

WINTER REPORT

Faritec

no limits

www.faritec.it



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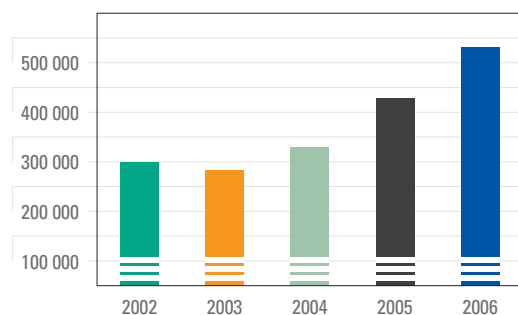


Faritec

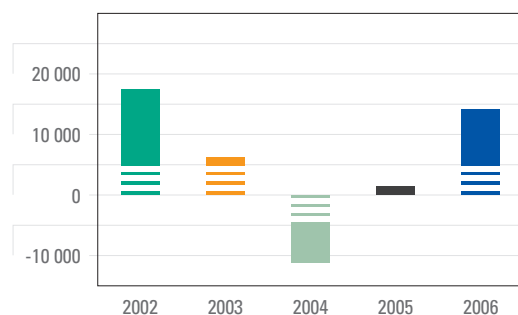
Financial highlights

	2002	2003	2004	2005	2006
	SA GAAP	SA GAAP	SA GAAP	IFRS	IFRS
Trading					
Revenue (R000)	304 398	282 478	329 980	428 425	530 058
Profit/(loss) from operations (R000)	19 230	4 610	(16 429)	1 380	17 767
Headline earnings (R000)	17 505	6 311	(11 173)	1 291	14 062
Attributable earnings (R000)	17 455	514	(11 556)	3 719	13 982
Ordinary share performance					
Earnings per share (cents)	12,9	0,4	(8,9)	2,9	10,4
Headline earnings per share (cents)	13,0	5,0	(8,6)	1,0	10,4
Financial ratios					
Return on equity (%)	21,0	0,6	(14,2)	3,4	16,7
Number of employees	181	174	215	220	410

Revenue R000



Headline earnings R000



The **Faritec** group has been through significant transformation over the past 3 years, this has touched all aspects of the business and all our stakeholders. The Board and Executive team have spent a lot of time and effort in crafting a new **Purpose** for the group that defines why we exist. We have a new set of **Values** that will guide our behaviour. A new **Vision** that is our dream for the future, a **Strategic Statement** and **Strategic Pillars** that will give direction to the operations have also been set

Purpose Faritec provides the most customer-centric technology solutions

VALUES RELATIONSHIPS INTEGRITY TEAMWORK EXCELLENCE CARING

Strategic Statement Faritec specialises in providing tailored technology solutions that address the business requirements of our customers using our strength in partnering and by empowering our people

Vision Inspired and empowered people, growing a dynamic business, committed to out performing our peers and creating sustainable stakeholder value

STRATEGIC PILLARS

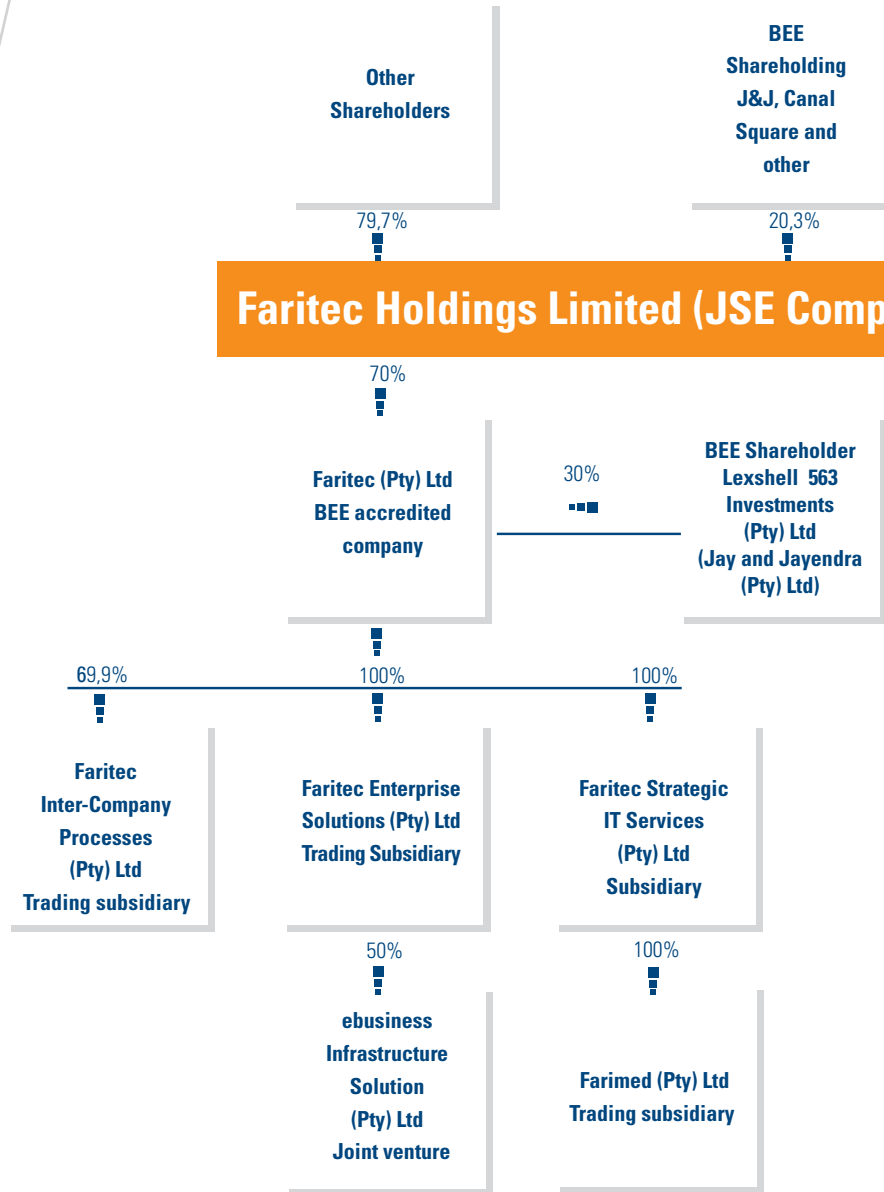
We provide tailored technology solutions

We address the business requirements of our customers

We are strong in partnering

We empower our people

Group structure

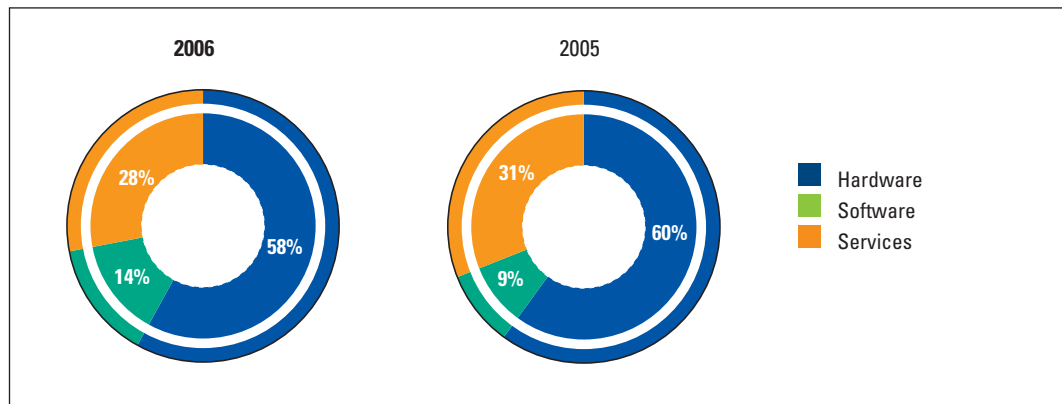




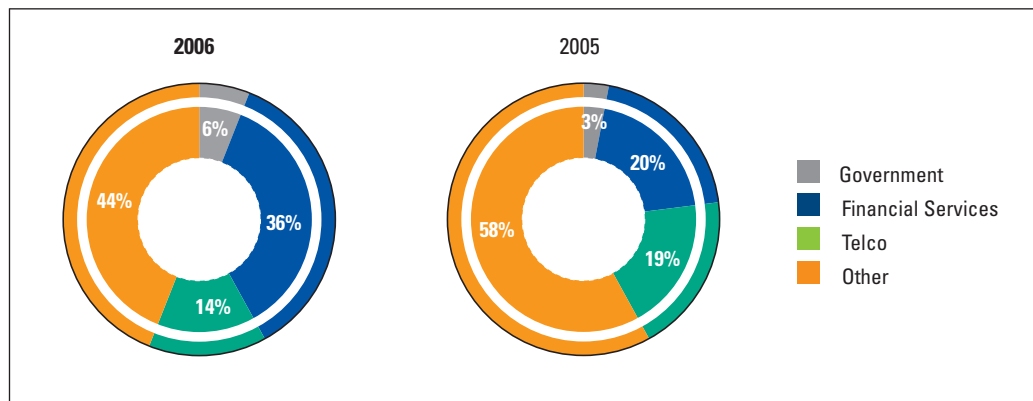
Revenue analysis

Services revenue grew by 13%, software revenue grew by 99%, while hardware revenue grew by 18%

Segmental Analysis of Revenue

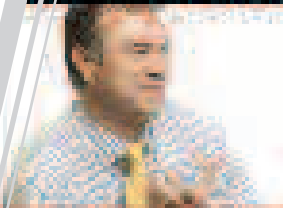


Revenue by sector





Board of directors



Simon Tomlinson

Executive Director – CEO (42)

Appointed on 19 August 1998
Simon Tomlinson's experience in the IT industry spans more than a decade, and includes positions held at Unisys and EDS. In 1995, Simon was part of a management buy-out of Informatica Systems, and the subsequent formation of the Faritec Group, which Simon headed up as Group Managing Director. Simon directed the Faritec Group during the early years of its development, playing an instrumental role in the organic and strategic growth of the group, including its successful listing on the Main Board of the JSE in November 1998. Simon is currently the CEO of the Faritec Group, continuing to drive the group's strategic direction.

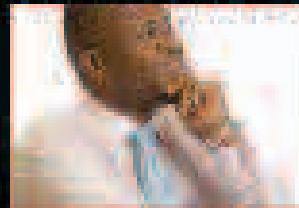


Dr Hasmukh Gajjar

Executive Director – Deputy CEO (55)

MB ChB (UCT)

Appointed on 17 July 2003
Hasmukh Gajjar is an entrepreneur with extensive IT experience and was previously the Chief Executive Officer of the IT firm Consilience Technologies, former Chairman of the Black IT Forum and past President of the Black Business Council. He serves on numerous IT and telecom bodies. Hasmukh is Deputy CEO and Executive Director of Faritec. Hasmukh is responsible for driving business transformation and black economic empowerment.

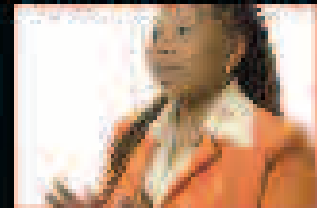


Mncedisi Mayekiso

Executive Director – Marketing (38)

B.Soc Science, P Grad Diploma Management (UCT), MBA (CASS Business School London)

Appointed on 30 June 2006
Mncedisi is a co-founder and Non-executive Director at Canal Square Investments, an investment holdings company with interests in the information technology and motor industry sectors. From 2003 until 2006 he served as Executive Director at Enterprise Connection until the acquisition of Enterprise Connection by Faritec. A graduate of the University of Cape Town and the holder of an MBA degree from Cass Business School in the UK, Mncedisi co-founded Joburg City Auto in 2003, South Africa's first black owned BMW franchise, where he still serves as non-executive director. He has over 11 years of experience in the ICT sector, having occupied positions in leading companies such as IBM and Microsoft. Mncedisi as Group Marketing Director is responsible for brand, customer and solutions marketing.



Tshidi Nyembe

Executive Director – CFO (33)

BCompt, BComp (Hons), CTA, CA(SA)

Appointed on 1 April 2005
Tshidi's experience lies in capital expenditure and equity investments, corporate finance and financial management. At Faritec, she applies this valuable experience where she is responsible for overseeing all financial functions of the group. Tshidi joined Faritec from Transnet, where she was an assistant general manager of finance and also held various positions as a member of the investment, risk and audit committees of the Transnet Retirement Fund since 1999. Prior to Transnet, she held the position of corporate analyst at Stanbic. She also sits on the board of directors of the Charities Aid Foundation SA, a section 21 company, and Criterion Holdings.



Allan Timm

Executive Director – Sales (46)

Appointed on 19 August 1998 Allan Timm has many years' experience in marketing positions in the FMCG sector. Allan also has extensive experience in the IT industry that spans more than a decade. Allan was Group MD of Informatica Systems and was involved in the management buy-out of the company resulting in the formation of Faritec. Under Allan's direction, Faritec quickly grew into a major player in the RS/6000 marketplace, winning an impressive list of prestigious clients, and garnering numerous awards, including IBM's Top Business Partner for 2005. Allan Timm fills the role of Sales Director and is also responsible for ensuring that Faritec's foundation infrastructure business continues to grow and remain the market leader.

Peter Winn

Executive Director – Services (41)

BSoc Sc (University of Natal)
Appointed on 19 August 1998 Peter Winn has 18 years' local and international experience in business process reengineering as well as the installation and implementation of business applications. With this background, Peter joined Informatica Systems, and assisted in the management buy-out of the company and the formation of the Faritec Group. Peter fills the role of Services Director and is responsible for driving Faritec's service business ensuring that Faritec meets and exceeds customer expectations.

Dr Chris Jardine

Non-executive Director – Chairman (42)

*BSc, MSc (Computer Science),
PhD Information Technology
(George Mason University, USA)*
Appointed on 17 July 2003 Dr Chris Jardine is the Chief Operating Officer of the J&J Group, an investment and management company with interests in the technology, industrial and financial services sectors. A former Executive Director of Transnet, Chris is a seasoned executive, having worked as CIO, CEO, Director and Chairman for various companies both inside and outside of the ICT sector. He currently serves as a Director of numerous J&J subsidiaries and associate companies.

Donald Masson

Independent Non-executive Director (75)

Appointed on 28 August 2002 Donald Masson contributes some 39 years' experience as a senior executive. He has held top positions in a diversity of organisations, including listed and unlisted companies as well as parastatals. He is a former President of the Afrikaanse Handelsinstituut, and an ex-member of the State President's Economic Advisory Council.



Paul Moses

Non-executive Director – (44)

B BusSc (Fin) Honours (UCT)

Appointed on 30 June 2006
Previously managing director of Enterprise Connection, newly appointed Non-executive Director Paul Moses has extensive industry experience. As part of the Connection Group from 1992, Paul oversaw the national growth of Software Connection and, from 1995 to 1998, the establishment and growth of Incredible Connection where he was Managing Director. In 1998 he formed Enterprise Connection, which was later acquired from the Connection Group by a management-led buy-out in 2003.

Jayendra Naidoo

Non-executive Director – (46)

BProc (Unisa)

Appointed on 17 July 2003
Jayendra Naidoo is the Chief Executive Officer of the J&J Group, the company he started with former cabinet minister Jay Naidoo. Jayendra was the first Executive Director of Nedlac and has been involved in leading various significant political, labour, government and commercial negotiations.

Phumzo Noxaka

Independent Non-executive Director (34)

BAdmin, BCom Accounting (Hons), CA(SA)

Appointed on 18 May 2004
Phumzo Noxaka's experience includes five years in the IT industry from an IT risk perspective with two of the major South African banks. Phumzo is a consultant within ABSA, Personal Bank Finance Strategic Support. She previously headed the finance department of Meeg Bank Limited, an ABSA subsidiary and black empowered bank, predominantly active in the Eastern Cape. Phumzo serves on the board of AWCA (African Women Chartered Accountants), an organisation that advocates the development of aspirant and qualified African women CAs.

Ciko Thomas

Non-executive Director – (37)

BSc (UCT), MBA (Wits)

Appointed on 30 June 2006
Ciko Thomas is a co-founder and Non-executive Director at Canal Square Investments, an investment holdings company with interests in the IT and motor industry sectors. A marketing professional with more than 13 years experience in strategic marketing, brand management, trade and sales operations, innovation and new product development. Non-executive Director Ciko Thomas also serves on the boards of Joburg City Auto as an Executive Director as well as the Communication and Advertising Forum for Empowerment. As a Director of Akenton Investments (Pty) Limited, he also serves as a Non-executive Director on the board of Accelerate Holdings Limited.



WITHOUT PEOPLE A BRAND IS JUST A SIGN

AWARD WINNER

Although we have the right training and experience, we need to thrive in a constantly changing environment that's challenging us to find solutions that push the boundaries – people who know no limits



Chairman's report

INTRODUCTION

We are pleased that Faritec is now building a track record of value creation for our shareholders. The group is also rewarding the confidence and loyalty of our customers by continuing to deliver value through our service excellence ethos.

The past year has seen much improved financial performance of the group, organic growth in our existing offerings and the successful announcements of two acquisitions into the business.

The results of the past year, while they do not include the financial impact of our acquisitions, offer proof of Faritec's quest to deliver solid market returns. The IT market is continuing its upward momentum and we remain optimistic about the future outlook.

FINANCIAL OVERVIEW

Faritec achieved revenue of R530,0 million compared to revenue of R428,4 million in 2005, an increase of 23,7%. This reflects an increase across all divisions due to higher demand. The group's gross profit margins have been improved to 23,4% (2005: 22,8%) largely as a result of the change in revenue mix, with the services and software revenue contribution increasing from 40% to 42%. EBITDA increased to R26,1 million compared with the prior period of R9,2 million. This increase is largely as a result of strong performances in the Infrastructure, Security and Managed Services business units, as well as ongoing cost management.

The tax charge for the period has increased to R6 million, in line with the improved operating performance of the group, from R3,4 million in 2005. Headline earnings per share increased from 1,0 cent in 2005 to 10,4 cents in 2006. Basic earnings per share increased from 2,9 cents in 2005 to earnings of 10,4 cents in 2006. The weighted average number of shares in issue for the year was 135,0 million which increased from last year's 129,6 million, due to the additional shares issued as a result of the exercise of share options by employees in terms of the Faritec Share Incentive Scheme.

Ordinary shareholders' funds at the year-end amounted to R129,0 million, representing a R52,4 million increase from the R76,6 million in 2005.

The increase is mainly as a result of the issue of 43,6 million shares for the acquisition of the Enterprise Connection sale assets and liabilities.

Tangible net asset value per share decreased to 12,1 cents (2005: 18,2 cents), which was as a result of the goodwill on acquisition of the Enterprise Connection business, of R55,9 million. The group remained cash positive, with cash generated from operations of R17 million. The balance sheet continues to strengthen, with a 20% increase in net asset value per share, to 71,1 cents (2005: 59,1 cents). The group ended the financial year with cash on hand of R39 million (2005: R19 million).

CORPORATE GOVERNANCE

The Board conducts the affairs of the group with integrity and openness and within the parameters of the King Report on Corporate Governance. The Board is committed to continued improvement and implementation of best practices in corporate governance.

BEE AND TRANSFORMATION

Faritec's broad-based empowerment credentials were given an additional boost with the acquisition of the Enterprise Connection business during the financial year. Canal Square, the black-owned controlling shareholder in Enterprise Connection, has joined our existing empowerment partner, the J&J Group, as a significant black shareholder of Faritec. This gave the Faritec Group an effective BEE ownership of 41%, in line with our objective of becoming black owned.

Faritec has also continued to improve on all the other major pillars of the broad-based BEE scorecard during the year. Diversity in our boardroom, management teams and employees is progressing well, with 58% of our board and 44% of our employees now coming from previously disadvantaged backgrounds.

THE FUTURE

During this financial year Faritec showed significant improvement across all facets of the business. We expect to continue in this vein over the coming years. The acquisitions of the businesses of Enterprise Connection and Lechabile Storage Solutions has significantly increased our offerings, customer base and skills base. We intend to invest much time and effort over the coming year to ensure we extract the maximum value from these investments. We will also continue to invest time, money and energy into our strategy with a view of improving our overall financial performance.



Dr Chris Jardine
Chairman

Sandton
18 December 2006

A photograph of a man and a child floating on a large, bright green inflatable ring in a swimming pool. The man is lying on his back, wearing yellow goggles, and the child is sitting on the ring, wearing blue goggles and smiling. The water is clear blue. The text is overlaid on the left side of the image.

**WE FORM
RELATIONSHIPS
BASED ON
RESPECT
AND TRUST**

KREEPY KRAULY

Ferdinand Chauvier / The swimming pool "vacuum cleaner" / First used in Chauvier's Springs home in 1974



Chief Executive Officer's review of operations

INTRODUCTION

The Faritec Board of Directors is pleased to announce the results for the year ended 30 June 2006. This has been an extremely important and significant year for the Faritec Group. We are in the process of concluding two strategic acquisitions and have also continued to grow all areas of the group organically. As can be seen from our results, our aim to provide the most customer-centric technology solutions is starting to deliver market related returns.

REVIEW OF OPERATIONS

The group's operations achieved exceptional performance in the first six months of the year with continued growth in the second half of the year over the same period last year. We attribute this performance to the efforts of management and staff at Faritec and the support of Faritec's customers and partners.

All areas of the Faritec Group performed well over the last year. Our hardware revenues grew by 18% from R258 million to R306 million, this was mainly as a result of strong growth in storage and server product revenues. The software revenues grew by an impressive 99% from R37 million to R73 million mainly on the back of security, middleware and integration software sales. Services revenue grew by 13% from R133 million to R151 million, as a result of growth in all areas of our services business. The annuity revenue base in the services area of the group continues to grow, and forms the platform for higher growth in the new financial year.

The hardware business, which has for a long time been the stalwart in the Faritec operations, was very well supported this year by three strategic and emerging areas of our portfolio of offerings – the security business, the integration services business, and our service delivery business.

Faritec now has a far more balanced and sustainable suite of solutions which are allowing us to grow our share of our customers' technology solutions spend.

ACQUISITION OF BUSINESSES

During the year we announced the acquisitions of the businesses of both Enterprise Connection (effective date 1 July 2005; closing date 27 June 2006) and Lechabile Storage Solutions (effective date 1 February 2006; closing date 31 October 2006). International Financial Reporting Standards (IFRS) do not allow Faritec to recognise the trading results for the acquisitions until control is obtained, after the closing dates of the transactions. If we had been able to recognise the revenues from the respective effective

dates, Faritec's Group revenue for the year ended 30 June 2006 would have been R876 million, with added revenue contributions of R315 million from Enterprise Connection and R31 million from Lechabile.

Similarly, in complying with IFRS, we have had to show an increase of R9 597 000 in the purchase consideration paid for the business of Enterprise Connection, and an equal increase in the amount of goodwill acquired on acquisition. Of the contracted purchase consideration, 50% was settled in cash, while the other 50% was settled by issuing Faritec shares. The Faritec share price was 58 cents at the contract date; at the closing date on 27 June 2006, the share price had increased to 80 cents. This increase in the market value of the shares issued, from R 25 300 000 at contract date, to R 34 897 000 at closing date, increased the purchase consideration we have had to show, from the contract value of R 50 600 000, to R 60 197 000.

We have been focused on integrating the businesses we acquired during the year. We are still in the process of integrating the Lechabile business.

We have already completed nearly 6 months of operations in the new financial year from July 2006, with the Enterprise Connection business and people well integrated into the existing Faritec business. We have finalised the details relating to the net assets and liabilities acquired, and concluded all the material issues with the sellers of the business.

As previously communicated, Enterprise Connection was the supplier for the Gauteng Shared Services Centre tender for the Gauteng Department of Housing, which is currently being investigated for tender irregularities. As this tender was excluded from the business that Faritec acquired from Enterprise Connection, the outcome of the investigation will not affect Faritec.

PROSPECTS

The outlook for the new financial year is positive and we are confident that Faritec is well positioned to show further growth. The integration of the two acquired businesses is on track and we expect the combined business to achieve revenues in excess of R1 billion and achieve better returns than last year. The new Faritec Group is a significantly larger business, with a more comprehensive set of solutions. Together with our strategic partners HP, IBM, Microsoft and Symantec, and our other supplier relationships, we are well positioned to improve our position in the market and provide our customers with technology solutions that add value to their businesses.

APPRECIATION

Faritec continues to have a group of loyal and supportive stakeholders who have supported our vision. To our customers and partners old and new, thank you for the confidence you have placed in us and for understanding our need to change.

To the Board, management and staff, thank you for your continued patience, trust and commitment during a time of change for Faritec. The results of our hard work and dedication have been seen in this year's results and I look forward to us reaching our strategic goals over the next three years.



Simon Tomlinson
Chief Executive Officer

Sandton
18 December 2006



WE PRIZE INTEGRITY ABOVE ALL ELSE

DOLOSSE

Eric Merrifield / Large, unusually shaped concrete blocks weighing up to 20 tons designed to break up wave action and protect harbour walls and coastal installations / First installed in East London harbour



Corporate governance

THE KING CODE ON CORPORATE PRACTICES AND CONDUCT

The Board is committed to continued improvement and implementation of best practices in corporate governance. The Board conducts the affairs of the group with integrity and openness, and takes cognisance of the recommendations in the King Report on Corporate Governance for South Africa 2002.

CORPORATE VALUES

Faritec believes that corporate values are of utmost importance. Corporate values are more than statements that a company pins up on a wall; they need to be the basis on which decisions are made. As such, Faritec has been through a process of defining a meaningful value system that takes into account the values of our employees. Faritec's core value system encompasses a combination of relationships, integrity, teamwork, excellence and caring.

CORPORATE CODE OF CONDUCT AND BUSINESS ETHICS

Faritec's employees are guided by the Company's Business Ethics and Conduct Guidelines. Guidelines are available to all staff on the company's intranet. The guidelines were developed to cover every area in which staff have responsibilities to Faritec as employees:

- Personal conduct.
- Protection of Faritec's assets.
- Obligations in conducting Faritec's business with other people and organisations.
- Conflicts of interest and other considerations affecting Faritec that may arise in their own time.

STAKEHOLDER RELATIONS

The group is committed to open and prompt communication with all its stakeholders. Faritec stakeholders include a combination of its shareholders, customers, business partners, employees, suppliers, media, investment analysts, black economic empowerment partners, the community, and legislative and governing bodies.

Regular communication with stakeholders is conducted, taking due regard of statutory, regulatory and other directives regulating the dissemination of information. The dissemination of information occurs through various channels, including traditional media such as newspapers and magazines, face-to-face meetings and presentations to stakeholders, and through the intranet and internet. Shareholders are encouraged to attend the annual general meeting to meet the members of the Board.

BOARD OF DIRECTORS

The diversity of the Faritec Board brings together a wealth of experience and expertise from the directors' broad fields of business activity to ensure the effective leadership of the group into the future. The Board is a unitary structure comprising six Executive and six Non-executive Directors, of which two are Independent Non-executive Directors, as defined by the King II Report on Corporate Governance. The Chairman of the Board is a Non-executive Director, and this role is separate from that of the Chief Executive Officer.

The Board has adopted formal charters, which define the responsibilities of the Board and subcommittees of the Board.

The responsibilities of the Board include:

- Strategic and policy decisions.
- Maintaining financial and internal controls.
- Ensuring the company adheres to the recommendations of King II.
- Assessing risk.
- Monitoring the group and management's performance against preapproved budgets and operations reviews.

All new appointments to the Board are recommended by existing Board members and are carefully scrutinised to ensure that the new appointees are of the necessary calibre to meaningfully contribute to the Board in fulfilling their duties and responsibilities as directors of the group. The directors meet quarterly, or more frequently if necessary, and are aware of their duties and responsibilities. All directors have access to independent professional advice and training programmes to fulfil their duties as directors. These costs are borne by the group. The Company Secretary is present at Board meetings and is of service to the directors to ensure the proper administration of Board proceedings and compliance with all aspects of good corporate governance.

The following changes took place during the reporting period:

Mr Mncedisi Mayekiso was employed as Group Marketing Director, and was appointed to the Board as an Executive Director on 30 June 2006.

Mr Paul Moses and Mr Ciko Thomas were appointed to the Board as Non-executive Directors on 30 June 2006.

Executive Directors are required to give three months' written notice of resignation.

Schedule of Board meetings and attendance since the issuing of the 2005 annual report.

(P = Present) (A = Apologies) (N/A = Not applicable)

		07/12/05	13/12/05	16/02/06	10/04/06	18/05/06	27/06/06	07/09/06
Chris Jardine	Chairman	P	P	P	P	P	P	P
Simon Tomlinson		P	P	P	P	P	P	P
Hasmukh Gajjar		P	P	A	P	P	P	P
Donald Masson		P	P	P	P	A	P	P
Paul Moses		N/A	N/A	N/A	N/A	N/A	P	P
Jayendra Naidoo		P	P	A	A	P	P	P
Phumzo Noxaka		P	P	P	A	A	P	P
Ciko Thomas		N/A	N/A	N/A	N/A	N/A	P	P
Mncedisi Mayekiso		N/A	N/A	N/A	N/A	N/A	P	P
Tshidi Nyembe		P	P	P	P	P	P	P
Allan Timm		P	P	P	P	P	P	P
Peter Winn		P	P	P	P	P	P	P



**WE POSSESS
A DYNAMIC
APPROACH TO
SOLUTIONS
THROUGH
TEAMWORK AND
PARTNERSHIP**

SPEED GUN

Henri Johnson / Born in Somerset West / The speed gun accurately measures the speed and angles of objects such as cricket and tennis balls / Launched at The Oval England during the 1999 Cricket World Cup

Corporate governance *continued*

BOARD COMMITTEES

The Board has instituted numerous sub-committees to assist in discharging its responsibilities. The Board has adopted charters within which these sub-committees are authorised to operate.

The Audit Committee

The Audit Committee consists of three Non-executive Directors and is chaired by Mr Donald Masson, who is an Independent Non-executive Director and who is not Chairman of the group. The Chief Executive Officer, Chief Financial Officer and senior management attend the committee meetings by invitation.

The Audit Committee meets several times a year during planning and budgeting periods as well as during interim and final reporting periods. A formal charter and terms of reference guide the Committee. Senior management and the external auditors attend the meetings to discuss issues of accounting policies, auditing, risk, internal controls and financial reporting. The committee reviews the annual results and interim results before being presented to the Board for approval. The Chairman of the committee reports to the Board on a regular basis on matters arising and on findings of the Audit Committee. The Chairman of the committee attends the annual general meeting. The external auditors have unrestricted access to the committee and its Chairman.

The Audit Committee sets the principles for recommending the use of the external auditors for non-audit services.

Schedule of Audit Committee meetings and attendance

(P = Present) (A = Apologies)

		09/02/06	13/06/06	31/08/06	12/12/06
Donald Masson	Chairman	P	P	P	P
Chris Jardine		P	P	P	P
Phumzo Noxaka		P	P	P	P

Internal Audit

The Board has established operational, financial and internal control systems to ensure the integrity of the group's processes and financial information, and to safeguard its assets. The Audit Committee reviews these systems in consultation with the external auditors. Faritec does not have a separate internal audit department, due to the relatively small size of the finance and administration departments within the group. The group will be establishing an internal control forum, which will report to the Audit Committee, to extend the internal review of policies, procedures and systems that take place.

The Remuneration Committee

The Remuneration Committee consists of two Non-executive Directors and is chaired by Mr Jayendra Naidoo, who is a Non-executive Director. The purpose of the committee is to ensure that the group's Executive Directors and senior management

team are remunerated appropriately, to ensure that rewards and incentives are linked to both individual and group performance, as well as being market related. Details of directors' emoluments are disclosed in the notes to the financial statements in note 26. The committee is also involved in the approval of the staff share incentive schemes within the group.

Schedule of Remuneration Committee meetings and attendance

(P = Present) (A = Apologies)

		09/02/06	13/06/06	27/06/06	07/09/2006
Jayendra Naidoo	Chairman	P	P	P	P
Donald Masson		P	P	P	P

RISK MANAGEMENT

The Board acknowledges that it is accountable for risk management within the group. No separate Risk Committee has been established at this point. The Board of Directors manages risk through the reviewing of internal control procedures and monthly management reporting. The external auditors, working in partnership with management, provide assurance to the Board, through the Audit Committee, that financial systems and reported financial information may be relied upon.

Internal controls

The Board is responsible for the group's systems of financial and operational control and for the safeguarding of assets against unauthorised use or disposition. These controls are designed to provide reasonable, but not absolute, assurance as to the integrity and reliability of the annual financial statements and the risks to which the company is exposed. All employees are required to maintain the highest ethical standards and to conduct themselves as representatives of the company in a manner that is, in all reasonable circumstances, above reproach. The Board has reviewed the effectiveness of the systems of internal control and is not aware of any material breakdown in controls, which could cause misstatement or loss, or uncertainty that would require disclosure in the financial statements.

Management reporting

The performance of the group is monitored by monthly management meetings as well as having management reporting disciplines, which include preparation of annual budgets and quarterly business reviews where performance against budgets is reviewed, opportunities are identified, and corrective action is taken as necessary. The monthly results are reported against budget and revised forecasts. Asset management, working capital management and borrowing levels are monitored on an ongoing basis.

Business continuity

Disaster recovery plans are in place to ensure the business continuity of the group in the event of unforeseen circumstances and disasters.



**STRIVING FOR
EXCELLENCE
KEEPS US GOING
TO SET THE
BENCHMARK IN
THE ICT INDUSTRY**

OIL FROM COAL

In 1955 Sasol completes construction on the world's first commercial oil-from-coal plant and produces the first synthetic fuel / The world's first commercial gas-to-liquids plant is commissioned by Sasol, with its joint-venture partners, in Qatar in 2006 / Today Sasol operates in 30 countries across all continents / Photograph of Secunda supplied courtesy of Sasol



Corporate governance *continued*

INSIDER TRADING

The group applies a closed period policy whereby all directors and employees who have access to unpublished price-sensitive information are prohibited from share dealings during such period. Closed periods apply prior to the release of interim and year-end financial results and during times of cautionary announcements. This policy has been communicated to employees. Dealings in Faritec shares by directors are minuted at Board meetings.

OCCUPATIONAL HEALTH AND SAFETY

Due to the nature of the Faritec office environment, there is very little risk to the health and safety of employees. However, statutory requirements have been met, after an assessment by an independent firm.

LIFE-THREATENING DISEASES POLICY

Faritec will, as far as possible, accommodate the needs of employees with life-threatening diseases to ensure productive and fulfilled employment for as long as the employee is able to continue working. Faritec will not unfairly discriminate, directly or indirectly, against an employee suffering from a dreaded disease.

The guidelines contained in this policy are aimed at assisting managers to:

- manage and reduce the impact of dreaded diseases in the workplace;
- achieve a balance between the rights and responsibilities of all parties within the workplace;
- promote a non-discriminatory workplace, where employees living with a dreaded disease need not fear stigma or rejection;
- eliminate unfair discrimination against employees suffering from a dreaded disease;
- create a supportive environment for employees suffering from a dreaded disease so that such employees may continue working under normal conditions within their current employment, for as long as they are capable of doing so; and
- deal with dreaded diseases in the workplace, in a manner that is consistent with all relevant South African legislation.

TRANSFORMATION AND BEE

Faritec's broad-based empowerment credentials were given boost with the acquisition of the Enterprise Connection business during the financial year. Canal Square, the black-owned controlling shareholder of Enterprise Connection, has joined Faritec's existing empowerment partner, the J&J Group, as a significant black shareholder of Faritec. This gave the Faritec Group an effective BEE ownership of 41%, which promotes our objective of becoming black owned.

Faritec has also continued to make progress in all the other major pillars of the broad-based BEE scorecard during the year. Diversity in our boardroom, management teams and employees is progressing well, with 58% of our board and 43% of our employees now coming from previously disadvantaged backgrounds.

Overall BEE philosophy

Faritec adopts a broad-based approach to BEE based on the recommendations of the DTI, and the ICT draft charter. The following depicts Faritec's pillars of BEE and transformation:

EMPOWERMENT SCORECARD IN SUMMARY

- 41% black owned;
- 58% of board members are historically disadvantaged individuals;
- 43% of staff complement are historically disadvantaged individuals;
- 57% of all female staff complement are historically disadvantaged individuals;
- 65% discretionary spend is with empowered suppliers;
- 3% net profit before tax was spent on CSI initiatives during the year;
- skills development and learnership programmes established, with 20 learners graduating thus far; and
- one of the largest BEE companies on the JSE on the IT sector (IT Index).

Ownership and management

The Faritec Group have an effective BEE ownership of 41%.

The Board of Directors of twelve has seven people of colour, two of whom are African females. Faritec has also established an executive management team that has drawn the next tier of executives into the decision-making roles. Of a team of nine people that make up our Exco, three are of colour.

Employment equity

Faritec employment equity is currently at 43% BEE staff, with the objective of improving on this statistic over time. Equal employment constitutes a central part of the business plan of Faritec. It is directed towards improving the mix of racial and gender groups, both horizontally and vertically throughout the organisation. This is done in order to:

- be relevant in a new socio-political order;
- uphold world-class standards through development; and
- enhance productivity and thereby competitiveness.

Our aim is to reflect this in our internal employment practices, which will be fair and equitable, and also in the manner in which we conduct our business.

Skills development

In terms of training and development, Faritec is committed to ongoing staff development and continues to show a significant spend on training as a percentage of the salary bill.



PERCEPTIVE AND CARING IN ALL WE DO

FIRST EVER HEART TRANSPLANT

Prof Christiaan Neetling Barnard / Born 8 November 1922 in Beaufort West / The seeds of his future career were sown when one of his patients delivered a baby boy with a heart defect which could not be remedied / Performed on Louis Washkansky in Groote Schuur Hospital on 3 December 1967



Corporate governance *continued*

Faritec views training and development of its human resources as integral to achieving its competitive advantage and overall efficiency. As far as possible, the Company will:

- encourage employees to attend relevant internal and external training courses, seminars and courses of study which will develop their knowledge and skills;
- improve the capabilities of employees, thereby enhancing their ability to attain the highest possible standards in their jobs and thereby increasing their productivity;
- realise the potential of employees by developing and preparing them for increased responsibility and promotion; and
- adequately train employees to meet the challenges resulting from technology change.

Faritec aims to foster a culture of high quality life long learning within the Company and enhance learning opportunities in the Company.

Coupled with the Employment Equity Plan, Faritec is exploring its investment as a company and, with its partners, the acceleration of knowledge and skills amongst its entire staff. Faritec's Skills Development Plan for 2006 was submitted for approval to the ISETT SETA. This plan is in line with the Company's Employment Equity Plan and BEE initiatives.

During 2005, in partnership with the DTI, 10 previously disadvantaged learners enrolled in Faritec's learnership programme. This programme has evolved over the past year and is a fully integrated initiative throughout Faritec's operations. Eight out of the 10 learners who went through the Faritec learnership programme last year are now employed by Faritec, and we are looking forward to the 2006/7 programme.

Corporate social investment

Faritec believes that companies are expected to demonstrate a social conscience. They are not only expected to achieve their economic goals, but should also use their power and influence to help the society in which they operate. Faritec supports a range of community activities and programmes. Programmes that specifically narrow the digital divide have been evaluated in Faritec's broader community engagement plan.

Faritec put 3% of net profit before tax towards the development of the computer and information centre at the SOS Children's Village in Ennerdale during the year. The SOS Ennerdale project, led by Faritec, was a six-month project valued at R500 000. The project involved several major industry players such as IBM, Microsoft, Symantec, TCM/e-bis, Siyaya Phambili Technology Solutions and ITEC North.

Faritec ensures that all CSI projects undertaken are aligned with Faritec's CSI philosophy and the objectives of the ICT charter.

CSI philosophy

Faritec considers programmes that bridge the "digital divide" and ensures that corporate social investment is implemented within a set of sustainable long-term objectives and with maximum impact:

- Faritec's projects adopt a partnership approach and support sustainability;
- Faritec's selected projects support the broad national goals identified by the IT sector;

- Faritec seeks to transfer ICT skills to previously disadvantaged communities and individuals, with a special emphasis on rural communities;
- Faritec attempts to support the provision of affordable and universal access to ICT infrastructure and services with our CSI projects;
- Faritec co-ordinates various initiatives to enhance their collective impact;
- Faritec seeks to connect villages with ICTs and establish community access points;
- Faritec's CSI projects adopt a consultative approach and are driven by the empowerment of the recipient communities.

Appeal to staff

Faritec supports a culture of giving and encourages its staff to support initiatives such as attending fundraisers and giving of time, money, products and food in their private capacities. Faritec advertises these initiatives internally on the Faritec Intranet.

Faritec monitors and evaluates the impact of our CSI projects have and ensures that Faritec's CSI philosophy is adhered to and that the defined CSI objectives are met.

PROCUREMENT

Faritec endorses the government's initiative to support a competitive, sustainable and viable base of suppliers from previously disadvantaged communities. Faritec is committed to maximising procurement from black enterprises (including black-owned, black empowered and black-influenced, good or satisfactory contributors), whether black women-owned, small or large suppliers, as well as those owned and managed by the physically challenged, while emphasising our support for entrepreneurship in black communities and giving black businesses access to mainstream business opportunities.

Faritec currently spends over 65% of its discretionary procurement with our BEE suppliers. Faritec Exco sets the targets for purchases from black suppliers, and management is empowered to implement the recommendations by providing the personnel, financial and other resources required to make it succeed. The balanced scorecards of the members of Exco and individuals involved in procurement reflect a requirement to comply with this framework.

The primary objective of the procurement organisation in Faritec remains to procure commodities and services of the best quality at the lowest total cost and to meet the requirements for time-based competition.

ENTERPRISE DEVELOPMENT

Faritec's ability to engender black owned SMEs is now institutionalised as with many of the other BEE indicators. Our procurement policies demand significant investments towards BEE from our suppliers who have to formally submit their own BEE programmes.

Our account management teams are tasked with, and judged on, their ability to engage and involve emerging black-owned entrepreneurs. Ongoing efforts are made to create sustainable new enterprises through these partnerships.

Group value added statement FOR THE YEAR ENDED 30 JUNE 2006

	2006		2005	
	R000	%	R000	%
Revenue	530 058		428 425	
Cost of goods and services	(388 684)		(317 078)	
Value added	141 374		111 347	
Net investment income	2 561		1 227	
Total wealth created	143 935	100,0	112 574	100,0
Distributed as follows:				
Employees	89 379	62,1	79 515	70,6
Remuneration and service benefits	89 379		79 515	
Government	32 529	22,6	26 886	23,9
Taxation	6 006		3 400	
Regional Services Council levies	1 103		895	
Skills development levy	841		755	
Employee taxation	24 579		21 836	
Retained to develop future growth	22 027	15,3	6 173	5,5
Depreciation	4 015		3 422	
Minorities	4 030		(968)	
Accumulated profit	13 982		3 719	
Total wealth distributed	143 935	100,0	112 574	100,0

The above amounts exclude the effect of value-added taxation.

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Faritec

Directors' responsibility

The directors are responsible for the content and integrity of the financial statements and other information contained in the annual report.

It is the directors' responsibility to ensure that the financial statements fairly present the state of affairs of the group and the company as at the end of the financial year, and the results of the operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards.

The directors are required by the Companies Act, 1973, of South Africa, to maintain adequate accounting records.

To fulfill these responsibilities, the group maintains systems of internal accounting and administration controls designed to provide reasonable assurance that assets are safeguarded and transactions are executed and recorded in accordance with the group's standards of policies, procedures and mandates. These standards include the proper delegation of responsibilities within a clearly defined authority matrix, effective operations and accounting procedures, and adequate segregation of duties, to ensure acceptable levels of risk.

The external auditors are engaged to express an independent opinion on the financial statements.

The financial statements are prepared in accordance with International Financial Reporting Standards, applied consistently throughout the year, and are examined by the external auditors in conformity with International Auditing Standards. The auditors' report is set out on page 21 of the annual report.

The financial statements have been approved by the Board of Directors and are signed on their behalf by:



Dr Chris Jardine
Chairman



Simon Tomlinson
Chief Executive Officer

Johannesburg
18 December 2006

Declaration by the company secretary

I declare that, to the best of my knowledge, the company has lodged with the Registrar all such returns as are required of a public company in terms of the Companies Act, 1973, as amended, and that all such returns are true, correct and up to date.



Craig Densham
Company Secretary

Johannesburg
18 December 2006

Report of the independent auditors

TO THE MEMBERS OF FARITEC HOLDINGS LIMITED

We have audited the annual financial statements and group annual financial statements set out on pages 22 to 56 for the year ended 30 June 2006. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company and the group at 30 June 2006 and the results of their operations and cash flows for the year then ended in accordance with International Financial Reporting Standards, and comply with the Companies Act in South Africa.



MEMBERS OF FARITEC HOLDINGS LIMITED
Johannesburg

Johannesburg
21 December 2006

Report of the directors

The directors submit the annual financial statements of the company and the group for the year ended 30 June 2006.

NATURE OF BUSINESS

Faritec Holdings Limited, a company incorporated in South Africa, listed on the Main Board of the JSE Limited (JSE), through its subsidiaries and joint venture is involved in providing the most customer-centric technology solutions with the objective of assisting customers to manage their business more effectively.

FINANCIAL RESULTS

Profit attributable to shareholders amounted to R13 982 000 (2005: R3 719 000) or 10,4 cents (2005: 2,9 cents) per share. Headline earnings amounted to R14 062 000 (2005: R3 382 000) or 10,4 cents (2005: 1,0 cents) per share.

Full details of the financial results of the company and group are set out in these financial statements.

DIVIDENDS

No dividends have been declared or are recommended for the financial year under review. Funds generated will be retained in the business to assist with the group's anticipated growth and possible new ventures.

SHARE CAPITAL

Authorised

There were no changes in the authorised share capital of the company in the financial year under review.

Issued

	Number of shares issued 000	Nominal value R000	Share premium R000
Ordinary shares			
Balance at beginning of year	129 629	129	27 323
Share issued in respect of:			
– Options exercised in terms of the employee share incentive scheme	7 435	7	2 532
– Acquisition of the business of Enterprise Connection	43 621	44	34 853
– Share scheme	700	1	139
– Share issue costs	–	–	(21)
Balance at end of year	181 385	181	64 826

EMPLOYEE SHARE INCENTIVE SCHEMES

The Faritec Group has a share incentive scheme which provide opportunities for employees to participate in the group's growth and success.

Options have been granted to employees in terms of the Faritec Holdings Share Incentive Scheme, in respect of 17 169 500 (2005: 19 494 500) shares in the company, including 3 130 000 (2005: 4 610 000) options granted to directors on the same terms and conditions as those granted to other employees.

	Number of options 2006	Average strike and exercise price per option cents 2006	Number of options 2005	Average strike and exercise price per option cents 2005
Balance at start of the year	19 494 500	29	11 761 000	39
Options granted during the year	5 820 000	45	10 890 000	20
Options exercised during the year	(7 435 833)	34	–	–
Options forfeited during the year	(709 167)	24	(3 156 500)	34
Balance at the end of the year	17 169 500	33	19 494 500	29

The average exercise prices and average remaining contractual lives are as follows:

Average remaining contractual lives	Number of options	Average strike and exercise price cents
Fully vested	1 974 500	36
1 year	1 111 666	39
1,5 years	553 334	36
2 years	8 785 000	23
3 years	4 745 000	48
Balance at the end of the year	17 169 500	33

The weighted average share price in respect of options exercised during the year was 57 cents.

Expense arising from these share-based payment transactions was R898 000 (2005: R1 659 000).

27 200 000 (2005: 19 500 000) shares have been set aside for the option scheme.

Options granted have a waiting period of one year, after which they vest in equal parts over a three-year period. Unexercised options lapse five years after grant date.

EMPLOYEE SHARE INCENTIVE SCHEMES *continued*

The estimated fair values of the options at grant date range from 31,8 cents to 75,9 cents per option, determined using the Black-Scholes-Merton Option Value Model. The model inputs were the share price at grant date, exercise price, a dividend yield of 0%, a contractual life of 5 years and a risk-free interest rate of 7,62%. It was assumed that all options will be exercised at the end of the relevant vesting period.

DIRECTORATE AND SECRETARY

The following persons were directors of the company during the financial year under review:

Dr CR Jardine (*Chairman*)*

SM Tomlinson (*Chief Executive Officer*)

Dr HC Gajjar D Masson* M Mayekiso PM Moses* J Naidoo* LN Noxaka* SM Nyembe CJ Thomas*

AR Timm PJ Winn

**Non-executive*

Mr CN Densham was the Company Secretary for the year.

PM Moses and CJ Thomas were appointed to the Board on 30 June 2006 as Non-executive directors.

M Mayekiso was appointed to the Board on 30 June 2006 as an executive director.

In terms of the articles of association of the company, Messrs D Masson, J Naidoo, HC Gajjar and AR Timm retire by rotation at the forthcoming annual general meeting, all being eligible for re-election.

As at 30 June 2006, the aggregate direct and indirect, beneficial and non-beneficial interests of all the directors in the fully paid issued share capital of the company, was 49 623 424 (2005: 36 036 022) shares, split per director as follows:

Indirect holding by directors	2006 Beneficial holding	2005 Beneficial holding
PM Moses	13 587 402	–
AR Timm	11 092 902	11 092 902
SM Tomlinson	12 527 062	12 527 062
PJ Winn	12 416 058	12 416 058
Total	49 623 424	36 036 022

There has been no material change in the directors' interest in the issued share capital between 30 June 2006 and the date of this report.

Share options granted by the company to all directors as at 30 June 2006 are split per director as follows:

Options granted to directors	2006		2005	
	Options	Strike price cents	Options	Strike price cents
HC Gajjar	420 000	20	420 000	20
HC Gajjar	1 000 000	50	–	–
SM Nyembe	420 000	50	–	–
AR Timm	–	–	800 000	36
AR Timm	420 000	20	420 000	20
SM Tomlinson	–	–	1 300 000	36
SM Tomlinson	450 000	20	450 000	20
PJ Winn	–	–	800 000	36
PJ Winn	420 000	20	420 000	20
Total	3 130 000	34	4 610 000	30

EQUIPMENT

The group acquired equipment at a cost of R2 064 000 (2005: R3 366 000) during the financial year under review.

GOING CONCERN

The directors have no reason to believe that the group will not be a going concern for the year ahead. For this reason the financial statements have been prepared on the going-concern basis.

POST-BALANCE SHEET EVENTS

On 31 October 2006 the group commenced implementing the acquisition of the information technology storage solutions business of Lechabile Storage Solutions (Pty) Limited. Further information is not available for disclosure at this stage and will be provided by the vendors of the business in due course.

The directors have no other post-balance sheet events to report.

INVESTMENT IN SUBSIDIARY COMPANIES

The financial information in respect of the company's interest in its subsidiary companies is set out in note 8 to the financial statements, and in the schedule on page 56 of this annual report.

The aggregate profits after taxation of the subsidiaries attributable to the holding company are R14 242 000 (2005: R3 726 000).

SPECIAL RESOLUTIONS ADOPTED BY SUBSIDIARY COMPANIES

There were no special resolutions passed by any subsidiaries in the group, the nature of which may be of significance to the readers of this report since the issuing of the last annual report.

Balance sheets AT 30 JUNE 2006

		GROUP		COMPANY	
	Notes	2006 R000	2005 R000	2006 R000	2005 R000
ASSETS					
Non-current assets		126 368	79 988	112 597	84 505
Equipment	3	9 142	8 164	–	–
Software	4	1 451	1 034	–	–
Development costs capitalised	5	11 388	13 688	–	–
Goodwill	6	56 054	127	–	–
Trademarks	7	38 204	38 204	–	–
Investment in subsidiaries	8	–	–	112 597	75 046
Investments	9	–	9 459	–	9 459
Loans receivable	10	4 772	4 216	–	–
Deferred taxation	11	5 357	5 096	–	–
Current assets		237 334	133 748	13 229	–
Inventories	12	5 313	3 055	–	–
Investments	9	13 229	–	13 229	–
Trade receivables	13	152 173	106 707	–	–
Other receivables	13	26 230	5 145	–	–
Cash and cash equivalents	14	39 353	18 841	–	–
Taxation		1 036	–	–	–
Total assets		363 702	213 736	125 826	84 505
EQUITY AND LIABILITIES					
Total equity		141 147	84 633	125 826	84 505
Share capital	15	181	133	181	133
Share premium	16	64 826	27 323	65 744	28 241
Share-based payments reserve		2 705	1 807	–	–
Accumulated profit		61 310	47 328	59 901	56 131
Total shareholders' interest		129 022	76 591	125 826	84 505
Minority interests		12 125	8 042	–	–
Non-current borrowings		34 471	11 450	–	–
Interest-bearing borrowings	17	24 664	1 174	–	–
Operating lease liabilities		6 973	7 611	–	–
Non-interest-bearing borrowings	18	2 834	2 665	–	–
Current liabilities		188 084	117 653	–	–
Trade payables		133 663	100 018	–	–
Other payables		41 048	15 261	–	–
Current portion of interest-bearing borrowings	17	7 352	998	–	–
Bank overdrafts	19	–	179	–	–
Taxation		6 021	1 197	–	–
Total equity and liabilities		363 702	213 736	125 826	84 505

Income statements

FOR THE YEAR ENDED 30 JUNE 2006

	Notes	GROUP		COMPANY	
		2006 R000	2005 R000	2006 R000	2005 R000
Revenue	20	530 058	428 425	258	279
Operating expenses		(503 961)	(419 237)	(258)	(279)
Operating profit before depreciation and amortisation		26 097	9 188	–	–
Depreciation and amortisation		(8 330)	(7 808)	–	–
Profit from operations		17 767	1 380	–	–
Finance costs		(606)	(380)	–	–
Investment income		3 167	1 607	–	–
Exceptional items	21	(80)	2 428	–	–
Reversal of impairment of investment		3 770	1 116	3 770	1 116
Net profit before taxation	22	24 018	6 151	3 770	1 116
Taxation	23	(6 006)	(3 400)	–	–
Net profit for the period		18 012	2 751	3 770	1 116
Attributable to:					
Minorities		4 030	(968)	–	–
Ordinary shareholders		13 982	3 719	3 770	1 116
		18 012	2 751	3 770	1 116
Earnings per share (cents)	24	10,4	2,9		
Headline earnings per share (cents)	24	10,4	1,0		
Fully diluted earnings per share (cents)	24	9,7	2,9		
Fully diluted headline earnings per share (cents)	24	9,8	1,0		

Statement of changes in equity AT 30 JUNE 2006

	GROUP		COMPANY	
	2006 R000	2005 R000	2006 R000	2005 R000
Share capital	181	133	181	133
Balance at beginning of period	133	133	133	133
Issued during the period	48	–	48	–
Share premium	64 826	27 323	65 744	28 241
Balance at beginning of period	27 323	27 483	28 241	28 241
Issued during the period	37 524	–	37 524	–
Write-off of share issue costs	(21)	(160)	(21)	–
Share-based payments reserve	2 705	1 807	–	–
Balance at beginning of period (restated)	1 807	148	–	–
Increase for period	898	1 659	–	–
Accumulated profit	61 310	47 328	59 901	56 131
Balance at beginning of period as previously reported		48 338		56 434
Adjustments for IAS 17 and adoption of IFRS		(4 729)		(1 419)
Balance at beginning of period	47 328	43 609	56 131	55 015
Net profit/(loss) for the period	13 982	3 719	3 770	1 116
Total shareholders' interest	129 022	76 591	125 826	84 505

Cash flow statements

FOR THE YEAR ENDED 30 JUNE 2006

Notes	GROUP		COMPANY	
	2006 R000	2005 R000	2006 R000	2005 R000
Cash flows from operating activities	17 028	22 808	–	–
Net profit from ordinary activities before taxation	24 018	6 151	3 770	1 116
Adjustments	2 887	4 696	(3 770)	(1 116)
Net investment income	(2 561)	(1 227)	–	–
Write-off of liability	–	(2 689)	–	–
Reversal of impairment of investment	(3 770)	(1 116)	(3 770)	(1 116)
Impairment of assets	(80)	5 303	–	–
Amortisation	4 315	4 386	–	–
Depreciation	4 015	3 422	–	–
Profit on disposal of business	–	(5 042)	–	–
Lease smoothing	70	–	–	–
Share-based payments	898	1 659	–	–
Operating income before working capital changes	26 905	10 847	–	–
(Decrease)/increase in working capital	(9 958)	11 594	–	–
Decrease/(increase) in inventories	141	(527)	–	–
Increase in trade and other receivables	(6 142)	(60 754)	–	–
(Decrease)/increase in trade and other payables	(3 957)	72 875	–	–
Cash generated by operating activities	16 947	22 441	–	–
Finance costs	(606)	(380)	–	–
Investment income	3 167	1 607	–	–
Taxation paid	(2 480)	(860)	–	–
Cash flows from investing activities	(2 805)	(878)	–	–
Acquisition of equipment	(2 064)	(3 366)	–	–
Acquisition of software	(548)	–	–	–
Proceeds on disposal of business	–	5 508	–	–
Investments disposed of	–	66	–	–
Acquisition of businesses	1 598	(507)	–	–
Development costs disposed of	1 263	–	–	–
Development costs capitalised	(2 630)	(2 289)	–	–
Loans to and investments in joint venture and associate	(424)	(290)	–	–
Cash flows from financing activities	6 468	214	–	–
Loans raised	4 700	1 091	–	–
Loans repaid	(886)	(717)	–	–
Net inflows/(outflows) from shares issued	2 654	(160)	–	–
Net increase in cash and cash equivalents	20 691	22 144	–	–
Cash and cash equivalents at beginning of year	18 662	(3 482)	–	–
Cash and cash equivalents at end of year	39 353	18 662	–	–

Notes to the cash flow statements AT 30 JUNE 2006

	GROUP		COMPANY	
	2006 R000	2005 R000	2006 R000	2005 R000
A Proceeds on disposal of business				
Profit on disposal of business	–	5 042	–	–
Goodwill and costs of disposal of business	–	466	–	–
	–	5 508	–	–
B Taxation paid				
Balance at beginning of year	3 898	6 438	–	–
Amount charged to the income statement	(6 006)	(3 400)	–	–
Balance at end of year	(372)	(3 898)	–	–
	(2 480)	(860)	–	–
C Acquisition of businesses				
Acquisition of the business of Enterprise Connection effective from 28 June 2006 (2005: Increase in holding in subsidiary Faritec Inter-Company Processes, and acquisition of the business of Nanoteq):				
Fair value of net assets acquired:				
– Equipment	(2 929)	–	–	–
– Software	(517)	–	–	–
– Goodwill	(55 927)	(507)	–	–
– Inventories	(2 399)	–	–	–
– Trade and other receivables	(65 449)	–	–	–
– Taxation	(1 036)	–	–	–
– Cash	(3 511)	–	–	–
– Trade and other payables	70 929	–	–	–
– Non-current liabilities	741	–	–	–
Total	(60 098)	(507)	–	–
Funding of net assets acquired:				
– Cash	3 511	–	–	–
– Equity	34 897	–	–	–
– Interest-bearing loan	25 300	–	–	–
– Costs of acquisition	(2 012)	–	–	–
Total	61 696	–	–	–
Cash on acquisition	1 598	(507)	–	–

	GROUP		COMPANY	
	2005 R000	2004 R000	2005 R000	2004 R000
D Net inflows/(outflows) from shares issued				
Share issue costs	(21)	–	–	–
Share issue costs – subsidiary company	–	(160)	–	–
Inflows from shares issued	2 675	–	–	–
	2 654	(160)	–	–
E Cash and cash equivalents				
Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:				
Cash and cash equivalents	39 353	18 841	–	–
Bank overdrafts	–	(179)	–	–
	39 353	18 662	–	–

1 BASIS OF PREPARATION

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). IFRS 1, First-time Adoption of International Financial Reporting Standards, has been applied in preparing these financial statements. These are the group's first financial statements prepared in accordance with IFRS. The financial statements are prepared under the historical cost convention except for certain financial instruments that are stated at fair value.

The policies set out below have been constantly applied to all the years presented.

Until 30 June 2005 the group prepared its financial statements in accordance with South African Statements of Generally Accepted Accounting Principles (GAAP). GAAP differs in certain respects from IFRS. In preparing these financial statements, management has amended certain accounting and valuation methods applied in the GAAP financial statements to comply with IFRS. The impairment provision in respect of a preference share investment held by the group and the company has also been retrospectively amended, as the GAAP financial information on which it was based has changed on the adoption of IFRS. The comparative figures for the group and the company in respect of 2005 were restated to reflect these adjustments.

Reconciliations and descriptions of the effect of the transition from GAAP to IFRS on the group and the company equity and its net income are given in note 2.

1.1 Significant judgements

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements.

Significant judgements made by management in applying the accounting policies are:

Asset lives and residual values

Property, plant and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

Deferred tax assets

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Future taxable profits are estimated based on business plans which include estimates and assumptions regarding economic growth, inflation, taxation rates and competitive forces. Deferred tax assets are recognised on STC credits only to the extent it is probable that future dividends will utilise these credits.

Impairment of assets

Goodwill and intangible assets not yet available for use and those with indefinite lifespans are considered for impairment at least annually at the same time each year. Property, plant and equipment and intangible assets with finite lifespans are considered for impairment if there is a reason to believe that an impairment may be necessary.

The future cash flows expected to be generated by the assets are projected taking into account market conditions and the expected useful lives of the assets. The present value of these cash flows, determined using an appropriate discount rate, is the asset's value in use. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell, and its value in use. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss. Further detail on assumptions used for purposes of the above calculations are detailed in notes 6 and 7 of these financial statements.

Options granted

Management used the Black-Scholes-Merten Option Value model to determine the value of the options at issue date. Additional details regarding the estimates are included in note 1.15 "Share-based payments".

1.2 Basis of consolidation

The consolidated financial statements comprise the financial position, the results and cash flows of the company, its subsidiaries and the Share Incentive Trust.

The results of the subsidiaries are included from the effective date of acquisition, being the date control passes up to the date of disposal. All significant inter-company transactions and balances are eliminated on consolidation.

Investments in jointly controlled entities are accounted for by way of the proportionate consolidation method, where the group's proportionate share of the assets, liabilities, revenues and expenses of joint ventures are combined, on a line-by-line basis with similar items in the financial statements of the group. The results of the joint ventures are included from the effective dates of their acquisition and up to the effective dates of their disposal, being the dates joint control passes. All significant inter-company transactions and balances between group entities are eliminated on proportionate consolidation to the extent of the group's interest in the joint venture.

Investments in associates are accounted for by way of the equity method. The results of the associates are included from the effective dates of their acquisition, being the date significant influence is obtained, and up to the effective dates of their disposal. Where a group entity transacts with an associate of the group, unrealised profits and losses are eliminated to the extent of the group's interest in the relevant associate.

1.3 Equipment

Equipment is initially recorded at cost. Depreciation is calculated on the straight-line method at rates considered appropriate to reduce the carrying values to estimated residual values over the expected useful lives of the assets as follows:

Furniture and fittings	10 years
Motor vehicles	4 years
Office equipment	3 years
Computer equipment	3 years

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

The carrying values of equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If such an indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to the recoverable amount. When equipment is disposed of, any gains or losses are written off against the operating profit.

1.4 Goodwill

Goodwill represents the excess of cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill is recognised as an asset at cost less impairment losses and is not amortised. Goodwill of associates is included in the carrying amount of the associate.

The excess of the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the business combination is immediately recognised in profit or loss.

On disposal of a subsidiary, associate, jointly controlled entity or business unit to which goodwill was allocated on acquisition, the amount attributable to such goodwill is included in the determination of the profit or loss on disposal.

1.5 Software, licence rights and trademarks

Expenditure on acquired software, licence rights and trademarks is capitalised at cost, and the difference between cost and residual value is amortised using the straight-line method over the expected useful lives of the assets as follows:

Software	3 – 5 years
Licence rights	4 years
Trademarks	Indefinite

Trademarks have been assessed as having an indefinite useful life as there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the group.

The carrying value of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable, and on an annual basis for those assets with indefinite lifespans. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

1.6 Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures are stated at cost in the company.

The cost of an investment is the aggregate of:

- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the company; plus
- any costs directly attributable to the purchase.

An adjustment contingent on future events is included in the cost if the adjustment is probable and can be measured reliably.

1.7 Development costs capitalised

An intangible asset arising from development is recognised when:

- it is technically feasible to complete the asset so that it will be available for use;
- there is an intention to complete and use it;
- there is an ability to use it;
- it will generate probable future economic benefits;
- there are available technical, financial and other resources to complete the development and to use the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets being developed consist of computer software and are included at cost of development. Cost includes all costs directly attributable to bringing the assets to working condition for their intended use.

Development costs are amortised so as to write off the cost of the asset over its expected useful life, not exceeding five years, commencing on market release date.

Research costs related to the projects have been previously expensed through the income statement.

The carrying amount of the development costs is reviewed annually and adjusted for impairment where it is considered necessary.

Intangible assets being developed are carried at cost less any accumulated amortisation and any impairment losses.

1.8 Inventories

Inventories are stated at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories is assigned using the first in, first out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Loan stock is amortised over its useful life in order to reflect the net realisable value of the stock.

1.9 Translation of foreign currencies

Transactions in foreign currencies are translated into South African Rand at the rates of exchange ruling on the dates of the transactions. The related monetary assets and liabilities at the balance sheet date are translated at the rates of exchange ruling on that date.

Exchange differences are recognised in profit or loss in the period in which they arise.

1.10 Financial instruments

Initial recognition

The company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument, in accordance with the substance of the contractual arrangement.

Financial assets and financial liabilities are recognised on the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are recognised initially at fair value. In the case of financial assets or liabilities not classified as at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument are added to the fair value.

Subsequent measurement

After initial recognition financial assets are measured as follows:

- loans and receivables and held-to-maturity investments are measured at amortised cost using the effective interest method; and
- investments which are classified as available for sale or designated as fair value through profit and loss are measured at fair value.

After initial recognition financial liabilities are measured at amortised cost using the effective interest method.

1.11 Trade and other receivables

Trade and other receivables originated by the group are treated as loans and receivables and are carried at amortised cost.

1.12 Cash and cash equivalents

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant risk of change in value.

Cash and cash equivalents are measured at fair value.

1.13 Non-current assets held for sale

Non-current assets held for sale are classified as held for sale where their carrying amounts are to be recovered through a sale transaction rather than through continued use. All such assets are disclosed as held for sale as:

- they are available for immediate sale in their present condition;
- management is committed to the sale; and
- the sale of the asset is expected to be recognised as a completed sale within one year of classification as held for sale.

Non-current assets held for sale are measured at the lower of the carrying amount and fair value less costs to sell.

A non-current asset is not depreciated while it is classified as held for sale.

1.14 Share capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The company and group's ordinary share capital is recorded at original cost.

1.15 Share-based payments

Goods or services received or acquired in a share-based payment transaction are recognised when the goods or as the services are received. A corresponding increase in equity is recognised if the goods or services were received in an equity settled share-based payment transaction or a liability if the goods or services were acquired in a cash-settled share-based payment transaction.

When the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, they are recognised as expenses.

For equity-settled share-based payment transactions, the goods or services received are measured, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably.

If the fair value of the goods or services received cannot be estimated reliably, their value and the corresponding increase in equity, indirectly, are measured by reference to the fair value of the equity instruments granted.

For cash-settled share-based payment transactions, the goods or services acquired and the liability incurred are measured at the fair value of the liability. Until the liability is settled, the fair value of the liability is remeasured at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

For share-based payment transactions in which the terms of the arrangement provide either the entity or the counterparty with the choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments, the components of that transaction are recorded, as a cash-settled share-based payment transaction if, and to the extent that, a liability to settle in cash or other assets has been incurred, or as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred.

Employee share-based payments

Share options granted before 7 November 2002 and vested before 1 January 2005

No expense is recognised in respect of these options.

Share options granted after 7 November 2002 and vested after 1 January 2005

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense on a straight-line basis over the vesting period.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Fair value is determined using the Black-Scholes-Merton Option Value Model. The expected life used in this model has been adjusted for the effects of non-transferability, exercise restrictions and behavioural considerations. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. The model inputs were the share price at grant date, the exercise price, the risk free rate on grant date and the share price volatility, as calculated from the standard deviation of the historical share price of the Company. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. The impact of the revision of original estimates, if any, are recognised in the income statement, with a corresponding adjustment to equity.

1.16 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Finance leases are recognised as assets and liabilities in the balance sheets at amounts equal to the fair value of the leased property or, if lower, the present value on the minimum lease payments.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Any initial direct costs are added to the amount recognised as an asset.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

1.17 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such medical care, are recognised in the period in which the service is rendered, and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Contributions to a defined contribution plan in respect of service in a particular period are recognised as an expense in that period.

1.18 Trade and other payables

Trade and other payables are measured at amortised cost using the effective interest method.

1.19 Provisions and contingencies

Provisions are recognised when:

- the group has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the amount expected to be required to settle the obligation.

Contingent assets and contingent liabilities are not recognised.

1.20 Taxation

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised.

A deferred tax asset is recognised for the carry forward of unused tax losses and unused STC credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused STC credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period.

Secondary taxation on companies is provided in respect of dividend payments net of dividends received or receivable and is recognised as a taxation charge for the year.

1.21 Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

1.22 Revenue recognition

Revenue is recognised when the amount of revenue and related costs, incurred or to be incurred, can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the group.

Revenue is measured at the fair value of the consideration received or receivable, and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates.

Software and services

Software revenue comprises sales to customers and licence fees received. In the case of long-term licence contracts, the fees are recognised in accordance with the terms of the agreement, usually over the period of the agreement. Fees for the provision of services are recognised when the services are rendered, and exclude value-added taxation.

Hardware and networking distribution

Hardware revenue comprises sales to customers and excludes value-added taxation. Sales are recorded in the financial statements at the date the goods are delivered to customers.

1.23 Cost of sales

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The related cost of providing services recognised as revenue in the current period is included in cost of sales.

Contract costs comprise:

- costs that relate directly to the specific contract;
- costs that are attributable to contract activity in general and can be allocated to the contract; and
- such other costs as are specifically chargeable to the customer under the terms of the contract.

2 FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The group and the company's annual financial statements for the year ended 30 June 2006 are the first that comply with IFRS. These financial statements have been prepared as described in note 1.

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

In preparing these financial statements in accordance with IFRS 1, the group and the company have applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS.

Exemptions from full retrospective application elected by the group and company

The group and the company have elected to apply the business combination exemption in IFRS 1 and share-based payment exemption in IFRS 2. They have not restated business combinations that took place prior to the 1 July 2004 transition date, and have not applied IFRS 2 share-based payments to equity instruments that were granted on or before 7 November 2002.

Exceptions from full retrospective application followed by the group and the company

Estimates under IFRS at 1 July 2005 should be consistent with estimates made for the same date under SA GAAP, unless there is evidence that those estimates were in error.

Notes to the financial statements *continued*

Equity reconciliation of previous SA GAAP to IFRS

GROUP

COMPANY

The conversion to IFRS had no material impact on cash flows.				
	Year ended 30 June 2005	At transition date 1 July 2004	Year ended 30 June 2005	At transition date 1 July 2004
	R000	R000	R000	R000
Equity previously reported	81 604	75 954	86 551	84 808
Adjustment for IAS 17 and adoption of IFRS	(5 013)	(4 581)	(2 046)	(1 419)
Equity reported under IFRS	76 591	71 373	84 505	83 389
Equity adjustments				
Retained earnings	(6 820)	(4 729)	(2 046)	(1 419)
Operating leases	(7 060)	(6 544)	–	–
Share-based payments	(1 807)	(148)	–	–
Deferred tax	2 047	1 963	–	–
Impairment of investment	–	–	(2 046)	(1 419)
Share-based payments reserve	1 807	148	–	–
Total equity adjustments	(5 013)	(4 581)	(2 046)	(1 419)

Profit reconciliation of previous SA GAAP to IFRS for the year ended 30 June 2005

	As reported under previous GAAP R000	Adjustments for IAS 17 and Circular 9/2006 R000	Effect of transition to IFRS R000	IFRS R000
Revenue	434 207	(5 782)	–	428 425
Operating expenses	(422 005)	4 427	(1 659)	(419 237)
Operating profit before depreciation	12 202	(1 355)	(1 659)	9 188
Depreciation and amortisation	(7 808)	–	–	(7 808)
Profit from operations	4 394	(1 355)	(1 659)	1 380
Finance costs	(380)	–	–	(380)
Investment income	768	839	–	1 607
Exceptional items	2 428	–	–	2 428
Impairment of investment	1 743	(130)	(497)	1 116
Net profit before tax	8 953	(646)	(2 156)	6 151
Taxation	(3 484)	84	–	(3 400)
Net profit for the period	5 469	(562)	(2 156)	2 751
Attributable to:				
Minorities	(341)	(130)	(497)	(968)
Ordinary shareholders	5 810	(432)	(1 659)	3 719
	5 469	(562)	(2 156)	2 751

The conversion to IFRS gave rise to an increase in the company's impairment of investment and consequently a decrease in profits, by R627 000, for the year ended 30 June 2005.

Notes:

IFRS 2 – Share-based payments

In terms of IFRS all share-based awards granted after 7 November 2002 result in a deemed charge to the income statement on a straight-line basis over the term of the award. The fair value of share based payments was not recognised under the company's previous accounting policies. For 2005, the change in accounting policy has resulted in a decrease in profit for the year of R1 659 000. The balance sheet has been restated to reflect the recognition of a share option reserve of R1 807 000.

For 2006, the impact of share-based payments is a net charge to the income statement of R898 000. At 30 June 2006, the share option reserve amounted to R2 705 000.

The share-based payment expense has been included in staff costs in the income statement.

IAS 17 – Leases

In accordance with circular 7/2005 of SAICA in respect of the accounting treatment of operating leases, the group is now reporting all operating lease payments as an expense on a straight-line basis over the period of the lease, notwithstanding that the true underlying nature of the lease arrangements remain unchanged. The comparatives have been restated accordingly.

Circular 9/2006 – Transactions giving rise to adjustments to revenue, purchases and interest free receivables and payables

Notional interest

IAS 39: Financial instruments: Recognition and Measurement requires that imputed interest be recognised on interest-free receivables. IAS 18: Revenue further requires that revenue be recognised at the fair value of the consideration received or receivable. Accordingly, when the fair value of the group's consideration is significantly impacted by the time value of money, a portion of the revenue has been deemed to be interest income recognised on a time apportionment basis. This has resulted in a decrease in recognised revenue and certain financial receivables and liabilities. Comparative figures have been adjusted accordingly.

Rebates and awards

In accordance with Circular 9/2006 issued by the South African Institute of Chartered Accountants, regarding the treatment of settlement discounts and cash discounts, the valuation of inventories, accounts receivable and payable, as well as the measurement of cost of sales and revenue, have been adjusted retrospectively by rebates and awards received from suppliers in respect of purchases.

The above changes have had a negative impact on the group's previously reported earnings and net asset values, as shown in the profit and equity reconciliations on page 40. There was no material effect on cash flows.

The adoption of IFRS has resulted in various reclassifications in the financial statements, including revenue and cost of sales, arising from the adoption of circular 9/2006 as detailed above, and the reclassification of computer software from tangible equipment in the balance sheet.

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

Certain new standards, amendments and interpretations to existing standards have been published but have effective dates applicable to future annual financial statements of the group and company and which the group and company have not early adopted:

- IAS 39 (Amendment), The Fair Value Option (effective for years commencing on or after 1 January 2006). This amendment changes the definition of financial instruments classified at fair value through profit and loss and restricts the ability to designate financial instruments as part of this category. The group's initial assessment of this amendment is that it should not have a significant impact on the classification of financial instruments, as the group should be able

to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The group will apply this amendment from annual periods beginning 1 March 2006.

- IFRS 7, Financial Instruments; Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments, it requires the disclosure of quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The group will apply IFRS 7 and the amendment to IAS 1 for annual periods beginning 1 March 2007.
- IFRIC 4, Determining whether an Arrangement contains a Lease (effective for years commencing on or after 1 January 2006). IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of IFRIC 4 on the company's operation.
- IFRIC 10, Interim Reporting and Impairment (effective 1 November 2006). Management are currently assessing the impact of this new standard.
- IFRIC 11 – IFRS 2, Group and Treasury Share Transactions (effective for annual periods commencing on or after 1 March 2007). This interpretation should have no impact as the group already complies with the requirements of this interpretation.

The following new standards, amendments and interpretations will, at present, have no effect on the group and company:

- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006).
- IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006).
- IAS 21 (Amendment) – The Effects of Changes in Foreign Exchange Rates: Net Investment in a Foreign Operation (effective for years commencing on or after 1 January 2006).
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006).
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards (effective from 1 January 2006).
- IFRS 6, Exploration for an Evaluation of Mineral Resources (effective from 1 January 2006).
- IFRIC 5, Rights to Interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006).
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective from 1 December 2005).
- IFRIC 7, Applying the Restatement Approach under IAS 29 – Financial reporting in hyperinflationary economies (effective from 1 March 2006).
- IFRIC 8, Scope of IFRS 2 (effective from 1 May 2006).
- IFRIC 9, Reassessment of embedded derivatives (effective from 1 June 2006).

The following new standards are effective on issue and were adopted by the group:

- AC 502, Substantively Enacted Tax Rates and Tax Laws (effective February 2006).

	GROUP		COMPANY	
<ul style="list-style-type: none"> AC 503, Accounting for Black Economic Empowerment (BEE) Transactions (effective April 2006). There was no impact arising from the adoption of these standards. 				
	2006 R000	2005 R000	2006 R000	2005 R000
3 Equipment				
Cost				
Furniture and fittings	5 997	4 356	–	–
Motor vehicles	348	156	–	–
Office equipment	8 437	9 654	–	–
Computer equipment	9 039	5 977	–	–
	23 821	20 143	–	–
Accumulated depreciation				
Furniture and fittings	(2 715)	(2 008)	–	–
Motor vehicles	(110)	(98)	–	–
Office equipment	(6 824)	(7 048)	–	–
Computer equipment	(5 030)	(2 825)	–	–
	(14 679)	(11 979)	–	–
Carrying value				
Furniture and fittings	3 282	2 348	–	–
Motor vehicles	238	58	–	–
Office equipment	1 613	2 606	–	–
Computer equipment	4 009	3 152	–	–
	9 142	8 164	–	–
The carrying amounts of equipment are reconciled as follows:				
Carrying value at beginning of year	8 164	8 838	–	–
Additions at cost	2 143	2 782	–	–
Furniture and fittings	763	–	–	–
Motor vehicles	–	–	–	–
Office equipment	288	44	–	–
Computer equipment	1 092	2 738	–	–
Additions through acquisition of business	2 929	–	–	–
Furniture and fittings	739	–	–	–
Motor vehicles	193	–	–	–
Office equipment	212	–	–	–
Computer equipment	1 785	–	–	–
Current depreciation	(4 015)	(3 422)	–	–
Furniture and fittings	(557)	(265)	–	–
Motor vehicles	(12)	(2)	–	–
Office equipment	(1 349)	(1 330)	–	–

Notes to the financial statements *continued*

	GROUP		COMPANY	
	2006 R000	2005 R000	2006 R000	2005 R000
3 Equipment (continued)				
Disposals	(79)	(34)	–	–
Furniture and fittings	(7)	–	–	–
Motor vehicles	–	–	–	–
Office equipment	(32)	–	–	–
Computer equipment	(40)	(34)	–	–
Carrying value at end of year	9 142	8 164	–	–
Equipment with a carrying value of R866 000 (2005: R2 106 000) is secured by instalment sales (refer note 17).				
Assets subject to finance leases are as follows:				
Motor vehicles	193	–	–	–
Computer equipment	450	–	–	–
	643	–	–	–
4 Software				
Cost	5 356	4 291	–	–
Accumulated amortisation	(3 905)	(3 257)	–	–
Carrying value at end of year	1 451	1 034	–	–
The carrying amounts of software are reconciled as follows:				
Carrying value at beginning of year	1 034	1 135	–	–
Additions during the year	1 065	584	–	–
Amortised during the year	(648)	(676)	–	–
Disposals during the year	–	(9)	–	–
Carrying value at end of year	1 451	1 034	–	–
5 Development costs capitalised				
Cost	17 223	17 624	–	–
Accumulated amortisation	(5 835)	(3 936)	–	–
Carrying value at end of year	11 388	13 688	–	–
The carrying amounts of development costs capitalised are reconciled as follows:				
Carrying value at beginning of year	13 688	15 109	–	–
Additions during the year	2 630	2 289	–	–
Amortised during the year	(3 667)	(3 710)	–	–
Disposals during the year	(1 263)	–	–	–
Carrying value at end of year	11 388	13 688	–	–

	GROUP		COMPANY	
	2006 R000	2005 R000	2006 R000	2005 R000
5 Development costs capitalised (continued)				
Development costs comprise software development costs in respect of the following projects:				
Automated invoice matching program	9 807	11 716	–	–
Call centre solution	1 455	–	–	–
Security portal	126	–	–	–
Medical aid administration software	–	1 972	–	–
	11 388	13 688	–	–
6 Goodwill				
At cost	56 658	731	–	–
Accumulated impairments	(604)	(604)	–	–
Carrying value at end of year	56 054	127	–	–
The carrying amounts of goodwill are reconciled as follows:				
Carrying value at beginning of year	127	484	–	–
Additions during the year	55 927	507	–	–
Disposals during the year	–	(468)	–	–
Impaired during the year	–	(396)	–	–
Carrying value at end of year	56 054	127	–	–
Goodwill acquired during the year comprises the goodwill on acquisition of the business of Enterprise Connection, as detailed in note C on page 30, and comprises the following:				
Purchase price	50 600			
Net asset value of the business acquired	(6 282)			
Costs of acquisition	2 012			
Purchase consideration adjustment based on increase in Faritec share price from contract date to closing date	9 597			
Goodwill acquired	55 927	–	–	–

Notes to the financial statements *continued*

6 Goodwill (continued)

Goodwill acquired during the year comprises the goodwill on acquisition of the business of Enterprise Connection.

In applying the requirements of IFRS 3: Business Combinations, additional goodwill of R9 597 000 has been raised. Of the contracted purchase consideration, 50% was settled in cash, while the other 50% was settled by issuing Faritec shares. The Faritec share price was 58 cents at the contract date; at the closing date on 27 June 2006, the share price had increased to 80 cents. This increase in the market value of the shares issued, from R25 300 000 at contract date, to R34 897 000 at closing date, increased the purchase consideration, from the contract value of R50 600 000, to R60 197 000.

The following key assumptions concerning the future, which may have a significant risk of causing a material adjustment to the carrying amount of goodwill within the next financial year, have been used for the purposes of determining value in use of goodwill and the cash generating unit to which it belongs, by means of the Capital Asset Pricing Model:

- revenue growth rate – 30% per annum for first two years and 10% per annum thereafter, based on business plans and knowledge of the industry
- periods used – indefinite
- reason for period used – no foreseeable limit to the period over which the asset will be used
- discount rate – 25,72%

	GROUP		COMPANY	
	2006 R000	2005 R000	2006 R000	2005 R000
7 Trademarks				
At cost	38 204	38 204	–	–
Carrying value at end of year	38 204	38 204	–	–
<p>The trademarks comprise the Faritec trademark and logo.</p> <p>The following key assumptions concerning the future, which may have a significant risk of causing a material adjustment to the carrying amount of trademarks within the next financial year, have been used for the purposes of determining value in use of trademarks, and the cash generating unit to which it belongs, by means of the Capital Asset Pricing Model:</p> <ul style="list-style-type: none"> – growth rate – 10% per annum, based on knowledge of the industry – discount rate – 25,72% – periods used – indefinite – reason for period used – no foreseeable limit to the period over which the asset will be used 				

	GROUP		COMPANY	
	2006 R000	2005 R000	2006 R000	2005 R000
8 Investment in subsidiaries				
Faritec (Pty) Limited				
– Shares, 70% holding at cost	–	–	30 867	30 867
– Amount owing	–	–	44 179	44 179
Faritec Enterprise Solutions (Pty) Limited				
– Amount owing	–	–	37 551	–
	–	–	112 597	75 046
The loans are unsecured, interest free and are repayable subject to 12 months' notice. Further detail on the group's subsidiaries are contained in the schedule on page 56.				
9 Investments				
Investment in preference shares – at cost/par value	13 229	13 229	13 229	13 229
Impairment	–	(3 770)	–	(3 770)
Fair value/directors' valuation	13 229	9 459	13 229	9 459
Comprising cumulative redeemable non-convertible preference shares held in Lexshell 563 Investments (Pty) Limited. The shares are redeemable at par by the issuer at any time before 30 June 2007.				
10 Loans receivable				
Share Incentive Trust				
The group has advanced R3 293 000 (2005: R2 149 000) to the staff of Faritec to participate in the Faritec Share Incentive Trust for the acquisition of 9 507 333 (2005: 12 487 000) Faritec Holdings Limited ordinary shares. These shares have been issued at prices between 0,1 cent and 30 cents each. The loans are repayable on sale of the relevant shares.	3 293	2 149	–	–
Joint venture				
The loan is unsecured, interest free and is repayable subject to 12 months' notice.	1 479	2 067	–	–
	4 772	4 216	–	–

Notes to the financial statements *continued*

	GROUP		COMPANY	
	2006 R000	2005 R000	2006 R000	2005 R000
11 Deferred taxation				
Balance at beginning of year	5 096	6 492	–	–
Movements during year attributable to temporary differences	261	(1 396)	–	–
Balance at end of year	5 357	5 096	–	–
The balance comprises:				
– Computed tax losses	5 781	6 071	–	–
– Capitalised expenditure	(3 302)	(3 969)	–	–
– Provisions	810	947	–	–
– Lease liabilities	2 068	2 047	–	–
	5 357	5 096	–	–
The group expects that with the profits expected to be generated in future years, the computed tax losses will be utilised.				
Deferred tax assets have not been recognised for unused tax losses of R6 073 000 (2005: R5 218 000).				
12 Inventories				
Loan stock, net of amortisation	822	118	–	–
Merchandise and components	4 491	2 937	–	–
	5 313	3 055	–	–
No inventories are carried at net realisable value.				
13 Trade and other receivables				
Accounts receivable of R74 934 000 (2005: R84 211 000) have been ceded to the company's banker as security for the overdraft and other banking facilities granted.				
Included in other receivables are receivables from companies controlled by certain directors	2 929	2 366	–	–

	GROUP		COMPANY	
	2006 R000	2005 R000	2006 R000	2005 R000
<p>14 Cash and cash equivalents</p> <p>The company and/or group has pledged certain of its investment accounts, restricted to R1 800 000 (2005: R1 800 00) to Nedbank Limited as security for a guarantee issued to a supplier.</p> <p>A call account with a balance of R1 800 000 (2005: R1 800 000) has been presented as security for banking facilities granted to a property company owned by certain directors of the group. The group rents the premises owned by that company.</p>				
<p>15 Share capital</p> <p>Authorised</p> <p>524 000 000 (2005: 500 000 000) ordinary shares of 0,1 cents each</p> <p>24 000 000 compulsory automatically convertible redeemable preference shares of 0,1 cents each</p>	524	500	524	500
<p>Issued</p> <p>181 385 458 (2005: 129 628 602) ordinary shares at 0,1 cents each</p> <p>0 (2005: 3 640 000) compulsory automatically redeemable preference shares of 0,1 cents each</p>	181	129	181	129
	–	4	–	4
	181	133	181	133
<p>Unissued shares</p> <p>The 342 614 542 (2005: 370 371 398) unissued ordinary shares are under the control of the directors. This authority is valid until the forthcoming annual general meeting.</p> <p>Preference shares</p> <p>During the year, 3 640 000 preference shares were cancelled, while 3 640 000 ordinary shares were issued in terms of the rules of the Faritec Share Incentive Scheme.</p>				

Notes to the financial statements *continued*

	GROUP		COMPANY	
	2006 R000	2005 R000	2006 R000	2005 R000
16 Share premium				
Balance at beginning of year	27 323	27 483	28 241	28 241
Premium on shares issued for staff share schemes during the year	2 671	–	2 671	–
Premium on shares issued in terms of acquisition of business of Enterprise Connection	34 853	–	34 853	–
Write-off of share issue costs	(21)	(160)	(21)	–
	64 826	27 323	65 744	28 241
17 Interest-bearing borrowings				
Bank loan	30 000	–	–	–
Finance agreements	2 016	2 172	–	–
Current portion included in current portion of interest-bearing borrowings	(7 352)	(998)	–	–
	24 664	1 174	–	–
<p>The bank loan is repayable in twenty quarterly instalments of R1 500 000 each. The rate of interest varies from a margin of 2,75% to 3% above the JIBAR rate and is secured as detailed in notes 13, 19 and 25 of the financial statements.</p> <p>The bank loan was obtained for the purpose of funding the acquisition of the Enterprise Connection business, as detailed in note C on page 30.</p> <p>The secured finance agreements bear interest at 1,5% (2004: 1,5%) below the prime lending rate, repayable in monthly instalments of R96 160 (2005: R96 982). Secured by equipment with a book value of R1 508 000 (2004: R2 106 000).</p> <p>Included in finance agreements are acquired finance leases, repayable as follows:</p>				
– payable within one year	409	–	–	–
– payable in second to fifth years	403	–	–	–
	812	–	–	–

	GROUP		COMPANY	
	2006 R000	2005 R000	2006 R000	2005 R000
18 Non-interest-bearing borrowings				
Technology Corporate Management (Pty) Limited joint venture partner	1 457	1 457	–	–
The loans are unsecured, interest free and are subject to a 12 months' notice period.				
Faritec Inter-Company Processes (Pty) Limited shareholder loans from minority shareholders	1 377	1 208	–	–
The loans are unsecured, interest free and have been subordinated.				
	2 834	2 665	–	–
19 Bank overdrafts				
In addition to the cession of accounts receivable as detailed in note 13, the bank facilities are further secured by unlimited suretyships between various group companies.				
20 Revenue				
Gross revenue comprises turnover, which excludes value-added tax and represents the invoiced value of goods and services supplied.				
Major classes of revenue comprise:				
– Hardware	305 812	258 250	–	–
– Software	73 120	36 820	–	–
– Services	151 126	133 355	258	279
	530 058	428 425	258	279
21 Exceptional items				
Write-off of liability	–	2 689	–	–
Impairment of assets	(80)	(5 303)	–	–
Profit on sale of business	–	5 042	–	–
	(80)	2 428	–	–

Notes to the financial statements *continued*

	GROUP		COMPANY	
	2006 R000	2005 R000	2006 R000	2005 R000
22 Net profit before taxation				
Profit before taxation is stated after taking into account the following:				
Income:				
Forex gains	432	9	–	–
Profit on disposal of asset	–	43	–	–
Expenses:				
Auditors' remuneration – fees	652	388	–	–
– other services	90	70	–	–
Depreciation	4 015	4 098	–	–
Amortisation	4 315	3 710	–	–
Operating lease rentals	5 537	4 613	–	–
Staff costs	89 379	79 515	–	–
23 Taxation				
SA normal taxation – current	6 267	1 142	–	–
– prior year underprovisions	–	862	–	–
– deferred	(261)	1 396	–	–
	6 006	3 400	–	–
Tax rate reconciliation:				
Statutory tax rate (%)	29,0	29,0	–	–
Exempt income and capital gains (%)	(4,6)	(30,7)	–	–
Prior year underprovisions (%)	–	9,6	–	–
Non-deductible items and deferred tax assets not raised (%)	0,6	31,0	–	–
Effective tax rates	25,0	38,9	–	–
At 30 June 2006, the group had an estimated tax loss of R26 008 000 (2005: R26 154 000) which will be available for set-off against future taxable income.				
24 Earnings per share				
Earnings	13 982	3 719	–	–
Adjustments:				
Write-off of liability	–	(2 689)	–	–
Profit on sale of business	–	(5 042)	–	–
Impairment of assets	80	5 303	–	–
Headline earnings	14 062	1 291	–	–
Weighted average number of shares in issue (000)	135 075	129 629	–	–
Dilution arising from options issued to employees	8 730	251	–	–
Fully diluted number of shares in issue (000)	143 805	129 880	–	–

	GROUP		COMPANY	
	2006 R000	2005 R000	2006 R000	2005 R000
25 Contingent liabilities				
Secondary tax on companies that would be payable if all accumulated profits were distributed by way of a dividend.	6 812	5 259	6 656	6 237
– The company has signed omnibus suretyships on behalf of its subsidiaries in favour of The Standard Bank of South Africa Limited, for banking facilities provided.				
– Faritec Enterprise Solutions (Pty) Limited, a wholly owned subsidiary in the group, has signed sureties restricted to R1 800 000 (2005: R1 800 000), for banking facilities granted to ebusiness Infrastructure Solution (Pty) Limited, a joint venture company held 50% by the group. At year-end no amounts were outstanding in respect of this facility.				
26 Directors' emoluments				
The aggregate of directors' emoluments amounted to:				
– For services as directors	280	280	–	–
– For other services	7 666	5 656	–	–
	7 946	5 936	–	–

Detailed analysis for 2006 financial year	Fees R000	Remuneration R000	Share options exercised R000	Bonus R000	Total R000	Total 2005 R000
Non-executive directors:						
CR Jardine	90	–	–	–	90	90
D Masson	65	–	–	–	65	65
J Naidoo	65	–	–	–	65	65
LN Noxaka	60	–	–	–	60	60
Executive directors:						
SM Tomlinson	–	1 304	259	292	1 855	1 254
HC Gajjar	–	1 172	–	192	1 364	1 135
SM Nyembe (from 1 April 2005)	–	970	–	213	1 183	232
AR Timm	–	1 241	159	276	1 676	1 854
PJ Winn	–	1 206	159	223	1 588	1 181
	280	5 893	577	1 196	7 946	5 936

Notes to the financial statements *continued*

	GROUP		COMPANY	
	2006 R000	2005 R000	2006 R000	2005 R000
27 Commitments				
The following lease commitments have been entered into by the group in relation to premises and office equipment as follows:				
Payable within one year				
– Premises	7 745	4 700	–	–
– Office equipment	992	1 548	–	–
Payable in 2nd to 5th year inclusive				
– Premises	25 675	26 870	–	–
– Office equipment	619	1 300	–	–
Payable thereafter				
– Premises	–	1 610	–	–
– Office equipment	127	–	–	–
	35 158	36 028	–	–

28 Acquisition of business

The acquisition of the business of Enterprise Connection, which was effective from 01 July 2005, closed on 27 June 2006. The fair value of the net assets acquired is detailed in note C on page 30. Goodwill was recognised on the basis of the excess of the purchase consideration over the net assets acquired, as detailed in note 6 on page 45.

29 Borrowing powers

In terms of the company's articles of association, the borrowing powers of the company are unlimited. The total group borrowings at year-end are R34 847 000 (2005: R4 837 000).

30 Retirement benefits

The group presently contributes to a defined contribution retirement benefit plan, being a provident fund, which does not require an actuarial valuation. The fund is subject to the Pension Funds Act, 1956. The group's contribution to the above scheme was R3 482 000 (2005: R2 612 000). The group has no obligations to fund post-retirement benefits.

31 Related party transactions

Identity of related parties

The subsidiaries and joint venture of the group are identified in the schedule on page 56.

The directors are listed on page 4.

Significant shareholders are detailed on page 57.

Group companies

Arms' length trading transactions occur between divisions and companies within the group from time to time. The transactions are reversed on consolidation.

For details on loans to/from the holding company, subsidiaries and joint venture, refer to notes 8 and 10 and the schedule on page 56.

The holding company earns revenue from a subsidiary company, Faritec Enterprise Solutions (Pty) Ltd, as disclosed in note 20 to these financial statements.

Details of guarantees between the holding company, subsidiaries and joint venture are contained in note 25 of these financial statements.

Directors

The Johannesburg and Cape Town premises, from which the group operates, are rented from companies in which certain executive directors of Faritec Holdings Limited, AR Timm, SM Tomlinson and PJ Winn, have an interest. These leases were done on an arm's length basis based on open market rental valuations.

Property lease rentals paid to these companies for the year were:

150 Kelvin Drive Properties (Pty) Ltd – R2 989 000

Ekin Holdings (Pty) Ltd – R1 631 000

Refer to note 27 on page 54 for commitments owing in respect of rentals on these premises, and note 13 on page 48 for receivables due from these companies.

The directors' emoluments are disclosed in note 26 on page 53. Further information on transactions with directors is contained in the Directors' report.

None of the directors or major shareholders of the group, nor their families, had any direct or indirect interest in any transaction concluded with the group in the current or prior financial years, other than as disclosed in this note and in the Directors' report.

BEE partner

As a result of a BEE transaction between Faritec Holdings Ltd ("Faritec") and Jay and Jayendra (Pty) Limited ("J&J"), J&J owns a 30% interest in Faritec (Pty) Limited; this interest was funded by an equal investment in preference shares in J&J, held by Faritec.

After the third anniversary, which was on 30 June 2006, but prior to the fourth anniversary of the transaction, which will be on 30 June 2007, J&J will dispose of its investment in Faritec (Pty) Limited to Faritec, in exchange for the redemption of the preference shares in J&J and the issue of new Faritec shares to J&J.

The value of J&J's 30% interest in Faritec (Pty) Limited will be established with reference to the 30-day volume weighted average market capitalisation of Faritec at the time of the disposal.

The number of Faritec shares to be issued to J&J will be calculated using the value of J&J's 30% interest in Faritec (Pty) Limited and subtracting the cumulative value of the preference shares that have, at that date, not been redeemed (being R13,229 million less any capital redemption to date plus the cumulative value of any preference dividends accrued but not paid to date).

The Faritec shares will be issued at the 30-day volume weighted average share price used for the determination of the value of Faritec.

32 Financial instruments

Credit risk

The group maintains cash, cash equivalents and short-term investments with various financial institutions.

The group's policy is to limit exposure with any one financial institution. A high credit standing is necessary for the financial institutions with which transactions are executed.

Credit risk with respect to trade receivables is limited due to a large number of customers comprising the customer base and their dispersion across different industries. Ongoing credit evaluation of the financial position of customers is performed.

Interest rate risk

As part of the process of managing the group's interest rate risk, interest rate characteristics of new borrowings and the refinancing of existing borrowings are positioned according to expected movements in interest rates. Full details of interest rates relating to interest-bearing borrowings are detailed in note 17 on page 50.

Foreign currency risk management

Material assets and liabilities, denominated in a foreign currency, are covered by forward exchange contracts in order to manage exposure to movements in the foreign currency. At year end there were no material contracts outstanding.

Liquidity risk

The group's risk to liquidity is a result of the funds available to cover future commitments. The group manages liquidity risk through an ongoing review of future commitments and credit facilities. Cash flow forecasts are prepared and adequate unutilised borrowing facilities are monitored.

Fair values

The fair values of all applicable financial instruments are substantially identical to the carrying values reflected in the balance sheet. Where applicable, the fair value of receivables and payables is estimated by discounting contractual cash flows at the current market interest rate that is available to the group for similar instruments.

Schedule of interest in subsidiary and joint venture companies

	Issued share capital R000	Effective holding %	Interest of holding company			
			Shares R000	2006 Indebtedness R000	Shares R000	2005 Indebtedness R000
Faritec (Pty) Limited ¹	200	70,0	30 867	44 179	30 867	44 179
Faritec Enterprise Solutions (Pty) Limited ²	6 000	70,0	–	37 551	–	–
Faritec Group Managed Services (Pty) Limited ³	5 000	70,0	–	–	–	–
Faritec Inter-Company Processes (Pty) Limited ²	1 300	48,93	–	–	–	–
		(2005: 46,4)				
Faritec Contracting (Pty) Limited ³	100	70,0	–	–	–	–
Faritec Strategic IT Services (Pty) Limited ³	5 000	70,0	–	–	–	–
FariMed (Pty) Limited ²	200	70,0	–	–	–	–
Jafcal Systems (Pty) Limited ¹	100	70,0	–	–	–	–
Faritec Software and Applications (Pty) Limited ³	100	70,0	–	–	–	–
FGH (SA) Decision Support Systems (Pty) Limited ³	8	70,0	–	–	–	–
ebusiness Infrastructure Solution (Pty) Limited ²						
– joint venture	100	35,0	–	–	–	–
			30 867	81 730	30 867	44 179

All companies are incorporated in South Africa.

Nature of business

1 – holding companies

2 – information technology (provision of managed business and technology infrastructure solutions, software development and distribution, and hosting services)

3 – dormant

Joint venture

Summary of the joint venture, accounted for on the proportionate consolidation method (Faritec Holdings Limited share):

	2006 R'000	2005 R'000
Assets		
Non-current assets	522	214
Current assets	14 697	13 874
Total assets	15 219	14 088
Equity and liabilities		
Equity		
Share capital	–	–
Retained income	2 837	1 320
Total equity	2 837	1 320
Liabilities		
Non-current liabilities	2 953	2 968
Current liabilities	9 429	9 800
Total liabilities	12 382	12 768
Total equity and liabilities	15 219	14 088

Share ownership analysis AT 30 JUNE 2006

	Number of shareholders	%	Number of shares	%
Size of shareholding				
1 – 1 000 shares	126	21,1	91 205	0,1
1 001 – 10 000 shares	265	44,5	1 350 926	0,7
10 001 – 100 000 shares	147	24,7	5 273 944	2,9
100 001 – 1 000 000 shares	46	7,7	10 902 407	6,0
1 000 001 shares and over	12	2,0	163 766 976	90,3
Total	596	100,0	181 385 458	100,0
Individuals				
Empowerment	23	3,9	36 731 747	20,3
Nominee companies or trusts	38	6,4	91 512 327	50,5
Private companies	9	1,5	2 444 092	1,4
Public companies	13	2,2	14 923 039	8,2
Other corporations	24	4,0	2 459 751	1,4
Investment companies	2	0,3	4 073 000	2,2
Total	596	100,0	181 385 458	100,0
Shareholder spread				
Non-public shareholders				
Directors and associates of the company	6	1,0	83 243 071	45,9
Strategic holdings (more than 10%)	2	0,3	54 137 416	29,8
Share trust	1	0,2	6 485 000	3,6
Public shareholders	587	98,5	37 519 971	20,7
Total	596	100,0	181 385 458	100,0
Interest > 5%				
The interest of any shareholder, other than a director who, in so far as is known, directly or indirectly, that is 5% or more of the issued share capital				
Big Five Nominees (Pty) Limited			34 725 898	19,1
Canal Square Investments (Pty) Limited			19 411 518	10,7
Jay and Jayendra (Pty) Limited			14 208 129	7,8
Peregrine			7 000 000	3,9
Price, RS & Associates			11 943 879	6,6

Notice to the annual general meeting

Notice is hereby given that the eight annual general meeting of the shareholders of Faritec Holdings Limited will be held in the boardroom, Faritec House, 150 Kelvin Drive, Woodmead, Sandton on Thursday, 8 February 2007, at 08:30 for the following purposes:

SPECIAL RESOLUTION NUMBER 1

Resolved that, pursuant to the articles of association of the company, Faritec Holdings Limited, or a subsidiary, be and is hereby authorised, by way of a general authority, to acquire shares issued by the company in terms of sections 85 and 89 of the Companies Act, No 61 of 1973, as amended, and in terms of the JSE Listings Requirements (“the Listings Requirements”), being that:

- any such repurchase of shares shall be effected through the order book operated by the JSE trading system without any prior understanding or arrangement between the company and the counterparty;
- the general authority shall only be valid until the company’s next annual general meeting, provided that it shall not extend beyond 15 (fifteen) months from the date of passing of this special resolution;
- when the company has cumulatively repurchased 3% in aggregate of the initial number of that class of shares acquired thereafter, an announcement must be published as soon as possible and not later than 08:30 on the business day following the day on which the relevant threshold is reached or exceeded, and the announcement must comply with the listings requirements;
- any general repurchase by the company of its own shares shall not, in aggregate in any one financial year, exceed 20% of the company’s issued share capital of that class as at the date of passing of this special resolution;
- acquisitions by a subsidiary of shares in the company may not exceed 10% in the aggregate of the number of issued shares of the company. In determining the price at which shares issued by the company are acquired by the company or its subsidiary in terms of this general authority.
- the maximum price at which such shares may be acquired will be 10% above the weighted average of the market value for such shares for the 5 (five) business days immediately preceding the date of repurchase of such shares;
- the company will, at any point in time, only appoint one agent to effect any repurchases on the company’s behalf;
- neither the company, nor its subsidiaries, will repurchase shares during a prohibited period as defined by the listing requirements; and
- the company, or a subsidiary, will only undertake a repurchase of shares if, after such repurchases, the company complies with the shareholder spread requirements prescribed by the listing requirements.

The reason for and effect of this special resolution is to grant the company a general authority in terms of the Companies Act for the acquisition of shares of the company. Such general authority will provide the Board with the flexibility, subject to the requirements of the Companies Act and the JSE should it be in the interests of the company at any time while the general authority exists, to purchase shares.

This general authority shall be valid until the earlier of the next annual general meeting of the company, or its variation or revocation by special resolution by any subsequent general meeting of the company, provided that this general authority shall not extend beyond 15 (fifteen) months from the date of passing of this special resolution.

After considering the effect of the repurchase of the maximum number of securities, the directors are of the opinion that:

- the company and its subsidiaries will be able to pay their debts as they become due in the ordinary course of business for the next 12 (twelve) months;
- the assets of the company and its subsidiaries, fairly valued in accordance with Generally Accepted Accounting Practice, will be in excess of the liabilities of the company and its subsidiaries;
- the issued share capital and reserves of the company and its subsidiaries will be adequate for the purposes of the business of the company and its subsidiaries for the next 12 (twelve) months;
- the working capital available to the company and its subsidiaries will be sufficient for the group’s requirements for the next 12 (twelve) months; and

- The company's sponsor will confirm the adequacy of the company's working capital for the purposes of undertaking a repurchase of shares in writing to the JSE, prior to the company (or any subsidiary) entering the market to proceed with the repurchase.

The annual report to which this notice of annual general meeting is attached provides details of:

- the directors of the company on page 4;
- the major shareholders of the company on page 57;
- details of any material changes in the company's financial position between 30 June 2006 and the date on which the annual financial statements were finalised on page 25;
- the directors' shareholding in the company on page 24;
- the share capital of the company on page 22; and
- the directors' responsibility statement on page 20.

The directors of the company are not aware of any legal or arbitration proceedings (including any such proceedings that are pending or threatened) that may have or have had in the recent past (covering at least the previous 12 months) a material effect on the group's financial position.

AS ORDINARY RESOLUTIONS

- 1 To consider and approve the financial statements and group financial statements for the year ended 30 June 2006.
- 2 To re-elect D Masson as a director, in accordance with the provisions of the articles of association of the company.
- 3 To re-elect J Naidoo as a director, in accordance with the provisions of the articles of association of the company.
- 4 To re-elect HC Gajjar as a director, in accordance with the provisions of the articles of association of the company.
- 5 To re-elect AR Timm as a director, in accordance with the provisions of the articles of association of the company.
- 6 To approve an authority for the directors to issue ordinary shares of 0,1 cent each for cash to the public as and when suitable situations arise, subject to the following conditions:
 - that the securities which are the subject of the issue for cash must be of a class already in issue, or where this is not the case, must be limited to such securities or rights as are convertible into a class already in issue;
 - that this authority shall not extend beyond 15 (fifteen) months from the date of this annual general meeting;
 - that a paid press announcement giving full details, including the impact on net asset value and earnings per share, will be published at the time of any issue representing, on a cumulative basis within one year, 5% or more of the number of shares in issue prior to the issues;
 - that the number of shares issued for cash shall not in the aggregate in any one financial year exceed 15% of the company's issued shares. The number of shares which may be issued for cash shall be based on the number of shares in issue at the date of the application, less any shares issued by the company during the current financial year, provided that any shares to be issued for cash pursuant to a rights issue (announced and irrevocable and underwritten) or acquisition (concluded up to the date of application) may be included as though they were shares in issue at the date of application;
 - that, in determining the price at which an issue of shares will be made in terms of this authority, the maximum discount permitted will be 10% of the average ruling price of the shares in question, as determined over the 30 days prior to the date the price of the issue is determined or agreed by the directors of the company;
 - that the shares must be issued to public shareholders as defined in the listing requirements and not to related parties; and
 - a 75% majority of votes is required for this resolution to be approved.
- 7 To reappoint the auditors, Charles Orbach & Company, for the ensuing year.
- 8 To transact any other business as may be transacted at an annual general meeting.

CERTIFICATED SHAREHOLDERS AND DEMATERIALISED SHAREHOLDERS WITH “OWN NAME” REGISTRATION

A shareholder of the company entitled to attend and vote at the annual general meeting of shareholders is entitled to appoint one or more proxies (who need not be a shareholder of the company) to attend, vote and speak in his/her stead. In order to be valid completed forms of proxy must be lodged at the registered office of the company or the transfer secretaries, so as to be received by no later than 08:30 on Wednesday, 7 February 2006.

On a show of hands, every shareholder of the company present in person or represented by proxy shall have one vote only. On a poll, every shareholder of the company present in person or represented by proxy shall have one vote for every share held in the company by such shareholder.

DEMATERIALISED SHAREHOLDERS, OTHER THAN THOSE WITH “OWN NAME” REGISTRATION

Faritec Holdings Limited shareholders who have dematerialised their Faritec Holdings Limited shares through a Central Securities Depository Participant (“CSDP”) or broker, other than those with “own name” registration, and who wish to attend the annual general meeting, must instruct their CSDP or broker to issue them with the necessary authority to attend.

Should Faritec Holdings Limited shareholders who have dematerialised their shares, other than those with “own name” registration, wish to vote by way of proxy, they must provide their CSDP or broker with their voting instructions in the manner and cut-off time stipulated in terms of the custody agreement entered into between them and their CSDP or broker.

A proxy need not be a shareholder of the company.

In respect of dematerialised shares, it is important to ensure that the person or entity (such as a nominee) whose name has been entered into the relevant subregister maintained by a CSDP completes the form of proxy in terms of which he/she appoints a proxy to vote at the annual general meeting of shareholders in accordance with the instructions received from dematerialised beneficial holders.

By order of the Board



CN Densham
Company Secretary

18 December 2006

Faritec Holdings Limited
 Incorporated in the Republic of South Africa
 Registration number 1998/004872/06
 Share code FRT ISIN number ZAE000016838

For use by certificated and own-name dematerialised shareholders of Faritec ("ordinary shareholders") for the eight annual general meeting of Faritec to be held at 08:30 on Thursday, 8 February 2007 ("annual general meeting") in the boardroom, Faritec House, 150 Kelvin Drive, Woodmead, Sandton.

I/We _____ (name(s) in block letters)

of _____ (address)

Being registered holder(s) of _____ ordinary shares in Faritec, appoint (see note 1):

1 or failing him _____

2 or failing him _____

3 or failing him, _____

the Chairman of the annual general meeting as my/our proxy to act for me/us and on my/our behalf at the annual general meeting which will be held for the purpose of considering, and if deemed fit, passing, with or without modification, the resolutions to be proposed at the meeting and at any adjournment thereof, and to vote for and/or against the resolutions and/or abstain from voting in respect of the ordinary shares registered to my/our name(s), in accordance with the following instructions (see note 6).

	In favour of resolution	Against resolution	Abstain from resolution
Special resolution			
No 1 General authority for repurchase of shares			
Ordinary resolutions			
No 1 Approval of financial statements			
No 2 Re-election of Director – D Masson			
No 3 Re-election of Director – J Naidoo			
No 4 Re-election of Director – HC Gajjar			
No 5 Re-election of Director – AR Timm			
No 6 Authority to issue shares for cash			
No 7 Reappointment of auditors			
No 8 General			

Signed at _____ on _____ 2007

Signature _____ Assisted by (where applicable) _____

Please read the notes on the reverse.

Notes to the form of proxy

- 1 The following categories of shareholders are entitled to complete a proxy form:
 - a) certificated shareholders whose names appear on the company's register;
 - b) own name electronic dematerialised shareholders whose names appear on the sub-register of a Central Securities Depository Participant ("CSDP");
 - c) CSDPs with nominee accounts;
 - d) brokers with nominee accounts.
- 2 Certificated shareholders wishing to attend the annual general meeting have to ensure beforehand with the transfer secretaries of the company that their shares are registered in their name.
- 3 Beneficial shareholders whose shares are not registered in their own name but in the name of another, for example, a nominee, may not complete a proxy form, unless a proxy is issued to them by the registered shareholder and should contact the registered shareholder for assistance in issuing instruction on voting their shares, or obtaining a proxy to attend the meeting.
- 4 All beneficial shareholders who have dematerialised their shares through a CSDP or broker, other than those in "own name", must provide the CSDP or broker with their voting instruction. Alternatively, should such a shareholder wish to attend the meeting in person, in terms of the custody agreement with the CSDP or broker, such shareholders must request the CSDP or broker to provide the shareholder with a letter of representation.
- 5 An ordinary shareholder is entitled to appoint, by inserting the name(s) of one or more proxies (of whom none need to be a member), in the space provided, with or without deleting the words "the Chairman of the annual general meeting", to attend, speak and vote at the annual general meeting in his stead. In the event that no names are indicated, the proxy shall be exercised by the Chairman of the annual general meeting.
- 6 An ordinary shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that ordinary shareholder in the appropriate box(es) provided.
- 7 The completion and lodging of this form of proxy shall in no way preclude the shareholder from attending, speaking and voting in person at the annual general meeting to the exclusion of any proxy appointed in terms hereof.
- 8 Any alteration or correction made to this form of proxy must be signed in full and not initialled by all the signatories.
- 9 Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy, unless previously recorded by the company's transfer secretaries or waived by the Chairman of the annual general meeting.
- 10 Where there are joint holders of any shares, only that holder whose name appears first in the register in respect of such shares need sign this form of proxy.
- 11 A minor must be assisted by his/her parent or guardian unless the relevant documentation establishing his/her legal capacity has been produced or has been registered by the company's transfer secretary.
- 12 Proxy forms must be lodged at the registered office of the company or posted to:
Computershare Investor Services 2004 (Pty) Limited, 17 Marshall Street, Marshalltown, PO Box 61051, Marshalltown, 2107, to be received not later than 48 hours before the time fixed for the annual general meeting (excluding Saturday, Sunday and public holidays).

Shareholders' diary

Financial year-end	June 2007
Annual general meeting	December 2007
Reports and profit statements	
Half-year interim report	March 2007
Preliminary report	September 2007
Annual report and financial statements	October 2007

Administration

Registered office

Faritec House
150 Kelvin Drive Woodmead
Sandton 2148
(PO Box 76784 Wendywood 2144)

Auditors

Charles Orbach & Company
Chartered Accountants (SA)
Ground Floor Orbach Place
261 Oxford Road Illovo 2196
(PO Box 821 Northlands 2116)

Commercial banker

The Standard Bank of South Africa Limited
(Registrastion number 1962/00738/06)
156 Fifth Street Sandton 2196
(PO Box 652360 Benmore 2010)

Company secretary

Craig Densham CA(SA)
Faritec House
150 Kelvin Drive Woodmead
Sandton 2148
(PO Box 76784 Wendywood 2144)

Transfer secretaries

Computershare Investor Services 2004 (Pty) Limited
(Registration number 1987/03382/06)
70 Marshall Street Marshalltown 2001
(PO Box 61051 Marshalltown, 2107)

Attorneys

Read Hope Phillips Thomas & Cadman Inc
2nd Floor 30 Melrose Boulevard
Melrose Arch 2196
(PO Box 757 Northlands 2116)

Corporate sponsor

Java Capital (Pty) Limited
2 Arnold Road Rosebank 2196
(PO Box 2087 Parklands 2121)
Head office tel +27 11 800 7400

Faritec Holdings Limited

Incorporated in the Republic of South Africa
Registration number 1998/004872/06
Share code FRT
ISIN number ZA~E 000016838
www.faritec.com



Most importantly, with our solutions, there are no limits to what our customers can achieve.

WIPAC
WIPAC FOR CONSUMERS