


KayDavGroup

Annual Report 2009



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Profile and Company History



KayDav Group Ltd ("KayDav" or "the Group") is a distributor and upgrader of wood based panels and solid wood.

Wood based panels are manufactured through the compression of wood waste into solid panels. These panels have a variety of applications in the construction, furniture manufacturing and shopfitting industries.

The Group's main focus is on bulk distribution. This is achieved through an extensive branch network in the Western Cape, Gauteng and Pretoria. Kayreed Board and Timber ("Kayreed") and Davidson's Discount Boards ("Davidson's") are the two brand names servicing the panel market.

Kayreed is a bulk distributor of wooden board panels servicing the Gauteng market. Davidson's has an extensive branch network, with branches in Ottery, Montague Gardens, Brackenfell, Strand, Silverton and Langlaagte. Franchise Davidson's stores are situated in Hermanus, Worcester, Gansbaai, Bredasdorp, Olifantsfontein and Brits. These Davidson's stores offer added value services such as

cutting and edging in addition to distribution, in order to service the ever expanding informal sector with our products.

The Group has two manufacturing operations situated in the Western Cape. Davidson's Manufacturing is a focused manufacturer of veneer boards, foil boards and cabinet doors. This production facility focuses on the application of various natural and synthetic decorative surfaces.

Castle Timbers is an upgrader of solid wood into a variety of mouldings, skirtings and associated products. Highly focused on branding, Castle Timbers distributes through retail building chain stores and merchants.

CEO and Chairman's Report



Overview of activities

KayDav's customer base is heavily reliant on activity levels within the residential construction, household improvements and retail sectors. These industries experienced a significant decrease in activity during 2009. The economic recession combined with a continued lack of bank lending had a harsh effect on our performance during the year under review.

Many of our customers, being predominantly thinly capitalised businesses servicing the construction industry, were forced to recalibrate their businesses to endure the depressed activity levels. Many of them were forced to turn to us for financial support in this regard. KayDav experienced a severe deterioration in our trade debtors' book, a substantial portion of which we had to impair. The assistance given to these customers does not necessarily mean that the debts are uncollectable. Instead, we envisage that these customers will trade through the recessionary period and bring themselves back into normal credit terms.

The harsh business environment necessitated changes in our operating focus. Cost cutting and intense working capital control has been our primary focus. As a result, we have achieved further operational efficiencies.

In the Western and Southern Cape, as a result of the drop in trade volumes, management decided to downscale the Montague Gardens branch and close the George branch. The costs associated with these closures had a negative impact on Group profits. The staff at the above branches were relocated where possible, sadly however, the majority were retrenched.

Staff morale and competency was maintained during this period through the operations of our highly effective human resources team.

In Gauteng and Pretoria, the new stores have continued to operate satisfactorily and increased market share but have not been immune to the impairment of trade debtors. Management continues to aggressively pursue opportunities to expand our client base through the distribution network.

The Castle Timbers operation, whilst growing its market share significantly, incurred trading losses during the year in reaching optimum turnover levels. Turnover continues to increase monthly.

An investment of R18 million was made on a buy-back of 59 046 443 shares at 30 cents per share under a general authority from shareholders. This buy-back enhances headline earnings per share by 25% going forward, ignoring the effects of the interest forfeited on applied funds. Additional value for shareholders was achieved through this repurchase given that KayDav's net tangible asset value per share was 47.2 cents at 31 December 2009.

Prospects

Management believes that trading conditions will improve in the 2010 year and beyond as bank lending increases with resultant consumer spending. The Group will in addition benefit from increased efficiencies and the lower cost base implemented during the recessionary period.

CEO and Chairman's Report

The challenge we are faced with in the future is the management of costs and working capital as the market starts to improve. We are committed to ensure that the benefits of cost reduction and efficiency improvements put us in good stead in anticipation of economic recovery.

We will continue to evaluate acquisitive opportunities for expansion as they arise. Opportunities for organic growth will also be evaluated in line with proven criteria for volumes and market potential.

Corporate governance

The KayDav board is committed to a high standard of corporate governance. The functions of the board have been established to provide guidance to the company via a structure of meetings and decision-making thresholds to regulate material matters which have been reserved for the board's approval. There is a clear division of responsibilities at board level to ensure a balance of power and authority such that no individual has unfettered powers of decision-making. The directors and senior managers of the Group endorse the Code of Corporate Practices and Conduct as set out in the King II Report on Corporate Governance.

The board of KayDav consists of two non-executive directors and four executive directors and is chaired by an independent non-executive director.

The board itself evaluates its constitution and diversity and will, if necessary, consider any changes to its composition.

Appointments to the board are a matter for the board as a whole, assisted where appropriate by a nomination committee. These appointments are formal and transparent.

Audit committee

The two non-executive directors, Ian Stern (Chairman) and Jonathan Hertz, are both members of this committee. The financial director and the external auditors attend committee meetings by invitation. The committee meets three times per year and all members attended.

The committee is responsible for reviewing accounting, auditing, financial reporting, risk management and internal control matters and also approves the use of the external auditors for non-audit services.

The audit committee has considered and satisfied itself of the appropriateness of the expertise and experience of the financial director.

Remuneration committee

The committee consists of Ian Stern (Chairman) and Jonathan Hertz. The committee reviews and approves senior executive and non-executive remuneration and issues guidelines and limits for general salary adjustments. The chief executive is not present when his remuneration is discussed. This committee has met once during the reporting period.

Dealing in securities

A record of all dealings in KayDav shares by directors and selected employees are kept which ensures that proper authority for dealing is in place prior to transactions being initiated. Announcements of such trades are made in accordance with the JSE Listings Requirements.

Sustainability

The Group recognises its responsibility in respect of sustainability issues and complies with relevant health, safety and environmental legislation.

Appreciation

It is customary to include a tribute to the KayDav team. This year, it can be no ordinary tribute. Our divisional directors and staff at all levels have worked harder than ever before and we thank them for their enormous unstinting endeavours and loyalty. To our main board members, we thank you for your continuing dedication and keen interest in our activities. To our shareholders, professional advisers, financiers, customers and suppliers, indeed to all the stakeholders with whom we do business, our sincere thanks and appreciation for your continued support.

IH Stern
Chairman

18 March 2010

GF Davidson
CEO

Chief Financial Officer's Report



The Group complies with International Financial Reporting Standards ("IFRS") and the Listings Requirements of the JSE Limited. The accounting policies of the Group have been applied consistently to the periods presented in the consolidated financial statements.

Statement of comprehensive income

Revenue for the Group increased by 4.7% from 2008 to R461 236 347. When revenue for the businesses started during 2008 is excluded however, revenue decreased by 8%.

The Group was able to increase the gross profit percentage achieved for 2009 to 31.4% from 30.8% in 2008.

The deterioration of the debtors' book resulted in an increase in the impairment allowance of R9 670 615 (2008: R1 562 727). In addition bad debts of R6 027 188 (2008: R3 648 175) were written off during the year. Consequently the bad debt expense for 2009 of R15 697 803 is R10 486 901 more than that of 2008.

Applying IFRS in respect of deferred taxation assets, a previously recognised deferred taxation asset of R934 079 at one of our manufacturing businesses was derecognised. This deferred taxation asset, if recognised, would have increased to R2 102 964. As a result of not recognising the potential deferred taxation asset, profit for the period was impacted negatively by R2 102 964.

Headline earnings of R6 541 413 is significantly below that of 2008 (R20 161 004).

Statement of financial position

Plant and equipment

Plant and equipment of R35 542 939 (2008: R35 914 574) consists mainly of plant, machinery and vehicles used in the adding of value and distribution of wooden panels. Additions to plant and equipment of R4 713 526 were made to maintain operations.

A detailed reconciliation of movements in property, plant and vehicles is disclosed in note 2.

Current assets

The most significant portion of the Group's operations is that of retail and wholesale trade. This tends to an asset base weighted towards working capital.

The Group has a healthy current ratio of 2.3 (2008: 2.4).

The Group was able to improve the management of its inventory. At year-end inventory of R62 177 403 was significantly less than the prior year-end balance of R87 454 624. It must be mentioned that significant pre price increase buying occurred at the end of 2008. Inventory at the end of 2007 amounted to R70 017 758.

Trade receivables deteriorated significantly during 2009. The age of trade receivables increased to 66 days at the year-end compared to 57 days at the end of 2008. As mentioned above the debtors' book was significantly impaired.

Chief Financial Officer's Report

Capital and reserves

Through active management of our working capital KayDav was able to repurchase 59 046 443 shares on the open market at 30 cents per shares. As a result share capital decreased by R59 and share premium decreased by R17 849 202, while significantly enhancing net asset value per share for shareholders.

Non-current liabilities

The long-term portion of instalment sale liabilities of R6 018 822 (2008: R9 195 960) combined with the short-term portion of R2 552 466 (2008: R3 501 529) amounts to R8 571 288 (2008: R12 697 489).

The Group's overall financial position is sound and provides sufficient solvency and liquidity to weather the current economic climate.

Martin Slier

CFO

18 March 2010

Board of Directors and Administration



From left to right: Ian Stern, Jonathan Hertz, Gary Davidson, Martin Slier, Jay Katz and Geoffrey Davidson

Members of the board

Ian Stern 61 *Independent non-executive director (Chairman) (Indefinite)*
CTA (Wits), CA(SA)

Ian worked for three companies listed on the JSE until 1982, before joining the Ozz group of companies as financial director. Ozz Limited was successfully listed on the JSE on 5 September 1984. In March 2003 Ozz Limited was sold to a consortium comprising Ethos Private Equity Fund IV, RMB Corvest Limited and Kagiso Ventures (Pty) Limited. Ian continued in his role as financial director for a year after the buy-out before leaving to pursue other interests. Ian was appointed as chairman of the board of KayDav Group Ltd on 5 October 2007.

Gary Davidson 35 *Executive director (Chief Executive Officer) (Indefinite)*
B Com, CA(SA)

Gary completed his B Com at UCT and articles with Grant Thornton in 1999. In 2000 he was appointed as director of Davidsons Holding Company and was involved in the day-to-day running of this business before being appointed CEO of KayDav Group Ltd on 5 October 2007.

Geoffrey Davidson 61 *Executive director (Managing Director: Davidson's business) (Indefinite)*

Geoff was a director of Penny Pinchers Board from 1986 to 1989. He founded the Davidson's business in 1989, and is still involved in the daily operations of the business.

Jay Katz 40 *Executive director (Director: Kayreed business) (Indefinite)*

Jay joined Kayreed in 1990, and became manager of the Discount Board and Timber branch in Main Reef Road. He was appointed as sales director of Kayreed Trading in October 2003 and appointed as director of KayDav Group Ltd on 5 October 2007.

Jonathan Hertz 37 *Independent non-executive director (Indefinite)*

BSc, FIA, CFA

Jonathan was general manager at Fedsure Assurance and managing director at SAfrican Insurance Company Limited, before being appointed COO of Peregrine Holdings in 2000. As COO he had overall responsibility for all aspects of the company operations including businesses within asset management, securities structuring and trading, structured finance and advisory, investment banking and IT development. Jonathan left Peregrine in November 2005 and joined Caveo Fund Solutions as managing director. Since April 2007 he has been managing director of Spyglass Capital (Pty) Limited. Jonathan was appointed as director of KayDav Group Ltd on 14 June 2007.

Martin Slier 38 *Executive director (Chief Financial Officer) (Indefinite)*

B Com (Law), Hons B Compt, CA(SA)

Martin completed his articles with Grant Thornton in 1999. He was an audit manager with Grant Thornton, as well as management accountant at E-TV, before joining Davidsons' as group financial manager in January 2004. Martin was appointed CFO of KayDav Group Ltd on 5 October 2007.

Administration

Company information

KayDav Group Limited

Registration number 2006/038698/06

JSE code: KDV

ISIN: ZAE000108940

Registered Office

105 Bamboesvlei Road, Ottery, 7800

PO Box 272, Ottery, 7808

Auditors

PKF (Jhb) Inc.

42 Wierda Road West, Wierda Valley, 2196

Private Bag X10046, Sandton, 2146

Company secretary

Probity Business Services (Pty) Limited

3rd Floor, The Mall Offices, 11 Cradock Avenue, Rosebank, 2196

PO Box 85392, Emmarentia, 2029

Sponsors

Java Capital (Pty) Limited

2 Arnold Road, Rosebank, 2196

PO Box 2087, Parklands, 2121

Transfer secretary

Link Market Services South Africa (Pty) Limited

5th Floor, 11 Diagonal Street, Johannesburg, 2001

PO Box 4844, Johannesburg, 2000

Directors' Responsibility for Financial Reporting

The directors are responsible for the preparation, integrity and fair presentation of the financial statements and other financial information included in this report. In presenting the accompanying financial statements, International Financial Reporting Standards have been followed, applicable accounting assumptions have been used while prudent judgements and estimates have been made.

The going concern basis has been adopted in preparing the financial statements. The directors have no reason to believe that the company or the Group will not be a going concern in the foreseeable future based on forecasts and available cash resources. The financial statements support the viability of the company and the Group.

The financial statements have been audited by the independent accounting firm, PKF (Jhb) Inc., which was given unrestricted access to all financial records

and related data, including all resolutions and minutes of all meetings of the shareholders, and the board of directors and committees of the board. The directors believe that all representations made to the independent auditors during the audit were valid and appropriate.

The financial statements were approved by the directors on 18 March 2010 and are signed on their behalf.

IH Stern
Chairman

GF Davidson
CEO

Declaration by Company Secretary

In terms of the Companies Act, 1973 (as amended) we certify that, to the best of our knowledge and belief, all returns required of a public company have, in respect of the year under review, been lodged with the Registrar of Companies and that all such returns are true, correct and up to date.

Probity Business Services (Pty) Limited

Company Secretary

18 March 2010

Report of the Independent Auditors

to the members for the year ended 31 December 2009

Report on the financial statements

We have audited the accompanying financial statements and Group financial statements of KayDav Group Limited which comprise the directors' report, the statements of financial position as at 31 December 2009 and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended; and a summary of significant accounting policies and other explanatory notes, as set out on pages 9 to 34.

Directors' responsibility for the financial statements and group financial statements

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 Companies Act in South Africa. 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 auditor's judgement, 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 controls 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 accounting 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 and Group financial statements present fairly, in all material respects, the financial position of KayDav Group Limited and its subsidiaries, as of 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act in South Africa.

PKF (Jhb) Inc.

PKF (Jhb) Inc.

Director: B Frey

JOHANNESBURG

18 March 2010

Registered Auditors

Chartered Accountants (SA)

Registration number: 1994/001166/21

Directors' Report

Your directors have pleasure in submitting their report which forms part of the annual financial statements of KayDav Group Limited and its subsidiaries for the period ended 31 December 2009.

Nature of business

The Group distributes flat wood panels through its outlets in the Western Cape and Gauteng.

Financial results

The salient features of the Group's results are summarised below:

| | R000 |
|------------------------|----------------|
| Revenue | 461 236 |
| Profit before taxation | 12 809 |
| Profit for the period | 6 505 |
| Headline earnings | 6 541 |

Borrowing powers

The borrowing powers are not restricted in the articles of association of the company.

Share capital

There were no changes to the company's authorised share capital during the reporting period. Due to a share repurchase by KayDav, share capital reduced from R295 to R236.

The number of shares issued decreased from 295 232 716 to 236 186 273.

Dividends

No dividends are proposed or have been paid during the year under review.

Subsequent events

No material change has taken place in the affairs of the Group between the end of the financial period and the date of this report, that will require adjustment or disclosure in the annual report.

The Group has reached agreement with Stanlib Asset Management Limited to repurchase 22 600 000 KayDav Group Limited shares at 30 cents per share and with Peregrine Equities (Proprietary) Limited to repurchase 29 000 000 KayDav Group Limited shares at 30 cents per share.

Shareholders will vote on this transaction on 23 March 2010.

Special resolutions

A special resolution providing general authority to the company to repurchase its shares was passed on 26 June 2009 and was registered by CIPRO.

Directors

No changes to the board of directors took place during the year.

The directors in office at the date of this report are listed on page 6.

In accordance with the articles of association Martin Slier and Ian Stern retire from office and, being eligible, offer themselves for re-election.

Directors' remuneration and interest in the shares of the company are set out in note 27.

Company secretary

Probity Business Services (Proprietary) Limited remained the company secretary during the reporting period.

Subsidiary companies

Information in respect of interests in subsidiaries is set out in note 30.

The aggregate net profits for the year of the subsidiaries of the Group amounted to R12 859 267 (2008: R11 526 377) and the aggregate net losses of the subsidiaries amounted to R6 370 358 (2008: R49 076 143).

Audit committee report

The committee fulfilled its responsibilities during the year (refer CEO and Chairman's report) and has furthermore satisfied itself as to the independence of the external auditors and their suitability for reappointment for the ensuing year.

Auditors

PKF (Jhb) Inc. was appointed as auditors at incorporation.

Authority to issue annual financial statements

The board of directors of the company authorised the release of these annual financial statements, of which this report forms part, on 18 March 2010. The articles of association of the company do not make provision for shareholders to amend the annual financial statements after they have been issued.

Consolidated Statements of Financial Position

at 31 December 2009

| | Notes | Group | | Company | |
|---------------------------------------------------|-------|--------------------|--------------|--------------------|--------------|
| | | 2009 R | 2008 R | 2009 R | 2008 R |
| ASSETS | | | | | |
| Non-current assets | | 52 291 161 | 52 210 613 | 58 755 151 | 58 755 151 |
| Plant and equipment | 2 | 35 542 939 | 35 914 574 | – | – |
| Goodwill | 3 | 14 302 804 | 14 302 804 | – | – |
| Investment in subsidiaries | 4 | – | – | 58 755 151 | 58 755 151 |
| Deferred taxation | 5 | 2 445 418 | 1 993 235 | – | – |
| Current assets | | 142 731 681 | 162 232 239 | 62 746 781 | 80 596 042 |
| Inventories | 6 | 62 177 403 | 87 454 624 | – | – |
| Trade and other receivables | 7 | 69 506 096 | 67 956 516 | 3 575 | 3 177 |
| Loans to subsidiaries | 8 | – | – | 62 694 046 | 80 592 865 |
| Cash and cash equivalents | 23 | 9 491 221 | 6 821 099 | 49 160 | – |
| Taxation | | 1 556 961 | – | – | – |
| Total assets | | 195 022 842 | 214 442 852 | 121 501 932 | 139 351 193 |
| EQUITY AND LIABILITIES | | | | | |
| Capital and reserves | | 125 842 799 | 137 186 672 | 121 501 932 | 139 351 193 |
| Share capital | 9 | 236 | 295 | 236 | 295 |
| Share premium | 10 | 211 628 350 | 229 477 552 | 211 628 350 | 229 477 552 |
| Accumulated loss | | (85 785 787) | (92 291 175) | (90 126 654) | (90 126 654) |
| Non-current liabilities | | 6 535 603 | 10 494 405 | – | – |
| Instalment sale liabilities | 11 | 6 018 822 | 9 195 960 | – | – |
| Deferred taxation | 5 | 516 781 | 1 298 445 | – | – |
| Current liabilities | | 62 644 440 | 66 761 775 | – | – |
| Trade and other payables | 12 | 50 664 350 | 53 197 846 | – | – |
| Short-term portion of instalment sale liabilities | 11 | 2 552 466 | 3 501 529 | – | – |
| Bank overdraft | 14 | 7 689 783 | 7 248 796 | – | – |
| Taxation | | – | 269 085 | – | – |
| Provisions | 13 | 1 737 841 | 2 544 519 | – | – |
| Total equity and liabilities | | 195 022 842 | 214 442 852 | 121 501 932 | 139 351 193 |
| Net asset value per share (cents) | | 53.3 | 46.5 | | |
| Net tangible asset value per share (cents) | | 47.2 | 41.6 | | |

Consolidated Statements of Comprehensive Income

for the year ended 31 December 2009

| | Notes | Group | | Company | |
|---------------------------------------------------------------------------------------|-------|--------------------|---------------|------------------|--------------|
| | | 2009 R | 2008 R | 2009 R | 2008 R |
| Revenue | 15 | 461 236 347 | 440 446 378 | – | – |
| Cost of sales | | (316 385 280) | (304 878 293) | – | – |
| Gross profit | | 144 851 067 | 135 568 085 | – | – |
| Other income | | 500 486 | 464 062 | 932 695 | – |
| Operating expenses | | (131 307 258) | (105 004 236) | (932 695) | – |
| Impairment of investment in and loans to subsidiaries | | – | – | – | (90 126 654) |
| Goodwill impairment | | – | (119 233 190) | – | – |
| Operating profit/(loss) | 17 | 14 044 295 | (88 205 279) | – | (90 126 654) |
| Investment income | 18 | 807 565 | 1 037 795 | – | – |
| Finance costs | 19 | (2 043 334) | (2 508 493) | – | – |
| Profit/(loss) before taxation | | 12 808 526 | (89 675 977) | – | (90 126 654) |
| Taxation | 20 | (6 303 138) | (9 392 892) | – | – |
| Profit/(loss) for the year | | 6 505 388 | (99 068 869) | – | (90 126 654) |
| Other comprehensive income | | – | – | – | – |
| Total comprehensive income/(loss) attributable to equity holders of the parent | | 6 505 388 | (99 068 869) | – | (90 126 654) |
| Basic and diluted earnings/loss per share | 22 | 2.3 | (33.6) | | |
| Headline earnings per share | 22 | 2.3 | 6.8 | | |

Statements of Changes in Equity

for the year ended 31 December 2009

| | Share capital R | Share premium R | Total share capital R | Accumulated loss R | Total equity R |
|------------------------------------|-----------------------|-----------------------|-----------------------------|--------------------------|----------------------|
| Group | | | | | |
| Balance at 31 December 2007 | 295 | 229 477 552 | 229 477 847 | 6 777 694 | 236 255 541 |
| Comprehensive loss for the year | – | – | – | (99 068 869) | (99 068 869) |
| Balance at 31 December 2008 | 295 | 229 477 552 | 229 477 847 | (92 291 175) | 137 186 672 |
| Share repurchases | (59) | (17 849 202) | (17 849 261) | – | (17 849 261) |
| Comprehensive income for the year | – | – | – | 6 505 388 | 6 505 388 |
| Balance at 31 December 2009 | 236 | 211 628 350 | 211 628 586 | (85 785 787) | 125 842 799 |
| Company | | | | | |
| Balance at 31 December 2007 | 295 | 229 477 552 | 229 477 847 | – | 229 477 847 |
| Comprehensive loss for the year | – | – | – | (90 126 654) | (90 126 654) |
| Balance at 31 December 2008 | 295 | 229 477 552 | 229 477 847 | (90 126 654) | 139 351 193 |
| Share repurchase | (59) | (17 849 202) | (17 849 261) | – | (17 849 261) |
| Comprehensive income for the year | – | – | – | – | – |
| Balance at 31 December 2009 | 236 | 211 628 350 | 211 628 586 | (90 126 654) | 121 501 932 |

Consolidated Statements of Cash Flows

for the year ended 31 December 2009

| | Notes | Group | | Company | |
|-------------------------------------------------------------|-------|--------------|--------------|--------------|-----------|
| | | 2009 R | 2008 R | 2009 R | 2008 R |
| Cash flows from operating activities | | | | | |
| Operating cash before working capital movements | 23.1 | 17 507 488 | 36 158 990 | – | – |
| Working capital movements | 23.2 | 21 194 142 | (10 229 488) | (398) | (62 362) |
| Cash generated/(utilised) by operations | | | | | |
| Interest received | | 807 565 | 1 037 795 | – | – |
| Finance costs | | (2 043 334) | (2 508 493) | – | – |
| Taxation paid | 23.3 | (9 363 031) | (14 221 646) | – | – |
| Net cash inflow/(outflow) from operating activities | | | | | |
| | | 28 102 830 | 10 237 158 | (398) | (62 362) |
| Cash flow from investing activities | | | | | |
| Investment in plant and equipment to maintain operations | 23.4 | (4 713 526) | (9 132 941) | – | – |
| Investment in plant and equipment to expand operations | 23.5 | – | (7 653 763) | – | – |
| Proceeds on disposal of plant and equipment | 23.6 | 815 292 | 279 344 | – | – |
| Loans/(repayment of loans) to subsidiaries | | – | – | 17 898 819 | (35 843) |
| Net cash outflow from investing activities | | | | | |
| | | (3 898 234) | (16 507 360) | 17 898 819 | (35 843) |
| Cash flow from financing activities | | | | | |
| Repurchase of shares | | (17 849 261) | – | (17 849 261) | – |
| (Decrease)/increase in instalment sale liabilities | | (4 126 200) | 3 018 355 | – | – |
| Net cash (outflow)/inflow from financing activities | | | | | |
| | | (21 975 461) | 3 018 355 | (17 849 261) | – |
| Net increase/(decrease) in cash and cash equivalents | | | | | |
| | | 2 229 135 | (3 251 847) | 49 160 | (98 205) |
| Net cash and cash equivalents at the beginning of the year | | | | | |
| | | (427 697) | 2 824 150 | – | 98 205 |
| Net cash and cash equivalents at the end of the year | | | | | |
| | 23.7 | 1 801 438 | (427 697) | 49 160 | – |

Notes to the Annual Financial Statements

for the year ended 31 December 2009

1 Accounting policies

Basis of preparation

The financial statements are prepared on the historical cost basis and incorporate the principal accounting policies set out below.

These policies comply with IFRS, the Companies Act and are in accordance with JSE listing requirements.

The financial statements are presented in South African Rands as it is the currency of the economic environment in which the Group operates.

The financial statements are prepared on a going concern basis.

Basis for consolidation

The consolidated financial statements incorporate the financial statements of the company and its subsidiaries. The results of subsidiaries are included from the effective dates of acquisition to the effective dates of disposal.

Intra-Group transactions and balances are eliminated on consolidation.

Plant and equipment and depreciation

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided on the straight-line method to write the property, plant and equipment down to their residual values over their estimated useful lives. The depreciation rates applied to the various classes of assets are:

| | |
|------------------------|------------------|
| Plant and equipment | 10% per annum |
| Office equipment | 20% per annum |
| Vehicles | 20% per annum |
| Computer equipment | 33% per annum |
| Furniture and fittings | 16.67% per annum |

Residual values and useful lives are reassessed at each financial year-end.

Goodwill

The purchase method of accounting is used to account for the acquisition of subsidiaries.

The cost of an acquisition is the fair value of assets given, equity instruments issued and liabilities incurred at the date of exchange and the costs directly attributable to the acquisition.

Goodwill is initially measured and carried at cost. It represents the excess of the cost of an acquisition over the fair value of the Group's share of the net fair value of identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition.

Goodwill is reviewed for impairment at least annually, or when indicators of impairment exist. Any impairment is immediately recognised as an expense.

Impairment losses on goodwill cannot be reversed.

Investment in subsidiaries

Investments in subsidiaries are carried at cost less impairment losses where necessary. They are stated at cost except where there has been a decline in the recoverable amount, in which case they are written down to the recoverable amount.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual terms of the instrument. Financial instruments include cash and bank balances, investments, receivables, payables, borrowings and derivative financial instruments.

Financial instruments are initially recognised at fair value plus transaction costs.

Loans receivable

Loans receivable originated by the enterprise are stated at amortised cost, using the effective interest rate method, less accumulated impairment losses.

Trade and other receivables

Trade and other receivables originated by the Group are stated at original invoiced amount, net of provisions for amounts which are not expected to be recoverable.

Cash and cash equivalents

Cash and cash equivalents are carried at fair value and comprise cash on hand and balances with banks and investments in money market instruments.

Notes to the Annual Financial Statements

for the year ended 31 December 2009

1 Accounting policies (continued)

Financial liabilities

Loans payable including interest-bearing debt and trade and other payables are recognised at amortised cost, using the effective interest rate method, and comprise original debt less principal payments.

Hedge accounting

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Group uses foreign exchange forward contracts to hedge this exposure. The Group does not use derivative financial instruments for speculative purposes.

All foreign currency transactions are hedged through foreign exchange forward contracts.

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecast transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability.

For an effective hedge of an exposure to changes in the fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in profit or loss.

Gains or losses from remeasuring the derivative, or for non-derivatives of the foreign currency component of its carrying amount, are recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and estimated net realisable value, with due allowance being made for damage or obsolescence where applicable. Inventories are carried at cost based on the first-in first-out method. Movements in allowances for damaged or obsolete stock are recognised in the income statement.

Deferred taxation

Deferred taxation is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profits. Deferred tax assets are recognised when it is probable that future taxable profits will be available to offset against deductible temporary differences.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event which is probable and will result in an outflow of economic benefits that can be reliably measured. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

Leases

Leases of property, plant and equipment, which confer substantially all the benefits and risks of ownership, are classified as finance leases. Assets acquired in terms of finance lease agreements are capitalised at fair value or, if lower, at the present value of the minimum lease payments. Finance lease payments are allocated using the effective interest rate method, between finance costs and capital repayments.

Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Operating leases are those leases that do not meet the above definition.

Operating lease rentals are charged against profit on a straight-line basis over the term of the lease.

Revenue

Revenue comprises net invoiced amounts for goods supplied net of value-added tax.

Cost of sales

Cost of sales consists of the cost of the inventories sold during the period, including costs of conversion and other costs included in bringing the inventories to their present location and condition.

Income from investments

Interest is recognised on a time proportion basis that takes into account the effective yield on the asset.

Borrowing costs

Borrowing costs are written off on a time apportionment basis to the income statement in the period in which they are incurred.

Notes to the Annual Financial Statements

for the year ended 31 December 2009

1 Accounting policies (continued)

Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instrument at grant date.

The fair value is measured using generally accepted valuation techniques, taking into account the terms and conditions upon which such instruments are granted.

The fair value determined at grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period.

At each balance sheet date management reassesses the number of options expected to vest and the adjustment if any is taken to the income statement with a corresponding adjustment in equity. When share options are exercised a transfer is done within equity to reflect the shares issued at the exercise price.

Foreign currencies

Foreign currency transactions are recorded, on initial recognition in rand, by applying to the foreign currency amount the exchange rate between the rand and the foreign currency at the date of the transactions. At each balance sheet date foreign currency monetary items are reported using the closing rate.

Exchange differences arising on the settlement of monetary items or on reporting monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, are recognised in the results for the period.

Forward exchange contracts

Forward exchange contracts are revalued to fair value at the balance sheet date and both realised and unrealised profits and losses are accounted for in the income statement for the period.

Post-retirement benefits

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

Impairment of assets

The carrying amounts of assets other than goodwill are reviewed when indicators exist that the relevant asset might be impaired.

If any such indication exists and where the carrying amounts exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Impairment losses are first allocated to goodwill and then to other assets in the cash-generating unit on a proportional basis.

Impairment losses and reversals are recognised directly in the income statement, unless such reversals relate to previously recognised revaluation reserves in equity.

Reversal of a previous impairment loss is limited to the original impairment and cannot increase the carrying amount of an asset to which it relates to an amount higher than that which would have been recognised had no impairment loss initially been recognised.

Significant estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent liabilities. Use of available information and the application of judgement are inherent in the formation of estimates.

Significant estimates and judgements are made in the following areas:

Plant and equipment

The useful lives of plant and equipment are estimated using past industry as well as Group experience.

New developments and changes in circumstances inform any changes in these estimates.

Goodwill impairment

Goodwill is tested for impairment at the end of each financial period.

The recoverable amount of the cash-generating unit to which the goodwill relates is determined by a value in use calculation.

Cash flow forecasts for one year ahead are discounted at post-tax rates which reflect the time value of money and the risk specific to the cash-generating unit.

Where the initial accounting of a business combination is provisional, the fair values of identifiable assets and liabilities will be determined within twelve months of the transaction (refer note 3 for details).

Trade and other receivables

Allowances for doubtful debts are calculated by identifying specific past due debtors where indications are that amounts might not be recoverable.

Notes to the Annual Financial Statements

for the year ended 31 December 2009

1 Accounting policies (continued)

In addition a general assessment is made of the inherent potential for bad debts in the remaining debtors' book and a percentage of such debtors are provided for.

Share-based payments

The value of share-based payments is arrived at with reference to the market prices of such shares and the utilisation of generally accepted valuation techniques.

Actual results may differ from estimates made by management from time to time.

Segment information

A business segment is a Group of assets and operations engaged in providing products or services that are subject to risk and returns that are different from those in other business segments.

At year-end the Group was organised in two main business segments:

1. Board distribution
2. Manufacturing

All Group operations are in the RSA and are not subject to risks and returns that are different from those segments operating in other economic environments. No separate geographical segment disclosure is therefore provided.

Other Group operations comprise head office and finance. Neither of these constitutes a separate reportable segment.

2 Plant and equipment

| | 31 December 2009 | | | 31 December 2008 | | |
|------------------------|--------------------|-----------------------------|-------------------|--------------------|-----------------------------|-------------------|
| | Cost/ valuation | Accumulated depreciation | Carrying value | Cost/ valuation | Accumulated depreciation | Carrying value |
| | R | R | R | R | R | R |
| GROUP | | | | | | |
| Plant and equipment | 28 854 129 | (5 831 802) | 23 022 327 | 25 345 027 | (2 292 849) | 23 052 178 |
| Office equipment | 958 837 | (523 430) | 435 407 | 720 588 | (207 192) | 513 396 |
| Vehicles | 13 704 865 | (2 592 801) | 11 112 064 | 12 331 300 | (1 061 953) | 11 269 347 |
| Computer equipment | 1 907 407 | (1 251 046) | 656 361 | 1 149 248 | (400 095) | 749 153 |
| Furniture and fittings | 618 883 | (302 103) | 316 780 | 427 136 | (96 636) | 330 500 |
| Total | 46 044 121 | (10 501 182) | 35 542 939 | 39 973 299 | (4 058 725) | 35 914 574 |

Reconciliation of plant and equipment – 31 December 2009

| | Opening balance | Additions | Disposals | Depreciation | Total |
|------------------------|--------------------|------------------|------------------|--------------------|-------------------|
| | R | R | R | R | R |
| Plant and equipment | 23 052 178 | 2 580 049 | (453 967) | (2 155 933) | 23 022 327 |
| Office equipment | 513 396 | 109 087 | – | (187 076) | 435 407 |
| Vehicles | 11 269 347 | 1 614 719 | (311 291) | (1 460 711) | 11 112 064 |
| Computer equipment | 749 153 | 309 404 | – | (402 196) | 656 361 |
| Furniture and fittings | 330 500 | 100 267 | – | (113 987) | 316 780 |
| | 35 914 574 | 4 713 526 | (765 258) | (4 319 903) | 35 542 939 |

Reconciliation of plant and equipment – 31 December 2008

| | Opening balance | Additions | Disposals | Depreciation | Total |
|------------------------|--------------------|-------------------|------------------|--------------------|-------------------|
| | R | R | R | R | R |
| Plant and equipment | 17 723 155 | 7 491 552 | (89 552) | (2 072 977) | 23 052 178 |
| Office equipment | 644 143 | 49 602 | (1 644) | (178 705) | 513 396 |
| Vehicles | 4 191 607 | 8 418 159 | (153 943) | (1 186 476) | 11 269 347 |
| Computer equipment | 471 867 | 650 072 | (26 163) | (346 623) | 749 153 |
| Furniture and fittings | 241 861 | 177 319 | (3 434) | (85 246) | 330 500 |
| | 23 272 633 | 16 786 704 | (274 736) | (3 870 027) | 35 914 574 |

Notes to the Annual Financial Statements

for the year ended 31 December 2009

| | Group | | Company | |
|---------------------------------------|----------------------|---------------|-----------|-----------|
| | 2009 R | 2008 R | 2009 R | 2008 R |
| 3 Goodwill | | | | |
| Kayreed acquisition | 58 113 654 | 58 113 654 | – | – |
| Davidsons Holding Company acquisition | 75 422 340 | 75 422 340 | – | – |
| | 133 535 994 | 133 535 994 | – | – |
| Goodwill impairment | (119 233 190) | (119 233 190) | – | – |
| | 14 302 804 | 14 302 804 | – | – |

The recoverable amount of goodwill was calculated by determining its value in use through the discounted cash flow method. Cash flows were projected over a 10 year period.

The following key assumptions were applied:

| | |
|------------------------|-----------------|
| Average nominal growth | 10% (2008: 7%) |
| Discount rate | 20% (2008: 25%) |

The nominal growth rate was calculated by assuming inflation at 7% (2008: 7%) with real growth rates for each year varying between 2% and 8% (2008: nil %).

The discount rate was calculated by using a risk free rate adjusted for systematic and unsystematic risk factors.

Goodwill represents expected synergies and the value of the assembled workforce of the various businesses.

| | Group | | Company | |
|-------------------------------------|-----------|-----------|-------------------|--------------|
| | 2009 R | 2008 R | 2009 R | 2008 R |
| 4 Investment in subsidiaries | | | | |
| Shares at cost | – | – | 109 838 628 | 109 838 628 |
| Impairment | – | – | (51 083 477) | (51 083 477) |
| | – | – | 58 755 151 | 58 755 151 |

The investment in subsidiaries was impaired in line with the impairment of goodwill which is set out in note 3.

The investment and impairment above relate to the investment in the Davidsons Holding Company (Pty) Ltd.

Notes to the Annual Financial Statements

for the year ended 31 December 2009

| | Group | | Company | |
|-----------------------------------------|------------------|--------------------|-----------|-----------|
| | 2009 R | 2008 R | 2009 R | 2008 R |
| 5 Deferred taxation | | | | |
| Deferred taxation assets comprise: | | | | |
| Accelerated capital allowances | (660 028) | (168 787) | – | – |
| Unrealised profits | 144 528 | 256 480 | – | – |
| Doubtful debt allowances | 2 503 220 | 747 673 | – | – |
| Payroll accruals | 285 390 | 223 790 | – | – |
| Rental accruals | 172 308 | – | – | – |
| Estimated tax losses | – | 934 079 | – | – |
| | 2 445 418 | 1 993 235 | – | – |
| Deferred taxation liabilities comprise: | | | | |
| Accelerated capital allowances | 1 813 947 | 1 925 973 | – | – |
| Doubtful debt allowances | (570 798) | (421 529) | – | – |
| Payroll accruals | (244 496) | (234 256) | – | – |
| Prepayments | – | 201 335 | – | – |
| Deferred income | – | (105 968) | – | – |
| Rental accruals | (107 039) | (67 110) | – | – |
| Estimated tax losses | (374 833) | – | – | – |
| | 516 781 | 1 298 445 | – | – |
| Deferred taxation asset | 2 445 418 | 1 993 235 | – | – |
| Deferred taxation liability | (516 781) | (1 298 445) | – | – |
| | 1 928 637 | 694 790 | – | – |
| Balance at the beginning of the period | 694 790 | 308 487 | – | – |
| Derecognition of deferred tax asset | (934 079) | (367 318) | – | – |
| Change in taxation rate | – | 2 029 | – | – |
| Unrealised profits | (111 952) | 256 480 | – | – |
| Estimated tax losses | 374 833 | – | – | – |
| Temporary differences | 1 905 045 | 495 112 | – | – |
| | 1 928 637 | 694 790 | – | – |

A deferred tax asset was not raised for estimated tax losses in Sharp Move Trading 260 (Pty) Ltd and Sign and Seal Trading 154 (Pty) Ltd of R3 805 583 and R7 279 464 respectively, which if raised would have increased the deferred taxation assets by R3 103 813.

Notes to the Annual Financial Statements

for the year ended 31 December 2009

| | Group | | Company | |
|--------------------------------------------------------|--------------|-------------|-----------|-----------|
| | 2009 R | 2008 R | 2009 R | 2008 R |
| 6 Inventories | | | | |
| Inventories comprise | | | | |
| – raw materials | 10 334 112 | 9 576 941 | – | – |
| – merchandise | 59 225 171 | 86 124 307 | – | – |
| | 69 559 283 | 95 701 248 | – | – |
| Impairment | (7 381 880) | (8 246 624) | – | – |
| | 62 177 403 | 87 454 624 | – | – |
| No inventory items are carried at net realisable value | | | | |
| 7 Trade and other receivables | | | | |
| Trade receivables | 83 250 991 | 70 881 188 | – | – |
| Impairment allowance | (15 644 276) | (5 973 660) | – | – |
| | 67 606 715 | 64 907 528 | – | – |
| Other receivables | 1 899 381 | 3 048 988 | 3 575 | 3 177 |
| | 69 506 096 | 67 956 516 | 3 575 | 3 177 |

The standard credit period on sale of goods is 30 days from the date of statement.

Before accepting any new customer, the Group performs credit checks utilising external credit bureaus and banks.

Industry knowledge and visits to potential customer premises assist in the decision to accept a new customer and the setting of credit limits.

Credit limits are continuously monitored through payment history checks and industry information.

Included in the Group's trade receivable balance are debtors with a carrying amount of R10 473 797 (2008: R9 758 835) which are past due at the reporting date for which the Group has not provided as the amounts are still considered recoverable.

The Group does not hold any collateral over these balances bar personal sureties.

The average age of the receivables is 66 days (2008: 57 days).

| | 2009 R | 2008 R |
|--------------------------------------------------------------|------------|-----------|
| Ageing of past due but not impaired trade receivables | | |
| 60 – 90 days | 9 878 385 | 7 742 174 |
| 120 days + | 595 412 | 2 016 661 |
| | 10 473 797 | 9 758 835 |
| Ageing of impaired trade receivables | | |
| 60 – 90 days | 2 746 061 | 2 065 930 |
| 120 days + | 15 088 413 | 4 744 043 |
| | 17 834 474 | 6 809 973 |

Notes to the Annual Financial Statements

for the year ended 31 December 2009

| | Group | | Company | |
|----------------------------------------------------------------------------------------------------------------------------------------|--------------------|-------------|--------------|--------------|
| | 2009 R | 2008 R | 2009 R | 2008 R |
| 7 Trade and other receivables (continued) | | | | |
| Included in this amount is value added taxation of R2 190 199 (2008: R836 313) | | | | |
| Reconciliation of impairment allowance | | | | |
| Opening balance | 5 973 660 | 4 410 933 | – | – |
| Provided during period | 9 670 615 | 1 562 727 | – | – |
| | 15 644 275 | 5 973 660 | – | – |
| 8 Loans to subsidiaries | | | | |
| KayDav Industries (Pty) Ltd | – | – | 90 075 800 | 107 974 620 |
| Evertrade 168 (Pty) Ltd | – | – | – | 11 761 302 |
| Davidsons Holding Company (Pty) Ltd | – | – | 11 661 423 | (99 880) |
| | – | – | 101 737 223 | 119 636 042 |
| Impairment of loan to KayDav Industries (Pty) Ltd | – | – | (39 043 177) | (39 043 177) |
| | – | – | 62 694 046 | 80 592 865 |
| The loans are interest-free and payable on demand. | | | | |
| The loan to KayDav Industries (Pty) Ltd was impaired in line with the impairment of goodwill as set out in note 3. | | | | |
| The impairment above relates to the loan advanced to KayDav Industries (Pty) Ltd to acquire the business of Kayreed Trading (Pty) Ltd. | | | | |
| 9 Share capital | | | | |
| Authorised | | | | |
| 1 000 000 000 ordinary shares of 0.0001 cent each | 1000 | 1000 | 1000 | 1000 |
| Issued | | | | |
| 236 186 273 (2008: 295 232 716) ordinary shares of 0.0001 cent each | 236 | 295 | 236 | 295 |
| Unissued shares | | | | |
| The unissued shares are under the control of the directors until the forthcoming annual general meeting. | | | | |
| 10 Share premium | | | | |
| Balance at the beginning of the period | 229 477 552 | 229 477 552 | 229 477 552 | 229 477 552 |
| Repurchase of shares | (17 849 202) | – | – | – |
| | 211 628 350 | 229 477 552 | 229 477 552 | 229 477 552 |

Notes to the Annual Financial Statements

for the year ended 31 December 2009

| | Group | | Company | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------|-----------|-----------|
| | 2009 R | 2008 R | 2009 R | 2008 R |
| 11 Instalment sale liabilities | | | | |
| Instalment sales over plant and equipment with interest rates varying between prime and 2 percentage points below prime | 8 571 288 | 12 697 489 | – | – |
| Short-term portion | (2 552 466) | (3 501 529) | – | – |
| | 6 018 822 | 9 195 960 | – | – |
| <i>Minimum instalments</i> | | | | |
| Payable within 1 year | 3 205 778 | 4 933 264 | – | – |
| Payable in 2 to 5 years | 6 655 888 | 11 315 627 | – | – |
| | 9 861 666 | 16 248 891 | – | – |
| <i>Capital repayments included in minimum instalments</i> | | | | |
| Payable within 1 year | 2 552 466 | 3 501 529 | – | – |
| Payable in 2 to 5 years | 6 018 822 | 9 195 960 | – | – |
| | 8 571 288 | 12 697 489 | – | – |
| 12 Accounts payable | | | | |
| Trade payables | 45 174 964 | 51 115 486 | – | – |
| Other payables | 5 489 386 | 2 082 360 | – | – |
| | 50 664 350 | 53 197 846 | – | – |
| 13 Provisions | | | | |
| Provision for leave pay | 1 737 841 | 1 635 051 | – | – |
| At beginning of the year | 1 635 051 | 1 278 859 | – | – |
| Movement during the year | 102 790 | 356 192 | – | – |
| Provision for closure | – | 909 468 | – | – |
| | 1 737 841 | 2 544 519 | – | – |
| 14 Banking facilities | | | | |
| <p>The Group has a fluctuating confidential factoring facility which provides funds based on the level of trade debtors at certain subsidiaries. The maximum limit of the facility is R11 500 000. At year-end the utilised factoring facility amounted to R5 800 000 (2008: R5 620 561).</p> <p>The banking facilities at year-end were secured by unlimited cross sureties between Evertrade 168 (Pty) Ltd, Evertrade 173 (Pty) Ltd, Evertrade 180 (Pty) Ltd, Tresso Trading 298 (Pty) Ltd, Sharp Move Trading 260 (Pty) Ltd, Sign and Seal Trading 154 (Pty) Ltd and KayDav Industries (Pty) Ltd. In addition unrestricted cession of book debts of Evertrade 168 (Pty) Ltd and Evertrade 173 (Pty) Ltd secures the facilities.</p> | | | | |
| | Group | | Company | |
| | 2009 R | 2008 R | 2009 R | 2008 R |
| 15 Revenue | | | | |
| Sale of goods | 461 236 347 | 440 446 378 | – | – |

Notes to the Annual Financial Statements

for the year ended 31 December 2009

16 Share-based payments

On listing a major shareholder of KayDav Group Ltd granted 1 500 000 share options to the Chairman of the board, Ian Stern. These options have a strike price of R1.00 and 300 000 options can be exercised on 15 November of each year from 2008 to 2012. If not exercised in a particular year the options are carried forward and can be exercised in the following year.

No value was placed on this arrangement at 31 December 2009, as the valuation indicated and insignificant value.

The above arrangements have no impact on the cash flows or net asset value of the Group.

| | Group | | Company | |
|----------------------------------------------------------------------------------------------------------------|------------|-------------|-----------|------------|
| | 2009 R | 2008 R | 2009 R | 2008 R |
| 17 Operating profit/(loss) | | | | |
| <i>The following items are included in operating profit/(loss)</i> | | | | |
| Audit fees | | | | |
| Audit services | 942 045 | 499 674 | – | – |
| Other services | 15 000 | – | – | – |
| Profit on disposal of tangible and intangible assets | | | | |
| Plant and equipment – owned | – | 4 607 | – | – |
| Loss on disposal of tangible and intangible assets | | | | |
| Plant and equipment – owned | 50 034 | – | – | – |
| Impairments | | | | |
| Inventories | (864 744) | 2 503 083 | – | – |
| Trade receivables | 9 670 615 | 1 562 727 | – | – |
| Goodwill | – | 119 233 190 | – | – |
| Investment in and loans to subsidiaries | – | – | – | 90 126 654 |
| Depreciation of tangible assets | | | | |
| Plant and equipment – owned | 4 319 903 | 3 870 027 | – | – |
| Operating lease charges | | | | |
| Property | 11 356 707 | 10 027 863 | – | – |
| Plant and equipment (including vehicles) | 3 822 717 | 10 599 888 | – | – |
| | 15 179 424 | 20 627 751 | – | – |
| Staff costs | | | | |
| Contributions to defined contribution retirement funds | 2 722 865 | 2 747 486 | – | – |
| Medical benefits | 1 493 488 | 1 556 692 | – | – |
| Other (including salaries, bonuses, allowances, commissions, fringe benefits excluding retirement and medical) | 58 165 790 | 45 448 598 | – | – |
| | 62 382 143 | 49 752 776 | – | – |
| 18 Investment income | | | | |
| Bank interest received | 807 565 | 1 037 795 | – | – |
| 19 Finance costs | | | | |
| Interest-bearing borrowings (long-term) | 1 177 969 | 1 011 444 | – | – |
| Bank overdraft | 865 365 | 1 497 049 | – | – |
| | 2 043 334 | 2 508 493 | – | – |

Notes to the Annual Financial Statements

for the year ended 31 December 2009

| | Group | | Company | |
|--------------------------------------------------------------|-------------|--------------|-----------|--------------|
| | 2009 R | 2008 R | 2009 R | 2008 R |
| 20 Taxation | | | | |
| South African normal tax at standard rate | | | | |
| – current year | 7 536 985 | 9 779 195 | – | – |
| Deferred | (1 233 847) | (386 303) | – | – |
| | 6 303 138 | 9 392 892 | – | – |
| 21 Tax rate reconciliation | | | | |
| Normal tax rate | 28% | 28% | – | – |
| Derecognition of tax asset | 17% | (1%) | – | – |
| Goodwill impairment | 0% | (37%) | – | – |
| Non-deductible expenditure | 4% | – | – | – |
| Effective tax rate | 49% | (10%) | – | – |
| 22 Earnings per share | | | | |
| Weighted average number of shares | 279 416 077 | 295 232 716 | – | – |
| Reconciliation between earnings and headline earnings | | | | |
| Earnings | 6 505 388 | (99 068 869) | – | – |
| Loss/(profit) on sale of plant and equipment | 50 034 | (4 607) | – | – |
| Taxation on loss/(profit) on sale of plant and equipment | (14 009) | 1 290 | – | – |
| Goodwill impairment | – | 119 233 190 | – | – |
| Headline earnings | 6 541 413 | 20 161 004 | – | – |
| Headline earnings per share (cents) | 2.3 | 6.8 | – | – |
| 23 Notes to the cash flow statements | | | | |
| 23.1 Operating cash before working capital movements | | | | |
| Profit/(loss) before taxation | 12 808 525 | (89 675 977) | – | (90 126 654) |
| Adjusted for: | – | – | – | – |
| Depreciation | 4 319 904 | 3 870 027 | – | – |
| (Loss)/profit on disposal of assets | (50 034) | (4 607) | – | – |
| Interest received | (807 565) | (1 037 795) | – | – |
| Finance costs | 2 043 334 | 2 508 493 | – | – |
| Provisions | (806 676) | 1 265 659 | – | – |
| Goodwill impairment | – | 119 233 190 | – | – |
| Impairment of investment in and loans to subsidiaries | – | – | – | 90 126 654 |
| Share-based payment | – | – | – | – |
| | 17 507 488 | 36 158 990 | – | – |
| 23.2 Working capital movements | | | | |
| Inventories | 25 277 221 | (17 436 866) | – | – |
| Trade and other receivables | (1 549 580) | (7 614 579) | (398) | (3 177) |
| Trade and other payables | (2 533 499) | 14 821 957 | – | (59 185) |
| | 21 194 142 | (10 229 488) | (398) | (62 362) |

Notes to the Annual Financial Statements

for the year ended 31 December 2009

| | Group | | Company | |
|----------------------------------------------------------------------|--------------------|---------------------|---------------|-----------|
| | 2009 R | 2008 R | 2009 R | 2008 R |
| 23 Notes to the cash flow statements (continued) | | | | |
| 23.3 Taxation paid | | | | |
| Balance at beginning of year | (269 085) | (4 711 536) | – | – |
| Charge for the year | (7 536 985) | (9 779 195) | – | – |
| Balance at end of year | (1 556 961) | 269 085 | – | – |
| Taxation paid | (9 363 031) | (14 221 646) | – | – |
| 23.4 Investment in plant and equipment to maintain operations | | | | |
| Plant and equipment | (2 580 049) | (2 012 736) | – | – |
| Office equipment | (109 087) | (18 798) | – | – |
| Motor vehicles | (1 614 719) | (6 822 760) | – | – |
| Computer equipment | (309 404) | (222 516) | – | – |
| Furniture and fittings | (100 267) | (56 131) | – | – |
| | (4 713 526) | (9 132 941) | – | – |
| 23.5 Investment in plant and equipment to expand operations | | | | |
| Plant and equipment | – | (5 478 816) | – | – |
| Office equipment | – | (30 805) | – | – |
| Motor vehicles | – | (1 595 398) | – | – |
| Computer equipment | – | (427 556) | – | – |
| Furniture and fittings | – | (121 188) | – | – |
| | – | (7 653 763) | – | – |
| 23.6 Proceeds on disposal of property, plant and equipment | | | | |
| Plant and equipment | 570 267 | 35 000 | – | – |
| Motor vehicles | 245 025 | 244 344 | – | – |
| | 815 292 | 279 344 | – | – |
| 23.7 Net cash and cash equivalents | | | | |
| Cash and cash equivalents | 9 491 221 | 6 821 099 | 49 160 | – |
| Bank overdraft | (7 689 783) | (7 248 796) | – | – |
| | 1 801 438 | (427 697) | 49 160 | – |

Notes to the Annual Financial Statements

for the year ended 31 December 2009

| | Group | | Company | |
|-----------------------------------------|-------------------|------------|-----------|-----------|
| | 2009 R | 2008 R | 2009 R | 2008 R |
| 24 Commitments | | | | |
| Operating leases | | | | |
| The minimum commitments are | | | | |
| – immovable property | 30 333 169 | 20 718 908 | – | – |
| – vehicles | 4 382 809 | 6 809 809 | – | – |
| | 34 715 978 | 27 528 717 | – | – |
| Payable within 1 year | 11 306 516 | 8 961 740 | – | – |
| Payable in 2 to 5 years | 23 409 462 | 18 566 977 | – | – |
| Thereafter | – | – | – | – |
| | 34 715 978 | 27 528 717 | – | – |
| Present value of minimum lease payments | | | | |
| – immovable property | 25 120 925 | 19 476 170 | – | – |
| – vehicles | 3 885 388 | 5 906 662 | – | – |
| | 29 006 313 | 25 382 832 | – | – |

25 Risk management

Financial risk management

The Group's non-derivative financial instruments consist mainly of deposits with and borrowings from banks, term investments, accounts receivable and payable and loans to and from subsidiaries. The book value of these financial instruments approximates fair value.

Derivative instruments used by the Group for hedging of foreign currency risk are forward exchange contracts. The Group does not speculate in the trading of these derivative instruments.

Foreign currency management

The Group transacts a portion of its purchases in foreign currency. Hedging instruments are used to reduce the risks arising from foreign currency fluctuations and are designated to accounts payable.

Foreign exchange risk

It is the policy of the Group to hedge all foreign transactions by covering the transactions with forward exchange contracts on transaction date. As such no unhedged foreign exchange balances existed at period-end, therefore a decrease or increase in foreign exchange rates will have no effect on profits.

Interest rate risk management

Interest rates on all deposits with banks and external borrowings are variable and linked to prime overdraft rates.

Credit risk management

Potential credit risk comprises trade accounts receivable, other receivables and cash deposits with banks.

Credit risk relating to trade accounts receivable is dispersed over a large number of customers. There are no significant concentrations of credit risk in that no customer comprises more than 5% of accounts receivable. The Group performs credit checks on all new customers and monitors the credit situation of each customer on an ongoing basis. Where appropriate, accounts are secured through personal suretyships, collateral and occasionally, credit insurance.

The Group invests surplus funds only with major financial institutions.

Notes to the Annual Financial Statements

for the year ended 31 December 2009

25 Risk management (continued)

Liquidity risk management

The Group manages liquidity risk by monitoring cash flows and ensuring that adequate unutilised borrowing facilities are maintained. The Group facilities at 31 December 2009 are reflected in note 14.

Sensitivity analysis

2009

| | Carrying value R | Foreign exchange risk | | | Interest rate risk | | |
|-----------------------------------------|---------------------|----------------------------------------------------------|------------------------|------------------------|-----------------------------------------------------|--------------------|--------------------|
| | | Profit/(loss) should the Rand exchange rate change by 5% | | | Profit/(loss) should the interest rate change by 2% | | |
| | | Amount exposed to risk R | Rand appreciation R | Rand depreciation R | Amount exposed to risk R | Rate increase R | Rate decrease R |
| GROUP | | | | | | | |
| Financial assets | | | | | | | |
| Bank and cash | 9 491 221 | – | – | – | 9 491 221 | 189 824 | (189 824) |
| Trade and other receivables | 69 506 096 | – | – | – | – | – | – |
| Impact of financial assets on: | | | | | | | |
| – profit before taxation | – | – | – | – | – | 189 824 | (189 824) |
| – profit after taxation | – | – | – | – | – | 136 674 | (136 674) |
| Financial liabilities | | | | | | | |
| Instalment sale agreements | 8 571 288 | – | – | – | 8 571 288 | (171 426) | 171 426 |
| Trade and other payables | 50 664 350 | 1 584 705 | 79 235 | (79 235) | – | – | – |
| Bank overdraft | 7 689 783 | – | – | – | 7 689 783 | (153 796) | 153 796 |
| Impact of financial liabilities on: | | | | | | | |
| – profit before taxation | – | – | 79 235 | (79 235) | – | (325 221) | 325 221 |
| – profit after taxation | – | – | 56 257 | (56 257) | – | (234 159) | 234 159 |
| Overall impact on profit after taxation | – | – | 56 257 | (56 257) | – | (97 486) | 97 486 |
| COMPANY | | | | | | | |
| Financial assets | | | | | | | |
| Bank and cash | 49 160 | – | – | – | 49 160 | 983 | (983) |
| Trade and other receivables | 3 575 | – | – | – | – | – | – |
| Impact of financial assets on: | | | | | | | |
| – profit before taxation | – | – | – | – | – | 983 | (983) |
| – profit after taxation | – | – | – | – | – | 698 | (698) |
| Financial liabilities | | | | | | | |
| Trade and other payables | – | – | – | – | – | – | – |
| Impact of financial liabilities on: | | | | | | | |
| – profit before taxation | – | – | – | – | – | – | – |
| – profit after taxation | – | – | – | – | – | – | – |
| Overall impact on profit after taxation | – | – | – | – | – | 698 | (698) |

Maturity analysis of financial liabilities

Instalment sale agreements

Refer to note 11.

Trade and other payables

Trade and other payables are payable within six months.

Notes to the Annual Financial Statements

for the year ended 31 December 2009

25 Risk management (continued)

2008

| | Foreign exchange risk | | | Interest rate risk | | |
|-----------------------------------------|----------------------------------------------------------|------------------------|------------------------|-----------------------------------------------------|--------------------|--------------------|
| | Profit/(loss) should the Rand exchange rate change by 5% | | | Profit/(loss) should the interest rate change by 2% | | |
| Carrying value R | Amount exposed to risk R | Rand appreciation R | Rand depreciation R | Amount exposed to risk R | Rate increase R | Rate decrease R |
| GROUP | | | | | | |
| Financial assets | | | | | | |
| Bank and cash | 6 821 099 | – | – | – | 6 821 099 | 136 422 (136 422) |
| Trade and other receivables | 67 956 516 | – | – | – | – | – |
| Impact of financial assets on: | | | | | | |
| – profit before taxation | – | – | – | – | 136 422 | (136 422) |
| – profit after taxation | – | – | – | – | 98 224 | (98 224) |
| Financial liabilities | | | | | | |
| Instalment sale agreements | 12 697 490 | – | – | – | 12 697 490 | (253 950) 253 950 |
| Trade and other payables | 53 197 846 | 1 636 934 | 81 847 | (81 847) | – | – |
| Bank overdraft | 7 248 796 | – | – | – | 7 248 796 | (144 976) 144 976 |
| Impact of financial liabilities on: | | | | | | |
| – profit before taxation | – | – | 81 847 | (81 847) | – | (398 926) 398 926 |
| – profit after taxation | – | – | 58 111 | (58 111) | – | (287 227) 287 227 |
| Overall impact on profit after taxation | – | – | 58 111 | (58 111) | – | (189 003) 189 003 |
| COMPANY | | | | | | |
| Financial assets | | | | | | |
| Bank and cash | – | – | – | – | – | – |
| Trade and other receivables | 3 177 | – | – | – | – | – |
| Impact of financial assets on: | | | | | | |
| – profit before taxation | – | – | – | – | – | – |
| – profit after taxation | – | – | – | – | – | – |
| Financial liabilities | | | | | | |
| Trade and other payables | – | – | – | – | – | – |
| Impact of financial liabilities on: | | | | | | |
| – profit before taxation | – | – | – | – | – | – |
| – profit after taxation | – | – | – | – | – | – |
| Overall impact on profit after taxation | – | – | – | – | – | – |

26 Retirement benefits

The Group operates defined contribution retirement plans for the benefit of its employees. All permanent employees are required to become members of one of these plans. Contributions to retirement funding during the reporting period amounted to R2 722 865.

Notes to the Annual Financial Statements

for the year ended 31 December 2009

| | Services as directors | Salary and allow- ances | Bonuses and perform- ance related payments | Retire- ment and perform- ance related benefits | Share- based payments | Other benefits | Total |
|------------------------------------------|-----------------------------|----------------------------------|-----------------------------------------------------------|-------------------------------------------------------------------|-----------------------------|-------------------|-----------|
| 27 Directors' emoluments 2009 | | | | | | | |
| Executive directors | | | | | | | |
| Gary Davidson | – | 1 384 615 | 115 000 | – | – | – | 1 499 615 |
| Geoff Davidson | – | 360 000 | – | – | – | – | 360 000 |
| Martin Slier | – | 842 891 | 75 000 | 40 044 | – | 21 142 | 979 077 |
| Jay Katz | – | 644 160 | 53 680 | 87 413 | – | 123 590 | 908 843 |
| | – | 3 231 666 | 243 680 | 127 457 | – | 144 732 | 3 747 535 |
| Non-executive directors | | | | | | | |
| Ian Stern | 385 200 | – | – | – | – | – | 385 200 |
| Jonathan Hertz | 192 600 | – | – | – | – | – | 192 600 |
| | 577 800 | – | – | – | – | – | 577 800 |
| Interest of directors | | | | | | | |
| | Direct | Indirect | | | | | |
| Direct | | | | | | | |
| Ian Stern | 300 000 | – | | | | | |
| Gary Davidson | 13 325 794 | 26 651 588 | | | | | |
| Martin Slier | 1 000 000 | – | | | | | |
| Jay Katz | 1 060 000 | – | | | | | |
| | 15 685 794 | 26 651 588 | | | | | |
| 2008 | | | | | | | |
| Executive directors | | | | | | | |
| Gary Davidson | – | 985 836 | 83 153 | – | – | 14 160 | 1 083 149 |
| Geoff Davidson | – | 840 000 | 70 000 | 42 000 | – | 93 684 | 1 045 684 |
| Martin Slier | – | 700 034 | 62 500 | 32 902 | – | 17 064 | 812 500 |
| Jay Katz | – | 602 040 | 50 170 | 81 697 | – | 118 346 | 852 253 |
| | – | 3 127 910 | 265 823 | 156 599 | – | 243 254 | 3 793 586 |
| Non-executive directors | | | | | | | |
| Ian Stern | 360 000 | – | – | – | – | – | 360 000 |
| Jonathan Hertz | 180 000 | – | – | – | – | – | 180 000 |
| | 540 000 | – | – | – | – | – | 540 000 |
| Interest of directors | | | | | | | |
| | Direct | Indirect | | | | | |
| Direct | | | | | | | |
| Ian Stern | 300 000 | – | | | | | |
| Gary Davidson | 13 325 794 | 26 651 588 | | | | | |
| Martin Slier | 1 000 000 | – | | | | | |
| Jay Katz | 1 060 000 | – | | | | | |
| | 15 685 794 | 26 651 588 | | | | | |

Notes to the Annual Financial Statements

for the year ended 31 December 2009

28 Related parties

Related parties are those that control or have significant influence over the Group, including major investors and key management personnel and parties that are significantly controlled or influenced by the Group, including subsidiaries.

Related-party relationships where control exists are:

| Related party | Nature of relationship |
|-------------------------------------|------------------------|
| Companies | |
| Davidsons Holding Company | Subsidiary |
| KayDav Industries (Pty) Ltd | Subsidiary |
| Evertrade 168 (Pty) Ltd | Subsidiary |
| Evertrade 173 (Pty) Ltd | Subsidiary |
| Evertrade 180 (Pty) Ltd | Subsidiary |
| Braver Trading (Pty) Ltd | Subsidiary |
| Tresso Trading 298 (Pty) Ltd | Subsidiary |
| Sharp Move Trading 260 (Pty) Ltd | Subsidiary |
| Sign and Seal Trading 154 (Pty) Ltd | Subsidiary |

Directors

KayDav Group Ltd

Gary Davidson

Geoff Davidson

Ian Stern

Jay Katz

Jonathan Hertz

Martin Slier

Related-party transactions

The following related party transactions occurred:

Directors

Directors' emoluments are set out in note 27.

Premises rented from a company controlled by a director, Jay Katz, on a month-to-month basis resulted in a rent charge of R787 545 (2008: R567 177) for the year.

Shareholders

Premises rented from the Davidson Family Trust (major shareholder) resulted in a rent charge of R1 674 060 (2008: R1 623 200) for the reporting period.

Contracts for the rental of three buildings will run until 31 July 2010. The combined rental amounts to R145 800 (2008: R135 266) per month.

Notes to the Annual Financial Statements

for the year ended 31 December 2009

| | 2009 R | 2008 R |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|---------------|
| 29 Segmental analysis | | |
| At 31 December 2009 the Group was organised into two main business segments: | | |
| – Board distribution | | |
| – Manufacturing | | |
| Segmental revenue | | |
| Board distribution | 429 014 760 | 430 638 584 |
| Manufacturing | 51 597 968 | 32 935 490 |
| Internal revenue | (19 376 381) | (23 127 696) |
| | 461 236 347 | 440 446 378 |
| Segmental results | | |
| Board distribution | 19 393 767 | 32 898 267 |
| Manufacturing | (5 348 830) | (1 870 356) |
| Other | (642) | – |
| Operating profit before goodwill impairment, share-based payments and interest | 14 044 295 | 31 027 911 |
| Share-based payments | | |
| Goodwill impairment | – | (119 233 190) |
| Operating profit/(loss) before interest | 14 044 295 | (88 205 279) |
| Inter-segment transactions are entered into under normal commercial terms and conditions available to third parties. | | |
| Operating assets | | |
| Board distribution | 148 096 370 | 178 567 537 |
| Manufacturing | 32 810 075 | 23 619 677 |
| Other | 704 683 | – |
| Internal transactions | (4 893 469) | (4 040 401) |
| | 176 717 659 | 198 146 813 |
| Segment assets consist of property, plant and equipment, inventory, trade receivables and operating cash and exclude taxation assets, investments and intangible assets. | | |
| Operating liabilities | | |
| Board distribution | 61 275 397 | 73 082 108 |
| Manufacturing | 11 140 619 | 6 646 941 |
| Other | 1 140 719 | – |
| Internal transactions | (4 893 469) | (4 040 401) |
| | 68 663 266 | 75 688 648 |

Notes to the Annual Financial Statements

for the year ended 31 December 2009

| | 2009 R | 2008 R |
|-------------------------------------------------------------------------------------|------------------|-------------|
| 29 Segmental analysis (continued) | | |
| Segment liabilities include operating liabilities and exclude taxation liabilities. | | |
| Capital expenditure | | |
| Board distribution | 7 742 964 | 15 467 379 |
| Manufacturing | 2 338 718 | 4 077 552 |
| Other | 30 018 | – |
| Internal transactions | (5 398 174) | (2 758 227) |
| | 4 713 526 | 16 786 704 |
| Capital expenditure comprises additions to property, plant and equipment | | |
| Depreciation | | |
| Board distribution | 3 268 011 | 3 032 601 |
| Manufacturing | 1 024 741 | 837 426 |
| Other | 27 151 | – |
| | 4 319 903 | 3 870 027 |

Secondary reporting format (Geographical segments)

All Group operations are in the RSA and are not subject to risks and returns that are different from those segments operating in other economic environments

30 Subsidiaries

| | Issued share capital R | Shares at cost less amounts written off R | Amount receivable R |
|----------------------------------------------------------|------------------------------|----------------------------------------------------|---------------------------|
| Direct holdings | | | |
| All wholly owned | | | |
| Davidsons Holding Company (Pty) Ltd | 100 | 58 755 151 | 11 661 423 |
| KayDav Industries (Pty) Ltd | 100 | 100 | 90 075 800 |
| Indirect holdings | | | |
| All wholly owned via Davidsons Holding Company (Pty) Ltd | | | |
| Evertrade 168 (Pty) Ltd | 100 | Indirect | – |
| Evertrade 173 (Pty) Ltd | 100 | Indirect | – |
| Evertrade 180 (Pty) Ltd | 100 | Indirect | – |
| Braver Trading (Pty) Ltd | 100 | Indirect | – |
| Tresso Trading 298 (Pty) Ltd | 100 | Indirect | – |
| Sharp Move Trading 260 (Pty) Ltd | 100 | Indirect | – |
| Sign and Seal Trading 154 (Pty) Ltd | 100 | Indirect | – |

Notes to the Annual Financial Statements

for the year ended 31 December 2009

31 New accounting pronouncements

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

Note:

- Amendments in **dark green** represent amendments introduced under the Improvements Project 2008.
- Amendments in **light green** represent amendments introduced under the Improvements Project 2009.

| Standard | Details of amendment | Annual periods beginning on or after |
|----------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|
| IFRS 1: First-time Adoption of International Financial Reporting Standards | <ul style="list-style-type: none"> • Amendments relating to oil and gas assets and determining whether an arrangement contains a lease | 1 January 2010 |
| IFRS 2: Share-based Payment | <ul style="list-style-type: none"> • Clarification of scope of IFRS 2 and IFRS 3 revised • Accounting for group cash-settled share-based payment transactions – clarity of the definition of the term “Group” | 1 July 2009 1 January 2010 |
| IFRS 3: Business Combinations | <ul style="list-style-type: none"> • Amendments to accounting for business combinations | 1 July 2009 |
| IFRS 5: Non-current Assets Held for Sale and Discontinued Operations | <ul style="list-style-type: none"> • Plan to sell the controlling interest in a subsidiary • Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations • Amendments resulting from IFRIC 17 for assets held for distribution to owners | 1 July 2009 1 January 2010 1 July 2009 |
| IFRS 8: Operating Segments | <ul style="list-style-type: none"> • Disclosure of information about segment assets | 1 January 2010 |
| IFRS 9: Financial Instruments | <ul style="list-style-type: none"> • New standard that forms the first part of a three- part project to replace IAS 39: Financial Instruments: Recognition and Measurement | 1 January 2013 |
| IAS 1: Presentation of Financial Statements | <ul style="list-style-type: none"> • Current/non-current classification of derivatives • Current/non-current classification of convertible instruments | 1 January 2010 |
| IAS 7: Statement of Cash Flows | <ul style="list-style-type: none"> • Classification of expenditures on unrecognised assets | 1 January 2010 |
| IAS 10: Events after the Reporting Period | <ul style="list-style-type: none"> • Amendment resulting from the issue of IFRIC 17 | 1 July 2009 |
| IAS 17: Leases | <ul style="list-style-type: none"> • Classification of leases of land and buildings | 1 January 2010 |
| IAS 24: Related-party Disclosure | <ul style="list-style-type: none"> • Simplification of the disclosure requirements for government-related entities • Clarification of the definition of related party | 1 January 2011 |
| IAS 27: Consolidated and Separate Financial Statements | <ul style="list-style-type: none"> • Consequential amendments from changes to business combinations • Measurement of subsidiary held for sale in separate financial statements | 1 July 2009 |
| IAS 31: Interests in Joint Ventures | <ul style="list-style-type: none"> • Consequential amendments from changes to business combinations | 1 July 2009 |
| IAS 32: Financial Instruments: Presentation | <ul style="list-style-type: none"> • Accounting for rights issues (including rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer | 1 February 2010 |
| IAS 36: Impairment of Assets | <ul style="list-style-type: none"> • Unit of accounting for goodwill impairment test | 1 January 2010 |
| IAS 38: Intangible Assets | <ul style="list-style-type: none"> • Additional consequential amendments arising from revised IFRS 3 • Measuring the fair value of an intangible asset acquired in a business combination | 1 July 2009 |
| IAS 39: Financial Instruments: Recognition and Measurement | <ul style="list-style-type: none"> • Clarifies two hedge accounting issues: <ul style="list-style-type: none"> o Inflation in a financial hedged item o A one-sided risk in a hedged item • Amendments for embedded derivatives when reclassifying financial instruments • Treating loan prepayment penalties as closely related embedded derivatives • Scope exemption for business combination contracts • Cash flow hedge accounting | 1 July 2009 Annual periods ending on or after 30 June 2009 1 January 2010 |

Notes to the Annual Financial Statements

for the year ended 31 December 2009

| Interpretations | Annual periods beginning on or after |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|
| IFRIC 14: IAS 19 - The Limit on a Defined Benefit Asset, Minimum funding Requirements and their interaction. Amendments relating to the recognition as assets of some voluntary prepayments for minimum funding contributions | 1 January 2011 |
| IFRIC 16: (amended) Hedges of a Net Investment in a Foreign Operation Amendment to the restriction on the entity that can hold hedging instruments | 1 July 2009 |
| IFRIC 17: Distributions of Non-cash Assets to Owners | 1 July 2009 |
| IFRIC 18: Transfer of Assets from Customers | 1 July 2009 |
| IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments | 1 July 2010 |

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group/company.

Analysis of Shareholders

as at 31 December 2009

| Analysis of shareholdings | Number of shareholders | % of total number of shareholders | Number of shares | % of total issued capital |
|-------------------------------------------------------------------|---------------------------|-----------------------------------------|---------------------|---------------------------------|
| 1 – 1 000 shares | 111 | 40.7% | 16 945 | 0.0% |
| 1 001 – 10 000 shares | 47 | 17.2% | 240 631 | 0.1% |
| 10 001 – 100 000 shares | 58 | 21.2% | 2 504 000 | 1.1% |
| 100 001 – 1 000 000 shares | 40 | 14.7% | 11 579 594 | 4.9% |
| 1 000 001 shares and more | 17 | 6.2% | 221 845 103 | 93.9% |
| | 273 | 100.0% | 236 186 273 | 100.0% |
| Major shareholders holding more than 5% of shares in issue | | | | |
| Peregrine Equities (Pty) Ltd | | | 83 099 096 | 35.2% |
| The Davidson Family Trust | | | 53 303 177 | 22.6% |
| Katzgold Trade and Invest (Pty) Ltd | | | 19 610 339 | 8.3% |
| Stanlib Small Cap Fund | | | 14 620 000 | 6.2% |
| Gary Davidson | | | 13 325 794 | 5.6% |
| Shareholder spread | | | | |
| Directors of KayDav Group Ltd and its subsidiaries | 10 | 3.7% | 52 251 245 | 22.1% |
| Shareholders with an interest of 10% or more in the company | 2 | 0.7% | 136 402 273 | 57.8% |
| Non-public | 12 | 4.4% | 188 653 518 | 79.9% |
| Public | 261 | 95.6% | 47 532 755 | 20.1% |
| | 273 | 100.0% | 236 186 273 | 100.0% |
| Distribution of shareholders | | | | |
| Individuals | 216 | 79.1% | 38 935 075 | 16.5% |
| Private companies | 15 | 5.5% | 24 719 788 | 10.5% |
| Close corporations | 12 | 4.4% | 403 700 | 0.2% |
| Other corporations | 2 | 0.7% | 300 100 | 0.1% |
| Trusts | 15 | 5.5% | 54 743 820 | 23.2% |
| Stockbrokers and nominees | 4 | 1.5% | 84 290 209 | 35.7% |
| Assurance companies | 1 | 0.4% | 7 980 000 | 3.4% |
| Hedge funds | 2 | 0.7% | 5 593 984 | 2.4% |
| Collective investment schemes | 6 | 2.2% | 19 219 597 | 8.1% |
| | 273 | 100.0% | 236 186 273 | 100.0% |
| Share trades during the period | | | | |
| Closing price (cents) | | 30 | | |
| High (cents) | | 35 | | |
| Low (cents) | | 18 | | |
| Volume (number of shares) | 71 237 801 | | | |

Notice of Annual General Meeting

KayDavGroup

KAYDAV GROUP LIMITED

Registration number 2006/038698/06

JSE code: KDV

ISIN: ZAE000108940

("the company")

Notice is hereby given that the annual general meeting of shareholders of KayDav Group Limited ("the company") will be held at 2 Arnold Road, Rosebank 2196, Gauteng on 8 June 2010 at 10:00 for the following purposes:

1. To consider the annual financial statements for the year ended 31 December 2009;
2. To transact such other business as may be transacted at an annual general meeting of a company, including the re-appointment of the auditors and re-election of retiring directors; and
3. To consider and, if deemed fit, to pass, with or without modification, the special and ordinary resolutions set out below, in the manner required by the South African Companies Act, 1973, as amended:

Special resolution number 1: Share repurchases

"Resolved that the directors be authorised pursuant *inter alia* to the company's articles of association, until this authority lapses at the next annual general meeting of the company, unless it is then renewed at the next annual general meeting of the company and provided that this authority shall not extend beyond 15 (fifteen) months from date of passing this special resolution, for the company or any subsidiary of the company to acquire shares of the company, subject to the Listings Requirements of the JSE Limited ("JSE") on the following bases:

1. repurchases of shares must be effected through the order book operated by the JSE trading system, and done without any prior arrangement between the company and the counterparty;
2. the company or subsidiary may only appoint one agent to effect repurchases on its behalf;
3. the company or subsidiary must be authorised thereto by its articles of association;
4. the number of shares which may be acquired pursuant to this authority in any financial year (which commenced 1 January 2010) may not in the aggregate exceed 20% (twenty per cent) [or 10% (ten per cent) where such acquisitions are effected by a subsidiary] of the company's share capital as at the date of this notice of annual general meeting;
5. repurchases of shares may not be made at a price more than 10% (ten per cent) above the weighted average of the market value on the JSE of the shares in question for the five business days immediately preceding the repurchase;
6. repurchases may not take place during a prohibited period (as defined in paragraph 3.67 of the JSE Listings Requirements) unless

a repurchase programme is in place and the dates and quantities of shares to be repurchased during the prohibited period have been determined and full details thereof announced on SENS prior to commencement of the prohibited period;

7. repurchases may only take place if, after such repurchase, the shareholder spread of the company still complies with Listings Requirements of the JSE;
8. after the company has acquired shares which constitute, on a cumulative basis, 3% (three per cent) of the number of shares in issue (at the time that authority from shareholders for the repurchase is granted), the company shall publish an announcement to such effect, or any other announcements that may be required in such regard in terms of the Listings Requirements of the JSE which may be applicable from time to time; and
9. the company's sponsor shall confirm the adequacy of the company's working capital for purposes of undertaking the repurchase of shares in writing to the JSE prior to entering the market to proceed with the repurchase."

In accordance with the Listings Requirements of the JSE, the directors record that:

Although there is no immediate intention to effect a repurchase of securities of the company, the directors would utilise the general authority to repurchase securities as and when suitable opportunities present themselves, which opportunities may require expeditious and immediate action.

The directors undertake that after considering the maximum number of securities which may be repurchased and the price at which the repurchases may take place pursuant to the buy-back general authority, that for a period of 12 (twelve) months after the date of notice of this annual general meeting:

- the company and the group will be able to pay their debts in the ordinary course of business;
- the consolidated assets of the company and of the group fairly valued in accordance with International Financial Reporting Standards, will exceed the consolidated liabilities of the company and of the group after the buy-back;
- the working capital, share capital and reserves of the company and of the group will be adequate for the purposes of the business of the company and its subsidiaries.

Notice of Annual General Meeting

The following additional information, some of which may appear elsewhere in the annual report of which this notice forms part, is provided in terms of paragraph 11.26 of the Listings Requirements of the JSE for purposes of this general authority:

- Directors – page 6
- Major beneficial shareholders – page 35
- Directors' interests in ordinary shares – page 29
- Share capital of the company – page 21

Litigation statement

The directors, whose names appear on page 6 of the annual report of which this notice forms part, are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or have had in the recent past (being at least the previous 12 (twelve) months) a material effect on the group's financial position.

Directors' responsibility statement

Directors, whose names appear on page 6 of the annual report, collectively and individually accept full responsibility for the accuracy of the information pertaining to this special resolution and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the special resolution contains all information required in terms of the Listings Requirements of the JSE.

Material changes

Other than the facts and developments reported on in the annual report, there have been no material changes in the affairs or financial position of the company and its subsidiaries since the date of signature of the audit report for the year ended 31 December 2009 and up to the date of this notice.

Reasons for and effects of special resolution 1

The reason for Special Resolution 1 is to afford directors of the company or a subsidiary of the company a general authority to effect a buy-back of the company's shares on the JSE. The effect of the resolution will be that the directors will have the authority, subject to the Rules and Requirements of the JSE, to effect acquisitions of the company's shares on the JSE.

Ordinary resolution number 1: Issue of shares for cash

"Resolved that the directors be authorised pursuant *inter alia* to the company's articles of association, until this authority lapses at the next annual general meeting of the company, unless it is then renewed at the next annual general meeting of the company provided that it shall not extend beyond 15 months, to allot and issue ordinary shares for cash subject to the Rules and Requirements of the JSE Limited ("JSE") on the following bases:

1. the allotment and issue of the shares must be made to persons qualifying as public shareholders and not to related parties as defined in the Listings Requirements of the JSE;
2. the shares which are the subject of the issue for cash must be of a class already in issue, or where this is not the case, must be limited to such shares or rights that are convertible into a class already in issue;
3. the number of shares issued for cash shall not in the aggregate in any one financial year exceed 15% (fifteen percent) of the company's issued share capital of ordinary shares. The number of ordinary shares which may be issued shall be based on the number of ordinary shares in issue at the date of such application less any ordinary shares issued during the current financial year, provided that any ordinary shares to be issued pursuant to a rights issue (announced, irrevocable and fully underwritten) or acquisition (concluded up to the date of application including announcement of the final terms) may be included as though they were shares in issue at the date of application;
4. the maximum discount at which ordinary shares may be issued is 10% (ten per cent) of the weighted average traded price on the JSE of those shares over the 30 business days prior to the date that the price of the issue is agreed between the company and the party subscribing for the shares;
5. after the company has issued shares for cash which represent, on a cumulative basis within a financial year, 5% (five per cent) or more of the number of shares in issue prior to that issue, the company shall publish an announcement containing full details of the issue (including the number of shares issued, the average discount to the weighted average traded price of the shares over the 30 days prior to the date that the price of the issue is determined or agreed to by the directors and the effect of the issue on net asset value per share, net tangible asset value per share, earnings per share, headline earnings per share and, if applicable, diluted earnings per share and diluted headline earnings per share), or any other announcements that may be required in such regard in terms of the JSE Listings Requirements which may be applicable from time to time."

In terms of the Listings Requirements of the JSE a 75% (seventy-five per cent) majority of the votes cast by shareholders present or represented by proxy at the general meeting must be cast in favour of Ordinary Resolution Number 1 for it to be approved.

Ordinary resolution number 2: Unissued ordinary shares

"Resolved that the authorised and unissued ordinary share capital of the company be and is hereby placed under the control of the directors of the company, which directors are, subject to the rules and regulations of the JSE and the provisions of section 221 and section 222 of the Companies Act of 1973, as amended, authorised to allot and issue any of such shares at such time or times, to such person or persons, company or companies and upon such terms and conditions as they may determine, such authority to remain in force until the next annual general meeting of the company."

Notice of Annual General Meeting

Ordinary resolution number 3: Re-election of Ian Stern as a director of the company

“Resolved that Ian Stern be re-elected as a director of the company.”

A brief curriculum vitae is set out on page 6 of the annual report of which this notice forms part.

Ordinary resolution number 4: Re-election of Martin Slier as a director of the company

“Resolved that Martin Slier be re-elected as a director of the company.”

A brief curriculum vitae is set out on page 6 of the annual report of which this notice forms part.

Ordinary resolution number 5: Directors' Remuneration

“Resolved that the remuneration of the non-executive directors for 2009, as set out on page 29 of the annual report of which this notice forms part be, and is hereby confirmed and ratified.”

Ordinary resolution number 6: Reappointment of auditors

“Resolved that PKF (Jhb) Inc. be reappointed as auditors of the company.”

Ordinary resolution number 7: Signature of documentation

“Resolved that any director or the company secretary of the company be and is hereby authorised to sign all such documentation and do all such things as may be necessary for or incidental to the implementation of Special Resolution number 1 and Ordinary Resolution numbers 1, 2, 3, 4, 5 and 6 which are passed by the members in accordance with and subject to the terms thereof.”

Ordinary resolution number 8: Amendments to The KayDav Share Trust

“Resolved that the Trust Deed governing The KayDav Share Trust (adopted by the company on 4 October 2007 as amended) (the ‘Trust’), be amended in order to comply with revised requirements of the JSE Limited (‘JSE’), by addendum thereto in accordance with the draft tabled at the meeting, which addendum may be executed by the trustees of the Trust on the one hand and any director of the company on the other, which addendum provides inter alia that, notwithstanding anything to the contrary in any provision of the Trust:

- (1) the number of shares at any time on offer to participants or acquired by participants with loans from the Trust, excluding shares in respect of which no amount remains due by any participant to the Trust, may not in aggregate exceed 35 000 000 shares; and
- (2) the number of shares at any time acquired by any one participant from or with a loan from the Trust, excluding shares in respect of which no amount remains due by the participant to the Trust, may not in aggregate exceed 10 000 000 shares.

Ordinary resolution number 8 is required to be passed by approval of 75% of all members present or represented by proxy at the annual general meeting, with votes attaching to shares owned or controlled by persons who are existing participants in the scheme excluded from voting.”

Voting and proxies

A shareholder of the company entitled to attend and vote at the general meeting is entitled to appoint one or more proxies (who need not be a shareholder of the company) to attend, vote and speak in his/her stead.

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

A form of proxy is attached for the convenience of any shareholder holding KayDav Group Limited shares who cannot attend the annual general meeting. Forms of proxy may also be obtained on request from the company's registered office. The completed forms of proxy must be deposited at or posted to the office of the transfer secretaries of the company,

Link Market Services South Africa (Proprietary) Limited, 5th Floor, 11 Diagonal Street, Johannesburg 2001 (PO Box 4844, Johannesburg, 2000) to be received at least 48 hours prior to the meeting. Any member who completes and lodges a form of proxy will nevertheless be entitled to attend and vote in person at the general meeting should the member subsequently decide to do so.

Shareholders who have already dematerialised their shares through a Central Securities Depository Participant (“CSDP”) or broker rather than through own name registration and who wish to attend the annual general meeting must instruct their CSDP or broker to issue them with the necessary authority to attend.

Dematerialised shareholders, who have elected own name registration in the sub-register through a CSDP and who are unable to attend but wish to vote at the annual general meeting, should complete and lodge the attached form of proxy with the transfer secretaries of the company.

Dematerialised shareholders who have not elected own name registration in the sub-register through a CSDP and who are unable to attend but wish to vote at the annual general meeting should timeously provide their CSDP or broker with their voting instructions in terms of the custody agreement entered into between the shareholder and his CSDP or broker.

By order of the board

Probity Business Services (Proprietary) Limited

Company Secretary

18 March 2010

Registered address

105 Bamboesvlei Road
Ottery
7800

Transfer Secretaries

Link Market Services South Africa (Pty) Ltd
5th Floor
11 Diagonal Street
Johannesburg
2001
(PO Box 4844, Johannesburg 2000)

Form of Proxy



KAYDAV GROUP LIMITED

Registration number 2006/038698/06

JSE code: KDV

ISIN: ZAE000108940

("the company")

For use by the holders of the company's certificated ordinary shares ("certificated shareholders") and/or dematerialised ordinary shares held through a Central Securities Depository Participant ("CSDP") or broker who have selected "own name" registration ("own name dematerialised shareholders") at the annual general meeting of the company to be held at 10:00 on 8 June 2010, or at any adjournment thereof if required. Additional forms of proxy are available from the transfer secretaries of the company.

Not for use by holders of the company's dematerialised ordinary shares who have not selected "own name" registration. Such shareholders must contact their CSDP or broker timeously if they wish to attend and vote at the annual general meeting and request that they be issued with the necessary authorisation to do so or provide the CSDP or broker timeously with their voting instructions should they not wish to attend the annual general meeting in order for the CSDP or broker to vote in accordance with their instructions at the annual general meeting.

I/We _____ (Name in block letters)

of _____ (Address)

being the registered holder of ordinary shares in the capital of the company hereby appoint

1. _____ or failing him

2. _____ or failing him

3. the chairperson of the meeting

as my/our proxy to act for me/us on my/our behalf at the annual general meeting, or any adjournment thereof, which will be held for the purpose of considering and, if deemed fit, passing with or without modification, the ordinary and special resolutions as detailed in the Notice of Annual General Meeting, and to vote for and/or against such resolutions and/or abstain from voting in respect of the ordinary shares registered in my/our name(s), in accordance with the following instructions:

| | Number of votes | | |
|--------------------------------------------------------------------|-----------------|---------|---------|
| | In favour of | Against | Abstain |
| To pass special resolution: | | | |
| 1. To effect share repurchases | | | |
| To pass ordinary resolutions: | | | |
| 1. To issue shares for cash | | | |
| 2. To place the unissued shares under the control of the directors | | | |
| 3. To re-elect Ian Stern as a director of the company | | | |
| 4. To re-elect Martin Slier as a director of the company | | | |
| 5. To ratify non-executive directors' remuneration | | | |
| 6. To reappoint PKF (Jhb) Inc. as auditors of the company | | | |
| 7. To authorise the signature of documentation | | | |
| 8. To authorise amendments to the KayDav Share Trust | | | |

(Indicate instructions to proxy in the spaces provided above.)

Unless otherwise instructed, my proxy may vote as he thinks fit.

Signed this _____ day of _____ 2010

Signature _____ Assisted by (if applicable)

Notes to Form of Proxy

Notes

1. Each shareholder is entitled to appoint one or more proxies (none of whom need be a shareholder of the company) to attend, speak and vote in place of that shareholder at the annual general meeting.
2. Shareholder(s) that are certificated or own name dematerialised shareholders may insert the name of a proxy or the names of two alternative proxies of the member's choice in the space/s provided, with or without deleting "the chairperson of the meeting", but any such deletion must be initialled by the shareholder(s). The person whose name stands first on the form of proxy and who is present at the general meeting will be entitled to act as proxy to the exclusion of those whose names follow. If no proxy is named on a lodged form of proxy the chairperson shall be deemed to be appointed as the proxy.
3. A shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by the shareholder in the appropriate box provided. Failure to comply with the above will be deemed to authorise the proxy, in the case of any proxy other than the chairperson, to vote or abstain from voting as deemed fit and in the case of the chairperson to vote in favour of the resolution.
4. A shareholder or his/her proxy is not obliged to use all the votes exercisable by the shareholder, but the total of the votes cast or abstained may not exceed the total of the votes exercisable in respect of the shares held by the shareholder.
5. Forms of proxy must be lodged at or posted to Link Market Services South Africa (Pty) Ltd, 5th Floor, 11 Diagonal Street, Johannesburg 2001 (PO Box 4844, Johannesburg, 2000) to be received not less than 48 hours prior to the meeting.
6. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so. Where there are joint holders of shares, the vote of the first joint holder who tenders a vote, as determined by the order in which the names stand in the register of members, will be accepted.
7. The chairperson of the general meeting may reject or accept any form of proxy which is completed and/or received otherwise than in accordance with these notes, provided that, in respect of acceptances, the chairperson is satisfied as to the manner in which the shareholder concerned wishes to vote.
8. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the company or the transfer secretaries or waived by the chairperson of the general meeting.
9. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies.
10. A minor must be assisted by his/her parent guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.
11. Where there are joint holders of any shares, only that holder whose name appears first in the register in respect of such shares need sign this form of proxy.

Shareholders' Diary

| | |
|---------------------------|----------------|
| Annual general meeting | June 2010 |
| Interim period-end | June 2010 |
| Interim results published | September 2010 |
| Year-end | December 2010 |
| Annual results published | March 2011 |
| Posting of annual report | March 2011 |

