 and Mr AD Plummer was appointed from 1 January 2006.

The main purpose of the committee is:

- to discharge the responsibilities of the board relating to all compensation, including equity compensation, of the Metair group executives
- to establish and administer the Metair group executive remuneration with the broad objective of:
  - aligning executive remuneration with company performance and shareholder interests;
  - setting remuneration standards which attract, retain and motivate a competent executive team;
  - linking individual pay with operation and company performance in relation to strategic objectives; and
  - evaluating compensation of executives including approval of salary, equity and incentive based awards
- to assist the board of directors, in consultation with the chairman of the board and the managing director, in identifying and recommending qualified individuals to become board members, in determining the composition of the board of directors and its committees and in monitoring a process to assess board effectiveness.
- to review the trends and appropriateness of remuneration of directors of subsidiary companies.

One meeting was held during the year in December 2005, which was attended by all members of the committee. The next meeting will be held in November 2006.

Service contracts with executive directors are reviewed and renewed on an annual basis.

**INTERNAL CONTROLS**

To fulfil its responsibilities, the board of directors maintains adequate accounting records and has developed and continues to maintain an effective system of internal control. This function is audited by internal audit.

The directors report that the group's internal controls and systems are designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard, verify and maintain accountability of its assets.

**GOING CONCERN**

Financial statements have been prepared on a going concern basis. The directors have no reason to believe that the business of the group will not continue to function as a going concern for the foreseeable future.

**INSIDER TRADING**

No employee (directors and officers included) may trade directly or indirectly in the shares of the company during the closed periods determined by the board. Closed periods are imposed one month prior to the end of a reporting period up to the publication of the results.

Where appropriate, a closed period is also imposed during periods where major transactions are being negotiated and a public announcement is imminent.

**EMPLOYMENT EQUITY**

The group through each of its subsidiaries has:

– submitted the relevant Employment Equity reports (in October 2005), after thorough consultation with staff and union representatives;
– through the Employment Equity Committees monitored and measured performance against the five year Employment Equity Plan and instituted corrective action where necessary;
– addressed barriers such as skills shortage amongst previously disadvantaged groups, through accelerated skills development programmes, learnership programmes, and intensive internal and external training.

The group consequently complies with all the requirements of the Employment Equity Act.

**BLACK ECONOMIC EMPOWERMENT**

The group is fully committed to black economic empowerment principles and has already made headway by appointing a black empowerment partner in one of its subsidiaries.

The group participated in the NAACAM sponsored evaluation questionnaire in terms of progress towards BBBEE.

**CORPORATE SOCIAL RESPONSIBILITY**

The group accepts its corporate social responsibility and at present contributes to a number of charitable and educational institutions. During the year the group donated an amount of R1 161 086 towards these institutions.

**SPONSOR**

LPC Manhattan Moela Sponsors (Pty) Limited acts as sponsor to the company in compliance with the Listings Requirements of JSE Limited.

**KING II COMPLIANCE**

The company complies with the principles as set out in the King Code on corporate governance as required by the revised Listings Requirements of the JSE (section 3.84).

The following corporate governance practices are in place:

– A Board Charter was drawn up in terms of the recommendations of the King II report
– Separate audit and remuneration committees, comprising non-executive and independent non-executive directors with appropriate terms of reference were established
– Separate policies detailing procedures relating to board appointments and evidencing a clear division of responsibilities to ensure a balance of power and authority so that no one individual has unfettered powers of decision making
– CV's of directors standing for election/re-election at the next annual general meeting are included in the notice of the annual general meeting
– Directors are categorised as executive, non-executive and independent non-executive according to the guidelines as set out in the new Listings Requirements (section 3.84 (f))
– A Code of Ethics has been drawn up
– A formal HIV/AIDS policy has been drawn up, with each of the group subsidiaries having its own policy in dealing with the HIV/AIDS issue on a continuous basis
– Confidentiality agreements have been entered into with the printers, website maintenance contractors and sponsor.

The above documents are available for inspection by shareholders at the registered office of the company.

# Annual Financial Statements

for the year ended 31 December 2005

# Report of the Independent Auditors and Certificate of the Company Secretary



**REPORT OF THE INDEPENDENT AUDITORS**

We have audited the annual financial statements and group annual financial statements of Metair Investments Limited set out on pages 29 to 68 for the year ended 31 December 2005.

These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

**Scope**

We conducted our audit in accordance with International Standards on Auditing.

Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures included in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

**Audit Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company and the group at 31 December 2005 and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

PricewaterhouseCoopers Inc

**PRICEWATERHOUSECOOPERS INC.**
Registered Accountants and Auditors
15 March 2006
Johannesburg

**CERTIFICATE BY COMPANY SECRETARY**

In my capacity as company secretary, I hereby confirm, in terms of the Companies Act, 1973, that for the year ended 31 December 2005, the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act and that all such returns are true, correct and up to date.

**SM Vermaak**
15 March 2006

# Directors Report

## for the year ended 31 December 2005



The directors have pleasure in submitting their report for the year ended 31 December 2005.

**GENERAL REVIEW**

The main business of the group is the manufacture and supply of motor vehicle components. The financial statements on pages 29 to 68 set out fully the financial position, results of operations and cash flows of the group for the financial year.

**FINANCIAL RESULTS**

The consolidated net profit for the year was R158 428 million (2004: R161 143 million).

**DIVIDENDS**

The following dividends were declared in respect of the years ended 31 December:

| | **2005 R'000** | 2004 R'000 |
|---|---|---|
| Ordinary shares | | |
| Declared and paid | | |
| 850 cents per share | | |
| (2004: 700 cents per share) | 50 807 | 41 552 |

A dividend of 850 cents per share was declared on 15 March 2006 in respect of the 2005 financial year.

**SHARE CAPITAL**

46 175 shares were issued during the year.
Full details on the present position of the company's share capital are set out in the notes to the financial statements.

**CHANGES IN NON-CURRENT ASSETS**

The main changes to the property, plant and equipment of the company and its subsidiaries were as follows:
Additions – R111 788 000
Disposals – R1 227 000

**DIRECTORS**

The composition of the board of directors is set out on page 4.

**SECRETARY**

SM Vermaak
Business address: 10 Anerley Road, Parktown, Johannesburg, 2193
Postal address: P O Box 2077, Saxonwold, 2132

**INTEREST OF DIRECTORS**

Interest of directors in the company's ordinary share capital are disclosed in note 16 of the annual financial statements.

**SUBSIDIARIES**

Details of the company's investments in its subsidiaries are disclosed on page 68.

**HOLDING COMPANY**

The company has no holding company.

**AUDITORS**

PricewaterhouseCoopers Incorporated will continue in office in accordance with section 270(2) of the Companies Act, 1973.

**POST BALANCE SHEET EVENT**

Metair signed an agreement on 8 November 2005 to sell 25 1% of its shares in Hesto Harnesses (Pty) Limited to Yazaki Corporation early in 2006, subject to Competitions Commission approval.

**APPROVAL OF ANNUAL FINANCIAL STATEMENTS**

The directors have approved the annual financial statements on pages 29 to 68 which are signed on their behalf by:

**AD Plummer**
***Chairman***

**CIJ van der Merwe**
***Finance Director***

Johannesburg
15 March 2006

**PRINCIPAL ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of these financial statements are set out below.

The accounting policies set out below have been applied consistently to the periods presented in these consolidated financial statements and in preparing the opening IFRS balance sheet as at 1 January 2004 for the purposes of transition to IFRS.

**BASIS OF PREPARATION**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the IFRIC interpretations adopted by the International Accounting Standards Board ("IASB") and the requirements of the South African Companies Act.

The group has elected to adopt IFRS for the year ended 31 December 2005. The financial statements for the year ended 31 December 2005 is the group's first consolidated financial statements prepared in compliance with IFRS and hence IFRS1 – First time adoption of IFRS – has been applied in preparing these financial statements. The group has adopted all applicable IFRS standards and IFRIC interpretations issued or revised up to 31 December 2005. An explanation of how the transition to IFRS has affected the reported financial position and performance of the group is provided in the supplementary notes on pages 65 to 67.

The annual financial statements have been prepared on the historical cost basis, except as disclosed in the accounting policies below. For example, derivative financial instruments are shown at fair value.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that may affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS are advised in note 28 on page 64.

The financial statements were prepared in accordance with South African Statements of Generally Accepted Accounting Practice ("SA GAAP") until 31 December 2004. SA GAAP differs from IFRS in some areas. In preparing the financial statements management has amended certain accounting and valuation methods applied in the SA GAAP financial statements to comply with IFRS. The comparative figures in respect of 2004 were restated to reflect these adjustments.

The accounting policies have been applied consistently by all group entities.

Interpretations and amendments to published standards effective in 2005:

The following amendments and interpretations to standards are mandatory for the group's accounting periods beginning on or after 1 September 2004:

- IFRIC 2, Members' Shares in Co-operative Entities and Similar Instruments (effective from 1 January 2005);
- SIC 12 (Amendment), Consolidation – Special Purpose Entities (effective from 1 January 2005).

Management assessed the relevance of these amendments and interpretations with respect to the group's operations and concluded that they are not relevant to the group.

Standards, interpretations and amendments to published standards that are not yet effective:

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 January 2006 or later periods but which the group has not early adopted, as follows:

- IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment will only impact the format and extent of disclosures presented in the accounts. The group will apply this amendment from annual periods beginning 1 January 2006.

– IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. This amendment is not relevant to the group's operations, as the group does not have any intragroup transactions that would qualify as a hedged item in the consolidated financial statements as of 31 December 2005 and 2004.

– IAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The group believes that this amendment should not have a significant impact on the classification of financial instruments, as the group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The group will apply this amendment from annual periods beginning 1 January 2006.

– IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value and subsequently measured at the higher of: (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management considered this amendment to IAS 39 and concluded that it is not relevant to the group.

– IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). These amendments are not relevant to the group's operations as the group does not carry out exploration for and evaluation of mineral resources.

– IFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). IFRS 6 is not relevant to the group's operations.

– 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. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

– IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of IFRIC 4 on the group's operations.

– IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and

Environmental Rehabilitation Funds (effective from 1 January 2006). IFRIC 5 is not relevant to the group's operations.

– IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective from 1 December 2005). IFRIC 6 is not relevant to the group's operations.

**BASIS OF CONSOLIDATION**

**Subsidiaries**

The group financial statements incorporate the financial statements of Metair Investments Limited and all its subsidiaries from the effective dates of acquisition to the effective dates of disposal. The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. All significant inter-group balances and transactions have been eliminated.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, 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 values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Subsidiaries are those entities (including special purpose entities) over whose financial and operating policies the group has the power to exercise control, so as to obtain benefits from their activities.

The investment in subsidiaries are stated at cost less amounts written off.

**ASSOCIATED COMPANIES**

An associated company is an enterprise over whose financial and operating policies the group has the ability to exercise significant influence, but not control, generally accompanying a shareholding between 20% and 50% of the voting rights. Associates are accounted for on the equity method using their most recent audited financial statements. The retained equity accounted profit of the associates is transferred to non-distributable reserves. Where associates have revalued their assets, the proportionate share of this revaluation is recognised and the corresponding amount is reflected in non-distributable reserves. The company accounts for associated companies at cost. The carrying value of the investment includes goodwill.

If an associated company applies accounting policies that are recognised as being materially different to those adopted by the group, appropriate adjustments are made to the financial statements where it is practicable to do so prior to equity accounting.

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.

**MINORITY INTEREST**

Minority interest is valued at the minorities' portion of the acquirer's identifiable assets, liabilities and contingent liabilities at the acquisition date plus the minorities' portion of post acquisition reserves.

Minority interest is included in equity on the balance sheet and is also reconciled in the statement of changes in equity.

**FOREIGN CURRENCIES**

Transactions denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the transaction date. Monetary items denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Gains or losses arising on translation and settlement are credited to or charged against profit, except when deferred in equity as qualifying cash flow hedges.

**INTANGIBLES**

Trademarks and licenses are shown at historical cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on a straight-line basis over their expected useful lives unless such lives are indefinite. Where the useful life of an intangible asset is assessed as indefinite, the intangible asset is not amortised, but is tested annually for impairment.

Local and foreign licenses are amortised over the terms of the agreements.

Subsequent expenditure on acquired intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

**PROPERTY, PLANT AND EQUIPMENT**

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to reduce their cost to their residual values over their estimated useful lives.

All other property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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.

Assets leased in terms of finance lease agreements are capitalised. These assets are depreciated on the straight-line basis at rates considered appropriate to reduce book values over the shorter of the duration of the lease agreements or useful life, to estimated residual value. Finance costs are charged to operating profit over the period of the lease. Finance leases are capitalised at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and the finance charge so as to achieve a constant rate on the finance balance outstanding.
The corresponding lease obligations, net of finance charges are included in borrowings.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. Residual values and useful lives of all assets are reassessed annually. In addition, depreciation of an item of property, plant and equipment is to begin when it is available for use and ceases at the earlier of the date it is classified as held for sale or the date that it is derecognised upon disposal.

**LEASES**

Leases in which 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 (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

**IMPAIRMENT**

The group periodically evaluates the carrying value of property, plant and equipment and intangible assets, when events and circumstances warrant such a review. The carrying value of an asset is considered to be impaired, when the recoverable amount of such an asset is less than its carrying value. In that event, a loss is recognised based on the amount by which the carrying value exceeds the recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped to the lowest levels for which there are separately identifiable cash flows (cash-generating units).

**INVENTORY**

Inventory is valued at the lower of cost or net realisable value, due account being taken of possible obsolescence. Cost is determined on the first-in first-out method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity).

Borrowing costs are excluded. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling prices.

**DEFERRED INCOME TAXATION**

Deferred taxation is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associates, except where the group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The taxation value of losses expected to be available for utilisation against future taxable income is set off against the deferred taxation liability within the same legal taxation unit. Net deferred taxation assets are reduced to the extent that it is no longer probable that the related taxation benefit will be realised. Deferred taxation is calculated using taxation rates that have been enacted or substantively enacted at the balance sheet date. The effect on deferred taxation of any changes in taxation rates is charged to the income statement except to the extent that it relates to items previously charged or credited directly to equity.

## 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 embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The group recognises the estimated liability on all products still under warranty at the balance sheet date. This provision is calculated based on service histories.

## REVENUE

Revenue is recognised only when it is probable that the economic benefits associated with a transaction will flow to the group and the amount of revenue can be measured reliably.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value added tax, estimated returns, rebates and discounts and after inter-company sales have been eliminated. A provision is made for the estimated settlement discount at the time of sale.

### Goods

Revenue represents the total value of net sales of subsidiaries' products. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer.

### Dividends

Dividends are recognised when the right to receive payment is established.

### Interest

Interest is recognised on a time proportion basis that takes account of the effective yield on the asset.

## GOVERNMENT GRANTS AND INCENTIVES

Government grants and incentives, such as MIDP claims, are not recognised until there is reasonable assurance that the group has complied with the conditions attached to it and that the grant will be received. Government grants and incentives are included in other income in the income statements.

## EARNINGS PER SHARE

Earnings per share is expressed in cents and is based on the net profit attributable to ordinary shareholders divided by the weighted average number of shares in issue.

## FINANCIAL INSTRUMENTS

The group uses derivative financial instruments to manage its exposure to foreign exchange and commodity price risks arising from operational, financing and investment activities. The group does not hold or issue derivate financial instruments for dealing purposes.

Financial instruments carried at the balance sheet date include cash and bank balances, investments, receivables, trade creditors and borrowings (trade creditors are stated at amortised cost, unless designated at fair value through profit/loss). Financial assets are recognised when the group has rights or other access to economic benefits. Such assets consist of cash, a contractual right to receive cash or another financial asset.

Financial liabilities are recognised when there is an obligation to transfer benefits and that obligation is a contractual liability to deliver cash or another financial asset or to exchange financial instruments with another entity on potentially unfavourable terms.

Derivative financial instruments are measured at fair value. The method of recognising the resulting gain or loss is dependent on the nature of the item being hedged. The group designates certain derivatives as either (1) a hedge of the fair value of a recognised asset or liability (fair value hedge), or (2) a hedge of a forecasted transaction or of a firm commitment (cash flow hedge).

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

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective, are recognised in equity. Where the forecasted transaction or firm commitment results in the recognition of an asset (for example, inventory, property, plant and equipment) or of a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts deferred in equity are transferred to the income statement and classified as revenue or expense in the same periods during which the hedged firmly committed or forecasted transaction affects the income statement (for example when the forecasted sale takes place).

Certain derivative transactions, while providing effective economic hedges under the group's risk management policies, do not qualify for hedge accounting under specific rules in IAS 39. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognised immediately in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss existing in equity at the time remains in equity and is recognised when the committed or forecasted transaction ultimately is recognised in the income statement. When a committed or forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

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. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions. The group also documents its assessment, both at the 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.

The fair values of forward exchange contracts used for hedging purposes and movements on the hedging reserve in shareholders' equity are disclosed in the financial statements.

The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date. The adjustment to the carrying value of originated loans and receivables to amortised cost are calculated by reference to market interest rates using the effective interest rate method. The face values of financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of non-current financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate available to the group for similar financial instruments.

The group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

**Financial assets at fair value through profit or loss**

This category has two sub-categories: 'financial assets held for trading', and those designated at fair value through profit and loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as 'held for trading' unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

**Loans and receivables**

Loans and receivables are non-derivative financial 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 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'accounts receivable' in the balance sheet (note 13), and 'short-term loans – subsidiaries'.

Regular purchases and sales of investments are recognised on 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 for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments 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. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest rate method.

Gains or losses arising, from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the income statement within 'other operating income' or 'other operating expenses', in the period in which they arise.

**ACCOUNTS RECEIVABLE**

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 when there is objective evidence that the group will not collect the amount as per the original terms of receivables. The amount of the provision is the difference between the asset's carrying value and the present value of future cash flows, discounted at the effective interest rate. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivables is impaired. The amount of the provision is recognised in the income statement.

**CASH AND CASH EQUIVALENTS**

Cash and cash equivalents are carried in the balance sheet at cost. Cash and cash equivalents comprise cash on hand, deposits held on call with banks and other short-term, highly liquid investments with original maturities of three months or less, and net of bank overdrafts, all of which are available for use by the group unless otherwise stated. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

**BORROWINGS**

Borrowings are recognised initially at fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective interest rate method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowing. Borrowing costs are expensed.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

**EMPLOYEE BENEFITS**

**Short-term employee benefits**

Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

**Retirement benefits**

A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The group has no legal or constructive obligations 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 and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The group operates a group defined benefit plan and a number of defined contribution plans, the assets of which are generally held in separate trustee-administered funds. The plans are generally funded by payments from employees and by the relevant group companies taking account of the recommendations of independent qualified actuaries.

The liability or asset recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employee's expected average remaining working lives.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the group pays contributions to privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid.

The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

**Other post-employment obligations**
Some group companies provided post-employment health care benefits to their retirees until 31 December 1996. Employees who joined the group after 1 January 1997 will not receive this benefit. The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and electing to participate in the scheme. The expected costs of these benefits are accrued over the period of employment, using a methodology similar to that for defined benefit pension plans. Valuations of these obligations are carried out by independent qualified actuaries.

**Share-based payment transactions**
The fair value of share options, share appreciation rights and deferred delivery shares granted to group directors and senior executives is recognised as an employee expense with a corresponding increase in equity or liabilities. The fair value is measured at grant date and expensed over the period during which the employee becomes unconditionally entitled to the equity instruments. The fair value of the instruments granted is measured using generally accepted valuation techniques, taking into account the terms and conditions upon which the instruments are granted excluding the impact of non-market vesting conditions. The accounting policy has been applied to all equity instruments granted after 7 November 2002 that had not yet vested at 1 January 2004, the date of transition to IFRS. The fair value of share-based payments was not recognised under the group's previous accounting policies.

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 is recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity or liabilities.

The group operates an equity settled as well as a cash settled share-based payment compensation plan.

**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, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of acquisition as part of the purchase consideration.

Where the group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from 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 the related income tax effects, is included in equity attributable to the company's equity holders.

**DIVIDENDS PAYABLE**
Dividends payable and Secondary Tax on Companies pertaining thereto are recognised in the period in which such dividends are declared.

**SEGMENTAL REPORTING**
Segmental information has not been presented as the products provided by the group are subject to substantially similar risks and returns and the group does not operate in economic environments with differing risks and returns.

# Income Statements

## for the year ended 31 December 2005

METAIR



| | Notes | Group 2005 R'000 | Group 2004 R'000 | Company 2005 R'000 | Company 2004 R'000 |
|---|---|---|---|---|---|
| Revenue | 1 | **2 151 020** | 1 949 547 | | |
| Cost of sales | | **(1 692 776)** | (1 470 243) | | |
| Gross profit | | **458 244** | 479 304 | | |
| Other operating income | 3 | **50 175** | 17 849 | **156 061** | 90 294 |
| Distribution costs | | **(52 855)** | (52 615) | | |
| Administrative expenses | | **(208 435)** | (210 495) | | |
| Other operating expenses | | **(221)** | (2 125) | **(423)** | (355) |
| Operating profit | | **246 908** | 231 918 | **155 638** | 89 939 |
| Interest income | 2 | **14 338** | 15 118 | **2 695** | 2 695 |
| Interest expense | 2 | **(10 104)** | (11 953) | | |
| Share of results of associates | | **3 236** | 2 451 | | |
| Impairment of investment in associate company | 10 | **(12 906)** | (3 775) | **(2 259)** | |
| Profit before taxation | 3 | **241 472** | 233 759 | **156 074** | 92 634 |
| Taxation | 4 | **(70 388)** | (72 022) | **(5 927)** | (4 568) |
| **Profit for the year** | | **171 084** | 161 737 | **150 147** | 88 066 |
| **Attributable to:** | | | | | |
| Equity holders of the company | | **158 428** | 161 143 | **150 147** | 88 066 |
| Minority interest | | **12 656** | 594 | | |
| | | **171 084** | 161 737 | **150 147** | 88 066 |
| **Earnings per share** | | | | | |
| Basic earnings per share (cents) | 5 | **2 648** | 2 714 | | |
| **Diluted earnings per share** | | | | | |
| Basic earnings per share (cents) | 5 | **2 611** | 2 671 | | |
| Dividend per share (cents) | 6 | **850** | 700 | | |
| Number of shares in issue ('000) | | **5 995** | 5 949 | | |
| Weighted average number of shares in issue ('000) | | **5 984** | 5 937 | | |

# Balance Sheets

## for the year ended 31 December 2005

| | Notes | Group | | Company | |
|---|---|---|---|---|---|
| | | 2005 R'000 | 2004 R'000 | 2005 R'000 | 2004 R'000 |
| **ASSETS** | | | | | |
| **Non-Current Assets** | | **576 137** | 515 371 | **322 043** | 332 091 |
| Property, plant and equipment | 7 | **502 118** | 439 476 | | |
| Intangible assets | 8 | **11 676** | 4 353 | | |
| Interest in subsidiaries | 9 | | | **288 657** | 294 394 |
| Investment in associates | 10 | **18 249** | 30 491 | **8 386** | 12 697 |
| Deferred taxation | 19 | **9 094** | 5 895 | | |
| Other non-current assets | 11 | **35 000** | 35 156 | **25 000** | 25 000 |
| **Current Assets** | | **792 889** | 736 278 | **221 724** | 110 412 |
| Inventory | 12 | **309 486** | 262 028 | | |
| Accounts receivable | 13 | **248 428** | 239 885 | | |
| Short-term loans – subsidiaries | 9 | | | **221 724** | 110 412 |
| Cash | 14 | **139 011** | 153 584 | | |
| Other financial assets at fair value through profit or loss | 15 | **95 964** | 80 781 | | |
| **Total Assets** | | **1 369 026** | 1 251 649 | **543 767** | 442 503 |
| **EQUITY AND LIABILITIES** | | | | | |
| **Capital and Reserves** | | **943 259** | 833 850 | **543 479** | 442 262 |
| Share capital and premium | 16 | **36 414** | 35 149 | **36 414** | 35 149 |
| Share-based payment reserve | | **1 831** | 1 068 | **1 831** | 1 068 |
| Treasury shares | 16 | **(459)** | (219) | | |
| Non-distributable reserves | 17 | **12 389** | 20 297 | | |
| Retained earnings | | **893 084** | 777 555 | **505 234** | 406 045 |
| Ordinary shareholders equity | | **943 259** | 833 850 | **543 479** | 442 262 |
| Minority interest | | **43 651** | 700 | | |
| **Total Equity** | | **986 910** | 834 550 | **543 479** | 442 262 |
| **Non-Current Liabilities** | | **126 138** | 131 956 | | |
| Interest bearing borrowings | 18 | **53 252** | 69 248 | | |
| Post-employment medical benefits | 26 | **14 681** | 13 019 | | |
| Deferred taxation | 19 | **58 205** | 49 689 | | |
| **Current Liabilities** | | **255 978** | 285 143 | **288** | 241 |
| Trade and other payables | 20 | **210 875** | 238 188 | **288** | 241 |
| Borrowings | 18 | **15 829** | 15 503 | | |
| Taxation | | **9 687** | 19 050 | | |
| Provisions for liabilities and charges | 21 | **13 154** | 8 471 | | |
| Bank overdrafts | 14 | **6 433** | 3 931 | | |
| **Total Liabilities** | | **382 116** | 417 099 | **288** | 241 |
| **Total Equity and Liabilities** | | **1 369 026** | 1 251 649 | **543 767** | 442 503 |

# Statement of Changes in Equity

## for the year ended 31 December 2005

| R'000 | Notes | Share capital and premium | Treasury shares | Hedging reserves | Share-based payment reserve | Non-distributable reserves | Retained earnings | **Attributable to equity holders of the company** | Minority interest | **Total equity** |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2004 | | 34 165 | | (2 864) | 304 | 32 346 | 645 511 | **709 462** | 191 | **709 653** |
| Ordinary shares issued | 16 | 984 | | | | | | **984** | | **984** |
| Employee share option scheme: | | | | | | | | | | |
| – value of services provided | | | | | 764 | | | **764** | | **764** |
| Cash flow hedges: | | | | | | | | | | |
| – reversal of fair value hedge | | | | 4 091 | | | | **4 091** | | **4 091** |
| – deferred taxation | | | | (1 227) | | | | **(1 227)** | | **(1 227)** |
| Consolidation of Share Trust | | | | | | | 404 | **404** | | **404** |
| Net movement in treasury shares | | | (219) | | | | | **(219)** | | **(219)** |
| Transfers | 17 | | | | | (12 049) | 12 049 | | | |
| Profit for the year | | | | | | | 161 143 | **161 143** | 594 | **161 737** |
| Dividend | 6 | | | | | | (41 552) | **(41 552)** | (85) | **(41 637)** |
| Balance at 31 December 2004 | | 35 149 | (219) | | 1 068 | 20 297 | 777 555 | **833 850** | 700 | **834 550** |
| Ordinary shares issued | 16 | 1 265 | | | | | | **1 265** | | **1 265** |
| Employee share option scheme: | | | | | | | | | | |
| – value of services provided | | | | | 763 | | | **763** | | **763** |
| Net movement in treasury shares | | | (240) | | | | | **(240)** | | **(240)** |
| Transfers | 17 | | | | | (7 908) | 7 908 | | | |
| Disposal of 25% interest in subsidiary | | | | | | | | | 30 559 | **30 559** |
| Profit for the year | | | | | | | 158 428 | **158 428** | 12 656 | **171 084** |
| Dividend | 6 | | | | | | (50 807) | **(50 807)** | (264) | **(51 071)** |
| **Balance at 31 December 2005** | | 36 414 | (459) | | 1 831 | 12 389 | 893 084 | **943 259** | 43 651 | **986 910** |

# Cash Flow Statements

for the year ended 31 December 2005

| | Notes | Group 2005 R'000 | Group 2004 R'000 | Company 2005 R'000 | Company 2004 R'000 |
|---|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Cash receipts from customers | | **2 142 477** | 1 934 045 | | |
| Cash paid to suppliers and employees | | **(1 939 117)** | (1 615 333) | | |
| Cash generated from/(utilised in) operations | 22.1 | **203 360** | 318 712 | **(1 329)** | 462 |
| Finance charges | | **(10 104)** | (11 953) | | |
| Investment income | | **14 338** | 15 118 | **113 472** | 82 404 |
| Taxation paid | 22.2 | **(74 434)** | (55 620) | **(5 927)** | (4 568) |
| Dividends paid | 22.3 | **(51 071)** | (41 637) | **(50 958)** | (41 642) |
| Dividend income from associate | | | 10 725 | | 10 585 |
| Net cash inflow from operating activities | | **82 089** | 235 345 | **55 258** | 47 241 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Acquisition of property, plant and equipment | | **(111 788)** | (108 121) | | |
| Acquisition of intangible assets | | **(8 191)** | (2 245) | | |
| Decrease in other non-current assets | | **156** | 1 141 | | |
| Decrease/(increase) in loans to associate | | **2 572** | (7 705) | **2 052** | (7 645) |
| Proceeds on disposal of 25% interest in subsidiary | | **47 000** | | **47 000** | |
| Increase in interest in subsidiaries | | | | **(105 575)** | (40 580) |
| Proceeds on disposal of property, plant and equipment | | **915** | 1 663 | | |
| Net cash outflow from investing activities | | **(69 336)** | (115 267) | **(56 523)** | (48 225) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| Proceeds from issue of ordinary shares | | **1 265** | 984 | **1 265** | 984 |
| Long-term loans repaid | | **(15 996)** | (15 233) | | |
| Short-term loans raised | | **326** | 809 | | |
| Movement in treasury shares | | **(240)** | 185 | | |
| Net cash (outflow)/inflow from financing activities | | **(14 645)** | (13 255) | **1 265** | 984 |
| Net (decrease)/increase in cash and cash equivalents | | **(1 892)** | 106 823 | | |
| Cash and cash equivalents at beginning of the year | | **230 434** | 123 611 | | |
| **Cash and cash equivalents at end of the year** | 14 | **228 542** | 230 434 | | |

**Note:**
The group has adopted IFRS for the year ending 31 December 2005. As stated in supplementary note 1 the adjustments arising from the adoption of IFRS did not have an effect on the cash flows of the group.

| | Group 2005 R'000 | Group 2004 R'000 | Company 2005 R'000 | Company 2004 R'000 |
|---|---|---|---|---|
| **1. REVENUE** | | | | |
| Group revenue comprises the total value of net sales of subsidiaries' products predominantly in the automotive industry | **2 151 020** | 1 949 547 | | |
| **2. INTEREST INCOME AND EXPENSE** | | | | |
| Interest income: | | | | |
| On bank deposits | **10 834** | 11 436 | | |
| Dividend on redeemable preference shares (unlisted) | **3 504** | 3 682 | **2 695** | 2 695 |
| | **14 338** | 15 118 | **2 695** | 2 695 |
| Interest expense: | | | | |
| Bank borrowings | **(8 906)** | (10 231) | | |
| Finance leases | **(1 198)** | (1 722) | | |
| | **(10 104)** | (11 953) | | |
| **Net finance** | **4 234** | 3 165 | **2 695** | 2 695 |
| **3. PROFIT BEFORE TAXATION** | | | | |
| Profit before taxation is stated after taking into account the following: | | | | |
| Other operating income: | | | | |
| – Dividends from subsidiaries (unlisted) | | | **110 777** | 79 709 |
| – Dividends from associates (unlisted) | | | | 10 585 |
| – Profit on disposal of 25% interest in subsidiary | **16 225** | | **45 284** | |
| – Management and committee fees received | **3 661** | 3 642 | | |
| – Government grants | **6 631** | 7 435 | | |
| – Cash discounts received | **4 020** | 3 429 | | |
| – Profit on tooling sales | **7 487** | 674 | | |
| – Fair value gain on investment | **1 891** | 112 | | |
| – Other | **10 260** | 2 557 | | |
| | **50 175** | 17 849 | **156 061** | 90 294 |
| Auditors' remuneration | | | | |
| – Audit fees | **2 320** | 1 158 | | |
| – Expenses | **77** | 7 | | |
| – Agreed procedure certificates | **645** | 295 | | |
| Depreciation and amortisation (Notes 7 and 8) | **48 787** | 41 605 | | |
| Loss on disposal of property, plant and equipment | **312** | 14 | | |
| Operating lease charges | | | | |
| – Property | **10 791** | 11 282 | | |
| – Plant and equipment | **2 028** | 2 644 | | |
| Managerial and technical service fees paid to outside parties | **4 088** | 4 963 | | |
| Foreign exchange gains/(losses) | **5 426** | (6 084) | | |
| Staff costs | | | | |
| – Wages and salaries | **446 690** | 384 342 | | |
| – Share options granted to directors | **763** | 764 | | |
| – Termination benefits | | 397 | | |
| – Social security costs | **22 665** | 19 836 | | |
| – Pension costs – defined contribution plans | **11 284** | 8 638 | | |
| – defined benefit plans | **20 756** | 18 603 | | |
| – Other post-employment benefits | **1 755** | 2 593 | | |
| | **503 913** | 435 173 | | |

| | Group 2005 R'000 | Group 2004 R'000 | Company 2005 R'000 | Company 2004 R'000 |
|---|---|---|---|---|
| **3. PROFIT BEFORE TAXATION (continued)** | | | | |
| Number of persons employed by the group at the end of the year: | | | | |
| Hourly | **4 058** | 3 816 | | |
| Monthly | **1 128** | 1 096 | | |
| | **5 186** | 4 912 | | |
| Directors' emoluments | | | | |
| – Executive directors | | | | |
| – Salaries and allowances | | | **2 883** | 2 614 |
| – Other benefits | | | **719** | 600 |
| | | | **3 602** | 3 214 |
| – Paid by subsidiary companies | | | **(3 602)** | (3 214) |
| – Non-executive directors | | | **6** | 6 |
| – Fees | | | **183** | 115 |
| – Paid by subsidiary company | | | **(177)** | (109) |

**2005**

| | E Bradley R'000 | RS Broadley R'000 | L Soanes R'000 | AD Plummer R'000 | CIJ vd Merwe R'000 |
|---|---|---|---|---|---|
| – Executive directors | | | | | |
| – Salaries and allowances | | | | **1 516** | **997** |
| – Performance bonuses | | | | **460** | **307** |
| – Pension and provident fund contributions | | | | **161** | **115** |
| – Company contributions | | | | **25** | **21** |
| – Gain on the exercise of share options | | | | **315** | |
| | | | | **2 477** | **1 440** |
| – Paid by subsidiary companies | | | | **(2 477)** | **(1 440)** |
| – Non-executive directors | **2** | **2** | **2** | | |
| – Fees | **80** | **53** | **50** | | |
| – Paid by subsidiary company | **(78)** | **(51)** | **(48)** | | |

2004

| | E Bradley R'000 | RS Broadley R'000 | L Soanes R'000 | AD Plummer R'000 | CIJ vd Merwe R'000 |
|---|---|---|---|---|---|
| – Executive directors | | | | | |
| – Salaries and allowances | | | | 1 304 | 916 |
| – Performance bonuses | | | | 414 | 282 |
| – Pension and provident fund contributions | | | | 144 | 107 |
| – Company contributions | | | | 24 | 23 |
| | | | | 1 886 | 1 328 |
| – Paid by subsidiary companies | | | | (1 886) | (1 328) |
| – Non-executive directors | 2 | 2 | 2 | | |
| – Fees | 55 | 30 | 30 | | |
| – Paid by subsidiary company | (53) | (28) | (28) | | |

# Notes to the Financial Statements

for the year ended 31 December 2005

| | Group | | Company | |
|---|---|---|---|---|
| | **2005 R'000** | 2004 R'000 | **2005 R'000** | 2004 R'000 |
| **4. TAXATION** | | | | |
| South African normal taxation | **64 332** | 67 412 | | |
| Current: | | | | |
| – this year | **59 221** | 54 792 | | |
| – prior years | **(206)** | (805) | | |
| Deferred: | | | | |
| – this year | **5 317** | 14 623 | | |
| – prior years | | (1 198) | | |
| Secondary taxation on companies | **6 056** | 4 610 | **5 927** | 4 568 |
| | **70 388** | 72 022 | **5 927** | 4 568 |
| | **%** | % | **%** | % |
| Reconciliation of taxation rate: | | | | |
| Standard rate | **29** | 30 | **29** | 30 |
| Effect of change in tax rate | **(1 )** | | | |
| Increased by: | | | | |
| Secondary taxation on companies | **3** | 2 | **4** | 5 |
| Decreased by: | | | | |
| Exempt income | **(2)** | (1) | **(29)** | (30) |
| Effective rate | **29** | 31 | **4** | 5 |
| Calculated tax losses of subsidiaries | **7 359** | 6 373 | | |
| Utilised to offset deferred taxation | **(7 359)** | (6 373) | | |
| Assessable tax losses available for offset against future taxable income | | | | |
| STC credits to be offset against future STC liabilities | **438** | 443 | **438** | 443 |

METAIR



| | Group 2005 R'000 | Group 2004 R'000 | Company 2005 R'000 | Company 2004 R'000 |
|---|---|---|---|---|
| **5. EARNINGS PER SHARE** | | | | |
| Basic earnings per share represent the income in cents attributable to each equity share, based on the group's net income from ordinary activities divided by the weighted average number of shares in issue excluding treasury shares. | **2 648** | 2 714 | | |
| Headline earnings per share represent the income in cents attributable to each equity share based on the group's net income from ordinary activities, excluding significant non-operating items, divided by the weighted average number of shares in issue excluding treasury shares. | **2 597** | 2 778 | | |
| **5.1 Diluted earnings per share** | | | | |
| Basic earnings per share (cents) | **2 611** | 2 671 | | |
| Headline earnings per share (cents) | **2 562** | 2 733 | | |
| For the diluted earnings per share calculation the weighted average number of ordinary shares in issue is adjusted to take account of potential dilutive share options granted to employees. The number of shares taken into account is determined as the outstanding excercisable options at the balance sheet date less shares held by the Metair Share Trust. | | | | |

| | Group | | | |
|---|---|---|---|---|
| **Reconciliation between earnings and headline earnings:** | **Earnings 2005 R'000** | **Per share 2005 cents** | Earnings 2004 R'000 | Per share 2004 cents |
| **Earnings per share** | | | | |
| Net profit attributable to ordinary shareholders | **158 428** | **2 648** | 161 143 | 2 714 |
| Impairment of investment in associate company | **12 906** | **215** | 3 775 | 64 |
| Loss on disposal of property, plant and equipment | **312** | **5** | 14 | 0 |
| Profit on disposal of interest in subsidiary | **(16 225)** | **(271)** | | |
| Headline earnings | **155 421** | **2 597** | 164 932 | 2 778 |
| **Dilutive earnings per share** | | | | |
| Net profit attributable to ordinary shareholders | **158 428** | | 161 143 | |
| Interest income on proceeds | **1 087** | | 1 179 | |
| Net profit adjusted for dilutive share options ('000) | **159 515** | | 162 322 | |
| **Dilutive headline earnings per share** | | | | |
| Headline earnings | **155 421** | | 164 932 | |
| Interest income on proceeds | **1 087** | | 1 179 | |
| Headline earnings adjusted for dilutive share options ('000) | **156 508** | | 166 111 | |
| Weighted average number of shares in issue ('000) | **5 984** | | 5 937 | |
| Adjustment for dilutive share options ('000) | **125** | | 141 | |
| | **6 109** | | 6 078 | |

# Notes to the Financial Statements

## for the year ended 31 December 2005

| | Group 2005 R'000 | Group 2004 R'000 | Company 2005 R'000 | Company 2004 R'000 |
|---|---|---|---|---|
| **6. DIVIDENDS** | | | | |
| Declared and paid: | | | | |
| 850 cents per share (2004: 700 cents per share) | **50 807** | 41 552 | **50 958** | 41 642 |
| | **50 807** | 41 552 | **50 958** | 41 642 |
| A dividend of 850 cents per share was declared on 15 March 2006 in respect of the 2005 financial year. | | | | |

| | Land and buildings R'000 | Plant and equipment R'000 | Capitalised leased assets R'000 | Total R'000 |
|---|---|---|---|---|
| **7. PROPERTY, PLANT AND EQUIPMENT** | | | | |
| **2005** | | | | |
| Group | | | | |
| At cost | **144 836** | **568 708** | **33 767** | **747 311** |
| ***Less:*** Accumulated depreciation | **(7 591)** | **(220 821)** | **(16 781)** | **(245 193)** |
| | **137 245** | **347 887** | **16 986** | **502 118** |
| **2004** | | | | |
| Group | | | | |
| At cost | 115 788 | 508 903 | 34 169 | 658 860 |
| ***Less:*** Accumulated depreciation | (6 194) | (198 248) | (14 942) | (219 384) |
| | 109 594 | 310 655 | 19 227 | 439 476 |
| **1 January 2004** | | | | |
| Group | | | | |
| At cost | 95 605 | 429 006 | 34 160 | 558 771 |
| ***Less:*** Accumulated depreciation | (4 361) | (168 025) | (12 701) | (185 087) |
| | 91 244 | 260 981 | 21 459 | 373 684 |
| **Reconciliation of movement:** | | | | |
| Group | | | | |
| **Year ended 31 December 2005** | | | | |
| Opening net book value | **109 594** | **310 655** | **19 227** | **439 476** |
| Additions | **29 199** | **82 589** | | **111 788** |
| Disposals | **(114)** | **(1 113)** | | **(1 227)** |
| Depreciation | **(1 434)** | **(44 244)** | **(2 241)** | **(47 919)** |
| Closing net book value | **137 245** | **347 887** | **16 986** | **502 118** |
| **Year ended 31 December 2004** | | | | |
| Opening net book value | 91 244 | 260 981 | 21 459 | 373 684 |
| Additions | 20 183 | 87 929 | 9 | 108 121 |
| Disposals | | (1 677) | | (1 677) |
| Depreciation | (1 833) | (36 578) | (2 241) | (40 652) |
| Closing net book value | 109 594 | 310 655 | 19 227 | 439 476 |

The register of land and buildings is open for inspection by members at the registered offices of Metair Investments or its subsidiaries owning the respective properties.
Certain assets are encumbered as security for liabilities as set out in note 18.
The estimated useful lives for property, plant and equipment are as follows:

| | |
|---|---|
| Buildings | 20 – 50 years |
| Plant, machinery, vehicles and equipment | 2 – 25 years |

Capitalised leased assets over the shorter of the period of the lease or the useful life.

| | Trademarks R'000 | Licences R'000 | Total R'000 |
|---|---|---|---|
| **8. INTANGIBLE ASSETS** | | | |
| **2005** | | | |
| Group | | | |
| At cost | **1 000** | **16 966** | **17 966** |
| ***Less:*** Accumulated amortisation | **(25)** | **(6 265)** | **(6 290)** |
| | **975** | **10 701** | **11 676** |
| **2004** | | | |
| Group | | | |
| At cost | 1 000 | 10 869 | 11 869 |
| ***Less:*** Accumulated amortisation | | (7 516) | (7 516) |
| | 1 000 | 3 353 | 4 353 |
| **1 January 2004** | | | |
| Group | | | |
| At cost | 1 000 | 6 530 | 7 530 |
| ***Less:*** Accumulated amortisation | | (4 469) | (4 469) |
| | 1 000 | 2 061 | 3 061 |
| **Reconciliation of movement:** | | | |
| Group | | | |
| **Year ended 31 December 2005** | | | |
| Opening net book value | **1 000** | **3 353** | **4 353** |
| Additions | | **8 191** | **8 191** |
| Amortisation | **(25)** | **(843)** | **(868)** |
| **Closing net book value** | **975** | **10 701** | **11 676** |
| **Year ended 31 December 2004** | | | |
| Opening net book value | 1 000 | 2 061 | 3 061 |
| Additions | | 2 245 | 2 245 |
| Amortisation | | (953) | (953) |
| Closing net book value | 1 000 | 3 353 | 4 353 |

The estimated useful lives for trademarks and licences are as follows:

| | |
|---|---|
| Trademarks | 15 years |
| Licences | 5 – 15 years |

# Notes to the Financial Statements

for the year ended 31 December 2005

METAIR



| | Group 2005 R'000 | Group 2004 R'000 | Company 2005 R'000 | Company 2004 R'000 |
|---|---|---|---|---|
| **9. INTEREST IN SUBSIDIARIES** | | | | |
| Unlisted | | | | |
| Shares at cost less amounts written off | | | **32 695** | 34 194 |
| Non-current advances to subsidiary companies | | | **254 131** | 259 132 |
| Share-based payment costs | | | **1 831** | 1 068 |
| | | | **288 657** | 294 394 |
| Current advances | | | **221 724** | 110 412 |
| | | | **510 381** | 404 806 |
| (Directors' valuation of shares held – R944 556 000 (2004: R860 709 000)) | | | | |
| Aggregate attributable income and losses after tax of subsidiaries: | | | | |
| Income | **119 129** | 154 723 | | |
| Losses | **94** | 1 343 | | |
| Details of subsidiaries are disclosed on page 68. | | | | |
| **10. INVESTMENT IN ASSOCIATES** | | | | |
| Beginning of the year | **30 491** | 34 835 | **12 697** | 5 052 |
| Share of profit/(loss) | **4 998** | (8 274) | | |
| Impairment of investment in Tenneco Automotive Holdings (Pty) Ltd | **(12 906)** | (3 775) | | |
| Impairment of shares at cost | **(2 259)** | | **(2 259)** | |
| Other movements | **497** | | | |
| (Decrease)/increase in loan to associate | **(2 572)** | 7 705 | **(2 052)** | 7 645 |
| | **18 249** | 30 491 | **8 386** | 12 697 |
| Unlisted | | | | |
| Shares at cost less impairment | **2 793** | 5 052 | **2 793** | 5 052 |
| Share of post-acquisition reserves included in non-distributable reserves | **9 863** | 17 274 | | |
| Income from associates in current year | **4 998** | (8 274) | | |
| Impairment of investment in Tenneco Automotive Holdings (Pty) Ltd | **(12 906)** | (3 775) | | |
| Other movements | **497** | | | |
| In respect of prior year | **17 274** | 29 323 | | |
| Total carrying value | **12 656** | 22 326 | **2 793** | 5 052 |
| Loan to associate | **5 593** | 8 165 | **5 593** | 7 645 |
| Investment in associates | **18 249** | 30 491 | **8 386** | 12 697 |
| Directors' valuation | **94 315** | 65 044 | | |

METAIR

| | Group 2005 R'000 | Group 2004 R'000 | Company 2005 R'000 | Company 2004 R'000 |
|---|---|---|---|---|
| **10. INVESTMENT IN ASSOCIATES (continued)** | | | | |
| The summarised financial information of associates is in aggregate as follows: | | | | |
| Income statement | | | | |
| Revenue | **380 627** | 379 931 | | |
| (Loss)/profit before taxation | **(480)** | 1 792 | | |
| Taxation | **752** | 145 | | |
| Profit after taxation | **272** | 1 937 | | |
| Balance sheet | | | | |
| **Assets** | | | | |
| Non-current assets | **49 337** | 43 943 | | |
| Current assets | **143 490** | 151 319 | | |
| | **192 827** | 195 262 | | |
| **Equity and liabilities** | | | | |
| Shareholders' equity | **101 166** | 105 082 | | |
| Non-current liabilities | **6 284** | 7 004 | | |
| Current liabilities | **85 377** | 83 176 | | |
| | **192 827** | 195 262 | | |

| | Percentage holding | Number of shares held | Group carrying amount R'000 | Company cost R'000 |
|---|---|---|---|---|
| **2005** | | | | |
| Unlisted | | | | |
| Tenneco Automotive Holdings SA (Pty) Ltd | **25,10** | **154 712** | | |
| Valeo Systems SA (Pty) Ltd | **49** | **490** | **18 019** | **2 793** |
| Other | | | **230** | |
| | | | **18 249** | **2 793** |
| **2004** | | | | |
| Unlisted | | | | |
| Tenneco Automotive Holdings SA (Pty) Ltd | 25,10 | 154 712 | 15 194 | 2 259 |
| Valeo Systems SA (Pty) Ltd | 49 | 490 | 14 543 | 2 793 |
| Other | | | 754 | |
| | | | 30 491 | 5 052 |

The associate companies operate in the automotive industry. The companies are all incorporated in South Africa.

Details of associates are disclosed on page 68.

METAIR



| | Group | | Company | |
|---|---|---|---|---|
| | **2005 R'000** | 2004 R'000 | **2005 R'000** | 2004 R'000 |
| **11. OTHER NON-CURRENT ASSETS** | | | | |
| Preference shares –unlisted | **35 000** | 35 000 | **25 000** | 25 000 |
| Other investments | | 156 | | |
| | **35 000** | 35 156 | **25 000** | 25 000 |
| (Directors' valuation – Preference shares R35 000 000 (2004: R35 000 000) Other investments (2004: R156 000)) | | | | |
| The preference shares have a weighted average dividend rate of 10,01% (2004: 10,12%) and are redeemable in 2009. | | | | |
| Preference shares are encumbered as security for liabilities as set out in note 18. | | | | |
| **12. INVENTORY** | | | | |
| Raw material | **188 815** | 153 617 | | |
| Work in progress | **13 401** | 12 138 | | |
| Finished goods | **107 270** | 96 273 | | |
| | **309 486** | 262 028 | | |
| The above inventories are stated net of a provision for obsolescence and slow moving stock of R8 787 000 (2004: R11 801 000). | | | | |
| The cost of inventories recognised as expense and included in 'cost of sales' amounted to R1 215 573 (2004: R1 060 464). | | | | |
| **13. ACCOUNTS RECEIVABLE** | | | | |
| Trade receivables | **225 780** | 201 788 | | |
| Prepayments | **5 209** | 5 140 | | |
| Forward foreign exchange contracts (note 23) | **281** | 104 | | |
| Other receivables | **17 158** | 32 853 | | |
| | **248 428** | 239 885 | | |
| The above trade receivables are stated net of a provision for impairment of R5 896 000 (2004: R5 991 000). | | | | |
| **14. CASH AND CASH EQUIVALENTS** | | | | |
| For the purposes of the cash flow statement, cash and cash equivalents consists of the following: | | | | |
| Cash at bank and on hand | **139 011** | 153 584 | | |
| Bank overdrafts | **(6 433)** | (3 931) | | |
| | **132 578** | 149 653 | | |
| Other financial assets at fair value through profit and loss | **95 964** | 80 781 | | |
| | **228 542** | 230 434 | | |

The effective interest rate on short-term bank deposits was 6,98% (2004: 7,11%) and the effective interest rate on bank overdrafts was 10,49% (2004: 10,25%).

| | Group 2005 R'000 | Group 2004 R'000 | Company 2005 R'000 | Company 2004 R'000 |
|---|---|---|---|---|
| **15. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS** | | | | |
| Portfolio of various capital and money market investments at cost | **94 073** | 80 669 | | |
| Fair value gain | **1 891** | 112 | | |
| | **95 964** | 80 781 | | |
| **16. SHARE CAPITAL AND PREMIUM** | | | | |
| **Authorised:** | | | | |
| 7 500 000 ordinary shares of 50c each | **3 750** | 3 750 | 3 750 | 3 750 |
| **Issued** | | | | |
| 5 995 085 (2004: 5 948 910 ) ordinary shares of 50c each | **2 998** | 2 974 | 2 998 | 2 974 |
| Share premium | **33 416** | 32 175 | 33 416 | 32 175 |
| | **36 414** | 35 149 | 36 414 | 35 149 |
| **Share premium** | | | | |
| Balance at the beginning of the year | **32 175** | 31 216 | 32 175 | 31 216 |
| Premium on shares issued during the year | **1 241** | 959 | 1 241 | 959 |
| Balance at the end of the year | **33 416** | 32 175 | 33 416 | 32 175 |

**Share options**

Movements in the number of share options outstanding and their related weighted average offer prices are as follows:

| | **2005** Average offer price per share | **2005** Options (thousands) | 2004 Average offer price per share | 2004 Options (thousands) |
|---|---|---|---|---|
| At 1 January | **82** | **270** | 54 | 274 |
| Granted | | | 159 | 60 |
| Forfeited | | | 98 | (13) |
| Exercised | **212** | **(5)** | | |
| Exercised and delivered | **238** | **(41)** | 197 | (51) |
| At 31 December | **91** | **224** | 82 | 270 |

The equity settled share-based payment plan has been replaced with a cash-settled plan with effect from 1 January 2005.

The fair value of options granted during the period determined using the Black-Scholes valuation model was R46,87 per share. The significant inputs into the model were share price of R159,00 per share at the grant date standard deviation of expected share price returns of 10% dividend yield of 10% option life of 5 years and annual risk-free interest rate of 6,3%. The volatility measured as the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last five years.

METAIR



**16. SHARE CAPITAL AND PREMIUM (continued)**

A share purchase scheme exists with 583 196 (2004: 566 261) ordinary shares reserved for the purpose of the scheme and under the control of the directors.

46 175 shares (2004: 50 975 shares) were issued during the year to the Metair Share Trust. The market value of these shares as at 31 December 2005 was R230.00.

The treasury shares arose on the consolidation of the Metair Share Trust during the 2004 financial year. The trust held 17 775 (2004: 9 050) shares in Metair Investments Limited at year-end.

Share options are granted to directors and senior employees at market price.

Options which have been granted but not yet delivered to participants in the Metair Share Option Scheme are as follows:

| 2004 Number of shares | 2005 Number of shares | Option price | Date granted | Date exercisable |
|---|---|---|---|---|
| 3 700 | 3 700 | R30,00 | 11/06/98 | 11/06/03 |
| 3 700 | 3 700 | R18,00 | 11/01/99 | 11/01/04 |
| 1 650 | 1 275 | R25,00 | 07/01/00 | 07/01/04 |
| 34 775 | 6 900 | R25,00 | 07/01/00 | 07/01/05 |
| 11 400 | 2 200 | R35,00 | 08/01/01 | 08/01/05 |
| 38 900 | 38 900 | R35,00 | 08/01/01 | 08/01/06 |
| 1 900 | | R50,00 | 01/06/01 | 01/06/06 |
| 13 075 | 13 075 | R59,00 | 07/01/02 | 07/01/06 |
| 41 225 | 39 225 | R59,00 | 07/01/02 | 07/01/07 |
| 1 400 | 1 400 | R76,00 | 10/04/02 | 10/04/07 |
| 57 700 | 55 800 | R108,50 | 01/04/03 | 01/04/08 |
| 60 200 | 58 300 | R159,00 | 05/04/04 | 05/04/09 |

30 550 options were exercised during the year.

The share options are exercisable immediately after the option has been granted (provided this does not fall in a closed period as determined by the JSE Limited) but not later than ten years after such date. Delivery of the shares to the participant can only take place on the expiry of five years from the date the option was granted provided this does not fall in a closed period as determined by the JSE Limited. A decision was taken to change the offer date from January to April effective 2003. The decision was taken due to the fact that January falls within the company's closed period as determined by the JSE Limited. As a result of this decision, it was decided that participants can take delivery 1 year earlier (within 4 years instead of 5) of 25% of the options granted in January 2000, January 2001 and January 2002 to compensate for the closed period.

Options expire if not taken up within ten years from date of the grant. No options previously granted to directors in the group expired during the year. All outstanding options at 31 December 2004 and 2005 were exercisable.

Options under the scheme are granted at the closing price ruling on the JSE Limited on the previous day.

| | | |
|---|---|---|
| Number of shares held by the Metair Share Trust | 17 775 | 9 050 |
| Market value of shares held by the Metair Share Trust | R 4 088 250 | R 1 610 900 |

**16. SHARE CAPITAL AND PREMIUM (continued)**

**Options exercised by executive directors**

| **AD Plummer** **2005** | Number of shares | Price per share | Offer price per share | Benefit R'000 |
|---|---|---|---|---|
| * Beneficial payments: | | | | |
| – Options exercised | 1 800 | 210,00 | 35,00 | 315 |

There were no options exercised by executive directors during 2004.

**Share options held by directors (beneficial and non-beneficial) in terms of their participation in the Metair Share Trust as at 31 December 2005**

| | | **OFFER** | | **EXERCISE** | | | |
|---|---|---|---|---|---|---|---|
| **Name** | **Offer date** | **Number shares** | **Price per of share** | **Number of shares** | **Price per share** | **Exercise date** | **Lapse date** |
| AD Plummer | 05/04/04 | 7 700 | R159,00 | – | | | 05/04/14 |
| | 01/04/03 | 7 300 | R108,50 | 7 300 | R100,00 | 26/08/03 | 01/04/13 |
| | 07/01/02 | 7 200 | R59,00 | 7 200 | R100,00 | 26/08/03 | 07/01/12 |
| | 08/01/01 | 5 400 | R35,00 | 1 800 | R210,00 | 18/03/05 | 08/01/11 |
| | | 27 600 | | 16 300 | | | |
| CIJ van der Merwe | 05/04/04 | 4 000 | R159,00 | – | | | 05/04/14 |
| | 01/04/03 | 3 900 | R108,50 | 3 900 | R100,00 | 26/08/03 | 01/04/13 |
| | 07/01/02 | 3 900 | R59,00 | 3 900 | R59,00 | 08/01/02 | 07/01/12 |
| | 08/01/01 | 2 925 | R35,00 | 2 925 | R35,00 | 08/01/01 | 08/01/11 |
| | | 14 725 | | 10 725 | | | |
| Total | | 42 325 | | 27 025 | | | |

Share options held by directors (beneficial and non-beneficial) in terms of their participation in the Metair Share Trust as at 31 December 2004

| | | OFFER | | EXERCISE | | | |
|---|---|---|---|---|---|---|---|
| Name | Offer date | Number of shares | Price per share | Number of shares | Price per share | Exercise date | Lapse date |
| AD Plummer | 05/04/04 | 7 700 | R159,00 | – | | | 05/04/14 |
| | 01/04/03 | 7 300 | R108,50 | 7 300 | R100,00 | 26/08/03 | 01/04/13 |
| | 07/01/02 | 7 200 | R59,00 | 7 200 | R100,00 | 26/08/03 | 07/01/12 |
| | 08/01/01 | 7 200 | R35,00 | – | | | 08/01/11 |
| | 07/01/00 | 5 175 | R25,00 | 5 175 | R25,00 | 10/01/00 | 07/01/10 |
| | | 34 575 | | 19 675 | | | |
| CIJ van der Merwe | 05/04/04 | 4 000 | R159,00 | – | | | 05/04/14 |
| | 01/04/03 | 3 900 | R108,50 | 3 900 | R100,00 | 26/08/03 | 01/04/13 |
| | 07/01/02 | 3 900 | R59,00 | 3 900 | R59,00 | 08/01/02 | 07/01/12 |
| | 08/01/01 | 3 900 | R35,00 | 3 900 | R35,00 | 08/01/01 | 08/01/11 |
| | 07/01/00 | 2 775 | R25,00 | 2 775 | R25,00 | 10/01/00 | 07/01/10 |
| | | 18 475 | | 14 475 | | | |
| Total | | 53 050 | | 34 150 | | | |

# Notes to the Financial Statements

for the year ended 31 December 2005



**16. SHARE CAPITAL AND PREMIUM (continued)**

**Interest of directors**

At 31 December 2005 members of the board of directors had a direct and indirect beneficial and non-beneficial interest in the company's ordinary share capital as set out below (there has been no change since that date):

| | 31 December 2005 | | | | | | | | 31 December 2004 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Director | Beneficial | | | | Non-beneficial | | | | Beneficial | | | | Non-beneficial | | | |
| | Direct | | Indirect | | Direct | | Indirect | | Direct | | Indirect | | Direct | | Indirect | |
| | Number | % | Number | % | Number | % | Number | % | Number | % | Number | % | Number | % | Number | % |
| NON-EXECUTIVE DIRECTORS | | | | | | | | | | | | | | | | |
| E Bradley | | | 706 135 | 11.8 | | | 963 267 | 16.1 | | | 706 135 | 11.9 | | | 963 267 | 16.2 |
| GJ Strydom | – | – | 4 640 | 0.1 | – | – | – | – | – | – | 4 640 | 0.1 | – | – | – | – |
| INDEPENDENT NON-EXECUTIVE DIRECTORS | | | | | | | | | | | | | | | | |
| L Soanes | 9 600 | 0.2 | – | – | – | – | – | – | 9 600 | 0.2 | – | – | – | – | – | – |
| Total | 9 600 | 0.2 | 710 775 | 11.9 | – | – | 963 267 | 16.1 | 9 600 | 0.2 | 710 775 | 12.0 | – | – | 963 267 | 16.2 |

Executive directors, Messrs AD Plummer, CIJ van der Merwe and independent non-executive director Mr RS Broadley had no direct or indirect beneficial or non-beneficial interest in the company's ordinary share capital as at 31 December 2005 (2004: Nil)

| | Group | | Company | |
|---|---|---|---|---|
| | **2005 R'000** | 2004 R'000 | **2005 R'000** | 2004 R'000 |
| **17. NON-DISTRIBUTABLE RESERVES** | | | | |
| Non-distributable reserves comprise: | | | | |
| Interest in distributable and non-distributable reserves of associate companies | **9 863** | 17 771 | | |
| Reserves arising on consolidation of interest in subsidiaries | **2 526** | 2 526 | | |
| | **12 389** | 20 297 | | |
| Transfer from retained income consists of: | | | | |
| Share of associated companies' after tax income | **3 236** | (8 274) | | |
| Impairment of investment in associate company: | | | | |
| Non-distributable reserves | **(12 906)** | (3 775) | | |
| Shares at cost | **2 259** | | | |
| Other movements | **(497)** | | | |
| | **(7 908)** | (12 049) | | |

| | Group 2005 R'000 | Group 2004 R'000 | Company 2005 R'000 | Company 2004 R'000 |
|---|---|---|---|---|
| **18. INTEREST BEARING BORROWINGS** | | | | |
| Secured | | | | |
| – Instalment sale agreement secured over plant with a book value of R20 010 000 (2004: R23 158 000) currently bearing interest at prime minus 2,75%. Repayable in annual instalments of R6 871 000 (2004: R6 213 000) until 2009. | **17 202** | 23 466 | | |
| – Instalment sale agreement secured over plant with a book value of R7 293 000 (2004: R8 845 000) currently bearing interest at prime minus 2,75%. Repayable in annual instalments of R1 781 000 until 2008. | **5 906** | 7 559 | | |
| – Capitalised finance lease secured over plant with a book value of R15 268 000 (2004: R16 889 000) currently bearing interest at 8,37% (2004: 8 37%). Repayable in monthly instalments of R319 696 (2004: R321 021) until May 2009. | **3 364** | 6 794 | | |
| – Instalment sale agreement secured over plant with a book value of R4 931 000 (2004: R5 190 000) currently bearing interest at 7,87% (2004: 8,37%). Repayable in monthly instalments of R186 870 (2004: R188 377) until August 2007 | **2 904** | 4 837 | | |
| – Instalment sale agreement secured over plant with a book value of R7 010 000 (2004: R8 062 000) currently bearing interest at prime less 2,75% (2004: 2,75%). Repayable in monthly instalments of R240 485 until September 2007. | **4 705** | 7 095 | | |
| – Long-term loans currently bearing interest at the prime rate. Repayable from 2008 with an option to renew. Secured by cumulative redeemable preference shares of R35 000 000 (refer note 11). | **35 000** | 35 000 | | |
| | **69 081** | 84 751 | | |
| Current portion included in current liabilities | **(15 829)** | (15 503) | | |
| | **53 252** | 69 248 | | |

METAIR



| | Group | | Company | |
|---|---|---|---|---|
| | **2005 R'000** | 2004 R'000 | **2005 R'000** | 2004 R'000 |
| **18. INTEREST BEARING BORROWINGS (continued)** | | | | |
| **Maturity of non-current borrowings (excluding finance lease liabilities)** | | | | |
| Not later than 1 year | **13 062** | 12 080 | | |
| Between 2 and 5 years | **52 655** | 65 877 | | |
| | **65 717** | 77 957 | | |
| **Finance lease liabilities – minimum lease payments:** | | | | |
| Not later than 1 year | **2 914** | 3 852 | | |
| Later than 1 year and not later than 5 years | **609** | 3 540 | | |
| | **3 523** | 7 392 | | |
| Future finance charges on finance leases | **(159)** | (598) | | |
| Present value of finance lease liabilities | **3 364** | 6 794 | | |
| **The present value of all finance lease liabilities may be analysed as follows:** | | | | |
| Not later than 1 year | **2 767** | 3 423 | | |
| Later than 1 year and not later than 5 years | **597** | 3 371 | | |
| | **3 364** | 6 794 | | |
| **Borrowing facilities** | | | | |
| The group has the following undrawn contracted borrowing facilities: | | | | |
| Floating rate: | | | | |
| Expiring beyond 1 year | **127 250** | 125 420 | | |
| Expiring within 1 year | **173 750** | 205 750 | | |
| The borrowing powers of the company are unlimited in terms of its Articles of Association. | | | | |

| | Group | | Company | |
|---|---|---|---|---|
| | **2005 R'000** | 2004 R'000 | **2005 R'000** | 2004 R'000 |
| **19. DEFERRED TAXATION** | | | | |
| Deferred income tax is calculated on all temporary differences under the liability method using a principal tax rate of 29% (2004: 30%). Deferred income tax assets and liabilities are offset when the income taxes relate to the same fiscal authority and there is a legal right to offset at settlement. The following amounts are shown in the consolidated balance sheet: | | | | |
| Deferred tax assets | **(9 094)** | (5 895) | | |
| Deferred tax liabilities | **58 205** | 49 689 | | |
| Net deferred tax liability | **49 111** | 43 794 | | |
| The movement on the deferred income tax account is as follows: | | | | |
| At beginning of year | **43 794** | 28 625 | | |
| Effect of change in tax rate | **(1 240)** | | | |
| Income statement charge | | | | |
| – current year | **6 557** | 15 140 | | |
| – prior year | | (1 198) | | |
| Tax charged to equity – hedging reserve | | 1 227 | | |
| At end of year | **49 111** | 43 794 | | |

Deferred income tax assets are recognised only for tax losses carried forward to the extent that realisation of the related tax benefit is probable.

**19. DEFERRED TAXATION (continued)**

Group

Deferred tax assets and liabilities, deferred tax charge/(credit) in the income statement and deferred tax charge/(credit) in equity are attributable to the following items:

Deferred tax liabilities

| | **2005** Contingency policy | Plant and equipment allowances | Other | Total |
|---|---|---|---|---|
| Opening balance | **1 054** | **50 510** | **(1 875)** | **49 689** |
| (Credited)/charged to the income statement | **(191)** | **8 145** | **562** | **8 516** |
| **Closing balance** | **863** | **58 655** | **(1 313)** | **58 205** |

| | 2004 Contingency policy | Plant and equipment allowances | Other | Total |
|---|---|---|---|---|
| Opening balance | 1 054 | 34 639 | (830) | 34 863 |
| Charged/(credited) to the income statement | | 15 871 | (1 045) | 14 826 |
| Closing balance | 1 054 | 50 510 | (1 875) | 49 689 |

Deferred tax assets

| | **2005** Assessed losses set off | Provision for doubtful debts | Warranty claims | Provisions | Total |
|---|---|---|---|---|---|
| Opening balance | **(1 430)** | **(518)** | **(1 415)** | **(2 532)** | **(5 895)** |
| (Credited)/charged to the income statement | **(330)** | **18** | **(992)** | **(1 895)** | **(3 199)** |
| **Closing balance** | **(1 760)** | **(500)** | **(2 407)** | **(4 427)** | **(9 094)** |

| | 2004 Fair value losses | Assessed losses set off | Provision for doubtful debts | Warranty claims | Provisions | Total |
|---|---|---|---|---|---|---|
| Opening balance | (1227) | (836) | (847) | (1 546) | (1 782) | (6 238) |
| (Credited)/charged to the income statement | | (594) | 329 | 131 | (750) | (884) |
| Debited to equity | 1 227 | | | | | 1 227 |
| Closing balance | | (1 430) | (518) | (1 415) | (2 532) | (5 895) |

| | Group 2005 R'000 | Group 2004 R'000 | Company 2005 R'000 | Company 2004 R'000 |
|---|---|---|---|---|
| **20. TRADE AND OTHER PAYABLES** | | | | |
| Trade creditors | **123 124** | 144 920 | **181** | 149 |
| Forward foreign exchange contracts (note 23) | **471** | 1 189 | | |
| Accrual for leave pay | **9 007** | 8 328 | | |
| Sundry creditors and accruals | **78 273** | 83 751 | **107** | 92 |
| | **210 875** | 238 188 | **288** | 241 |

**21. PROVISIONS FOR LIABILITIES AND CHARGES**

| GROUP | Warranty R'000 | 2005 Other R'000 | Total R'000 |
|---|---|---|---|
| Balance at beginning of the year | **7 294** | **1 177** | **8 471** |
| Charged to the income statement | | | |
| – Additional provision | **2 043** | **2 653** | **4 696** |
| Utilised during the year | | **(13)** | **(13)** |
| **Balance at end of the year** | **9 337** | **3 817** | **13 154** |

| GROUP | Warranty R'000 | 2004 Other R'000 | Total R'000 |
|---|---|---|---|
| Balance at beginning of the year | 7 159 | 1 483 | 8 642 |
| Charged to the income statement | | | |
| – Additional provision | 700 | (172) | 528 |
| Transfers from provisions not utilised for original purpose | (565) | | (565) |
| Utilised during the year | | (134) | (134) |
| **Balance at end of the year** | 7 294 | 1 177 | 8 471 |

Warranty

Provision is made for the estimated liability on all products still under warranty including claims intimated not yet settled.

# Notes to the Financial Statements

for the year ended 31 December 2005

METAIR



| | Group | | Company | |
|---|---|---|---|---|
| | **2005 R'000** | 2004 R'000 | **2005 R'000** | 2004 R'000 |
| **22. NOTES TO CASH FLOW STATEMENTS** | | | | |
| **22.1 Reconciliation of net profit before taxation to cash generated from/(utilised in) operations** | | | | |
| Net profit before taxation | **241 472** | 233 759 | **156 074** | 92 634 |
| Adjustment for: | | | | |
| Depreciation and amortisation | **48 787** | 41 605 | | |
| Loss on disposal of property, plant and equipment | **312** | 14 | | |
| Share-based payment expenses | **763** | 764 | **763** | 764 |
| Profit on disposal of interest in subsidiary | **(16 441)** | | | |
| Income from subsidiaries & associates | **(3 236)** | (2 451) | **(113 472)** | (92 989) |
| Income from investments | **(14 338)** | (15 118) | **(47 000)** | |
| Impairment of investment in associate company | **12 906** | 3 775 | **2 259** | |
| Finance charges | **10 104** | 11 953 | | |
| Operating profit/(loss) before working capital changes | **280 329** | 274 301 | **(1 376)** | 409 |
| Working capital changes: | | | | |
| Increase in inventory | **(47 458)** | (2 421) | | |
| Increase in accounts receivable | **(8 543)** | (15 502) | | |
| (Decrease)/increase in accounts payable | **(20 968)** | 62 334 | **47** | 53 |
| Cash generated from/(utilised in) operations | **203 360** | 318 712 | **(1 329)** | 462 |
| **22.2 Taxation paid** | | | | |
| Taxation paid is reconciled to the amount disclosed in the income statement as follows: | | | | |
| Amounts unpaid at beginning of year | **(19 050)** | (16 073) | | |
| Income statement charge (note 4) | **(65 071)** | (58 597) | **(5 927)** | (4 568) |
| Amounts unpaid at end of year | **9 687** | 19 050 | | |
| | **(74 434)** | (55 620) | **(5 927)** | (4 568) |
| **22.3 Dividends paid** | | | | |
| To shareholders | **(50 807)** | (41 552) | **(50 958)** | (41 642) |
| To minorities in subsidiaries | **(264)** | (85) | | |
| | **(51 071)** | (41 637) | **(50 958)** | (41 642) |

## 23. FINANCIAL INSTRUMENTS

### 23.1 Financial risk management

**Foreign exchange risk**

The group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to US Dollars, Euros, Pound Sterling and Japanese Yen. Forward foreign exchange contracts are entered into to manage all exposures to fluctuations in foreign currency exchange rates on specific transactions.

**Credit risk**

Management has a credit policy in place and the exposure to risk is monitored on an ongoing basis. Cash is placed with substantial and reputable financial institutions.

Potential concentrations of credit risk consist mainly within trade receivables. Trade receivables comprise a large number of customers. Ongoing credit evaluations are performed on the financial position of these debtors. Trade debtors are presented net of the provision for impairment.

**Liquidity risk**

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained. Repayment of long-term borrowings are structured so as to match the expected cash flows from the operations to which they relate.

**Cash flow and fair value interest rate risk**

The group is exposed to interest rate risk as it borrows and places funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings and placings within market expectations. Working capital funding requirements are managed by the use of financial instruments to maximise returns whilst minimising risk with active input from the group's bankers taking cognisance of the interest yield curve. Term finance is structured and managed with the assistance of the group's bankers.

**Price risk**

The group is exposed to equity securities price risk because of investments held by the group and classified on the consolidated balance sheet as fair value through profit or loss. The group is not exposed to comodity price risk.

| **23.2 Derivative financial instruments** | **GROUP** | | | |
|---|---|---|---|---|
| | **2005 R'000** | | 2004 R'000 | |
| At 31 December 2005 | Assets | Liabilities | Assets | Liabilities |
| Forward foreign exchange contracts – fair value hedges | **281** | **(471)** | 104 | (1 189) |
| | **281** | **(471)** | 104 | (1 189) |

| | **GROUP** | |
|---|---|---|
| Net fair values of derivative financial instruments | **2005 R'000** | 2004 R'000 |
| The net fair values of derivative financial instruments at the balance sheet date and designated as fair value hedges were: | | |
| Forward foreign exchange contracts | | |
| – with positive fair values | **281** | 104 |
| – with negative fair values | **(471)** | (1 189) |
| | **(190)** | (1 085) |

### 23.3 Future foreign exchange exposures

| Uncovered foreign currency monetary items | Reflected in the balance sheet 2005 Foreign Amount '000 | Reflected in the balance sheet 2005 Rand Equivalent R'000 | Reflected in the balance sheet 2004 Foreign Amount '000 | Reflected in the balance sheet 2004 Rand Equivalent R'000 | Uncovered purchase orders not yet reflected as liabilities in the balance sheet 2005 Foreign Amount '000 | Uncovered purchase orders not yet reflected as liabilities in the balance sheet 2005 Rand Equivalent R'000 | Uncovered purchase orders not yet reflected as liabilities in the balance sheet 2004 Foreign Amount '000 | Uncovered purchase orders not yet reflected as liabilities in the balance sheet 2004 Rand Equivalent R'000 |
|---|---|---|---|---|---|---|---|---|
| US Dollars | **3 179** | **20 835** | 2 555 | 14 959 | **(2 251)** | **(14 185)** | (18 075) | (6 670) |
| Euro | **144** | **1 028** | 30 | 3 682 | **(3 950)** | **(31 963)** | (151 194) | (3 834) |
| Japanese Yen | **93 405** | **5 112** | (8 586) | (473) | **(351 365)** | **(19 328)** | (1 015 366) | (10 954) |
| Australian Dollars | **50** | **231** | 3 | 14 | **(342)** | **(1 590)** | (472) | (2 080) |
| British Pounds | **403** | **4 769** | 764 | 5 762 | **(251)** | **(2 692)** | (9 670) | (1 525) |
| Thai Bhat | **(1 523)** | **(248)** | (2 438) | (355) | **(8 452)** | **(1 305)** | | |
| Taiwanese Dollars | | | (26) | (5) | | | | |

### 23.4 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the group is the current bid price.

Quoted market prices or dealer quotes for similar instruments are used for long-term debt. The fair value of forward exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

| | Group 2005 R'000 | Group 2004 R'000 | Company 2005 R'000 | Company 2004 R'000 |
|---|---|---|---|---|
| **24. CONTINGENT LIABILITIES** | | | | |
| Guarantees in respect of secured loans and overdrafts of subsidiaries | **40 675** | 40 675 | **40 675** | 40 675 |
| Guarantees in respect of subsidiaries' employee loans | **230** | 203 | | |
| Trade guarantees | **786** | 786 | | |
| Lease commitments | **1 457** | 1 344 | | |
| | **43 148** | 43 008 | **40 675** | 40 675 |
| Any future dividend declaration out of the distributable reserves of the company will be subject to secondary taxation on companies at 12,5% | | | | |
| **25. COMMITMENTS** | | | | |
| Capital commitments | **100 265** | 51 352 | | |
| Contracted: | | | | |
| Plant, machinery, tools, jigs and dies | **60 537** | 26 569 | | |
| Authorised by the directors but not yet contracted: | | | | |
| Plant, machinery, tools, jigs and dies | **39 728** | 24 783 | | |
| Unexpired portion of operating lease contracts | **20 886** | 21 099 | | |
| Payable within one year | **9 960** | 9 335 | | |
| Payable thereafter | **10 926** | 11 764 | | |
| | **121 151** | 72 451 | | |

The above commitments will be financed mainly from internal resources as well as from further borrowings.

| | Group 2005 R'000 | Group 2004 R'000 |
|---|---|---|
| **26. RETIREMENT BENEFIT INFORMATION** | | |
| The policy of the group is to provide retirement benefits for its employees. The Metair Group Pension Fund is a defined benefit pension fund providing retirement and other benefits to employees, who are not members of one of the provident funds, and to their dependants. | | |
| **Pensions and other post-employment obligations** | | |
| **Post-employment medical benefits** | | |
| Amounts recognised in the balance sheet: | | |
| Post-employment medical benefits | **14 681** | 13 019 |
| | **14 681** | 13 019 |

**Pension schemes**

The policy of the group is to provide retirement benefits for its employees. Participation in retirement benefit plans is however not compulsory but 90% (2004: 88%) of the group's employees are members of the Metair Group Pension Fund (a defined benefit plan) or provident funds. The Metair Group Pension Fund is valued by an independent actuary every three years using the projected unit credit method. The latest actuarial valuation was carried out as at 30 April 2003 and the fund was found to be in a sound financial position. The surplus apportionment valuation of the Metair Group Pension Fund was carried out at 30 April 2003, the group's surplus apportionment date, by an independent firm of consulting actuaries. The fund was found not to have a surplus, as calculated in terms of circular PF117 issued by the Financial Services Board (FSB). The valuation has been approved by the FSB. The Metair Group Pension Fund is governed by the Pension Fund Act which requires actuarial valuations every three years. The next actuarial valuation will be completed by 30 April 2006.

**IAS valuation**

The surplus calculated in terms of IAS19: Employee benefits is presented below. It should be noted that this valuation is performed on a different basis than the valuation in terms of the FSB guidelines.

No asset has been recognised in respect of the surplus in the Metair Group Pension Fund as the rule amendment allocating the surplus to the Employer Surplus Account has not yet been approved.

| | 2005 R'000 | 2004 R'000 |
|---|---|---|
| Had the rule amendment been approved, the amounts that would have been recognised in the group balance sheet are as follows: | | |
| Defined benefit obligation | **409 611** | 329 061 |
| Assets at fair value | **420 495** | 347 712 |
| | **10 884** | 18 651 |

The actual return on the plan assets amounted to R7 987 000 (2004: R7 380 000).

| The principal actuarial assumptions used were: | 2005 | 2004 |
|---|---|---|
| Discount rate for obligation | **9%** | 9% |
| Expected return on plan assets | **9%** | 9% |
| Salary increase | **6%** | 6% |
| Pension increase | **4%** | 4% |
| Inflation | **5%** | 4% |

| | Group 2005 R'000 | Group 2004 R'000 |
|---|---|---|
| **26. RETIREMENT BENEFIT INFORMATION (continued)** | | |
| **Post-employment medical benefits** | | |
| Certain of the companies in the group operated post-employment medical benefit schemes until 31 December 1996. Employees who joined the group after 1 January 1997 will not receive any co-payment subsidy from the group upon reaching retirement. The method of accounting and frequency of valuation are similar to those used for defined benefit pension schemes. | | |
| In addition to the assumptions used for the pension schemes, the main actuarial assumption is a long term increase in health costs of 5% (2004: 5%) per year. | | |
| The amounts recognised in the income statement are as follows: | | |
| Current service costs | **891** | 750 |
| Interest costs | **864** | 2 016 |
| Recognised actuarial gain | | (173) |
| | **1 755** | 2 593 |
| Movement in the liability recognised in the balance sheet: | | |
| At beginning of year | **13 019** | 10 716 |
| Total expense per income statement as above | **1 755** | 2 593 |
| Contributions paid | **(93)** | (290) |
| At end of year | **14 681** | 13 019 |
| The liability previously disclosed as current has been reclassified as non-current. Comparative information has been adjusted. | | |
| **27. SUBORDINATION AGREEMENTS** | | |
| The company has subordinated loans to the following subsidiaries in favour of and for the benefit of the other creditors for the purpose of banking facilities in lieu of recapitalisation of subsidiaries: | | |
| Hella (SA) (Pty) Limited | **24 247** | 24 247 |
| Metindustrial Limited | **182 000** | 182 000 |
| Smiths Plastics (Pty) Limited | **36 000** | 36 000 |

**28. 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.

**Warranties**

Warranty estimates and assumptions are based on the extrapolation of past claims experience over the warranty period. This is applied to warrantable sales.

Factors that could impact the estimated claim information include the success of the group's productivity and quality initiatives, as well as parts and labour costs.

**Impairment**

During the year the group impaired its investment in Tenneco Automotive Holdings (Pty) Limited, an associate company, due to its continued unprofitability. The impairment calculation was based on the projected negative future earnings and cash flows.

**29. RELATED PARTIES**

Information on emoluments paid to executive and non-executive directors have been presented in note 3.

Information on loans granted to subsidiaries has been presented in note 9. Dividend income from subsidiaries has been presented in note 3. Directors' shareholdings have been presented in note 16.

**1. Transition to IFRS**

As stated in the accounting policies on page 30 these are the group's first consolidated financial statements prepared in accordance with IFRS. The group has applied IFRS 1 in preparing these consolidated financial statements.

The group's transition date is 1 January 2004. The group prepared its opening IFRS balance sheet at that date – the group's IFRS adoption date is 1 January 2005.

In preparing this opening IFRS balance sheet in accordance with IFRS 1, the group has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS.

In preparing the opening IFRS balance sheet, the group has adjusted amounts previously reported in financial statements prepared in accordance with its previous basis of accounting, SA GAAP. An explanation of how the transition from SA GAAP to IFRS has affected the group's financial position and performance is set out in the following tables and the notes accompanying the tables. The adjustments arising from the adoption of IFRS did not have an effect on the cash flows of the group.

METAIR



**Reconciliation of equity**

| In R'000 | Note | 31 December 2004 Change Dr/(Cr) | 1 January 2004 Change Dr/(Cr) |
|---|---|---|---|
| Equity previously reported under SA GAAP | | 805 724 | 686 010 |
| Adjustment upon adoption of IFRS | | 28 826 | 23 643 |
| Equity reported under IFRS | | 834 550 | 709 653 |
| **Equity adjustments** | | | |
| Retained earnings | 1 – 7 | 27 758 | 23 339 |
| Share-based payment reserve | 3 | 1 068 | 304 |
| | | 28 826 | 23 643 |
| **Assets and liabilities adjustments** | | | |
| Property, plant and equipment | 1 | 41 981 | 35 745 |
| Intangible assets | | 600 | 533 |
| Accounts receivable | | (1 403) | (2 335) |
| Deferred taxation | 6 | (12 352) | (10 183) |
| Other current liabilities | | | (117) |
| | | 28 826 | 23 643 |

**Reconciliation of profit for the year ended 31 December 2004**

| In R'000 | Note | SA GAAP as previously reported | Effect of transition to IFRS | IFRS restated |
|---|---|---|---|---|
| Revenue | 4, 5 | 1 950 244 | (697) | 1 949 547 |
| Cost of sales | | (1 476 547) | 6 304 | (1 470 243) |
| **Gross profit** | | 473 697 | 5 607 | 479 304 |
| Other operating income | 4 | 16 220 | 1 629 | 17 849 |
| Distribution costs | | (52 615) | | (52 615) |
| Administrative expenses | 3 | (209 731) | (764) | (210 495) |
| Other operating expenses | | (2 125) | | (2 125) |
| Interest income | | 15 118 | | 15 118 |
| Interest expense | | (11 953) | | (11 953) |
| Impairment of investment in associate company | | (3 775) | | (3 775) |
| Share of results of associates | | 2 451 | | 2 451 |
| **Profit before taxation** | | 227 287 | 6 472 | 233 759 |
| Taxation | 6 | (69 969) | (2 053) | (72 022) |
| **Profit for the year** | | 157 318 | 4 419 | 161 737 |
| Attributable to: | | | | |
| Equity holders of the company | | 156 724 | 4 419 | 161 143 |
| Minority interest | | 594 | | 594 |
| | | 157 318 | 4 419 | 161 737 |

**Notes supporting the above adjustments**

1. Consistent with IFRS, the group has accounted for parts of its property, plant and equipment as separate items in determining appropriate rates of depreciation, capitalisation of refurbishment costs and derecognition applicable to individual parts. Residual values and useful lives of all property, plant and equipment have been reassessed. The effect of this is as follows:

| In R'000 | At 31 December 2004 | At 1 January 2004 | For the year ended December 2004 |
|---|---|---|---|
| Property, plant and equipment | 41 981 | 35 745 | |
| Reserves (retained earnings) and minority interests | 29 387 | 25 022 | |
| Operating profit (depreciation) | | | 6 304 |

2. The group has decided to adopt the business combinations exemption whereby business combinations that were recognised before the date of the transition need not be restated. No business combinations have occurred since 1 January 2004.

3. In accordance with IFRS 1, the group applied IFRS 2 to equity instruments granted to employees after 7 November 2002 but not vested at the date of transition.This included instruments granted by the Metair Share Incentive Scheme. Previously the fair value of share-based payment transactions were not recognised in the financial statements. The share-based payment reserve have been included on the group statement of changes in equity.

4. In accordance with IAS20, government grants have not been accounted for until there is reasonable assurance that the company has complied with the conditions attaching to it and that the grant will be received. The effect of this change was a net decrease in sales of R622 000, a net increase in other income of R1 629 000 and a net decrease in accounts receivable of R378 000 for the year ended 31 December 2004.

5. Previously the group did not make provision for settlement discounts. In accordance with IFRS, settlement discounts have been provided for. The effect of this change was a net decrease in sales of R75 000 and a net decrease in accounts receivable of R1 025 000 for the year ended 31 December 2004.

6. The above changes increased/(decreased) the deferred tax liability as follows, based on the normal South African tax rate of 30%:

| In R'000 | Note | At 31 December 2004 | At 1 January 2004 | For the year ended 31 December 2004 |
|---|---|---|---|---|
| Property, plant and equipment | 1 | 12 594 | 10 724 | |
| Accounts receivable | | (422) | (701) | |
| Intangible assets | | 180 | 160 | |
| Tax charge to income statement | | | | 2 053 |
| | | 12 352 | 10 183 | 2 053 |

7. The employee benefits exemption under IFRS1 is not applicable to the group as no asset has been recognised in respect of the surplus in the Metair Group Pension Fund as set out in note 26 to the financial statements.

# Investment in Subsidiaries and Associates

## for the year ended 31 December 2005

METAIR

| Incorporated in South Africa | Type | Issued share capital 2005 R'000 | Issued share capital 2004 R'000 | % Direct (indirect) interest 2005 % | % Direct (indirect) interest 2004 % | Cost of shares 2005 R'000 | Cost of shares 2004 R'000 |
|---|---|---|---|---|---|---|---|
| **SUBSIDIARIES** | | | | | | | |
| MOTOR COMPONENT MANUFACTURING | | | | | | | |
| Smiths Manufacturing (Pty) Ltd | ordinary | | | **75** | 100 | **4 500** | 6 000 |
| Metindustrial (Pty) Ltd | ordinary | **500** | 500 | **100** | 100 | | |
| First National Battery Company (Pty) Ltd | ordinary | **1 704** | 1 704 | **100** | 100 | | |
| Hella SA (Pty) Ltd | ordinary | **329** | 329 | **100** | 100 | | |
| Hesto Harnesses (Pty) Ltd | ordinary | **1** | | **100** | 100 | **1** | |
| Smiths Plastics (Pty) Ltd | ordinary | | | **100** | 100 | **28 194** | 28 194 |
| Smiths Motors (Pty) Limited | ordinary | | | **100** | | | |
| Unitrade 745 (Pty) Ltd | ordinary | | | **100** | | | |
| Kimitar Investments (Pty) Ltd | ordinary | | | **(100)** | (100) | | |
| First National Battery Industrial (Pty) Ltd | ordinary | | | **(75)** | (75) | | |
| Tlangi Investments (Pty) Ltd | ordinary | | | **(50)** | (50) | | |
| **MANAGEMENT SERVICES** | | | | | | | |
| Metair Management Services (Pty) Ltd | ordinary | | | **100** | 100 | | |
| **PROPERTIES** | | | | | | | |
| SMSA Property (Pty) Ltd | ordinary | **3 000** | 3 000 | **(100)** | (100) | | |
| Climate Control Properties (Pty) Ltd | ordinary | | | **(100)** | (100) | | |
| Supreme Spring Properties (Pty) Ltd | ordinary | | 3 000 | | 100 | | |
| | | | | | | **32 695** | **34 194** |
| **ASSOCIATES** | | | | | | | |
| Tenneco Automotive Holdings SA (Pty) Ltd | ordinary | | | **25,1** | 25,1 | | |
| Valeo Systems South Africa (Pty) Ltd | | | | **49** | 49 | | |
| Tuniwell (Pty) Ltd | | | | **(40)** | (40) | | |

| | 2005 R'000 | 2004 R'000 |
|---|---|---|
| Indebtedness by subsidiaries to the holding company: | | |
| Metindustrial (Pty) Ltd | **180 096** | 180 096 |
| Smiths Motors (Pty) Ltd | **3 789** | |
| Hesto Harnesses (Pty) Ltd | | 11 789 |
| Hella SA (Pty) Ltd | **24 246** | 24 247 |
| Smiths Plastics (Pty) Limited | **46 000** | 43 000 |
| | **254 131** | 259 132 |

# Notice to Shareholders

**METAIR INVESTMENTS LIMITED**
(Incorporated in the Republic of South Africa)
(Registration Number: 1948/031013/06)
JSE share code: MTA ISIN: ZAE 000004743
("Metair" or "the company")

**NOTICE TO SHAREHOLDERS**

NOTICE IS HEREBY GIVEN that the annual general meeting of shareholders of Metair Investments Limited will be held in the boardroom, Wesco House, 10 Anerley Road, Parktown, Johannesburg, on Wednesday, 3 May 2006, at 14h00 for the following purposes:

1. To consider and approve the annual financial statements for the year ended 31 December 2005.
2. To re-elect Mr CT Loock as director, who retires in terms of the articles of association, but, being eligible, has offered himself for re-election (note 1).
3. To re-elect Mr AD Plummer as director, who retires in terms of the articles of association, but, being eligible, has offered himself for re-election (note 1).
4. To re-elect Mr RS Broadley as director, who retires in terms of the articles of association, but, being eligible, has offered himself for re-election (note 1).

**Special business**

5. To consider, and, if deemed fit, to pass, with or without modification, the resolutions set out below:

**Ordinary resolution number 1**

To resolve that all the ordinary shares required for the purpose of carrying out the terms of the Metair Share Trust (limited to a maximum of 20% of the issued ordinary share capital of the company), other than those which have specifically been appropriated for the trust in terms of ordinary resolutions duly passed at previous annual general meetings of the company, subject to the provisions of the Companies Act,1973, and the Listings Requirements of the JSE Limited, be and are hereby specifically placed under the control of the directors, who be and are hereby authorised to allot and issue those shares in terms of the trust.

**Special resolution number 1**

To resolve that, in terms of Section 62 of the Companies Act, 61 of 1973 ("Companies Act"), as amended, the existing articles of association of the company be amended by the inclusion of a new article 129.1.3, which in its entirety, reads as follows:

"129.1.3 Electronic circulars and delivery

> The company may, subject to the Companies Act and the Listings Requirements of JSE Limited and, provided a member consents thereto, effect electronic delivery of investor information such as circulars, annual reports, interim reports, listing particulars, dividend and interest notices and proxy forms."

The reason for and effect of the passing of special resolution 1 is to enable the company to use electronic media facilities to communicate with its shareholders.

**Voting instructions**

A shareholder entitled to attend and vote at the meeting may appoint one or more proxies to attend, speak, and, on a poll, vote in his/her stead. A proxy need not be a shareholder of the company. The form of proxy is only for the use by those shareholders of Metair who have not yet dematerialised their shares in Metair or who have dematerialised their shares in Metair and such dematerialised shares are recorded in the electronic sub-register of Metair Investments Limited in the shareholder's own name ("entitled shareholders").

If either of the above situations is not applicable to you, you must not use the proxy form. In such event, you must notify your duly appointed Central Securities Depository Participant ("CSDP") or broker, as the case may be, in the manner stipulated in the agreement governing your relationship with your CSDP or broker, of your instructions as regards voting your shares at the annual general meeting.

A form of proxy accompanies this notice. Duly completed proxy forms must be received by the company at its registered office or by the Transfer Secretaries (Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street, Johannesburg / P O Box 61051, Marshalltown, 2107) by no later than 28 April 2006 at 14h00.

The attention of shareholders is directed to the additional notes contained in the form of proxy.

By order of the board.

**SM Vermaak**
Secretary

Johannesburg
15 March 2006

**Registered office**
Metair Investments Limited
Wesco House
10 Anerley Road
Parktown
Johannesburg

# Notice to shareholders and Shareholders diary

**NOTE**

**1 Directors retiring by rotation and who are seeking re-election**

Mr CT Loock

Mr Loock was previously a divisional director of Trident Steel. He has an engineering degree with a strong commercial background.

He was appointed to the Metair board as managing director in March 2006. He is also a director of all the Metair subsidiary companies.

Mr AD Plummer

Mr Plummer was appointed to the Metair board as executive director in December 1983. He resigned as managing director effective February 2006 and was appointed as non-executive chairman in January 2006. He acted in a dual capacity during the handover period to the new managing director.

He is a member of the Metair Board Audit Committee as well as the Metair Board Remuneration Committee.

Mr RS Broadley

Mr Broadley was appointed to the Metair board as non-executive director in April 2001. In terms of the Listings Requirements of JSE Limited (section 3.84(f)), he is an independent non-executive director of Metair.

He is chairman of the Metair Board Remuneration Committee. He is also a non-executive director of Wesco Investments Limited.

**SHAREHOLDERS DIARY**

| | |
|---|---|
| Financial year end | December |
| Annual general meeting | May |
| REPORTS AND PROFIT STATEMENTS | |
| Interim report | August |
| Annual report and financial statements | March |
| ORDINARY DIVIDENDS | |
| **Final** | |
| Declared | March |
| Payment | April |

Shareholders are reminded to notify the Registrars of any change in address.

# Form of Proxy

## Annual general meeting of shareholders



**METAIR INVESTMENTS LIMITED**
(Incorporated in the Republic of South Africa)
(Registration Number: 1948/031013/06)
JSE share code: MTA ISIN: ZAE 000004743
("Metair" or "the company")

**Important note concerning this form of proxy:**

This form of proxy is only for the use by those shareholders of Metair who **have not** yet dematerialised their shares in Metair or who **have dematerialised their shares in Metair and such dematerialised shares are recorded in the electronic sub-register of Metair Investments Limited in the shareholder's own name ("entitled shareholders").**

If either of the above situations is not applicable to you, you must not use this form. In such event, you must notify your duly appointed Central Securities Depository Participant ("CSDP") or broker, as the case may be, in the manner stipulated in the agreement governing your relationship with your CSDP or broker, of your instructions as regards voting your shares at the annual general meeting.

A shareholder entitled to attend and vote at the meeting may appoint one or more proxies of his/her own choice to attend, speak, and, on a poll, vote in his/her stead at the annual general meeting of the company to be held at 14h00 on Wednesday, 3 May 2006 at Wesco House, 10 Anerley Road, Parktown, Johannesburg. A proxy need not be a shareholder of the company.

I, ______________________________
(name in block letters)

of (address) ______________________________

______________________________

being holder/s of __________ ordinary shares in the company, do hereby appoint:

1. ______________________________ or failing him/her,

2. ______________________________ or failing him/her,

3. the chairman of the annual general meeting as my/our proxy to attend, speak and, on a poll, vote on my/our behalf at the annual general meeting which will be held for the purpose of considering and, if deemed fit, passing, with or without modification, the ordinary and special resolutions to be proposed thereat and at any adjournment thereof, and to vote for or against the resolutions or abstain from voting, in accordance with the following instructions:

**Voting instruction:**
Please indicate with an "X" in the appropriate spaces how votes are to be cast

| | In favour | Against | Abstain |
|---|---|---|---|
| 1. Adoption of financial statements | | | |
| 2. Re-election of Mr CT Loock as a director | | | |
| 3. Re-election of Mr AD Plummer as a director | | | |
| 4. Re-election of Mr RS Broadley as a director | | | |
| **5. Special business:**<br>Ordinary resolution number 1<br>Placing of ordinary shares required for the purpose of carrying out the terms of the Metair Share Trust under the control of the directors | | | |
| Special resolution number 1<br>Amending the articles of association to include article 129.1.3 to enable the company to use electronic media facilities | | | |

Signed at ____________________ on ____________________ 2006.

Signature : ______________________________

Assisted by me (where applicable)
This form of proxy should be lodged at the registered office of the company (Wesco House, 10 Anerley Road, Parktown, Johannesburg) or at the Transfer Secretaries (Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street, Johannesburg / P O Box 61051, Marshalltown, 2107) by no later than 28 April 2006 at 14h00.

Please read the notes on the reverse side hereof.

METAIR

**Notes:**

1. Each entitled shareholder may appoint one or more proxies (none of whom need be a member of the company) to attend, speak and, on a poll, vote or abstain from voting in place of that shareholder at the annual general meeting.

2. An entitled shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the blank spaces provided, with or without deleting "the chairman of the annual general meeting", but any such deletion must be signed in full and not initialled by the signatory. Any insertion or deletion not complying with the aforegoing will be deemed not to have been validly effected. The person whose name stands first on the form of proxy and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.

3. Where there are joint holders of shares, any one holder may sign the proxy form.

4. An entitled shareholder's instructions to the proxy must be indicated on behalf of that shareholder in the appropriate spaces provided. An entitled shareholder or such shareholder's proxy is not obliged to vote in respect of all of the shares held or represented by such shareholder but the total number of votes for or against the resolutions and in respect of which any abstention is recorded, may not exceed the total number of votes to which the shareholder or such shareholder's proxy is entitled. Failure to comply with the above will be deemed to authorise the chairman of the annual general meeting, if the chairman is the authorised proxy, to vote in favour of all of the resolutions to be proposed at such meeting or any adjournment thereof and will be deemed to authorise any other proxy to vote or abstain from voting at the annual general meeting or any adjournment thereof as the shareholder's proxy deems fit, in respect of all the shares concerned.

5. The completion and lodging of a form of proxy will not preclude the relevant entitled shareholder who grants the proxy from attending the annual general meeting and speaking and voting or abstaining from voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so.

6. Any alteration or correction made to this form of proxy must be signed in full and not initialled by the signatory.

7. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this proxy form unless previously recorded by the registrars.

8. The chairman of the annual general meeting may reject or accept a form of proxy which is completed and/or received, other than in accordance with these instructions and notes, provided that he/she is satisfied as to the manner in which the shareholder concerned wishes to vote.

9. A minor must be assisted by his/her parent(s) or guardian.

21051 Citigate Dynamo

**Metair Investments Limited**

10 Anerley Road, Parktown, Johannesburg
2193, Gauteng

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