

PRINCIPAL ACCOUNTING POLICIES

The annual financial statements are prepared in millions of South African rands (R million) on the historical cost basis, except for certain financial instruments recognised at fair value as stated below.

They incorporate the following principal accounting policies which are in compliance with South African Statements of Generally Accepted Accounting Practice and the requirements of the South African Companies Act. They are consistent in all material respects with the previous year, except as detailed below.

ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

IAS 1 – Presentation of financial statements

The group has adopted the requirements of this standard. The presentation of comparative financial information has been reclassified accordingly.

AC501 – Accounting for Secondary Taxation on Companies (STC)

The group has adopted the requirements of this interpretation statement whereby a deferred taxation asset is recognised on unutilised STC credits when it is probable that such unutilised STC credits will be utilised in the future. Previously unutilised STC credits were only brought to account when they were utilised upon declaration of dividends payable. The effect of the change in accounting policy is disclosed in note 10.

Revised AC140 – Business combinations, AC128 – Impairment of assets and AC129 – Intangible assets

The group has applied the requirements of the above revised accounting statements on a prospective basis on business combinations with agreement dates on or after 31 March 2004. The accounting treatment applied to business combinations with agreement dates prior to 31 March 2004 has been consistently applied in respect of the group's previous accounting policies in this regard.

CHANGE IN ACCOUNTING POLICY

Premiums and discounts arising on subsequent purchases from, or sales to, minority interests in subsidiaries

Following the classification of minority interests as equity, in accordance with IAS 1, any increases and decreases in ownership interests in subsidiaries without a change in control are recognised as equity

transactions in the consolidated financial statements. Accordingly, any premiums or discounts on subsequent purchases of equity instruments from, or sales of equity instruments to, minority interests are recognised directly in the equity of the parent shareholder.

Previously premiums or discounts on subsequent purchases of equity instruments from minorities were treated as goodwill, and premiums or discounts on subsequent sales of equity instruments to minorities were recognised as a capital item in the income statement. The effect of the change in accounting policy is disclosed in note 10.

BASIS OF CONSOLIDATION

Subsidiaries

The consolidated financial statements include the financial statements of the company and its subsidiaries. Where an investment in a subsidiary is acquired or disposed of during the financial year, its results are included from, or to, the date control became, or ceased to be, effective. All significant intercompany transactions are eliminated.

Associates

An investment in an associate is a long-term investment in a company in which the group exercises significant influence but not control.

The equity method of accounting for associated enterprises is adopted in the group financial statements. In applying the equity method, account is taken of the group's share of accumulated retained earnings and movements in reserves from the effective date on which the enterprise became an associate and up to the effective date of disposal.

Goodwill arising on the acquisition of associates is included in the carrying amount of the associate and is treated in accordance with the group's accounting policy for goodwill. The share of associated retained earnings and reserves is generally determined from the associate's latest audited financial statements but, in some instances, unaudited interim results are used. Dividends received from associates are deducted from the carrying value of the investment. Where the group's share of losses of an associate exceeds the carrying amount of the associate, the associate is carried at no value. Additional losses are only recognised to the extent that the group has incurred obligations or made payments on behalf of the associate.

Joint ventures

Joint ventures are those enterprises over which the group exercises joint control in terms of a contractual agreement. Joint ventures are proportionately consolidated, whereby the group's share of the joint venture's assets, liabilities, income, expenses and cash flows are combined with similar items, on a line-by-line basis, in the group's financial statements.

Goodwill

Business combinations with agreement dates on or after 31 March 2004

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the purchase consideration and the fair value of the net identifiable assets acquired in respect of the acquisition of subsidiaries, associates and joint ventures.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is no longer amortised, but is tested annually for impairment. A recognised impairment loss is not reversed.

Negative goodwill arising on an acquisition is recognised directly in income.

Business combinations with agreement dates before 31 March 2004

Goodwill is carried at cost, less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight-line basis over its estimated useful life, not exceeding 20 years.

A recognised impairment loss is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that is not expected to recur and the increase relates clearly to the reversal of that specific event.

Negative goodwill arising on an acquisition represents any excess of the fair value of the group's share of the identifiable net assets acquired over the purchase consideration. To the extent that negative goodwill relates to an expectation of future losses and expenses that is identified in the plan of acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, it is brought to account in the income statement when the future losses and expenses are recognised. Any

remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the weighted average useful life of those assets. The balance of negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the income statement.

The calculation of the gain or loss on disposal of an entity includes the unamortised balance of the goodwill relating to the entity that has been disposed of.

Premiums and discounts arising on subsequent purchases from, or sales to, minority interests in subsidiaries

Any increases and decreases in ownership interests in subsidiaries without a change in control are recognised as equity transactions in the consolidated financial statements. Accordingly, any premiums or discounts on subsequent purchases of equity instruments from, or sales of equity instruments to, minority interests are recognised directly in the equity of the parent shareholder.

Black Economic Empowerment (BEE) transactions

BEE transactions involving the disposal or issue of equity interests in subsidiaries are only recognised when the accounting recognition criteria have been met.

Although economic and legal ownership of such instruments may have transferred to the BEE partner, the de-recognition of such equity interest sold or recognition of equity instruments issued in the underlying subsidiary by the parent shareholder is postponed until the accounting recognition criteria have been satisfied.

A dilution in the earnings attributable to the parent shareholders in the interim period is adjusted for in the diluted earnings per share calculation by an appropriate adjustment to the earnings used in such calculation.

Any difference between the fair value of such equity interests disposed of or issued and the cash consideration received are not presently accounted for pending the adoption of International Financial Reporting Standards (IFRS). The group will adopt AC139 (IFRS2) – share-based payments for the year ending 28 February 2006. The group will then consider the applicability of this statement to BEE transactions taking into account the guidance anticipated from the International Financial Reporting Interpretations

PRINCIPAL ACCOUNTING POLICIES - (CONTINUED)

Committee (IFRIC) in this regard and will amend its accounting policy accordingly.

CAPITALISATION OF BORROWING COSTS

Interest on borrowings raised specifically to finance the construction of assets to prepare them for sale or use, is capitalised up to the date that the assets are substantially complete.

CAPITAL ITEMS

Capital items are items of income and expense relating to the acquisition, disposal or impairment of property, plant and equipment, investments, intangible assets and closure of businesses.

DISCONTINUED OPERATIONS

Discontinued operations are significant, distinguishable components that have been sold or abandoned or are subject to a formal plan of disposal.

Discontinued operations are separately recognised in the financial statements once management has made a commitment to discontinue the operation without a realistic possibility of withdrawal.

The operating profit or loss of discontinued operations up until the date of discontinuance is included in normal operating results. The profit or loss on discontinuance includes incremental costs directly related to the discontinuance.

EMPLOYEE BENEFITS

Short-term employee benefits

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service. The provisions for employee entitlements to salaries, performance bonuses and annual leave represent the amounts which the group has a present obligation to pay as a result of employee's services provided. The provisions have been calculated at undiscounted amounts based on current salary levels.

Retirement benefits

The majority of the group's employees are members of the Altron Group Pension Fund.

After acquisition of subsidiaries, certain employees remained members of their previous funds. A number of these are defined benefit plans. These industry-

managed retirement benefit schemes are dealt with as defined contribution plans where the group's obligations under the schemes are equivalent to those arising in a defined contribution plan. The group's contribution to defined contribution funds is charged to the income statement in the year in which it is incurred.

Post-retirement medical aid benefits

The group has an obligation to provide post-retirement medical aid benefits to certain eligible employees and pensioners. This obligation has been provided for in full.

Defined benefit obligations

Certain members of the Altron Group Pension Fund who were members prior to 1 September 1996 are entitled to a minimum benefit equal to the previously provided defined benefit pension. Members prior to 1 November 1999 are entitled to some post-retirement medical assistance.

The projected unit credit method is used to determine the present value of these defined benefit obligations, the related service cost and, where applicable, the past service cost.

Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested. Past service costs which have already vested are expensed immediately.

Actuarial gains and losses are recognised as income or expense if the net cumulative unrecognised actuarial gains or losses at the end of the previous financial year exceeded the greater of:

- 10% of the present value of the defined benefit obligation at that date before deducting plan assets, and
- 10% of the fair value of the plan assets at that date.

The amount recognised is the excess determined above, divided by the expected average remaining working lives of the employees participating in the plan.

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 derivative financial instruments for trading purposes.

Measurement

Financial instruments are initially measured at cost, which includes transaction costs, when the group becomes a party to the contractual arrangements. Subsequent to initial recognition these instruments are measured as set out below.

Cash and cash equivalents

Cash and cash equivalents are measured at fair value.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisations.

Investments

Investments classified as available-for-sale financial assets are carried at fair value, unless their fair value cannot be reliably determined, in which case they are shown at cost less accumulated impairment losses.

Investments that meet the criteria for classification as held-to-maturity financial assets are carried at amortised cost.

Trade and other receivables

Trade and other receivables originated by the group are stated at cost less amounts written off and provision for doubtful debts.

Offset

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when the company has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Derivative instruments

Derivative instruments comprise foreign exchange contracts and metal future contracts and are measured at fair value. Fair value adjustments are recognised in the income statement. Fair value is determined by comparing the contracted forward rate to the current forward rate of an equivalent contract with the same maturity date.

Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of financial instruments, that are not part of a hedging

relationship, are recognised in the income statement in the period in which the change arises.

Gains and losses from fair valuing cash flow hedges are initially recognised directly in equity.

If the hedged firm commitment or forecast transaction results in the recognition of an asset or a liability, the cumulative amount recognised in equity up to the transaction date is adjusted against the initial measurement of the asset or liability. Where the hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative unrealised gain or loss remains in equity and is recognised in the income statement when the underlying transaction occurs. If the hedged transaction is no longer expected to occur, the cumulative unrealised gain or loss is immediately recognised in the income statement.

FOREIGN CURRENCIES**Foreign currency transactions**

Foreign currency transactions are converted to South African Rands at the rates of exchange ruling at the dates of transactions. Balances outstanding on foreign transactions at the end of the financial year are translated to South African Rands at the rates ruling at that date. Gains or losses on translation are recognised in the income statement.

Foreign subsidiaries

The assets and liabilities of foreign subsidiaries which are considered to be foreign entities are translated into South African Rands at rates of exchange ruling at the end of the financial year. The results of operations are translated at an appropriate weighted average rate of exchange for the year. Gains or losses on translation are taken directly to a foreign currency translation reserve.

The monetary assets and liabilities of foreign subsidiaries which are considered to be integrated foreign operations are translated into South African Rands at rates of exchange ruling at the end of the financial year. The non-monetary assets and liabilities are translated at historic rates of exchange. The results of operations are translated at an appropriate weighted average rate of exchange for the year. Gains or losses on translation are recognised in operating income.

PRINCIPAL ACCOUNTING POLICIES - (CONTINUED)

IMPAIRMENT OF ASSETS

The carrying amounts of the group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If there is an indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount is the higher of its net selling price and its value in use.

In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

For an asset that does not generate cash inflows that are largely independent of those from other assets the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised in the income statement whenever the carrying amount of the cash-generating unit exceeds its recoverable amount.

A previously recognised impairment loss, on assets other than goodwill, is reversed if the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years.

INTANGIBLE ASSETS

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, and expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets acquired by the group are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets.

Subsequent expenditure on intangible assets is capitalised only when it increases the future

economic benefits embodied in the specific asset to which it relates. All other subsequent expenditure is expensed as incurred.

INVENTORIES

Inventories are valued at the lower of cost and net realisable value taking account of market conditions and technology changes. Cost is determined on the first-in, first-out and average cost methods. Work and contracts in progress and finished goods include direct costs and an appropriate portion of attributable overhead expenditure, and are shown net of any payments received in advance. Where contracts in progress extend over more than one accounting period, interim profits are taken, based on the stage of completion of each contract, less provisions for anticipated losses.

LEASES

Finance leases

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the group are classified as finance leases. Assets acquired in terms of finance leases are capitalised at the lower of fair value and the present value of the minimum lease payments at inception of the lease, and depreciated over the estimated useful life of the asset.

The capital element of future obligations under the leases is included as a liability in the balance sheet. Lease payments are allocated using the effective interest rate method to determine the lease finance cost, which is charged against income over the lease period, and the capital repayment, which reduces the liability to the lessor.

Operating leases

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases. Payments made under operating leases are charged against income on a straight-line basis over the period of the lease.

PROPERTY, PLANT AND EQUIPMENT

Property, plant, equipment and vehicles are stated at cost less accumulated depreciation and impairment losses. Land is not depreciated. Buildings, plant, equipment and vehicles are depreciated at varying

rates, on a straight-line basis over their expected useful lives, to estimated residual values (refer note 1 to the notes on financial statements for the rates of depreciation used).

Gains and losses arising on disposal of fixed assets in the normal course of business are included in capital items.

PROVISIONS

General

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation. Where the effect of discounting is material, provisions are discounted. The discount rate used reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting the obligations under the contract.

RENTAL FINANCE ADVANCES

Rental finance advances to customers are supported by finance leases and are stated at the outstanding capital balances. The income earned is computed at the interest rates inherent in each contract applied to the capital balance outstanding under such contract and is included in revenue.

REVENUE

Revenue comprises net invoiced sales to customers excluding value-added-tax, investment income and other non-operating income. Sales to customers are recognised when the related products are shipped or services are rendered.

Dividends and grants are recognised when the group's right to receive the revenue is established.

Interest revenue is recognised on a time proportion basis that takes into account the effective yield on the investment.

TAXATION

Current taxation

Current taxation comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted at the balance sheet date, and any adjustment of tax payable for the previous year.

Deferred taxation

Deferred taxation is provided using the balance sheet liability method, based on temporary differences.

Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised in the income statement except to the extent that it relates to a transaction that is recorded directly in equity, or a business combination that is an acquisition.

The effect on deferred tax of any changes in tax rates is recognised in the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Secondary taxation on companies

Secondary taxation on companies is recognised in the year dividends are declared, net of dividends received.

A deferred taxation asset is recognised on unutilised STC credits when it is probable that such unused STC credits will be utilised in the future.