expansion gain improve
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addition magnify prosper progress

Metair Investments Limited

Annual Report 2006

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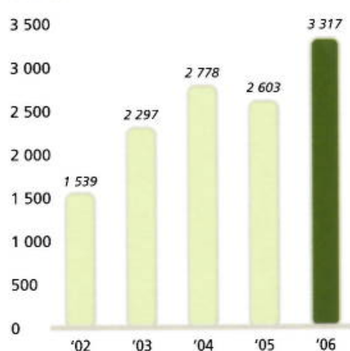
Financial Highlights
for the year ended 31 December 2006

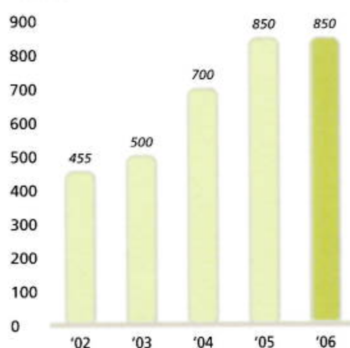
	2006	2005	2004	2003	2002
	R'000	R'000	R'000	R'000	R'000
Revenue	**2 641 911**	2 151 020	1 949 547	1 854 208	1 612 836
Profit before taxation	**324 931**	241 995	233 759	189 902	117 054
Interest paid	**6 846**	10 104	11 953	19 026	21 942
Profit attributable to ordinary shareholders	**203 240**	158 799	161 143	135 806	88 335
Total equity	**1 077 362**	986 910	834 550	686 010	582 367
Interest-bearing debt	**18 121**	69 081	84 751	99 175	92 896
Property, plant and equipment	**614 087**	502 118	439 476	337 940	279 999
Current assets	**836 316**	792 889	736 278	610 250	554 804
Total assets	**1 533 247**	1 369 026	1 251 649	1 027 711	911 572
Number of shares in issue	**6 066**	5 995	5 949	5 898	5 898
Weighted average number of shares in issue	**6 050**	5 984	5 937	5 898	5 841
Net asset value per share (cents)	**17 761**	16 462	14 028	11 631	9 874
Basic earnings per share (cents)	**3 359**	2 654	2 714	2 303	1 512
Headline earnings per share (cents)	**3 317**	2 603	2 778	2 297	1 539
Dividend per share (cents) declared and paid	**850**	850	700	500	455
Dividend cover (times) (calculated on headline earnings)	**3,9**	3,1	4,0	4,6	3,4
Net profit as a % of average total shareholders' funds	**19,7**	17,4	20,9	21,4	16,1
Profit before interest and tax as a % of average total assets (excluding cash)	**23,6**	20,4	22,7	22,6	16,8
Total shareholders' funds as a % of total assets	**70,3**	72,1	66,7	66,8	64,1
Interest cover (times)	**47**	26	21	11	6

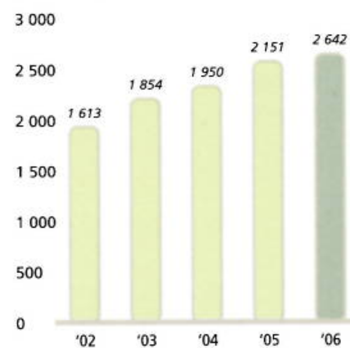
Notes:

The 2004 year has been restated in accordance with IFRS, the previous years are stated in accordance with SA GAAP. Actuarial gains and losses in respect of defined benefit plans for the years 2004 and earlier have not been accounted for directly in equity.

Dividends are declared during the year on the basis of the previous year's net profit.







Metair Investments Limited ("Metair") encompasses a portfolio of companies manufacturing and distributing products predominantly for the automotive industry.

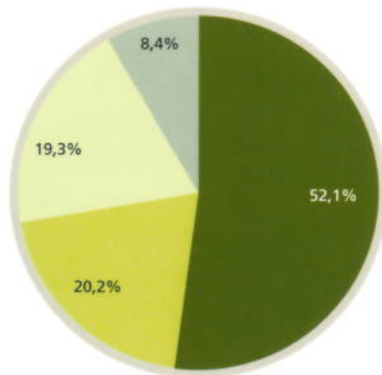
The seven operating subsidiaries and two associate companies are autonomously managed and each has a specific product focus. Automotive components are supplied primarily to South African assemblers of new vehicles (OEM's), but the group also supplies components for the replacement market and a proportion of output is exported.

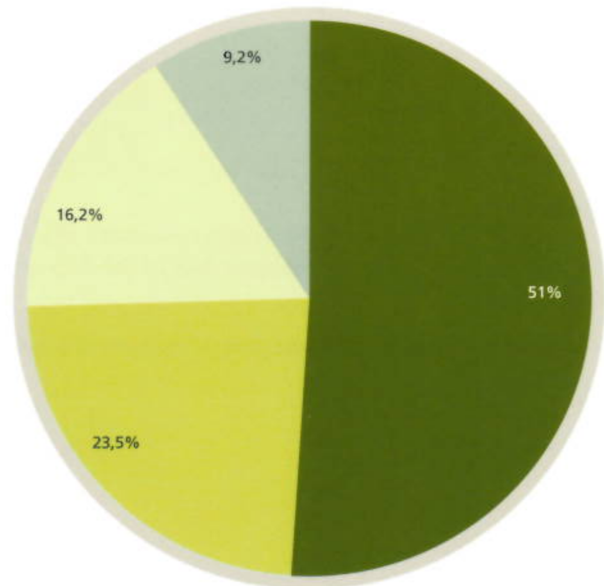
Products manufactured include heating and cooling systems, shock absorbers, springs, lead acid batteries, lighting and signalling devices, plastic mouldings, wiring harnesses and front end modules.

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)





2005

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

2006

Original equipment	R1 347 318
Export	R622 124
Aftermarket	R429 168
Non-auto	R243 301

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

Smiths Manufacturing (Pty) Ltd

75%

- Radiators
- Heaters
- Air-conditioners
- Condensers
- Cooling fans
- Hoses and pipes

Metindustrial (Pty) Ltd Supreme Spring Division

100%

- Coil springs
- Leaf springs
- Stabilisers
- Torsion bars

Smiths Plastics (Pty) Ltd

100%

- Plastic injection mouldings

Hella South Africa (Pty) Ltd

100%

- Headlights
- Plastic injection mouldings
- Lamps
- Wheel trims
- Horns

Smiths Electric Motors (Pty) Ltd

100%

- Blower motors

Unitrade 745 (Pty) Ltd

100%

- Automotive cable

Hesto Harnesses (Pty) Ltd

74,9%

- Wiring harnesses

Valeo Systems South Africa (Pty) Ltd

49%

- Front end modules

Metindustrial (Pty) Ltd First National Battery Division

100%

- Batteries (includes non-automotive)

Tenneco Automotive Holdings SA (Pty) Ltd

25,1%

- Shock absorbers
- Struts
- Track control arms

Directors and Officers

AD Plummer*
(59)
Non-executive chairman
FCA (England & Wales)

GMC Ryan
(58)
Non-executive director
B. Comm., CTA, CA (SA), MBA

CT Loock
(42)
Managing director
B. Eng (Industrial)

GJ Strydom
(43)
Non-executive director
B. Compt (Hons), CA (SA)

CIJ van der Merwe
(58)
Finance director
M. Comm. (Acc), CA (SA)

RS Broadley
(74)
Independent non-executive director
Advanced Technical Certificate

E Bradley
(68)
Non-executive director
BSc, MSc

L Soanes*
(70)
Independent non-executive director
National Certificate of Engineering

A Joffe
(38)
Non-executive director
B. Comm. (Hons) GDA CA (SA)

SM Vermaak
(41)
Company secretary
B. Comm. (Fin. M.) AIRMSA

Company 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

OVERVIEW

We take pleasure in announcing the 2006 results to shareholders.

In many ways 2006 was a very eventful year for the group including the appointment of a new managing director and the sale by Wesco Investments Limited of its holding in Metair to Coronation Capital Limited (Corocap) and its nominees.

Metair's relationship with Wesco spans over almost 30 years, first in the person of the late Dr Albert Wessels and thereafter with his daughter Mrs Elisabeth Bradley. The Wessels Family built Metair from very humble beginnings to the successful business that it is today operating almost exclusively in the challenging automotive component manufacturing market.

The inclination and constraints of management of a company with conservative family shareholders meant that in recent years, Metair was managed to maintain a strong balance sheet and with a focus on organic growth through existing subsidiaries and a tendency to sacrifice aggressive expansion in favour of security. Despite significant capital expenditure, increased profitability resulting from expansion of the subsidiaries and exceptional market growth led to an accumulation of cash on the balance sheet. Corocap recognised the opportunity for more dynamic growth and approached Wesco and expressed their interest in acquiring a significant shareholding in Metair.

The Metair share has always been very tightly held and not very tradable, and this also precluded any other activity that might address other shareholder profile requirements unique to the South African environment such as Broad Based Black Economic Empowerment (BBBEE).

The offer by Corocap and its nominees to buy the Wessels family interest and Wesco Investments Limited shareholdings in Metair has made it possible to facilitate an empowerment transaction. In a post year-end event Royal Bafokeng Holdings (RBH), the investment arm of the Royal Bafokeng Nation, became a strategic shareholder in Metair.

With Corocap and RBH as the new strategic shareholders, there is a new dynamic and energy which will no doubt be very exciting for Metair and all its stakeholders.

There is no BEE charter for the automotive industry, but automotive component manufacturers, such as Metair, have come under pressure from original equipment manufacturers to strengthen their BEE credentials. We believe that with RBH as a 10% shareholder we can at last improve our BEE credentials.

Metair is delighted to welcome Corocap and RBH as strategic shareholders in Metair and look forward to building a successful long-term relationship with them.

2006 was also the year that First National Battery (one of Metair's wholly owned subsidiaries) celebrated its 75th anniversary.

On 22 September 1931, The First National Battery Company, South Africa's first battery manufacturer, delivered its first shipment of a dozen batteries to motor traders in East London, Stutterheim and King William's Town. In 2006 the company enjoyed its most successful and profitable year in its 75 year history.

RESULTS

Headline earnings per share for the full year were 3 317 cents compared to 2 603 cents achieved in the previous financial year. This represents an increase of 27,4%. Headline earnings for the second six months were 1 891 cents compared to 1 420 cents achieved for the comparable period of 2005 – an increase of 33,2%.

Group turnover increased by 23% to R2 642 million compared to R2 151 million in 2005. Profit after tax attributable to ordinary shareholders increased to R203,2 million from R158,8 million. Cash generated from operations was R242,3 million in 2006 compared to R203,4 million in 2005.

The group's ROE was 19,7%.

Sales of components to Original Equipment Manufacturers (OEMs) increased by 20% and constituted 51% of turnover (2005 – 52,1%). Export sales increased by 43% to R622 million compared to R434 million in 2006. Export sales include an estimate for the year in respect of those components supplied to OEMs for incorporation into their vehicle export programmes. Sales in this category accelerated in the second six months as a result of the higher export volumes achieved by OEMs. Aftermarket sales increased to R429 million compared to R415,2 million in 2005, whilst non-automotive turnover grew by 34% to R243 million from R181,1 million. Non-automotive business is mostly through First National Battery into retail, mining, tele-communications, utility and industrial sectors.

Selling, administrative and distribution expenses increased by 17% on the back of increased volume, but were well under control.

The increase in minority shareholders interest is directly related to the 25,1% investment made by Yazaki in Hesto Harnesses from 3 April 2006. Minority shareholders interest now reflects the 25% Denso shareholding in Smiths Manufacturing as well as the Yazaki interest in Hesto Harnesses.

The tax rate was 30,3% in 2006. Of the tax charge of R98 million, deferred tax constituted R9 million.

The balance sheet reflects an increase in the net book value of fixed assets of R112 million from R502,1 million to R614,1 million mainly as a result of additional plant and equipment installed to meet the higher volumes produced in 2006 and the further increases expected through to 2008.

Current assets (inventory and debtors, excluding cash) increased by R210,6 million. Besides the increase in the inventory due to the higher sales volumes the establishment of an in-house logistical center sourcing imported parts and raw material for Smiths Manufacturing and Smiths Plastics caused a temporary rise in stock levels. Planned increase in stock levels in First National Batteries were to cater for anticipated higher December and January sales. Strategic copper stocks were also carried during December due to supply shortages. Debtors increased due to higher than normal sales in December.

The balance sheet remained strong with shareholders funds representing 70,3% of total assets at year-end (2005 – 72,1%).

GROUP STRUCTURE

On 3 April 2006 Yazaki Corporation became a 25,1% shareholder in Hesto Harnesses.

This transaction concluded the second equity participation by a licensor in our subsidiaries after the transaction with Denso Corporation with its 25% shareholding in Smiths Manufacturing during 2005.

We remain committed to maintaining multi-license agreements in the subsidiaries with equity participation by Japanese licensors in order to service the full spectrum of original equipment manufacturers (OEM's) in South Africa.

With effect from 5 March 2007 Metair shares were subdivided 25 times from having a par value of 50 cents per share to 2 cents per share.

During the period Messrs Gavan Ryan and Allan Joffe joined the board as non-executive directors.

DIVIDEND

A dividend of 40 cents per share (the equivalent of 1 000 cents per share before the subdivision) has been declared in respect of 2006 compared to 34 cents per share (the equivalent of 850 cents per share before the subdivision) declared in respect of 2005. The dividend cover has been increased as the company intends to retain cash to pursue expansion opportunities.

INDUSTRY REVIEW

2006 was the third consecutive year that was characterised by an exceptional increase in demand for vehicles in the domestic market with a 15,7% increase over 2005. The estimated 4,6% growth in GDP and increased disposable income supported by improved vehicle affordability were the main drivers for the strong demand in 2006.

The passenger vehicle market increased by 13,3% and the light commercial vehicle market increased by 16,1%. The demand totalled 681 235 vehicles. However almost all of the growth in the new vehicle market came from imported vehicles. Locally produced passenger vehicle sales only improved by 1% and light commercial vehicles by 6% whereas imported passenger vehicle sales grew by 31% and light commercial vehicles by 92%. In addition to the strong local demand, the export vehicle market grew by 28% to 179 320 vehicles.

Total domestic vehicle production was 587 719 vehicles compared to 525 227 vehicles in 2005. All of the group's subsidiaries are dependent on the demand for locally produced components built into locally produced vehicles. Trading conditions for exports improved over the period with the Rand weakening from 6.06 to the dollar in the beginning of the period to an average 7.18 to the dollar in the last quarter.

Restructuring of the vehicle manufacturing industry in South Africa continued during 2006 with further rationalisation of the number of models and the discontinuation of some locally produced entry level vehicles with fully imported replacement vehicles selling at higher volumes.

The locally produced entry level vehicles generally enjoyed more local design influence which resulted in higher local content and profitability for the component industry. The loss of this business will put pressure on industry margins going forward.

REVIEW OF OPERATIONS

Capital expenditure of R166,3 million was incurred during the period under review. The capital expenditure will facilitate the increase in export volumes in light commercial vehicles and the introduction of new models planned for mid 2007. Budgeted capital expenditure in the group will reduce from the high level of the past two years to R90 million in 2007. A significant portion of the budgeted capital expenditure for 2007 is geared towards creating capacity in First National Battery for non-automotive as well as automotive aftermarket products.

Smiths Plastics received the Supplier Recognition Award from Toyota South Africa with regard to project management during 2006.

The focus on continuous improvement programmes and lean manufacturing concepts based on Japanese Production Systems enjoyed increased attention during the year with the objective of reducing costs and improving delivery and quality. The objective of Metair is to improve its global competitiveness in 2007 by resetting the cost base to be in line with competitive component manufacturers in developing countries. In view of increased export volumes, quality and safety requirements increased in this period and will continue to be a focus area. Compliance with quality systems such as TS16949, Q1 and VDA6 was maintained across the group together with the environmental systems such as ISO14001.

The total headcount increased from 5 186 in December 2005 to 5 697 at year-end reflecting the increased activity levels. Labour efficiencies improved during the period assisted by increased automation made possible due to the higher production volumes.

The business model for subsidiaries with joint venture partners will continue to focus on global competitiveness and improvement of efficiencies to achieve globallly benchmarked production, delivery and quality standards. The ability of these joint venture partners to design innovative products with improved functionality and commodity usage is key to Metair's participation in new high volume business.

PROSPECTS

Industry

The overall prospects for the automotive industry remain positive for 2007 on the back of continued GDP growth. Industry automotive production remains on target to expand further during 2007 as a result of higher exports and is projected to reach 662 000 vehicles – an improvement of 13% over 2006 domestic production of 587 719 vehicles.

Two high volume locally produced vehicles will run out in 2007 and new replacement models will be launched. The new model launches will have the effect that for a period of between 6 weeks and 12 weeks respectively no production will be required for components on these models.

With the new model launches the industry is going to be faced with the challenge of matching manning levels to output requirements. This in a year when the industry has to re-negotiate wage agreements as 2006 was the last year covered by a 3 year wage agreement. The labour environment is predicted to be extremely challenging in 2007.

Component manufacturers will increasingly be subjected to cost competitiveness from the developing countries with high volume local vehicle production requirements such as Brazil and Thailand.

Group

2007 will be a challenging year as Metair establishes the foundation for the volume increase expected in 2008 and 2009 when OEM's put into production their newly installed capacity. Subsidiaries that have significant exposure to the new models planned to be launched in 2007 will have difficulty in achieving 2006 performance levels with full capacity utilisation only taking effect in the beginning of 2008.

The group is pursuing a number of opportunities that it hopes will add to the economies of scale of the underlying operations.

The industry is awaiting Government's announcement in regard to the continuation of the Motor Industry Development Programme. We anticipated that minor focus adjustments will increase requirements for locally produced components.

The exchange rate remains a determining factor in terms of overall competitiveness and profitability of the group.

APPRECIATION

The group would like to express our sincere appreciation for the leadership and contribution from the Wessels family and Elisabeth Bradley over the years.

Employees and management are thanked for their continued efforts during 2006.

AD Plummer
Chairman
14 March 2007

CT Loock
Managing Director

2006 Company performance was in line with expectations, with the company meeting both its sales and profit targets as set out in the business plan.

Leon Coetzee
Managing Director

A feature of the period 2006 – 2008 is the stepped nature of the expected increases in volume and turnover, as the company's customers implement their production plans and new contracts come on stream.

2006 saw the first step of the increase, with turnover increasing by 18%. The full impact of this increase in turnover on profitability was, however, dampened by the continuing strength of the Rand, which not only had a negative impact on export earnings, but exposed the company to direct global competition as the lower direct import costs available to its customers became the benchmark against which the company had to price to meet pricing targets.

Smiths' key USA export customer experienced a problem whilst upgrading a computer system, disrupting their logistics programme. This caused substantial over-ordering during the last quarter of 2006. This appears to have resulted in some market share loss. The consequent correction will result in very low call-off from Smiths during the first quarter of 2007 and a slow recovery to normal volumes towards the last quarter of 2007.

Landrover UK are running out the Defender model and replacing it with a face-lifted model during the first quarter of 2007, causing a temporary decline in Smiths air-conditioner sales whilst assembly lines change and the ramp-up on the new model grows to full volume in the third quarter.

A major feature of 2007 is the Corolla model change following on the run out of the Tazz in the second half of 2006. The motor plant's assembly line change and the gradual introduction of the new Corolla will have a major impact, resulting in loss of sales during the middle of the year with the progressive build up to full volume only in 2008.

2007 for the company is expected to be a year of transition and preparation for the next expected volume increase in 2008.

While the projected progressive weakening of the Rand is likely to reduce pressure on pricing by 2008, the company's main competitive focus going forward is both to reduce cost and improve efficiencies, with several formal programmes already in place, as the company strives to achieve its goal of being truly globally competitive.

In line with the plan to meet customer volume and technology requirements, the facilitisation of the new heat exchanger plant was completed towards the end of 2006 at which time radiators, previously imported for Toyota, were localised. The phased introduction of additional heat exchanger products during 2007/2008, in line with customer requirements, will result in under utilisation of the plant for a considerable portion of 2007. Further heat exchangers are planned to be localised early in the first quarter of 2008, and only then, together with the projected volumes, will the plant run at its designed rate of throughput.

A further major project to be completed in 2007 is the complete overhaul and major upgrade of the fluid exchanger plant, which produces pipes and hoses for automotive air-conditioner systems and oil coolers.

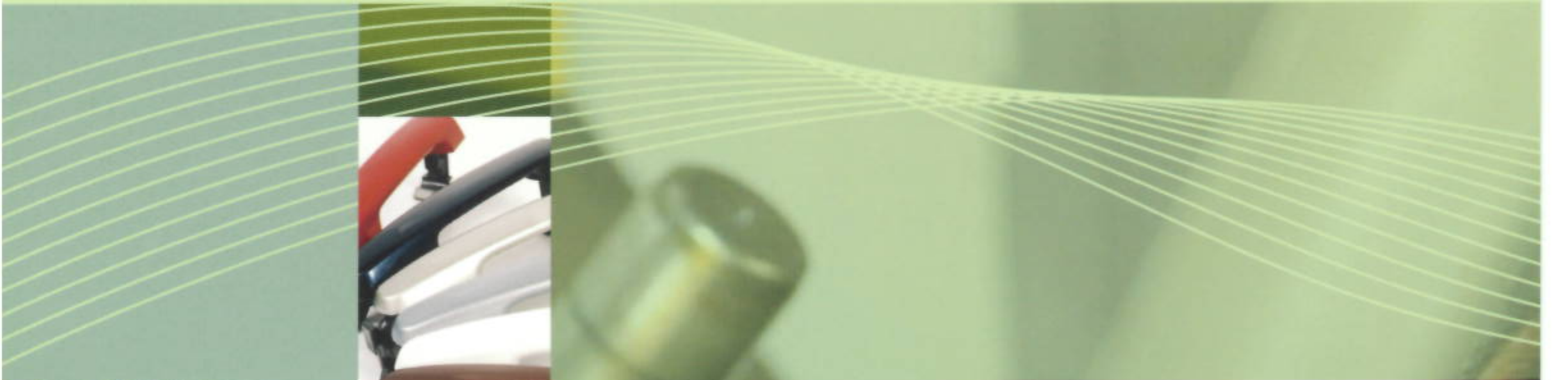
The current equipment and process has become worn and technologically outdated. In addition, the plant does not have sufficient capacity to meet the planned volume demands of 2008.

With reduced volume during 2007 it is the most appropriate time to upgrade the facility. There will be some disruption, investment and manual attention which will temporarily result in additional cost. Once the upgrade is completed, the plant will not only be able to meet the 2008 volume requirements but will also be able to match the newest international technology requirements whilst accommodating the latest demands in terms of lower target prices.

The company will also be introducing new facilities to produce wiper systems, windscreen washer systems and radiator coolant tanks. These facilities are being introduced during 2007, requiring intense attention and investment. The utilisation of these facilities will only come to fruition during the latter half of 2007 and will only achieve full volume production during 2008 when the cost will be recovered.

The Logistics Centre and Dunair aftermarket/export operations were relocated during the latter part of 2006. Considerable effort and attention is being given to achieving highly efficient container decanting, manufacture, line feeding and dispatch to non-Durban customers by the time full volume production is achieved towards the end of 2007.

In summary, the plant and technology improvements, together with the increased capacity availability and process enhancements to be implemented during 2007, will ensure that Smiths Manufacturing will be well placed to take full advantage of the projected volume increases for 2008.



SMITHS
PLASTICS
A METAIR COMPANY

Smiths Plastics showed solid growth in 2006 with an increase of over 41% in turnover from 2005.

Kenneth Lello
Managing Director

The growth was a result of the volume increase by the OEM manufacturers and stable build patterns. With volume increases, however comes increased pressure on cost reductions and it is foreseen that this pressure will intensify during the next 24 months. Due to the investments in projects starting in 2007, project expenses incurred in 2006 were higher than normal. Significant expenses in overtime costs were incurred in 2006 in support of customer weekend work patterns.

The facility expansion in 2006 was completed successfully in preparation for the Toyota IMV volume increases and the new Corolla launch planned for mid 2007. Smiths Plastics increased moulding capacity from 47 to 60 moulding machines by the end of 2006 with a further seven machines to be installed during 2007. Project management remained a strength of the organisation and Smiths Plastics received an accolade for the successful launch of the Toyota IMV programme.

TPS (Lean Manufacturing) remained a key focus of Smiths Plastics during 2006. The cost reduction pressures from OEMs have resulted in the management focusing on vigorous cost-down activities in order to offset unavoidable increases. The dedicated TPS team made steady progress during the year and Smiths Plastics was selected as a show case supplier by Toyota. Companies within the Toyota supply base were invited to Smiths Plastics to view advances made in automation, production planning, material supply, logistics, cycle time reduction programmes and innovations.

Robust improvements were noted in the quality of parts supplied to the OEM's. PPM's on the whole showed downward trends through the customer base. A significant improvement in customer relationships was noted in 2006 and this can be attributed to the focus on improved communication and service levels. Internal quality performance showed only marginal improvements in 2006 and this is to be addressed in 2007 through a vigorous training and development programme in the manufacturing areas.

The newly established logistics facility on the site previously occupied by Barlows has brought relief to the congestion and dispatch constraints in the finished goods area. Kanban delivery systems have stabilised and improvements in delivery performance have been evident during the year. TPS activities in this area have resulted in more frequent deliveries and reduced stock holding in finished goods. Activities are under way to complete the stores expansion in preparation for the Corolla 133L launch in 2007. Stock control remains a key focus and audit programmes have been implemented to keep stock variances in check.

The exceptional growth of Smiths Plastics over the past four years has highlighted the technical skills shortage in the automotive industry. Programmes were instituted in 2006 to address skills shortages in the company through the apprenticeship and technical learnership programmes. Key to these activities is the development of tool making, artisan and tool setter skills. Plastics have employed nine apprentices and 14 technical learners to complement the core of skilled staff in the organisation. Focus has been placed on developing skills to enhance the current employment equity programme.

Smiths Plastics has embarked on a culture change programme. The initiative has been launched with the aim of improving the relationship between Management and all levels of employees through improved communication and personal development. Interventions have been held to communicate the organisation's vision and strategy to all stakeholders. To date the response from customers and employees have been favourable.

The forecast for Smiths Plastics in 2007 indicates a slow down in growth as new vehicle launches ramp up slowly. Smiths Plastics' strategy to increase market share with customers outside of the Kwazulu Natal region will contribute towards continued growth over the next five years. The first phase of the strategy highlights the Eastern Cape as having the most potential for growth.

2007 presents a very challenging year for the company. While earnings are expected to decrease during this period due to the run out of current vehicle models and the slow transition into the new model launches, this trend is expected to reverse in 2008. The company performance is expected to improve in 2008 based on the foundations set in 2007 and the anticipated OEM volume increases. The focus of the management team in 2007 will be to ensure a smooth launch of new products on the Toyota 133L programme, to cement strategies that will realise the growth of Smiths Plastics in other regions, and to continue the cost reduction programmes in 2007 through TPS and recycling activities.

75

FIRST NATIONAL BATTERY

75 Years of Service
1931 - 2006

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

During 2006 First National Battery celebrated it's 75th Anniversary and the company enjoyed a very successful year with sharp increases in turnover and profit after tax when compared with 2005.

Louis Laubscher
Divisional Managing Director

On 22 September 1931, The First National Battery Company, South Africa's first battery manufacturer, delivered its first shipment of a dozen batteries to motor traders in East London, Stutterheim and King William's Town.

The increased profitability resulted from both the non-automotive and automotive divisions performing well above anticipated levels and the additional volumes being manufactured at variable costs creating favourable manufacturing variances.

The volume growth in the non-automotive battery market was lead by the mining division where a high global demand for resources resulted in increased mining activities. The buoyant South African economy also created a strong demand for batteries used in the logistics chain and the refurbishment and expansion of the South African infrastructure. This resulted in sales growth of batteries used in electric fork trucks, generation and distribution of electricity, telecoms and other industrial applications. The weakening of the Rand in the second half of the year also led to an improvement of competitiveness in export markets and a growth in the profit contribution of these activities.

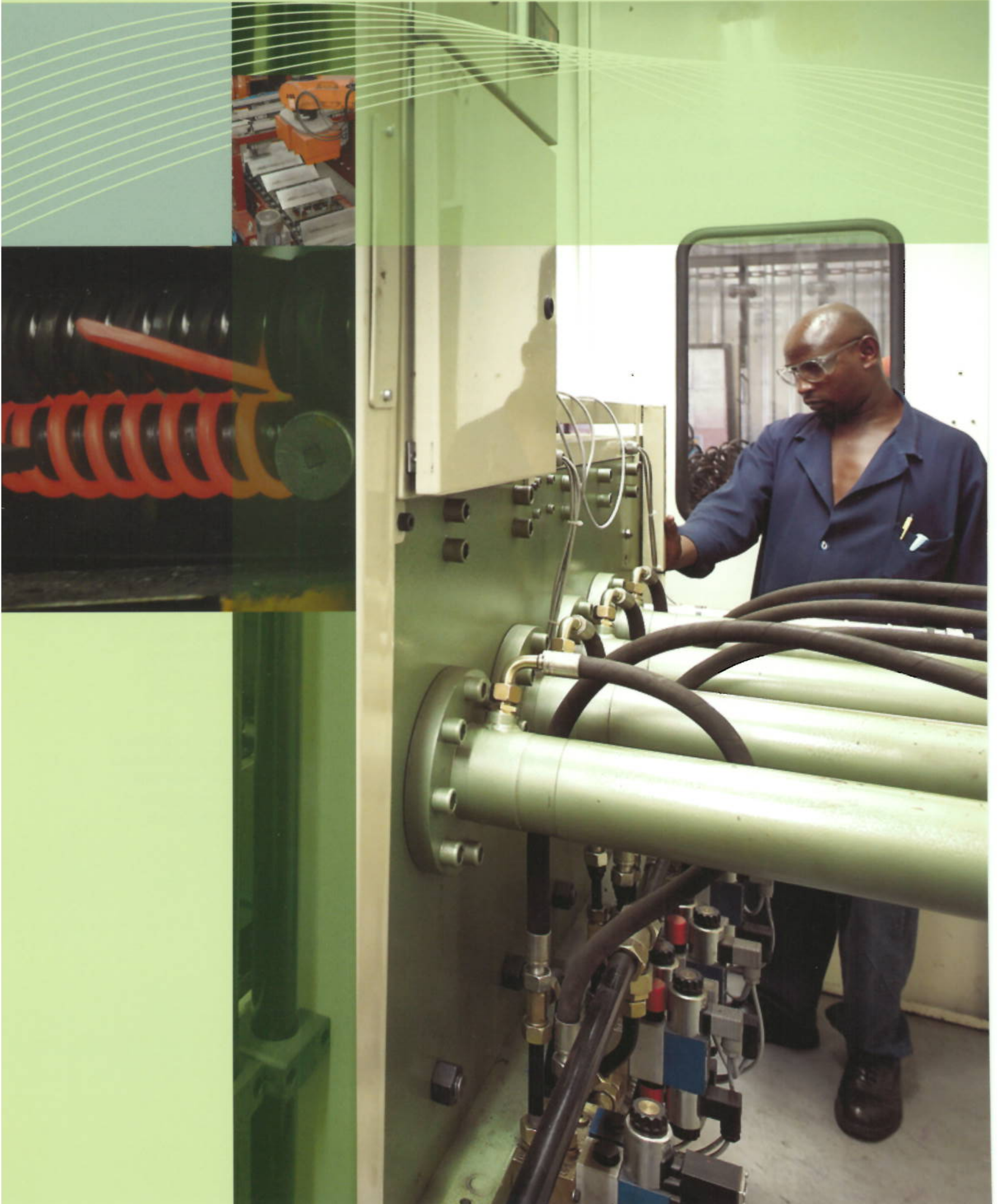
The automotive division gained market share in both the replacement and original equipment markets. The successful franchised Battery Centre chain of retail and wholesale outlets once again performed very well. The number of outlets remains unchanged, but replacement sales volumes increased. Sales to motor vehicle manufacturers also increased, mainly as a result of battery import replacement programmes implemented with the help of First National Battery.

2006 was an exceptional year for the company and expectations for the coming year are for a period of consolidation, to be followed by a gradual increase in volumes.

The ever-increasing number of vehicles on South African roads will result in ongoing growth in the demand for replacement batteries. First National Battery have allowed a strategy of vertical integration for a number of years and manufacture a large percentage of its component requirements in-house. This has raised the operational gearing of the company and it is therefore well positioned to benefit from this volume growth.

Motor vehicle exports are expected to increase sharply from 2008 onwards. These products use a lower percentage of in-house manufactured components, but the volume growth will also contribute positively to the company's future performance.

The LME lead prices increased sharply in the third quarter of 2006 and, against expectations of a drop in price, this has continued at the high levels. A persistence at these levels will adversely affect the profitability of the company if the increases are not fully recoverable in the market place.



Metindustrial (Pty) Limited Supreme Spring Division (Supreme)

2006 Characterised by good growth combined with investments in plant improvements and new technology.

André Becker
Divisional Managing Director

The year proved to be buoyant for the motor industry with records sales of new vehicles. The growth of the light commercial vehicle market in particular had a positive influence on Supreme's business. In addition further growth into both the European and Asian replacement markets was achieved. As a result sales turnover grew by 20% over 2005. Profitability also showed an improvement for the year.

There are, however significant challenges in business, the higher sales were achieved at lower margins, as a result of the OEM customers not accepting price increases based on increases in labour and overhead. In addition the increases in cost of local steel were not fully recovered. The company has therefore had to continue to drive cost down and efficiency improvement programmes to maintain profitability.

Supreme has made significant investments in both new technology and plant improvements in order to achieve world-class standards. A cold form coil spring and stabiliser plant is in the process of being commissioned, utilising extensive robotics and automation to achieve customer's standards of quality and efficiency. The benefits of these investments will be realised in 2008 and beyond.

Supreme continues to have a good strategic outlook with demand for the company's products in both the local and export markets remaining strong. The company has also made good progress in achieving its technical capabilities in the market, which has resulted in greater opportunities for new business.

No
Hand Washing
in
Destatic Blower

Buoyant market conditions underpinned record vehicle sales during the year. This in turn saw sales grow 11% over the prior year.

Chris Rist
Managing Director

Hella experienced some operational problems during the first half of the year. A number of initiatives, some of which centered around improved raw materials, improved material handling and the introduction of temperature and humidity control in key manufacturing areas assisted in reducing reject rates during the latter part of the year.

Bottom line performance was nevertheless negatively affected when compared to the previous year.

The purchase and installation of three new moulding machines relieved capacity of constraints, at the same time improving product quality and operating efficiencies.

Increased demand from Toyota necessitated the installation of a new assembly line for headlights, as well as additional metalising capacity.

Production of the taillight for the A5 Golf commenced during the last quarter of the year and was facilitated through the signing of a technical aid agreement with Automotive Lighting in Italy. A new, locally manufactured hi-tech assembly line was installed for the assembly of the taillights.

The manufacturing of both headlights and taillights for the new Toyota Corolla will commence mid-2007. As it is the first time we will manufacture taillights for the Corolla, a new assembly line has been installed for the production of these lights in conjunction with our technical aid partner, Koito.

Hella will make a substantial investment in a new production facility to produce bulk moulded compound headlight reflectors locally, by the end of the 2007 period.

While capacity utilisation of this plant will initially be low, some exciting new projects are presently being worked on, which will bring meaningful volume to this plant in the next two to three years.

Management will continue to focus on improving yield and plant efficiencies through stable production processes and workforce training.

Additional manufacturing capacity recently installed will also offer opportunities to reduce stockholding without jeopardising reliable on-time supply to customers.

The ever-increasing availability of highly competitive product from eastern country manufacturers continues to focus management on cost-down initiatives.

Only marginal growth in total production volume is anticipated during 2007, however, healthy volume growth is expected in 2008 with the full year effect of the new Corolla production.

The cable manufacturing operation which supplies into the harness industry and Aftermarket, saw strong demand during the year.

The development of locally produced PVC compound to meet the stringent requirements for automotive wire has received focus attention from management.

Demand for automotive cable is expected to be flat during 2007 and management will take the opportunity to upgrade production facilities in order to extend the range of cable being produced. Capital expenditure will also be undertaken to facilitate the production of wire with non-halogen insulation.

TRAINEE
82164

With the additional volume from the Ford Focus wiring harness contract, turnover increased by 28%, although margins did not quite reflect the increase in turnover.

Tom Clarkson
Managing Director

HESTO

The trend is for greater volumes, but with tighter margins. Indeed, global competition and ongoing price pressure have become a reality driving productivity improvements and the elimination of unnecessary cost. The upside of this is a more competitive company, with numerous cost reduction and containment programmes running simultaneously. Despite these savings, Ford took the decision to move the Focus business to the Philippines. On the positive side, Hesto won the contract to produce Isuzu harnesses, largely on the basis of competitiveness.

Price competitiveness will continue to be a dominant factor in securing new business and cost containment and reduction remain a priority. Labour productivity improved by a further 12% and purchasing and logistic initiatives reduced material costs by 1%. Volatility in the exchange rate and, particularly, the unprecedented increase in copper price from USD4 500 in the second half of the year to USD7 600 per tonne, accentuated price sensitivity.

Hesto's partnership with the Yazaki Corporation of Japan was cemented in April when they acquired a 25,1% shareholding. Yazaki is one of the largest electric wiring systems design and manufacturers globally and has contracts with all major car manufacturers. While Hesto has had technical support from Yazaki over the past 10 years, this new relationship gives Hesto access to better commercial information and to new business opportunities in South Africa. Two Yazaki members have been appointed to Hesto's Board of Directors and two specialists are resident at Hesto. Many Hesto employees have been trained by Yazaki specialists and the company's technical competence improves with each interaction. The partnership has been well received by all local car manufacturers.

The major capital expenditure for both 2006 and 2007 is the development cost, tooling and equipment for the new Toyota Corolla, due to come into production mid 2007. This model has many new innovations and requires specialised equipment to ensure quality standards. The higher material specifications come at a higher cost, as less component parts are available locally. To meet customer's higher local content requirements, a supplier development programme has been developed to assist component and raw material suppliers in meeting these new standards. In some instances, additional assistance will be provided by Yazaki.

The wiring harness business is cyclical with periods of intense product development and poor returns and periods of relative stability with good returns. 2007 is forecast to be a difficult year. There will be a gap in production for nearly two months between the termination of the current Toyota Corolla and the replacement vehicle. Obviously this will have a major effect on turnover and profitability. It will require careful planning to minimise costs and to have the least adverse effect on the workforce. The management team is prepared for this challenge and it is expected that, with the planned growth in Hilux and Corolla sales, Hesto will again yield acceptable returns in 2008, despite significantly reduced margins.

Financial Review and Analysis of Shareholders

FINANCIAL REVIEW

The measurement of financial performance plays an important role throughout the Metair group. Budgeting reviews, monthly reporting and quarterly forecasts are 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 in support of the Metair philosophy is to generate value for shareholders assuring healthy returns in the long-term through profitable growth. With the emphasis on growth, the historic conservative gearing policy will soon become something of the past and gradually the group will be geared up in support of this objective.

The dividend policy will remain between 3 and 4 times for the foreseeable future.

A dividend of 40 cents per share (the equivalent of 1 000 cents per share before the subdivision) was declared on 14 March 2007 in respect of the 2006 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 targeted return remains at 22%.

The board is currently investigating a shift of emphasis to a ROE (return on equity) measurement without moving away from the ROA method.

TAXATION

The effective group tax rate was 30,3% (2005: 29,2%).

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 2006 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 2006 showed the following:

Shareholders' spread

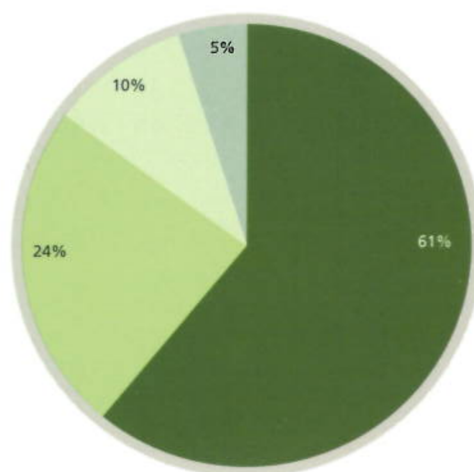
	Shareholders		No of shares	
	Number	%	'000	%
Public shareholders	665	99,10	2 675	44,10
Non-public shareholders	6	0,90	3 391	55,90
Coronation Capital Limited	1	0,15	1 957	32,26
Directors	3	0,45	12	0,20
Standard Bank Nominees	1	0,15	815	13,44
Royal Bafokeng Holdings (Pty) Limited	1	0,15	607	10,00
	671	100,00	6 066	100,00
Major shareholders with more than 5% holding:				
Coronation Capital Limited			1 957	32
Standard Bank Nominees			815	13
Royal Bafokeng Holdings (Pty) Limited			607	10
Absa Nominees (Pty) Limited			552	9
Old Mutual Nominees (Pty) Limited			520	9
First National Nominees (Pty) Limited			479	8
The Metair Share Trust			400	7
Nedcor Nominees Holdings			393	6

Note: Wesco Investments Limited (Wesco) disposed of its entire interest in Metair Investments Limited to Coronation Capital Limited (Corocap) and The Metair Share Trust on 8 December 2006. At year-end, the shares were still registered in the name of Wesco Investments Limited and paper certificates were handed over to Corocap and The Metair Share Trust whom have not registered the shares in their name. A put and call option was also entered into between Corocap and the Wessels family (trusts and companies) which has subsequently been exercised and the Royal Bafokeng Holdings (Pty) Limited took ownership of their shares in February 2007.

Value Added Statement
for the year ended 31 December 2006

		Group	
		2006	2005
		R'000	R'000
WEALTH CREATED			
Revenue		**2 641 911**	2 151 020
Less: Net cost of products and services		**(1 695 546)**	(1 351 076)
Value added		**946 365**	799 944
Add: Income from investments		**20 540**	4 668
Wealth created		**966 905**	804 612
WEALTH DISTRIBUTION	%		
Employees			
Salaries, wages and other benefits	60	**580 566**	503 726
Providers of capital	6	**58 163**	60 911
Interest on borrowings	1	**6 846**	10 104
Dividends to shareholders	5	**51 317**	50 807
Government taxation and levies	10	**98 388**	70 540
Retained in the group	24	**229 788**	169 435
To provide for the maintenance of capital	6	**54 562**	48 787
To provide for expansion	18	**175 226**	120 648
	100	**966 905**	804 612
Total number of employees		**5 697**	5 186

Distribution of value added %



Employees	61%
Reinvested	24%
Taxation	10%
Lenders	5%

CORPORATE GOVERNANCE

The directors of the company and its subsidiaries subscribe to 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 nine directors, of whom two are executive directors (one being the managing director), three are non-executive directors (one being the chairman) and two are independent non-executive directors. Details of directors in office are detailed on page 4. 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 2006, except for one meeting that was not attended by one of the executive 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 2006. 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 26.

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 committee comprises two non-executive directors, namely Messrs AD Plummer and GJ Strydom, and an independent member, Mr PR 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.

Internal audits were done at all the Metair subsidiaries during the year and a detailed internal audit report was presented to the committee.

An audit committee self-evaluation process was conducted during the year on the committee as a whole. This process was co-ordinated by the company secretary and results were discussed at the board audit committee meeting in November 2006 and were subsequently tabled at the board meeting in December 2006. The committee's attention was drawn to areas which need attention. This process will be co-ordinated and repeated annually to assess progress. The board subsequently determined that the audit committee had satisfied its responsibilities in respect of the year under review in compliance with its terms of reference.

Meetings were held during the year in March, August and November 2006, which were attended by all members of the committee.

The next meeting will be held in March 2007.

BOARD REMUNERATION COMMITTEE

The committee comprises three independent non-executive directors, Messrs R Broadley, who is also the chairman, L Soanes and A Joffe 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. Mr A Joffe was appointed from 14 December 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 November 2006, which was attended by all members of the committee. A meeting was held in February 2007 and the next meeting will be held in November 2007.

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

A remuneration committee self-evaluation process was conducted during the year on the committee as a whole. This process was co-ordinated by the company secretary and results were discussed at the board remuneration committee meeting in November 2006 and were subsequently tabled at the board meeting in December 2006. The committee's attention was drawn to areas which need attention. This process will be co-ordinated and repeated annually to assess progress. The board subsequently determined that the remuneration committee had satisfied its responsibilities in respect of the year under review in compliance with its terms of reference.

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 from 31 December and 30 June 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 2006), 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 has made progress in this regard, especially relating to the ownership element resulting from the transaction with Royal Bafokeng Holdings (RBH), the investment arm of the Royal Bafokeng Nation, which has acquired a 10% interest in Metair Investments Limited.

The Department of Trade and Industry launched the final version of the BBBEE scorecard during December 2006 that will come into effect during 2007.

Government gazetted the new codes during February 2007. This will start a 10-year process of measurement and compliance assessment.

In the absence of a BBBEE charter for the Automotive Industry the generic scorecard will be used to measure compliance.

The codes retained the use of seven elements on the scorecard. However, the weightings have changed as follows:

Ownership – 20 points
Management – 10 points
Employment equity – 15 points
Skills development – 15 points
Preferential procurement – 20 points
Enterprise development – 15 points
Social-economic development – 5 points

The group is fully committed to Broad Based Economic Empowerment and has set initial minimum requirements for all of its subsidiaries.

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 413 560 to these institutions.

SPONSOR

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

KING II COMPLIANCE

The company complies with the principles, listed below, as set out in the King Code on Corporate Governance as required by the revised Listings Requirements of the JSE Limited (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 were established
- 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.

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Independent Auditor's Report to the Members of Metair Investments Limited and Certificate by Company Secretary

We have audited the annual financial statements and group annual financial statements of Metair Investments Limited which comprise the directors' report, the balance sheet and the consolidated balance sheet as at 31 December 2006, the income statement and the consolidated income statement, the statement of recognised income and expenses and the consolidated statement of recognised income and expenses, the cash flow statement and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 27 to 64.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company and of the group as at 31 December 2006, and of their financial performance and their 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
Director: Leon de Wet
Registered Auditor
Johannesburg
14 March 2007

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 2006, 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
14 March 2007

The directors have pleasure in submitting their report for the year ended 31 December 2006.

GENERAL REVIEW

The main business of the group is the manufacture and supply of motor vehicle components.

The financial statements on pages 27 to 64 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 R203 240 million (2005: R158 799 million).

DIVIDENDS

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

	2006 R'000	2005 R'000
Ordinary shares Declared and paid 850 cents per share (2005: 850 cents per share)	**51 317**	50 807

A dividend of 40 cents per share (the equivalent of 1 000 cents per share before the subdivision) was declared on 14 March 2007 in respect of the 2006 financial year.

SHARE CAPITAL

70 725 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 – R166 275 000
Disposals – R765 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 64.

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

The offer by Coronation Capital Limited and its nominees to buy the Wessels family interest in Metair has made it possible to facilitate an empowerment shareholder. Royal Bafokeng Holdings, the investment arm of the Royal Bafokeng Nation acting as one of Corocap's nominees, became a strategic shareholder in Metair in February 2007.

The Metair shares have been subdivided 25 for 1 with effect from 5 March 2007.

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The directors have approved the annual financial statements on pages 27 to 64 which are signed on their behalf by:

AD Plummer
Chairman
Johannesburg
14 March 2007

CT Loock
Managing Director

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. The policies used in preparing the financial statements are consistent with those of the previous year, other than the adoption of the alternative recognition approach in respect of actuarial gains and losses on defined benefit plans.

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 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 29 on page 63.

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

IAS 19 (amended) Employee Benefits is mandatory for the group's accounting periods beginning on or after 1 January 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. The group elected to adopt this approach, resulting in the recognition of actuarial gains and losses on defined benefit plans directly in equity. The effect of this change has been dealt with in the note on changes in accounting policies on page 33. The group therefore also adopted the statement of recognised income and expenses as required by IAS 19. It also adds new disclosure requirements.

Interpretations and amendments to published standards effective in 2006:

The following standards, amendments and interpretations are mandatory for the group's accounting periods beginning on or after 1 January 2006 but are not relevant to the group's operations:

- IAS 21 (Amendment), Net Investment in Foreign Operation;
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IAS 39 (Amendment), The Fair Value Option;
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts;
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- IFRS 6, Exploration for and Evaluation of Mineral Resources;
- IFRIC 4, Determining whether an Arrangement contains a Lease;
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

Interpretations to existing standards that are not yet effective and have not been early adopted by the group:

The following interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 May 2006 or later periods but that the group has not early adopted:

- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006).
  IFRIC 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of IFRS 2. The group will apply IFRIC 8 from 1 January 2007.
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The group will apply IFRIC 10 from 1 January 2007.
- 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 is in the process of assessing the impact of IFRS 7. The group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

Interpretations to existing standards that are not yet effective and not relevant for the group's operations:

The following interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant for the group's operations:

- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). IFRIC 7 provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, IFRIC 7 is not relevant to the group's operations; and
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning or after 1 June 2006). IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As none of the group entities have changed the terms of their contracts, IFRIC 9 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 notes to the annual financial statements.

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 OF NON FINANCIAL ASSETS

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 of assets and liabilities for financial reporting purposes and their tax bases.

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.

TRADE PAYABLES

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

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 statement.

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 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
Financial assets at fair value through profit and loss are 'financial assets held for trading'. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. 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' (note 9).

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the group commits to purchase or sell the asset. Financial assets 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. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. 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. The group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

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 face value.

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, 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 are charged or credited to equity 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 are 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.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, 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.

SEGMENT 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.

CHANGES IN ACCOUNTING POLICIES

IAS 19 (Amendment) Employee Benefits

The group adopted the alternative recognition approach for actuarial gains and losses on defined benefit plans allowed under IAS 19. These actuarial gains and losses are recognised directly in equity. Previously these gains and losses were accounted for in the income statement.

The group has consequently also adopted the statement of recognised income and expenses as required by IAS 19 to replace the statement of changes in equity.

The change in accounting policy had no impact on the group distributable reserves as at 31 December 2005.

The effect of the change in accounting policy on basic earnings for the year ended 31 December 2005:

	R'000
Profit for the year attributable to equity holders as previously stated	158 428
Actuarial gains and losses recognised directly in equity net of deferred tax	371
Profit for the year attributable to equity holders as restated	158 799
Increase in basic earning per share (cents)	6
Increase in diluted basic earnings per share (cents)	6

Income Statements

for the year ended 31 December 2006

	Notes	Group		Company	
		2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
Revenue	1	**2 641 911**	2 151 020		
Cost of sales		**(2 050 455)**	(1 692 776)		
Gross profit		**591 456**	458 244		
Other operating income	3	**30 142**	50 698	**122 217**	156 061
Distribution costs		**(59 215)**	(52 855)		
Administrative expenses		**(245 606)**	(208 435)		
Other operating expenses		**(5 540)**	(221)	**(344)**	(423)
Operating profit		**311 237**	247 431	**121 873**	155 638
Interest income	2	**13 440**	14 338	**393**	2 695
Interest expense	2	**(6 846)**	(10 104)		
Share of results of associates		**7 100**	3 236		
Impairment of investment in associate company	10		(12 906)		(2 259)
Profit before taxation	3	**324 931**	241 995	**122 266**	156 074
Taxation	4	**(98 388)**	(70 540)	**(6 007)**	(5 927)
Profit for the year		**226 543**	171 455	**116 259**	150 147
Attributable to:					
Equity holders of the company		**203 240**	158 799	**116 259**	150 147
Minority interest		**23 303**	12 656		
		226 543	171 455	**116 259**	150 147
Earnings per share					
Basic earnings per share (cents)	5	**3 359**	2 654		
Diluted earnings per share					
Basic earnings per share (cents)	5	**3 329**	2 617		
Dividend per share (cents)	6	**850**	850		
Number of shares in issue ('000)		**6 066**	5 995		
Weighted average number of shares in issue ('000)		**6 050**	5 984		

	Notes	Group		Company	
		2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
ASSETS					
Non-current assets		**696 931**	576 137	**423 596**	322 043
Property, plant and equipment	7	**614 087**	502 118		
Intangible assets	8	**14 647**	11 676		
Interest in subsidiaries	9			**395 803**	288 657
Investment in associates	10	**19 548**	18 249	**2 793**	8 386
Defined benefit asset	27	**1 640**			
Deferred taxation	20	**10 759**	9 094		
Other non-current assets	11	**36 250**	35 000	**25 000**	25 000
Current assets		**836 316**	792 889	**189 557**	221 724
Inventory	12	**423 007**	309 486		
Accounts receivable	13	**345 499**	248 428	**393**	
Short-term loans – subsidiaries	9			**189 164**	221 724
Cash	14	**67 810**	139 011		
Financial assets at fair value	15		95 964		
Total Assets		**1 533 247**	1 369 026	**613 153**	543 767
EQUITY AND LIABILITIES					
Capital and reserves		**998 307**	943 259	**613 040**	543 479
Share capital and premium	16	**40 555**	36 414	**40 555**	36 414
Treasury shares	16	**(101 508)**	(459)		
Share-based payment reserve	17	**2 551**	1 831	**2 551**	1 831
Non-distributable reserves	17	**16 755**	12 389		
Retained earnings	17	**1 039 954**	893 084	**569 934**	505 234
Ordinary shareholders equity		**998 307**	943 259	**613 040**	543 479
Minority interest	18	**79 055**	43 651		
Total equity		**1 077 362**	986 910	**613 040**	543 479
Non-current liabilities		**89 077**	126 138		
Borrowings	19	**5 069**	53 252		
Post-employment medical benefits	27	**15 228**	14 681		
Deferred taxation	20	**68 780**	58 205		
Current liabilities		**366 808**	255 978	**113**	288
Trade and other payables	21	**299 335**	210 875	**113**	288
Borrowings	19	**13 052**	15 829		
Taxation		**9 092**	9 687		
Provisions for liabilities and charges	22	**15 569**	13 154		
Bank overdrafts	14	**29 760**	6 433		
Total liabilities		**455 885**	382 116	**113**	288
Total equity and liabilities		**1 533 247**	1 369 026	**613 153**	543 767

Statement of Recognised Income and Expense

for the year ended 31 December 2006

	Notes	Group		Company	
		2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
Actuarial gains and losses recognised directly in equity		**(529)**	(371)		
Gross	27	**(745)**	(523)		
Deferred tax	20	**216**	152		
Net income recognised directly in equity		**(529)**	(371)		
Profit for the year		**226 543**	171 455	**116 259**	150 147
Total recognised income for the year		**226 014**	171 084	**116 259**	150 147
Attributable to:					
Equity holders of the company		**202 553**	158 428	**116 259**	150 147
Minority interest		**23 461**	12 656		
		226 014	171 084	**116 259**	150 147

for the year ended 31 December 2006

	Notes	Group		Company	
		2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from customers		**2 544 840**	2 142 477		
Cash paid to suppliers and employees		**(2 302 577)**	(1 939 117)		
Cash generated from/(utilised in) operations	23.1	**242 263**	203 360	**(199)**	(1 329)
Finance charges		**(6 846)**	(10 104)		
Investment income		**13 440**	14 338	**102 537**	113 472
Taxation paid	23.2	**(89 857)**	(74 434)	**(6 007)**	(5 927)
Dividends paid	23.3	**(57 055)**	(51 071)	**(51 559)**	(50 958)
Dividend income from associate		**416**			
Net cash inflow from operating activities		**102 361**	82 089	**44 772**	55 258
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of property, plant and equipment		**(166 275)**	(111 788)		
Acquisition of intangible assets		**(3 992)**	(8 191)		
(Increase)/decrease in other non-current assets		**(1 250)**	156		
Decrease in loans to associate		**5 593**	2 572	**5 593**	2 052
Proceeds on disposal of 25% interest in subsidiary		**20 080**	47 000	**20 080**	47 000
Increase in interest in subsidiaries				**(74 586)**	(105 575)
Proceeds on disposal of property, plant and equipment		**859**	915		
Net cash outflow from investing activities		**(144 985)**	(69 336)	**(48 913)**	(56 523)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of ordinary shares		**4 141**	1 265	**4 141**	1 265
Long-term loans repaid		**(48 183)**	(15 996)		
Short-term loans (repaid)/raised		**(2 777)**	326		
Movement in treasury shares		**(101 049)**	(240)		
Net cash (outflow)/inflow from financing activities		**(147 868)**	(14 645)	**4 141**	1 265
Net decrease in cash and cash equivalents		**(190 492)**	(1 892)		
Cash and cash equivalents at beginning of the year		**228 542**	230 434		
Cash and cash equivalents at end of the year	14	**38 050**	228 542		

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
1. REVENUE				
Group revenue comprises the total value of net sales of subsidiaries' products, predominantly in the automotive industry	**2 641 911**	2 151 020		
2. NET FINANCE				
Interest income:				
On bank deposits	**13 047**	10 834		
Dividend on redeemable preference shares (unlisted)	**393**	3 504	**393**	2 695
	13 440	14 338	**393**	2 695
Interest expense:				
Bank borrowings	**(6 145)**	(8 906)		
Finance leases	**(701)**	(1 198)		
	(6 846)	(10 104)		
Net finance	**6 594**	4 234	**393**	2 695
3. PROFIT BEFORE TAXATION				
Profit before taxation is stated after taking into account the following:				
Other operating income:				
– Dividends from subsidiaries (unlisted)			**102 144**	110 777
– Dividends from associates (unlisted)	**208**			
– Profit on disposal of 25,1% (2005: 25%) interest in subsidiary	**2 435**	16 225	**20 073**	45 284
– Management and committee fees received	**3 417**	3 661		
– Government grants	**6 716**	6 631		
– Cash discounts received	**3 723**	4 020		
– Profit on tooling sales	**2 728**	7 487		
– Fair value (loss)/gain on investment	**(1 703)**	1 891		
– Pension fund surplus	**1 640**			
– Profit on foreign exchange	**6 169**	3 376		
– Other	**4 809**	7 407		
	30 142	50 698	**122 217**	156 061

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
3. PROFIT BEFORE TAXATION (continued)				
Auditors' remuneration				
– Audit fees	**2 345**	2 320		
– Expenses	**10**	77		
– Agreed procedure certificates	**423**	645		
Depreciation, amortisation and reassessment of useful lives (Notes 7 and 8)	**54 562**	48 787		
(Profit)/loss on disposal of property, plant and equipment	**(94)**	312		
Operating lease charges				
– Property	**10 720**	10 791		
– Plant and equipment	**4 654**	2 028		
Managerial and technical service fees paid to outside parties	**5 416**	4 088		
Foreign exchange (losses)/gains	**(13 345)**	5 426		
Staff costs				
– Wages and salaries	**517 247**	446 690		
– Share based payment expenses	**720**	763	**720**	763
– Termination benefits	**75**			
– Social security costs	**22 341**	22 665		
– Pension costs – defined contribution plans	**14 384**	11 284		
– defined benefit plans	**24 055**	20 756		
– Other post-employment benefits	**1 744**	1 568		
	580 566	503 726	**720**	763
Number of persons employed by the group at the end of the year:				
Hourly	**4 444**	4 058		
Monthly	**1 253**	1 128		
	5 697	5 186		
Directors' emoluments				
– Executive directors				
– Salaries and allowances			**3 474**	2 883
– Other benefits			**1 086**	719
			4 560	3 602
– Paid by subsidiary companies			**(4 560)**	(3 602)
– Non-executive directors			**8**	6
– Fees			**325**	183
– Paid by subsidiary company			**(317)**	(177)

	Company					
				2006		
	E Bradley	RS Broadley	L Soanes	CT Loock	AD Plummer	CIJ vd Merwe
	R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
3. PROFIT BEFORE TAXATION (continued)						
Directors' emoluments (continued)						
– Executive directors						
– Salaries and allowances				**1 537**	**372**	**1 077**
– Performance bonuses					**515**	**332**
– Pension and provident fund contributions				**196**	**44**	**136**
– Retirement payment					**299**	
– Company contributions				**24**	**6**	**22**
– Gain on the exercise of share options					**1 681**	
				1 757	**2 917**	**1 567**
– Paid by subsidiary companies				**(1 757)**	**(2 917)**	**(1 567)**
– Non-executive directors	**2**	**2**	**2**		**2**	
– Fees	**44**	**58**	**55**		**168**	
– Paid by subsidiary company	**(42)**	**(56)**	**(53)**		**(166)**	
				2005		
	E Bradley	RS Broadley	L Soanes	CT Loock	AD Plummer	CIJ vd Merwe
	R'000	R'000	R'000	R'000	R'000	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)			

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
4. TAXATION				
South African normal taxation	**91 397**	64 484		
Current:				
– this year	**82 001**	59 221		
– prior years	**270**	(206)		
Deferred:				
– this year	**9 126**	5 469		
Secondary taxation on companies	**6 991**	6 056	**6 007**	5 927
	98 388	70 540	**6 007**	5 927
	%	%	**%**	%
Reconciliation of taxation rate:				
Standard rate	**29**	29	**29**	29
Effect of change in tax rate		(1)		
Increased by:				
Secondary taxation on companies	**2**	3	**5**	4
Decreased by:				
Exempt income	**(1)**	(2)	**(29)**	(29)
Effective rate	**30**	29	**5**	4
Calculated tax losses of subsidiaries	**9 292**	10 145		
Utilised to offset deferred taxation	**(9 292)**	(10 145)		
Assessable tax losses available for offset against future taxable income				
STC credits to be offset against future STC liabilities		438		438

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 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.	**3 359**	2 654		
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.	**3 317**	2 603		
5.1 Diluted earnings per share				
Basic earnings per share (cents)	**3 329**	2 617		
Headline earnings per share (cents)	**3 288**	2 568		

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 exercisable options at the balance sheet date less shares held by the Metair Share Trust.

	Group			
Reconciliation between earnings and headline earnings:	Earnings **2006 R'000**	Per share **2006 cents**	Earnings 2005 R'000	Per share 2005 cents
Earnings per share				
Net profit attributable to ordinary shareholders	**203 240**	**3 359**	158 799	2 654
Impairment of investment in associate company			12 906	215
(Profit)/loss on disposal of property, plant and equipment	**(94)**	**(2)**	312	5
Profit on disposal of interest in subsidiary	**(2 435)**	**(40)**	(16 225)	(271)
Headline earnings	**200 711**	**3 317**	155 792	2 603
Diluted earnings per share				
Net profit attributable to ordinary shareholders	**203 240**		158 799	
Interest income on proceeds	**783**		1 087	
Net profit adjusted for dilutive share options ('000)	**204 023**		159 886	
Diluted headline earnings per share				
Headline earnings	**200 710**		155 792	
Interest income on proceeds	**783**		1 087	
Headline earnings adjusted for dilutive share options ('000)	**201 493**		156 879	
Weighted average number of shares in issue ('000)	**6 050**		5 984	
Adjustment for dilutive share options ('000)	**79**		125	
	6 129		6 109	

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
6. DIVIDENDS				
Declared and paid:				
850 cents per share (2005: 850 cents per share)	**51 317**	50 807	**51 559**	50 958
	51 317	50 807	**51 559**	50 958

A dividend of 40 cents per share (the equivalent of 1 000 cents per share before the subdivision) was declared on 14 March 2007 in respect of the 2006 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				
2006				
Group				
At cost	**162 144**	**710 213**	**32 974**	**905 331**
Less: Accumulated depreciation	**(6 940)**	**(265 775)**	**(18 529)**	**(291 244)**
	155 204	**444 438**	**14 445**	**614 087**
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
1 January 2005				
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
Reconciliation of movement:				
Group				
Year ended 31 December 2006				
Opening net book value	**137 245**	**347 887**	**16 986**	**502 118**
Additions	**17 366**	**148 909**		**166 275**
Disposals		**(763)**	**(2)**	**(765)**
Depreciation	**(1 354)**	**(51 595)**	**(2 539)**	**(55 488)**
Reassessment of useful lives	**1 947**			**1 947**
Closing net book value	**155 204**	**444 438**	**14 445**	**614 087**
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

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 19.

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 lease period or the useful life

	Trademarks R'000	Licences R'000	Total R'000
8. INTANGIBLE ASSETS			
2006			
Group			
At cost	**1 000**	**20 958**	**21 958**
Less: Accumulated amortisation	**(50)**	**(7 261)**	**(7 311)**
	950	**13 697**	**14 647**
2005			
Group			
At cost	1 000	16 966	17 966
Less: Accumulated amortisation	(25)	(6 265)	(6 290)
	975	10 701	11 676
1 January 2005			
Group			
At cost	1 000	10 869	11 869
Less: Accumulated amortisation		(7 516)	(7 516)
	1 000	3 353	4 353
Reconciliation of movement:			
Group			
Year ended 31 December 2006			
Opening net book value	**975**	**10 701**	**11 676**
Additions		**3 992**	**3 992**
Amortisation	**(25)**	**(996)**	**(1 021)**
Closing net book value	**950**	**13 697**	**14 647**
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

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

Trademarks	15 years
Licences	5 – 15 years

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
9. INTEREST IN SUBSIDIARIES				
Unlisted				
Shares at cost less amounts written off			**52 695**	32 695
Non-current advances to subsidiary companies			**340 557**	254 131
Share-based payment costs			**2 551**	1 831
			395 803	288 657
Current advances			**189 164**	221 724
			584 967	510 381
(Directors' valuation of shares held – R1 296 176 000) (2005: R944 556 000)				
Aggregate attributable income and losses after tax of subsidiaries:				
Income	**212 428**	119 129		
Losses		94		
Details of subsidiaries are disclosed on page 64.				
10. INVESTMENT IN ASSOCIATES				
Beginning of the year	**18 249**	30 491	**8 386**	12 697
Share of profit	**7 100**	4 998		
Dividends received	**(208)**			
Impairment of investment in Tenneco Automotive Holdings (Pty) Ltd		(12 906)		
Impairment of shares at cost		(2 259)		(2 259)
Other movements		497		
Decrease in loan to associate	**(5 593)**	(2 572)	**(5 593)**	(2 052)
	19 548	18 249	**2 793**	8 386
Unlisted				
Shares at cost less impairment	**2 793**	2 793	**2 793**	2 793
Share of post-acquisition reserves included in non-distributable reserves	**16 755**	9 863		
Income from associates in current year	**6 892**	4 998		
Impairment of investment in Tenneco Automotive Holdings (Pty) Ltd		(12 906)		
Other movements		497		
In respect of prior year	**9 863**	17 274		
Total carrying value	**19 548**	12 656	**2 793**	2 793
Loan to associate		5 593		5 593
Investment in associates	**19 548**	18 249	**2 793**	8 386
Directors' valuation	**130 284**	94 315		

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
10. INVESTMENT IN ASSOCIATES (continued)				
The summarised financial information of associates is in aggregate as follows:				
Income statement				
Revenue	**253 213**	379 931		
Profit/(loss) before taxation	**20 414**	(480)		
Taxation	**(5 953)**	752		
Profit after taxation	**14 461**	272		
Balance sheet				
Assets				
Non-current assets	**1 144**	49 337		
Current assets	**72 601**	143 490		
	73 745	192 827		
Equity and liabilities				
Shareholders' equity	**39 899**	101 166		
Non-current liabilities		6 284		
Current liabilities	**33 846**	85 377		
	73 745	192 827		

	Percentage holding	Number of shares held	Group carrying amount R'000	Company cost R'000
2006				
Unlisted				
Tenneco Automotive Holdings SA (Pty) Ltd	**25,1%**	**154 712**		
Valeo Systems SA (Pty) Ltd	**49%**	**490**	**19 548**	**2 793**
			19 548	**2 793**
2005				
Unlisted				
Tenneco Automotive Holdings SA (Pty) Ltd	25,1%	154 712		
Valeo Systems SA (Pty) Ltd	49%	490	18 019	2 793
Other			230	
			18 249	2 793

The associate companies operate in the automotive industry. The companies are all incorporated in South Africa. Details of associates are disclosed on page 64.

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
11. OTHER NON-CURRENT ASSETS				
Preference shares – unlisted	**35 000**	35 000	**25 000**	25 000
Other	**1 250**			
	36 250	35 000	**25 000**	25 000
(Directors' valuation – Preference shares R35 000 000 (2005: R35 000 000) Other investments R1 250 000 (2005: Nil)).				
The preference shares have a weighted average dividend rate of 7,75% (2005: 10,01%) and are redeemable in 2010.				
12. INVENTORY				
Raw material	**253 215**	188 815		
Work in progress	**24 877**	13 401		
Finished goods	**144 915**	107 270		
	423 007	309 486		
The above inventories are stated net of a provision for obsolescence and slow moving stock of R21 085 000 (2005: R8 787 000).				
The cost of inventories recognised as expense and included in 'cost of sales' amounted to R1 543 870 (2005: R1 215 573).				
13. ACCOUNTS RECEIVABLE				
Trade receivables	**310 126**	225 780		
Prepayments	**5 595**	5 209		
Forward foreign exchange contracts (note 24)	**775**	281		
Other receivables	**29 003**	17 158	**393**	
	345 499	248 428	**393**	
The above trade receivables are stated net of a provision for impairment of R8 737 000 (2005: R5 896 000).				
The fair value of accounts receivable approximates their carrying value.				
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	**67 810**	139 011		
Bank overdrafts	**(29 760)**	(6 433)		
	38 050	132 578		
Other financial assets at fair value through profit and loss		95 964		
	38 050	228 542		

The effective interest rate on short-term bank deposits was 6,50% (2005: 6,98%) and the effective interest rate on bank overdrafts was 11,60% (2005: 10,49%).

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 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		
Fair value gain		1 891		
		95 964		
16. SHARE CAPITAL AND PREMIUM				
Authorised:				
7 500 000 ordinary shares of 50c each	**3 750**	3 750	**3 750**	3 750
Issued				
6 065 810 (2005: 5 995 085) ordinary shares of 50c each	**3 033**	2 998	**3 033**	2 998
Share premium	**37 522**	33 416	**37 522**	33 416
	40 555	36 414	**40 555**	36 414
The Metair shares have been subdivided 25 for 1 with effect from 5 March 2007.				
Share premium				
Balance at the beginning of the year	**33 416**	32 175	**33 416**	32 175
Premium on shares issued during the year	**4 106**	1 241	**4 106**	1 241
Balance at the end of the year	**37 522**	33 416	**37 522**	33 416
Treasury shares				
Balance at the beginning of the year	**(459)**	(219)		
Shares acquired by the Metair Share Trust	**(100 000)**			
Other movements	**(1 049)**	(240)		
Balance at the end of the year	**(101 508)**	(459)		

400 000 shares have been obtained by the Metair Share Trust on 8 December 2006 which are in certificated form and not yet registered into its name.

These shares are for the purpose of establishing a new share incentive scheme for directors and senior management which will replace the previous share incentive schemes of the company.

Share options

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

	2006		2005	
	Average offer price per share	Options (thousands)	Average offer price per share	Options (thousands)
At 1 January	**91**	**224**	82	270
Forfeited	**109**	**(6)**		
Exercised	**159**	**(5)**	212	(5)
Exercised and delivered	**110**	**(60)**	238	(41)
At 31 December	**103**	**153**	91	224

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

16. SHARE CAPITAL AND PREMIUM (continued)

The fair value of options granted determined by 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.

A share purchase scheme exists with 608 541 (2005: 583 196) ordinary shares reserved for the purpose of the scheme, and under the control of the directors. 70 725 shares (2005: 46 175 shares) were issued during the year to the Metair Share Trust. The market value of these shares as at 31 December 2006 was R285,00 per share.
The treasury shares arises on the consolidation of the Metair Share Trust.

The trust held 428 570 (2005: 17 775) shares in Metair Investments Limited at year-end.

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

2005 Number of shares	2006 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
1 275	925	R25,00	07/01/00	07/01/04
6 900	4 050	R25,00	07/01/00	07/01/05
2 200	1 725	R35,00	08/01/01	08/01/05
38 900	6 425	R35,00	08/01/01	08/01/06
13 075	2 975	R59,00	07/01/02	07/01/06
39 225	31 275	R59,00	07/01/02	07/01/07
1 400	1 400	R76,00	10/04/02	10/04/07
55 800	45 000	R108,50	01/04/03	01/04/08
58 300	51 720	R159,00	05/04/04	05/04/09

43 485 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 2005 and 2006 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 in respect of share option scheme	28 570	17 775
Market value of shares held by the Metair Share Trust in respect of share option scheme	R 8 142 450	R 4 088 250

16. SHARE CAPITAL AND PREMIUM (continued)

Options exercised by executive directors

	Number of shares	Price per share	Offer price per share	Benefit
AD Plummer				
2006				
* Beneficial payments:				
– Options exercised	**5 400**	**277,00**	**35,00**	**1 307**
* Non-beneficial payments:				
– Options exercised	**4 620**	**240,06**	**159,00**	**374**
2005				
Beneficial payments:				
– Options exercised	1 800	210,00	35,00	315

Share options held by directors (beneficial and non-beneficial) in terms of their participation in the Metair Share Trust as at 31 December 2006

Name	Offer date	Offer Number of shares	Price per share	Exercise Number of shares	Price per share	Exercise date	Lapse date
AD Plummer	**05/04/04**	**4 620**	**R159,00**	**4 620**	**R240,06**	**9/10/06**	**05/04/14**
		4 620		**4 620**			
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	**2 925**	**R59,00**	**2 925**	**R59,00**	**08/01/02**	**07/01/12**
Total		**10 825**		**6 825**			
		15 445		**11 445**			

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

Name	Offer date	Offer Number of shares	Price per share	Exercise 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			

16. SHARE CAPITAL AND PREMIUM (continued)

Interest of directors

At 31 December 2006 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 2006								31 December 2005							
	Beneficial				Non-beneficial				Beneficial				Non-beneficial			
	Direct		Indirect		Direct		Indirect		Direct		Indirect		Direct		Indirect	
Director	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
Non-executive directors																
E Bradley											706 135	11,8			963 267	16,1
GJ Strydom											4 640	0,1				
Independent non-executive directors																
L Soanes	**9 600**	**0,2**							9 600	0,2						
Total	**9 600**	**0,2**							9 600	0,2	710 775	11,9			963 267	16,1

Executive directors, Messrs CT Loock, CIJ van der Merwe, non-executive directors, Messrs AD Plummer, A Joffe, GMC Ryan 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 2006 (2005: Nil).

Wesco Investments Limited sold its interest in Metair Investments Limited on 8 December 2006 to Coronation Capital Limited which resulted in the indirect interest of Mrs E Bradley and Mr GJ Strydom in Metair being nil at 31 December 2006. The share certificates were not yet registered into the buyers name by year-end.

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
17. RESERVES				
17.1 Non-distributable reserves				
Non-distributable reserves comprise:				
Interest in distributable and non-distributable reserves of associate companies	**16 755**	9 863		
Reserves arising on consolidation of interest in subsidiaries		2 526		
	16 755	12 389		
Balance at the beginning of the year	**12 389**	20 297		
Transfers from/(to) retained earnings	**4 366**	(7 908)		
Balance at the end of the year	**16 755**	12 389		
Transfer from/(to) retained income consists of:				
Share of associated companies' after tax income	**6 892**	3 236		
Impairment of investment in associate company:				
Non-distributable reserves		(12 906)		
Shares at cost		2 259		
Other movements	**(2 526)**	(497)		
	4 366	(7 908)		
17.2 Retained earnings				
Balance at the beginning of the year	**893 084**	777 555	**505 234**	406 045
Recognised income attributable to equity holders of the company	**202 553**	158 428	**116 259**	150 147
Dividends paid	**(51 317)**	(50 807)	**(51 559)**	(50 958)
Transfers (to)/from non-distributable reserves	**(4 366)**	7 908		
Balance at the end of the year	**1 039 954**	893 084	**569 934**	505 234
17.3 Share-based payment reserve				
Balance at the beginning of the year	**1 831**	1 068	**1 831**	1 068
Employee share option scheme – value of services provided	**720**	763	**720**	763
Balance at the end of the year	**2 551**	1 831	**2 551**	1 831
18. MINORITY INTEREST				
Balance at the beginning of the year	**43 651**	700		
Disposal of 25% interest in subsidiary	**17 638**	30 559		
Employee share option scheme	**43**			
Recognised income attributable to minorities	**23 461**	12 656		
Dividend	**(5 738)**	(264)		
Balance at the end of the year	**79 055**	43 651		

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
19. BORROWINGS				
Secured				
– Instalment sale agreement secured over plant with a book value of R18 241 000 (2005: R20 010 000) currently bearing interest at prime minus 2,75% (2005: 2,75%). Repayable in annual instalments of R6 902 000 (2005: R6 871 000) until 2009.	**10 300**	17 202		
– Instalment sale agreement secured over plant with a book value of R5 741 000 (2005: R7 293 000) currently bearing interest at prime minus 2,75% (2005: 2,75%). Repayable in annual instalments of R1 958 000 until 2008.	**4 083**	5 906		
– Capitalised finance lease secured over plant with a book value of R13 763 000 (2005: R15 268 000) currently bearing interest at 9,87% (2005: 8,37%). Repayable in monthly instalments of R185 334 (2005: R319 696) until May 2009.	**599**	3 364		
– Instalment sale agreement secured over plant with a book value of R4 684 000 (2005: R4 931 000) currently bearing interest at 8,49% (2005: 7,87%). Repayable in monthly instalments of R124 246 (2005: R186 870) until August 2007.	**1 069**	2 904		
– Instalment sale agreement secured over plant with a book value of R4 926 000 (2005: R7 010 000) currently bearing interest at prime less 2,75% (2005: 2,75%). Repayable in monthly instalments of R230 000 until September 2007.	**2 070**	4 705		
– Long-term loans currently bearing interest at the prime rate. Repaid in 2006.		35 000		
	18 121	69 081		
Current portion included in current liabilities	**(13 052)**	(15 829)		
	5 069	53 252		

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
19. BORROWINGS (continued)				
Maturity of non-current borrowings (excluding finance lease liabilities)				
Not later than 1 year	**12 510**	13 062		
Between 2 and 5 years	**5 012**	52 655		
	17 522	65 717		
Finance lease liabilities – minimum lease payments:				
Not later than 1 year	**557**	2 914		
Later than 1 year and not later than 5 years	**59**	609		
	616	3 523		
Future finance charges on finance leases	**(17)**	(159)		
Present value of finance lease liabilities	**599**	3 364		
The present value of all finance lease liabilities may be analysed as follows:				
Not later than 1 year	**542**	2 767		
Later than 1 year and not later than 5 years	**57**	597		
	599	3 364		
Borrowing facilities				
The group has the following undrawn contracted borrowing facilities:				
Floating rate:				
Expiring beyond 1 year	**90 250**	127 250		
Expiring within 1 year	**206 250**	173 750		
The borrowing powers of the company are unlimited in terms of its Articles of Association.				

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
20. DEFERRED TAXATION				
Deferred income tax is calculated on all temporary differences under the liability method using a principal tax rate of 29% (2005: 29%).				
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	**(10 759)**	(9 094)		
Deferred tax liabilities	**68 780**	58 205		
Net deferred tax liability	**58 021**	49 111		
The movement on the deferred income tax account is as follows:				
At beginning of year	**49 111**	43 794		
Effect of change in tax rate		(1 240)		
Income statement charge				
– current year	**9 126**	6 709		
Tax credited to equity	**(216)**	(152)		
At end of year	**58 021**	49 111		

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

20. 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

			2006		
	Pension and post employ-ment benefits	Contingency policy	Plant and equipment allowances	Other	Total
Opening balance	**(152)**	**863**	**58 655**	**(1 161)**	**58 205**
Charged/(credited) to the income statement	**476**	**(704)**	**13 442**	**(2 423)**	**10 791**
Credited to equity	**(216)**				**(216)**
Closing balance	**108**	**159**	**72 097**	**(3 584)**	**68 780**

			2005		
	Pension and post employ-ment benefits	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	714	8 668
Credited to equity	(152)				(152)
Closing balance	(152)	863	58 655	(1 161)	58 205

Deferred tax assets

			2006		
	Assessed losses set off	Provision for doubtful debts	Warranty claims	Provisions	Total
Opening balance	**(1 760)**	**(500)**	**(2 407)**	**(4 427)**	**(9 094)**
Charged/(credited) to the income statement	**314**	**74**	**(615)**	**(1 438)**	**(1 665)**
Closing balance	**(1 446)**	**(426)**	**(3 022)**	**(5 865)**	**(10 759)**

			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)

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
21. TRADE AND OTHER PAYABLES				
Trade creditors	**187 512**	123 124		181
Forward foreign exchange contracts (note 24)	**107**	471		
Accrual for leave pay	**12 223**	9 007		
Sundry creditors and accruals	**99 493**	78 273	**113**	107
	299 335	210 875	**113**	288
The fair value of trade and other payables approximates their carrying value.				

22. PROVISIONS FOR LIABILITIES AND CHARGES

Group	Warranty R'000	2006 Other R'000	Total R'000
Balance at beginning of the year	**9 337**	**3 817**	**13 154**
Charged to the income statement			
– Additional provision	**3 873**	**2 366**	**6 239**
Utilised during the year	**(1 159)**	**(2 665)**	**(3 824)**
Balance at end of the year	**12 051**	**3 518**	**15 569**

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

Warranty

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

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
23. NOTES TO CASH FLOW STATEMENTS				
23.1 Reconciliation of profit before taxation to cash generated from/(utilised in) operations				
Profit before taxation	**324 931**	241 995	**122 266**	156 074
Adjustment for:				
Depreciation, amortisation and reassessment of useful lives	**54 562**	48 787		
(Profit)/loss on disposal of property, plant and equipment	**(94)**	312		
Share-based payment expenses	**763**	763	**720**	763
Pension fund surplus	**(1 640)**			
Profit on disposal of interest in subsidiary	**(2 442)**	(16 441)		
Income from subsidiaries & associates	**(7 308)**	(3 236)	**(102 537)**	(113 472)
Income from investments	**(13 440)**	(14 338)	**(20 080)**	(47 000)
Impairment of investment in associate company		12 906		2 259
Finance charges	**6 846**	10 104		
Operating profit/(loss) before working capital changes	**362 178**	280 852	**369**	(1 376)
Working capital changes:				
Increase in inventory	**(113 521)**	(47 458)		
Increase in accounts receivable	**(97 071)**	(8 543)	**(393)**	
Increase/(decrease) in accounts payable	**90 677**	(21 491)	**(175)**	47
Cash generated from/(utilised in) operations	**242 263**	203 360	**(199)**	(1 329)
23.2 Taxation paid				
Taxation paid is reconciled to the amount disclosed in the income statement as follows:				
Amounts unpaid at beginning of year	**(9 687)**	(19 050)		
Income statement charge (note 4)	**(89 262)**	(65 071)	**(6 007)**	(5 927)
Amounts unpaid at end of year	**9 092**	9 687		
	(89 857)	(74 434)	**(6 007)**	(5 927)
23.3 Dividends paid				
To shareholders	**(51 317)**	(50 807)	**(51 559)**	(50 958)
To minorities in subsidiaries	**(5 738)**	(264)		
	(57 055)	(51 071)	**(51 559)**	(50 958)

24. FINANCIAL INSTRUMENTS

24.1 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, Thai Bhat 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 exposed to movements in certain commodity prices, in particular copper and lead.

	Group **2006** **R'000**		Group 2005 R'000	
24.2 Derivative financial instruments				
At 31 December 2006	Assets	Liabilities	Assets	Liabilities
Forward foreign exchange contracts – fair value hedges	**775**	**(107)**	281	(471)
	775	**(107)**	281	(471)

	Group **2006** **R'000**	Group 2005 R'000
Net fair values of derivative financial instruments		
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	**775**	281
– with negative fair values	**(107)**	(471)
	668	(190)

24. FINANCIAL INSTRUMENTS

24.3 Uncovered future foreign exchange exposures

Uncovered foreign currency monetary items	Reflected in the balance sheet 2006 Foreign Amount '000	2006 Rand Equivalent R'000	2005 Foreign Amount '000	2005 Rand Equivalent R'000	Purchase orders not yet reflected as liabilities in the balance sheet 2006 Foreign Amount '000	2006 Rand Equivalent R'000	2005 Foreign Amount '000	2005 Rand Equivalent R'000
US Dollars	**1 623**	**11 306**	3 179	20 835	**(3 156)**	**(21 151)**	(2 251)	(14 185)
Euro	**(254)**	**(2 339)**	144	1 028	**(3 902)**	**(32 209)**	(3 950)	(31 963)
Japanese Yen	**(132 690)**	**(7 821)**	93 405	5 112	**(432 016)**	**(27 099)**	(351 365)	(19 328)
Australian Dollars	**(83)**	**(460)**	50	231	**(364)**	**(1 711)**	(342)	(1 590)
British Pounds	**717**	**9 783**	403	4 769	**(267)**	**(2 940)**	(251)	(2 692)
Thai Bhat	**(35 982)**	**(6 987)**	(1 523)	(248)	**(2 789)**	**(544)**	(8 452)	(1 305)

24.4 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 of dealer quotes for similar instruments are used for long-term debt. The fair value or 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 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 2006 R'000	Group 2005 R'000	Company 2006 R'000	Company 2005 R'000
25. CONTINGENT LIABILITIES				
Guarantees in respect of secured loans and overdrafts of subsidiaries	**5 675**	40 675	**5 675**	40 675
Guarantees in respect of subsidiaries' employee loans	**294**	230		
Trade guarantees	**1 945**	786		
Lease commitments	**1 646**	1 457		
	9 560	43 148	**5 675**	40 675
Any future dividend declaration out of the distributable reserves of the company will be subject to secondary taxation on companies at 10%.				
26. COMMITMENTS				
Capital commitments	**85 483**	100 265		
Contracted:				
Plant, machinery, tools, jigs and dies	**54 918**	60 537		
Authorised by the directors but not yet contracted:				
Plant, machinery, tools, jigs and dies	**30 565**	39 728		
Unexpired portion of operating lease contracts	**21 560**	20 886		
Payable within one year	**9 420**	9 960		
Payable later than 1 year and not later than 5 years	**9 135**	8 042		
Payable thereafter	**3 005**	2 884		
	107 043	121 151		

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

	Group	
	2006 R'000	2005 R'000
27. 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		
Amounts recognised in the balance sheet:		
Post employment medical benefit liability	**(15 228)**	(14 681)
Defined benefit asset	**1 640**	
	(13 588)	(14 681)
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% (2005: 5%) per year.		
The amounts recognised in the income statement are as follows:		
Current service costs	**399**	388
Interest costs	**1 345**	1 180
	1 744	1 568
Movement in the liability recognised in the balance sheet:		
At beginning of year	**14 681**	13 019
Total expense per income statement as above	**1 744**	1 568
Contributions paid	**(452)**	(429)
Actuarial (gain)/loss recognised in equity	**(745)**	523
At end of year	**15 228**	14 681
Actuarial (gain)/loss recognised in equity	**(745)**	523

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 92% (2005: 90%) of the group's employees are members of the Metair Group Pension Fund (a defined benefit plan), Alexander Forbes Retirement Fund (a defined contribution 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 2006 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). This valuation has been approved by the FSB. The rules of the fund has been amended to allocate all future surpluses to the employer surplus account. An asset calculated in terms of IAS 19: Employee Benefits in respect of the surplus has therefore been recognised. It should be noted that this valuation is performed on a different basis to the valuation in terms of circular PF117. 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 2009.

	Group	
	2006 R'000	2005 R'000
27. RETIREMENT BENEFIT INFORMATION (continued)		
Reconciliation of pension movement		
The amounts recognised in the balance sheet are determined as follows:		
Present value of funded obligations	**(382 242)**	(286 810)
Fair value of plan assets	**383 882**	297 694
	1 640	10 884
Asset not recognised due to apportionment process not completed		(10 884)
Asset in the balance sheet	**1 640**	–
The movement in the defined benefit obligation for the year is as follows:		
Beginning of year	**286 810**	206 260
Current service cost	**16 596**	13 530
Interest cost	**26 397**	29 109
Contributions by plan participants	**8 535**	8 183
Actuarial losses	**78 822**	45 025
Risk premiums	**(1 166)**	(1 317)
Benefits paid	**(33 752)**	(13 980)
End of year	**382 242**	286 810
The movement in the fair value of plan assets for the year is as follows:		
Beginning of year	**297 694**	224 911
Expected return on plan assets	**27 761**	29 834
Actuarial gains	**70 157**	36 388
Risk premiums	**(1 166)**	(1 317)
Employee and employer contributions	**23 188**	21 858
Benefits paid	**(33 752)**	(13 980)
End of year	**383 882**	297 694
The actual return on the plan assets amounted to R8 451 000 (2005: R7 987 000)		
The principal actuarial assumptions used were:		
Discount rate for obligation	**8%**	9%
Expected return on plan assets	**9%**	9%
Salary increase	**6%**	6%
Pension increase	**4%**	4%
Inflation	**5%**	5%

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
28. 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
Metindustrial (Pty) Limited			**182 000**	182 000
Smiths Plastics (Pty) Limited			**36 000**	36 000

29. 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 previous 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.

30. 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. Director's shareholding have been presented in note 16.

Investment in Subsidiaries and Associates

as at 31 December 2006

Incorporated in South Africa	Type	Issued share capital 2006 R'000	Issued share capital 2005 R'000	% Direct (indirect) interest 2006 %	% Direct (indirect) interest 2005 %	Cost of shares 2006 R'000	Cost of shares 2005 R'000
SUBSIDIARIES							
MOTOR COMPONENT MANUFACTURING							
Smiths Manufacturing (Pty) Ltd	ordinary			**75**	75	**4 500**	4 500
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	**1 200**	329	**100**	100	**20 000**	
Hesto Harnesses (Pty) Ltd	ordinary	**1**	1	**75**	100	**1**	1
Smiths Plastics (Pty) Ltd	ordinary			**100**	100	**28 194**	28 194
Smiths Motors (Pty) Limited	ordinary			**100**	100		
Unitrade 745 (Pty) Limited	ordinary			**100**	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)		
						52 695	32 695
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)		

	2006 R'000	2005 R'000
Indebtedness by subsidiaries to the holding company:		
Metindustrial (Pty) Ltd	**180 096**	180 096
Smiths Motors (Pty) Ltd	**3 789**	3 789
Hella SA (Pty) Ltd	**4 247**	24 246
Smiths Plastics (Pty) Limited	**52 013**	46 000
Metair Share Trust	**100 412**	
	340 557	254 131

METAIR INVESTMENTS LIMITED
(Incorporated in the Republic of South Africa)
(Registration Number 1948/031013/06)
JSE share code: MTA ISIN: ZAE 000090692
("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 Friday, 4 May 2007, at 14h00 for the following purposes:

Ordinary business

1. To consider and approve the annual financial statements for the year ended 31 December 2006.
2. To re-elect Mr A Joffe 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 GMC Ryan 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 L Soanes as director, who retires in terms of the articles of association, but, being eligible, has offered himself for re-election (note 1).
   Mrs E Bradley who is due to retire as director in terms of the articles of association at the forthcoming annual general meeting will not be standing for re-election.

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 the unissued ordinary share capital of the company be placed under the control of the directors of the company who are hereby authorised, subject to sections 221 and 222 of the Companies Act, 1973 and the Listings Requirements of the JSE Limited, to allot and issue such shares on such terms and conditions and at such times as the directors may at their discretion deem fit until the next annual general meeting.

Special resolution number 1

To resolve that the articles of association of the company be amended by deleting article 103.4. Article 103.4 reads as follows: "A resolution referred to in 103.1 which is not signed by all the directors or their alternates, shall be inoperative until confirmed by a meeting of directors if it shall purport to authorise any act which a meeting of the directors has decided shall not be authorised."

The reason for and effect of proposing this special resolution is to delete article 103.4 for it is in conflict with article 103.1 which states that a resolution will be valid and effectual as a resolution passed at a meeting of the directors duly called and constituted when signed by all, or the majority of directors, provided that where a director is not so present, but has an alternate who is so present, then such resolution must also be signed by such alternate.

Voting instructions

A form of proxy accompanies this notice. 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.

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, 2001/P O Box 61051, Marshalltown, 2107) by no later than 2 May 2007 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
14 March 2007

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

NOTE

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

   Mr A Joffe

   Mr Joffe is a chartered accountant and has worked in corporate finance and investment banking for UAL Merchant Bank Limited and Nedcor Investment Bank Limited. He is currently with Coronation Capital Limited, a wholly owned subsidiary of Coronation Investments and Trading Limited. Mr Joffe was appointed as non-executive director of Metair in December 2006. He is a member of the Metair Board Remuneration Committee.

   Mr GMC Ryan

   Mr Ryan is an executive director of Coronation Investments and Trading Limited, the investment banking group formerly listed as Coronation Holdings Limited. He was a director of Coronation Holdings Limited group from 1992, serving as chairman from 1993 to 2001. Prior to joining Coronation, he had over 20 years experience in investment banking in South Africa. Mr Ryan was appointed as non-executive director of Metair in December 2006.

   Mr L Soanes

   Mr Soanes was managing director of Armstrong Hydraulics (Pty) Limited from February 1979 to February 1999. He retired from Armstrong in March 1999 and was appointed as non-executive director of Metair in May 1999. In terms of the Listings Requirements of the JSE Limited (Section 3.84(f)), he is classified as an independent non-executive director of Metair. He is a member of the Metair Board Remuneration Committee.

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.

METAIR INVESTMENTS LIMITED
(Incorporated in the Republic of South Africa)
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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 Friday, 4 May 2007 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
Ordinary business:			
1. Adoption of financial statements			
2. Re-election of Mr A Joffe as a director			
3. Re-election of Mr GMC Ryan as a director			
4. Re-election of Mr L Soanes as a director			
5. Special business:			
Ordinary resolution number 1 Placing of unissued shares under the control of the directors			
Special resolution number 1 Amendment to Articles of Association			

Signed at ____________ on ____________ 2007.

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, 2001/P O Box 61051, Marshalltown, 2107) by no later than 2 May 2007 at 14h00.

Please read the notes on the reverse side hereof.

Notes:

1. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space(s) provided, with or without deleting "the chairman of the general meeting", but any such deletion must be initialled by the member. The person whose name stands first on the form of proxy and who is present at the general meeting will be entitled to act as proxy to the exclusion of those whose names follow.
2. Please insert an "x" in the relevant spaces according to how you wish your votes to be cast. However, if you wish to cast your votes in respect of a lesser number of shares than you own in the company, insert the number of ordinary shares held in respect of which you desire to vote. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of all the member's votes exercisable thereat. A shareholder or his/her proxy is not obliged to use all the votes exercisable by the shareholder or by his/her proxy, but the total of the votes cast and in respect whereof abstention is recorded may not exceed the total of the votes exercisable by the shareholder or by his/her proxy.
3. Forms of proxy must be lodged with or posted to the transfer secretaries, Computershare Investor Services 2004 (Pty) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (P O Box 61051, Marshalltown, 2107) so as to be received by not later than 14h00 on Wednesday, 2 May 2007.
4. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.
5. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the company's transfer secretaries or waived by the chairman of the annual general meeting.
6. Any alternation or correction made to this form of proxy must be initialled by the signatory(ies).
7. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries of the company.
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.

Metair Investments Limited

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