

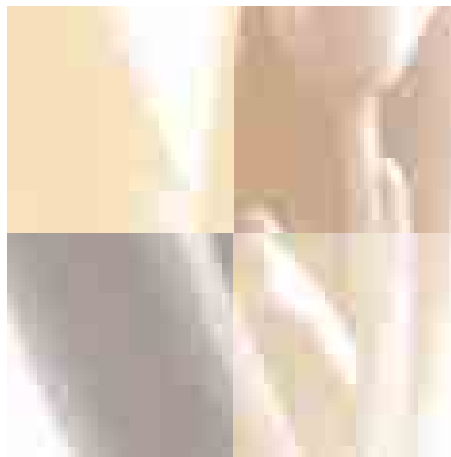
SQUARE ONE SOLUTIONS GROUP LIMITED
ANNUAL REPORT 2006





VISION STATEMENT

The Square One Solutions Group's vision is focused on providing value for our clients through the application of business knowledge, technology skills and world-class capability.



MISSION STATEMENT

To provide world-class products, strategies and solutions to target markets, applying the principles of integrity, supplier loyalty and efficient customer support and retention.

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SALIENT FINANCIAL HIGHLIGHTS

Profit before tax up 106% to R5,004 million

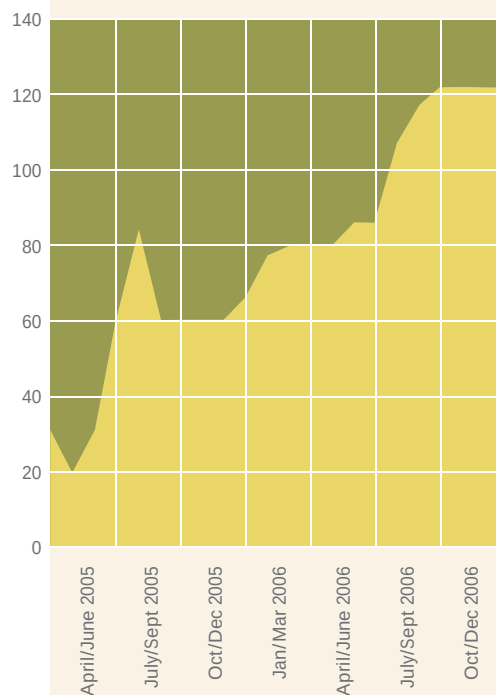
Headline earnings per share increased by 20% to 11,23 cents

Operating profit up 27% to R8,281 million

Gross Margin per headcount up by 27% to R417 thousand

Earnings per share up 113% to 11,23 cents

SHARE PRICE cents



PUBLIC COMPANY

Square One Solutions Group Limited ("Square One") is an information technology company listed under the "Information Technology (IT) – Software and Computer Services" sector of the JSE Limited ("JSE").

HIGH LEVEL STRATEGY

Square One's primary service focuses on providing niche business-enabling, technology solutions, which create value for our clients through the application of business knowledge and best practices, technological skills and capability.

The Group's core operations are focused on the provision of value-based solutions centred around IP infrastructure solutions, policy solutions, power solutions, coding and marking solutions, mobile and wireless solutions, security, telecommunications and service provider solutions to its key target market of Enterprise, SME, Corporate and Government clients. The Company also distributes document solutions, colour input and output devices and provides 24x7x365 national support and service.



WHAT WE DO

... growth can happen by accident or it can happen by design ... design is preferable – managed performance builds strength, and through strength comes growth ...

NATURE OF BUSINESS

Square One Solutions Group's primary focus is the provision of niche, technology solutions. As a group with strong black ownership and management, with a national footprint and more than 21 years experience focused on the South African market, Square One Solutions Group is uniquely positioned to be large enough to ensure quality delivery, whilst retaining a small enough culture to truly care about our clients.

The Group's value-based offerings are centred on:

■ Technology Solutions

Infrastructure Solutions

■ *Power Solutions*

■ *Facility Solutions*

Networking Solutions

■ *Data*

■ *Voice*

Policy and Lawful Interception Solutions

■ *Data*

■ *Voice*

■ Coding and Marking Solutions

CIJ

Laser

Outer Case Coding

Commercial Printing

Outsourced Coding Solutions

■ Channel Services

■ Finance and Leasing Services

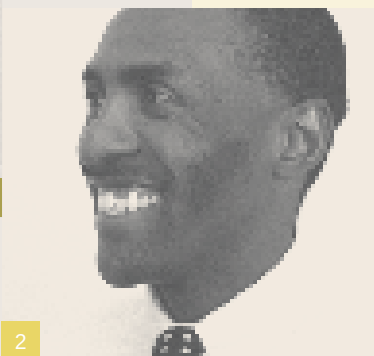
FORWARD-LOOKING STATEMENTS

Certain statements included in this report constitute forward-looking statements, be they express or implied. These statements are based upon tangible, known facts, alongside existing performance measures – and the usual risk and uncertainties involved in trend predictions. The unknown factors may cause the actual results, performances, objectives or achievements of the Square One Solutions Group to differ materially from its projected results and performances, as well as those of subsidiary and associated companies.

BOARD OF DIRECTORS



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1. Garth Coetser (48)
Non-executive Chairman

BComm, BAcc, CA(SA)

Garth achieved a BComm degree in 1978 and BAcc degree in 1981 from the University of the Witwatersrand. He completed his articles with Peat Marwick Mitchell and Co and passed the Chartered Accountants Board Examination in 1981.

Garth lectured in accounting, business information systems and management accounting at Wits University prior to setting up a financial services business and is a founder member of Square One Solutions Group.

2. Reginald Muzariri (37)
Executive Vice Chairman

BComm Hons (Unisa), CA (SA)

Reginald passed his Chartered Accountants Board exam in 1993 and completed articles with Ernst & Young and thereafter Cooper and Lybrand. Reginald served as a Director in the Corporate Finance Division at Coopers and Lybrand.

Prior to the establishment of Utho in 1999, of which Reginald is a founding director, he worked for Theta Securities, New Africa Investments Limited as well as Absa Corporate and Merchant Bank Limited.

Reginald is currently serving as Managing Director of Square One Capital and is a member of the Executive Committee of the Square One Solutions Group.

3. Trevor James (48)
Operations Director

Trevor was educated in Johannesburg and embarked on a career in the banking sector, working for Nedbank Limited. Recognising the opportunities presenting themselves in the IT sector, Trevor accepted a position with the Computer Sciences Corporation in 1981.

With the experience gained in the IT market, Trevor accepted the challenge at Square One Solutions Group and became a founding shareholder in 1986. Trevor James has held the position of Group Managing Director since the inception of the Company until the end of December 2006, when he changed roles to that of Operational Director, providing support and experience to the Exco going forward.

4. Craig Alexander (38)
Chief Executive Officer

Craig began his career in 1992 with the CSS Group, subsequently joining Dimension Data in 1999. In 2000, Craig headed up the Global Services Division for Dimension Data Western Cape and in 2001 was transferred to Dimension Data New York, moving on to become Managing Director with overall responsibility for the New York, Boston and Chicago regions.

In 2003 Craig joined Square One Solutions Group Ltd. Craig was appointed to the board of directors in 2004 and in January of 2006 was appointed Chief Operating Officer for the Group. Craig, together with the executive team, focused on moving the business from a product focused distribution organisation to a niche solutions provider of technology solutions and at the end of 2006, Craig assumed the role of Chief Executive Officer.

In addition to his responsibilities at Square One, Craig participates on the board of directors of the Citrine Power Group (Pty) Ltd.



5. Karl Socikwa (38)
Non-executive Director

BComm, LLB, MAP, IPBM

Karl is a graduate of Rhodes University where he read for Bachelor of Commerce and Bachelor of Law degrees and thereafter practiced as an attorney with Deneys Reitz Inc in Durban and Johannesburg.

In 1995 he joined Transtel as General Counsel. In 1997 he was called to serve as Group Company Secretary of Transnet Limited. In 1999 he returned to Transtel and was appointed Chief Executive Officer in April 2001. He is also Head of the Restructuring unit of Transnet charged with the disposal of non-core businesses of the Group.

Karl is a director on the boards of several companies and also governor on the board of governors of his alma mater, Rhodes University.

6. Anton Meyer (48)
Executive Director

BComm, FA (SA)

Anton began his career working at First National Bank during which time he completed his BComm degree. After 10 years at FNB he joined the Chemical Services Group where he held various financial positions within the organisation.

In 1994 Anton joined Square One Natal and in 2000 was appointed Group Financial Manager of the Square One Solutions Group. Anton was appointed to the Board as Group Financial Director in 2004.



7. Raisaka Masebelanga (43)
Non-executive Deputy Chairman

BJuris, LLB and LLM

Raisaka completed Dip Juris and LLB at the University of the North West and served his articles with Ackerman and Maree Attorneys in Mafikeng.

He won a British Council scholarship to study for his Masters in Law at University of London, King's College and practised law in London.

In 1995 he joined De Beers in London and in 1998 moved back to South Africa permanently, where he held the position as a Director of the Diamond Development Company and a Senior Manager at De Beers Consolidated Mines Limited. He has served as Chairman of both the Harry Oppenheimer Training School and the Velani Diamond Hive.

Raisaka left De Beers during 2006 in order to pursue his personal business interests.



8. Prof Mandlenkosi Makhanya (44)
Non-executive Director

BA Hons, MA (Sociology), DPhil, DTE

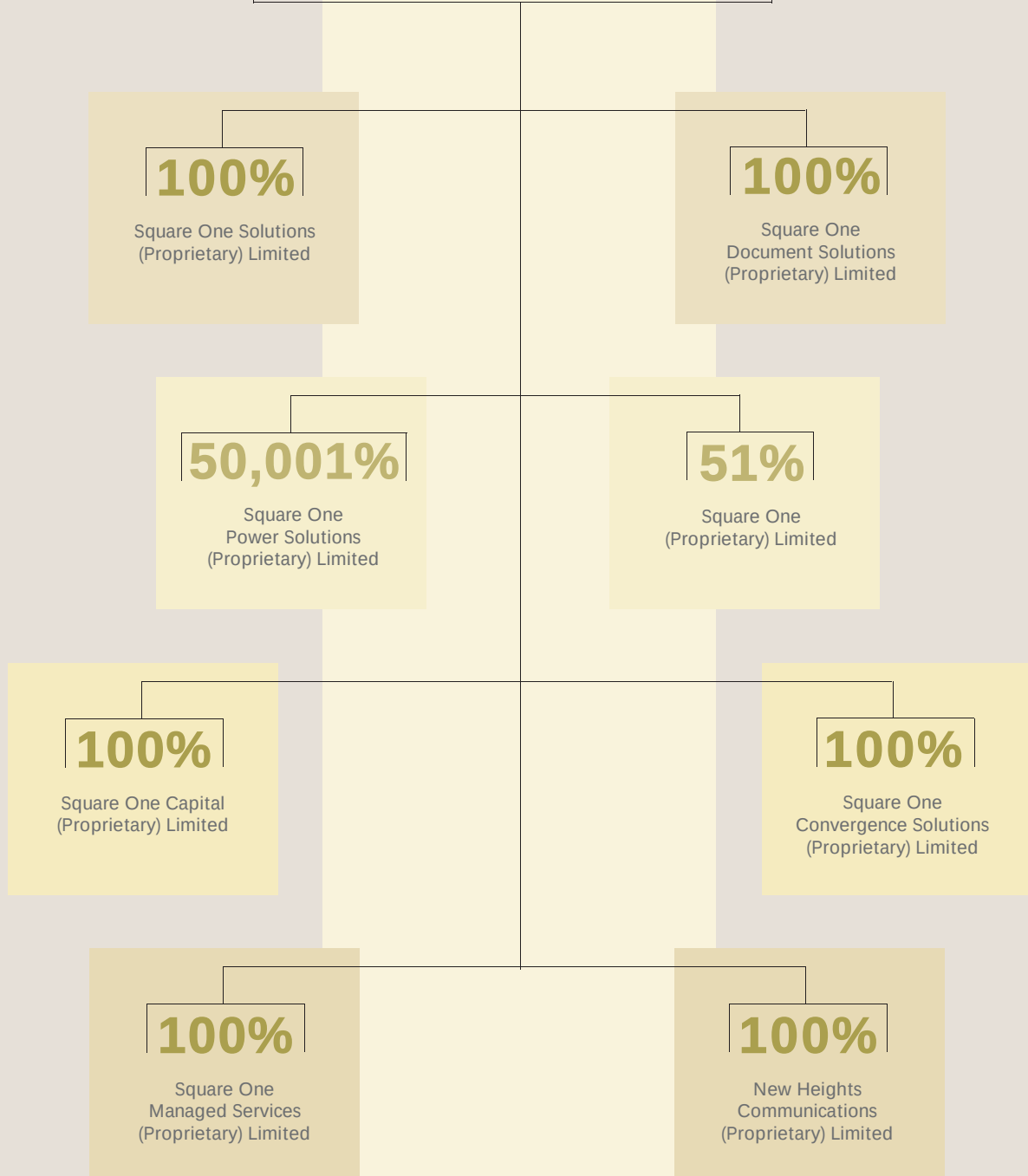
Mandlenkosi completed his BA and BA Honours in Sociology at the University of Fort Hare.

Thereafter, Mandlenkosi obtained his MA in Industrial Sociology at the University of Natal, his DPhil at the University of Pretoria and his DTE at Unisa. Since 2000, Mandlenkosi has held the position of Dean of the College of Human Sciences at Unisa.

He has also held the position of Deputy Chairperson of the Dean's Committee (Unisa) from 2000 – 2001, and Chairperson of the Dean's Committee since 2002. He is the Chairperson of the Culture Sector of the SA Commission for Unesco and Deputy President of the SA National Commission for Unesco.

GROUP STRUCTURE

SQUARE ONE SOLUTIONS GROUP LIMITED



Square One is committed to providing “Something of Value” to our clients and fellow colleagues by applying the principles of Honesty, Integrity, Trust and Respect for one another at all times.



Through a positive attitude and passionate pride in what we do, Square One takes responsibility for its actions in the quest to deliver and be recognised for outstanding service.

CHAIRMAN'S REPORT

It is with great pleasure that I present the results for the 12 months ended 31 December 2006. On the back of the Group starting to reap the benefits of growth in the 2005 reporting period, the sustained performance for the 2006 reporting period is gratifying. Square One Solutions Group Limited has experienced a more than satisfactory year as it capitalised on opportunities to consolidate its position in a market in which improved trading conditions prevailed.

With respect to the Group performance highlights, I am pleased to report that the headline earnings per share reflected another year of healthy increase of 20% from 9,42 cents to 11,23 cents per share. Earnings per share has increased by 113% for the same period from 5,27 cents to 11,23 cents per share. In line with the changing business model, revenue has decreased by 16% to R171,78 million and the Group posted an operating profit of R8,281 million. This reflects an increase of 27% over the previous year. Profit before tax is R5,004 million compared to a profit before tax of R2,433 million achieved in 2005. Coupled to strong growth in margin contribution, the Group maintained its ever vigilant focus on costs and efficiencies, ensuring that I can once again report on improved results for the year.

The Group continues to invest in systems, processes and procedures necessary for increased growth and control. The Group's 2007 strategic plans have been compiled at both Group and business unit level, and the associated actions and allocated responsibilities are in place to ensure that continued performance is sustained. Along with regular reviews relating to our progress, there are comprehensive management reporting disciplines in place which include the preparation of annual budgets by all the operating units. These are in turn aligned with the Group budget being approved by the board of directors. Monthly results and financial status of operating business units are reported against approved budgets, and careful analysis and comparisons to the previous financial year are made. Profit forecasts are updated quarterly whilst working capital is monitored on an ongoing basis.

CHAIRMAN'S REPORT CONTINUED

The Group is well positioned in the industry and is confident of its ability to maximise on the opportunities presented.

During 2007, we will continue focusing on ensuring that we are maximising our investments in our resources, while making use of technology to better align our business to the markets we serve. This we believe will lead to further cost efficiencies, shorter implementation lead times, faster time to market for new products and solutions and improved quality relating to the provision of solutions that truly add value to our clients and their businesses.

The Group is well positioned in the industry and is confident of its ability to maximise on the opportunities presented.

BLACK ECONOMIC EMPOWERMENT

Black Economic Empowerment is an important area of focus for the Group. In recognising the importance these credentials have in determining the current and future market positions of the Group conducting business in South Africa, I am very pleased to report that the Group continues to enjoy a firm commitment to the industry requirements within our sector of the market.

The Group was not able to finalise the issue of shares to Utho Investment Holding (Pty) Ltd ("Utho"). Utho, a 100% black-owned entity, through its wholly-owned subsidiary, Square One Solutions Group Holdings (Proprietary) Limited will, subject to obtaining the necessary shareholder and statutory approval, subscribe for 1 428 571 new Square One shares, representing an interest of 4,8%. Raisaka Masebelanga and Reginald Muzariri, two directors of Square One, hold non-controlling interests in Utho. The Utho Group is a diversified investment holding entity with interests in financial services, ICT, forestry and related services. Utho representatives have been actively involved with Square One since 2002 and the proposed specific issue of shares for cash represents the culmination of this relationship. Utho will continue to assist with the growth of Square One in strategy, finance and operations.

As reported in the Sustainability Report, the Group continues to make progress with respect to employment equity and skills development, as well as improve its occupational health, safety and environmental policies and practices.

BOARD OF DIRECTORS

The Board held four meetings during the year under review. The directors attended each meeting, save for apologies from Prof M S Makhanya and Mr R R Masebelanga for one of the meetings. The members of the Board acknowledge and accept their statutory, regulatory responsibilities as set out in the Companies Act, the rules of the JSE Limited, and the Securities Regulation Code and King II. The members of the Board are committed to managing the Group openly, with independent thought, in accordance with their fiduciary duty.

Ms M G Seape, a non-executive director, resigned from the Board in June 2006 and I would like to thank her for her contribution during her tenure.

SQUARE ONE EXECUTIVE TEAM CHANGES

In line with our Executive succession plan and in a proactive move to further drive our current growth we have made strategic changes and new appointments to our top executive team. The 2007 financial year sees the following strategic changes in its executive leadership. After 21 years at the helm of the company, co-founder Trevor James has handed over the responsibility of Chief Executive Officer to Craig Alexander, previously Chief Operating Officer of the company. Trevor has assumed the role of Executive Director: Group Operations.

Craig Alexander has been with the Company for four years and has extensive experience in the IT industry both locally and abroad. Together with Trevor James, and in line with the Group's strategic plan, they have spearheaded the recent growth strategy which kicked off in April 2003. Through a process of organic and acquisitive growth, the Group has moved from strength to strength. A great deal of investment has gone into the development and roll out of our client engagement architecture IP2 and our services framework (NetFlex). This effort, coupled to a "best of calibre" employment strategy and a sound development plan for Middle and Senior management sees the Group well positioned for the next leap forward.

The newly appointed executive team consists of Trevor James, Operations Director; Craig Alexander, Chief Executive Officer; Mich Nieuwoudt, Group Services; Richard John, Group Sales; Geoff Norman, Group Business Development and Reginald Muzariri, Square One Capital.

CORPORATE GOVERNANCE

Transparency has always been an important aspect in the way Square One conducts its business, and the Board and management remain attentive to the importance of this philosophy. The Group is committed to the principles of openness, integrity and accountability as advocated in the King II Report on Corporate Governance. Through this process, shareholders and other stakeholders may derive assurance that the Group is being managed according to prudently determined risk parameters in compliance with generally accepted corporate practices. Our financial statements are compiled in accordance with the requirements of the South African Statements of Generally Accepted Accounting Practice, and we have complied with the new International Financial Reporting Standards.

Our customer-centric approach and positive relationship with our staff and suppliers will continue to assist us in maintaining and improving our current performance and growth. As a South African domiciled company, the corporate office, which provides leadership for the Group, is based in Sandton, South Africa. The Group is led by an executive committee, ably backed by experienced senior executives and staff. The non-executive directors with their local and international experience add to the effectiveness of the Group's strategy, operations and governance.

APPRECIATION

Management and staff, as well as members of the Board have once again shown a commitment to ensure that we have had another successful year. The efforts of the staff and insight from the members of the Board, have been most gratifying. These efforts have resulted in us being able to capitalise on the good economic environment in which we have functioned during the past year, and to take opportunities and turn them into pleasing results. As we move into the new financial year, I believe that the business is well positioned from a competitive, resource and energy perspective, to differentiate the Group from its competitors, and to deliver an improved performance and return to all stakeholders.

I am privileged to lead a Board and executive team who work well together. I thank them and all the staff for their support and dedication in working towards the achievement of all our goals.



G A Coetser
Chairman

EXECUTIVE TEAM



1. Trevor James (47)
Operations Director

Trevor James was educated in Johannesburg, and embarked on a career in the banking sector, working for Nedbank Limited. Recognising the opportunities presenting themselves in the IT sector, Trevor accepted a position with the Computer Sciences Corporation in 1981.

With the experience gained in the IT market, Trevor accepted the challenge at Square One Solutions Group and became a founding shareholder in 1986. Trevor James has held the position of Group Managing Director since the inception of the Company until the end of December 2006, when he changed roles to that of Operational Director, providing support and experience to the Exco going forward.



2. Craig Alexander (38)
Chief Executive Officer

Craig began his career in 1992 with the CSS Group, subsequently joining Dimension Data in 1999. In 2000, Craig headed up the Global Services Division for Dimension Data Western Cape and in 2001 was transferred to Dimension Data New York, moving on to become Managing Director with overall responsibility for the New York, Boston and Chicago regions.

In 2003 Craig joined Square One Solutions Group Ltd. Craig was appointed to the board of directors in 2004 and in January of 2006 was appointed Chief Operating Officer for the group. Craig, together with the executive team, focused on moving the business from a product focused distribution organisation to a niche solutions provider of technology solutions and at the end of 2006, Craig assumed the role of Chief Executive Officer.

In addition to his responsibilities at Square One, Craig participates on the board of directors of the Citrine Power Group (Pty) Ltd.



3. Mich Nieuwoudt (35)
Group Services Director

B.Eng (Electronic) MBA (Stell.)

Mich graduated from the University of Pretoria in 1995, majoring in Microwave Field Theory, Computers and Bio-Engineering. After stints in the petrochemical and defence industries, he joined PSG Investment Bank in 1999. After PSG, he consulted in the IT industry until joining Siemens Business Services in 2003. With Siemens, he had the opportunity to gain international experience in Europe, consulting as far afield as Norway.

Mich joined Square One in 2005 and is currently responsible for the Services provided across all the group divisions.

EXECUTIVE TEAM



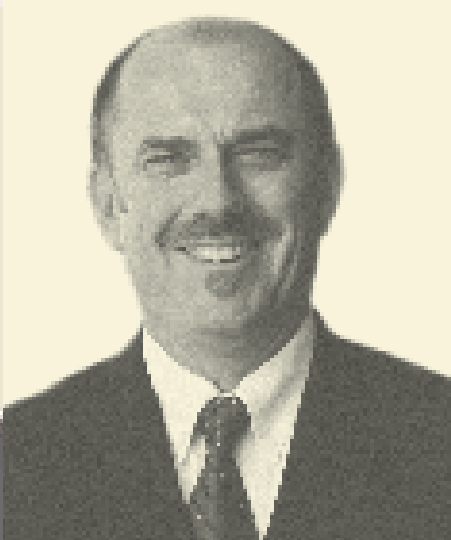
4. Reginald Muzariri (37)
Executive Vice Chairman

BCompt Hons (Unisa), CA (SA)

Reginald passed his Chartered Accountants Board exam in 1993 and completed articles with Ernst & Young and thereafter Cooper and Lybrand. Reginald served as a Director in the Corporate Finance Division at Coopers and Lybrand.

Prior to the establishment of Utho in 1999, of which Reginald is a founding director, he worked for Theta Securities, New Africa Investments Limited as well as Absa Corporate and Merchant Bank.) Limited.

Reginald is currently serving as Managing Director of Square One Capital and is a member of the Executive Committee of the Square One Solutions Group.



5. Geoff Norman (50)
Group Business Development Director

HNTD Electrical Engineering (Light Current)

Geoff joined ICL Cape Town in 1978 as a junior engineer and in 1981 graduated from Cape Technikon having completed a Higher National Technical Diploma in Electronic Engineering.

Geoff joined Grinaker Data Systems in 1984 and, through acquisition and mergers, became Regional Managing Director at Centera.

In 1994 Geoff started his own networking company called AGM Networks which was acquired by DNS in 1997. Geoff headed the DNS Cape Town operation until it merged with Dimension Data in 2000. In 2002 Geoff consulted to the industry privately until taking up his position with Square One in 2006.



6. Richard John (51)
Group Sales Director

Richard John began his career in technology in the United Kingdom in 1978. He has been involved in the start up of a number of IT companies, all of which have been successful.

Richard has also held senior management roles in a number of South Africa's larger technology companies such as Dimension Data and BTG. More recently he was one of the founders of NETintellect, a successful network services company operating in KwaZulu-Natal and the Western Cape. The company headed up by Richard, was recently acquired by Square One and Richard is now part of Square One's management team based in Gauteng.

The Company achieved record growth in earnings per share of 113% in the year ended December 2006.



The Group focuses on innovation through people, technology and service in order to achieve superior returns and growth in earnings.

CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS

TRADING ENVIRONMENT

In the financial year ended December 2006, trading conditions reflected a mixed sentiment in many respects. Whilst sentiment was bullish in the first half of the financial year, in the second half sentiment was more constrained and plagued by uncertainty relating to volatility around such factors as oil prices, local interest rates and exchange rates. The positive results achieved should stand as a reflection of the resilience in the Group's "new" strategic intent and direction. To continue the sustained performance, much effort has been focused on the "human factor" that has fundamentally underpinned the Groups' success.

The market continues to demand business-focused Information Technology and the related application of those solutions in order to satisfy the primary business drivers of cost efficiency, margin growth and customer centricity. Square One continues to focus on this demanding market in establishing itself as a key solutions provider, having won a number of strategic accounts this past year. Square One Solutions Group Limited, headquartered in Johannesburg, is represented in all the main centres of South Africa and employs 140 people.

The manufacturing sector, spurred on by growth in consumer demand and the emerging middle class, continued to see an increase in demand from the consumer goods sector which resulted in our Coding and Marking business showing excellent growth. The Coding and Marking business continues to experience increased demand and market share in a technology segment that is at the beginning of the inevitable commoditisation curve. This demand was largely driven by higher consumer spending, a weaker South African Rand and a generally buoyant economy with exports continuing to increase year-on-year.

The directors believe that additional investment is essential in both our Infrastructure Solutions and Coding and Marking business units to ensure both the strategic value and the long-term growth of the Group. Our Technology Solutions business unit performed admirably in the 2006 reporting period and is expected to contribute more significantly to revenue and profit in the 2007 financial year, with revenue and gross margin contribution currently doubling year-on-year.

Our Channel Services business unit distributes mainly imported goods. There is continued commoditisation, coupled to competitive pressure from the larger, local distributors which has forced us to reduce our selling prices in order to remain competitive. Reduction in selling price has a direct impact on the Rand gross profit derived from sales even though our margin percentage may meet or exceed industry norms. In real terms our profit realised on each item sold was down against the previous year, and meant the business unit had to undertake a number of exit strategies in over commoditised product lines whilst simultaneously exploring new product lines.

Cross-selling opportunities, combined with the increased demand in our high margin services offerings, have ensured that margin contribution has reflected sustained growth. In an industry where margins are continually under pressure due to the rapid enhancements in technology, reduced costs and improved economies of scale have assisted the Group in maintaining healthy margins.

GROUP PERFORMANCE AND HIGHLIGHTS

The operations of the Group are consolidated into four primary business units – Coding and Marking, Channel Services, Square One Capital and Square One Technology Solutions, supported by a national services structure.

Since inception, Square One has invested in partnerships that are market leaders from a technological perspective, and who offer world class brands or have significant technological advantages that not only benefit the Group's strategy but add tangible value to our clients' businesses. The Group focuses on innovation through people, technology and service in order to achieve superior returns and growth in earnings.

The Group posted revenues of R171,8 million for the year under review against R204,6 million in 2005, a decrease of 16,1%. This is in line with the Groups' strategic intent to move the nature of the business to higher margin, solutions-based sales. Operating costs have increased by 4% to R50,6 million.

The Group posted operating profits of R8,3 million in 2006 compared to operating profit of R6,5 million in 2005, an increase of 27,4%.

Net finance costs increased by R184 000 from R3,093 million in 2005 to R3,277 million in 2006 due to higher interest rates.

Profit before tax is up 105,7% to R5,004 million for the 2006 financial period compared to a profit before tax of R2,433 million achieved in 2005.

As a result of lower sales, net working capital has reduced by R5,0 million for the 2006 financial year.

In conclusion, it was an exceptionally good year for Square One with headline earnings per share increasing by 19,5% for the financial year ending 31 December 2006 from 9,4 cents to 11,23 cents per share.

Earnings per share has increased by 113,1% for the same period from 5,27 cents to 11,23 cents per share.

Inventory remained constant at R18,3 million and debtors decreased to R28,5 million. Cash balances at the end of the 2006 financial year were R5,09 million.

Current liabilities decreased by R9,68 million at the end of the 2006 financial year.

Accumulated profit for the year ending December 2006 of R1,795 million reflects an overall improvement of R3,553 million over the 2005 financial year.

STRATEGY

During 2006, the significant time spent on the implementation and the execution of our strategic framework has realised the benefits envisaged by the Group's new business strategy implemented in 2003. Our aim is to continue to focus on growing the Group with a view to maintaining or growing our margins and at the same time, improving control of working capital and the reduction of overall debt.

Opportunities for organic and acquisitive growth continue to enjoy a high focus, as we believe that there is still much room to bolster the Group's operating engine. We have set the business challenging growth goals through 2009 and on towards 2012.

Much of our future strategic intent will centre on maximising returns from the "gold vertical markets" within the South African and African markets.

The 2007 financial year will see the Group move into the broader African market. This initiative will be executed jointly with local business partners in Africa and the Group will primarily focus on addressing the growing Infrastructure and Policy services markets.

One of the most important aspects of the Group's strategy is our innovative entrepreneurial culture and the support for our management to empower their staff to achieve creative, more efficient businesses. The focus on innovation and people orientation will be a major factor in assisting us to achieve our growth goals in an environment of competitive spirit.

The individual business units take full advantage of the Group's resources and synergies, yet are able to leverage the flexibility and innovation associated with entrepreneurial teams. Each business unit is a separate profit centre and is required to compete for business in an open market. This allows the business units to be highly focused and to focus on their core target markets in order to maximise profits and the development of their people, whilst serving to increase Company intellectual property.

Our overall strategic intent will continue to focus on the individual components of improving returns, expanding organically and acquiring incrementally. Our strategy remains sound and involves inter alia:

- Continually improving the performance of our existing businesses based on increasing customer intimacy and achieving "Operational Excellence"
- Organic expansion into new geographic areas and markets, coupled to the addition of complementary products and services to serve our clients' needs
- Incremental acquisitions in our core areas of competence
- Disposals of technology that do not fit our long-term goal of building value

Our strategy has proved largely successful with the substantial growth achieved, given the relatively small expenditure on acquisitions during the year. In the 2007 report we expect to be able to report further progress in these key components of our strategy.

SUBSIDIARIES

Square One Capital (Proprietary) Limited

In its third full year of operation, Square One Capital, the specialist finance, rental and leasing arm of the Group, has delivered fantastic year-on-year growth and return for the Group. Square One Capital has taken this period to develop itself in Gauteng, Limpopo and the Western Cape and is now branching out into other regions, namely KwaZulu-Natal as well as the Eastern Cape. In addition, Square One Capital has started to diversify the base of assets that it provides finance for, outside of pure technology equipment.

The financial results for Square One Capital are most pleasing, and turnover for the financial year ending 31 December 2006 was R12,8 million, representing growth of 112% on the previous year.

Whilst Square One Capital remains focused on providing support for the internal business units of the Group, it has continued to grow and establish a presence as a service provider that is prepared to look at developing creative solutions to meet client requirements. This flexibility has enabled us to cultivate relationships with several parties external to the Group which are growing from strength to strength and which we expect to continue to contribute significantly to the growth of our business.

The market remains highly competitive and our success continues to be focused on building strong relationships with our financial partners, quick turnarounds on financing decisions, efficient administrative support and back-up as well as flexible, attractive and cost-effective financing solutions to our clients.

The outlook for the year ahead is extremely positive and we expect to see significant growth in this business unit.

Square One Power Solutions (Proprietary) Limited

At the beginning of the year the Group had concluded an agreement with the minority shareholders of Square One Power Solutions (Pty) Limited ("Power") in terms of which the Group proposed to acquire their shareholding with effect from 1 January 2006, subject to certain suspensive conditions. It has been widely agreed between the parties that a unified Business Solutions adoption strategy, whereby Power would play a meaningful part in contributing to the overall revenue and profit stream of the Group, would be positive for both the shareholders of Power and the listed Company. The purchase price for the minority interest was to be settled by way of a fresh issue of shares in the listed Company. As a result of the agreement, Power commenced winding down its operation from the 1 March 2006 and a new division was created within the Group, taking over the staff and customers of Power. However, by the end of the financial year, the suspensive conditions had not been fulfilled, and it is the Board's opinion that the agreement will need to be cancelled and that a new agreement should be negotiated with the minority shareholders, taking into account current market conditions and considerations.

Acquisition of the Business of NETIntellect

The Company entered into an agreement on 4 August 2006 with NETIntellect (Pty) Limited ("NETIntellect") and the five individual shareholders, for the purchase of NETIntellect's business as a going concern. Square One acquired the business with effect from 1 January 2006 for a maximum purchase consideration of R5 million.

The business of NETIntellect was involved in the provision of IT and related services and offerings. The business comprises a team of dedicated business and IT professionals who specialise in the following IT infrastructure services: network security services, enterprise networking services and solutions, mobile solutions, infrastructure architectural services, service management and managed network services.

Square One's rationale for the acquisition was as follows:

- to expand its Business Solutions division into Kwa-Zulu Natal
- to enhance and increase its overall skills complement
- to enhance and increase its suite of services offerings with market leading services
- to enhance and secure new and additional clients
- to expand its services offering portfolio to include a suite of managed services

The acquisition of the business is a further step in Square One's strategy to position itself as a niche Business Solutions provider in South Africa. The NETIntellect team strengthens Square One's strong foothold, particularly in KwaZulu-Natal. The skills and experience of the NETIntellect team are complementary to those of Square One and has resulted in increased capacity to deliver, and a national footprint that will enable the enlarged Square One to offer its services to a wider range of clients.

In terms of the purchase agreement, NETIntellect has changed its name to IOTEC Consulting Services (Pty) Ltd.

OUTLOOK

The South African market has always been somewhat of a conundrum when it comes to keeping up with first world advancement in the Service Provider/Telco space. This has largely been due to the monopoly held by Telkom, heavy regulatory disciplines as well as the unique dynamics of the country in terms of affordability versus uptake of new Telco services. In stark contrast, and essentially due to the broader affordability to the man in the street, South Africa has been at the forefront of per capita cellular phone uptake worldwide. This phenomenon is indicative of how telecommunications technology is becoming a key enabler in the mass market and emphasises the need to harness this technology and integrate it into the commercially-orientated Internet Protocol ("IP") world.

Events that have taken place, such as the arrival of the Second Network Operator ("SNO") (Neotel), de-regulation of voice over data networks, the Convergence Bill and the enthusiastic uptake of Virtual Private Networks ("VPN") in the enterprise and public sectors of the market, has seen a new and exciting path opening up for South African companies wanting to take advantage of the promise of, what many are calling, Next Generation Networking. Next Generation Telco and Service Provider Networks, in collaboration with media and entertainment companies, almost certainly will be IP, Broadband and Mobility-based with the Internet as a key co-enabler.

The Square One Solutions Group ("Square One") has foreseen this paradigm shift and has developed an IP-centric, Unified Communications strategy that will allow clients to take full advantage of the exciting opportunities Next Generation technology will bring.

It has become apparent to us that, unless South African enterprise infrastructures are geared to seamlessly participate in Unified Communications opportunities presented by IP, Internet and broadband-centric networks, they will not capitalise on the cost saving and productivity benefits Service Providers and Telcos will inevitably be offering. Coupled to these new services will undoubtedly be the opportunities that integration of mass-market mobile technology will enable. It is our belief that in the very near future, the true cost reduction and benefit propositions offered by these Service Providers and Telcos will exclusively be broadband, Internet and mobility-based, with IP being the protocol "glue" that holds it all together.

Looking to Africa, we can expect to see the infrastructure spending to continue unabated, while merger and acquisition activity will also gain some steam with interest coming from foreign operators. Nigeria – the mobile market that has captivated the attention of investors and operators – is expected to reach over 45 million subscribers by the end of 2007. Square One will pay careful attention to opportunities that present themselves in Africa over the forthcoming year and beyond.

The SMB's spending power is also growing, already accounting for more than 35% of spending on IT in the Middle East and Africa. In the emerging Middle East and Africa region, the importance of a healthy and growing SMB sector is paramount to economic performance. Square One is extremely well positioned to address the SMB market sector locally and into Africa, and will continue to reinforce and grow its market share in this important sector of the market.

Our underlying foundation for value creation will continue to be focused on the individual components of improving returns, expanding organically and acquiring incrementally.

In the 2007 report we expect to be able to report further progress in these key components of our strategy as well as other initiatives in order to derive maximum value for our staff, shareholders, customers and our partners.

APPRECIATION

The combined efforts of our loyal employees and the energy and the commitment of the board of directors are intrinsic to the continued success of Square One. I would like to extend my gratitude to the executive team, the management team and staff, and our non-executive directors and congratulate them on the year's achievement. To our customers and suppliers, who play such a valuable role in our success, we appreciate your loyal and growing support and look forward to strengthening our mutual relationships in the future.



C L Alexander
Group Chief Executive Officer



CORPORATE SUSTAINABLE DEVELOPMENT

EQUITABLE AND SAFE WORKING ENVIRONMENT

We are committed to maintaining a healthy work environment by protecting the physical and emotional health and well-being of all employees in the workplace. We also have a continuing commitment to provide employment for people with physical disabilities who are able to work.

HEALTH

The Company continues to pursue an aggressive and visible HIV/AIDS campaign that it believes has achieved its awareness objectives – the primary objectives being to prevent new infections. Square One is aware of the psychological and social needs of its workforce and the humanitarian aspects of providing help and support to those employees and their families that are HIV-positive.

Square One HIV/AIDS Policy

This policy protects the legal right of employees who are diagnosed with an AIDS virus-related condition to work, and provides guidelines for situations where infection with the AIDS virus is suspected. Our policy is to encourage sensitivity to, and understanding for, employees affected with a condition of the AIDS virus, and to ensure total confidentiality at all times. It is also Company policy to educate staff members regarding the spread of AIDS and effective measures to prevent AIDS.

This AIDS policy is a direct outgrowth of those commitments. Employees who are diagnosed with an AIDS virus-related condition may continue to work if they are deemed medically able to work and can meet acceptable performance standards.

ENVIRONMENT

Square One's Coding and Marking division's employees deal with specialist chemicals and solvents. At all times, the international guidelines and regulations governing the management of such substances, including the International Standard ISO 14001, are followed, in order to maximise both the health of employees as well as the safety of the environment. It is our primary environmental objective to work towards, and in all cases exceed, legal requirements.

EMPLOYMENT EQUITY

To sustain the Company's performance into the future, Square One holds the view that the profile of the Company's employees at all levels should reflect the demographics of our country. The Group has therefore adopted a Black Economic Empowerment ("BEE") policy that contains an employment equity programme and various guidelines on the development of previously disadvantaged individuals.

The organisation commits itself to non-discrimination and employment equity. It is the policy of the organisation that discrimination of any form will not be tolerated, and is a disciplinary offence. The organisation's selection policy is aimed at addressing employment inequalities through a structured Employment Equity programme. However, the organisation maintains its commitment to quality and service excellence. To this end, tokenism is rejected and the selection of people qualified to do the job is insisted upon at all times. A position will not be deliberately de-skilled to accommodate an applicant from a previously disadvantaged group. This will ensure that applicants are not discriminated against in terms of their salary packages or employment benefits.

The organisation encourages all its employees to undergo appropriate training and development in order to enable them to give of their best and also to realise their full potential in the work situation. The organisation believes in the policy of promotion from within, in accordance with selection procedures and criteria, and such promotion will be non-discriminatory and based on merit.

Square One's Board currently consists of eight directors, four of whom are black.

Affirmative Action

As part and parcel of a broader Human Resources Development Policy, affirmative action is seen as a process of maximising human resources and empowering individuals within Square One. Square One recognises that because of inequalities in the apartheid education system, and race and sex discrimination in the educational and employment opportunities available to previously disadvantaged members of the community, it needs to take positive steps to eliminate discrimination and to provide equal opportunities in its own workplace. In order to enhance the representation of under-represented categories of people in the various positions within the organisation, it has put in place an affirmative action policy.

Based on the Codes of Good Practice Charter on Broad-based BEE released in December 2005, the Company will strive to put together an action plan which will provide a framework that will facilitate and accelerate the implementation of broad-based BEE in a meaningful and sustainable manner.

As a Group, we realise the importance of supporting black business and our procurement policy aligns itself to this.

Monitoring and Evaluation

Reports on employment equity are done in accordance with legislation.

OUTSOURCING, JOINT VENTURES AND SUBCONTRACTORS

Square One follows a strategic intent to promote the use of outsourcing both essential and non-essential functions. It is believed that this affords an environment where entrepreneurship is encouraged, as well as continually circulating internally, the dynamics of external thinking and awareness of the marketplaces in which Square One operates. Work is outsourced in a non-discriminatory fashion. The Group continually works on the development and building of meaningful joint-venture operations and partnerships with BEE companies, and small-, medium- and micro-entrepreneurial enterprises.

TRAINING AND DEVELOPMENT

The organisation's policy is to encourage the development of our employees through education and training in order to maximise their full potential and productivity. Most training is offered in-house as on-the-job training. External courses are considered where they can meet specific organisational needs, and in accordance with the Isett Seta. Every employee is given the opportunity to utilise the available resources and improve their skills and knowledge. The Company completes a 'needs assessment' of all employees on an annual basis, and arranges training programmes around these assessments, once prioritised and in compliance with the Skills Levy Act.

Planning and implementation of the Skills Development Plan in accordance with the Skills Levy Act are completed timeously, and the Company has received its reimbursements for completion thereof. The Company has also successfully undertaken and completed a learnership programme in conjunction with the Isett Seta.

CORPORATE GOVERNANCE

Square One is committed to an open governance process, which protects the value and reputation of the Company by managing the business effectively and in compliance with legal requirements and best practice in governance. The directors of Square One believe in their responsibilities, collectively and independently, to ensure that they demonstrate and sustain a high level of corporate governance – and recognise their accountability to their shareholders. The board of directors meets on a regular basis, and strives at all times to conduct the Group's business according to the best management principles and practice. Square One continues to review the Company's environment, risk assessment management, financial and operational control procedures to ensure that all major risks to Square One are properly managed.

Square One Solutions Group realises that its business conduct could have a profound effect on stakeholders at several levels. For this reason, we have identified the following in the relationship with stakeholders:

- Communication through regulatory channels, through the press, the annual report and the annual general meeting
- Communication facilitated through the website which has feedback facilities
- Price sensitive information is always first disclosed on SENS

Square One's management recognises that they are the trustees and not the owners of the capital and their commitment is to maximise sustainable returns.

CODE OF ETHICS

The Group's value system commits all employees to maintain high ethical and moral codes of conduct in the Group's dealings with all stakeholders and society at large.

Codes of Good Practice

The Company adheres to the Codes of Good Practice as specified by the Department of Labour.

Square One is committed to:

- embracing the principles of transparency, honesty and integrity in all its dealings
- carrying on business through fair commercial competitive practices
- removing discrimination and promoting employees through training and development
- being proactive towards dealing with environmental and social issues

KING CODE OF CORPORATE PRACTICE AND CONDUCT

The Board of Square One is committed to maintaining the standards of integrity, accountability and openness advocated in the King Report on Corporate Governance (King I), and continues working towards the attainment of succeeding King II Report requirements.

BOARD OF DIRECTORS

At the time of this report the board of directors comprises four executive and four non-executive directors, and is chaired by a non-executive director whose role is separate from that of the Chief Executive Officer. All the non-executive directors are independent. During the current financial year one executive director resigned.

The Board is responsible for Group strategy, policy and performance as well as the management, control, compliance and ethical behaviour of the Group companies under its direction. The executive directors, being actively involved in the Company on a day-to-day basis, are responsible for ensuring that the decisions, strategies and views of the Board are successfully implemented.

All directors bring independent judgement to the issues of strategy, performance, resources, key appointments and standards of conduct.

The Board retains full and effective control over the Group and monitors executive management through a structured approach to reporting and accountability under the auspices of an executive committee. The appointment of new directors is approved directly by the Board as a whole, subject to confirmation at the annual general meeting.

The Board meets four times per year and has a formal schedule of matters reserved to it.

BOARD COMMITTEES

The non-executive directors of the Board are expected to play an active role in the various committees established by the Board. However, it should be noted that the delegation of authority to committees does not discharge nor mitigate the Board and its directors of their responsibilities or their duties to the Group's stakeholders.

Audit Committee

The primary responsibilities of this committee include the maintenance of high standards of records and systems of internal control, the safeguarding of the Company's assets and shareholders' investments, assisting the Board in monitoring the standards of corporate governance, and advising the Board of the "going concern" status of the Company. The external and internal auditors have unrestricted access to the audit committee.

The audit committee enhances the credibility of the financial reports and strengthens communication amongst directors, auditors and management which contributes to reducing the risk of inadequate financial reporting.

The audit committee consists of two non-executive directors, and certain meetings are attended by invitation, by the chief executive officer and appropriate members of the financial management team.

Remuneration Committee

The overall strategy is to ensure that executives are rewarded for their contribution to the Group's operating and financial performance at levels which take into account industry, market and country benchmarks. In order to promote the achievement of strategic goals, share incentives are considered to be critical elements of executive incentive remuneration.

The remuneration committee consists of three non-executive directors.

This committee meets periodically to assess, authorise and implement appropriate levels of remuneration for the executive directors and senior management of the Group. The committee is chaired by a non-executive director.

The chief executive officer is excluded from review of his own remuneration. Non-executive directors are remunerated for their services based on the number of meetings they attend and their level of contribution and responsibility.

Remuneration Policies

All salary-paid employees are remunerated on an equal basis with a cash package and benefits. These benefits include Company contribution to a medical aid and retirement funding through the Group's pension and provident fund. Performance bonuses are paid to all levels of staff based on Company performance and attaining individual goals. Key employees have ownership in the Company through the Square One Solutions Share Incentive Trust.

The remuneration policies are formulated to attract and retain the correct quality of executive and to give recognition to superior individual team performance. The attraction and retention of these executives require remuneration structures that are seen as fair, transparent and competitive when benchmarked.

Incentive and share incentive option schemes are used as mechanisms to align the goals of management with results. These schemes are designed to ensure sustainable growth in earnings through the setting of demanding performance targets.

Share Incentive Trust

The Square One Share Trust was created with the object of allowing the purchase of the Group's shares by employees and directors, both executive and non-executive. The Trustees of the Trust are given instructions by the board of directors as to whom, what quantity and price and under what conditions the shares are to be offered.

The Trust has adopted a specific scheme, referred to as the Square One Leveraged Equity Share Incentive Plan. This plan has two offer routes: a traditional standard option offer route, and a deferred delivery offer route. In terms of the former, an offer is made to the participant, to take up the offer of a defined number of shares at a price, exercisable at a future date based on set of performance criteria.

In terms of the latter, the Trustees of the Trust have the authority to apply a maximum discount of 10% of the weighted average traded price of the Group's share during the last 30 days to the date of offer. Participants who accept and take up the offer are required to pay the 10% non-refundable deposit on the full offer to the Trust. The offer is then divided into four tranches exercisable on the anniversary date of the original offer, with an increasing offer price for each tranche. This increasing price is determined by the board of directors and is determined by reference to a pivot rate.

Once the shares have been paid in full, the shares are then transferred to the participant.

Options not yet accepted or not yet exercised lapse on resignation or death.

INTERNAL AND FINANCIAL CONTROLS

The Group's systems of internal and financial control are designed to safeguard the integrity and reliability of the financial information and to verify and maintain accountability of revenue and assets. These controls are implemented and managed by skilled operational personnel and monitored by the directors. The Group's personal performance appraisal system contributes towards the way in which internal controls are measured, and regular management reviews conducted. Financial management is measured against industry standard internal control norms and is constantly reviewed to ensure consistency and objectivity.

For the year under review, nothing has come to the attention of the directors to indicate any material breakdown in the functioning of control, procedures and systems.

Going Concern

The board of directors believes that the Group has adequate resources and facilities available to continue to operate in the foreseeable future. The Board therefore continues to apply the going concern basis in preparing the annual financial statements.

EMPOWERMENT

Square One is an equal opportunity employer, committed to a working environment that is free from any racial- or gender-based discrimination. The Group continually evaluates the development of the skills and abilities of its employees.

The Group has plans in place to ensure that equity is achieved within the framework and regulations laid down in the Employment Equity Act.

INSIDER TRADING AND CLOSED PERIODS

Dealing in Square One shares by any Square One director on the basis of unpublished or confidential information, whether directly or indirectly, is strictly prohibited. Restrictions are imposed on employee trading where such information could affect the price sensitivity of the shares.

No employee, nominee or members of immediate family may deal directly or indirectly, at any time, in the securities of the Company on the basis of unpublished price-sensitive information regarding the Company's affairs. The Group has implemented policies to prohibit dealing in its securities by directors, officers and senior employees during closed periods as defined in the JSE Listings Requirements.

SECURITY

In terms of the King Commission II on corporate governance, the board of directors acknowledges its ultimate responsibility for the risks associated with a breach of the Company's networks. Square One's directors understand the value of the Company's data and intellectual capital and continually address and evaluate the level of risk they deem acceptable and address accordingly. Square One remains in the fortunate position, as an IT company, of having access to the latest benchmarks in security as well as a top-level understanding thereof. The Company has an effective IT infrastructure in place and continues to examine and deploy leading biometric security technology recognised as well above industry standard levels.

Dividend

With the available opportunities to grow organically, pursue a potential institutional investor and to reduce interest-bearing borrowings, the directors have decided not to declare a dividend at this time.

FINANCIAL STATEMENTS CONTENTS

SQUARE ONE SOLUTIONS GROUP LIMITED
Reg No. 1999/026822/06

ANNUAL GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

The reports and statements set out below
comprise the annual Group financial statements
presented to the members:

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REPORT OF THE INDEPENDENT AUDITORS

TO THE SHAREHOLDERS OF SQUARE ONE SOLUTIONS GROUP LIMITED

We have audited the accompanying financial statements of Square One Solutions Group Limited, which comprise the directors' report, the balance sheet at 31 December 2006, the income statement, the statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 27 to 47.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the South African Companies Act of 1973 (as amended). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

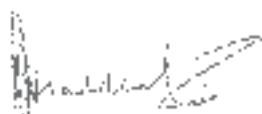
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the South African Companies Act of 1973 (as amended).



Russell Bedford Southern Africa (JHB) Inc.
Chartered Accountants (SA)
Northcliff
Registered Accountants and Auditors
26 April 2007

SECRETARY'S CERTIFICATE

I hereby certify in terms of Section 268 of the South African Companies Act of 1973 (as amended) that the Company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Act and that all such returns are true correct and up to date as at 31 December 2006.



A M Craddock
Company Secretary
31 March 2007

STATEMENT OF DIRECTORS' RESPONSIBILITY

FOR THE YEAR ENDED 31 DECEMBER 2006

The directors are required by the South African Companies Act of 1973 (as amended) to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the Company and the Group as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. 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 and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Company and the Group and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective account procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Group and all employees are required to maintain the highest ethical standards in ensuring the Group's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Group is on identifying, assessing, managing and monitoring all known forms of risk across the Group. While operating risk cannot be fully eliminated, the Group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurances that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute assurance against material misstatement or loss.

The directors have reviewed the Group's cash flow forecast for the year to 31 December 2006 and, in the light of this review and the current financial position, they are satisfied that the Group has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the board of directors are primarily responsible for independently reviewing and reporting on the Company and the Group's financial statements, the financial statements have been examined by the Group's external auditors and their report is presented on page 25.

The financial statements set out on pages 28 to 47 which have been prepared on the going concern basis, were approved by the board of directors on 6 March 2007 and signed on their behalf.



A Meyer



R T Muzariri

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2006

The directors present their report for the year ended 31 December 2006. This report forms part of the audited financial statements.

1. GENERAL REVIEW

The main business of the Company and the Group is the provision of business-enabling technology solutions which create value for its clients through the application of business knowledge and best practices technological skills and capability. The operating results and state of affairs of the Company are fully set out in the attached financial statements and do not in our opinion require further comment.

2. GOING CONCERN

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities contingent obligations and commitments will occur in the ordinary course of business.

3. FINANCIAL RESULTS AND DIVIDENDS

No dividends have been declared and none are recommended.

4. SHARE CAPITAL

3 527 846 shares were issued during the year under review. There was no change to the authorised share capital of the Company and the Group.

5. FIXED ASSETS

The Company disposed of fixed assets with a cost of R5 557 791 and a book value of R1 042 573 through an intergroup transaction and the Group acquired assets with a cost of R7 656 506 which includes the R1 042 573 disposed of by the Company during the year under review. (2005: Company acquired R1 345 194, Group acquired R1 335 074).

6. ACQUISITIONS INVESTMENTS AND DISPOSALS

At the beginning of the year the Company held the following:

- 100% shareholding in Square One Convergence Solutions (Proprietary) Limited
- 100% shareholding in Square One Document Solutions (Proprietary) Limited
- 50% plus one share shareholding in Square One Power Solutions (Proprietary) Limited
- 100% shareholding in New Heights Communications (Proprietary) Limited
- 100% shareholding in Square One Solutions (Proprietary) Limited
- 100% shareholding in Square One Capital (Proprietary) Limited
- 51% shareholding in Square One (Proprietary) Limited
- 100% shareholding in Square One Managed Services (Proprietary) Limited
- The Company disposed of Activated Learning Group (Pty) Ltd, a dormant company, for R1 000 on 1 January 2006

7. SUBSEQUENT EVENTS

There have been no facts or circumstances of a material nature that have occurred between the accounting date and the date of this report.

8. NUMBER OF EMPLOYEES

The number of employees at year end was 140 (2005:138).

9. DIRECTORS AND SECRETARY

The directors of the Company during the accounting period and up to the date of this report were as follows:

Executive Directors

W T James	Appointed 10 December 1999
A Meyer	Appointed 25 February 2004
R T Mazariri	Appointed 18 December 2002
C L Alexander	Appointed 25 February 2004

Non-executive Directors

G A Coetser	Appointed 10 December 1999
R R Masebelanga	Appointed 25 February 2004
M G Seape	Resigned 28 June 2006
M S Makhanya	Appointed 15 March 2004
K X T Socikwa	Appointed 8 June 2004

Company Secretary

A M Craddock

Transfer Secretary

The transfer secretary of the Company is Link Market Services (Proprietary) Limited whose business and postal addresses are:

11 Diagonal Street	PO Box 4844
Johannesburg	Johannesburg
2001	2000

10. AUDITORS

Russell Bedford Southern Africa (JHB) Inc. will continue in office in accordance with section 270(2) of the South African Companies Act of 1973 (as amended).

CONSOLIDATED BALANCE SHEETS

AT 31 DECEMBER 2006

	Notes	Company		Group	
		2006	2005	2006	2005
		R	R	R	R
ASSETS					
Non-current assets		34 932 672	29 074 947	32 319 996	22 411 307
Fixed assets	2	–	1 337 684	7 492 234	1 492 672
Intangible assets	3	5 750 000	99 815	15 814 410	10 150 753
Investments in subsidiaries	4	2 257 901	2 258 811	–	–
Loans to subsidiaries	4	23 038 585	21 203 451	–	–
Loans receivable		–	–	–	14 250
Investments	5	2 389 550	2 678 550	2 389 550	2 678 550
Deferred taxation	6	1 496 636	1 496 636	6 623 802	8 075 082
Current assets		1 699 834	34 656 297	50 723 884	63 931 756
Inventories	7	–	11 349 121	18 127 452	18 396 648
Accounts receivable	8	328 216	22 065 210	27 986 555	39 851 224
Taxation		–	1 000	–	–
Bank balances	9	1 371 618	1 240 966	4 609 877	5 683 884
Total assets		36 632 506	63 731 244	83 043 880	86 343 063
EQUITY AND LIABILITIES					
Capital and reserves		13 277 413	9 766 986	19 757 618	12 654 485
Issued capital	10	316 283	281 005	316 283	281 005
Share premium		16 960 091	13 445 369	16 960 091	13 445 369
Accumulated loss		(3 998 961)	(3 959 388)	1 795 035	(1 758 098)
Outside share holders interest	11	–	–	686 209	686 209
Non-current liabilities		18 086 477	24 267 053	22 794 740	19 733 570
Outside shareholders' loans	12	–	–	250 842	271 163
Long term liabilities	13	18 045 442	17 803 618	22 543 898	19 462 407
Loans from subsidiaries	4	41 035	6 463 435	–	–
Current liabilities		5 268 616	29 697 205	40 491 522	53 955 008
Accounts payable		9 552	24 972 840	34 106 726	49 127 072
Taxation		–	–	6 548	–
Current portion of interest-bearing liabilities	13	5 215 064	4 029 902	5 700 951	4 029 902
Provisions	14	44 000	694 463	677 297	798 034
Total equity and liabilities		36 632 506	63 731 244	83 043 880	86 343 063

CONSOLIDATED INCOME STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	Company		Group	
		2006 R	2005 R	2006 R	2005 R
Gross revenue	15	16 958 015	72 056 003	171 780 957	204 653 004
Cost of sales		(12 482 066)	(46 669 363)	(115 263 869)	(152 917 298)
Gross profit		4 475 949	25 386 640	56 517 088	51 735 706
Operating costs		(8 612 675)	(22 231 054)	(50 617 193)	(48 652 976)
Other income		6 630 183	1 407 464	2 381 598	3 419 722
Operating profit before goodwill impairment	16	2 493 457	4 563 050	8 281 493	6 502 452
Impairment of goodwill	16		–	–	(975 683)
Interest received	17	22 871	27 979	61 694	41 318
Finance costs	18	(2 555 901)	(2 655 872)	(3 338 774)	(3 134 261)
(Loss)/profit before taxation		(39 573)	1 935 157	5 004 413	2 433 826
Taxation	22	–	(561 196)	(1 451 280)	(1 188 426)
(Loss)/profit after taxation		(39 573)	1 373 961	3 553 133	1 245 400
Attributable to:					
Equity holders of the parent		(39 573)	1 373 961	3 553 133	1 245 400
Minority interest		–	–	–	–
(Loss)/earnings attributable to shareholders		(39 573)	1 373 961	3 553 133	1 245 400
(Loss)/earnings per share (cents)	23	(0,13)	5,81	11,23	5,27
Headline (loss)/earnings per share (cents)	23	(0,13)	5,81	11,23	9,40

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006

	Share capital R	Share premium R	(Accumulated loss)/retained income R	Total R
Company				
Balance at 1 January 2005	220 000	8 799 724	(5 333 349)	3 686 375
Shares issued	61 005	4 645 645		4 706 650
Net profit for the year			1 373 961	1 373 961
Balance at 1 January 2006	281 005	13 445 369	(3 959 388)	9 766 986
Shares issued	35 278	3 514 722		3 550 000
Net loss for the year			(39 573)	(39 573)
Balance at 31 December 2006	316 283	16 960 091	(3 998 961)	13 277 413

	Share capital R	Share premium R	(Accumulated loss)/ retained income R	Total R	Minority interest R	Total R
Group						
Balance at 1 January 2005	220 000	8 799 724	(3 003 498)	6 016 225	686 209	6 702 435
Shares issued	61 005	4 645 645		4 706 650		4 706 650
Net profit for the year			1 245 400	1 245 400	–	1 245 400
Balance at 1 January 2006	281 005	13 445 369	(1 758 098)	11 968 275	686 209	12 654 485
Shares issued	35 278	3 514 722	–	3 550 000	–	3 550 000
Net profit for the year			3 553 133	3 553 133	–	3 553 133
Balance at 31 December 2006	316 283	16 960 091	1 795 035	19 071 408	686 209	19 757 618

CONSOLIDATED CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

		Company		Group	
		2006	2005	2006	2005
	Notes	R	R	R	R
Cash flows from operating activities					
Cash receipts from customers		38 695 009	61 482 079	183 645 627	190 698 146
Cash paid to suppliers and employees		(27 181 496)	(55 310 212)	(169 936 440)	(179 504 208)
Cash generated by operating activities					
27.1		11 513 513	6 171 867	13 709 187	11 193 938
	Interest received	22 871	27 979	61 694	41 318
	Interest paid	(2 555 901)	(2 655 872)	(3 338 774)	(3 134 261)
27.2	Taxation paid	1 000	(28 078)	6 548	(199 026)
Net cash inflow from operating activates					
		8 981 483	3 515 896	10 438 655	7 901 969
Cash flows from investing activities					
	Fixed assets acquired	1 042 573	(1 345 194)	(7 656 506)	(1 355 074)
	Intangible assets acquired	(5 750 000)	(114 117)	(5 785 811)	(1 756 840)
	Proceeds on disposals of fixed assets	32 405	–	15 235	–
	Loans receivable	–	–	14 250	(14 250)
	Investment in subsidiaries	910	(4 299 050)	–	16 000
	Increase in loans to subsidiary companies	(8 257 534)	(9 335 180)	–	–
	Other investments	289 000	–	289 000	–
Net cash outflow from investing activities		(12 642 646)	(15 093 541)	(13 123 832)	(3 110 164)
Cash flows from financing activities					
	Loans raised	–	6 998 295	–	25 000
	Proceeds from issue of shares	3 550 000	4 706 650	3 550 000	4 706 650
	Loans repaid	241 815	–	(1 938 830)	(5 647 228)
Net cash generated by/(used in) financing activities		3 791 815	11 704 945	1 611 170	(915 578)
Increase/(decrease) in cash and cash equivalents		130 652	127 300	(1 074 007)	3 876 227
Cash and cash equivalents at the beginning of the year		1 240 966	1 113 666	5 683 884	1 807 657
27.3	Cash and cash equivalents at end of the year	1 371 618	1 240 966	4 609 877	5 683 884

NOTES TO THE ANNUAL GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

1. ACCOUNTING POLICIES

The annual financial statements incorporate the following principal accounting policies set out below which are consistent with those adopted in the previous year.

1.1 Statement of Compliance

The financial statements are prepared in accordance with the South African Statements of Generally Accepted Accounting Practice and the requirements of the South African Companies Act and International Financial Reporting Standards ("IFRS") Compliance.

1.2 Basis of Preparation

The financial statements are prepared under the historical cost convention as modified by the revaluation of certain property plant and equipment marketable securities and investment properties where appropriate.

1.3 Revenue Recognition

Sales are recorded in the financial statements at the date the goods are delivered to customers or services are performed.

1.4 Basis of Consolidation

The consolidated financial statements include the assets and liabilities of the subsidiaries as well as their results for the period. Where changes of interest took place during the year the results of the subsidiary are included as from the effective date of becoming a subsidiary to the effective date of disposal. Intra-group sales and profits are eliminated fully on consolidation.

1.5 Goodwill

The difference between the fair value of the consideration paid and the fair value of net tangible assets of subsidiaries at the date of acquisition is charged or credited to goodwill arising on consolidation. Goodwill is not amortised instead it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

If the acquirer's interest in the net fair value of the identifiable assets liabilities and contingent liabilities recognised exceeds the cost of the business combination the acquirer shall:

- Reassess the identification and measurement of the acquiree's identifiable assets liabilities and contingent liabilities and the measurement of the cost of the combination
- Recognise immediately in profit or loss any excess remaining after that assessment

1.6 Investments

Investments other than in associates are stated at cost and are written down only where there is a permanent impairment in value. Dividends are brought to account as at the last day of registration in respect of listed shares and when declared in respect of unlisted shares.

1.7 Fixed Assets

Fixed assets are included at cost. Cost includes all costs directly attributable to bringing the assets to working condition for their intended use.

Depreciation is calculated by a charge to income computed on a straight line basis so as to write off the cost or amount of the valuation of the assets over their expected useful lives.

The depreciation rates applicable to each category of fixed assets is as follows:

Motor vehicles 20.00 %

Furniture and fittings 20.00 %

Workshop equipment 20.00 %

Office equipment 20.00 %

Computer equipment 33.33 %

1.8 Intangible Assets

Intangible assets are included at cost. Cost includes all costs directly attributable to bringing the assets to working condition for their intended use.

Amortisation is calculated by a charge to income computed on a straight line basis so as to write off the cost or amount of the valuation of the assets over their expected useful lives.

The amortisation rates applicable to each category of intangible assets are as follows:

Goodwill patents and trademarks	Reviewed annually for impairment
Computer software	50%

1.9 Leased Assets

Finance Leases

Where assets are acquired under finance lease agreements that transfer to the Company substantially all the risks and rewards of ownership their cash cost equivalent is capitalised. The capital element of the leasing commitment is disclosed under long-term liabilities. Lease rentals are apportioned between capital and interest elements using the effective interest rate method.

Operating Leases

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

1.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and includes transport and handling costs. Where necessary provision is made for obsolete slow moving and defective inventories.

1.11 Taxation

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

Deferred tax is provided using the balance sheet liability method based on temporary differences. Temporary difference are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using the tax rates enacted or substantively enacted at the balance sheet date. Deferred tax is charged to the income statement. The effect on deferred tax of any changes in tax rates is recognised in the income statement.

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

1.12 Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired its recoverable amount is estimated.

The recoverable amount is the higher of its net selling price and its value in use. In assessing value in use the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

For an asset that does not generate cash inflows that are largely independent of those from other assets the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment

NOTES TO THE ANNUAL GROUP FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2006

loss is recognised in the income statement whenever the carrying amount of the cash-generating unit exceeds its recoverable amount.

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

1.13 Employee Benefits

Short-term Employee Benefits

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service.

The provision for employee entitlements to wages salaries and annual leave represents the amount which the Company has a present obligation to pay as a result of employees' services provided to the balance sheet date.

The provisions have been calculated at undiscounted amounts based on current wage and salary rates.

Retirement Benefits

The Company contributes to a defined contribution plan. Contributions to the defined contribution fund are charged against income as incurred.

1.14 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events for which it is probable that an outflow of economic benefits will occur and where a reliable estimate can be made of the amount of the obligation. Where the effect of discounting is material provisions are discounted.

The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and where appropriate the risks specific to the liability.

1.15 Derivative Financial Instruments

The derivative instruments used by the Group which are used solely for hedging purposes (i.e. to offset foreign exchange risks) are forward rate agreements and forward foreign exchange contracts. Such derivative instruments are used to alter the risk profile of an existing underlying exposure of the Group in line with the Group's risk management policies.

Forward foreign exchange contracts are valued at the closing rates of exchange. Resulting gains and losses are dealt with in the income statement.

Where the instrument ceases to meet the criteria of being a hedge transaction or the underlying exposure which it is hedging is sold matures or is extinguished then the instrument is valued at the appropriate market rate after having taken account of selling costs. Any resultant gains and losses are reflected in operating income in the consolidated profit and loss account. A similar treatment is applied where the hedge is of a future transaction and that transaction is no longer likely to occur.

1.16 Financial Instruments

Financial assets are recognised when the Group has the rights or other access to economic benefits. Such assets consist of cash equity instruments a contractual right to receive cash or another financial asset or a contractual right to exchange financial instruments with another entity on potentially favourable terms. Financial liabilities are recognised when there is an obligation to transfer benefits and that obligation is a contractual liability to deliver cash or another financial asset or to exchange financial instruments with another entity on potentially unfavourable terms.

When these criteria no longer apply a financial asset or liability is no longer recognised.

If a legally enforceable right exists to set off recognised amounts of financial assets and liabilities which are in determinable monetary amounts and the Group intends to settle on a net basis the relevant financial assets and liabilities are offset.

Interest costs are charged against income in the year in which they are incurred. Premiums or discounts arising from the difference between the net proceeds of financial instruments purchased or issued and the amounts receivable or repayable at maturity are taken to net interest payable over the life of the instrument.

Where the fair value of an asset's carrying amount falls below the asset's carrying value any difference is in the case of fixed assets provided for if it is considered that impairment exists. In the case of current assets provision is only made to the extent that it is considered as resulting in a lower net realisable value.

Measurement

Financial instruments are initially measured at cost which includes transaction costs. Subsequent to initial recognition these instruments are measured as set out below.

Trade and Other Receivables

Trade and other receivables originated by the Company are stated at cost less provision for doubtful debts.

Cash and Cash Equivalents

Cash and cash equivalents are measured at fair value.

Financial Liabilities

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

Credit Risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. Reputable financial institutions are used for investing and cash handling purposes. At balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Liquidity Risk Management

Liquidity risk is managed using cash flow forecasts and by the maintenance of adequate borrowing facilities with the holding Company and the banks.

1.17 Foreign Currency Transactions

Transactions in foreign currencies are translated at the rates of exchange ruling at the transaction date. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Any foreign exchange differences are dealt with in the income statement in the year in which the difference occurs.

1.18 Segment Reporting

The main business of the Company and the Group is the provision of business-enabling technology solutions which create value for its clients through the application of business knowledge and best practices technological skills and capability.

As well as supplying the above products the Group is involved with a number of follow up services from which they derive income. Segment results include revenue and expenses directly attributable to a segment and the relevant portion of Group expenses that can be allocated on a reasonable basis to a segment whether from external transactions or from transactions with other Group segments. Intersegment transfer pricing is based on cost plus an appropriate margin.

Assets liabilities and capital expenditure per segment have not been presented as these are accounted for within the specific legal entities that represent multiple business units which share many operating assets and liabilities.

NOTES TO THE ANNUAL GROUP FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2006

	2006			2005		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying Value
2. FIXED ASSETS						
Company						
Owned Assets						
Motor vehicles	-	-	-	3 468	(3 466)	2
Furniture and fittings	-	-	-	886 716	(760 709)	126 007
Workshop equipment	-	-	-	189 601	(141 140)	48 461
Computer equipment	-	-	-	2 713 642	(2 394 457)	319 185
	-	-	-	3 793 427	(3 299 772)	493 655
Capitalised Leased Assets						
Motor vehicles	-	-	-	865 919	(752 953)	112 966
Computer equipment	-	-	-	898 445	(167 382)	731 063
	-	-	-	1 764 364	(920 335)	844 029
	-	-	-	5 557 791	(4 220 107)	1 337 684

The carrying amounts of fixed assets can be reconciled as follows:

	Carrying value at beginning of year	Additions	Additions through business combinations	Disposals/ transfers	Depreciation	Carrying value at the end of year
Owned Assets						
Motor vehicles	2	-	-	(2)	-	-
Furniture and fittings	126 007	-	-	(101 701)	(24 306)	-
Workshop equipment	48 461	-	-	(40 880)	(7 581)	-
Computer equipment	319 185	-	-	(199 754)	(119 431)	-
	493 655	-	-	(342 337)	(151 319)	-
Capitalised Leased Assets						
Motor vehicles	112 966			(78 319)	(34 647)	-
Computer equipment	731 063			(621 918)	(109 145)	-
	844 029	-	-	(700 237)	(143 792)	-
	1 337 684	-	-	(1 042 573)	(295 111)	-

	2006			2005		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying Value
2. FIXED ASSETS CONTINUED						
Group						
Owned Assets						
Motor vehicles	6 450	(3 814)	2 637	3 468	(3 466)	2
Furniture and fittings	1 520 433	(1 030 622)	489 811	1 058 026	(883 265)	174 761
Workshop equipment	429 371	(299 143)	130 228	346 605	(246 730)	99 875
Computer equipment	5 515 290	(3 333 635)	2 181 655	3 089 989	(2 748 318)	341 671
	7 471 544	(4 667 214)	2 804 330	4 498 088	(3 881 779)	616 309
Capitalised Leased Assets						
Motor vehicles	973 010	(796 131)	176 878	909 857	(789 902)	119 955
Computer equipment	4 626 528	(843 075)	3 783 453	850 745	(94 337)	756 408
Office Equipment	792 155	(64 583)	727 572	–	–	–
	6 391 694	(1 703 790)	4 687 904	1 760 602	(884 239)	876 363
	13 863 238	(6 371 003)	7 492 234	6 258 690	(4 766 018)	1 492 672

The carrying amounts of fixed assets can be reconciled as follows:

	Carrying value at beginning of year	Additions	Additions through business combinations	Disposals/ transfers	Depreciation	Carrying value at the end of year
Owned Assets						
Motor vehicles	2	2 982	–	–	(348)	2 637
Furniture and fittings	174 761	463 419	–	–	(148 369)	489 811
Workshop equipment	99 875	79 199	–	–	(48 846)	130 228
Computer equipment	341 671	2 446 983	–	–	(606 999)	2 181 655
	616 309	2 992 583	–	–	(804 562)	2 804 330
Capitalised Leased Assets						
Motor vehicles	119 955	126 088	–	–	(69 165)	176 878
Computer equipment	756 408	3 745 679	–	(15 235)	(703 398)	3 783 454
Office Equipment	–	792 155	–	–	(64 583)	727 572
	876 363	4 663 922	–	(15 235)	(837 147)	4 687 904
	1 492 672	7 656 506	–	(15 235)	(1 641 709)	7 492 234

NOTES TO THE ANNUAL GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2006

	2006			2005		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying Value
3. INTANGIBLE ASSETS						
Company						
Goodwill	5 750 000	–	5 750 000	–	–	
Computer Software	–	–	–	938 615	(838 800)	99 815
	5 750 000	–	5 750 000	938 615	(838 800)	99 815

The carrying amounts of intangible assets can be reconciled as follows:

	Carrying Value at beginning of the year	Additions	Transfers/ others	Amortification/ fair value adjustment	Carrying Value at end of year
Goodwill	–	5 750 000	–	–	5 750 000
Computer Software	99 815	–	(32 405)	(67 410)	–
	99 815	5 750 000	(32 405)	(67 410)	5 750 000

	2006			2005		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying Value
Group						
Goodwill	29 465 273	(13 715 273)	15 750 000	23 715 273	(13 715 273)	10 000 000
Computer Software	855 399	(790 989)	64 410	1 032 133	(881 380)	150 753
	30 320 672	(14 506 262)	15 814 410	24 747 406	(14 596 653)	10 150 753

The carrying amounts of intangible assets can be reconciled as follows:

	Carrying Value at beginning of the year	Additions	Transfers/ others	Amortification/ fair value adjustment	Carrying Value at end of year
Goodwill	10 000 000	5 750 000	–	–	15 750 000
Computer software	150 753	35 811	–	(122 154)	64 410
	10 150 753	5 785 811	–	(122 154)	15 814 410

	Company		Group	
	2006	2005	2006	2005
	R	R	R	R
4. INVESTMENTS IN SUBSIDIARIES				
Shares at cost less provisions and amounts written off	2 257 901	2 258 811	-	-
Square One Document Solutions (Proprietary) Limited	615 000	615 000	-	-
Square One (Proprietary) Limited	1 641 001	1 641 001	-	-
Square One Convergence Solutions (Proprietary) Limited	100	100	-	-
Square One Power Solutions (Proprietary) Limited	500	500	-	-
Activated Learning Group (Proprietary) Limited	-	1 000	-	-
Square One Capital (Proprietary) Limited	100	10	-	-
Square One Solutions (Proprietary) Limited	100	100	-	-
New Heights Communications (Proprietary) Limited	100	100	-	-
Square One Managed Services (Proprietary) Limited	1 000	1 000	-	-
Amounts owing by subsidiaries:	23 038 585	21 203 451	-	-
Square One Convergence Solutions (Proprietary) Limited	13 830	1 302	-	-
Square One Power Solutions (Proprietary) Limited	117 414	3 742 986	-	-
Square One (Proprietary) Limited	6 059 333	5 444 461	-	-
Square One Capital (Proprietary) Limited	-	2 744 593	-	-
Square One Managed Services (Proprietary) Limited	-	4 799	-	-
Square One Solutions (Proprietary) Limited	16 848 008	7 747 220	-	-
Activated Learning Group (Proprietary) Limited	-	1 518 090	-	-
Less:				
Loans by subsidiaries	41 035	6 463 435	-	-
New Heights Communications (Proprietary) Limited	35 706	37 655	-	-
Square One Document Solutions (Proprietary) Limited	-	6 425 780	-	-
Square One Managed Services (Proprietary) Limited	5 329	-	-	-
	25 255 451	16 998 827	-	-
5. INVESTMENTS				
The Group held loans and investments in the following entities:				
Long-term Loan				
Square One Share Incentive Trust	2 389 550	2 678 550	2 389 550	2 678 550

NOTES TO THE ANNUAL GROUP FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2006

	Company		Group	
	2006	2005	2006	2005
	R	R	R	R
6. DEFERRED TAXATION				
Balance at beginning of year	1 496 636	2 000 006	8 075 082	–
Movements during year attributable to:				
Timing differences	–	(503 370)	(1 451 280)	–
Acquired through business combinations	–	–	–	8 075 082
Balance at end of year	1 496 636	1 496 636	6 623 802	8 075 082
The balance comprises:	1 496 636	1 496 636	6 623 802	8 075 082
Assessed losses	1 496 636	1 496 636	6 623 802	8 075 082
7. INVENTORIES				
The amounts attributable to the different categories are as follows:				
Finished goods	–	11 349 121	18 127 452	18 396 648
8. ACCOUNTS RECEIVABLE				
Accounts receivable consists of the following:				
Trade debtors	74 655	21 987 433	23 016 966	34 229 371
Sundry deposits	–	124 124	137 824	139 144
Prepaid expenses	–	62 080	43 910	62 080
Sundry debtors	253 561	(108 427)	4 787 856	5 420 629
	328 216	22 065 210	27 986 555	39 851 224
9. BANK BALANCES				
Term loan of the Group is secured by means of unlimited cross company guarantees between the Company and Square One Power Solutions (Proprietary) Limited. There is also a cession of debtors and a general notiral bond over inventory of Square One Solutions Group Limited in favour of Citibank NA.				
10. ISSUED CAPITAL				
Authorised				
200 000 000 ordinary shares of 1c each	2 000 000	2 000 000	2 000 000	2 000 000
Issued				
31 628 346 (2005: 28 100 500) ordinary shares of 1c each	316 283	281 005	316 283	281 005
The directors are authorised until the forthcoming annual general meeting to dispose of the unissued shares for any purpose and upon such terms and conditions as they deem fit.				
11. OUTSIDE SHAREHOLDERS' INTEREST				
Balance at the beginning of the year	–	–	686 209	686 209
Share of current-year profits	–	–	–	–
Balance at end of year	–	–	686 209	686 209

	Company		Group	
	2006	2005	2006	2005
	R	R	R	R
12. OUTSIDE SHAREHOLDERS' LOANS				
N C Schreiber	-	-	-	20 322
N R Burnard	-	-	125 421	125 421
A E G van der Westhuizen	-	-	125 421	125 420
	-	-	250 842	271 163
13. LONG TERM LIABILITIES				
13.1 Interest-bearing liabilities				
Citibank NA	8 411 977	11 718 405	8 411 968	11 718 405
The above loan is secured by a cession of debtors and a general natural bond over inventory of Square One Solutions Group Limited. Interest is charged at prime overdraft lending rate less 2% and repayable in three years				
GAC Investment Holdings (Proprietary) Limited	11 945 517	10 015 115	14 945 517	11 145 664
The above loan is unsecured, bears interest at rates linked to prime overdraft lending rate and has no fixed terms of repayment				
Finance Leases	1 353 012	-	2 959 252	28 240
The finance leases are secured by financial lease agreements over certain of the fixed assets mentioned in note 2. These bear interest at rates linked to the prime overdraft rate, and are repayable in monthly installments				
Less: Current portion of interest-bearing liabilities	(5 215 064)	(4 029 902)	(5 700 951)	(4 029 902)
13.2 Non Interest-bearing liabilities				
The John and Esme Muller Family Trust	500 000	-	500 000	500 000
The loan is unsecured has no fixed terms of repayment				
IOTEC (Pty) Ltd	750 000	-	750 000	-
The loan is unsecured has no fixed terms of repayment				
Directors Loans				
R T Muzariri	300 000	100 000	678 112	100 000
The loan is unsecured has no fixed terms of repayment				
	18 045 442	17 803 618	22 543 898	19 462 407

NOTES TO THE ANNUAL GROUP FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2006

	Company		Group	
	2006	2005	2006	2005
	R	R	R	R
14. PROVISIONS				
Leave pay	-	390 257	464 406	453 030
Warranty	-	89 562	-	215 829
Marine insurance	-	14 644	(91 760)	14 644
Freight	-	-	-	114 531
Audit fees	44 000	200 000	304 651	-
	44 000	694 463	677 297	798 034
15. GROSS REVENUE				
Gross revenue which excludes value-added tax represents the invoiced value of goods and services supplied.				
16. OPERATING PROFIT/(LOSS)				
Operating profit/(loss) is stated after charging:				
Auditors' remuneration	227 614	185 518	441 614	301 596
Audit fee – current year	227 614	185 518	406 000	301 596
Prior year over provision	-	-	35 614	-
Depreciation	295 111	719 870	1 641 709	806 261
Owned assets	151 319	523 572	804 562	602 535
Capitalised leased assets	143 792	196 298	837 147	203 726
Amortisation of intangible assets	67 410	290 781	122 154	263 781
Impairment of goodwill	-	-	-	975 683
Foreign exchange profits/(loss)	1 089 936	(402 657)	1 280 153	(105 708)
Lease rentals – premises	594 937	2 581 159	2 633 063	3 146 996
Profit on disposal of fixed assets	-	-	-	-
17. INTEREST RECEIVED				
Interest income				
Bank balances	22 871	27 979	61 694	41 318
18. FINANCE COSTS				
Long-term loans	2 357 232	2 655 872	2 910 601	3 134 261
Finance lease	198 669	-	428 173	-
	2 555 901	2 655 872	3 338 774	3 134 261

	Service as directors	Basic salary	Performance bonuses	Expense allowances
19. DIRECTORS REMUNERATION				
Directors' emoluments				
2006				
Executive Directors				
W T James	–	768 350	–	–
R T Muzariri	–	114 408	–	–
A Meyer	–	584 400	–	–
B A Croza	–	–	–	–
C L Alexander	–	704 000	–	–
Non-Executive Directors				
G A Coetser	–	480 000	–	–
R R Masebelanga	20 000	–	–	–
M G Seape	–	–	–	–
M S Makhanya	15 000	–	–	–
K X T Socikwa	15 000	–	–	–
	50 000	2 651 158	–	–

2005				
Executive Directors				
W T James	–	669 600	–	–
R T Muzariri	–	207 100	–	–
A Meyer	–	556 200	–	–
B A Croza	–	160 000	–	–
C L Alexander	–	630 000	–	–
Non-Executive Directors				
G A Coetser	–	480 000	–	–
R R Masebelanga	10 000	–	–	–
M G Seape	10 000	–	–	–
M S Makhanya	20 000	–	–	–
K X T Socikwa	20 000	–	–	–
	60 000	2 702 900	–	–

20. SHAREHOLDING OF DIRECTORS

The shareholding of the directors in the issued share capital of the Company as at 31 December 2006 was as follows:

Director	Beneficial		Non-Beneficial		Total	2006 % of Issued Share Capital
	Direct	Indirect	Direct	Indirect		
31 December 2005						
Executive Directors						
R T Muzariri	–	–	–	–	–	–
W T James	3 895	294 856	–	294 856	593 607	1.9
A Meyer	70 000	–	–	–	70 000	0.2
C L Alexander	300 000	–	–	–	300 000	0.9
	373 895	294 856	–	294 856	963 607	3.0
Non-executive directors						
G A Coetser	–	–	–	1 992 819	1 992 819	6.3
R R Masebelanga	–	–	–	–	–	–
M S Makhanya	–	–	–	–	–	–
K X T Socikwa	–	–	–	6 800 000	6 800 000	21.5
	–	–	–	8 792 819	8 792 819	27.8

NOTES TO THE ANNUAL GROUP FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2006

	Balance at 1 January 2006	Granted during 2006	Exercised during the year 2006	Balance at 31 December 2006
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21. SHARE OPTIONS GRANTED TO DIRECTORS

Executive directors

R T Muzariri	300 000	–	–	300 000
W T James	500 000	–	–	500 000
A Meyer	425 000	–	–	425 000
C L Alexander	1 050 000	–	–	1 050 000
	2 275 000	–	–	2 275 000

Non-executive directors

G A Coetser	550 000	100 000	–	650 000
R R Masebelanga	250 000	–	–	250 000
M S Makhanya	–	–	–	–
K X T Socikwa	250 000	–	–	250 000
	1 050 000	–	–	1 150 000
	3 325 000	–	–	3 425 000

	Company		Group	
	2006	2005	2006	2005
	R	R	R	R

22. TAXATION

South African normal tax

Current year		–		–
Deferred tax				
Current year	–	(561 196)	(1 451 280)	(1 188 426)
Tax for the year	–	(561 196)	(1 451 280)	(1 188 426)

Reconciliation of rate of taxation	%	%	%	%
South African normal tax losses	29		29	
Adjusted for timing differences				
Utilisation of computed tax losses	–	29	29	49
Net increase/(decrease)	–	(29)	(29)	(49)
Effective rates	–	–	–	–

23. EARNINGS PER SHARE

(Loss)/earnings attributable to ordinary shareholders	(39 573)	1 373 961	3 553 133	1 245 400
Impairment of goodwill				975 683
Headline (loss)/earning	(39 573)	1 373 961	3 553 133	2 221 083

Headline (loss)/earnings per share and (loss)/earnings per share are calculated on the weighted average number of ordinary shares in issue being 31 628 346 (2005: 23 640 500).

	Company		Group	
	2006	2005	2006	2005
	R	R	R	R

24. SEGMENTAL INFORMATION

Business Segments

The following table shows the distribution of the Groups consolidated revenue by business segment

Business Solutions	13 420 494		15 381 086	
Knowledge and Information Management Solutions		–	76 483 844	
Coding and Marking Solutions	29 341 357		29 131 190	
Power Solutions (UPS)	25 187 967		24 416 826	
Channel Solutions	91 043 281		59 240 058	
Square One Capital (Pty) Ltd	12 787 858		–	
	171 780 957		204 653 004	

Geographical Segments

Johannesburg	112 266 354		152 494 147	
Cape Town	26 775 811		23 322 798	
Durban	8 916 999		11 762 892	
Port Elizabeth	8 382 449		6 582 999	
Pretoria	13 203 110		8 549 589	
Bloemfontein	2 236 234		1 940 570	
	171 780 957		204 652 995	

25. RELATED PARTY

25.1 Dealings with Subsidiaries of the Company

During the year under review the Company and its subsidiaries, in the ordinary course of business, entered into various sale and purchase transactions with each other. These transactions occurred under terms that are no less favourable than those arranged with third parties, that being at arm's length.

Service provided to subsidiaries	6 805 394	16 906 143	–	–
Service provided by subsidiaries	5 819 844	3 292 560	–	–

25.2 Dealings with Directors and Other Entities

Controlled by the Company's Directors

Monkor Management Services (Pty) Ltd	–	–	1 732 227	–
CCG Rentals (Pty) Ltd	–	–	240 879	–
RT Muzariri	200 000	100 000	578 112	100 000

25.3 Other

- Loans and investments relating to subsidiaries have been identified in note 4
- The Company does not have any associates or joint ventures
- The directors are listed in the directors report
- Transactions that occurred with other companies in which the directors have an interest have been identified in note 13

NOTES TO THE ANNUAL GROUP FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2006

	Number of shareholders	Number of shares	% Shareholding
26. SHAREHOLDERS' SPREAD			
Directors	3	373 895	1.2
Persons other than directors holding more than 10%	3	18 510 000	58.5
Total "non-public" shareholders	6	18 883 895	59.7
Total "public" shareholders	203	12 744 451	40.3
	209	31 628 346	100.0

	Company		Group	
	2006	2005	2006	2005
	R	R	R	R

27. NOTES TO THE CASH FLOW STATEMENT

27.1 Cash generated from operations

Net (loss)/profit before taxation	(39 573)	1 935 157	5 004 413	2 433 826
Adjustments for:				
Depreciation and amortisation	295 111	1 010 652	1 641 709	1 070 042
Interest received	(22 871)	(27 979)	(61 694)	(41 318)
Finance costs	2 555 901	2 655 872	3 338 774	3 134 261
Impairment of goodwill	-	-	-	975 683
Other non-cash items	67 410	-	122 154	(91)
	2 855 978	5 573 702	10 045 356	7 572 403

Movements in working capital

(Increase)/decrease in inventories	11 349 121	(1 333 833)	269 196	(1 614 212)
Decrease/(increase) in accounts receivable	21 736 994	(10 573 924)	11 864 669	(13 954 858)
Increase/(decrease) in accounts payable and provisions	(24 428 580)	12 505 922	(8 470 034)	19 190 605
	11 513 513	6 171 867	13 709 187	11 193 938

27.2 Reconciliation of taxation paid during the year

Charge in income statement	-	(561 196)	(1 451 280)	(1 188 426)
Deferred taxation acquired through business combination	-	-	-	-
Deferred taxation	-	503 370	1 451 280	1 108 269
Movement in taxation balance	1 000	29 748	(6 548)	(118 869)
Payments made	1 000	(28 078)	(6 548)	(199 026)

27.3 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:

Bank balances	1 371 618	1 240 966	4 609 877	5 683 884
Bank overdrafts	-	-	-	-
	1 371 618	1 240 966	4 609 877	5 683 884

	Company		Group	
	2006	2005	2006	2005
	R	R	R	R

28. SHARE INCENTIVE TRUST

The Square One Leveraged Share Incentive Trust holds 6 160 000 shares all of which have been allocated

Options in issue at 1 January 2006	6 160 000	6 160 000	6 160 000	6 160 000
Options issued/exercised during the year	–	–	–	–
Options at 31 December 2006	6 160 000	6 160 000	6 160 000	6 160 000

29. LITIGATION STATEMENT

The Group is not aware of any legal or arbitration proceedings, including any proceedings that are pending or threatened of which the Group is aware, that may have or have had in the recent past, being at least the previous twelve months, a material effect on the Group's financial position.

30. MATERIAL CHANGES

No material changes in the financial or trading position of the Company, or its subsidiaries have taken place since the financial results for the year ended 31 December 2006, being the end of the last financial reporting period for which a report has been published, and the date of this document.

31. SPECIAL RESOLUTIONS

No special resolutions as required in terms of Section 8.63 (j) of the JSE Listings Requirements have been passed during the year under review.

ANALYSIS OF SHAREHOLDING

TOP TEN SHAREHOLDERS

	Shareholders		Shares held	
	Number	%	Number	%
Range of shareholding				
1 – 5 000	108	51.7	198 026	0.6
5 001 – 10 000	25	12	194 814	0.6
10 001 – 50 000	36	17.2	871 977	2.8
50 001 – 100 000	15	7.2	1 035 308	3.3
100 001 – 500 000	14	6.7	3 935 710	12.4
500 001 – 1 000 000	6	2.9	4 064 646	12.9
Over 1 000 000	5	2.4	21 327 865	67.4
	207	100.0	31 628 346	100.0

TOP TEN SHAREHOLDERS

	Number of shares held	% of shares
ProudAfrique Trading 66 (Proprietary) Limited	6 800 000	21.5
Square One Share Incentive Trust	6 160 000	19.5
Oak Nominees Limited	5 675 150	17.9
GAC Investment Holdings (Proprietary) Limited	1 992 819	6.3
Dante Trust	1 061 398	3.4
D M Brown	693 069	2.2
T A Cronje	693 069	2.2
S Ramsay	693 069	2.2
R C P John	693 069	2.2
H P Rombouts	693 069	2.2
Cruise Marine Coatings (Pty) Ltd	599 300	1.9
	25 754 012	81.4

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the seventh annual general meeting of Square One Solutions Group Limited (incorporated in the Republic of South Africa) Registration number: 1999/026822/06 Share code: SQE ISIN number: ZAE 000023768, will be held at the offices of the Company, First Floor, Eastgate Park, 8 Commerce Crescent West, Eastgate Extension 13, Sandton, on Monday, 11 June 2007 at 14h00 for the transaction of the following business:

1. To receive and consider the annual financial statements for the year ended 31 December 2006.
2. To elect the directors who retire by rotation in terms of the Company's Articles of Association.

2.1 Prof M S Makhanya

2.2 Mr R R Masebelanga

Both being eligible, offer themselves for re-election. Their brief CV's appear on pages 4 and 5 of the annual report.

3. To reappoint the auditors, Russell Bedford Southern Africa (Jhb) Inc. and to authorise the directors to decide on the remuneration of the auditors for the past year's audit.

4. To consider, and if deemed fit, to pass with or without amendment the following ordinary resolution in terms of Section 221 of the South African Companies Act and the Listings Requirements of the JSE Limited. That until the next annual general meeting of the Company the unissued ordinary shares of the Company (excluding for the purpose the shares in respect of which the directors have been granted specific authority in terms of the Company share incentive scheme) be and are hereby placed under the control of the directors to allot and issue to such person or persons and on such terms and conditions and at such times as the directors in their discretion may determine.

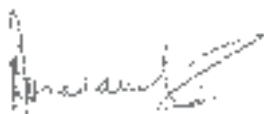
5. To transact such other business as may be dealt with at an ordinary annual general meeting.

A member entitled to attend and vote at the annual general meeting may appoint a proxy (who need not be a member of the Company) to attend and speak and to vote in his/her stead. A form for the purpose of appointing a proxy is included in the annual report.

Certified shareholders and own-name dematerialised shareholders who are unable to attend the general meeting but wish to be represented thereat should complete and return the attached form of proxy in accordance with the instructions contained therein so as to be received by the transfer secretaries by 14h00 on Monday, 4 June 2007.

Dematerialised shareholders, other than own-name dematerialised shareholders, who wish to attend the general meeting must request their CSDP or broker to provide them with a Letter of Representation or must instruct their CSDP or broker to vote by proxy on their behalf in terms of the agreement entered into between the shareholder and their CSDP or broker.

By order of the Board.



A M Craddock
Company Secretary
26 May 2007

DIRECTORATE AND ADMINISTRATION

The directors in office at the date of this report are as follows:

Non-executive Chairman
G A Coetser (48)
BComm, BAcc, CA (SA)

Non-executive Deputy
Chairman

R R Masebelanga (43)
BJuris, LLB, LL.M.

Executive Vice Chairman
R T Muzariri (37)
BCompt, Hons BCompt (CTA),
CA (SA)

Chief Executive Officer
C L Alexander (38)

Executive Directors
W T James (48)

A Meyer (48)
BComm, FA (SA)

Non-executive Directors
Professor M S Makhanya (44)
BA Hons, (MA) (Sociology),
DPhil, DTE

K X T Socikwa (38)
BComm, LLB, MAP, IPBM

Changes to Board of Directors
Ms M G Seape resigned as a
director of the company on
28 June 2006.

Company Secretary
A M Craddock CA (SA)

Square One Business Address

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1st Floor, East Block
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Contact details
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Fax: (011) 444 2462
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www.squareonegroup.co.za

Square One Registered Address

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Randburg, 2156
South Africa

Postal
PO Box 1163
Gallo Manor, 2052
South Africa

Contact details
Tel: (011) 321 5900
Fax: (011) 444 2462
www.sq1.co.za or
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Transfer Secretaries

Link Market Services South
Africa (Pty) Ltd
PO Box 4844, Johannesburg
2000

Corporate Advisor and Sponsor
to Square One Solutions Group
Limited
Bridge Capital Services
(Proprietary) Limited
PO Box 651010, Benmore
2010

Auditors
Russell Bedford Southern Africa
(Jhb) Inc.
15 Catherine Avenue
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P O Box 1757, Northcliff
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Umgeni Business Park
Umgeni, Durban
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Fax: (031) 263 0882

Port Elizabeth Branch
28 Pickering Street
Newton Park, Port Elizabeth
Tel: (041) 391 9200
Fax: (041) 364 0594

SHAREHOLDERS' DIARY

Financial year-end	December
Annual general meeting	June
Publication of reports	
Interim, for half-year to June	September
Preliminary announcement of annual results	March
Annual financial statements	June

This annual report is also available in PDF format, which may be
downloaded from our website:
www.sq1.co.za or www.squareonegroup.co.za



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