

Allied Electronics Corporation Limited (the “company”) is a South African registered company. The consolidated financial statements of the company for the year ended 28 February 2006 comprise the company and its subsidiaries (together referred to as the “group”) and the group’s interest in associates and jointly controlled entities.

STATEMENT OF COMPLIANCE

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

Adoption of IFRS

The group has adopted IFRS for the year ended 28 February 2006. These are the group’s first consolidated financial statements prepared in compliance with IFRS and hence IFRS 1 – First time adoption of IFRS has been applied in preparing these financial statements. The group has adopted all applicable IFRS statements and interpretations issued or revised and effective up to the annual reporting date, 28 February 2006.

An explanation of how the transition to IFRS has affected the reported financial position and performance of the group is provided in Annexure 3 to the financial statements.

Circular 7/2005 – Straight-lining of operating lease payments

The group has simultaneously changed the interpretation of the basis of the straight-line recognition of operating lease payments whereby payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Previously operating leases were expensed on a

payments basis. The adjustment has been made in accordance with IAS 8 – Accounting Policies, changes in accounting estimates and errors with the necessary restatement of comparative figures. The effect of the change is provided in Annexure 3 to the financial statements.

BASIS OF PREPARATION

The annual financial statements are prepared in millions of South African rands (Rm) on the historical cost basis, except for the following assets and liabilities which are stated at fair value: derivative financial instruments and financial instruments classified as available-for-sale.

Non-current and disposal groups held for sale are stated at the lower of carrying amount and fair value less cost to sell.

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 the judgements about 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 that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Annexure 3 and note 30.

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

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

BASIS OF CONSOLIDATION

Subsidiaries

Subsidiaries are those entities over whose financial and operating policies the group has the power to, directly or indirectly, exercise control, so as to obtain benefits from their activities.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates

An investment in an associate is an 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, 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 from the date the joint control commences until the date the joint control ceases.

Eliminations on consolidation

Intra-group balances and transactions, and any unrealised gains or losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associated companies and joint ventures are eliminated to the extent of the group's interest against the investment in these enterprises. Unrealised losses on transactions with associated companies and joint ventures are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Goodwill

All business combinations are accounted for by applying the "purchase method". Goodwill represents amounts arising on the acquisition of subsidiaries, associates and joint ventures. In respect of business combinations that have occurred since the IFRS transition date, 1 March 2004, goodwill represents the difference between the cost of the acquisition and the fair value of

the net identifiable assets and contingent liabilities acquired.

The group made an election in terms of IFRS 1 that in respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous SA GAAP on 1 March 2004. The classification and accounting treatment of business combinations that occurred prior to 1 March 2004 has not been reconsidered in preparing the group's opening IFRS balance sheet at 1 March 2004.

From 1 March 2004 goodwill is stated at cost less accumulated impairment losses.

Goodwill is allocated to cash-generating units and is no longer amortised but tested annually for impairment. Previously goodwill arising on each acquisition was amortised over its useful life on a straight-line basis and subjected to annual impairment testing.

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

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 derecognition 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.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purposes of the cash flow statement.

CAPITALISATION OF BORROWING COSTS

Interest on borrowings raised specifically to finance the construction of assets that require a substantial period of time 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 as well as closure of businesses.

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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 accruals for employee entitlements to salaries, performance bonuses and annual leave represent the amounts which the group has as a present obligation to pay as a result of the employee's services provided. The accruals 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 the 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 as the group's obligations under the schemes are equivalent to those arising in a defined contribution plan.

The group's contributions to defined contribution funds are charged to the income statement in the year they are incurred.

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 November 1999 are entitled to some 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.

The fair value of plan assets is deducted from the present value of the defined benefit obligation to the extent permitted by IAS 19 – Employee benefits. 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 are 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.

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.

FINANCIAL INSTRUMENTS

Measurement

Financial instruments are initially measured at fair value, which includes transaction costs, except for those items carried at fair value through profit or loss, when the group becomes a party to the contractual arrangements as set out below. Subsequent to initial recognition these instruments are measured as set out below.

Interest-bearing borrowings

Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Investments

Investments held-for-trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the income statement.

Other investments held by the group are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity, except for impairment losses and, in the case of monetary items, foreign exchange gains or losses, which are recognised in the income statement. When these investments are disposed of, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement as a capital item. Where these investments are interest-bearing, interest, calculated using the effective interest method, is recognised in the income statement.

Trade and other receivables/payables

Trade and other receivables/payables originated by the group are stated at amortised cost less impairment losses.

Derivative 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.

Derivative instruments comprise foreign exchange contracts and metal future contracts. Subsequent to initial recognition they 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 present value of the current forward rate of an equivalent contract with the same maturity date. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

Hedging

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, a firm commitment, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity.

When the hedged firm commitment or forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the cumulative amount recognised in equity up to the transaction date is adjusted against the initial measurement of the asset or liability. For other cash flow hedges, the cumulative amount recognised in equity is recognised in the income statement in the period when the commitment or forecast transaction affects the income statement.

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 accordance with the above policy 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.

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Where a derivative financial instrument is used to economically hedge the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the income statement.

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.

FOREIGN CURRENCIES

Foreign currency transactions

Foreign currency transactions are converted to South African rands at the rates of exchange ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to South African rands at the rates ruling at that date. Gains or losses on translation are recognised in the income statement.

Financial statements of foreign operations

The assets and liabilities of all foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to rands at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to rands at rates approximating the foreign exchange rates ruling at the date of the transactions.

Foreign exchange differences arising on translation are recognised directly in a separate component of equity – the foreign currency translation reserve. The foreign currency

translation reserve applicable to a foreign operation is released to the income statement as a capital item upon disposal of that foreign operation.

IMPAIRMENT OF ASSETS

The carrying amounts of the group's assets are reviewed at least annually 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.

For goodwill, intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated annually.

The recoverable amount is the higher of an asset's 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 pre-tax 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 in the income statement 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. Impairment losses recognised in respect of cash-generating-units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating units, and then to reduce the carrying amount of other assets in the unit on a *pro rata* basis.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that has been recognised directly in equity is recognised in the income statement even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in the income statement is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

Reversal of impairment

A previously recognised impairment loss is reversed if there is an indication that the impairment loss no longer exists and 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, except as detailed below.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through the income statement. An impairment loss in respect of goodwill is not reversed.

INTANGIBLE ASSETS

Goodwill

Refer "Basis of consolidation" above.

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the group has sufficient resources to complete development.

The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. These items are stated at cost less accumulated amortisation and impairment losses. Other development expenditure is recognised as an expense as incurred.

Other intangible assets

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

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are tested annually for impairment.

Other intangible assets are amortised from the date they are available for use. The current estimated useful lives are as follows:

Patents and trademarks	- 5 years
Customer relationships	- 2 to 6 years
Distribution rights	- indefinite life
Proprietary software	- 3 years

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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 based on normal production capacity.

NON-CURRENT ASSETS HELD-FOR-SALE AND DISCONTINUED OPERATIONS

Non-current assets held for resale are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction, not through continuing use. These assets may be a component of an entity, a disposal group or an individual non-current asset. Upon initial classification as held-for-sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less cost to sell. Any impairment losses arising are recognised in the income statement as capital items.

A discontinued operation is a component of the group's business that represents a separate major line of business or geographical area of operations or a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale. 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.

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

Owned assets

Property, plant, equipment and vehicles are stated at cost less accumulated depreciation and impairment losses. When components of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items.

Leased assets

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.

Subsequent costs

The group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when the cost is incurred if it is probable that additional

future economic benefits embodied within the item will flow to the group and the cost of such item can be measured reliably. All other costs are recognised in the income statement as an expense when incurred.

Depreciation

Depreciation is charged to the income statement for each category of assets on a straight-line basis over their expected useful lives to estimated residual values. Land is not depreciated.

The current estimated useful lives are as follows:

- buildings 20 to 50 years
- plant and equipment 3 to 20 years
- furniture and fittings 5 to 20 years
- motor vehicles 4 to 8 years
- software and IT systems 2 to 8 years
- leasehold improvements over period of lease

The depreciation methods, useful lives and residual values, if not insignificant, are reassessed annually.

Gains and losses arising on disposal of property, plant and equipment 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.

Restructuring

A provision for restructuring is recognised when the group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

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.

SHARE-BASED PAYMENT TRANSACTIONS

Equity settled

The fair value of share options and deferred delivery shares granted to employees is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and expensed over the period during which the employees are required to provide services in order to become 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. The amount recognised as an expense is adjusted to reflect the actual number of share options and deferred delivery shares that vest except where forfeiture is only due to share prices not achieving the threshold for vesting. This accounting policy has been

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applied to all equity instruments granted after 7 November 2002 that had not yet vested at 1 January 2005. The fair value of share-based payments was not recognised under the group's previous accounting policies.

Cash settled

Share-linked instruments have been granted to certain employees in the group. The fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities. The fair value is initially measured at grant date and expensed over the period during which the employees are required to provide services in order to become unconditionally entitled to payment. 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. The liability is remeasured at each balance sheet date and at settlement date.

Black Economic Empowerment transactions

Where goods or services are considered to have been received from black economic empowerment partners as consideration for equity instruments of the group, these transactions are accounted for as share-based payment transactions, even when the entity cannot specifically identify the goods or services received. This accounting policy is applicable to equity instruments that had not vested by 1 January 2005 (as above).

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 delivered 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-apportionment basis that takes into account the effective yield on the investment.

SHARE CAPITAL

Preference share capital

Preference share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or is redeemable but only at the company's option. Dividends on preference share capital classified as equity are recognised as distributions within equity.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders or if dividend payments are not discretionary. Dividends thereon are recognised in the income statement as interest expense.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares held by subsidiaries are classified as treasury shares and presented as a deduction from total equity.

SEGMENTAL REPORTING

A segment is a distinguishable component of the group that is engaged in providing products or services which are subject to risks and rewards that are different from those of other segments. The primary basis for reporting segment information is business segments and the secondary basis is by significant geographical region, which is based on the location of assets. The basis of segment reporting is representative of the internal structure used for management reporting.

Segment results include revenue and expenses directly attributable to a segment whether from external transactions or from transactions with other group segments.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

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 or substantively enacted at the balance sheet date, and any adjustment of tax payable for previous years.

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 (STC) 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.