

## OVERVIEW

The results for the six months ended 30 June 2011 are disappointing and below our expectations. In March 2011 when writing the report for the annual results, the Group's Aftermarket business, CI Automotive, was in line for a very good first quarter and the order book for development projects and other opportunities in the OEM business, Pi Shurlok, was full. The future looked promising.

This position reversed dramatically in the second quarter. The abnormally large number of public holidays in April 2011 and the knock-on effects of the lost days had a major negative effect on the Group's South African operations. This was compounded by increases in underlying costs, such as electricity and wages, over which the Group has limited direct control. Our OEM business in particular was affected by a number of other factors. These are dealt with more fully below.

Despite an increase in revenue of 7.9% from R418.2 million to R451.2 million for the six months ended 30 June 2011 and a 6.3% increase in gross profit from R118.7 million to R126.2 million, a 10.1% increase in expenses resulted in an operating loss of R3.6 million, compared with an operating profit of R2.8 million for the same period in the previous year. The net loss after tax increased from a loss of R1.7 million to a loss of R7.3 million.

## AFTERMARKET

Revenue increased 5.6% to R230.7 million. Normalised EBITDA decreased 5.6% to R23.2 million mainly as a result of an increase in expenses, particularly advertising and marketing to support future sales growth. A number of these expenses were authorised based on the performance in the first quarter and are aimed at solidifying the gains made by the business over the past 24 months.

CI Automotive has been working on a number of initiatives to improve its performance metrics and levels of customer service, which should give it an increased competitive advantage in the longer term. While the second quarter turned out to be more difficult than expected, we are satisfied that the business has maintained its market share in its key product categories.

The business has built up a strong management team and a lean structure. This should ensure that it is well placed to cope with changes in its market and with the slowdown in the economy.

The Aftermarket business sells premium quality products with strong brand identities for which the Group either owns or has exclusive distribution rights to the brand names. These include Gabriel (shock absorbers), VDO (instrumentation products), Echlin (ignition, fuel, cooling and switch products), Autocom (steering and suspension components), Acsa-Mag (auto electrical products), Mag Brakes (heavy-duty airbrake parts and hydraulic cylinders), Shurlok (alarms and immobilisers) and Warn (off-road accessories and winches).

## OEM

The OEM business also had an increase in revenue, by 10.6% to R221.6 million, but a drop in normalised EBITDA from a profit of R3.7 million to a loss of R1.1 million. The poor results are mainly attributable to the OEM business' electronics manufacturing operation in South Africa. This was particularly disappointing as it operated at high turnover and unit production levels during the period.

The poor financial performance of the electronics manufacturing operation is the result of a number of factors. These include a sub-optimal mix of business caused by certain production runs ending; deteriorating margins; and increasing costs, which include costs over which the business has little or no control and the upfront costs involved in preparing for the production of new products. In addition, manufacturing operations in general do not run efficiently when subjected to disruptions and interruptions. The high number of public holidays in April caused severe disruptions to our manufacturing operation and component shortages, as a result of the tsunami in Japan

in March 2011, exacerbated an already tight component supply chain resulting in numerous production delays as well as significant additional transport and other costs.

We are taking aggressive steps to counteract the effects of the business mix and to improve the margins. Some success in renegotiating more acceptable margins has already been achieved. Where it has not been possible to negotiate acceptable levels of profitability based on better margins and optimal order quantities, active steps are being taken to exit the production programmes concerned.

Our OEM business is still not operating at a level that allows it to absorb any volatility in market demand or input costs for products. We are therefore reviewing the cost base of the business, specifically the costs required to support potential future growth and expansion, versus what is required to support current business. This is particularly relevant as the current outlook for new development projects has dropped since March to the lowest level it has been for the past two years. It is clear that Pi Shurlok's customers are taking a conservative approach to the slowdown. They are pushing out delivery dates and reducing their forecasted volumes for future production programmes.

## **PROSPECTS**

The Group's performance in the second quarter of the year is in sobering contrast to the optimism we felt in the first quarter. We believe it reflects the stark economic position that is emerging both internationally and in South Africa.

In our opinion South Africa continues to lose its ability to remain a competitive manufacturing country. Our OEM electronics manufacturing operation is facing rapidly rising input costs, such as electricity and labour, without the ability to generate proportional increases in productivity. In addition, the new Automotive Production and Development Programme (APDP), which will replace the Motor Industry Development Programme (MIDP), does not in many cases favour small independent suppliers of automotive components, particularly electronics.

The second half of the year is going to remain difficult. We are expecting the slowdown in world economies to continue and consumer spending in South Africa and abroad to decrease further. The OEM business remains a work-in-progress and its realignment is aimed at meeting the new market dynamics. Our Aftermarket business is well positioned in its space and should continue to generate profits and cash.

On behalf of the Board

JPS O'LEARY  
Chairman  
12 August 2011

R FRIEDMAN  
Group CEO and Managing Director

## basis of presentation and accounting policies

This interim report has been prepared in accordance with IAS 34 - Interim Financial Reporting under the supervision of the Group Financial Director; FE Giliomee CA(SA); the requirements of the South African Companies Act, No. 71 of 2008; and in compliance with the Listings Requirements of the JSE Limited. The accounting policies used are consistent with those applied in the financial statements for the year ended 31 December 2010 and IFRS.

# consolidated statement of financial position

AT 30 JUNE 2011

|   | Unaudited<br>30/06/2011<br>R 000 | Unaudited<br>30/06/2010<br>R 000 | Audited<br>31/12/2010<br>R 000 |
|---|----------------------------------|----------------------------------|--------------------------------|
| <b>ASSETS</b>   |                                  |                                  |                                |
| <b>Non-current assets</b>                             | <b>280 888</b>                   | <b>284 414</b>                   | <b>280 636</b>                 |
| Property, plant and equipment                         | 120 072                          | 123 466                          | 123 621                        |
| Intangible assets                                     | 124 051                          | 128 518                          | 123 381                        |
| Investments in joint ventures                         | 1 224                            | 874                              | 980                            |
| Available-for-sale financial assets                   | 270                              | 720                              | 768                            |
| Deferred income tax assets                            | 35 271                           | 30 836                           | 31 886                         |
| <b>Current assets</b>                                 | <b>306 026</b>                   | <b>291 052</b>                   | <b>274 131</b>                 |
| Inventories   | 150 706                          | 153 586                          | 136 594                        |
| Trade and other receivables                           | 150 892                          | 132 850                          | 92 322                         |
| Derivative financial instruments                      | 1                                | 64                               | -                              |
| Financial assets at fair value through profit or loss | 171                              | 152                              | 162                            |
| Current income tax assets                             | -                                | 42                               | 3                              |
| Cash and cash equivalents                             | 4 256                            | 4 358                            | 45 050                         |
| <b>Total assets</b>                                   | <b>586 914</b>                   | <b>575 466</b>                   | <b>554 767</b>                 |
| <b>EQUITY AND LIABILITIES</b>                         |                                  |                                  |                                |
| <b>Capital and reserves</b>                           | <b>290 400</b>                   | <b>293 693</b>                   | <b>291 992</b>                 |
| Share capital   | 6 972                            | 6 972                            | 6 972                          |
| Share premium   | 396 996                          | 396 996                          | 396 996                        |
| Treasury shares                                       | (2 813)                          | (3 117)                          | (3 117)                        |
| Foreign currency translation reserve                  | (15 671)                         | (13 832)                         | (19 101)                       |
| Other reserves  | 711                              | (213)                            | (595)                          |
| Accumulated loss                                      | (95 795)                         | (93 113)                         | (89 163)                       |
| <b>Non-current liabilities</b>                        | <b>39 346</b>                    | <b>39 088</b>                    | <b>39 680</b>                  |
| Borrowings  | 9 888                            | 10 699                           | 11 064                         |
| Deferred income tax liabilities                       | 25 844                           | 23 542                           | 26 296                         |
| Provisions  | 3 614                            | 4 847                            | 2 320                          |
| <b>Current liabilities</b>                            | <b>257 168</b>                   | <b>242 685</b>                   | <b>223 095</b>                 |
| Trade and other payables                              | 165 315                          | 150 692                          | 136 477                        |
| Current income tax liabilities                        | 2 877                            | 2 683                            | 503                            |
| Derivative financial instruments                      | 303                              | 845                              | 1 411                          |
| Borrowings  | 85 109                           | 85 839                           | 79 567                         |
| Provisions  | 3 564                            | 2 626                            | 5 137                          |
| <b>Total equity and liabilities</b>                   | <b>586 914</b>                   | <b>575 466</b>                   | <b>554 767</b>                 |
| Net asset value per share (cents)                     | 211                              | 214                              | 213                            |

# consolidated income statement

FOR THE SIX MONTHS ENDED 30 JUNE 2011

|  | Unaudited<br>6 Months<br>ended<br>30/06/2011<br>R 000 | Unaudited<br>6 Months<br>ended<br>30/06/2010<br>R 000 | Audited<br>Year<br>ended<br>31/12/2010<br>R 000 |
|--|---|---|---|
| <b>Revenue</b>   | 451 197   | 418 189   | 906 123   |
| Cost of sales  | (325 013)   | (299 441)   | (659 239)                                       |
| <b>Gross profit</b>  | 126 184   | 118 748   | 246 884   |
| Other operating income   | 2 580   | 4 323   | 10 173  |
| Marketing and selling expenses   | (22 990)  | (16 655)  | (40 365)  |
| Administrative expenses  | (44 636)  | (44 163)  | (78 996)  |
| Other operating expenses   | (64 756)  | (59 445)  | (124 957)                                       |
| <b>Operating profit/(loss)</b>   | (3 618)   | 2 808   | 12 739  |
| Finance income   | -   | 4   | -   |
| Finance costs  | (5 487)   | (5 690)   | (11 295)  |
| Share of profit from joint ventures                                      | 244   | 309   | 415   |
| <b>Profit/(loss) before taxation</b>                                     | (8 861)   | (2 569)   | 1 859   |
| Taxation   | 1 582   | 833   | 355   |
| <b>Profit/(loss) for the period</b>                                      | (7 279)   | (1 736)   | 2 214   |
| <b>Attributable to:</b>  |   |   |   |
| Owners of the parent   | (7 279)   | (1 736)   | 2 214   |
| Non-controlling interests  | -   | -   | -   |
|  | (7 279)   | (1 736)   | 2 214   |
| <b>Net number of shares issued (000)</b>                                 |   |   |   |
| Total shares in issue (excluding treasury shares)                        | 137 587   | 137 387   | 137 387   |
| Weighted average number of shares in issue                               | 137 394   | 137 387   | 137 387   |
| Adjustment for share options   | -   | -   | -   |
| Weighted average number of shares for diluted earnings per share         | 137 394   | 137 387   | 137 387   |
| <b>Profit/(loss) per share (cents)</b>                                   | (5.30)  | (1.26)  | 1.61  |
| <b>Diluted profit/(loss) per share (cents)</b>                           | (5.30)  | (1.26)  | 1.61  |
| <b>Calculation of headline profit/(loss)</b>                             |   |   |   |
| Net profit/(loss) after tax for the period                               | (7 279)   | (1 736)   | 2 214   |
| (Profit)/loss on disposal and scrapping of property, plant and equipment | (11)  | 104   | 3   |
| Impairment of property, plant and equipment                              | -   | -   | 222   |
| Loss on disposal of financial assets available-for-sale                  | 816   | -   | -   |
| Tax on the above   | 2   | (15)  | (63)  |
| <b>Headline profit/(loss)</b>  | (6 472)   | (1 647)   | 2 376   |
| <b>Headline profit/(loss) per share (cents)</b>                          | (4.71)  | (1.20)  | 1.73  |
| <b>Diluted headline profit/(loss) per share (cents)</b>                  | (4.71)  | (1.20)  | 1.73  |

# consolidated statement of comprehensive income

FOR THE SIX MONTHS ENDED 30 JUNE 2011

|   | Unaudited<br>6 Months<br>ended<br>30/06/2011<br>R 000 | Unaudited<br>6 Months<br>ended<br>30/06/2010<br>R 000 | Audited<br>Year<br>ended<br>31/12/2010<br>R 000 |
|---|---|---|---|
| <b>Profit/(loss) for the period</b>                                     | (7 279)   | (1 736)   | 2 214   |
| <b>Other comprehensive (loss)/income for the period,<br/>net of tax</b> | 4 547   | (72)  | (5 905)   |
| Fair value adjustment on available-for-sale assets, net of tax          | 318   | 72  | 120   |
| Cash flow hedges, net of tax  | 799   | 1 306   | 694   |
| Foreign currency translation reserve, net of tax                        | 3 430   | (1 450)   | (6 719)   |
| <b>Total comprehensive loss for the period</b>                          | <b>(2 732)</b>  | <b>(1 808)</b>  | <b>(3 691)</b>                                  |
| <b>Attributable to:</b>   |   |   |   |
| Owners of the parent  | (2 732)   | (1 808)   | (3 691)   |
| Non-controlling interests   | -   | -   | -   |
|   | <b>(2 732)</b>  | <b>(1 808)</b>  | <b>(3 691)</b>                                  |

# condensed consolidated statement of cash flows

FOR THE SIX MONTHS ENDED 30 JUNE 2011

|  | Unaudited<br>6 Months<br>ended<br>30/06/2011<br>R 000 | Unaudited<br>6 Months<br>ended<br>30/06/2010<br>R 000 | Audited<br>Year<br>ended<br>31/12/2010<br>R 000 |
|--|---|---|---|
| Net cash generated from/(utilised in) operating activities | (37 190)  | (24 616)  | 34 484  |
| Net cash utilised in investing activities                  | (7 875)   | (11 134)  | (25 342)  |
| Net cash generated from financing activities               | 206   | 103   | 3 796   |
| Net cash inflow/(outflow) for the period                   | (44 859)  | (35 647)  | 12 938  |
| Forex translation adjustments on cash and cash equivalents | (274)   | 95  | 506   |
| Cash and cash equivalents at the beginning of the period   | 41 698  | 28 254  | 28 254  |
| Cash and cash equivalents at the end of the period         | (3 435)   | (7 298)   | 41 698  |

# consolidated statement of changes in equity

FOR THE SIX MONTHS ENDED 30 JUNE 2011

|   | Share<br>capital | Share<br>premium | Treasury<br>shares | Foreign<br>currency<br>translation<br>reserve | Other<br>reserves | Accumu-<br>lated loss | Total   |
|---|------------------|------------------|--------------------|---|-------------------|-----------------------|---------|
|   | R 000            | R 000            | R 000              | R 000   | R 000             | R 000                 | R 000   |
| <b>Balance at 1 January 2010<br/>(Audited)</b>      | 6 972            | 396 996          | (3 117)            | (12 382)                                      | (1 647)           | (91 377)              | 295 445 |
| Transactions with owners                            |                  |                  |                    |   |                   |                       |         |
| Employee share option scheme                        |                  |                  |                    |   |                   |                       |         |
| Value of services provided                          |                  |                  |                    |   | 56                |                       | 56      |
| Total comprehensive income/(loss) for the<br>period |                  |                  |                    | (1 450)                                       | 1 378             | (1 736)               | (1 808) |
| <b>Balance at 30 June 2010<br/>(Unaudited)</b>      | 6 972            | 396 996          | (3 117)            | (13 832)                                      | (213)             | (93 113)              | 293 693 |
| Transactions with owners                            |                  |                  |                    |   |                   |                       |         |
| Employee share option scheme                        |                  |                  |                    |   |                   |                       |         |
| Value of services provided                          |                  |                  |                    |   | 182               |                       | 182     |
| Total comprehensive income/(loss) for the<br>period |                  |                  |                    | (5 269)                                       | (564)             | 3 950                 | (1 883) |
| <b>Balance at 31 December 2010<br/>(Audited)</b>    | 6 972            | 396 996          | (3 117)            | (19 101)                                      | (595)             | (89 163)              | 291 992 |
| Movement of treasury shares                         |                  |                  | 304                |   |                   | 96                    | 400     |
| Transactions with owners                            |                  |                  |                    |   |                   |                       |         |
| Employee share option scheme                        |                  |                  |                    |   |                   |                       |         |
| Value of services provided                          |                  |                  |                    |   | 740               |                       | 740     |
| Transferred to accumulated loss                     |                  |                  |                    |   | (551)             | 551                   | -       |
| Total comprehensive income/(loss) for the<br>period |                  |                  |                    | 3 430   | 1 117             | (7 279)               | (2 732) |
| <b>Balance at 30 June 2011<br/>(Unaudited)</b>      | 6 972            | 396 996          | (2 813)            | (15 671)                                      | 711               | (95 795)              | 290 400 |

# segmental review

FOR THE SIX MONTHS ENDED 30 JUNE 2011

## Primary reporting format - operating segments

At 30 June 2011, the Group is organised on a worldwide basis into the following operating segments:

|              |  |
|--------------|--|
| OEM:         | Development and manufacture of electronic products for the international OEM automotive, transportation and defence markets. |
| Aftermarket: | The supply of premium branded products to the automotive aftermarket in sub-Saharan Africa.                                  |
| Head office: | Service supplier to the Group including treasury and investment management.  |

|  | OEM<br>R 000 | Aftermarket<br>R 000 | Head office<br>R 000 | Unallocated/<br>eliminations<br>R 000 | TOTAL<br>R 000 |
|--|--------------|----------------------|----------------------|---------------------------------------|----------------|
| <b>For the six months ended 30 June 2011 (Unaudited)</b> |              |                      |                      |                                       |                |
| External segment revenue                                 | 220 457      | 230 740              | -                    | -                                     | 451 197        |
| Inter-segment revenue                                    | 1 154        | -                    | 6 840                | (7 994)                               | -              |
| Total segment revenue                                    | 221 611      | 230 740              | 6 840                | (7 994)                               | 451 197        |
| Normalised EBITDA  | (1 116)      | 23 243               | (9 536)              | (1 391)                               | 11 200         |
| <b>For the six months ended 30 June 2010 (Unaudited)</b> |              |                      |                      |                                       |                |
| External segment revenue                                 | 199 740      | 218 449              | -                    | -                                     | 418 189        |
| Inter-segment revenue                                    | 621          | -                    | 10 214               | (10 835)                              | -              |
| Total segment revenue                                    | 200 361      | 218 449              | 10 214               | (10 835)                              | 418 189        |
| Normalised EBITDA  | 3 697        | 24 612               | (6 998)              | (3 340)                               | 17 971         |
| <b>For the year ended 31 December 2010 (Audited)</b>     |              |                      |                      |                                       |                |
| External segment revenue                                 | 433 188      | 472 935              | -                    | -                                     | 906 123        |
| Inter-segment revenue                                    | 3 478        | -                    | 19 314               | (22 792)                              | -              |
| Total segment revenue                                    | 436 666      | 472 935              | 19 314               | (22 792)                              | 906 123        |
| Normalised EBITDA  | 7 911        | 53 153               | (16 734)             | (1 357)                               | 42 973         |

Note: Head office revenue and EBITDA figures for 2010 include interest income from the Group's trade receivables securitisation funding arrangement.

**Reconciliation of normalised EBITDA to operating profit/(loss)**

|  | Unaudited<br>30/06/2011<br>R 000 | Unaudited<br>30/06/2010<br>R 000 | Audited<br>31/12/2010<br>R 000 |
|--|----------------------------------|----------------------------------|--------------------------------|
| Normalised EBITDA  | 11 200                           | 17 971                           | 42 973                         |
| Depreciation and amortisation  | (13 273)                         | (15 003)                         | (29 771)                       |
| Impairment of intangible assets and property, plant and equipment        | -                                | -                                | (222)                          |
| Profit/(loss) on disposal and scrapping of property, plant and equipment | 11                               | (104)                            | (3)                            |
| Loss on disposal of financial assets available-for-sale                  | (816)                            | -                                | -                              |
| Share-based payments expense   | (740)                            | (56)                             | (238)                          |
| Operating profit/(loss)  | <b>(3 618)</b>                   | 2 808                            | 12 739                         |

Note: For a reconciliation of operating profit/(loss) to total profit/(loss) before taxation, refer to the "Consolidated Income Statement".