ANNUAL REPORT 2004

SPANJAARD

# SPANJAARD LIMITED

SABS
ISO 9001
LISTED SUPPLIER

# PRODUCTS MANUFACTURED AND SOLD BY THE GROUP

### *Special lubricants and allied chemical products*

*We are the largest South African manufacturer of a complete range of products for the consumer/automotive markets and also the industrial/marine markets. The company is highly regarded in the markets in which it operates and counts leading South African and international companies amongst its most important customers.*

*This division was approved by the South African Bureau of Standards to comply with ISO 9002 Quality Management System, in November 1994 and upgraded to ISO 9001: 2000 in December 2003.*



*These are two extremely useful and popular products from our extensive consumer/automotive range.*

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# NOTICE OF ANNUAL GENERAL MEETING

*Notice is hereby given that the annual general meeting of the members of the Company will be held at Spanjaard Limited, 748 - 750 Fifth Street, Wynberg, Sandton, at 12h00 on 11 June 2004 for the following purposes:*

1. To consider and approve the annual financial statements for the year ended 29 February 2004.

2. To elect as directors Mr TS Gien and Mr RB Spanjaard who retire by rotation in terms of the Articles of Association of the Company and who offer themselves for re-election.

3. To authorise the directors, at their discretion and subject to the requirements of the JSE Securities Exchange SA, to allot and issue shares during the forthcoming year.

4. To confirm the reappointment of the auditors for the forthcoming year.

5. To transact such other ordinary business of the Company which may be transacted at an annual general meeting.

*A member entitled to vote at this meeting may appoint a proxy, who need not be a member, to attend, speak and vote in his stead.*

*By order of the Board*

**R Sack**
*Secretary*

SPANJAARD

# CORPORATE INFORMATION

| | |
|---|---|
| **DIRECTORS:** | RJW Spanjaard (Executive Chairman)<br>TS Gien<br>RG Nicholson C.A.(S.A.), A.C.M.A., F.P.R.I. (Non-executive)<br>DH Petersen B.Sc (German)<br>R Sack B.Comm, B.Compt (Hons), C.A.(S.A.)<br>RB Spanjaard B.Comm, C.T.A. (Non-executive) |
| **COMMERCIAL BANKERS:** | The Standard Bank of South Africa Limited<br>Johannesburg Branch<br>88 Commissioner Street<br>Johannesburg<br>2001 |
| **AUDITORS:** | PricewaterhouseCoopers Inc<br>2 Eglin Road<br>Sunninghill<br>2157 |
| **SECRETARY AND REGISTERED OFFICE:** | R Sack<br>748 – 750 Fifth Street<br>Wynberg<br>Sandton<br>2090 |
| **TRANSFER SECRETARIES:** | Computershare Investor Services Limited<br>70 Marshall Street<br>Johannesburg<br>2001 |
| **REGISTRATION NUMBER:** | 1960/004393/06 |

*Back row: DH Petersen, TS Gien, R Sack, RB Spanjaard*
*Front row: RJW Spanjaard, RG Nicholson*

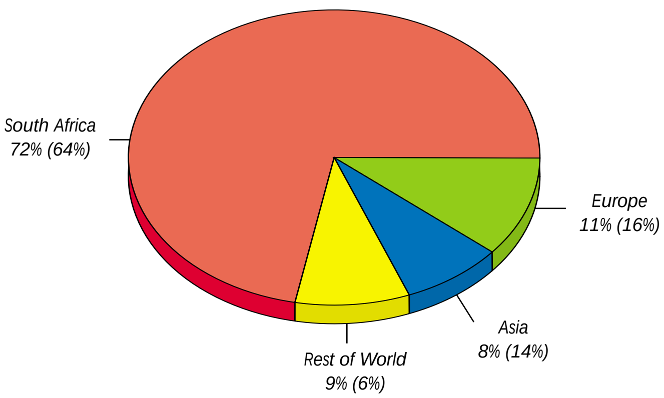
# FIVE YEAR REVIEW

| | 2004 R'000 | 2003 R'000 | 2002 R'000 | 2001 R'000 | 2000 R'000 |
|---|---|---|---|---|---|
| Sales | **65 778** | 72 244 | 62 000 | 63 854 | 53 369 |
| Profit from operations | **5 427** | 2 320 | 3 526 | 3 465 | 1 614 |
| Finance costs | **(148)** | 1 936 | 53 | 1 249 | 1 844 |
| Interest expense – net | **902** | 1 166 | 1 039 | 1 444 | 1 564 |
| (Profit)/loss on foreign exchange | **(1 050)** | 770 | (986) | (195) | 280 |
| Profit/(loss) before tax | **5 575** | 384 | 3 473 | 2 216 | (230) |
| Income tax expense | **970** | (43) | 1 146 | 370 | 128 |
| Net profit/(loss) | **4 605** | 427 | 2 327 | 1 846 | (358) |
| Dividend declared [1] | **570** | 57 | 228 | 171 | – |
| Profit/(loss) after dividend | **4 035** | 370 | 2 099 | 1 675 | (358) |
| Earnings/(loss) per ordinary share (cents) | **80,8** | 7,5 | 40,8 | 32,4 | (6,3) |
| Headline earnings/(loss) per ordinary share (cents) | **29,0** | 12,6 | 43,4 | 34,8 | (5,6) |
| Net asset value per ordinary share (cents) | **232,7** | 171,6 | 168,4 | 138,9 | 112,3 |
| Dividend declared per ordinary share (cents) [1] | **10,0** | 1,0 | 4,0 | 3,0 | – |

[1] Dividend declared comprises the final dividend of the respective year

***SALES REVENUE BY GEOGRAPHICAL MARKET***

*for the year ended 29 February 2004*




| | 2004 R'000 | 2003 R'000 |
|---|---|---|
| South Africa | **47 456** | 46 134 |
| Europe | **7 478** | 11 805 |
| Asia | **4 809** | 9 908 |
| Rest of world | **6 035** | 4 397 |
| | **65 778** | 72 244 |

# CHAIRMAN'S REPORT

*for the year ended 29 February 2004*

## GENERAL REVIEW

*It is a great privilege to be at the company's helm in its 44th year.*

*The beneficial effects of the sale of our South African Cook 'n Bake and Antonio's Olive Oil trademarks, whilst retaining the manufacturing on a long-term contract, were thoroughly documented in the Circular prepared for the Special General Meeting of shareholders held January 8, 2004 to approve it, and the motivation for it proved well founded and some of the benefits are already reflected in this year's results, for example, the reduction in borrowings and the corresponding decrease in finance costs of R2,1 million.*

*Export sales in US Dollar terms were flat in respect of both divisions, but down by 11% in Rand terms. Measured at the peaks, however, the Rand doubled in strength against some currencies over a very short period. This strengthening of the Rand was unprecedented. In order to maintain our position in international markets so as to not lose a customer base built up over many years, the Group had to increase operating efficiency. This was achieved, but the adjustment in the metal powder division was difficult and has taken longer to implement, but is now on course for the required improvement. Management has also implemented new pricing structures and base metal forward contracts in the new financial year in addition to forward exchange rate cover.*

*With margins under pressure in our international markets, increasing volumes is essential, and this approach is helping to entrench our position in the niche markets in which we operate.*

*Innovation in our marketing strategy is also showing great promise.*

## DIVIDEND

*The directors have approved the declaration of a dividend of 10 cents per share.*

## PROSPECTS

*The year ended 29 February 2004 has proved to be a record year for the Company. To make it a watershed year will require that we continue to innovate and to remain flexible enough to respond without delay to new threats and opportunities. I believe we have never been better placed than we are now, to respond to the demands of the market and our customers.*

*I wish to extend my thanks to my colleagues on the Board of Directors, the management team and each employee for their contribution.*

***RJW Spanjaard***
*Executive Chairman*

*21 April 2004*

# CORPORATE GOVERNANCE

*The directors endorse the Code of Corporate Practice and Conduct as set out in the King Report on Corporate Governance 2002 and have adopted those parts of the Code that are deemed applicable and efficient for a group of this nature and size.*

*In supporting the Code, the directors recognise the need to conduct the business of the enterprise with integrity and in accordance with generally accepted corporate practice.*

## THE BOARD

*The Board of Directors is based on a unitary structure and comprises four executive directors and two non-executive directors. Any new directors are appointed by the Board of Directors as a whole. The Board of Directors meets at least quarterly in order to set overall Group policies and takes decisions on matters of strategic importance to the Group. The executive directors, including the Chairman, are involved in the day-to-day management of the business. The roles of Chairman and Chief Executive Officer are combined as the size of the Group does not warrant the segregation of the two roles.*

*All directors have access to the advice and service of the Company secretary, who is responsible for ensuring that board procedures are followed.*

*All directors are entitled to seek independent professional advice about the affairs of the Group at the Group's expense.*

*During the year directors attended board meetings as follows:*

| | Board of Directors meetings | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Director | 13/05 2003 Attended | 04/07 2003 Attended | 22/10 2003 Attended | 08/01 2004 Attended | 12/01 2004 Attended | Total meetings | Total attended | % Meetings attended |
| RJW Spanjaard | Y | Y | Y | Y | Y | 5 | 5 | 100 |
| RB Spanjaard | Y | A | Y | A | A | 5 | 2 | 40 |
| DH Petersen | Y | Y | Y | Y | Y | 5 | 5 | 100 |
| RG Nicholson | Y | Y | Y | A | A | 5 | 3 | 60 |
| R Sack | Y | Y | Y | Y | Y | 5 | 5 | 100 |
| TS Gien | Y | Y | Y | A | Y | 5 | 4 | 80 |

*Y = Attended*
*A = Absent*

*Re-election of board members is on a rotational basis to ensure board continuity. The curriculum vitae of the directors to be re-elected are set out below:*

***TS Gien** (45) – Joined the group as Area Sales Manager (Consumer) in March 1988 and was appointed to the board in October 1995.*

***RB Spanjaard** (42) – Is Executive Chairman of Sovereign Foods Investments Limited and was appointed to the board of Spanjaard Limited in March 2001.*

## THE AUDIT COMMITTEE

*The Audit Committee's primary functions are that of accounting policy matters, risk identification and monitoring, and internal control.*

*The Audit Committee is governed by terms of reference set by the Board of Directors and comprises a non-executive director, RG Nicholson, who chairs the committee, and the Group Financial Director, R Sack. The external auditors of the Group, PricewaterhouseCoopers Inc, have unrestricted access to this committee.*

*The following non-audit services were provided by PricewaterhouseCoopers Inc during the year under review:*

*Factual findings report in respect of government grants (R9 000); and*
*Circular relating to the disposal of the Cook 'n Bake trademark (R290 000).*

### *THE REMUNERATION COMMITTEE*

*The Remuneration Committee comprises the executive chairman, RJW Spanjaard, and one non-executive director, RB Spanjaard. The Remuneration Committee is responsible for ensuring that executive directors and senior management are appropriately remunerated and incentivised for their contribution to the Group's financial and operating performance.*

### *INTERNAL CONTROL*

*The directors acknowledge their responsibility for the Group's system of internal financial controls which have been established in order to provide reasonable assurance of the safeguarding of assets against unauthorised use or disposal and the maintenance of proper and reliable accounting records and financial information.*

*The responsibility for the operation of these systems of internal controls lies with the executive directors who review them regularly to be satisfied that they are appropriate to provide reasonable assurance against material misstatement or loss. Because of this compensating control and the small size of the Group, it is the view of the board that no internal audit function is required.*

*The control systems include established policies and procedures, limits of authority, delegation and detailed reporting mechanisms, with comparisons against expectations and budgets.*

### *EMPLOYMENT EQUITY*

*The Group is committed to complying with the Employment Equity Act and has submitted its plan to the Department of Labour.*

*The employment objective of the Group is to achieve workplace equity by promoting equal opportunity and fair treatment in the workplace through:*

- *the elimination of unfair discrimination*
- *the implementation of Affirmative Action measures to redress the disadvantages in employment experienced by designated groups, women and people with disabilities, in order to ensure their equitable representation in all occupational categories and levels in the workforce.*

*Various measures have been implemented in the workplace to ensure that the objectives of the Employment Equity Act are attained. Measures to increase awareness include the display of a summary of the Act as well as discussions with employees and employee representatives.*

*A number of factors have impacted on the Group's ability to reach its objectives, not the least of which has been the low staff turnover experienced by the Group as well as a shortage of appropriately skilled and trained labour. For this reason the workforce profile, as submitted to the Department of Labour, is not anticipated to change materially.*

# *STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS*

*The annual financial statements for the year ended 29 February 2004, which appear on pages 9 to 36, have been approved by the Board of Directors on 21 April 2004.*

*The directors are responsible for the fair presentation to shareholders of the affairs of the Company and of the Group as at the end of the financial year, and of the results of this period, as set out in the annual financial statements. The directors are responsible for the overall co-ordination of the preparation, presentation, and for the approval of the financial statements. Responsibility for the initial preparation of these statements has been delegated to the officers of the Company and the Group.*

*The auditors are responsible for auditing and reporting on the financial statements in the course of executing their statutory duties. The financial statements have been prepared on a going-concern basis, conform with applicable accounting standards and are presented applying consistent accounting policies supported by reasonable and prudent judgements and estimates. To discharge this responsibility, the Group maintains accounting and administrative control systems designed to provide reasonable assurance that assets are safeguarded and that transactions are executed and recorded in accordance with generally accepted business practices and procedures. The accounting policies are set out on pages 15 to 19 of this report.*

*The financial statements were approved by the Board of Directors on 21 April 2004 and are signed on its behalf by:*

***RJW Spanjaard***

***R Sack***

# *SECRETARY'S CONFIRMATION IN TERMS OF SECTION 268G (d) OF THE COMPANIES ACT*

*I confirm that the Company has lodged with the Registrar of Companies all such returns as are required to be lodged by a public company in terms of the Companies Act 61 of 1973, as amended, and that all such returns are true, correct and up to date as at 29 February 2004.*

***R Sack***
*Company Secretary*

*21 April 2004*

# *REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF SPANJAARD LIMITED*

*We have audited the annual financial statements and group annual financial statements of Spanjaard Limited set out on pages 9 to 36 for the year ended 29 February 2004. These financial statements are the responsibility of the directors of the Company. Our responsibility is to express an opinion on these financial statements based on our audit.*

### *SCOPE*

*We conducted our audit in accordance with Statements of Generally Accepted Auditing Standards in South Africa. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatements.*

*An audit includes:*

- *examining, on a test basis, evidence supporting the amounts and disclosures included in the financial statements;*
- *assessing the accounting principles used and significant estimates made by management; and*
- *evaluating the overall financial statement presentation.*

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

### *AUDIT OPINION*

*In our opinion, the financial statements fairly present, in all material respects, the financial position of the Company and of the Group at 29 February 2004, the results of their operations and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the South African Companies Act.*

***PricewaterhouseCoopers Inc***
*Chartered Accountants (SA)*
*Registered Accountants and Auditors*

*Johannesburg*
*21 April 2004*

# *DIRECTORS' REPORT*

*for the year ended 29 February 2004*

*The directors have pleasure in submitting their annual report which forms part of the audited financial statements of the Company and of the Group for the year ended 29 February 2004.*

### *NATURE OF BUSINESS*

*The Company is a manufacturer and distributor of specialised lubricants and allied chemical products for industrial and consumer/automotive applications. Subsidiaries comprise two companies producing metal powders, two property companies, one foreign company trading in the United Kingdom and one dormant company in Zimbabwe.*

*Export business continues to form a significant part of turnover.*

### *GENERAL REVIEW AND FINANCIAL RESULTS*

*The financial statements on pages 9 to 36 set out fully the financial position, results of operations and cash flows of the Group for the financial year ended 29 February 2004. During the year the Company disposed of the Cook 'n Bake trademark for R4,75 million and concluded a 20 year manufacturing agreement with the purchaser.*

### *SUBSEQUENT EVENTS*

*No matter which is material to the financial affairs of the Company or the Group has occurred between 29 February 2004 and the date of approval of the annual financial statements.*

### *SHARE CAPITAL*

*There were no changes to authorised or issued share capital of the Company during the year.*

### *DIVIDENDS*

*The directors have declared a final dividend (No. 11) of 10 cents per share for the year ended 29 February 2004. The last day to trade cum dividend is Friday, 14 May 2004, payable to all shareholders of Spanjaard Limited recorded in the books of the company at the close of business on Friday, 21 May 2004. Shares will commence trading ex-dividend on Monday, 17 May 2004. The dividend is payable on Monday, 24 May 2004. The dividend totalled R570 000 for the year (2003 – R285 000).*

### *CAPITAL EXPENDITURE*

*During the year the Group purchased plant and equipment amounting to R827 000 (2003 – R451 000), consisting mainly of plant and machinery and computer and office equipment. Future capital expenditure will be funded from internal resources and, if appropriate, borrowings.*

### *HOLDING COMPANY*

*The Company's ultimate holding company is Spanjaard Group Limited, which held 64,6% (2003 – 81,7%) of the issued share capital at 29 February 2004.*

### *PROPERTY*

*Details of the freehold land and buildings of the various companies are contained in registers, which are available for inspection at the registered offices.*

### *GOING CONCERN*

*The financial statements have been prepared using appropriate accounting policies, supported by reasonable judgements and estimates. The directors have a reasonable expectation that the Group has adequate resources to continue as a going concern.*

# DIRECTORS' REPORT

*for the year ended 29 February 2004 (continued)*

**SUBSIDIARY COMPANIES**

*Apart from the sale of Spanjaard EU BV to Spanjaard Group Limited, no changes in the group structure took place during the year. The following information relates to the Company's financial interest in its subsidiaries.*

| | Country of incorporation | Issued share capital | % Interest held | Shares at cost 2004 R'000 | Amounts due (to)/from subsidiary company 2004 R'000 |
|---|---|---|---|---|---|
| Bronzmet (Pty) Limited [1] | South Africa | R100 | 100 | – | – |
| Coppermet (Pty) Limited | South Africa | R10 100 | 100 | – | 2 016 |
| Slip Products (S.A.)(Pty) Limited | South Africa | R200 | 100 | – | (33) |
| Torpedo Investments (Pty) Limited | South Africa | R2 | 100 | – | (275) |
| Spanjaard UK Limited | United Kingdom | GBP24 181 | 100 | 228 | (313) |
| Molyslip Zimbabwe (Pvt) Limited [2] | Zimbabwe | Z$500 | 100 | – | – |
| | | | | 228 | 1 395 |

*The holding company's interest in the aggregate after tax loss incurred by subsidiaries during the year amounted to R6 000 (2003 – loss of R121 000).*

*[1] Indirectly held via Coppermet (Pty) Limited*

*[2] Indirectly held via Spanjaard UK Limited*

**DIRECTORATE**

**Composition of board**

*The Board of Directors consists of two non-executive directors and four executive directors.*

*The following were the directors of the Company during the financial year:*

| | Appointed on: |
|---|---|
| RJW Spanjaard (Executive Chairman) | 2 December 1960 |
| TS Gien | 17 October 1995 |
| RG Nicholson (Non-executive) | 17 May 1996 |
| DH Petersen | 4 September 1989 |
| R Sack | 8 May 2000 |
| RB Spanjaard (Non-executive) | 15 March 2001 |

**Interests of Directors**

*The interests of directors in the shares of the Company were as follows:*

**2004**

| | Direct | | Indirect | | |
|---|---|---|---|---|---|
| **Director** | **Beneficial** | **Non-beneficial** | **Beneficial** | **Non-beneficial** | **Total** |
| Mr RJW Spanjaard | 35 600 | – | 3 680 550 | – | 3 716 150 |
| Mr DH Petersen | 368 100 | – | – | – | 368 100 |
| Mr T Gien | 441 500 | – | – | – | 441 500 |
| Mr R Sack | 339 500 | – | – | – | 339 500 |
| Mr RB Spanjaard | 25 700 | – | – | – | 25 700 |
| | 1 210 400 | – | 3 680 550 | – | 4 890 950 |

# DIRECTORS' REPORT

*for the year ended 29 February 2004 (continued)*

**2003**

| Director | Direct Beneficial | Direct Non-beneficial | Indirect Beneficial | Indirect Non-beneficial | Total |
|---|---|---|---|---|---|
| Mr RJWSpanjaard | 35 600 | 219 490 | 4 655 870 | – | 4 910 960 |
| Mr DH Petersen | 82 600 | – | – | – | 82 600 |
| Mr TS Gien | 56 000 | – | – | – | 56 000 |
| Mr R Sack | 54 000 | – | 15 | – | 54 015 |
| Mr RB Spanjaard | 25 700 | – | – | – | 25 700 |
| | 253 900 | 219 490 | 4 655 885 | – | 5 129 275 |

The interests of senior management totalled nil shares (2003 – 8,000). There were no contracts of significance during or at the end of the financial year in which the directors of the Company are materially interested. No material change in the directors' interests, has taken place between 29 February 2004 and the date of this report.

### DIRECTORS' REMUNERATION

Directors' remuneration for the year under review in aggregate was as follows:

| | Fees R'000 | Basic salary R'000 | Allow-ances R'000 | Medical aid R'000 | Retire-ment benefits R'000 | Bonus R'000 | Other R'000 | **2004 Total R'000** | 2003 Total R'000 |
|---|---|---|---|---|---|---|---|---|---|
| Executive directors | | | | | | | | | |
| Mr TS Gien | – | 390 | 132 | 34 | 84 | – | 17 | **657** | 726 |
| Mr DH Petersen | – | 351 | 156 | 41 | 82 | – | 18 | **648** | 529 |
| Mr R Sack | – | 547 | 144 | 38 | 109 | – | – | **838** | 677 |
| Mr RJW Spanjaard | – | 252 | 204 | 37 | 123 | – | 41 | **657** | 482 |
| Non-executive directors | | | | | | | | | |
| Mr RG Nicholson | 30 | – | – | – | – | – | – | **30** | 25 |
| Mr RB Spanjaard | 28 | – | – | – | – | – | – | **28** | 25 |
| | 58 | 1 540 | 636 | 150 | 398 | – | 76 | **2 858** | 2 464 |
| Paid by holding company during year | | | | | | | | | (482) |
| | 58 | 1 540 | 636 | 150 | 398 | – | 76 | **2 858** | 1 982 |

In terms of the Articles of Association the fees for directors' services are determined by the Company in an annual general meeting. Fees for services as a director are currently between R27 000 and R30 000 per annum. These fees have been waived by the executive directors.

### ADMINISTRATION

An ordinary resolution was passed for the disposal of the Cook 'n Bake trademark on 8 January 2004.

### SECRETARY

The secretary of the Company is Mr R Sack, whose business and postal addresses are:

**Business address:**
748 – 750 Fifth Street
Wynberg
Sandton
2090

**Postal address:**
P O Box 7294
Johannesburg
2000

### AUDITORS

PricewaterhouseCoopers Inc will continue as auditors in accordance with Section 270(2) of the Companies Act.

SPANJAARD

# BALANCE SHEETS

*at 29 February 2004*

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Notes | **2004 R'000** | 2003 R'000 | **2004 R'000** | 2003 R'000 |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 5 | **4 402** | 4 688 | **1 469** | 1 536 |
| Intangible assets | 7 | **72** | 1 877 | **–** | 1 300 |
| Investments in subsidiaries | 6 | | | **1 623** | 2 532 |
| Deferred tax assets | 17 | **655** | 230 | **142** | – |
| Amount due by holding company | 13 | **777** | – | **777** | – |
| | | **5 906** | 6 795 | **4 011** | 5 368 |
| **Current assets** | | | | | |
| Inventories | 8 | **6 533** | 7 461 | **4 789** | 4 533 |
| Trade receivables | 9 | **9 194** | 11 807 | **6 797** | 9 317 |
| Other receivables and prepayments | 10 | **553** | 376 | **211** | 114 |
| Current tax prepayments | | **103** | 64 | **–** | – |
| Cash and cash equivalents | 11 | **4 844** | 542 | **4 222** | 6 |
| | | **21 227** | 20 250 | **16 019** | 13 970 |
| **Total assets** | | **27 133** | 27 045 | **20 030** | 19 338 |
| **SHAREHOLDERS' EQUITY** | | | | | |
| Ordinary shares | 12 | **285** | 285 | **285** | 285 |
| Share premium | | **235** | 235 | **235** | 235 |
| Foreign currency revaluation reserve | | **608** | 746 | | |
| Retained earnings | | **12 138** | 8 518 | **9 099** | 5 059 |
| | | **13 266** | 9 784 | **9 619** | 5 579 |
| **LIABILITIES** | | | | | |
| **Non-current liabilities** | | | | | |
| Borrowings | 16 | **1 122** | 875 | **338** | 51 |
| Amount due to holding company | 13 | **–** | 354 | **–** | 354 |
| Deferred tax liabilities | 17 | **420** | 112 | **–** | 18 |
| | | **1 542** | 1 341 | **338** | 423 |
| **Current liabilities** | | | | | |
| Trade and other payables | 14 | **8 868** | 10 946 | **7 183** | 9 041 |
| Provisions | 18 | **891** | 637 | **623** | 429 |
| Shareholders for dividends | | **578** | 64 | **578** | 64 |
| Current tax liabilities | | **708** | 426 | **493** | 202 |
| Borrowings | 16 | **1 280** | 3 847 | **1 196** | 3 600 |
| | | **12 325** | 15 920 | **10 073** | 13 336 |
| **Total liabilities** | | **13 867** | 17 261 | **10 411** | 13 759 |
| **Total equity and liabilities** | | **27 133** | 27 045 | **20 030** | 19 338 |

# INCOME STATEMENTS

*for the year ended 29 February 2004*

| | Notes | Group 2004 R'000 | Group 2003 R'000 | Company 2004 R'000 | Company 2003 R'000 |
|---|---|---|---|---|---|
| Sales | | **65 778** | 72 244 | **48 100** | 51 540 |
| Cost of sales | | **47 655** | 48 604 | **32 031** | 32 129 |
| Gross profit | | **18 123** | 23 640 | **16 069** | 19 411 |
| Profit on sale of trademark | | **3 157** | | **3 157** | |
| Operating expenses | | **15 853** | 21 320 | **13 467** | 17 634 |
| Profit from operations | 19 | **5 427** | 2 320 | **5 759** | 1 777 |
| Finance costs – net | 22 | **(148)** | 1 936 | **124** | 892 |
| Profit before tax | | **5 575** | 384 | **5 635** | 885 |
| Income tax expense | 23 | **970** | (43) | **610** | 337 |
| Net profit | | **4 605** | 427 | **5 025** | 548 |
| | | **Cents** | **Cents** | | |
| Earnings per ordinary share | 24 | **80,8** | 7,5 | | |
| Headline earnings per ordinary share | 24 | **29,0** | 12,6 | | |
| Dividend per ordinary share | | **10,0** | 5,0 | | |

# STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

*for the year ended 29 February 2004*

| **Group** | Share capital R'000 | Share premium R'000 | Foreign currency revaluation reserve R'000 | Retained earnings R'000 | Total R'000 |
|---|---|---|---|---|---|
| Balance at 1 March 2002 | 285 | 235 | 701 | 8 376 | 9 597 |
| Currency translation differences | | | 45 | | 45 |
| Net profit | | | | 427 | 427 |
| Dividend relating to 2002 | | | | (228) | (228) |
| Dividend relating to 2003 | | | | (57) | (57) |
| Balance at 1 March 2003 | | | | | |
| – as previously reported | 285 | 235 | 746 | 8 518 | 9 784 |
| – effect of adopting AC133 | | | | (415) | (415) |
| – as restated | 285 | 235 | 746 | 8 103 | 9 369 |
| Currency translation differences | | | (138) | | (138) |
| Net profit | | | | 4 605 | 4 605 |
| Dividend relating to 2004 | | | | (570) | (570) |
| **Balance at 29 February 2004** | **285** | **235** | **608** | **12 138** | **13 266** |
| **Company** | | | | | |
| Balance at 1 March 2002 | 285 | 235 | | 4 796 | 5 316 |
| Net profit | | | | 548 | 548 |
| Dividend relating to 2002 | | | | (228) | (228) |
| Dividend relating to 2003 | | | | (57) | (57) |
| Balance at 1 March 2003 | | | | | |
| – as previously reported | 285 | 235 | | 5 059 | 5 579 |
| – effect of adopting AC133 | | | | (415) | (415) |
| – as restated | 285 | 235 | | 4 644 | 5 164 |
| Net profit | | | | 5 025 | 5 025 |
| Dividend relating to 2004 | | | | (570) | (570) |
| **Balance at 29 February 2004** | **285** | **235** | | **9 099** | **9 619** |

SPANJAARD

# CASH FLOW STATEMENTS

*for the year ended 29 February 2004*

| | Notes | Group 2004 R'000 | Group 2003 R'000 | Company 2004 R'000 | Company 2003 R'000 |
|---|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Cash receipts from customers | | **68 322** | 70 126 | **50 620** | 48 162 |
| Cash paid to suppliers and employees | | **(63 792)** | (67 251) | **(47 821)** | (47 076) |
| Cash generated from operations | 25 | **4 530** | 2 875 | **2 799** | 1 086 |
| Finance costs | | **148** | (1 936) | **(124)** | (892) |
| Tax paid | 26 | **(738)** | (1 127) | **(479)** | (518) |
| Dividend paid | 27 | **(56)** | (227) | **(56)** | (227) |
| **Net cash generated by/(utilised in) operating activities** | | **3 884** | (415) | **2 140** | (551) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Purchase of plant, machinery, vehicles and equipment for expansion | | **(211)** | (451) | **(186)** | (385) |
| Disposal of plant, machinery, vehicles and equipment | | **–** | 48 | **–** | 5 |
| Disposal of trademarks | | **4 379** | | **4 379** | |
| Decrease in interest in subsidiary | | | | **909** | 488 |
| Disposal of investment in subsidiary (note 4) | | **740** | | **777** | |
| **Net cash generated by/(utilised in) investing activities** | | **4 908** | (403) | **5 879** | 108 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| Repayments of borrowings | | **(1 888)** | (256) | **(1 405)** | (215) |
| **Net cash utilised in financing activities** | | **(1 888)** | (256) | **(1 405)** | (215) |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | **6 904** | (1 074) | **6 614** | (658) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | **(3 060)** | (1 986) | **(3 392)** | (2 734) |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 11 | **3 844** | (3 060) | **3 222** | (3 392) |

## 1. PRINCIPAL ACCOUNTING POLICIES

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

### A. Basis of preparation

*The financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice. The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities held-for-trading.*

*The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.*

*The Group adopted AC133 Financial Instruments: Recognition and Measurement on 1 March 2003. The financial effects of adopting this standard are summarised in the statement of changes in shareholders' equity and further information is disclosed in accounting policies and in notes.*

*The Group adopted AC135 Investment Property on 1 March 2002. The financial effects of adopting this standard were reported in the previous year's consolidated financial statements.*

### B. Group accounting

*Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, are consolidated.*

*The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity.*

*Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. See note E for the accounting policy on goodwill. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.*

### C. Foreign currency translation

#### (1) Measurement currency

*Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the measurement currency"). The consolidated financial statements are presented in South African Rands, which is the measurement currency of the parent.*

#### (2) Transactions and balances

*Translation differences on debt securities and other monetary financial assets and liabilities measured at fair value are included in foreign exchange gains and losses. Translation differences on non-monetary items such as equities held for trading are reported as part of the fair value gain or loss.*

#### (3) Group companies

*Income statements and cash flows of foreign entities are translated into the Group's reporting currency at average exchange rates for the year and their balance sheets are translated at the exchange rates ruling at the end of February. Exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign entity is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.*

*Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.*

SPANJAARD

### 1. PRINCIPAL ACCOUNTING POLICIES (continued)

#### D. Property, plant and equipment

*Land and buildings comprise mainly factories and offices and are shown at historic cost, less subsequent depreciation for buildings. All other property, plant and equipment is stated at historical cost less depreciation.*

*Depreciation is calculated on the straight-line method to write off the cost or revalued amount of each asset to their residual values over their estimated useful lives as follows:*

| | |
|---|---|
| Buildings | 25 – 50 years |
| Plant and equipment | 3 – 10 years |
| Motor vehicles | 5 years |
| Office furniture and equipment | 3 – 10 years |

*Land is not depreciated.*

*Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.*

*Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in operating profit.*

*Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.*

#### E. Intangible assets

##### (1) Goodwill

*Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets.*

*Goodwill is amortised using the straight-line method over its estimated useful life. Management determines the estimated useful life of goodwill based on its evaluation of the respective companies at the time of the acquisition, considering factors such as existing market share, potential growth and other factors inherent in the acquired companies. Goodwill is generally amortised over 10 years.*

*At each balance sheet date the Group assesses whether there is any indication of impairment. If such indications exist an analysis is performed to assess whether the carrying amount of goodwill is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount.*

*The gain or loss on disposal of an entity includes the carrying amount of goodwill relating to the entity sold.*

##### (2) Research and development

*Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit, not exceeding five years.*

##### (3) Other intangible assets

*Expenditure to acquire patents, trademarks and licences is capitalised and amortised using the straight-line method over their useful lives, but not exceeding 20 years. Intangible assets are not revalued.*

### 1. PRINCIPAL ACCOUNTING POLICIES (continued)

#### F. Impairment of long lived assets

*Property, plant and equipment and other non-current assets, including goodwill and intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.*

#### G. Leases

*Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.*

*Leases where 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.*

#### H. Inventories

*Inventories are stated at the lower of cost or net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.*

#### I. Trade receivables

*Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.*

#### J. Cash and cash equivalents

*Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.*

#### K. Share capital

*Ordinary shares are classified as equity. Incremental external costs directly attributable to the issue of new shares, other than in connection with business combination, are shown in equity as a deduction, net of tax, from the proceeds. Share issue costs incurred directly in connection with a business combination are included in the cost of acquisition.*

*Where the Company or its subsidiaries purchases the Company's equity share capital, the consideration paid including any attributable incremental external costs net of income taxes is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.*

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### L. Borrowings

*Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.*

### M. Deferred income taxes

*Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.*

### N. Employee benefits

#### (1) Provident fund obligations

*Group companies have various provident fund schemes. The schemes are funded through payments to defined contribution plans. A defined contribution plan is a provident plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. Once the contributions have been paid, the Company has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and as such are included in staff costs.*

#### (2) Termination benefits

*Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.*

#### (3) Bonus plans

*A liability for employee benefits in the form of bonus plans is recognised in other provisions when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:*

- *there is a formal plan and the amounts to be paid are determined before the time of issuing the financial statements; or*
- *past practice has created a valid expectation by employees that they will receive a bonus and the amount can be determined before the time of issuing the financial statements.*

*Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.*

### O. Government grants

*Grants from the government are recognised only when received.*

### P. 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 will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.*

*Restructuring provisions comprise lease termination penalties and employee termination payments, and are recognised in the period in which the Group becomes legally or constructively committed to payment. Costs related to the ongoing activities of the Group are not provided in advance.*

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### Q. Revenue recognition

*Revenue comprises the invoiced value for the sale of goods and services net of value-added tax, rebates and discounts, and after eliminating sales within the Group. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer. Revenue from rendering of services is based on the stage of completion determined by reference to services performed to date as a percentage of total services to be performed.*

*Revenue arising from royalties is recognised on an accrual basis in accordance with the substance of the relevant agreements. Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group. Dividends are recognised when the right to receive payment is established.*

### R. Dividends

*Dividends are recorded in the Group's financial statements in the period in which they are declared.*

### S. Segment reporting

*Business segments provide products or services that are subject to risks and returns that are different from those of other segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments.*

### T. Derivatives

*Forward exchange contracts are initially recognised in the balance sheet at cost and subsequently are remeasured at their fair value. While providing effective economic hedges under the Group's risk management policies, the forward exchange contracts do not qualify for hedge accounting under the specific rules in AC133. Changes in the fair value of these instruments are recognised immediately in the income statement.*

*The fair value of publicly traded derivatives and trading and available-for-sale securities is based on quoted market prices at the balance sheet date. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date. Quoted market prices or dealer quotes for the specific or similar instruments are used for long-term debt. Other techniques, such as estimated discounted value of future cash flows, are used to determine fair value for the remaining financial instruments.*

*The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.*

### U. Comparatives

*Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.*

## 2. FINANCIAL RISK MANAGEMENT

### Financial risk factors

*The Group's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as forward foreign exchange contracts to reduce certain exposures.*

**2. FINANCIAL RISK MANAGEMENT (continued)**

**Financial risk factors (continued)**

**(i) Foreign exchange risk**

*The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to United States Dollars, European Union Euros and Swiss Francs. Entities in the Group use forward exchange contracts to reduce their exposure to foreign currency risk in connection with the measurement currency.*

**(ii) Interest rate risk**

*The Group's income and operating cash flows are exposed to changes in market interest rates. Cash is managed to ensure surplus funds are invested in a manner to achieve maximum returns while minimising risks.*

**(iii) Credit risk**

*The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. Derivative counterparties and cash transactions are limited to high credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution.*

**(iv) Liquidity risk**

*Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.*

| | Lubricants R'000 | Metal powders R'000 | Other R'000 | Group R'000 |
|---|---|---|---|---|
| **3. SEGMENT INFORMATION** | | | | |
| **(a) Business segments:** | | | | |
| **2004** | | | | |
| **Segment sales** | **48 100** | **16 612** | **1 066** | **65 778** |
| **Segment result** | **6 095** | **18** | **(686)** | **5 427** |
| Finance income – net | | | | **148** |
| Profit before tax | | | | **5 575** |
| Income tax expense | | | | **(970)** |
| Net profit | | | | **4 605** |
| **Segment assets** | **18 021** | **7 550** | **804** | **26 375** |
| Unallocated assets | | | | **758** |
| Total assets | | | | **27 133** |
| **Segment liabilities** | **9 010** | **2 646** | **1 083** | **12 739** |
| Unallocated liabilities | | | | **1 128** |
| Total liabilities | | | | **13 867** |
| **Other segment items** | | | | |
| Capital expenditure | **741** | **86** | **–** | **827** |
| Depreciation | **837** | **276** | **–** | **1 113** |
| Amortisation | **78** | **72** | **46** | **196** |
| **2003** | | | | |
| **Segment sales** | 51 540 | 20 518 | 186 | 72 244 |
| **Segment result** | 1 998 | 87 | 235 | 2 320 |
| Finance cost - net | | | | (1 936) |
| Profit before tax | | | | 384 |
| Income tax expense | | | | 43 |
| Net profit | | | | 427 |
| **Segment assets** | 17 598 | 7 673 | 1 480 | 26 751 |
| Unallocated assets | | | | 294 |
| Total assets | | | | 27 045 |
| **Segment liabilities** | 13 535 | 2 553 | 635 | 16 723 |
| Unallocated liabilities | | | | 538 |
| Total liabilities | | | | 17 261 |
| **Other segment items** | | | | |
| Capital expenditure | 392 | 59 | – | 451 |
| Depreciation | 816 | 275 | – | 1 091 |
| Amortisation | 104 | 71 | 63 | 238 |

## 3. SEGMENT INFORMATION (continued)

### (a) Business segments (continued):

*At 29 February 2004, the Group is organised into two main business segments:*

- *Lubricants: the manufacture of specialised industrial and consumer lubricants*
- *Metal powders: the manufacture of various types and grades of metal powders.*

*Other operations of the group mainly comprise the distribution of manufactured goods to consumers in overseas markets and dormant companies, neither of which are of a sufficient size to be reported separately.*

*There are no sales or other transactions between the business segments.*

*Segment assets consist primarily of property, plant, equipment, intangible assets, inventory, receivables and operating cash and exclude taxation assets. Segment liabilities comprise operating liabilities and exclude taxation liabilities. Capital expenditure comprises additions to property, plant and equipment (note 5) and intangible assets (note 7).*

### (b) Geographical segments:

*Although the Group's two business segments are managed on a worldwide basis, they operate in two main geographical areas:*

- *South Africa is the home country of the parent company which is also the main operating company. The areas of operation are principally the manufacture of specialised lubricants and metal powders.*
- *Europe is the main area of operation from where export sales are distributed.*

*Sales by geographical market, detailed on page 3, are based on the region in which the customer is located. Net profit, assets and additions to property, plant and equipment by geographical area, based on the location of the assets, are as follows:*

| | Segment result | | Segment assets | | Capital expenditure | |
|---|---|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 |
| South Africa | **4 447** | 269 | **27 102** | 24 242 | **827** | 451 |
| Europe | **161** | 161 | **31** | 2 800 | **–** | – |
| Other countries | **(3)** | (3) | **–** | 3 | **–** | – |
| | **4 605** | 427 | **27 133** | 27 045 | **827** | 451 |

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 29 February 2004 (continued)*

## 4. SALE OF SPANJAARD EU BV

*Spanjaard EU BV was sold on 1 December 2003 to Spanjaard Group Limited. The sales, results, cash flow and net assets of Spanjaard EU BV were as follows:*

| | 2004 R'000 | 2003 R'000 |
|---|---|---|
| Sales | 825 | 8 126 |
| Cost of sales | 795 | 7 272 |
| Gross profit | 30 | 854 |
| Operating expenses | 259 | 476 |
| Operating (loss)/profit from operations | (229) | 378 |
| Finance costs | 46 | 408 |
| Loss before tax | (275) | (30) |
| Income tax expense | – | 14 |
| Loss after tax | (275) | (44) |
| Operating cash flows | 274 | 740 |
| Investing cash flows | (420) | – |
| Financing cash flows | (280) | (487) |
| Total cash flows | (426) | 253 |
| Non-current receivables | 423 | – |
| Goodwill | 387 | 433 |
| Inventory | 92 | 1 352 |
| Current receivables | 69 | 1 211 |
| Cash and cash equivalents | 37 | 464 |
| Total assets | 1 008 | 3 460 |
| Borrowings | – | (281) |
| Payables | (314) | (2 027) |
| Net assets | 694 | 1 152 |
| The loss on disposal was determined as follows: | | |
| Net assets sold | 694 | |
| Reclassifications from shareholders' equity | | |
| – currency translation differences | 83 | |
| Proceeds from sale | (777) | |
| Loss on disposal | – | |
| The net cash outflow on sale was determined as follows: | | |
| Proceeds from sale | 777 | |
| Less: cash and cash equivalents in subsidiary sold | (37) | |
| Net cash outflow on sale | 740 | |

| | Freehold land and buildings R'000 | Plant and equipment R'000 | Motor vehicles R'000 | Office furniture and equipment R'000 | Total R'000 |
|---|---|---|---|---|---|
| **5. PROPERTY, PLANT AND EQUIPMENT** | | | | | |
| **2004 GROUP** | | | | | |
| **Cost** | | | | | |
| Balance at 1 March 2003 | **1 936** | **7 625** | **368** | **2 734** | **12 663** |
| Additions | **–** | **648** | **95** | **84** | **827** |
| Disposals | **–** | **–** | **(70)** | **–** | **(70)** |
| Balance at 29 February 2004 | **1 936** | **8 273** | **393** | **2 818** | **13 420** |
| **Accumulated depreciation** | | | | | |
| Balance at 1 March 2003 | **596** | **4 976** | **307** | **2 096** | **7 975** |
| Charge for the year | **41** | **683** | **54** | **335** | **1 113** |
| Disposals | **–** | **–** | **(70)** | **–** | **(70)** |
| Balance at 29 February 2004 | **637** | **5 659** | **291** | **2 431** | **9 018** |
| **Net book value at 29 February 2004** | **1 299** | **2 614** | **102** | **387** | **4 402** |
| **2003 GROUP** | | | | | |
| **Cost** | | | | | |
| Balance at 1 March 2002 | 1 936 | 7 444 | 708 | 2 526 | 12 614 |
| Additions | – | 236 | – | 215 | 451 |
| Disposals | – | (55) | (340) | (7) | (402) |
| Cost at 28 February 2003 | 1 936 | 7 625 | 368 | 2 734 | 12 663 |
| **Accumulated depreciation** | | | | | |
| Balance at 1 March 2002 | 555 | 4 383 | 374 | 1 768 | 7 080 |
| Charge for the year | 41 | 605 | 116 | 329 | 1 091 |
| Disposals | – | (12) | (183) | (1) | (196) |
| Balance at 28 February 2003 | 596 | 4 976 | 307 | 2 096 | 7 975 |
| **Net book value at 28 February 2003** | 1 340 | 2 649 | 61 | 638 | 4 688 |

*The Group's land and buildings comprise Erf 116, Wynberg, Sandton, with a factory, a warehouse and offices erected thereon and Erf 547, Alrode Extension 7, with a factory and offices erected thereon. The Group's land and buildings were last valued during August 2002 by CB Richard Ellis (Pty) Limited, a member of the South African Institute of Valuers. Valuations were made on a depreciated replacement basis. The Wynberg and Alrode properties were valued at R1 823 000 and R1 719 000 respectively.*

*Mortgage bonds are secured on properties to the value of R819 000 (2003 – R867 000) (Note 16)*

*Group assets encumbered by instalment sale agreements with a book value of R559 006 (2003 – R218 145), include motor vehicles, plant and equipment and computer equipment.*

*Additions include R616 102 (2003 – Rnil) assets leased under finance leases where the Group is the lessee.*

| | Plant and equipment R'000 | Motor vehicles R'000 | Office furniture and equipment R'000 | Total R'000 |
|---|---|---|---|---|
| **5. PROPERTY, PLANT AND EQUIPMENT (continued)** | | | | |
| **2004 COMPANY** | | | | |
| **Cost** | | | | |
| Balance at 1 March 2003 | **4 182** | **350** | **2 542** | **7 074** |
| Additions | **579** | **78** | **84** | **741** |
| Disposals | **–** | **(70)** | **–** | **(70)** |
| Balance at 29 February 2004 | **4 761** | **358** | **2 626** | **7 745** |
| **Accumulated depreciation** | | | | |
| Balance at 1 March 2003 | **3 288** | **295** | **1 955** | **5 538** |
| Charge for the year | **433** | **49** | **326** | **808** |
| Disposals | **–** | **(70)** | **–** | **(70)** |
| Balance at 29 February 2004 | **3 721** | **274** | **2 281** | **6 276** |
| **Net book value at 29 February 2004** | **1 040** | **84** | **345** | **1 469** |
| **2003 COMPANY** | | | | |
| **Cost** | | | | |
| Balance at 1 March 2002 | 4 004 | 690 | 2 342 | 7 036 |
| Additions | 178 | – | 207 | 385 |
| Disposals | – | (340) | (7) | (347) |
| Balance at 28 February 2003 | 4 182 | 350 | 2 542 | 7 074 |
| **Accumulated depreciation** | | | | |
| Balance at 1 March 2002 | 2 935 | 364 | 1 636 | 4 935 |
| Charge for the year | 353 | 114 | 320 | 787 |
| Disposals | – | (183) | (1) | (184) |
| Balance at 28 February 2003 | 3 288 | 295 | 1 955 | 5 538 |
| **Net book value at 28 February 2003** | 894 | 55 | 587 | 1 536 |

Company assets encumbered by instalment sale agreements with a book value of R500 810 (2003 – R218 145) include motor vehicles, plant and equipment and computer equipment.

Additions include R554 932 (2003 – Rnil) assets leased under finance leases where the Company is the lessee.

| | Company | |
|---|---|---|
| | **2004 R'000** | 2003 R'000 |
| **6. INVESTMENTS IN SUBSIDIARIES** | | |
| Investments in subsidiaries are made up as follows: | | |
| Shares at cost | **228** | 228 |
| Amounts receivable from subsidiaries | **2 016** | 2 791 |
| Amounts payable to subsidiaries | **(621)** | (487) |
| | **1 623** | 2 532 |
| Directors' valuation of subsidiaries | **3 542** | 4 392 |

SPANJAARD

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 29 February 2004 (continued)*

| | Group | | Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **R'000** | R'000 | **R'000** | R'000 |
| **7. INTANGIBLE ASSETS** | | | | |
| **Goodwill** | | | | |
| **Cost** | | | | |
| Balance at beginning of year | **1 339** | 1 339 | **–** | – |
| Disposals | **(620)** | – | **–** | – |
| Balance at end of year | **719** | 1 339 | **–** | – |
| **Accumulated amortisation** | | | | |
| Balance at beginning of year | **762** | 628 | **–** | – |
| Amortisation charge | **118** | 134 | **–** | – |
| Disposals | **(233)** | – | **–** | – |
| Balance at end of year | **647** | 762 | **–** | – |
| **Net book value at end of year** | **72** | 577 | **–** | – |
| **Trademarks** | | | | |
| **Cost** | | | | |
| Balance at beginning of year | **2 000** | 2 000 | **2 000** | 2 000 |
| Disposals | **(2 000)** | – | **(2 000)** | – |
| Balance at end of year | **–** | 2 000 | **–** | 2 000 |
| **Accumulated amortisation** | | | | |
| Balance at beginning of year | **700** | 596 | **700** | 596 |
| Amortisation charge | **78** | 104 | **78** | 104 |
| Disposals | **(778)** | – | **(778)** | – |
| Balance at end of year | **–** | 700 | **–** | 700 |
| **Net book value at end of year** | **–** | 1 300 | **–** | 1 300 |
| **Total** | **72** | 1 877 | **–** | 1 300 |
| **8. INVENTORIES** | | | | |
| Raw materials (at cost) | **4 465** | 5 078 | **3 015** | 3 152 |
| Finished goods (at cost) | **2 068** | 1 402 | **1 774** | 1 381 |
| Finished goods (at net realisable value) | **–** | 981 | | |
| | **6 533** | 7 461 | **4 789** | 4 533 |
| **9. TRADE RECEIVABLES** | | | | |
| Trade receivables | **9 296** | 11 977 | **6 873** | 9 393 |
| Less: Provision for impairment of receivables | **(102)** | (170) | **(76)** | (76) |
| Trade receivables – net | **9 194** | 11 807 | **6 797** | 9 317 |

*Concentrations of credit risk with respect to trade receivables are limited due to the Group's large number of customers and are generally covered by third party insurance agreements. Due to these factors, management believes that no additional credit risk, beyond amounts provided for collection losses, is inherent in the Group's trade receivables.*

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 29 February 2004 (continued)*

| | Group | | Company | |
|---|---|---|---|---|
| | **2004 R'000** | 2003 R'000 | **2004 R'000** | 2003 R'000 |
| **10. OTHER RECEIVABLES AND PREPAYMENTS** | | | | |
| Prepayments | **34** | 78 | **31** | 46 |
| Value added tax | **69** | 192 | **–** | – |
| Forward foreign exchange contracts (note 28) | **352** | | **119** | |
| Other | **98** | 106 | **61** | 68 |
| | **553** | 376 | **211** | 114 |
| **11. CASH AND CASH EQUIVALENTS** | | | | |
| Cash at bank | **4 836** | 532 | **4 216** | – |
| Cash on hand | **8** | 10 | **6** | 6 |
| | **4 844** | 542 | **4 222** | 6 |
| For the purposes of the cash flow statement, the cash and cash equivalents comprise the following: | | | | |
| Cash at bank and on hand | **4 844** | 542 | **4 222** | 6 |
| Bank overdrafts (note 16) | **–** | (3 602) | **–** | (3 398) |
| Bank borrowings (note 16) | **(1 000)** | – | **(1 000)** | – |
| | **3 844** | (3 060) | **3 222** | (3 392) |

| | Group and Company | |
|---|---|---|
| | **2004 R'000** | 2003 R'000 |
| **12. SHARE CAPITAL** | | |
| Authorised | | |
| 15 000 000 ordinary shares of 5 cents each | **750** | 750 |
| Issued | | |
| 5 700 000 ordinary shares of 5 cents each | **285** | 285 |

*The directors are authorised until the forthcoming annual general meeting to dispose of the unissued shares for any purposes and upon such terms and conditions as they deem fit. All issued shares are fully paid up.*

| | Group | | Company | |
|---|---|---|---|---|
| | **2004 R'000** | 2003 R'000 | **2004 R'000** | 2003 R'000 |
| **13. AMOUNT DUE (BY)/TO HOLDING COMPANY** | | | | |
| Spanjaard Group Limited | **(777)** | 354 | **(777)** | 354 |

*The loan (to)/from the Company's holding company is unsecured, has no fixed terms of repayment and bears interest at the prime interest rate (2003 – 17%).*

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| | Group | | Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **R'000** | R'000 | **R'000** | R'000 |
| **14. TRADE AND OTHER PAYABLES** | | | | |
| Trade payables | **8 154** | 10 279 | **6 545** | 8 490 |
| Accrued expenses | **525** | 613 | **494** | 529 |
| Other payables | **189** | 54 | **144** | 22 |
| | **8 868** | 10 946 | **7 183** | 9 041 |
| **15. CONTINGENCIES** | | | | |
| The directors are not aware of any contingent liabilities. | | | | |
| **16. BORROWINGS** | | | | |
| **Current** | | | | |
| Bank overdrafts | **–** | 3 602 | **–** | 3 398 |
| Bank borrowings | **1 000** | – | **1 000** | – |
| Finance lease liabilities | **228** | 202 | **196** | 202 |
| Mortgage bonds | **52** | 43 | | |
| | **1 280** | 3 847 | **1 196** | 3 600 |
| **Non-current** | | | | |
| Finance lease liabilities | **355** | 51 | **338** | 51 |
| Mortgage bonds | **767** | 824 | | |
| | **1 122** | 875 | **338** | 51 |
| **Total borrowings** | **2 402** | 4 722 | **1 534** | 3 651 |
| **Finance lease liabilities** | | | | |
| Instalment sale agreements covering certain machinery, motor vehicles and office equipment, having a net book value of R616 102 (2003 – R218 145) | **583** | 253 | **534** | 253 |
| Generally agreements bear interest at 1,5% below the prime overdraft rate, the current weighted average rate being 10,0% (2003 – 15,6%). Repayments are made on a monthly basis and the remaining repayment periods on these agreements vary from 1 to 51 months. | | | | |
| Less: Current portion | **(228)** | (202) | **(196)** | (202) |
| | **355** | 51 | **338** | 51 |
| **Mortgage bonds** | | | | |
| First mortgage bond over land and buildings, Erf 116 Wynberg, Sandton, bearing interest at participation bond rates, the current rate being 10,85% (2003 – 14,9%). The bond is repayable in 14 annual instalments of R31 000, with a final payment of R26 000. | **305** | 336 | | |
| Less: Current portion | **(31)** | (31) | | |
| | **274** | 305 | | |

| | Group | | Company | |
|---|---|---|---|---|
| | **2004 R'000** | 2003 R'000 | **2004 R'000** | 2003 R'000 |
| **16. BORROWINGS (continued)** | | | | |
| **Mortgage bonds (continued)** | | | | |
| *First mortgage bond over land and buildings, Erf 547 Alrode Extension 7, bearing interest at the prime overdraft rate, the current rate being 11,5% (2003 – 17,0%). The balance of the bond is repayable in 156 monthly instalments. Current repayments are R8 477 per month.* | **514** | 531 | | |
| *Less: Current portion* | **(21)** | (12) | | |
| | **493** | 519 | | |
| **Bank borrowings** | | | | |
| *The borrowings consist of short-term loans of R1 000 000 at an interest rate of 10,10% payable on 15 March 2004.* | **1 000** | | **1 000** | |
| *Less : Current portion* | **(1 000)** | | **(1 000)** | |
| | **–** | | **–** | |
| *Maturity of mortgage bonds and bank borrowings:* | | | | |
| *Less than 1 year* | **1 052** | 43 | **1 000** | |
| *Later than 1 year, but less than 5 years* | **174** | 200 | | |
| *More than 5 years* | **593** | 624 | | |
| | **1 819** | 867 | **1 000** | |
| *The present value of finance lease liabilities is as follows:* | | | | |
| *Less than 1 year* | **228** | 202 | **196** | 202 |
| *Later than 1 year, but less than 5 years* | **355** | 51 | **338** | 51 |
| | **583** | 253 | **534** | 253 |
| *Finance lease liabilities – minimum lease payments:* | | | | |
| *Less than 1 year* | **274** | 227 | **238** | 227 |
| *Later than 1 year, but less than 5 years* | **406** | 52 | **388** | 52 |
| | **680** | 279 | **626** | 279 |
| *Future finance charges on finance leases* | **(97)** | (26) | **(92)** | (26) |
| | **583** | 253 | **534** | 253 |

*The mortgage bonds are secured over certain of the land and buildings of the Group. Finance lease liabilities are effectively secured as the right to the leased asset to revert to the lessor in the event of default. The bank overdraft and bank borrowings are secured by guarantees and cession of trade receivables.*

**Borrowing facilities**

*The Group has the following undrawn borrowing facilities:*

| | Group | |
|---|---|---|
| | **2004 R'000** | 2003 R'000 |
| *Bank overdraft – prime rate* | **5 500** | 7 000 |

*The Group's borrowing powers are unlimited in terms of its Articles of Association.*

| | Group | | Company | |
|---|---|---|---|---|
| | **2004 R'000** | 2003 R'000 | **2004 R'000** | 2003 R'000 |
| **17. DEFERRED INCOME TAXES** | | | | |
| Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 30% (2003 – 30%). | | | | |
| **Components of deferred tax are as follows:** | | | | |
| Accelerated tax depreciation: | | | | |
| – on plant and equipment | **(282)** | (428) | **5** | (144) |
| – on property | **(60)** | (50) | **–** | – |
| Prepaid expenses | **(10)** | (18) | **(9)** | (14) |
| Trademarks | **68** | 61 | **68** | 61 |
| Assessed losses | **420** | 351 | **–** | – |
| Unrealised intra-group profits | **–** | 110 | **–** | – |
| Provision for leave pay | **67** | 69 | **61** | 62 |
| Provision for doubtful debts | **23** | 23 | **17** | 17 |
| Provision for bonus | **9** | – | **–** | – |
| Deferred tax liabilities/(assets) | **235** | 118 | **142** | (18) |
| **The movements in deferred tax during the period are as follows:** | | | | |
| Deferred tax liabilities/(assets) at beginning of year | **118** | (353) | **(18)** | (107) |
| Taxable temporary differences: | | | | |
| Plant and equipment | **146** | 66 | **149** | 58 |
| Property | **(10)** | (16) | **–** | – |
| Prepaid expenses | **8** | 1 | **5** | 3 |
| Deductible temporary differences: | | | | |
| Trademark expenses | **7** | 4 | **7** | 4 |
| Assessed losses | **69** | 351 | **–** | – |
| Unrealised intra-group profits | **(110)** | 39 | **–** | – |
| Provision for leave pay | **(2)** | 26 | **(1)** | 24 |
| Provision for bonus | **9** | – | **–** | – |
| Deferred tax assets/(liabilities) at end of year | **235** | 118 | **142** | (18) |
| Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. | | | | |
| Deferred tax assets | **655** | 230 | **142** | – |
| Deferred tax liabilities | **(420)** | (112) | **–** | (18) |
| | **235** | 118 | **142** | (18) |

| | Audit fees R'000 | Leave pay R'000 | Compensation Fund R'000 | Other R'000 | Total R'000 |
|---|---|---|---|---|---|
| **18. PROVISIONS** | | | | | |
| **Group** | | | | | |
| Balance at 28 February 2002 | 255 | 144 | 96 | 93 | 588 |
| Exchange differences | (21) | – | – | – | (21) |
| Additional provision charged to income | 214 | 85 | 96 | 86 | 481 |
| Unused amounts reversed | (14) | – | (76) | – | (90) |
| | 434 | 229 | 116 | 179 | 958 |
| Utilised during the year | (208) | – | (20) | (93) | (321) |
| Balance at 28 February 2003 | 226 | 229 | 96 | 86 | 637 |
| Additional provision charged to income | 311 | – | 78 | 127 | 516 |
| | 537 | 229 | 174 | 213 | 1 153 |
| Utilised during the year | (258) | (4) | – | – | (262) |
| **Balance at 29 February 2004** | **279** | **225** | **174** | **213** | **891** |
| **Company** | | | | | |
| Balance at 28 February 2002 | 90 | 127 | 78 | 49 | 344 |
| Additional provision charged to income | 99 | 81 | 78 | 44 | 302 |
| Unused amounts reversed | (11) | – | (66) | – | (77) |
| | 178 | 208 | 90 | 93 | 569 |
| Utilised during the year | (79) | – | (12) | (49) | (140) |
| Balance at 28 February 2003 | 99 | 208 | 78 | 44 | 429 |
| Additional provision charged to income | 141 | – | 78 | 155 | 374 |
| | 240 | 208 | 156 | 199 | 803 |
| Utilised during the year | (90) | (4) | – | (86) | (180) |
| **Balance at 29 February 2004** | **150** | **204** | **156** | **113** | **623** |

| | Group 2004 R'000 | Group 2003 R'000 | Company 2004 R'000 | Company 2003 R'000 |
|---|---|---|---|---|
| **19. PROFIT FROM OPERATIONS** | | | | |
| The following items have been included in arriving at profit from operations: | | | | |
| Depreciation on property, plant and equipment (note 5) | **1 113** | 1 091 | **808** | 787 |
| Buildings | **41** | 41 | | |
| Plant and equipment | **683** | 605 | **433** | 353 |
| Motor vehicles | **54** | 116 | **49** | 114 |
| Office equipment and furniture | **335** | 329 | **326** | 320 |
| Amortisation of intangible assets (note 7) | **196** | 238 | **78** | 104 |
| Amortisation of goodwill | **118** | 134 | **–** | – |
| Amortisation of trademarks | **78** | 104 | **78** | 104 |
| Repair and maintenance expenditure on property, plant and equipment | **547** | 670 | **419** | 506 |
| Directors' emoluments | **2 858** | 1 982 | **2 858** | 1 982 |
| Non-executive directors – fees | **58** | 50 | **58** | 50 |
| Executive directors | | | | |
| Remuneration | **1 540** | 1 597 | **1 540** | 1 597 |
| Other benefits | **1 260** | 335 | **1 260** | 335 |
| Executive directors – number in office during year | **4** | 4 | **4** | 4 |
| – aggregate months paid | **48** | 48 | **48** | 48 |
| Auditors' remuneration | | | | |
| Audit fees | **604** | 231 | **181** | 88 |
| Current | **279** | 214 | **150** | 99 |
| Under/(over) provision | **26** | (14) | **31** | (11) |
| Other services | **299** | 31 | **–** | – |
| Loss on disposal of property, plant and equipment | **–** | 158 | **–** | 158 |
| Profit on disposal of trademark | **(3 157)** | | **(3 157)** | |
| Profit on disposal of investment | **–** | | **(777)** | |
| Staff costs (note 20) | **13 919** | 12 644 | **11 546** | 10 712 |
| Government grants received | **34** | 138 | | |
| **20. STAFF COSTS** | | | | |
| Salaries and wages | **13 638** | 12 405 | **11 321** | 10 499 |
| Statutory contributions | **233** | 211 | **194** | 189 |
| Provident Funds – defined contribution plans | **48** | 28 | **31** | 24 |
| | **13 919** | 12 644 | **11 546** | 10 712 |
| Average number of employees | **129** | 131 | **97** | 99 |

## 21. RELATED PARTY TRANSACTIONS

*All transactions with related parties are in the normal course of business at arm's length.*

*The following related party transactions occurred during the financial year:*

| Name of party | Relationship | Indebtedness | Transactions undertaken |
|---|---|---|---|
| Spanjaard Group Limited | Holding company | R777 000<br>(2003 – R354 000) | Royalties paid for use of trademarks – R418 000<br>(2003 – R1 200 000)<br><br>Interest received on loan R6 424<br>(2003 – paid R13 178) |
| RJW Spanjaard | Executive director | Nil | Rent paid – R240 000<br>(2003 – R180 000) |

| | Group | | Company | |
|---|---|---|---|---|
| | **2004 R'000** | 2003 R'000 | **2004 R'000** | 2003 R'000 |
| **22. FINANCE COSTS – NET** | | | | |
| Interest expense | | | | |
| Long-term loans | **123** | 151 | **36** | 26 |
| Finance leases | **80** | 64 | **76** | 63 |
| Bank overdrafts | **726** | 934 | **674** | 758 |
| Other | **2** | 28 | **2** | 16 |
| | **931** | 1 177 | **788** | 863 |
| Interest income | **(29)** | (11) | **(531)** | (471) |
| Net foreign exchange transaction (gains)/losses | **(1 050)** | 770 | **(133)** | 500 |
| | **(148)** | 1 936 | **124** | 892 |
| **23. INCOME TAX EXPENSE** | | | | |
| South African normal tax | | | | |
| Current tax – current | **906** | 495 | **571** | 390 |
| – prior year overprovision | **–** | (61) | **–** | – |
| Deferred tax – current | **(72)** | (345) | **(160)** | (89) |
| – prior year adjustment | **(45)** | (11) | **–** | – |
| Capital gains tax | **128** | – | **128** | – |
| Secondary tax on companies | **71** | 36 | **71** | 36 |
| Foreign tax | **(18)** | (157) | **–** | – |
| Tax for the year | **970** | (43) | **610** | 337 |

| | Group | | Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **%** | % | **%** | % |
| **23. INCOME TAX EXPENSE (continued)** | | | | |
| *The tax on the profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Company as follows:* | | | | |
| *South African normal tax rate* | **30** | 30 | **30** | 30 |
| *Adjustments for:* | | | | |
| *Disallowable expenditure* | **1** | 21 | **1** | 4 |
| *Exempt income (including trademark disposal)* | **(17)** | (11) | **(23)** | – |
| *Prior year adjustments* | **–** | (19) | **–** | – |
| *Prior tax losses utilised to raise deferred tax asset* | **–** | (27) | **–** | – |
| *Capital gains tax* | **2** | – | **2** | – |
| *Secondary tax on companies* | **1** | 1 | **1** | 4 |
| *Foreign tax* | **–** | (14) | **–** | – |
| *Net (decrease)/increase* | **(13)** | (49) | **(19)** | 8 |
| *Effective tax rate* | **17** | (19) | **11** | 38 |
| *Gross calculated tax loss of companies in the Group at the end of the financial year available for utilisation against future taxable incomes of these companies* | **1 571** | 1 188 | | |
| *Less: Applied in the reduction of deferred tax* | **(1 170)** | (1 170) | | |
| *Net calculated tax losses carried forward* | **401** | 18 | | |
| *Tax relief calculated at current rates* | **120** | 5 | | |

*The tax relief is dependent on sufficient taxable income being earned in future by the companies concerned.*

**24. EARNINGS PER ORDINARY SHARE**

*Basic and diluted earnings per ordinary share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year. The Company has no dilutive potential ordinary shares.*

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| *Net profit attributable to shareholders (R'000)* | **4 605** | 427 |
| *Weighted average number of ordinary shares in issue ('000s)* | **5 700** | 5 700 |
| *Basic and diluted earnings per share (cents)* | **80,8** | 7,5 |
| *The calculation of headline earnings per share is based on earnings as calculated below and 5 700 000 (2003 – 5 700 000) ordinary shares in issue throughout the year.* | | |
| *Net profit attributable to shareholders (R'000)* | **4 605** | 427 |
| *Adjustments for:* | | |
| *Amortisation of goodwill (R'000)* | **78** | 134 |
| *Loss on disposal of property, plant and equipment (R'000)* | | 158 |
| *Profit on disposal of trademark (R'000)* | **(3 028)** | |
| *Headline earnings (R'000)* | **1 655** | 719 |
| *Weighted average number of ordinary shares in issue ('000s)* | **5 700** | 5 700 |
| *Headline earnings per share (cents)* | **29,0** | 12,6 |

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 29 February 2004 (continued)*

| | Group | | Company | |
|---|---|---|---|---|
| | **2004 R'000** | 2003 R'000 | **2004 R'000** | 2003 R'000 |
| **25. CASH GENERATED BY OPERATIONS** | | | | |
| Net profit before tax | **5 575** | 384 | **5 635** | 885 |
| Adjustments: | | | | |
| – Depreciation and amortisation | **1 309** | 1 329 | **886** | 891 |
| – Finance costs | **(148)** | 1 936 | **124** | 892 |
| – Loss on disposal of assets | **–** | 158 | | 158 |
| – Profit on deconsolidation of Molyslip Zimbabwe | **(35)** | | | |
| – Profit on disposal of trademark | **(3 157)** | | **(3 157)** | |
| – Surplus from translation of foreign subsidiaries | **(195)** | 45 | | |
| – Profit on disposal of investment | | | **(777)** | |
| Movements in working capital: | | | | |
| – Decrease/(increase) in inventories | **836** | 341 | **(256)** | (1 284) |
| – Increase in provisions | **273** | 49 | **194** | 85 |
| – Decrease/(increase) in trade accounts receivable | **2 544** | (2 548) | **2 520** | (3 335) |
| – (Increase)/decrease in other receivables | **(177)** | 430 | **(97)** | (43) |
| – (Decrease)/increase in accounts payable | **(2 295)** | 754 | **(2 273)** | 2 791 |
| – Decrease in amount due to holding company | | 172 | | 172 |
| – Decrease in current portion of borrowings | | (175) | | (126) |
| Cash generated by operations | **4 530** | 2 875 | **2 799** | 1 086 |
| **26. TAX PAID** | | | | |
| Opening balance | **362** | 1 061 | **202** | 294 |
| Charge per income statement excluding movement in deferred tax | **1 087** | 428 | **770** | 426 |
| Disposal of subsidiary (note 4) | **(106)** | | | |
| Closing balance | **(605)** | (362) | **(493)** | (202) |
| Tax paid | **738** | 1 127 | **479** | 518 |
| **27. DIVIDEND PAID** | | | | |
| Opening balance | **64** | 6 | **64** | 6 |
| Declaration for the year | **570** | 285 | **570** | 285 |
| Closing balance | **(578)** | (64) | **(578)** | (64) |
| Dividend paid | **56** | 227 | **56** | 227 |

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### 28. FINANCIAL INSTRUMENTS

**Derivative financial instruments**

*The Group has entered into the following short-term forward exchange contracts to cover foreign commitments in respect of future imports:*

| Currency | Maturity date | Foreign currency amount | Rand to foreign currency | Rand equivalent |
|---|---|---|---|---|
| Euro | 8 March 2004 | 40 000 | 9,5512 | 382 048 |
| Euro | 8 March 2004 | 40 000 | 8,2566 | 330 264 |
| Euro | 15 March 2004 | 60 000 | 9,5651 | 573 906 |
| Euro | 15 March 2004 | 60 000 | 8,2673 | 496 038 |
| US Dollars | 8 March 2004 | 14 120 | 7,3568 | 103 878 |
| US Dollars | 8 March 2004 | 5 000 | 6,8969 | 34 485 |
| US Dollars | 18 March 2004 | 40 000 | 7,6660 | 306 640 |
| US Dollars | 8 April 2004 | 14 120 | 7,3884 | 104 324 |
| US Dollars | 8 April 2004 | 10 000 | 6,9337 | 69 337 |
| US Dollars | 8 April 2004 | 4 236 | 6,6665 | 28 239 |
| US Dollars | 8 April 2004 | 23 000 | 6,7426 | 155 080 |
| US Dollars | 10 May 2004 | 10 000 | 6,9700 | 69 700 |
| US Dollars | 10 May 2004 | 21 180 | 6,8583 | 145 259 |
| US Dollars | 8 June 2004 | 10 000 | 7,0043 | 70 043 |
| US Dollars | 8 June 2004 | 21 180 | 6,8909 | 145 949 |
| US Dollars | 8 July 2004 | 10 000 | 7,0405 | 70 405 |
| US Dollars | 18 March 2004 | 25 000 | 7,6660 | 191 650 |
| | | | | 3 277 245 |

*The Group has entered into the following short-term forward exchange contracts to cover foreign amounts receivable:*

| Currency | Maturity date | Foreign currency amount | Rand to foreign currency | Rand equivalent |
|---|---|---|---|---|
| Euro | 8 March 2004 | 40 000 | 10,2893 | 411 572 |
| Euro | 8 March 2004 | 40 000 | 9,0743 | 362 972 |
| Euro | 8 March 2004 | 5 500 | 8,4956 | 46 726 |
| Euro | 15 March 2004 | 60 000 | 10,3687 | 622 122 |
| Euro | 15 March 2004 | 60 000 | 9,0853 | 545 118 |
| Euro | 15 March 2004 | 27 392 | 8,4706 | 232 022 |
| Euro | 19 March 2004 | 13 600 | 9,1787 | 124 830 |
| Euro | 15 April 2004 | 31 200 | 8,4927 | 264 972 |
| Euro | 16 April 2004 | 46 500 | 8,7862 | 408 558 |
| Euro | 14 May 2004 | 52 000 | 8,6611 | 450 377 |
| US Dollars | 12 March 2004 | 16 500 | 6,5909 | 108 750 |
| US Dollars | 18 March 2004 | 40 000 | 8,2285 | 329 140 |
| US Dollars | 5 March 2004 | 17 000 | 7,1863 | 122 167 |
| US Dollars | 18 March 2004 | 25 000 | 8,2285 | 205 713 |
| US Dollars | 19 March 2004 | 6 000 | 6,6178 | 39 707 |
| US Dollars | 19 March 2004 | 11 250 | 6,6240 | 74 520 |
| | | | | 4 349 266 |

*The net fair value of the derivative financial instruments at the balance sheet date were:*

| | Group | | Company | |
|---|---|---|---|---|
| | **2004 R'000** | 2003 R'000 | **2004 R'000** | 2003 R'000 |
| Forward foreign exchange contracts | | | | |
| – with negative fair values | | (415) | | (415) |
| – with positive fair values (note 10) | **352** | | **119** | |

# SHARE INFORMATION

### ANALYSIS OF SHAREHOLDING

The following information has been extracted from the register of shareholders at 29 February 2004:

| | Number of shareholders | % of total shareholders | Number of shares held '000 | % of total shares issued |
|---|---|---|---|---|
| Share categories: | | | | |
| 1 – 5 000 shares | 343 | 93,4 | 111 | 1,9 |
| 5 001 – 10 000 shares | 5 | 1,4 | 41 | 0,7 |
| 10 001 – 50 000 shares | 10 | 2,7 | 181 | 3,2 |
| 50 001 – 100 000 shares | 3 | 0,8 | 191 | 3,4 |
| 100 001 – 1 000 000 shares | 5 | 1,4 | 1 495 | 26,2 |
| greater than 1 000 000 shares | 1 | 0,3 | 3 681 | 64,6 |
| | 367 | 100,0 | 5 700 | 100,0 |

### ANALYSIS OF SHAREHOLDING

| | Number of shareholders | % of total shareholders | Number of shares held '000 | % of total shares issued |
|---|---|---|---|---|
| Group categories: | | | | |
| Individuals | 242 | 66,0 | 1 946 | 34,1 |
| Banks | 2 | 0,5 | 18 | 0,3 |
| Trust funds | 2 | 0,5 | 20 | 0,4 |
| Other companies | 121 | 33,0 | 3 716 | 65,2 |
| | 367 | 100,0 | 5 700 | 100,0 |

### Shareholding in the Company

| | Number of shareholders | % of total shareholders | Number of shares held '000 | % of total shares issued |
|---|---|---|---|---|
| Share type: | | | | |
| Public | 361 | 98,4 | 631 | 11,0 |
| Non-public | | | | |
| Directors | 5 | 1,4 | 1 388 | 24,4 |
| Holding company | 1 | 0,2 | 3 681 | 64,6 |
| | 367 | 100,0 | 5 700 | 100,0 |

| The following shareholders directly hold more than five percent of the issued share capital: | Number of shares held '000 | % of total shares issued |
|---|---|---|
| Spanjaard Group Limited | 3 681 | 64,6 |
| T Gien | 442 | 7,8 |
| D Petersen | 368 | 6,4 |
| R Sack | 340 | 6,0 |
| | 4 831 | 84,8 |

SPANJAARD

# NOTES



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# *PROXY FORM*

## *SPANJAARD LIMITED*

*(Registration number 1960/004393/06)*

*I/We* ______________________________________________

*of* ______________________________________________

*being a member/members of the company, and entitled to* ____________ *votes, hereby appoint*

______________________________________________ *or failing him*

*of* ______________________________________________

*as my/our proxy to vote for me/us on my/our behalf at the annual general meeting of the company to be held at 12h00 on Friday, 11 June 2004 and any adjournment thereof.*

*Signed by me at* ______________________________________________

*on this* ____________ *day of* ____________ *2004*

*Signature of member* ______________________________________________

*This proxy form must be deposited with the company secretary, R Sack, at 748 – 750 Fifth Street, Wynberg, Sandton, 2090 or posted to P.O. Box 7294, Johannesburg, 2000, to arrive at least 48 hours before the time appointed for the meeting.*

# *NOTES TO PROXY FORM*

1. *Each member is entitled to appoint one or more proxies (who need not be a member(s) of the company) to attend, speak and, on a poll, vote in place of that member at the annual general meeting.*

2. *A member may insert the name of a proxy or the name of an alternative proxy of the member's choice in the space provided. The person whose name stands first on the proxy form and who is present at the annual general meeting shall be entitled to act as proxy to the exclusion of the person whose name follows.*

3. *The chairman of the annual general meeting may reject or accept any proxy form that is completed and/or received other than in accordance with these instructions and notes.*

4. *Any alterations or corrections to this form of proxy must be initialled by the signatories.*

5. *The completion and lodging of this form of proxy shall not preclude the relevant member from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such member wish to do so.*

6. *This proxy form is to be completed only by those members who are:*

   *(a) Holding shares in certificate form; or*

   *(b) Recorded in the sub-register in electronic form in their own name.*

7. *Dematerialised shareholders who wish to attend the annual general meeting have to contact their Central Securities Depositary Participant (CSDP) or broker who will furnish them with the necessary authority to attend the annual general meeting, or they have to instruct their CSDP or broker as to how they wish to vote in this regard. This has to be done in terms of the agreement entered into between such shareholder and his CSDP or broker.*

# PRODUCTS MANUFACTURED AND SOLD BY THE GROUP

### *Raw materials for Industrial use*

*The company manufactures and sells a large range of raw materials used by various industries in respect of which it is the market leader in South Africa and an important world player. Customers include mainly friction material manufacturers (brake pads and clutch facings etc.) and lubricant manufacturers.*

*This division was approved by the South African Bureau of Standards to comply with ISO 9002 Quality Management System, in February 1997 and upgraded to ISO 9001: 2000 in August 2003.*


SPANJAARD

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