

THE HIDDEN CONSTITUENTS OF COST OF CAPITAL

by

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**submitted in fulfilment of the requirements
for the degree**

**MAGISTER COMMERCII (FINANCIAL
MANAGEMENT SCIENCES)**

in the

**FACULTY OF ECONOMIC AND MANAGEMENT
SCIENCES**

at the

UNIVERSITY OF PRETORIA

PRETORIA

DECEMBER 2011

ACKNOWLEDGEMENTS

I would like to give a special thank you to the following people for all their support and love in the completion of this dissertation:

Prof Daan Gouws who acted as my promoter – thank you for teaching me how to think in new and exciting ways and for opening my eyes to the small wonders that make life beautiful. Your guidance, enthusiasm and positive attitude have given me the inspiration to rise above all the challenges that life has to offer.

My mom, dad, brother and sister – thank you for all the support and motivation and understanding throughout my life. Your influence and guidance have made me the person I am today and I thank you all for this.

A special thank you to my mother for all the hours spent proof reading my dissertation.

I would like to end off by leaving the reader with a quote that I have held dear throughout my studies...

*“You cannot solve a problem from the same consciousness that created it.
You must learn to think anew.” – Albert Einstein*

Anina van Aswegen
December 2011

ABSTRACT

The concept of capital has been a much debated issue throughout economic, accounting and finance history. In economics it was defined as the financial resources utilised by companies while other definitions indicated it represented the actual capital goods themselves. This dualistic meaning of capital has led to various interpretations of the concept of capital and these different interpretations can also be found in the cost of capital model. The cost of capital model is a decision-useful financial tool employed by management to make decisions regarding the financing of projects, performance measurement and risk and return management. The two main forms of funding are debt and equity resources.

The cost of capital model was built on the accounting interpretation and classification of the different debt and equity sources of funding. As time went by the financial markets became more sophisticated and new innovative instruments were introduced to help raise financing for companies. Some of these sophisticated instruments and accounting book entries are normally not included in discussion on capital structure and the cost of capital model.

The aim of this research is to unbundle and understand the different dimensions of the cost of capital with special focus on the impact of accounting classification on hybrid financial instruments and certain accounting book entries. The balance sheet items that have revealed themselves as grey areas of the accounting classification and the hidden constituents of the cost of capital include accounting book entries such as deferred tax and accumulated depreciation, hybrid financial instruments and the effect of cash. Currently these instruments pose questions as to their proper debt-equity classification or can have an impact on the capital structure of an organisation. An adjusted model will be presented that will incorporate any hidden areas related to the debt-equity accounting classification schema. The introduction of these items into the cost of capital model will make it more robust and it will become an even more decision-useful tool for management and analysts alike.

LIST OF ABBREVIATIONS

APB	Accounting principles board
APT	Arbitrage pricing theory
BFA	Bureau of Financial Analysis
CAPM	Capital asset pricing model
C-M-C	Commodity-money-commodity
DCF	Discounted cash flow
DFL	Degree of financial leverage
DOL	Degree of operating leverage
EBIT	Earnings before interest and taxes
EVA	Economic value add
FASB	Financial accounting standards board
GAAP	Generally accepted accounting practices
IAS	International accounting standards
IASB	International accounting standards board
IC	Intellectual capital
IFRS	International financial reporting standards

IRR	Internal rate of return
JSE	Johannesburg Stock Exchange
M-C-M	Money-commodity-money
MM-Model	Modigliani –Miller model on capital structure
OJ	Ohlson –Juettner model
ROE	Return on equity
SAICA	South African Institute of chartered accountants
TBL	Triple bottom line
WACC	Weighted average cost of capital

LIST OF DEFINITIONS

Accounting refers to the accounting practice, theory and discipline, the accounting profession and information system.

Book entries refer to the recording of future events for accounting purposes.

Capital refers to all resources (tangible and intangible) available to an organisation in the pursuit of its goals.

Capitalism refers to individuals that have private ownership of any means of production.

Cash refers to ready money that includes money, negotiable money orders and checks and bank account balances.

Compound instrument refers to an instrument that has two or more different types of financial instrument components. There are two broad classes of compound instruments namely convertibles (redeemable) and instruments with options attached.

Cost of capital refers to the opportunity cost of sources of funding and is calculated as the weighted average cost of debt and equity.

Deferred tax refers to the cumulative difference between actual taxes paid and taxes calculated at the statutory rate.

Derivative instrument refers to a financial instrument that derives its value from some fundamental underlying instrument.

Financial capital refers to the funds available to a business in order to acquire assets as well as fund operations and can be classified in two broad terms of borrowed money or equity

Financial statements refer to the consolidated statement of financial position (balance sheet), income statement, cash flow statement, statement of changes in shareholders equity and notes to the financial statements.

Hidden constituents refer to those accounting items that have no proper classification as debt or equity items and have not been included in the cost of capital model. There are three areas that are hidden namely hybrid instruments, book entries and cash.

Hybrid instruments refer to those instruments that have characteristics of both debt and equity. Derivative and compound instruments are seen as hybrid instruments

Intellectual capital refers to the knowledge and knowing capability of individuals, organisations or society as a whole that is applied to new ideas and concepts. It refers to the innovation in organizations.

Labour capital is defined as one of the factors of production and is the acquired and useful abilities of people. It is the productivity of the workforce.

Measurement refers to the allocation of amounts or quantities to accounting information.

Measures include ratios, indicators, targets, etc

Natural capital refers to all the resources of the earth and can be categorised as renewable and non renewable natural resources. It also includes environmental services.

Opportunity cost refers to the benefits forgone by the particular use of resources.

Physical capital refers to the assets that are designed and made by humans and are not readily found in nature.

Regulatory capital refers to all corporate governance, rules and regulations and societies and regulatory bodies that impact the operations of a business organisation.

Social capital refers to the relational networks in which systems like businesses, people and nature operate.

Stakeholders refer to all parties that have direct or indirect influence on or can be impacted by business organizations. These shareholders include but are not limited to creditors, government, management, employees, suppliers, shareholders, customers, the community and future generations.

Systems theory refers to the relationship between the different elements in a system and how these relationships change over time.

The cost of common stock refers to the rate of equity at which investors discount the expected dividends of the firm to determine share value. It can be determined by using one of four methods, namely capital asset pricing model (CAPM), arbitrage pricing theory (APT), the discounted cash flow (DCF) method and the bond yield plus risk premium approach.

The cost of debt refers to the weighted average cost of debt used in the cost of capital model as the interest on debt less the tax savings due to the interest portion being tax deductible.

The cost of preferred stock refers to the cost of preference shares that can be shown as a perpetuity due to preference shares not having a maturity date. This implies that in the calculation of its cost the preference share is valued using a formula that assumes that the preference shares grow at some constant rate forever.

The debt-equity debate refers to a discussion on the relevance of the distinction between debt and equity instruments for accounting classification purposes.

Value refers to something that is held to deserve; importance or worth; material or monetary worth; the worth of something compared to its price.

Values refer to important and enduring beliefs or ideals shared by the members of a culture.

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CHAPTER 1: INTRODUCTION AND BACKGROUND

*“We have what we seek. It is there all the time and if we
give it time it will make itself known to us” – Thomas
Merton*

CHAPTER 1

INTRODUCTION AND BACKGROUND

1.1 INTRODUCTION

“A man may have a houseful of money, but it is not capital till it is converted into tools or raw materials, and even then it will not be productive capital unless it can command both labour and intelligence to utilise it.” -Alfred Russel Wallace

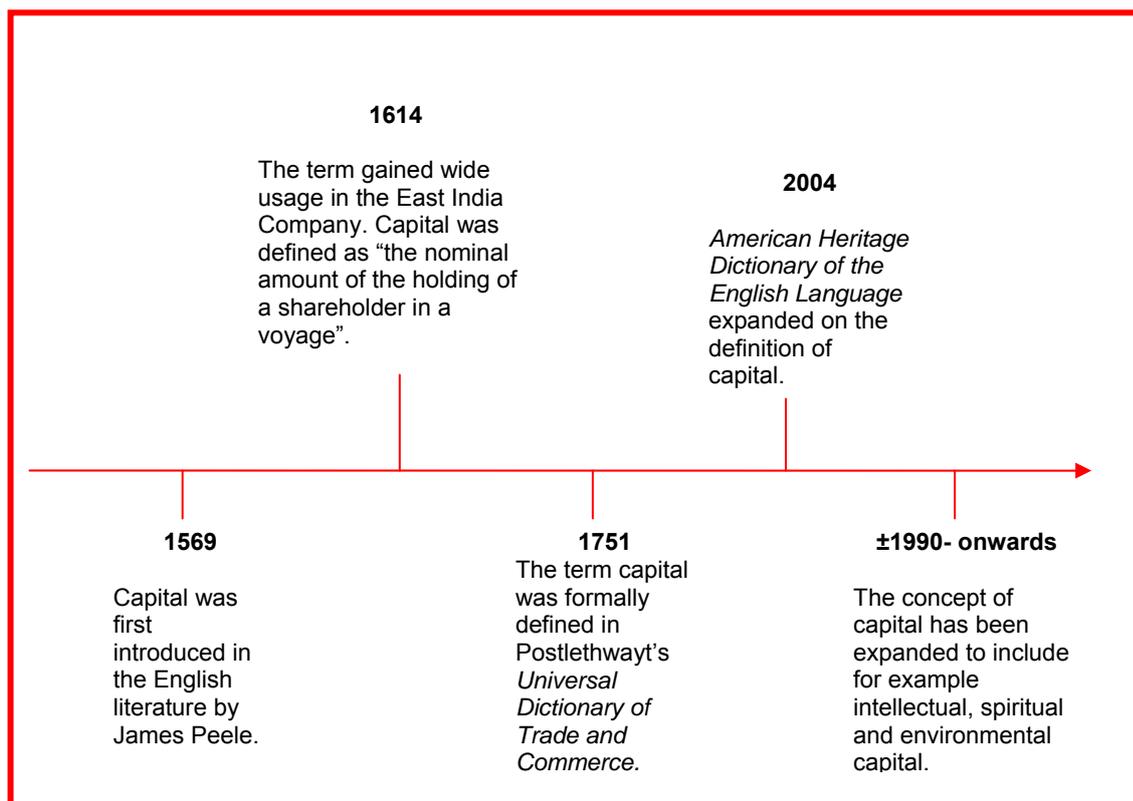
Capital represents the resources of a company that are put through a process of transformation in order to create wealth. The predominant form of capital that contributed to the creation of wealth was always financial capital and this was the driving force behind the success of major companies in decades past. The 21st century saw a change in the concept of wealth and its drivers and companies became aware of other issues such as the environment and society. Financial capital lost its place as the dominant form of capital and concepts that incorporated other forms of capital received attention. The triple bottom line was one of these concepts that showed that the creation of wealth depended not only on financial capital but also on social and environmental capital. The triple bottom line reporting framework requires companies to split their results into three broad forms of capital namely financial, social and environmental.

In the time of the industrial revolution money was a rare commodity and people that had money could influence all areas of life. Financial capital was the focal point and seen as the key ingredient to success and wealth. This focus on financial capital led to the dominance of the capitalistic economic framework wherein owners of financial capital are richly rewarded for the use of their funds. This economic framework has been adopted by many nations around the world and is still in use in the 21st century. Under this framework financial capital is seen as the main form of capital and a lot of emphasis has been placed on managing financial resources. The concept of the cost of capital was introduced in the field of finance in order to better measure and manage the cost of financial capital of firms. The cost of capital of a firm is defined as a

weighted sum of the cost of equity and the cost of debt (Gitman and Madura, 2001:361). It assumes that there are only two sources of finance available to a firm namely debt and equity.

The term capital or 'capital' (from the Latin *caput* - meaning head) was first popularised by the merchants of the 15th and 16th century. Adopting the Latin word for head can indicate that capital is at the 'head' of any business organisation, meaning capital is necessary for the running of business. It can also be interpreted to mean that a person's head (mind) is the most important form of capital available to an organisation (this will be discussed in chapter five). The term capital has evolved throughout the different eras and has been interpreted and defined in various ways. Figure 1.1 shows how the definition of capital has changed throughout history.

Figure 1.1: The definition of capital through history



(Source: The definitions of capital were adapted from Cannan, E, 1921, 'Early history of the term capital', *The Quarterly Journal of Economics*, vol. 35, iss. 1, p469-481)

The definitions in the figure above indicate that throughout history the term capital has changed. As will be shown in chapter two, capital was initially defined as the amount of money invested in a business. This definition changed to incorporate goods into the meaning of capital and capital represented not only money but also capital goods that were required for running a business. In the twentieth century focus shifted away from capital representing money but rather capital was seen as the pool of resources available to a company. This pool of resources included labour, financial, intellectual, natural resource, social and physical capital. These capital resources are key to the wealth creation process of any organisation As Zohar and Marshall (2004:2-4) put it business enterprises are “a monster consuming itself”. They state that current business practices don’t have a long-term future and are unsustainable. The authors further argue that business enterprises must work towards capital that “is itself sustainable and a world in which sustainable capitalism can generate wealth that nourishes all our human needs”. They divide capital into three categories namely material, social and spiritual capital. Material capital has to do with money, money to spend, invest and money with which to buy power and influence. Social capital deals with relationships and how people work together to achieve company goals. Spiritual capital brings in a dimension never before associated with capital. It focuses on shared meanings and values of people and questions our ultimate purposes.

The problem is that the concept of capital has changed but the cost of capital model still remains the same. The purpose of this research dissertation is to investigate the changes to the concept of capital and to reform the current cost of capital model to incorporate additional information on sources of capital. This will lead to a reformed model that supplies more decision-useful information to management and shareholders alike. The purpose is not to discount the current cost of capital model but to enhance it by adding to the already existing framework.

1.2 LITERATURE REVIEW

The cost of capital is used for capital budgeting; EVA analysis; residual income analysis (in order to evaluate financial performance); mergers and acquisitions; equity valuations and accounting for purchased goodwill (Pagano and Stout, 2004:13). These applications indicate the importance of cost of capital as a business tool and the different areas in which it can be applied. In order to better understand the cost of capital of a firm it is important to see what current literature states about the nature of the model. The following section briefly examines certain aspects and concepts related to the cost of capital model:

1.2.1 THE COST OF CAPITAL AS AN OPPORTUNITY COST

The cost of capital is an investor's opportunity cost in respect of the capital that he/she places in a business. Drury (2004:496) describes the cost of capital as "the opportunity cost of an investment". This statement implies that it is the foregone capital returns that would have been created by other investments. The return it could have earned if used for another purpose represents its opportunity cost. This notion of opportunity cost is also supported by Palmer and Raftery (1999:1552) where they define opportunity cost as "benefits forgone by particular use of resources". The cost of capital model is based on the principle of opportunity cost. The different elements in the model are measured at their opportunity cost. For example, the cost of debt is measured at current market debt rates. The argument for using current market rates instead of actual debt rates is that the replacement of current debt with new debt will be done at current market rates which represent the replacement cost or opportunity cost of debt. The concept of opportunity cost is not a new idea. Dr M Thornton (2007:97-119) wrote an article on the book '*Essai sur la Nature du Commerce en Général*' written by Richard Cantillon (1755). He explains how Cantillon described the concept of opportunity cost as resources forgone and he showed that interest was a payment based on the opportunity cost of capital. The opportunity cost principle implies that there is an inherent business cost attributable to the use of different sources of funding. This inherent cost is not an outright

expense and is currently not included on the income statement for accounting purposes. The cost of capital model measures this inherent funding cost. This opportunity cost is relevant and must be monitored and managed in an appropriate manner. This resulted in other reporting measures such as Economic Value Added (EVA) to be developed. EVA incorporates this inherent funding cost (cost of capital) with the income statement and results in the reporting of a company's profits after the cost of capital. Stern, Shiely and Ross (2001:3-14) discuss the problem of accounting information and indicate that it distorts economic reality. Accounting's focus is on conservatively valuing assets and the operating condition of a company. EVA is the attempt to bring accounting information closer to economic reality by deducting the cost of capital from profits. The result is the economic profits of a company. EVA aligns the interests of managers with those of shareholders (Stern *et al*, 2001:16). EVA developed out of a need to align shareholders' interests and to bring accounting information closer to business reality by incorporating the cost of capital into company results.

1.2.2 MEASURING THE COST OF CAPITAL

The cost of capital can be defined as a 'rate of return which must be earned on investment projects in order to maintain the market value of a company's stock' (Gitman and Madura, 2001:371-373). This indicates that the cost of capital is an internal rate of return (IRR) that a company must earn to be profitable - the rate at which benefits outweigh costs. The cost of capital is a forward-looking tool to assist managers and analyst to predict the future well-being of companies. The cost of capital is a weighted combination of the long term sources of funds (long term debt; preferred stock; common ordinary shares, retained earnings and provisions) available to a company.

The definition can be further refined as the 'weighted averages of the various types of funds employed regardless of the specific source of finance used in a year' (Brigham and Daves, 2004:297). This indicates that there is a financial focus to the cost of capital and that correctly identifying debt and equity instruments is instrumental in calculating the weighted average cost of capital (WACC).

The cost of capital is given by the formula below for weighted average cost of capital (WACC)¹:

$$\text{WACC} = \omega_d R_d (1-t) + \omega_{ps} R_{ps} + \omega_e R_e$$

With:

ω_d =weight of debt; ω_{ps} =weight of preferred stock; ω_e =weight of common stock

R_d =return on debt; R_{ps} =return on preferred stock; R_e =return on common stock and

t =corporate tax rate

This represents the theoretical framework for calculating the cost of capital as stated by Brigham and Daves (2004:310); Gitman and Madura (2001:372) and Correia, Flynn, Uliana and Wormwald (2003:7-11)

1.2.3 CAPITAL STRUCTURE AND THE COST OF CAPITAL

The cost of capital cannot be mentioned without looking at the Miller and Modigliani model of capital structure and theory. They showed that the capital structure is irrelevant and does not affect the value of a firm (Modigliani and Miller, 1958:261-296). The cost of capital consists of the cost of debt and equity of a firm. The cost of debt has a favourable tax implication due to interest payments being tax deductible. If a firm utilises more debt financing the favourable decrease, due to tax deductions, in the cost of capital model is brought back into line due to equity investors requiring a higher return to compensate them for taking on higher risk. This implies that the cost of capital of a firm remains constant. Although it had a very influential impact on financial management this theory (also known as the MM-model) has been challenged as being too unrealistic and based on too many assumptions (Brigham and Daves, 2004:497). In chapter six the M-M model, challenges to the assumptions and research supporting and not supporting the M-M model will be discussed.

¹ See Brigham, EF & Daves, PR, 2004, *Intermediate financial management*, 8th edition, New York: South Western, p363-373 and Correia, C, Flynn, D, Uliana, E & Wormwald, M, 2003, *Financial Management*, 5th edition, Cape Town: Juta and co, p7-4 to 7-10 for a detailed explanation on the calculation of each component of WACC.

1.2.4 THE CONCEPT OF CAPITAL MAINTENANCE

Central to the concept of capital is the suggestion that capital is an ongoing process instead of a static item. Capital maintenance reinforces the notion of capital as a dynamic process in the creation of wealth.

Income can only be measured after capital has been maintained or costs recovered (Riahi-Beljaoui, 2004:483-484). This statement talks to the measures such as economic value added (EVA). As mentioned previously EVA measures net income after capital costs are deducted. EVA is regularly used as a performance measure. There is a clear distinction between the return on capital, which measures income and the return of capital, which gauges cost recovery (Riahi-Beljaoui, 2004:483-484). Return on capital measures your performance (profit as a percentage of your capital base) while the return of capital measures how much income is needed to cover your cost of capital. The cost of capital model is a measure of return of capital. The cost of capital indicates how much net income is needed to cover capital costs. For example if a company's EVA number is negative it implies that the company did not make enough money to cover its capital costs and is making a loss, while a positive EVA number indicates that the company is making profits after taking into account its capital costs.

Applying the concept of capital maintenance to income determination will result in different ways of measuring and calculating the elements of the financial statements. Riahi-Belkaoui (2004:483-484) shows that capital is a process of maintenance and cost recovery and is central to the measurement of income. The result should be that income be measured in terms of the concept of capital maintenance.

1.3 RESEARCH DESIGN AND METHODOLOGY

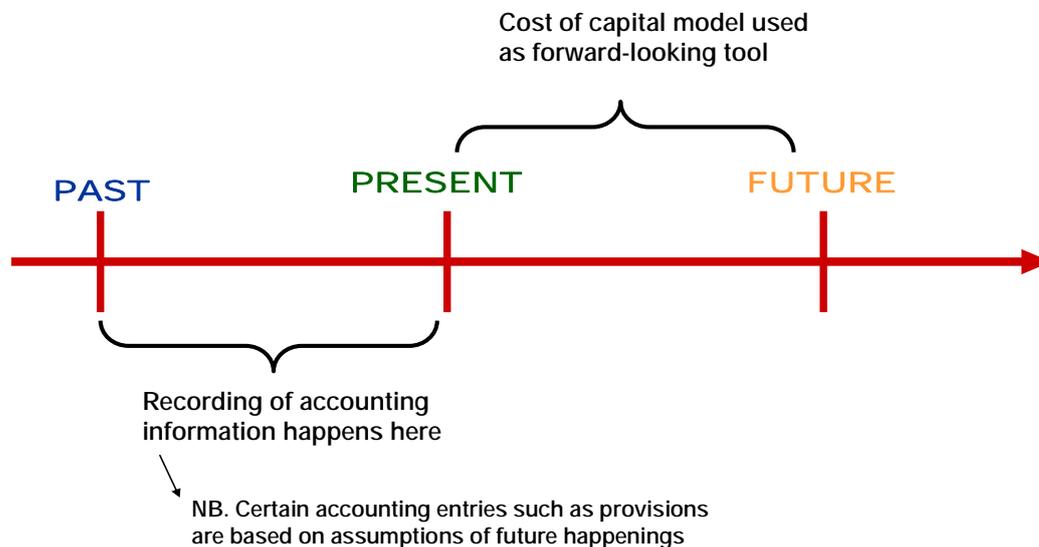
1.3.1 RESEARCH DESIGN

1.3.1.1 Problem statement

During the Industrial Revolution in the seventeenth century a need arose for additional accounting and accountability as factors such as capital, equipment, land, labour, etc were combined to bring about changes in daily life of that era. Yamey (1949:106) showed that the double-entry bookkeeping system provided much more than simple information of receipts and payments but could be used to calculate profit and losses, capital employed and used as an indication of the financial condition of a business. The double–entry bookkeeping system is described as “*the initiator, energizer, or stimulant in the development of capitalism*”. (Yamey, 1949:106) The information provided by the double-entry system - the profit and loss accounts, the capital account and the balance account - are the forerunners of today’s statement of financial position (please note that it is common practice to still refer to the statement of financial position as ‘the balance sheet’ and this dissertation will follow common business language from this point forward) .

Accounting developed many centuries ago to address the need of merchants to keep record of financial transactions. Accounting was designed to record events as they happen. These events are normally recorded on the basis that they have occurred and can be measured with certainty. If events are not certain or haven’t occurred they are normally not recorded until such time as and when the event occurs. The figure on the next page represents the flow of recording financial information and the role of accounting and the cost of capital model in this recording process:

Figure 1.2: The process flow of recording financial information



(Source: Own observation)

The accounting system focuses on presenting past information to current users so that they can use that information to make decisions about the future. As indicated in the figure above accounting is mainly focused with recording past events but it must be noted that there are certain book entries, such as provisions, which focus on anticipating future events and recording these future events before they occur. The cost of capital model is based on accounting information. Accounting information on debt and equity components of the balance sheet is used as inputs into the model. As will be discussed in later chapters and shown in the figure above the cost of capital model on the other hand is a forward-looking tool used by management in capital budgeting, etc. The model is seen as representative of the risk rate of a firm. It clearly indicates that the cost of capital model is concerned with the future and is used to help managers make decisions that will aid in the reduction of uncertainty in the future.

As can be seen accounting information is based on past events and is not really designed to make any attempts to predict future transactions barring certain book entries. *“The greatest danger in times of turbulence is not the turbulence. It is to act*

with yesterday's logic.” –P Drucker. The problem lies in the fact that the cost of capital model relies on accounting information as inputs into the model but accounting was not specifically designed to fit the cost of capital model. The closest to the future is the present thus accounting information should be more focused on the present and analyst should focus more on ratios that reflect financial flow and positions such as profitability ratios, solvency and liquidity ratios, etc. (Gouws and Lucouw, 2000:34-35). Researchers and academics are looking into various ways in which accounting information can be improved to make it more decision-useful so that measures such as the cost of capital model that is based on this information is more reliable and gives decision-makers better insight into the future.

1.3.1.2 Past research on the cost of capital and accounting information

This section will present some research done on the decision usefulness of accounting information and the cost of capital.

Clark (1993) investigates the impact that the distinction between different debt and equity instruments has on the capital structure of firms. He presents arguments for the separate classification of component parts of hybrid instruments, such as callable bonds, as well as stating that proper consideration should be given to the classification of option contracts (Clark, 1993:14-31). From Clark's research it can be concluded that more research is necessary into the proper classification of especially hybrid and option instruments. The classification of these instruments will lead to better information being available on debt and equity sources of funding so that this information can be included in the cost of capital model.

Lambert, Luez and Verrecchia (2005) examines the impact of the quality of accounting information on the cost of capital. They find that as the quality of the information increases the cost of capital will decrease. The result is due to findings that indicate that the higher the quality of accounting disclosure the lower the company's covariance of its cash flows to other firms in the market (Lambert *et al*, 2005:1-47). This also indicates there is a relationship between a company's cash flows and its cost of capital. This relationship is explored in chapter five. Luez and

Wysocki (2008:68) also researched the economic consequences of proper accounting disclosure and indicate that one of the advantages of proper disclosure is that it can limit asset bubbles which cause capital misallocations. This will impact a company's cash flow profile which, as mentioned, affects the cost of capital of a firm. Their results indicate that proper accounting disclosure is important as it will lead to more decision useful information. This effect is tested later on in this dissertation when certain items will be incorporated into the cost of capital model in chapter seven.

Gouws and Van der Poll (2004) investigate the impact book entries have on accounting information. They argue that accounting is based on two sources of information namely actual happenings and future events. The impact of future events is simulated through the creation of book entries. They find that book entries affects the integrity of accounting information and raises issues with regards to the impact these entries can have on the capital of a company (Gouws and Van der Poll, 2004:109-115). In chapter six certain book entries will be discussed with regards to their impact on the cost of capital model.

Lasman and Weil (1978) argue that traditional accounting information need to be adjusted in order to prepare financial ratios. They focus on the debt-equity ratio and investigate the impact of changes to accounting information. One of the items they incorporate into the debt-equity ratio is non-reversing deferred taxes and they argue that this amount should be included in equity. Their research indicates that there is clearly a need to adjust accounting information to make it more decision-useful. The impact of adjustments on debt and equity is important as this affects the capital structure of an organisation and its cost of capital ratio.

The research mentioned above, clearly indicate that there are areas in the classification and disclosure of accounting information that can impact the capital make-up of an organisation. There is a gap in the research in terms of the accounting classification of certain items and the impact they have on the cost of capital. As can be ascertained from previous research more accurate accounting classification and disclosure will also lead to a lower cost of capital model.

1.3.1.3 Proposed research topic

A fresh look must be taken at the impact of accounting book entries on the sources of capital (such as deferred tax and accumulated depreciation as sources of equity).as well as hybrid sources of funding (such as convertible bonds or credit linked notes) This can lead to further research into the current composition and feel (accounting classification framework) of the balance sheet. Capital is no longer only money but a process of creating wealth and the correlation between capital and profit has become an issue of great importance.

The focus area of this dissertation is the accounting classification of debt and equity instruments, which have undergone some changes over time, as well the effect of accounting book entries on the sources of funding. The concepts of capital and the cost of capital have always been based on accounting data. There has been a shift in the accounting system regarding the distinction of certain items as well as the classification of debt and equity. Clark highlights the debate on the classification of items as debt or equity and he stresses the importance of providing users of financial statements with information regarding the nature of each fundamental element of a firm's capital structure (Clark, 1993:29). The different types of debt and equity instruments have their own characteristics and information content and it is important to treat these instruments separately so that the information is not lost. The cost of capital is a model that supplies managers with information on the different sources of funding. Each of the different debt and equity sources has unique characteristic and properties that need to be incorporated into the model to ensure that all relevant information is considered so that managers can make informed decisions.

There is a need to recognize the different sources of capital, within the new accounting and risk framework, as the main drivers behind value (profit). The notion of capital as a system of self-renewal or maintenance and self-generation will also be explored. Within this new capital framework it will be shown that certain areas of funding have not been properly addressed in the accounting classification of debt and equity. This is the area of interest that will be addressed by this dissertation.

1.3.1.4 Research objectives

The purpose of this study is to expand the parameters for defining, classifying and measuring capital. The parameters of the current cost of capital model will be broadened to include sources of funding that have accounting classification components of both debt and equity or accounting book entries that can potentially influence the capital structure. The research will leverage off the current cost of capital model and reason for the inclusion of additional items into this model. It does not invalidate the model, assumptions or methodologies used for calculating the return on debt and equity. As good research it critically looks at the current model assumptions and limitations and highlights this to the reader so that they are cognisant of the assumptions and limitations on which the expanded model is based. It is not the purpose of this research topic to invalidate the entire cost of capital model but to leverage off the current model by including some additional balance sheet items into the current calculation. The objectives can be divided into two broad categories each with their own secondary objectives. The following points provide a breakdown of the purpose of this dissertation:

Objective one: Define the concept of capital and cost of capital

- ❖ Trace the concept of capital through history in order to understand the very nature thereof.
- ❖ Refine our current understanding of capital by exploring the financial, accounting and economic definitions of capital.
- ❖ Provide a renewed interpretation of capital in order to prove that it is not a static balance sheet item but a dynamic process of self-renewal and transcendence.

Objective two: Propose a reformed model for capital and cost of capital

- ❖ Critically analyse and highlight the limitations of the current cost of capital model which will be the base of the expanded model.
- ❖ Explore the hidden variables that drive capital and their impact on the cost of capital.

- ❖ Investigate the so-called *no man's land* items (hybrids) in order to classify these items as either debt or equity.
- ❖ Show the impact of hybrid items on cost of capital.
- ❖ Show the impact of accounting book entries on the cost of capital.

1.3.1.5 Research questions

The following research questions were established as the focus area of this dissertation:

1. What is capital and how is it measured?
2. What are the different sources of capital? Is there a major driver behind capital?
3. How has the definition of capital changed over time?
4. Why has the focus of firms shifted away from monetary profits to creating value for stakeholders?
5. What are the limitations of the current cost of capital model and does it really measure total capital?
6. Are there any hidden variables that impact on the cost of capital?
7. What is the nature of these hidden variables?
8. What is the impact of these hidden variables on the cost of capital?
9. Is capital a static resource or a dynamic process of creating wealth?

1.3.1.6 Significance of the study

The study concerns itself with capital and the cost of capital. The major objective is to expand on the cost of capital model to include certain areas that have characteristics of both debt and equity financing and the impact accounting book entries can have on capital structure. This study can be of great significance for the way companies view and measure capital. This will have repercussions on capital budgeting analysis, EVA analysis and equity valuations, to name but a few.

The study may be beneficial to the following groups:

- **Accountants** – the cost of capital model is based on the accounting classification framework. The current markets have shown what an important part accountants play in the transmission of accurate and useful information.
- **Investors and analysts** – the so-called end users of financial statements, they use accounting information in order to evaluate company performance to make investment decisions. They use the cost of capital model in their valuations. They adjust accounting information to ensure it gives a more accurate reflection of economic activity before applying it to ratios and models.
- **Management** – in order to achieve competitive advantage management must look at all the resources available to the company and utilise them in a manner that is efficient and cost effective. The cost of capital is one of the measures management turns to assess the financial wellbeing of the organisation. They use the cost of capital to make strategic decisions as to projects to take on, they use it as a risk measure and they use it for budgeting purposes. It is in the best interest of management to get an accurate reflection of the sources of funds available to them in order to make optimal business decisions.
- **Employees** – creating awareness amongst employees as to the benefits of managing funds properly can lower the cost of doing business. They must be aware of all sources of funds and the impact of using these funds. If they are aware they and management can work together in order to achieve lower cost of capital.
- **Researchers in accounting and finance** – the impact of accounting classification on the cost of capital can be taken further and more relevant issues can be identified and addressed.

- **Researchers in other disciplines** – the cost of capital is used in multiple disciplines and the impact of using the transformed cost of capital model must be tested in all of these.
- **Educators** – the cost of capital model is presented in most financial courses as it is used in company valuations and budgeting. The transformed model can be discussed and awareness can be created as to the shortcomings of the current model.
- **Standard setters** – financial reporting needs to expand as new concepts are introduced into business. The transformed cost of capital model is based on decision useful information. This is up to standard setters to align interests between accounting and decision making.

It is hoped that this study will help interested parties determine the impact of capital as a process of wealth creation.

1.3.1.7 Limitations of the study

Any research that is conducted is subject to certain limitations. In this case the research is limited to the resources and data used. The research is based on certain assumptions that may be challenged. The study could also be viewed as the subjective opinion of the author. However, at the very least, it is hoped that the findings contained herein should contribute to further debate and fresh outlooks on, and therefore renewal of, the subject-matter of the study.

1.3.2 RESEARCH METHODOLOGY

The research methodology follows that of empirical studies. The research is conducted by using primary data and analysing existing data. The primary data can be obtained from literature reviews, while existing data can be either text or numeric data. The methods of collecting data for this particular study can be divided into:

1.3.2.1 Literature review

Reviewing literature starts with an attempt to identify all relevant articles that might fall into the area being researched. In '*Research Method and Methodology in Finance and Accounting*', Ryan, Scapens and Theobald (2002:186-188) describe two approaches to an effective literature review. The first approach is Papineau's tree whereby a set of core terms are developed for the research topic in question. This research will identify key terms related to capital and the cost of capital. Once all the terms relevant to the study have been identified, research on these terms will be collected. Examples of key terms include capital, labour capital, intellectual capital, opportunity cost, etc. The second approach suggested by Ryan *et al* (2002:186-188) develops a literature network. This approach suggests that the so-called 'grand mothers' of the research area, in this case capital and the cost of capital, are identified. After identifying the key researchers in the field the search is expanded to include secondary researchers and authors, the so-called 'mothers' and 'daughters' of research. In this dissertation the key authors (grand mothers) and secondary authors (mothers and daughters) have been identified. In the search for grand mothers, mothers and daughters of the topic, a scholarly database that contains articles from relevant journals were used. These databases are available on the University of Pretoria's library website. Also textbooks on the subject matter were obtained from the university library as well as from lecturers. The internet was also used to find international scholarly sites and articles related to the topic.

1.3.2.2 Financial and statistical data analysis

This method requires that numerical data be analyzed. For this research topic financial statement data can be useful and must be analyzed to discover what items are classified as capital. The financial statements are also used to estimate the inputs used in the calculation of WACC. The data contained in financial statements can also be used for comparison purposes in order to show the different methods used in calculating WACC by companies. The financial data of publicly traded companies on the Johannesburg Securities Exchange can be obtained from the Bureau of Financial Analysis (BFA) database at the University of Pretoria.

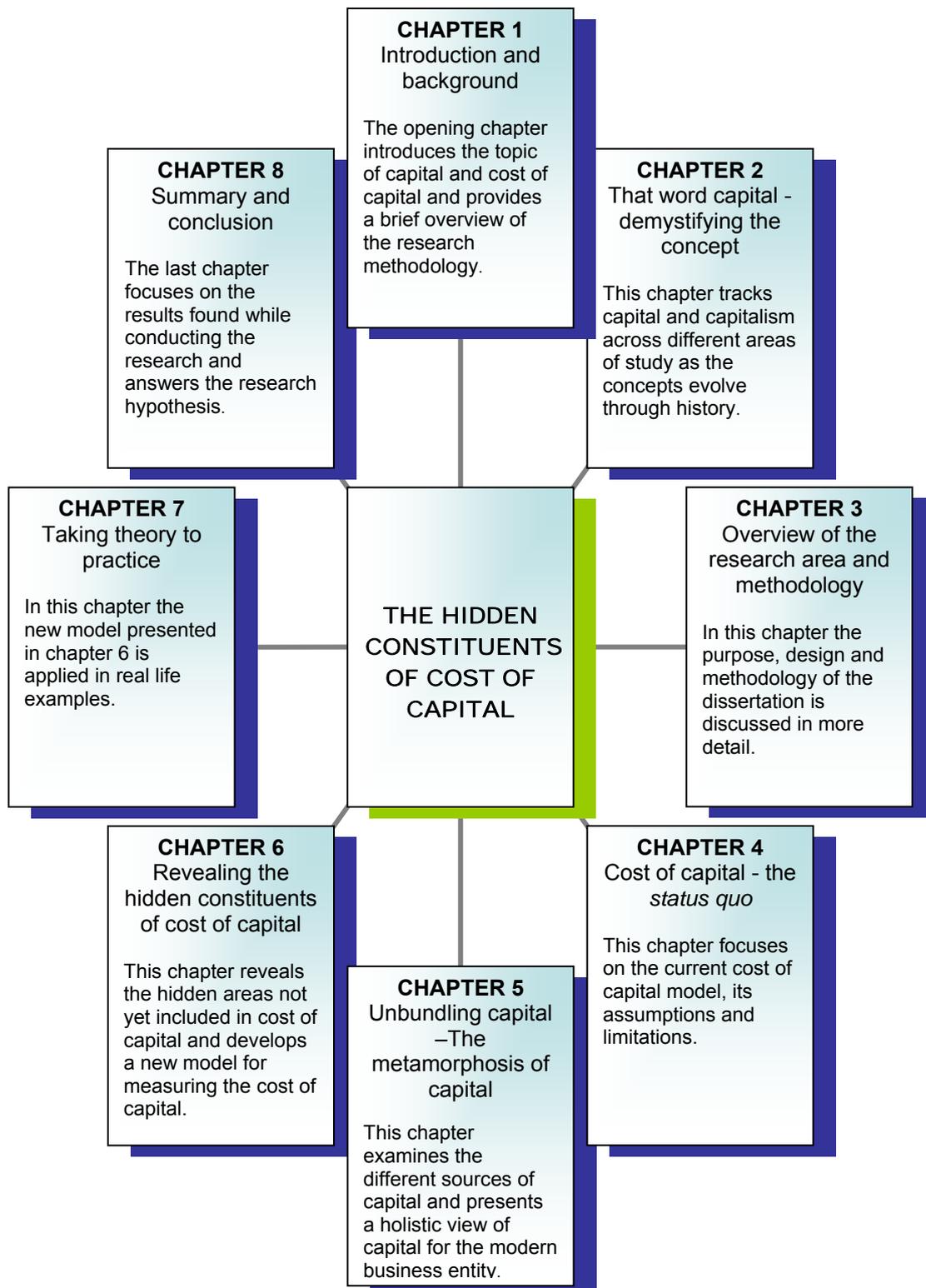
1.3.2.3 Empirical field knowledge (Practical experience and observations)

The author has gained theoretical knowledge throughout the four years of studies at the University of Pretoria as well as three years of study in successfully completing the chartered financial analyst (CFA) designation. Also the author has four years working experience at one of the leading investment banks in South Africa in the finance and risk areas and has been exposed to the application of the Basel regulations on the capital requirements of banks and has had exposure to other international banking bodies and their reporting requirements. It is also the opinion of the author that accounting standards will be aligned with the requirements of Basel for capital and liquidity in the near future. This will show alignment in the interests of the different information requirements of stakeholders. The Basel II regulations prescribes the items on which capital costs need to be borne by banking institutions and the minimum levels of capital required by banks. The regulations already cater for the inclusion and specific capital treatment of items such as hybrid instruments, derivatives and equity instruments to name but a few. Although the Basel II accord is designed specifically for banking institutions it does highlight the importance of other balance sheet items that is not included in the current cost of capital model illustrated in financial textbooks.

1.4 CHAPTER OUTLINE

The figure on the next page indicates the outline of the dissertation. It also summarises the topic area of each chapter.

Figure 1.3: Chapter outline of dissertation



(Source: Own observation)

CHAPTER 2: THAT WORD CAPITAL – DEMYSTIFYING THE CONCEPT

“Never has there been a word as much debated as capital” –Anon

CHAPTER 2

THAT WORD CAPITAL – DEMYSTIFYING THE CONCEPT

2.1 INTRODUCTION

2.1.1 THAT WORD *CAPITAL*

The history of trade goes hand in hand with the development of the concept of capital. It was early merchants that started using the phrase capital to describe their money or goods. The Romans were a great nation of commerce and trade and were responsible for numerous trade routes between Europe, India and China. It is therefore no surprise that the word capital finds its root in the Latin word *caput*, meaning head. The origin of many English words can be traced back to the word *caput* (Gosling: 1939:26-27) such as chief, cabbage, chapter and even the golfing term caddie.

The adjective *capitalis* was formed from the noun *caput*. The neuter of the adjective *capitale* was used to denote property in Roman times. The Latin word *capitale* was then adopted into the French language as *chatel* and *catel*. In early times property consisted mainly of livestock and from the French forms of *capitale* the English word cattle evolved (Gosling: 1939:27-28). The Latin origin of the word already associates the concept of capital with goods owned by an individual.

The English word 'capital' was derived from *capitalis* meaning principal or chief (Cannan, 1921:469). Under this meaning capital was mainly used to refer to the principal sum of a money loan. The term '*capitalis pars debiti*' as quoted by professor E von Böhm-Bawerk in Cannan (1921:469) was used to describe the chief part of

debt. This definition of capital rooted itself firmly in medieval Latin and capital represented an interest bearing sum of money.

2.1.2 RESEARCH METHODOLOGY

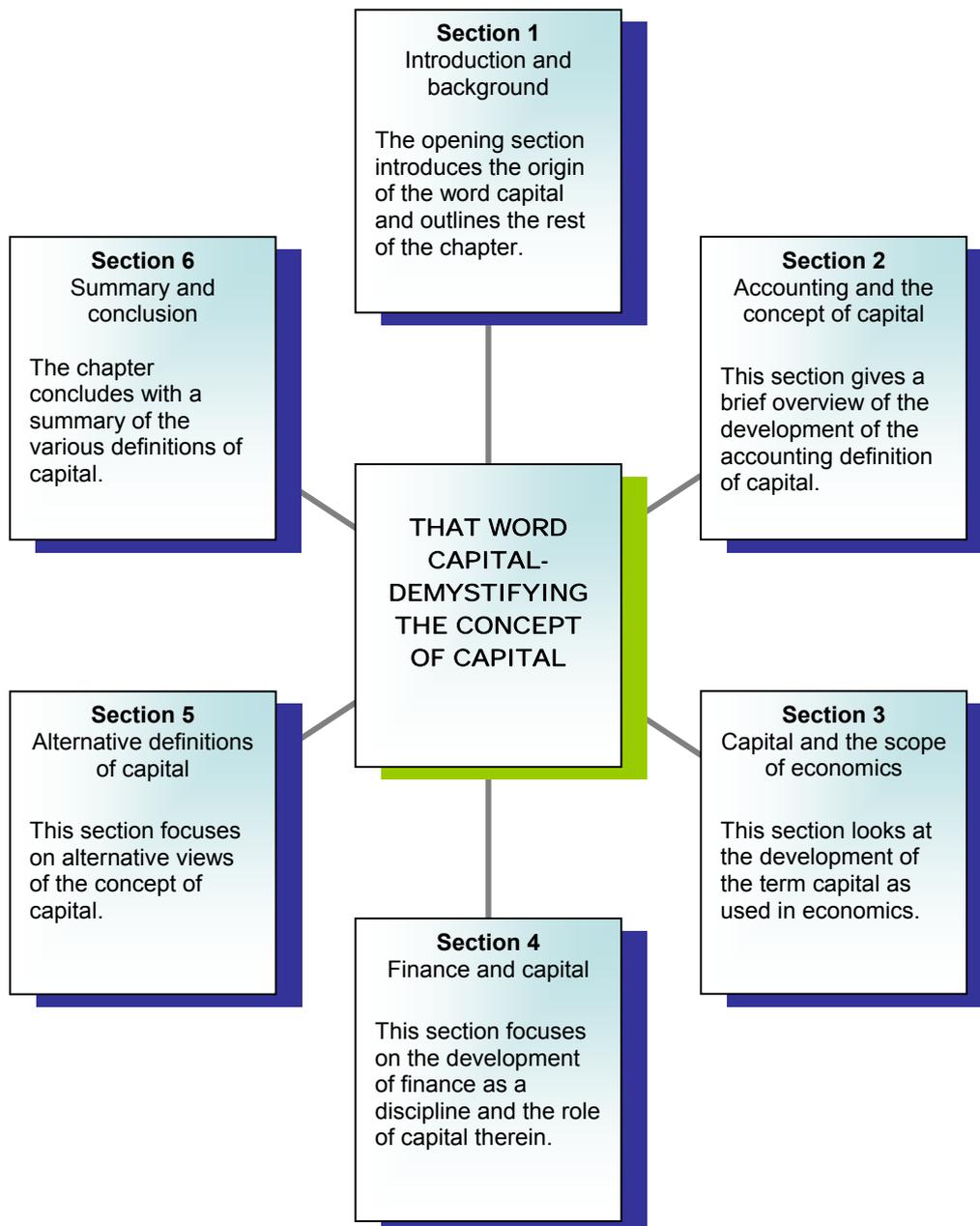
The research methodology adopted in this chapter deviates from the other chapters. This chapter is based on a review of literature surrounding the history of the term capital. Various literary sources were used to gather information on the development of the term capital and are presented and explored in different time periods and fields of study in this chapter. In order to put a review together on the topic, the following approach was used. Firstly key phrases associated with the concept of capital such as capital, capitalism, accounting and capital, theory of capital and cost of capital were researched on the university library's website. From there the search was further expanded to academic sites and databases.

From the results academic articles were selected and as the author became more familiar with the articles the second phase of the literature review focused on key articles and authors which had done work on capital and its origin. In each field of study i.e. accounting, economics and finance the key authors were identified and further researched and any related articles or authors that were referenced by the main authors (grand mothers of the research) were also researched. These literature review methodologies are known as Papineau's tree and literature networks respectively, as described in chapter one (Ryan *et al*, 2002:186-188). Papineau's tree aims to identify core terms that relate to the topic and these are then researched, while a literature network identifies key authors, known as grand mothers, on the subject. From there further authors are identified which are known as mothers and daughters as their research is closely related to that of the key authors. The literature review also included the usage of textbooks and books on the relevant topic as well as dictionary definitions of capital. This chapter relies on the works of others which are re-worked and interpreted in this chapter.

In order to understand the cost of capital model it is of utmost importance to understand the development of the term capital throughout accounting, economic

and finance history. It is essential to demonstrate the history of the term capital which is the basis of this research dissertation. Based on the conceptual historical development of the term capital a definition will be given on which this dissertation rests. This chapter is divided into six sections as shown in the figure:

Figure 2.1: Chapter outline



(Source: Own Observation)

2.2 ACCOUNTING AND THE CONCEPT OF CAPITAL

The concept of capital can be divided into three eras of accounting history namely the early accounting double entry treatises, secondly the era 1650 to 1800 and the lastly modern accounting practices (1800 to present). This overview is by no means a comprehensive literature review but it attempts to highlight some of the more important developments regarding the accounting definition of capital.

2.2.1 EARLY DOUBLE ENTRY TREATIES (1500 – 1650)

The Renaissance period saw the advancement of art, music, literature, architecture and science. It is not surprising that during the height of the Renaissance Luca Pacioli published '*Summa de Arithmetica, Geometrica, Proportioni et Proportionalita*' (1494). In his work there is one section that deals with accounting and the double book entry system. His work was the only known accounting text until well into the 16th century. Luca Pacioli's definition of capital can be found in the work of Richards (1926:336). He translates Pacioli's definitions of cash (*cassa*) to be understood as your "share or purse" (*borsica*) and capital (*cauedale*) as "all that you now possess". Pacioli's definition of capital indicates that it relates only to things a person possesses.

There is still much debate as to the actual origins of the double entry system. De Roover (1955:405) shows that it started much earlier than Pacioli in 1340 in Genoa, Italy. The aim here is not to delve into lengthy discussion as to the origin of the double entry system but it is accepted that Pacioli is attributed with writing the comprehensive accounting textbook of his time. Pacioli's definition of capital refers to all things a merchant possesses. His definition gives a much broader meaning to capital as possessions can take on many different forms i.e. land, tools, money, goods, etc.

The double book entry system spread throughout Europe and with it the concept of capital. According to Hatfield (1934:162-163) the use of the term capital in the

English language can first be traced back to the works of Jan Ympyn Christoffel in 1547. In the translated version of his work *'A Notable and very Excellente Woorke etc'* the following was said about the term capital:

"The other worde, the Italians call the Capitale, that is to saie, the Stocke or principall that the Merchant began withall which came ether by bequest of his frendes or parentes, or by gift, or by mariage or els by Executorship, aswell of wares as money. And it is at your pleasure whether ye will use this word Stocke in Englishe, or Capitale. Notwithstandyng we will here use the worde Stocke and not Capitale. Howbeit it is at your pleasure to use whiche you will."

Christoffel demonstrated with his definition above, that capital consist of all funds that are used in setting up a business. According to him these funds can be owner funds, funds received as gifts, funds received in marriage or actual money. His definition of capital pertains to all sources of funding in a business. He also alludes to the use of the word stock to represent these sources of funding and indicates that either the term stock or the term capital can be used to describe these funds and it is up the user to decide which word to use.

After the translated works of Christoffel the term capital or 'capital' in English literature can be unearthed in books aimed at conveying the art of bookkeeping to merchants. James Peele was such a person attempting to teach English merchants the ways of Italian accounting. Scott (1912:60) explores Peele's first published treatise on accountancy, in 1553, entitled *'The Maner and Fourme how to Keep a Perfect Reconyng after the Order of the Most Worthie and Notable Accompt of Debitour and Creditour, set foorthe in Certaine Tables'*. In Scott's chapter *'On the early Uses of Stock and Capital'* he states that the term capital was first used in the English language by Peele. He supports this by a quotation from Peele's second body of work, *'The Pathe Waye to Perfectnes'* printed in 1569. Scott (1912:60) shows us that in the dialogue between *"the scholemaster and the scholler,"* the former describes *"an inventorie for trafique"* as:

"a note to be taken in writinge of all thinges, founde and remayninge in the house apperteyninge to trade of merchandise, thereby to know a mans estate, and dot consist of ii kinds; the one whereof, is that a man hath or ought to have in possession, to saie in readye

monie debted and goodes; and another kinde, is that which he oweth to other men being his creditours, and by comparinge of the totall somme of the readye monie, debtes and goodes, with the totall somme of creditours, the estate of that accompte is presentlye perceived (that is to saye) so much as the money debtes and goodes sormounte the creditours, so muche apperteyneth to the owner of that accompte for his proper stocke or capitall, in traffique.”

In his works, Peele indicates that capital is the residual of all debits and credits. In other words his work was the forerunner for the current accounting concept of equity – the residual left over after liabilities are subtracted from assets. This implies that capital is something more than just goods or money but the additional investment made by shareholders in the business.

In 1588 ‘*A Brief Instruction, etc*’ was published by John Mellis. Winjum (1970:745) shows that this book was a copy of the work of Oldcastle and that is to a great extent a translation of Luca Pacioli’s treatise on accountancy. Richards (1926:331-332) also quotes from ‘*A Brief Instruction*’ the following pertaining to capital:

“The gather together the whole summe of your ready money, debtes and goods, And therefrom Subtract the totall summe of your Creditours, and the remaine is the net rest, substance or capitall of the owner to be put in a trafique.”

The book goes on to explain the difference between *capsa* and capital:

Capsa is defined as “*the chyst or ready money*” and capital is “*the substance of a man’s goods, or his stocke, which stocke shall always bee creditor as well in your journal, as in our leager, and the chyst or ready money debitor*’ (Richards, 1926: 332). Both Oldcastle and Mellis demonstrate with their definitions referred to above that capital relates to goods possessed by a man and according to the double entry system will be shown as a credit while actual money (cash) will be shown as a debit. The net of all debits and credits they call capital which again relates to the current accounting definition of equity. An important point to note is the clear distinction between capital and cash. It is seen as two different items. Cash is a debit while capital is a credit. Capital is actually the other side of the coin. It represents that cash and assets (goods) owned by a business.

Richards (1926:329-330) also mentions the works of Richard Dafforne. He was a teacher of accountancy in Northampton and wrote a very detailed treatise on accounting in 1635 namely the '*Merchants Mirrour*'. Dafforne posts an instruction on entry 96 to '*booke the capitall which each partner of a joint company promiseth to bring in*':

<i>"Simon Sands promiseth into the company for his stocke.....gl</i>	11400
<i>And Richard Rakes for his stovke intendeth.....gl</i>	7800
	19200"
GI	

From the above capital is linked to the amount of money owners put into their business. Capital represents each owner's stake in the company. It is much the same way capital is still viewed today.

The accounting definitions of the 16th century relate capital to the concept of goods possessed (money mostly) or obtained in order to start a business. The above definitions also lend themselves to the concept of equity which is known as the residual. The definitions of this time are concerned with capital as owner funds and capital as the residual of assets minus liabilities (debits minus credits). These definitions of capital developed with the double book entry.

The early accounting texts rarely had precise calculations in respect of profits and capital that the double entry of accounting offered. It was only in later centuries that the use of a balancing ledger and capital account were perfected.

2.2.2 THE PERIOD 1650 -1800

The next period in accounting history saw a change, in the form of clearer and more complete accounting records and more awareness of the use of the terms profit, capital and trial balance (Yamey, 1949:99). The difference between the double entry system adopted previously as described above and the double entry format developed during this era is the relative completeness of accounting records. The

capital account was used with the purpose of showing an integrated view of economic data.

Postlethwayt's '*Universal Dictionary of Trade and Commerce*' 1751 (Cannan, 1921:475-476) draws a clear distinction between capital and stock in the following definition of capital:

"CAPITAL, amongst merchants, bankers and traders, signifies the sum of money which individuals bring to make up the common stock of a partnership when it is first formed. It is also said of the stock which a merchant at first puts into trade, for his account. It signifies likewise the fund of a trading company or corporation, in which sense the word stock is generally added to it. Thus, we say the capital stock of the bank, &c. The word capital is opposed to that of profit or gain, though the profit often increases the capital, and becomes itself part of the capital, when joined with the former."

Postlethwayt's definition of capital indicates that profits are not capital but can add to capital. In today's accounting this would be known as retained earnings where profits are added to equity and can be used to fund projects or expansions. The definition above also alludes to capital as the funds placed into a business.

The advancement of trade and the establishment of the East India Trading company in the seventeenth century led to the need to clearly set out measures for calculating income and capital assets separately (Grant, 1997:143). The distinction between assets and income led to the use of a balance ledger.

The figure on the next page is a representation of a balance ledger for a trading company in 1740:

Figure 2.2: Example of 18th century balance ledger

Figure Five: HBC Balance Ledger, Anno 1740			
Credit		Debit	
to Forts and Factories	50,000/-/-	Stock	92,039/12/1
to Ship Sea Horse	2,446/9/5	Old Div. unpaid	1,499/10/-
to W. Atwill & Co.	1,279/-/-	Lane @ Russell	41/18/-
to HBC Stock, T. Knapp	781/4/-	J. Bricker	13/-/-
to E. India bonds, T. Knapp	1,763/15/-	R. Glyn	18/8/-
to E. India bonds	16,205/16/5	Dividend 1737	297/12/-
to Old South Sea stock	1,117/10/-	Apprentices	-/15/3
to Lease, Company House	731/5/-	Dividend 1738	297/12/-
to G. Spurrell	44/-/2	Dividend 1739	1447/-/-
to C. Middleton	30/13/-	Servants	2,113/3/-
to W. Coats	24/8/-	Dividend 1740	2,340/17/5
to Customs drawback	511/9/5		100,109/7/9
to Dubious Debts	1/-/-		
to B. Lake & Atwill	3,000/-/-		
to B. Lake	2,930/-/-		
to W. Elderton	800/-/-		
to T. Bird	837/16/6		
to Assignee, S. Evans	745/-/4		
to Ship Hudson Bay	2,348/16/8		
to Esquemay Trade	19/10/2		
to Brazil Tobacco	784/12/8		
to Cash, T. Burrows	2,133/7/-		
to Prince of Wales	3,609/8/9		
to York Factory	2,489/14/9		
to Albany River	2,163/8/6		
to Moose River	1,105/5/1		
to Ship Mary	2,188/14/2		
to Transfers	8/2/9		
	100,109/7/9		

Source: HBCA A14/10, folio 67.

(Source: Grant, H, 1997, 'Bookkeeping in the eighteenth century: The grand journal and grand ledger of the Hudson's Bay Company', *Archivaria*, vol. 43. iss. 3, p155)

The balanced ledger is a summary of the net worth of the company. Each entry reflects the assets and liabilities of individual ledgers with differences in credits and debits treated as increases or decreases in the value of the asset. The balance ledger is an early version of the balance sheet with total debits (assets) on the left hand side and total credits (liabilities) and the difference between debits and credits (residual) on the right hand side. As in the above definitions capital was seen as the residual after all the credits have been subtracted from all the debits. The way in which it was presented was more clear and precise than the earlier treatises.

2.2.3 MODERN ACCOUNTING PRACTICES

Towards the end of the nineteenth century accounting texts were based on instructions in the art of bookkeeping but there was no one coherent body of literature to summarise accounting. In an attempt to satisfy some of the concerns around a more rigorous treatment of accounting, Sprague published '*The Philosophy of Accounting*' in 1908 (Gaffikin, 2008:5). His book underwent several years of changes in an attempt to add theoretical consistency and rigour to it. He was also the person that introduced the algebraic notion of the accounting equation namely $\text{Assets} = \text{Liabilities and Owner's Equity}$. Sprague also reinforced the notion that capital represents the owner's interest in the company.

Another author who influenced accounting thought in the early twentieth century is William Paton. Paton in Clark (1993:15) emphasised the underlying principles of entity theory. One area of entity theory focused on the equal distribution of profit to the various suppliers of capital. He advocated that the sole purpose of profit is not dividend distribution but that there are other distributions such as interest and taxes that need to be made to parties other than common shareholders. Paton's idea of rewarding other shareholders is explored in chapter five.

The famous Wall Street crash of 1929 was the starting point of the Great Depression. After the recessionary effect of the depression subsided, the lack of uniform and consistent accounting practices was questioned (Gaffikin, 2008:7). Various regulatory bodies were established to deal with the aftermath of the great depression. The 1930's saw the inauguration of the Committee on Accounting Procedure (CAP) which later changed to the Accounting Principles Board (APB) and is currently known as the Financial Accounting Standards Board (FASB) (Vorster, Koornhof, Oberholster & Koppeschaar, 2004:1-7).

This accounting body was given the responsibility to establish uniform accounting principles. These accounting principles went through various forms and updates and became known as the Generally Accepted Accounting Principles (GAAP). Out of a need for an international set of accounting standards the International Accounting

Standards Board (IASB) was established and with it International Financial Reporting Standards (IFRS) statements (Vorster *et al*, 2004:1-7). These accounting statements still rest on the accounting equation as shown above. The term capital stems from the statement of financial position which is presented on the next page. (In business, both locally and internationally, it still referred to as a balance sheet. This dissertation will refer to the statement of financial position as the balance sheet in line with common business practice). The figure on the next page is a skeleton representation of the statement of financial position of a South African banking institution. Some items will be bank specific but it is for illustrative purposes and highlights the three main components of the accounting equation and classification system, namely assets, liabilities and equity.

The balance sheet classification of debt and equity instruments is of importance in this study. There are certain hybrid instruments that have a combination of both equity and debt components which not only make their valuations complex but also the accounting treatment thereof. These instruments are not in essence debt or equity but rather debt and equity. This complicates the accounting classification which requires the instrument to be either classified as debt or equity. Unfortunately currently there is no middle ground on the balance sheet between the liability and equity sections for these types of instruments. For example a convertible bond will be classified as debt until it is close to its conversion date then it will be classified as equity but in essence it has a component of debt and equity from the start. It is of the opinion of the author that the accounting framework needs to make a place for these instruments types so they are classified according to their nature. As can be seen on the next page the current balance sheet still is only divided into three sections but perhaps require a fourth section in future. This dissertation proposes this point as future research but will not address it in detail. It will rather focus on the inclusion and implications of including these hybrid instruments into the current cost of capital calculation.

Capital in current accounting terms is represented by the liability and equity section of the balance sheet which includes own as well as outside sources of funding. The concept of capital went from being defined as the monetary contribution made by owners of a business to the residual of all debits minus credits to the current definition of owner and borrowed sources of funds.

2.3 CAPITAL AND THE SCOPE OF ECONOMICS

The term capital is a very central concept in economics. Its development has, however, not prevented substantial disagreement concerning its meaning and significance in the field. With each generation of economists comes their own notion of capital. The classical economists thought of capital as surplus funds for sustaining labour in the production process while neoclassical economic theory thought of capital as one of the factors of production (Bliss, Cohen & Harcourt, 2005:XIVI). Different definitions of capital have in large part mirrored the different approaches to the study of economics. The following section will look at the more prominent theories concerning capital throughout the last few centuries of economic history.

2.3.1 CLASSICAL AND MARXIAN CONCEPTIONS OF CAPITAL

As shown by the accounting definitions of capital in the 16th to 17th century mentioned in the previous section, the terms capital and stock were used interchangeably. Capital became a synonym for wealth, goods and stock. The confusion came from the dual meanings placed on the word stock in the sixteenth century. Stock, an old Germanic root word was used as a collective term for implements and animals employed in the workings of a farm as well as a capital sum to trade with or to invest (Fetter, 1977: par 1.11.7-1.11.12).

The confusion continued well into the seventeenth century. Cotgrave's *‘Dictionarie of the French and English Tongues’* (1611) defines capital as “wealth, worth, a flocke, a man’s principall or chiefe substance”. The dictionary also gives an example of the

use of capital: “*en argent soit le capital de celuy la qui te veut mal*” – “let money be thy enemies’ whole stocke”.

In 1612 the East India Company sought riches from trade with nations across the oceans. Adam Smith commented on the use of the terms capital, joint stock and capital stock by the company. At first stocks meant the physical merchandise compiled of cargo and joint stock was where the physical goods were held jointly instead of separately (Fetter, 1977: par 1.10.1-1.10.7). The term capital was used to denote the amount of money invested in the voyage. Up to this stage capital was seen as the funds invested - the sum of money used to start the business. Money only gave the form of exchange: the true item that bore interest was not the money but the goods that were got for it. (Böhm-Bawerk, 1891: par 1.V.1-1.V.6) Thus capital represented not only money but also goods. This called for a change in the definition of capital. The change came about in the late seventeenth century. Böhm-Bawerk (1891: par I.III.3) quotes Du Cagne’s Glossary of 1678: “*Capitale dicitur bonum omne quod posseditur*” - capital is a name for all the goods possessed.

The formal change in the conception of capital was made by the economist Anne Turgot in 1766. In ‘*Reflexions sur la Formation et la Distribution des Richesses*’ he defines capital as follows (Turgot in Fetter, 1977: par 1.2.3):

“whoever gets possession of more goods in a year than he requires to use, can lay past the surplus and accumulate it. These accumulated goods are what people call Capital.... It is absolutely the same whether the sum of goods, or this Capital, consists of a mass of metal, or of other things, since money represents every kind of goods, just as, on the other side, all other kinds of goods represent money” (Fetter, 1977: par 1.2.3).

Turgot further expanded the definition of money to show that all saved goods are capital.

2.3.1.1 Adam Smith and the Wealth of Nations

In his work 'The Wealth of Nations (1776, Book 11, chapter 1), Adam Smith took Turgot's definition of capital and rectified it. He said that the saved stock can be divided into two parts. The first part is for immediate consumption and does not produce income for the owner while the second part provides income and this part alone is known as capital. Smith also applies the term capital to both individuals and the community. According to him individuals can make a gain not only through the production of goods but also by lending goods for compensation to others that consumes those goods immediately or uses them to accumulate capital (Smith, 2003 edition:353). The lender of the funds then earns rent on the use of the capital by another party. The community can only enrich themselves by the production of new goods (Smith, 2003 edition:354-355). This concept of compensating lenders for funds is at the heart of the cost of capital model. The model is built on this assumption of compensating financial shareholders for the funds that they could have used elsewhere (opportunity cost).

Smith's theory on capital departs from the notion of capital as a sum of money to be invested or which has been invested in things. Instead of being a sum of money employed in the acquisition of stock Smith makes it the stock itself. Smith shows that capital is employed in any of the following activities – either it is used in the improvement or cultivation of lands, mines or fisheries or it is used in manufacturing or it is used by wholesale merchants or by all retailers (Smith, 2003 edition:354). The idea of capital as means of production and source of income became entangled in only one word but with so many meanings attached to it.

2.3.1.2 Ricardo and the labour theory of value

Ricardo indicated that the division of the three factors of production namely land, labour and capital requires quantification at an aggregate level. If labour earned wages and land earned rent then capital must earn a return of some kind as well. Ricardo used the labour theory of value in order to bring all economic goods within a common denominator (Ricardo in Lewin, 2005: 145-167). Labour hours were seen as

the common denominator, as machinery, commodities and live stock all cost labour and can be measured as such. For example a truck can be measured in terms of labour hours spent to complete the production and assembly thereof.

Ricardo uses the term circulating capital in order to explain the usage of fixed capital throughout its life (Ricardo in Lewin, 2005: 145-167). According to him it is thus possible to calculate the value of the inputs of any capital item that matures in a given period (measured in terms of labour hours) and to compare it to the output produced in the same period thus giving it a rate of return. In summary Ricardo ventured that if the other factors of production are quantifiable to some rate of return so must be capital. According to Ricardo's framework everything is ultimately reducible to labour inputs and labour hours are the most logical common denominator (Ricardo in Lewin, 2005: 145-167). The return on capital as a factor of production can thus be measured in terms of the labour theory of value.

2.3.1.3 *Das Kapital* and Karl Marx

In his work '*Das Kapital*' Marx offers critique on the dominant capitalist system of economics. Marx's book is based on the labour theory of value and according to him capitalism is associated with the 'exploitation of the working class' (Marx, 1867, volume one, part VII, chapter 23; 1-3). Wages received is less than actual work done by labourers and the difference is kept by the capitalist employer in the forms of profit. He denied that assets produced income but rather well-equipped workers produced excess output. Labour alone is productive while capital simply gives the owners the right to extract unpaid labour power from workers. The income-generating power of physical and monetary capital is attributed to the exploitation of the productive power of labour. Although Marx focused on only labourers, what he alludes to is that the profit of a company is unequally distributed between the different stakeholders. Currently only financial shareholders receive a piece of the pie. From net income dividends are paid as compensation to shareholders. In chapter five it will be shown that labourers are not directly responsible for profits but rather intellectual capital. This dissertation also indicates that there are hidden costs involved in capital resources and that not all these costs are currently taken into account. This research

also upholds the fact that there are multiple stakeholders that have invested in a company in some way or another and that their costs are not accurately reflected.

Marx explained capital in terms of money and commodities. He pointed out that the difference between money that is money and money that is capital lies in their form of circulation. C-M-C (commodity-money-commodity) is the conversion of commodities into money and money into commodities. M-C-M (money-commodity-money) is the conversion of money into commodities and commodities into money. Money that circulates in the latter form is transformed into capital (Niggle, 1988:248). Through this circulation value is created and as such becomes capital. Marx concludes that M-C-M is the general formula of capital as it appears within the sphere of circulation. Thus Marx saw capital as a flow and not as stock.

2.3.1.4 The rise of capitalism

Although Adam Smith is seen as the father of capitalism he never used the term. The term capitalism was only used later on to describe economic activities of the 18th and 19th century. At that stage individual property rights and ownership was well established and people were able to trade freely with each other. This marked a change from the old feudal system where property rights were enforced by the state. The term capitalism referred to individuals that have ownership of capital, later on it referred to the private owner of any means of production (Merriam-Webster Online Dictionary, 2009). From the term capital that referred to a sum of money or goods used in production came the word capitalism that is used to describe the economic system of private ownerships of goods and services (Encyclopaedia Britannica, 2009). It is this private ownership of goods and services that gave rise to large corporations and the type of economy most of the world operates under. In the time of the Industrial Revolution money was a scarce commodity. The more money you had the more influence you had. People couldn't succeed in life if they didn't have money. Also without money a merchant couldn't run a business. Money was placed in high regard and it meant success in those days. This together with Smith's notion of compensating lenders of financial resources brought financial capital to the fore

and it was regarded as the most important resource available. This notion was upheld for ages and even in modern times the focus is on financial resources.

However, views have changed and success is no longer only measured in monetary terms. For companies to succeed nowadays they need to focus not only on the bottom line but also on aspects such as the environment, society, intangible asset and relationships, which have all been unveiled as resources attributable to the success of any business. This calls for a change in the view of a capitalistic enterprise. Money is not the only factor to ensure a long and successful existence.

Capitalism has been criticized by economists such as Karl Marx for only recognising equity shareholders as owners of profit while other stakeholders such as labourers were neglected (Marx, 1867 (volume one, part VII, chapter 23):1-3). As mentioned above the view that financial capital is the main, or only important resource has changed and the capital model needs to be adjusted to reflect this. Thus the goal of this dissertation is to show that there are many stakeholders that an organisation is accountable to and they all in some way contribute to the success and wealth of a company.

2.3.2 NINETEENTH AND TWENTIETH CENTURY ECONOMICS AND THE THEORY OF CAPITAL

The nineteenth century saw the development of natural and social sciences. The field of economics grew and issues such as banking, money, trade, capitalism and industrialisation took centre stage. It is no surprise that the concept of capital enjoyed much attention during this period. Many pioneers in the field of economics, especially those from the German school, lent their own insights into the definition of capital. Listed below are some of their definitions:

Hermann, 1832, sees capital as “*a source of income*” and states that “*capital is every durable foundation of a utility which has exchange value*” (Herman in Fetter, 1977: par 1.2.3). Menger, in 1884, went on to define capital as “*such groups of economic*

goods of higher rank (productive goods) as are now available to us for future periods” (Menger in Böhm-Bawerk, 1959:1). In 1885 Kleinwachter was of the opinion that capital lightened the toil of acquisition or productive labour (Kleinwachter in Böhm-Bawerk, 1891: par I.III.16). His definition only referred to the tools used in production and not the material seeing as the material is used up and give no assistance in working. Thus capital should be limited to the tools of production. The above mentioned economists indicate capital as goods used in production. This is a re-affirmation of Adam Smith’s view of capital as goods.

Jevons in 1879 took a different view and understood capital to mean wealth employed to facilitate in production. He goes on to explain that the single and all important function of capital is to enable the labourer to await the result of any long lasting work - to put an interval between the beginning and the end of an enterprise (Jevons in Fetter, 1977: par 1.10.9). Capital consists merely of the aggregate of those commodities which are required for sustaining labourers of any kind or class engaged in work. A stock of food is the main element of capital but supplies of clothes, furniture and all the other articles in common daily use are also necessary parts of capital. According to him the true and only capital is thus the sustenance of the labourers.

Karl Knies (1885) defines capital of a community as its available stock of goods which may be applied to the satisfying of wants in the future (Knies in Böhm-Bawerk, 1891: par I.III.18). Walrus in his book ‘*Elements d’Economie Politique Pure*’, 1814, divides goods into capital and income. Every type of durable good, irrespective of its destination, that can be used more than once is capital, while all perishable goods are income. He gives a few examples of capital and income goods. Land (*capitaux fonciers*), people (*capitaux personnels*) and movable durable goods (*capitaux proprement dits or capitaux mobiliers*) are capital goods and food, raw materials, fuel, etc, he sees as income (Walrus in Fetter, 1977: par I.III.19). JS Mill in ‘*Principles of Political Economy*’(1848) defined capital as accumulated stock of the produce of labour (Mill, 1909: par I.4.1). Mill implies in his definition that capital is the products produced by labourers and that they are responsible for the production process. Knies, Walrus and Mill all confirm again that capital is made up of goods used in production. They indicate that it is stock that is converted through labour in the

production process in order to satisfy the wants and needs of man. Hence capital is connected again to physical goods.

Böhm-Bawerk sought to make the theory of capital his domain but he also got stuck on the conventional definition of capital. In his *'Positive Theory of Capital'* (1891) he defines capital as a group of products which serves as a means of acquiring goods. He divides capital into two groups, namely private and social capital. Private capital is all products that are used in the acquisition of goods, while social capital is a group of products that serve towards further production or in other words social capital are intermediate goods (Böhm-Bawerk, 1891: par I.VI.1-I.VI.20). He further explains that capital refers to the relationship between production and interest. On the one hand capital is used in production and on the other hand it is used in the production of income, in this case interest. Capital is thus a source of production and a source of interest.

The above definitions all lend different dimensions to capital but they all agree on the fundamental basis for capital equals goods. M'Leod brings this into question when he doesn't see capital as a concrete quantity (M'Leod in Fetter, 1977: par I.2.3). He states that capital is the stock of accumulated labour and goes deeper by defining capital as purchasing power or circulating power. Kuhnast also sees capital as immaterial in nature and that it does not consist of material goods but rather of their value. He defines capital as "...*the value of the production power residing in material goods...*" (Kuhnast in Böhm-Bawerk, 1959:1) He implies that capital represents the inherent value of goods and services. Instead of capital being the actual goods it is the funds that are used to buy or make the goods. Both these definitions talk to the purchasing power of capital goods. They move away from defining capital as physical goods but rather define the ability of capital to acquire goods for production.

The 1828 edition of Webster's Dictionary shows capital to include both the principal sum as well as goods (stock):

"Capital stock, is the sum of money or stock which a merchant, banker or manufacturer employs in his business; either the original stock, or that stock augmented. Also the sum of

money or stock which each partner contributes to the joint fund or stock of the partnership; it also refers to the common fund or stock of the company, whether incorporated or not”.

Webster’s Dictionary moves away from the classical economic definition of capital as goods used in production. It defines capital as both the sum of money that each party contributes to the organisation and the goods used in production. It addresses the duality of the concept of capital which stems from the above definitions.

Bouvier’s Law Dictionary (1856) defines capital in political economy and commerce terms as:

“that portion of the produce of a country, which may be made directly available either to support the human species or to the facilitating of production’. In commerce, as applied to individuals, it is those objects, whether consisting of money or other property, which a merchant, trader or other person adventures in an undertaking, or which he contributes to the common stock of a partnership”.

Again Bouvier’s Dictionary addresses the duality of the nature of the concept of capital as both monetary funds and goods used in either production or consumption. The above definitions all lend their own interpretation to the concept of capital. Many economist saw it as a means of productions while others interpreted it as a source of income. In some cases it was deemed both. Others still attempted to interpret the term in terms of its productive power.

The twentieth century bore witness to radical changes in almost every aspect of human life. Rapid advancement in science, technology, medicine, communication and transportation transformed the world more fundamentally in a single century than during any previous period. It was a century that commenced with steam powered engines and ended with voyages into outer space and nuclear energy.

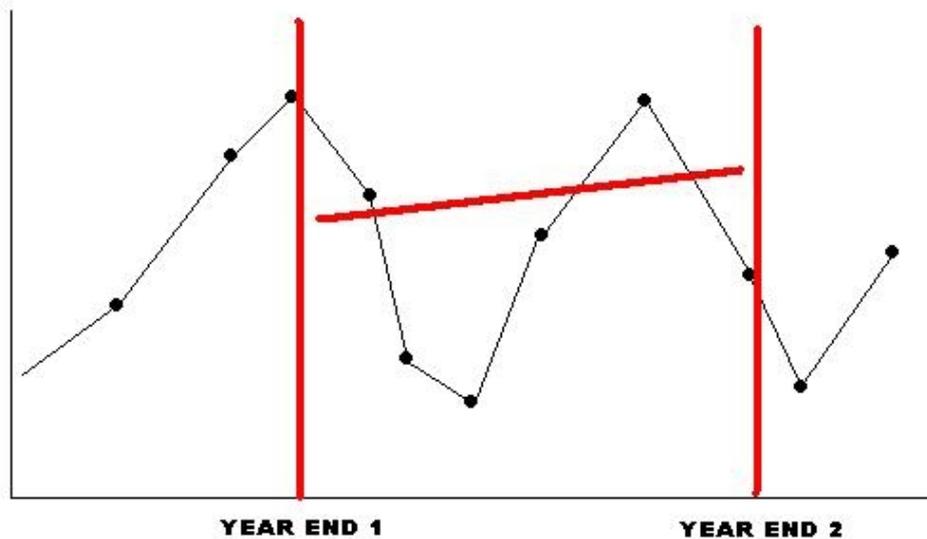
In 1899 Clark attacked the work of professor Böhm-Bawerk. The latter defines capital in terms of concrete goods while Clark defines the concept of capital as the monetary or market value of goods (Clark, 1908: par IX.1-IX.34). Clark states that there is a permanent fund of productive wealth that can be expressed in monetary terms and that this is what is meant by capital. He makes a distinction between the monetary

aspect of capital and the physical goods described by Böhm-Bawerk as capital. The monetary expression of productive wealth is pure capital while the goods used in production he coins capital goods. Capital goods are perishable elements while pure capital is an enduring fund of wealth employed in production.

The economist Veblen also explored the intricacies of capital. He argued that there are two types of goods - material and immaterial. Material goods are things such as raw materials, tools, vehicles, buildings, etc. Immaterial goods represent the intangible assets (such as experience and intellect) of a community. According to him intangible assets are the by-product of life in a community and can only be maintained and retained by the community at large (Veblen, 1908:518-520). Material goods are only able to create value/capital if they are transformed by the use of immaterial goods. Without immaterial goods to take the material goods through a process of transformation capital will not be created.

In '*The Nature of Capital and Income*' (1906) Fisher distinguishes between a fund and a flow. He describes capital as a fund and income as a flow. He also states that capital is wealth while income is the service of wealth (Fisher, 1930: par I.I.1-I.I.87). Thus capital is wealth existing at an instant in time while income is a flow of services through a period of time. Wealth forms a stock of wealth or a flow of wealth depending on the time reference. Capital is the former and income the latter. Heisenberg's uncertainty principle can also be applied to explain the concept of fund and flow. Heisenberg's principle indicated that a particle or wave aspect can be measured either by location or movement but not by both at the same time. The most to hope for is a reading of the position or momentum of the wave or particle (Wheatley, 2006:36). Capital represents the process of the conversion of resources. This conversion process requires resources to flow, change, adapt and be maintained. According to Irving Fisher capital is wealth existing at an instant in time and is thus a fund. Capital is a long term fund but that has certain characteristics such as capital maintenance that brings an element of flow to it. The figure on the next page is a representation of the capital profile of a business organisation over a period of time:

Figure 2.4: Visual representation of the capital profile of organisations



(Source: Own observation)

As will be shown in chapter five the different capital resources aid in the creation value for organisations. The value created for organisations will naturally follow the change in circumstances, markets and the risk profile of a company. From this it can be ascertained that capital will have a cyclical nature and can be represented by the figure above. Each point on the figure represents the different capital positions of a firm (the funds). The connecting lines between the different points indicate the movement and change in capital (the flow). The up- and downturns in the figure indicate that capital changes with changes to capital requirements, the risk appetite of the business enterprises and capital market conditions, which are cyclical in nature and can increase or decrease over time. The red parameters in the figure represents the accounting period (from one year end to the next). Accounting reflects information for that time period and also attempts to smooth the information in the period. At the different cut off periods (year end) capital is disclosed on the balance sheet. As can be seen from the figure these points in time do not accurately reflect the true nature of capital. Accounting shows a periodical move and sometimes doesn't capture large movements within the given period. Because capital is both a fund and a flow its measurement and presentation is difficult. Accounting shows capital as a balance sheet item that can be measured at a set cut off period in time.

Disclosing capital at an artificial point in time detracts from the nature of capital and is not a true representation of capital that is both a fund and a flow. Capital is an item that needs to be measured over a period of time in order to show its true nature. Accounting attempts to reflect capital at certain points in time which breaks the cycle of capital as indicated by the figure above.

In 1913 Webster's Dictionary once again offers a definition of capital. It separates it into capital stock and capital. Capital stock represents money, property, or stock invested in any business or the enterprise of any corporation or institution. Under capital it states the following:

"money, property or stock employed in trade, manufacturing, etc.; the sum invested or lent, as distinguished from the income or interest".

In an added note to the definition of capital, it is stated that when wealth is used to assist in production it is called capital. The capital of a civilised community includes fixed capital (i.e. buildings, machines and roads used in the course of production and exchange) and circulating capital (i.e. food, fuel, money, etc spent in the course of production and exchange). Roget's II "The New Thesaurus" (1995) defines capital as:

"the monetary resources of a government, organisation or individual. Money or property used to produce more wealth. All things, such as money, property, or goods that have economic value".

One of the great economists of the twentieth century was Alfred Marshall. In 'Principles of Economics' he explains capital as part of a man's wealth which he devotes to obtaining income in the form of money (Marshall in Macvane, 1892:129). Capital are those external goods used for trade or used to produce goods to be sold. Schumpeter's 'Theory of Economic Development' in 1934 saw capital as a lever by which the entrepreneur controls the concrete goods which he needs, a means of diverting the factors of production to new uses, dictating a new direction to production

(Schumpeter in Wolfson, 1958:35). According to Schumpeter capital wasn't a concrete thing but the role played by a sum of money put to use in a particular fashion. The amount of capital is defined by the sum of money which could've been put to use. If the sum of money wasn't put to use then it is not capital. Thus capital is merely a function of money and not a factor of production.

From economic literature capital has enjoyed much debate and can be seen as having two main branches with some deviation to both. The first use stems from middle age commerce where it meant an interest-bearing sum of money. The second meaning which evolved later is rooted in physical goods that lead to the production of income. Thus the business as a whole can be thought of as either a sum of purchasing power or a mass of goods. These two capital concepts are so different in nature that the use of one word to designate both concepts led to much confusion.

2.4 FINANCE AND CAPITAL

The field of finance is based on the development of tools and models in order to interpret accounting information. Finance lends itself to the accounting concept of capital. Capital in finance is viewed as sources of funding. These sources of funding can be obtained in the following capital markets:

2.4.1 THE MONEY MARKET

Financial markets that facilitate the flow of short-term funds are referred to as money markets (Gitman and Madura, 2001:34). Business entities issue money market instruments in order to obtain short term financing or purchase money market instruments with available cash. Common forms of money market instruments include Treasury bills, commercial paper, foreign money market securities and negotiable certificates of deposit (Gitman and Madura, 2001:35). Money market instruments are very liquid and can readily be converted into cash without much loss in value.

2.4.2 THE EQUITY CAPITAL MARKETS

Equity markets involve the sale and purchase of equity instruments. Firms, investors and intermediaries get together to trade securities at agreed upon prices. Common and preferred stock are sold by governments, companies and sometimes municipalities in order to raise new capital (Reilly and Brown, 2003:104). Common shares give shareholders the right to vote and a chance to participate in profit sharing in the form of dividends. Preference shares on the other hand, exclude the right to vote but preference dividends have a higher ranking than ordinary dividends when it comes to payment.

2.4.3 THE DEBT CAPITAL MARKETS

Again institutional and individual investors get together in order to trade debt instruments. Government, municipal and corporate bonds are sold in the debt market in order to raise funding. Debt securities can either be classified as fixed or variable rate debt (Correia *et al*, 2003:13-13). Fixed rate debt refers to debt instruments that bear a fixed interest rate over the term of the loan. Variable rate debt refers to debt securities that have a floating interest rate attached to it that varies over time. Debt can also be classified as secured or unsecured. Secured debt has a certain asset attached to it that can be claimed in the case of default while unsecured debt has no claim over any specific assets and is therefore more risky.

Capital refers to borrowed and own sources of funding. Borrowed sources of funding is represented on the liability side of the balance sheet while own sources of funding is represented on the equity side. From the accounting definition of debt and equity various ratios were developed to indicate a company's financial position such as the debt-equity ratio or total asset turnover. The work on capital structure by Modigliani and Miller (1958) saw the development of the term cost of capital which is the main focus of this dissertation. Capital structure theory is described in much more detail in chapters 3 and 6. As indicated above, capital refers to the sources of funding available to an organisation. The cost of capital focuses on long term sources of

funding and this can be broadly shown in two separate groups. Borrowed funds originate from debt markets and relate to long term funds borrowed from parties outside the organisation. The second class of funds are equity instruments which represents owner funds put into the business.

The cost of capital can be defined as the “weighted average where the weights are determined by the value of the various sources of capital” (Pagano and Stout, 2004:13). The cost of capital is a measure of the cost of employing these funds by an organisation. It is not an actual accounting expenditure but is based on the principle of opportunity cost. Accounting is based on the accrual principle and expenses are recorded and measured only if they have actually been incurred (cash expenses) or if the probability is high that they will be incurred and that they can be measured with an amount of certainty and reliability (SAICA, 2003/2004:9-10). This is why performance measures such as Economic Value Added (EVA) was developed to address the fact that the cost of capital is not recognised on the income statement. EVA is effectively the net income after deducting the cost of capital.

A formal definition of opportunity cost can be found in an article written by The New School University (2009). They state that opportunity cost is “claiming that relative prices reflect foregone opportunities”. This definition focuses on the scarcity of resources and that the use of resources in one way prevents their use in other ways. Opportunity cost is central to decision making as it is the value of the next best alternative. Balakrishnan, Sivaramakrishnan and Sunder (2004:197-198) indicate that opportunity cost is linked to the use of the resource. If the resource is used for purposes other than initially intended then the resource’s opportunity cost will also change.

The concept of opportunity cost as explained above commenced some hundred and fifty years earlier with Richard Cantillon’s term intrinsic value. He applied the term in a precise and detailed manner for several illustrations involving labour, capital and land. Cantillon (Cantillon in Thornton, 2007:97-119) applies the concept to explain the higher wage rates of artisans and craftsmen. The opportunity cost is the time lost in learning the trade and the cost and risks involved in becoming proficient. This will cause artisan and craftsmen to get a higher wage than that of labourers on a farm.

Cantillon (Cantillon in Thornton, 2007:97-119) also applies the concept of opportunity cost to capital and interest. If a businessman borrows capital from another for business operations his profits must pay for his own upkeep and the interest on the loan. If a businessman utilises his own capital then his profits must pay for his upkeep as well as replenish the capital used. This interest payment is based on the opportunity cost of capital. Another way to look at the cost of capital and opportunity cost is to see the opportunity cost of capital as the return that would've been earned on the next best equal risk investment and the uses of capital should be benchmarked against these capital alternatives (Bruner, Eades, Harris & Higgins, 1998:14). The development of the term cost of capital in finance goes hand in hand with the concept of opportunity cost. It is seen as the opportunity cost of capital and the measurement of the different sources of funding is based on this principle.

2.5 ALTERNATIVE DEFINITIONS OF THE CONCEPT CAPITAL

2.5.1 THE INSTITUTIONALIST APPROACH

The Institutional theory of capital formation rests on the assumption that technology is the total of human know-how applicable to physical facts (Ranson, 1987:1267). This theory proposes that technology is the only true form of capital. Applying technology to business requires large amounts of equipment and money. This theory does not follow common economic theory that defines capital as the sum of money and equipment. The production and use of the equipment is contingent on the community's technological mastery and not the money or equipment (Ranson, 1987:1269). Technology does play an important role in the development of business and the future but as will be shown in other chapters it is intellectual capital that is the driving force of not only business but of technology as well.

The Institutional theory of capital perceives all economic activities as the result of applying technology and that growth can only be achieved if there is technological

advancement. The theory thus assumes technology as the only source of capital. This definition of capital indicates that there is much debate around this ambiguous concept and that it is not so easy to define. The idea that capital is technology opens the debate around what constitutes capital. In chapter five the conceptual framework for capital will be discussed and it will indicate that capital comprises a great many ideas and things and is a concept that has many characteristics.

2.5.2 CAPITAL AS PROPERTY RIGHTS

In *'The Mystery of Capital'*, De Soto (2000:5) describes capital as “the force that raises the productivity of labour and creates the wealth of nations”. His book is based on the principle of property rights. He explains that the underdeveloped nations in the world own more capital resources than any developed nation but due to a lack of clearly defined property rights it is not used in a way to produce any additional value. These countries do not have legally enforceable property rights.

His research is focused on real estate and De Soto investigates how much ‘dead’ capital is not used in a productive fashion. He shows that these underdeveloped countries are characterised by the fact that ownership of assets is difficult to trace and there is no legally enforceable set of rules. This causes these assets not to be used in an economically sensible way and any attributes they might have had that could have led to the production of income is wasted or dead capital. De Soto’s book does not speak about capital directly but more about one of the characteristics of capital. In chapter five some of the characteristics of capital will be discussed and it will be shown that traditional capital as per accounting definition must have property rights or the transfer of risks and rewards attached to it to qualify as capital.

2.6 THE 21ST CENTURY – BROADENING THE CONCEPT

The concept of capital in the 21st century can be illustrated by the following dictionary definition. According to the American Heritage Dictionary of the English Language (2004) capital (in financial terms) can be defined as:

- “(a) *Wealth in the form of money or property, used or accumulated in a business by a person, partnership or corporation.*
- (b) *Material wealth used or available for use in the production of more wealth.*
- (c) *Human resources considered in terms of their contributions to an economy.*”

Capital developed from its early concept of money into all resources used in the creation of wealth. These resources started out as money then included physical goods used only in production then expanded to include things such as intellect. The concept of capital expanded in the 21st century to include resources previously not thought of as capital. These resources include social, intellectual and environmental capital. Social capital refers to the network of relationships within which a company operates while intellectual capital refers to the creation and storage of knowledge. Environmental capital addresses issues of renewable and non renewable resources. All of these resources are discussed in greater detail in chapter five.

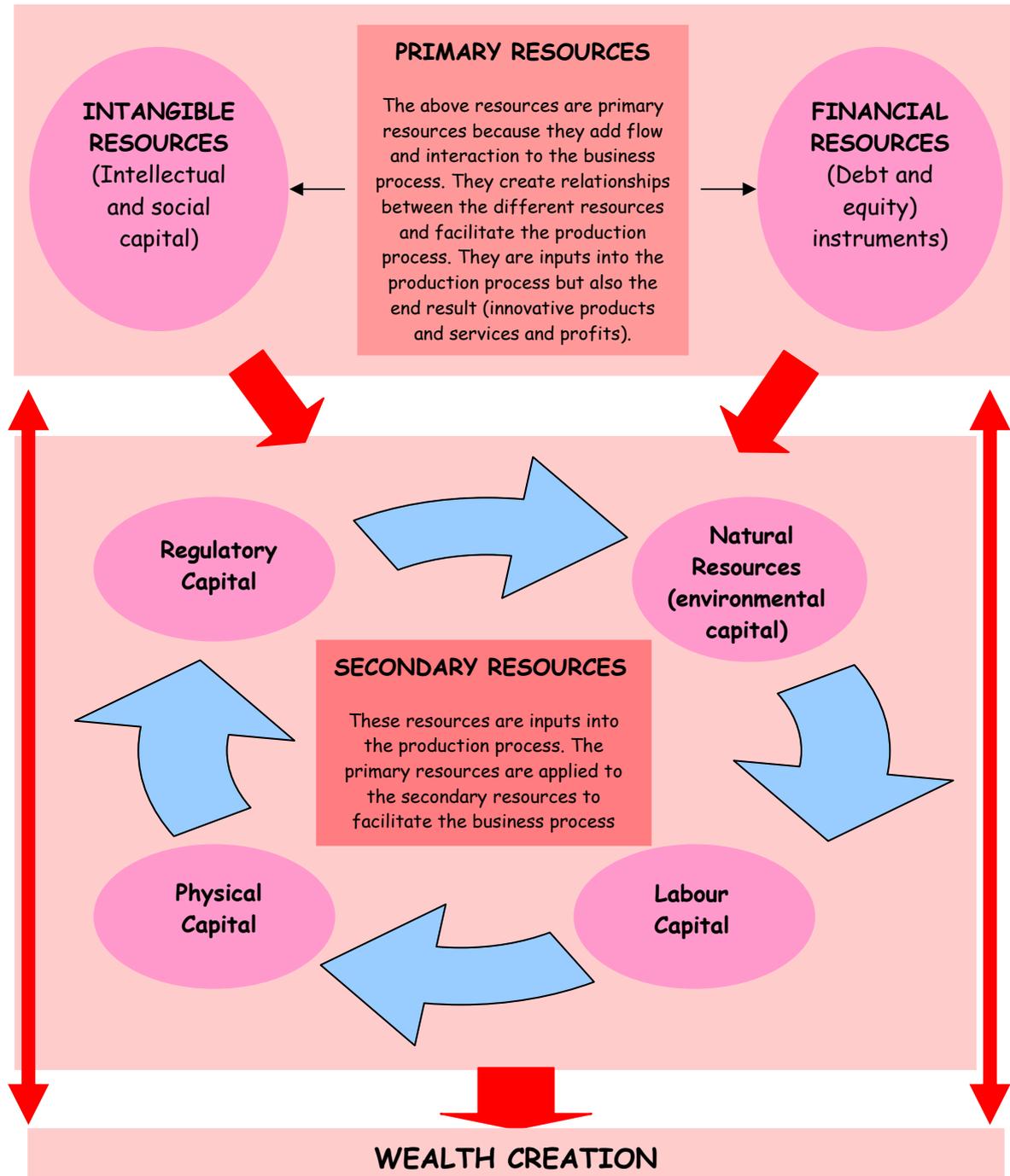
The definition of capital as “money” has evolved. *“The computer is merely a tool in the process...To put it in editorial terms, knowing how a typewriter works does not make you a writer. Now that knowledge is taking the place of capital as the driving force in organisations worldwide, it is all too easy to confuse data with knowledge and information technology with information.”* – P Drucker (1995, “The Post-Capitalist Executive”, in *Managing in a Time of Great Change*). This statement of Drucker indicates that money as the only source of capital has been replaced by the concept of intellectual capital and shows the shift away from money as the only important resource available to organisations. Capital is a concept that lends itself to various different forms. As indicated in previous sections the concept of capital has enjoyed different meanings throughout the centuries. The main definitions concern themselves with capital as a source of funds or capital as goods. This dual nature of capital has made it difficult to classify items accordingly and there has been no single definition of capital that addresses all its aspects. Capital is both funds and goods therefore all the definitions given above ring true in some way or another. The balance sheet also alludes to the nature of capital. On the asset side is the actual goods and services that have been acquired and this side is mirrored by the liability and equity section which are the funds that are used to acquire assets. Capital

represents the two opposite sides of the same coin. The liability and equity portion of the balance sheet is the mirror image of the assets and funds acquired by business.

2.7 DEFINING CAPITAL

The concept of capital is complex and as shown in the sections above difficult to define. What makes it so difficult to define capital, is its dualistic nature and the fact that capital is not only an object but more a concept that describes a process over a period of time. As mentioned earlier in this chapter capital represents the flow and conversion of resources into assets. This conversion process doesn't happen overnight and takes time. Accounting attempts to disclose this process at set points in time on the balance sheet but capital is not an asset such as buildings which has a certain maturity and can be measured reliably at certain points in time. Capital represents both the process of resource transformation as well as all the actual resources available to the company. These resources are not only limited to goods and money. Capital is a process that facilitates the creation of wealth. This point will be explored in the different chapters and the different types of resources utilised in the creation of wealth such as financial capital, intellectual capital, social capital, natural resources, physical capital, labour capital and physical capital will be explored. All of these resources can be seen as forms of capital. Each form of capital will be discussed in detail in chapter five. In order to understand this term better the figure on the following page depicts the different forms and flows of capital:

Figure 2.5: Visual representation of the concept of capital



(Source: Own Observation)

The figure above indicates that the resources represented do not all operate on the same level and these different levels are shown as primary and secondary sources in the figure. The primary resources are financial, intellectual and social capital. These resources are designated as primary resources due to the fact that they are both inputs and end products of the wealth creation process. For example money is an

input into the production process as it is used to acquire natural resources. Money is also the end result of the wealth creation process as goods and services are rendered for cash. Profits are measured in monetary terms. The cash earned is then ploughed back into the process as inputs. Intellectual capital is used at the starting point of the process to facilitate the flow and proper working of the other resources. It is also acquired and developed throughout the process and the feedback and new knowledge and information that is gathered is then used to better the process. These resources also facilitate the flow of the other resources. For example, through building networks labourers can work together to achieve company goals. These resources are forms of capital but they operate at a higher level than the other resources and are essential for creating a smooth process of wealth creation.

The other resources are shown as secondary resources as they are mainly used as inputs in the production process. They are natural resources, physical capital, labour capital and regulatory capital. Natural resources are converted through labour and machinery and equipment into products and services. This process of conversion is done in a regulated environment to ensure that all parties are treated fairly at each step of the process. Combining this process with the primary resources ensures that resource conversion is done in the most effective and efficient manner to ensure products and services that will lead to a sustainable business model.

Figure 2.5 will be examined and explored in more detail in chapter five to determine the assumptions, nature and interaction of capital and the business organisation. This dissertation will make use of systems theory to explore the relationship between capital and the strategic goals of a business enterprise.

2.8 SUMMARY AND CONCLUSION

Tracing capital through accounting, economic and finance history is no easy task due the volumes of research, interpretations and theories attached to this concept. The current chapter attempted to give an overview, albeit brief, of some of the more important developments regarding the concept of capital. The historical development

of capital indicates that various meanings are attached to the term. The diagram on capital provided above incorporates all the various sources of capital that will be discussed in later chapters. It is important to understand the history of the term capital in order to facilitate its future growth and metamorphosis.

CHAPTER 3: OVERVIEW OF THE RESEARCH AREA AND RESEARCH METHODOLOGY

***“Research is to see what everybody else has seen,
and to think what nobody else has thought” – Albert
Szent-Gyorgyi***

CHAPTER 3

OVERVIEW OF THE RESEARCH AREA AND RESEARCH METHODOLOGY

3.1 INTRODUCTION - OVERVIEW OF RESEARCH AREA

Modigliani and Miller are viewed as leading researchers in the field of capital structure theory. In their article of 1958 they presented models of a firm's capital structure and cost of capital (known as the M–M model and hereafter referred to as such). These models are based on the following assumptions (Brigham and Daves, 2004:497):

- There are no corporate or personal taxes.
- Investors have homogenous expectations regarding future earnings.
- Debt is riskless and measured at the risk free rate.
- Perfect capital markets imply no transaction costs and individuals and corporations can borrow at the same interest rate.
- Business entities with the same degree of risk are grouped together. The measure of risk is the volatility of earnings before interest and taxes (σ_{EBIT}).

These assumptions are the basis for further research into the cost of capital model. They are also the reason why the model was later refuted. Under these assumptions Modigliani and Miller (1958:262) proved that a firm's capital structure, i.e. its debt – equity combination, is irrelevant and does not influence a firm's value by using arbitrage. Arbitrage will occur if two assets with similar characteristics sell at different prices. In their case the two similar assets are levered and unlevered stock. They showed that the value of the levered firm is higher than the unlevered firm (Modigliani & Miller, 1958:261-296). In order for arbitrage to work the levered stock (with the higher price) will be sold and the unlevered stock (with the lower price) will be bought. The price of the levered stock will decrease due to deflationary market

pressures on stock being sold and the price of the unlevered stock will increase due to inflationary market pressures on stock being bought. This will cause the prices of the two stocks to come into equilibrium and eliminate further arbitrage opportunities. The equilibrium between the two will cause the value as well as weighted average cost of capital of the two firms to be the same and thus according to them firm value and the WACC is independent of capital structure.

Although they were seen as the leaders in the field of capital structure, some 30 years earlier Paton (1922) also put forth a similar theory on capital structure. In his work on entity theory he argues that a particular source (or sources) of capital has no effect on a company's performance (Paton in Clark, 1993:15). If debt is substituted for stock the cost of the factors of production remain the same and operating profits are unaffected. A firm's leverage ratio does not impact firm value and is irrelevant for investor decision-making.

Later on in 1963 Modigliani and Miller included the effect of corporate taxes in the original propositions of their research paper of 1958. They relaxed the assumption of no taxes and incorporated corporate taxes. They showed that with corporate income taxes included in the model, the use of leverage will increase firm value (Modigliani and Miller, 1963:442). This occurred due to the favourable tax treatment of debt securities in the U.S. They indicated that the value of the levered firm under corporate taxes is equal to the value of the unlevered firm plus the tax benefit attributed to debt. Thus the levered firm value exceeds that of the unlevered firm by the tax benefit and firm value is maximised if a hundred percent debt is used. The impact of corporate taxes on the WACC is also explained. According to them (Modigliani and Miller, 1963:442) the WACC will decrease with taxes since taxes cause the cost of equity to rise less rapidly than it would have in the absence of taxes.

The impact of personal taxes on the M-M model was investigated by later researchers and the earlier findings again reaffirmed – firm value and WACC is independent of capital structure (Miller, 1977:262). Miller showed that the before-tax yields on corporate securities and the personal tax rates of investors who bought the securities would adjust until equilibrium is reached. At this point the effective tax rate

of the debt securities would equal the combined effective corporate and stock tax rate (Miller, 1977:267). The tax advantage of the debt instruments would thus be exactly offset by personal taxation and capital structure would have no effect on a firm's value or its cost of capital.

Following these ground breaking articles on capital structure and the cost of capital, much criticism followed from other authors. Brick and Fisher (1987:396-397) researched the Tax Act of 1986 and found that it incentivises firms to issue debt in order to make use of the preferential tax treatment. The result is more use of debt financing that has a definite effect on capital structure. Emery and Gher (1988:30) reinforces the findings of Brick and Fisher by stating that the use of different instruments increase the aggregate value of tax options by reducing total taxes paid and thus increasing firm value.

In 1979 McCabe showed that financing, dividend and investment decisions are all dependent on each other and should be studied under a simultaneous equation model (McCabe, 1979:134). Stapleton (1972:1275) also indicated that firm value, dividend and financing policies go hand in hand. He indicated that firm value depends on future dividends and the debt raising capabilities of the firm. The higher the current and future levels of debt the higher the firm value due to tax savings.

Hamada (1969) combines capital structure theory with the capital asset pricing model. The results indicate that the cost of equity is linearly related to the debt - equity ratio. Rubinstein (1973:177) combines the M-M model with portfolio theory. He also shows mathematically that the return on equity is independent of capital structure and thus from the cost of capital as well.

The cost of capital as introduced by the M-M research has become an invaluable financial tool and is a topic on its own in many financial management textbooks (Brigham and Daves, 2004:295; Correia *et al*, 2003:7-1; Gitman and Madura, 2001:360).

The principles of the cost of capital model stem from accounting information. It calculates the weighted average cost of the sources of funding of a business based

on the split between debt and equity on the balance sheet. The basis for the calculation of the different costs of debt and equity has been a much debated issue and lots of research has gone into the costing areas. Computing the equity component of WACC can be done via the use of the CAPM model. The CAPM model itself is bound to certain assumptions. One component of CAPM is the market risk premium. Gode and Mohanram (2003:399-400 and 426) used the Ohlson-Jeuttner (OJ) and residual income model in order to compute the market risk premium used in the CAPM model. These models infer the risk premium from the current stock price and future expected dividends. They showed that the residual income model outperformed the OJ model due to the fact that it incorporates more information.

Further empirical testing has been done on the assumptions of CAPM. The empirical testing of CAPM revolves around the stability of beta as a measure of systematic risk and the linear relationship between beta and the rate of return on stock (Bodie, Kane and Marcus, 2005:351). The conclusion of these empirical tests showed that individual betas are normally volatile over time while portfolio betas are more stable. Also the longer the time period used in calculating beta (36 months), the more stable the beta. Regarding the positive relationship between beta and the rate of return, Reilly and Brown (2003:260) summarises research done and indicate that most tests support the positive relationship and indicate that variables such as P/E ratios, financial leverage and book-to-market ratios have explanatory power of returns beyond beta.

Arditti and Levy (1977:65-73) showed that the correct measure of debt in the WACC formula is only return on debt (R_d) and not the return on debt multiplied by one minus the tax rate [$R_d (1-t)$]. They proved that this formula for debt is better due to the fact that the interest saving is accounted for in the after tax cost of equity (R_e), and including it in the debt component double counts the benefit of tax deductible interest.

From the above it is apparent that there has been much research done in the field of capital structure and the cost of capital. Various aspects of the cost of capital with regard to the cost components of debt and equity have been researched and explored. The area that needs further attention is hybrid instruments that have both components of debt and equity as well the impact of accounting book entries on

capital decisions. Accounting information is the backbone of the cost of capital model and it adopts the accounting classification and definition of debt and equity instruments. The current accounting classification system is based on the following principles:

- **Going concern**

The assumption is that financial statements are prepared based on the going concern principle (Harrison and Horngren, 2001:10). A judgement call is made by management on the ability of the organisation to carry on trade in the normal course of business without the intention to cease trading or liquidate.

- **Accrual accounting**

Another principle of accounting is the concept of accrual accounting. Income and expenses are recognised in the period they occur (SAICA, 2003/2004:9-10). This is to show a more accurate reflection of economic activity. It deviates from cash basis accounting whereby income and expenses are only recorded when there is an actual flow of money.

The use of complex hybrid financial instruments such as derivatives and convertible bonds has been a much debated issue in the current accounting model. A new standard was adopted to address financial instruments as to their recognition and measurement. IAS 39 is known as one of the more complex standards and there are continuous efforts from the IASB to improve the interpretation and implementation of the standard. At an accounting standards course the author attended it was highlighted that there are talks of revisiting the statement and the conceptual model on which accounting is based. Research on the conceptual framework is proposed regarding the objectives of financial statements, the qualitative characteristics and the definition of a reporting entity (Accounting update course, 2008). The proposed areas of research indicate that efforts are underway to improve the current accounting framework in order to enhance the decision-usefulness of accounting information.

There is no doubt that the cost of capital and capital structure is dependent on financing, investment and even dividend decisions. This dissertation will explore the possible impact of including certain balance sheet items into the current cost of capital model. Currently there are certain 'grey' areas in accounting that make their classification difficult, due to the duality of their nature -they contain characteristics of both debt and equity. This leaves a gap in cost of capital research and this dissertation attempts to address some of the areas of concern in the debt - equity classification of sources of funding. *A research opportunity exists regarding the introduction of sources of funding that has dual accounting classifications and the potential impact that accounting book entries can have on the sources of funding and the effect these items can have on the current cost of capital model. The development of a transformed model for the cost of capital is thus necessary to incorporate these hitherto unrecognised sources.*

3.2 PROBLEM AREA AND PURPOSE OF RESEARCH

3.2.1 THE PROBLEM STATEMENT

The problem addressed in this dissertation concerns the current exclusion of certain sources of funding due to grey areas and interpretation issues in the accounting classification and their impact on the cost of capital. The traditional model for the cost of capital is based on accounting classification of debt and equity instruments but as financial markets have evolved a grey area has developed in the accounting classification for certain sources of funding such as complex instruments. Also the impact of certain accounting book entries on capital structure need be assessed.

The aim of this research dissertation is to include some of the sources of funding that have been 'greyed' by accounting classification. The sources include hybrid instruments such as convertible bonds. These items either have characteristics of both debt and equity. The other area of investigation focuses on accounting book entries related to accumulated depreciation and deffered taxes and how these items

impact capital structure decisions. The introduction of these sources of funding and impact of book entries into the current cost of capital model will make the model more robust and inclusive for the purposes of capital budgeting, valuations and strategic management decisions. From an investor and analyst perspective there has always been adjustments made to accounting information presented in financial statements in order to give a more accurate reflection of the current status of a company's financial wellbeing. By including some of the areas that accounting classification has left to interpretation, the cost of capital model will become a more decision-useful tool.

A secondary research opportunity stems from this topic. It brings into question the current composition of the balance sheet and the grey areas of accounting classification. These complex hybrid instruments have no real place on the balance sheet and the three sections it comprises of. The current framework attempts to classify these items to either one of the three components, i.e. assets, liabilities or equity, but it does not always offer enough guidance and is left to interpretation. As a suggestion it does perhaps warrant some investigation into creating new sections for the balance sheet than just assets, liabilities or equity. Although it is not the purpose of this dissertation to offer the solution it highlights the need to address the dual nature of certain instruments by perhaps creating a new accounting classification for these instruments that captures their nature, rather than try and classify it to the current accounting assets = liabilities + equity framework. In this way it will lead to a more robust classification system that will be based on decision useful information and that will be able to address issues regarding current grey areas of classification.

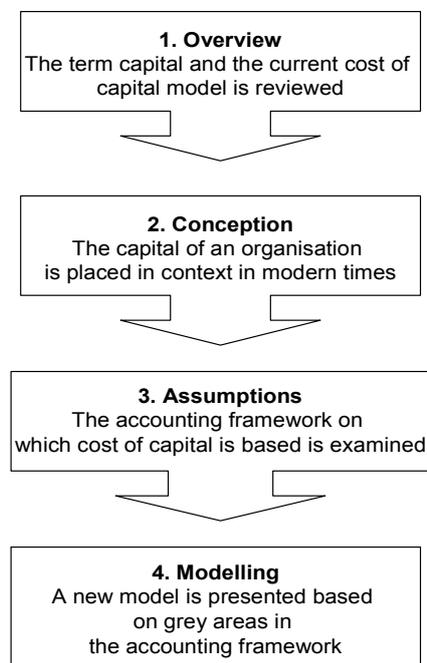
In order to discuss the above issues it is necessary to develop a more inclusive framework on which capital decisions are based. This transformed framework will expand on the current classes of capital namely financial, labour and physical and show a more complete view of the capitals available to an organisation. It is within this morphed capital system framework that the current model can be extended to show a more accurate reflection of a firm's cost of capital.

There is a confusing array of definitions used in literature that describe the concept of capital. Research regarding capital utilised in business expanded to include the

measurement thereof in the form of the weighted average cost of capital model (WACC). The purpose of this research is to conduct exploratory research into the expansion of the current cost of capital model by including certain sources of funding that are ‘greyed’ by the current accounting classification framework as well as the impact accounting entries can have on capital structure.

The research commences therefore by the refinement of the current WACC based on the capital construct. The concepts of capital and the cost of capital have already been defined in the literature and this research will propose a transformed framework for capital by refining it even further through delineating the field of study on capital, categorising the different sources of capital by creating a transformed capital framework and creating a more inclusive cost of capital model. The procedure followed in the dissertation for developing a reformed cost of capital model is outlined below:

Figure 3.1: Research procedure



(Source: Own observation)

In addressing the first research opportunity the effect of including sources of funding not addressed by the current accounting classification system on the cost of capital is explored.

3.2.2 RESEARCH ASSUMPTIONS AND PROPOSITION

The two main assumptions regarding the nature of the transformed cost of capital model are

:

- The cost of capital is a function of decision-useful information. Information that is useful to decision makers is included in the calculation. Accounting information is thus not always all inclusive and should not be taken at face value.
- The cost of capital is based on the principle of opportunity cost. It is the opportunity cost of obtaining financing and is representative of the current replacement value of sources of funding

The secondary assumptions made with regards to the research include:

- The cost of capital is a measurement tool
The sources of funding for an enterprise at different levels can be measured, thus allowing comparison over time in one company and between companies and industries. Measurement is taken in accounting context, i.e. financial or quantitative measures.
- The cost of capital is future orientated (uncertain)
The cost of capital model is used for decision making purposes based on future happenings. It is used in budgeting and forecasting and in valuation models which are all based on uncertainty and aimed towards the future. Management uses the cost of capital as a tool of prediction.
- The cost of capital is observable

The use and influence of cost of capital on decisions both internal (management) and external (analysts) to the organisation can be observed and recorded.

- The cost of capital is a construct of time

Like all things in life a business organisation and its capital is time bound. This also speaks towards the future orientated nature of the cost of capital. The arrow of time is forward looking and indicative of the way business is conducted – based on the future not the past.

- The cost of capital is a measure of risk

The cost of capital is used in valuation models as the discount factor which is used to measure the risk inherent in the valuation calculation. In capital budgeting it is also used to measure the riskiness of projects.

From the above assumptions follows the proposition:

Information included in the cost of capital model is useful to decision makers. This implies that the cost of capital model can influence decisions made by a broad spectrum of users both internal and external to the organisation.

The change to the current cost of capital model arises from a need to present a more holistic view of business. This dissertation presents a conceptual framework in which a more holistic view of a business's resources can be seen and from this framework a need arises to have a more representative model for capital. In order to achieve this steps are taken to first expand on the current model by including current areas of accounting classification on hybrid instruments as well as accounting book entries that have not been taken into account previously. On the back of this holistic framework, showing all fields of capital, it is the aim of this dissertation to highlight certain issues within the current accounting classification framework and the possible impact it can have on the current cost of capital model in the hopes of encouraging future classification guidelines to be set forth for complex areas of capital. The new construct is described in accounting and finance research but not in coherent and

organised form. The terms options, deferred taxes etc has been well described and debated in accounting research, but never before applied in this manner. This research will provide new insights into sources of funding as they apply to the cost of capital model.

3.2.3 IMPACT OF RESEARCH TOPIC

The impact of this research extends beyond the borders of the discipline of accounting. It enters the realm of financial management, economics, business management, organisational theory as well as investment management. However it is not the purpose of this research to consider the impact of the cost of capital on all these disciplines.

The dissertation shows a transformed model for cost of capital and applies this model to financial statements of companies but more research is required with regards to the validation of the model as well as the impact on other disciplines.

The research area of cost of capital should be useful to:

- The financial director and financial management team of any organisation.
- Investors in valuing a company based on its cost of capital.
- Shareholders and other stakeholders in a company.
- Privately and government owned organisations to help determine their cost of capital.
- The finance and accounting disciplines in general.
- It opens the door for further research.

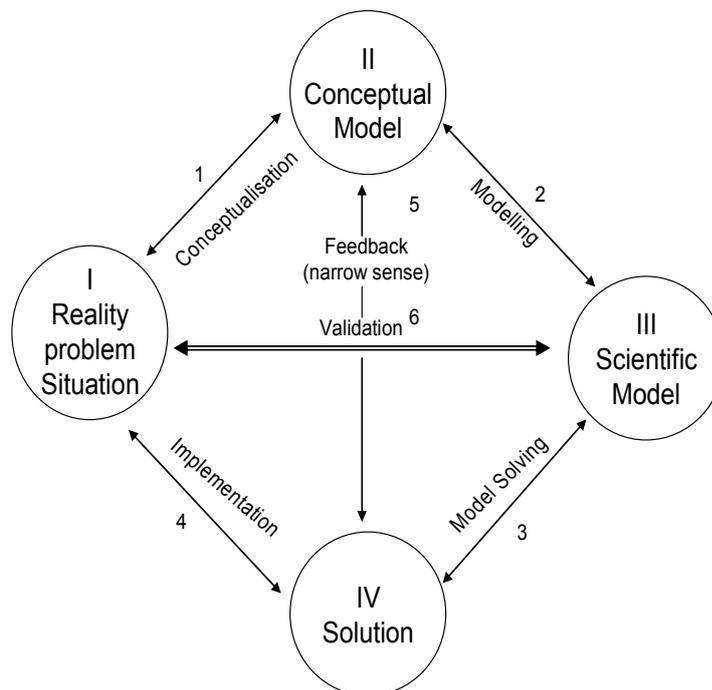
The beneficiaries mentioned above are the most obvious examples and do not constitute an exhaustive list.

3.3 SCOPE AND STRUCTURE OF RESEARCH

3.3.1 THINKING AND DESIGN INFORMING RESEARCH AREA

In this section the scale of the research and chapter organisation are addressed. As suggested by the title the purpose of this research is to introduce certain sources of funding that are ‘greyed’ by current accounting classification as well as accounting book entries, into the current cost of capital model. The scope of the research can be explained in terms of the model for problem solving presented by Mitroff, Betz, Pondy and Sagasti (1974:48). The diagram below is an illustration of their problem-solving model:

Figure 3.2: Systems approach to problem-solving



(Source: Mitroff, II, Betz, F, Pondy, LR and Sagasti, F, 1974, ‘On managing science in the systems age: two schemas for the study of science as a whole system phenomenon’, *Interfaces*, vol. 4, iss. 3, p46-58)

The model above represents a holistic view to problem-solving for a variety of activities. Each element (represented by a circle) implies that there is no predefined start or end point to carrying out research. According to Mitroff *et al* (1974:49) there are at least four ways in which problem solving can begin, namely it can start with the recognition of a previous problem situation; or the existence of a prior conceptual model; or a prior scientific model or the existence of a prior scientific solution.

The first phase of problem solving deals with the conceptualisation of a model. The conceptual model that is created out of the first activity, leads to the formalisation of a definition of the particular problem that will be solved. The parameters in which this problem will be looked at are also set out in this activity.

The second part of problem solving deals with the modelling of the conceptual problem into a scientific theory which can be tested. This scientific model (theory) represents a set of fully explained conceptual relationships that can be tested (Wacker, 2008:7). This step is very important in the research design – it lays the foundation on which actual testing is based.

The third activity relates to the solving of the set of relationships set out in the scientific model. The fourth activity is the implementation of the solution by users that would be affected by the problem. The implementation of the solution feeds right back into phase I as the new solution can lead to further research. The fifth activity involves feedback. Feedback is a very important mechanism in systems problem solving as it gives useful commentary on each phase and activity within the problem solving model. It will immediately give an indication as to the use and validity of the problem being investigated. The final activity relates to the validity of the scientific model being solved and tested. The validity of the model shows the relation between reality and the model being investigated. If the model cannot be useful in the real world it is of limited value.

Mitroff *et al* (1974:56) indicate that the interconnectedness of the elements within the system can lead to 3555 subsystems that can be formed by considering only certain combinations of elements and each of these subsystems represents a type of

scientific activity. From this it can be shown that legitimate research does not need to include or address all elements within the problem-solving model.

3.3.2 SCOPE OF RESEARCH TOPIC

The scope of this research includes circles I and II and activities one and five as depicted in Figure 3.2 above.

Chapters 1 and 3 commence at circle I and indicate the existence of a problem situation. The problem situation addressed is the introduction of certain sources of funding not previously taken into account in the current cost of capital model.

Chapters 2, 4 and 5 develop circle II namely the conceptual model. Current research and problem areas therein as well as the research perspective adopted are represented in order to define the nature and extent of the problem area.

Chapter 2 takes a historic look at the development of the concept of capital in accounting, economics and science. This chapter also presents the definition for capital adopted in this dissertation.

Chapter 4 places the current cost of capital model in perspective. The use of a literature review is adopted in order to show the current cost of capital model as well as assumptions underlying it. The current model will also be the starting point and base of the transformed model. The aim of this chapter is not to discount the current model but to present the current components and their underlying assumptions and limitations. To the current model additional items that impact debt and equity will be added in chapter six.

Chapter 5 presents a more holistic view of the capital available to an enterprise. Based on systems theory a transformed model for business capital is presented. Within this framework it is shown that business can achieve balance and sustainable development and survive in the coming years. Based on this framework (conceptual model) there is a need to investigate more areas relevant to the cost of capital.

Within this framework it was discovered that there are certain sources of funding not included in current model that must be included.

Chapters 6 and 7 address activity five - feedback in the narrow sense. The different sources of funding and items impacting funding that are not included in the current model are explored and a re-engineered model is presented based on the inclusion of these items. The modelling leads to the development of three categories of funding not currently included namely hybrid instruments, accounting book entries and cash. Arguments for the inclusion or impact of each as a source of funding is given and a transformed model presented. The problem statement given in section 1 is thus formulated and presented in this chapter. Chapter 7 puts the re-engineered cost of capital model developed in chapter 6 to the test. It involves feedback by applying the transformed WACC to the actual financial statements of 20 companies listed on the Johannesburg Stock Exchange (JSE). This chapter provides feedback on the possible effects the transformed WACC can have on capital cost measures. This provides feedback in the narrow sense as there is no scientific model or in depth testing done in the dissertation.

Chapter 8 deals with the conclusions reached based on the findings of the implementation of the transformed WACC model. It provides feedback as it opens doors for further research and testing. It also assesses the viability and usefulness of the cost of capital in accounting and finance. It contains a comparison of the outcome of the research and the assumptions and proposition identified in chapter 3. It closes with identifying areas that require further research and provide a preview of possible future developments in this field.

The next section will look at the underlying philosophical and theoretical assumptions adopted in this thesis.

3.4 METHODOLOGY AND RESEARCH METHODS

3.4.1 METHODOLOGY APPLIED IN RESEARCH AREA

Each field of social studies has its own theoretical and philosophical assumptions underlying research. In order to understand a piece of research it is important for researchers to state their underlying beliefs of reality and sources of knowledge and to indicate the relationship between people and the research environment. In order to describe the methodology adopted in this dissertation it is of interest to briefly examine the different approaches to accounting and finance research. The objectives, methodology and underlying philosophies of accounting research have changed over the past few decades. Current trends in accounting research have evolved from three major approaches to accounting research and theory.

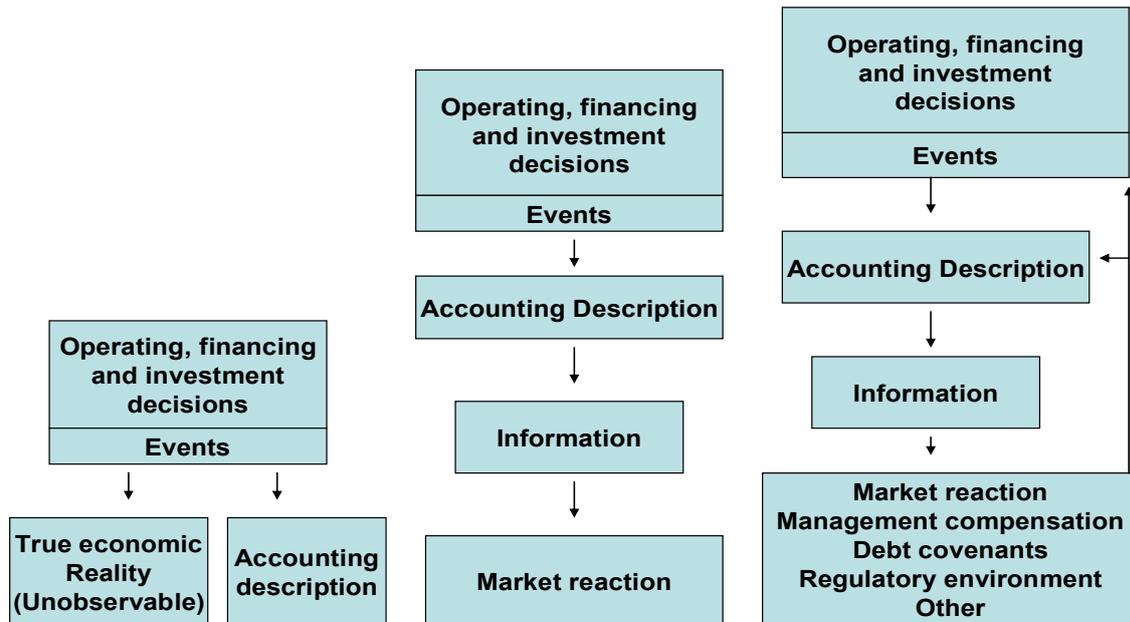
The classical approach appeared in periods before the 1960's and the accounting framework underlying much of today's regulation is based on this approach (Shondi, White and Fried, 2003:165). It attempts to create a theoretical framework based on some optimal accounting representation of perceived economic reality. Accounting principles are based on best practice that is observed in real time. The theoretical framework for accounting is based on observations of best practice in the market.

The market based approach criticised the classical approach for its lack of testability (Ryan *et al*, 2002:103-106). Market based research uses observable relationships between the reported earnings and market returns and draws conclusions about the role of accounting information. It is based on empirical testing.

Positive accounting theory eventually became the dominant view on accounting research (Watts and Zimmerman, 1990:132-135). It broadens the market based approach by including other environments affected by financial statements such as regulatory bodies, etc (Shondi *et al*, 2003:173). Management and creditors are also influenced by accounting information. It is based on the principle that financial statements impact different areas of decision making and are not only a measure of

the result of decisions. These three approaches are summarised in the following figure:

Figure 3.3: Schematic representation of the three research approaches in accounting and finance



1. Classical Approach 2. Market based research 3. Positive Accounting

(Source: Shondi, AC, White, GI and Fried, D, 2003, *The Analysis and Use of Financial Statements*, 3rd edition, John Wiley & Sons, US, p164)

The approach that will be followed is that of positive accounting theory. Positive accounting theory is based on the effects financial information have on investing, financing and operating decisions. As the cost of capital has to do with the financing decisions of an organisation, the framework of positive accounting research will lead to the correct manner in which to investigate the cost of capital. This dissertation will focus on the development and empirical validation of financial models that relate accounting variables to firm valuation and decision making.

The way in which this research is conducted can be analysed in terms of deductive theory building. Deductive theorising (Schwaninger and Grosser, 2008:448-450) involves the process of first stating certain assumptions from which a theory is

derived along a logical sequence of steps. Later on data can be collected in order to test the theory. First the problem is stated in section 2 along with the underlying assumptions. In chapters 5 and 6 a model is presented based on the theory and which is then tested in chapter 7.

3.4.2 SYSTEMS THEORY AND THE RESEARCH TOPIC

Underpinning this research is systems theory. Systems theory adds certain dimensions to accounting research that make it possible to adopt a positive accounting theory framework. Systems theory is based on a holistic view of the business environment and all its players. Systems theory shows the relationship between the different elements and how these relationships change over time (Von Bertalanffy, 1950:143). Systems theory thus lends itself to positive accounting theory by identifying possible breakdowns of old relationships and formations of new relationships that will aid in future research. Systems theory on the back of positive accounting research is a suitable research method that can be used to deal with the complexities of modern times.

Systems thinking emerged in the twentieth century and embraced the holistic view of the universe. It describes the whole as consisting of parts that are interconnected and working together in a regular relationship (Anderson, 1999:216). The system as a whole has characteristics and certain properties that cannot be explained only by the sum of the parts. This point is very important for the research theme. The sum of all capital sources adds more value and wealth to an organisation than on an individual basis. When applied together it delivers better results. For example an organisation will be more productive if labourers are given electric machinery and equipment that when you only have a pair of hands. This combination of capital resources will not only increase productivity but also cause cost saving and increased levels of efficiency. Thus the component parts together deliver more results than using them separately. Systems theory was a reaction to the “additive picture of reality of the positivistic thinking” (Mebratu, 2001:9). Positivism focuses on linear cause and effect relationships while systems thinking recognise that the

relationships between the parts can add positive or negative outcomes to the system as a whole and that there can be more than one result (Mebratu, 2001:9). Again the example can be used that adding labourers and electric equipment will result in more than just output being improved. Table 3.1 summarises the two dominant views of the universe and the framework of thinking that has developed over the past few centuries and how it applies to the topic of capital and the cost of capital.

Table 3.1: Comparative analysis on the views of the world

	<u>COSMIC VIEW</u>	
FACTORS	REDUCTIONIST	HOLISTIC
Nature	As a machine Capital is viewed as inputs into the business system.	As an organism Capital is viewed as the inputs, processes and outputs of the business system.
Focus	The parts Each capital source is viewed in isolation of the other.	The whole All the sources of capital used together create relationships and synergies.
Mechanism	Deterministic Must be able to quantify all sources of capital so it can be measured.	Creativity Some capital sources must be measured in qualitative factors that is not normally seen as forms of measurement.
The 'whole' as	Mechanistic sum of the parts Total capital is made up of the individual sources.	Dynamic interaction of the parts Total capital represents not only the component parts but also their interaction.
FACTORS	<u>FRAMEWORK OF THINKING</u>	
	POSITIVISTIC	SYSTEMS

Reality	Objective Financial capital is the main focus.	Objective and constructed Financial capital is not the only source of capital.
Knowledge	Additive As knowledge is gained it is used to add to the efficiency of the production process.	Evolving As knowledge is gained it is used to create an atmosphere of innovation that leads to more knowledge being shared and gained.
Focus	Cause-effect Capital resources are inputs into production process which result in profits.	Interrelationship Capital is based on a web of relationships which interact to create wealth.
Approach	Reductionist Capital is viewed in isolation and separate from other business decisions.	Holistic Capital is viewed as integral part of the business process and the interaction between the different business areas is considered.

(Source: Mebratu, D, 2001, 'The knowledge dimension of the sustainability challenge', *International Journal of Economic Development*, vol.3, iss.1, p6&9; areas in blue are own observation based on Mebratu's characteristics)

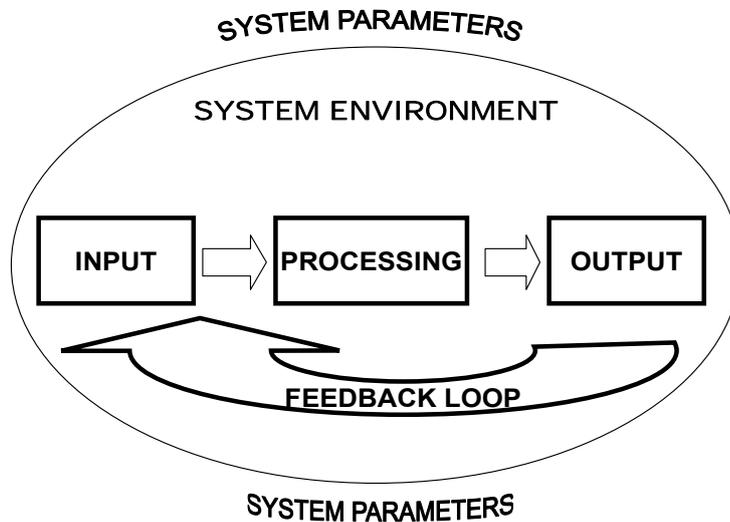
In the past the emphasis of Western science was on detail and specialisation. Reductionism was the new way of thinking and everything could be broken down to an atomistic level. From the table above Mebratu indicated that there is a shift in the way the world perceives things and how they think. He indicates that the world is moving away from viewing the world as separate parts making up the whole but to seeing things as a whole that is made up of certain parts. This shift in perception is not only applicable to science but to all forms of study. The way business enterprises are viewed has also changed and businesses are seen as systems that interact with other social and economic systems and it is through this interaction that value is created. In the table above this new way of thinking and seeing the world is adapted to the theme of this dissertation (the writing in blue in the table) Capital and the cost of capital also need to be seen, analysed and discussed in this new framework of

thinking. The capital of a business enterprise is integral to the success of the enterprise and needs to be seen as a network of relationships and interactions that causes resources to be converted in a business system. Systems theory looks at the structuring of sets of events and their relationship with the environment or other events (Ackoff, 1971:661). The focus is on systems as integrated wholes and not the mechanistic view of combined parts that can be viewed in isolation.

A formal definition of a system is found in the work of Manderson (2006:87). He defines a system as “a set of components or subsystems that interact with each other or alternatively as an aggregation of or an assemblage of objects joined in regular interaction or interdependence; an orderly working totality” In an open system there is an in- and outflow and change in components. It interacts with the surrounding environment.

The business environment is similar to an open system as it relies on the interaction between the different shareholders from suppliers to customers. Just as the business environment is an interactive one so are its resources. The different types of resources interact with each other (natural resources are converted into goods). Open systems obtain resources from their environment that they utilise in order to achieve their goals of growth and adaptation (Brown, 1966:320-321). Businesses obtain resources from its natural and human environments to create wealth. Open systems strive to maintain a dynamic balance as they adapt to changes in the environment. Business environments strive to maintain a balance between the different resources in order to derive optimal results in an ever-changing business environment. The open system is a model of transformation which transforms inputs into different forms of outputs as represented by the diagram on the following page:

Figure 3.4: Model of an open system



(Source: Own observation)

In chapter five the business environment will be presented in a similar fashion.

Open and business systems have the following characteristics:

Table 3.2: Characteristics of an open business system

1. Input	Resources are gathered from the external environments such as society and the environment.
2. Output	Resources are transformed into useful goods and services.
3. Processing	Business systems produce products useful to stakeholders.
4. Cycles of events	Activities regarding resource conversion take place in a cyclical manner over a period of time.
5. Negative entropy	A business enterprise strives to reduce uncertainty.
6. Input, information and	Input is the starting point in the business system and information allows inputs to be converted into goods

negative feedback	and services, while negative feedback allows businesses to improve current processes and products.
7. Steady state and dynamic homeostasis	A system is required to maintain resources at some optimal level some in order to reduce uncertainty.
8. Differentiation	Business systems require products, processes and people to be different in order to beat competition.
9. Equifinality	A business enterprise can still reach the same amount of profits by applying resources in a different mix and combination.

(Source: Ashmos and Huber, 1987, 'The systems paradigm in organization theory: correcting the record and suggesting the future', *The Academy of Management Review*, vol.12, iss. 4, p610; description of each characteristic in blue –own observation)

The characteristics of open systems can be used to explain the relationships in the business environment as shown above. Each characteristic of open systems has been adapted to explain the characteristics of business enterprises (writing in blue). These relationships reside in the flow and conversion of resources (capital). In order to convert natural resources into goods and services there needs to be communication and interaction between the different resources. Systems theory has aided in the advancement of organisation theory and management practice and according to Barnard (quoted in Kast and Rosenzweig, 1972:448) helps visualise the organisation as a cooperative system that comprises of physical, biological, personal and social components. These components interact with each other through the cooperation of two or more persons.

The goals of a business organisation, according to Goldspink and Kay (2003:459), are to make organisations more resilient and better able to survive in turbulent and unpredictable environments. The organisation must be able to learn to adapt to changing environments in order to survive. The organisation must strive for self organisation and variations in robustness in the face of change. Coherence and homogeneity is important for robustness but on the other hand difference, diversity and creativity is also necessary (Goldspink and Kay, 2003:460). A business enterprise is thus seen as an adaptive open system.

To summarise systems theory brings context to this research by viewing business as an open system with the ability to adapt to its changing environment. Accounting is the language of the business system and tool of communication between the business system and the larger system of society in which business finds itself. Accounting is a vibrant language that needs to adapt to changes in the system's environment. If accounting does not adapt to changes it might become a dead "language" like Latin. It must find new and better ways to communicate otherwise it becomes inefficient and a new language will be developed in its place.

Financial models and ratios are creations of the accounting language. They fit into the business system as measures of the wellbeing of the system. They define the parameters of the business system. Accounting is the language, and financial models and ratios are the tenses of this language. They form part of the business system and act as the communication tool for setting boundaries for the system. Their role in systems theory is of utmost importance. They also provide the feedback mechanism of the system. The language and its carriers or mediums of delivery create feedback on system problems which can be used as input. Feedback enables the system to evaluate itself internally and creates a means for the adaptation to change in the environment. Feedback is concerned with system efficiency and effectiveness. A very important element is that the system will only be productive on the back of the feedback loop.

This research as mentioned earlier has a multi-disciplinary approach. A literature review was conducted that spans several fields of study including accounting, financial management, investment management, taxation and capital structure theory. The multi-disciplinary approach adopted complements systems theory that is based on a holistic view of business. In order to understand financial statements and measures (tools) it is important to view it as part of the larger business and societal systems. Mitroff *et al* (1974:56-57) state that certain aspects of science should be viewed as a whole, otherwise important characteristics of the science are lost.

The dissertation commences with a literature review and practical experience of the concept of capital and cost of capital then expands it to review the current cost of capital model in order to create an understanding of the current views of capital and

cost of capital and to identify shortcomings in these views. It then builds on systems theory in order to create a more holistic view of capital in the business organisation and sets forth a framework. The research is also dependent on the use of financial statements of publicly traded entities in order to test the model formally.

Because new concepts are introduced into the cost of capital model the research is exploratory in nature. It adopts the hypothetico – deductive model of reasoning with logical conclusions researched based on assumptions made in the propositions.

The cost of capital is a theoretical model for the calculation of the weighted average cost of capital and thus the use of mathematical formulas is evident in this research. Also diagrams and tables are used to illustrate certain aspects of the concept of capital in business and in the cost of capital model. Examples are also used and applied to the cost of capital in order to illustrate the effects of changes in the calculation formula.

3.5 SUMMARY AND CONCLUSION

This dissertation is tasked with investigating the more complex hybrid sources of financing and certain items that can impact funding and how the inclusion of these items will alter the look and feel of the cost of capital model. These items have characteristics that make them difficult to classify according to a strict set of guidelines. In order to find a place for these items it is necessary to create a framework in which these items can find a home. For this to happen a sound conceptual base needs to be set and this base must follow some research methodology and framework. The research framework for this dissertation is based on systems theory. Systems theory can be used to simulate the actual business environment and aids in explaining some of the more complex relationships and interactions found in the business world.

CHAPTER 4: COST OF CAPITAL – THE STATUS QUO

“The riskiest thing we can do is just maintain the status quo” –Bob Iger

CHAPTER 4

COST OF CAPITAL – THE *STATUS QUO*

4.1 INTRODUCTION

The world of business is built on numbers. Numbers offer a meaningful way of measuring information. It is a precise and exact way of telling a business story. Business people like to hear and see their projects, plans or decisions in terms of financial data. Graphs are visual presentations of numbers and are used by decision makers to visualise their business plans and actions. In order to make these numerical representations possible the fields of accounting and finance have been developed throughout the ages in order to interpret the ‘language of numbers’.

One of the tools developed to assist managers in their tough decision-making is the cost of capital. It is an invaluable tool to managers as it is used to determine whether projects should be pursued by an organisation (investment decisions) and what the cost of funding is for a firm, and it is also used as a measure of performance (Pagano and Stout, 2004:13). Companies use the cost of capital as a benchmark rate of return against which the expected returns of projects, business units and investments are measured. This expected return is also known as the internal rate of return (IRR). The IRR represents the interest rate earned on investments and projects over the economic life of the investment or project (Drury, 2000:462). It is also seen as the rate that will cause the present value of the deal to be zero. The IRR is a means of identifying which deals or projects will be beneficial to the organisation. This rate is normally compared to the cost of capital. If the return is higher than WACC the project is accepted, based on the assumption that it will earn a spread over and above the cost of capital (Marx, De Swart and Nortjé, 1999:247). The cost of capital can also be applied as in the case of banks to determine the cost of funding of clients. Here the cost of capital speaks to the risks inherent in the type of funding. The more risky the client being funded the higher the cost of capital to ensure that

the bank is compensated for taking on a more risky client. The cost of capital is thus a critical tool in any financial manager's toolbox.

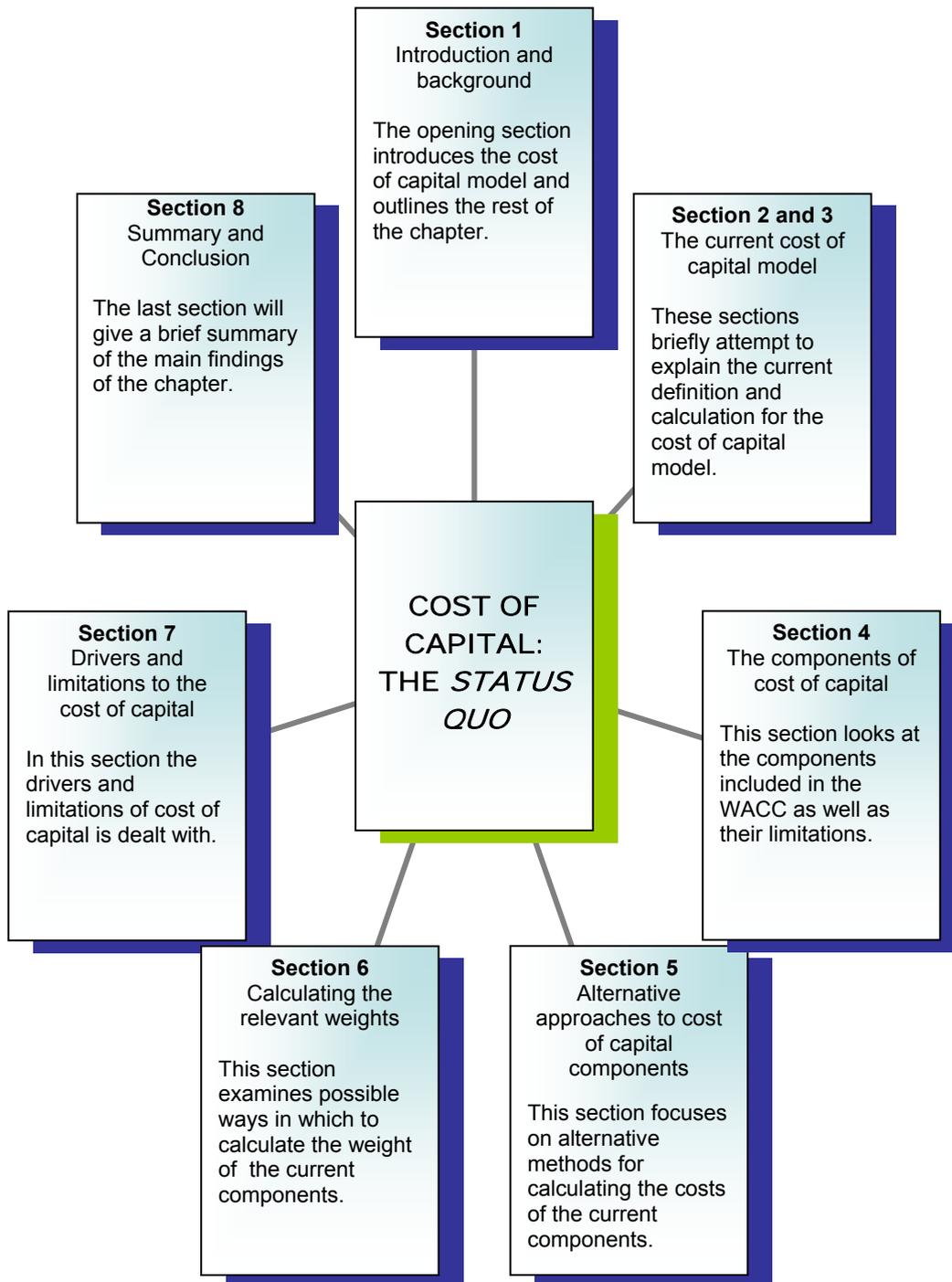
The term cost of capital attracted much attention with Modigliani and Miller's work on capital structure. In 1958 they presented a coherent model that addressed capital structure in a scientific layout. They used the weighted average cost of capital (WACC) as a discount rate to determine firm value. They showed that the cost of capital for a firm is the weighted cost of debt and equity funds. The main conclusion of their theory was that capital structure and the cost of capital is independent of the value of a firm (Modigliani and Miller, 1958:261-262). Their main conclusion implies that if the choice between debt and equity financing is irrelevant then the WACC will remain constant and a manager will be indifferent to using either debt or equity to finance the business. This conclusion will be challenged in chapter six and it will be shown that the choice between debt and equity is in fact relevant in making business and financing decisions.

The aim of this chapter is to present the current cost of capital model and all its component parts, as well as the various discussions and research on these components. This dissertation is not invalidating the current cost of capital model or the assumptions used in determining the returns of the various components. The current cost of capital model will be used as the starting point of this study. This chapter merely serves to highlight the current model and its limitations to readers so they are aware of the limitations inherent in the expanded model presented later on. In this chapter the current model will also be critiqued for not including a wider spectrum of financial instruments and accounting entries that influence the funding an organisation. These items are labelled the hidden components of the cost of capital model because they appear in financial statements but have not previously been considered in the cost of capital calculation. They are visible to users of financial information but hidden (excluded) in the cost of capital calculation. In chapter six and seven the current model will be expanded to include additional balance sheet items that have not been previously included in the model.

As indicated in figure 4.1 on the next page, the second and third sections of this chapter will look at the cost of capital model as described by financial textbooks and

used in practice. The fourth section contains a more detailed examination of the current model and its different components and limitations. Section five will describe some alternative methods to calculate the different components of cost of capital. Section six will examine current methods of calculating the relevant weights of debt and equity, while section seven will focus on the drivers and limitations of the current model.

Figure 4.1: Chapter Outline

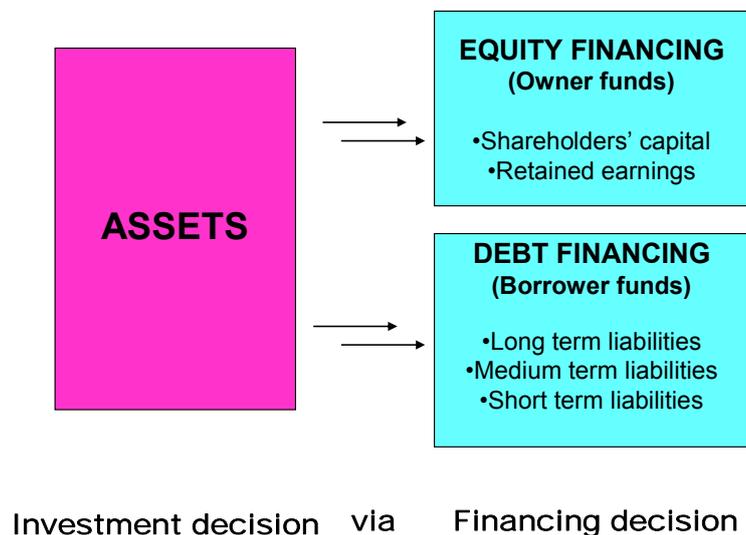


(Source: Own observation)

4.2 BASIS FOR THE COST OF CAPITAL MODEL

As mentioned above the cost of capital was more formally presented in the works of Modigliani and Miller (1958 and 1963). The current model is based on the accounting classification of debt and equity. The following represents the basis for their cost of capital model:

Figure 4.2: Representation of balance sheet items



(Source: Own observation)

The WACC is based on the debt and equity portion of the balance sheet. This section represents the funding of the assets on the balance sheet. The cost of capital is aimed at representing the cost of financing current and future operations (Ehrhardt, 1994:9). Based on the balance sheet classification of debt and equity, the cost of capital model was developed to represent common stock, long term debt, retained earnings, reserves and preferred stock as sources of funds. This debt-equity classification is the focal point of this research dissertation as there are other sources of funding (discussed in chapter six) not considered in the original model.

4.3 THE CURRENT MODEL

4.3.1 DEFINITIONS AND FORMULA

The cost of capital can be defined as “a rate of return which must be earned on investment projects in order to maintain the market value of a company’s stock” (Gitman and Madura, 2001:371-373). The cost of capital is a combination of the sources of funds that are divided into two areas namely debt and equity financing. Each variable is assigned a weighting by which its costs are multiplied to get to a weighted total cost of capital. The cost of capital model also has a long term focus as it only includes long term sources of financing such as long term debt; preferred stock, common stock and retained earnings (Garrison *et al*, 2003:367). It is indicative of the average cost of financing over the long term.

The weighted cost of capital (WACC) is represented by the following theoretical framework²:

$$\text{WACC} = \omega_d R_d (1-t) + \omega_{ps} R_{ps} + \omega_e R_e$$

With:

ω_d =weight of debt; ω_{ps} =weight of preferred stock; ω_e =weight of common stock

R_d =return on debt; R_{ps} =return on preferred stock; R_e =return on common stock and

t =corporate tax rate

The definition of WACC of Correia *et al* (2003:7-3) is a bit more robust and they state that the:

“weighted costs of components of the capital structure must be used as the hurdle rate for evaluating new investment projects.... It’s the marginal cost of each component which is appropriate for the calculation”.

² Bruner, RF, Eades, KM, Harris, RS & Higgins, RC, 1998, ‘Estimating the cost of capital: survey and synthesis’, *Financial Practice and Education*, vol. 8, iss. 1, p14 and Paulo, SBS, 1992, “The weighted average cost of capital: A caveat”, *The Engineering Economist*, Vol. 37, Iss. 2, p178.

As mentioned above each component is weighted by dividing its Rand amount by the total Rand amount for capital. This weight is then multiplied by the cost of each source. The sum of all the weighted costs is the total WACC. In the following section a look will be taken at the different components of cost of capital, namely debt, preferred stock and common stock and retained earnings. Each component, its cost and limitations will be looked at.

4.4 COMPONENTS IN THE COST OF CAPITAL CALCULATION

4.4.1 THE COST OF DEBT

The first step in estimating the cost of debt is to determine the rate of return or opportunity cost that debt holders require, in this case represented by R_d . Debt has two basic categories namely loans and debentures (Marx *et al*, 1999:231). For both loans and debentures the cost of debt will be the market related long term interest rate which reflects the opportunity cost for the bond holder (Weaver and Weston, 2001:274). To elaborate on this point – as set out in chapter seven, BFA McGregor uses current debt rates for the companies selected. The market related interest rate is used as the cost because it shows the rate at which a firm will have to replace old debt with current debt. It is the opportunity cost of debt and as shown in chapter two, the cost of capital model is based on the opportunity cost principle.

The calculation of R_d can be complicated by the use of different types of debt instruments for example floating rate debt, convertible debt and sinking funds (Brigham and Daves, 2004:298). To explain this point, the type of debt used by a firm is dependent on the type of asset that needs financing as well as current market sentiment and conditions. For example market conditions might be of such a nature that if a country is experiencing an economic downturn it will be difficult to obtain debt financing as companies are reluctant to issue debt due to a higher probability of client default. The higher probability of default is normally linked to a credit rating

downgrade in tight economic conditions. Another market condition that might favour debt financing is the tax treatment on debt interest payments. In certain countries such as the US and South Africa company interest payments of debt instruments are tax deductible and make the cost of debt financing cheaper than equity financing. This preferential tax treatment causes enterprises to use more debt financing than equity financing.

The cost of debt can be illustrated by the following model³:

$$\text{After tax component of debt} = \text{Interest rate} - \text{tax savings} = R_d (1-t)$$

With:

R_d =return on debt and t =corporate tax rate

The weighted average cost of debt used in the cost of capital model is the interest on debt less the tax savings due to the interest portion being tax deductible (Pagano and Stout, 2004:17 and Brigham and Houston, 1998:354).

Flotation costs are normally negligible but in some cases they can be a significant portion of the total cost.

Correia *et al* (2003: 7-6) show in the formula on the next page how to incorporate flotation costs into the cost of debt calculation⁴:

$$\text{After tax and flotation cost component of debt} = R_d (1-T)/(1-F)$$

With:

R_d =return on debt and t =corporate tax rate and f =flotation costs.

³ Pagano, MS & Stout, DE, 2004, 'Calculating a firm's cost of capital', *Management Accounting Quarterly*, vol. 5, iss. 3, p354

⁴ Correia, C, Flynn, D, Uliana, E & Wormwald, M, 2003, *Financial Management*, 5th edition, Cape Town: Juta and co, p7-6

The cost of debt is an important component in the cost of capital model but it is not the aim of this dissertation to question the methodology behind the debt calculation, but rather to show the ways in which it is calculated as it is a component that will be utilised later on.

4.4.2 THE COST OF PREFERRED STOCK

A large number of firms use preference shares as part of their permanent financing mix. The reason for the use of preference shares in South Africa was due to the tax benefit inherent in secondary tax credits (STC) to companies issuing preference shares. Currently the STC tax treatment is being discussed and the outcome of the discussion is that STC may be discontinued, thus there might be less preference share funding in the future. Preference shares provide shareholders with a dividend payment that must be made before any payments to common stockholders (Bierman and Smidt, 1986:401). Although it is not a fixed obligation as the case with interest payments on debt instruments, it is expected to be paid regularly. If companies do not pay preference dividends they cannot pay ordinary dividends and preference shareholders obtain voting rights in the case of dividends in arrears (Marx *et al*, 1999:232). Thus not paying preference shares may damage confidence in the business as well as erode creditworthiness. Preference shares thus have a preferential claim to ordinary shares on the assets of a company in case of default.

The cost of preference shares can be shown as a perpetuity due to preference shares not having a maturity date (Ehrhardt, 1994:65-67). This implies that in the calculation of its cost the preference share is valued using a formula that assumes that the preference shares grow at some constant rate forever.

The computation of the cost of preference shares is shown as follows⁵:

$$\text{Component cost of preferred shares} = R_{ps} = D_{ps}/P_n$$

⁵Bierman, H & Smidt, S, 1986, *Financial management for decision making*, US: MacMillan Publishing Company, p355

With:

R_{ps} =return on preference shares; D_{ps} = dividends on preferred stock and P_n =net issuing price

The formula indicates that the cost of preferred stock is the preferred dividend divided by the net issuing price, being the price a company receives for the preferred stock minus flotation costs. The preference share dividend is paid out of after tax cash flows, while interest is paid out of before tax cash flows. This implies that when calculating the cost of debt, taxes still need to be deducted because no tax has been paid on the interest while tax has been paid on preference shares. Therefore the cost of preference shares already includes taxes and thus no tax adjustment is shown in the above calculation.

4.4.3 THE COST OF COMMON STOCK

Firms can raise equity in two ways, either by issuing new shares in the primary markets or by utilising internal funds in the form of retained earnings. Normally retained earnings would be the only form of internal funding included in the cost of capital calculation, while funds such as unutilised provisions and cash are not considered as sources of finance. These items will be addressed in chapter six. Few firms actually issue new common stock due to the following reasons:

- Flotation costs can be high (Brigham and Houston, 1998:360). Normally no new share issues are used to raise funding as it is expensive for companies to issue new shares because the cost of equity finance bears a higher cost than that of debt financing in most cases discussed in chapter seven. The implication for the cost of capital calculation is that where debt financing is cheaper companies tend toward debt. The proposed transformed cost of capital model in chapter six will show that there are other sources of funding available to businesses without having to turn to the equity markets.

- An increase in the supply of new stock will put deflationary pressure on the company's stock price thus forcing the company to issue new stock at a lower price than expected (Brigham and Daves, 2004:300). When companies issue new stock there will be more shares available to investors thus diluting the value of the shares. Again the proposed model in chapter six will indicate that there are alternative sources of funding available rather than issuing stock and diluting shareholder value.
- Investors perceive the issuing of equity as a negative signal because of the dilution of shareholder value (Harris and Raviv, 1991:306-311). Investors perceive that the issuance of additional shares will lead to the dilution of value for current shareholders and that they are not prepared to take the risk of losing value. The proposed model (chapter six) will reveal new and innovative ways a company can utilise sources of funding without having to issue new stock and facing negative investor sentiment. The new method may actually assist in building better investor-client relationships by aligning accounting and investor needs through recognising the need for a more decision-useful accounting framework.

The reasons stated above are very relevant to the calculation of the cost of capital as they indicate a bias toward debt financing. In Africa it is common practice to use debt instead of equity financing and more than 80% of business enterprises in Africa use debt financing. This will show a higher weighting for debt than equity as shown in chapter seven and explains why firms choose to use debt financing more freely. It also relates to the use of internal sources of funding instead of issuing new stock. The question that arises from this is whether retained earnings bear a cost to the company? Brigham and Houston (1998:356) answer this question with a resounding yes. They state that stockholders will incur opportunity cost – the earnings could have been used for alternate purposes such as dividend payouts or reinvestment in other securities. Thus the firm could earn at least as much as the stockholders of the firm could if retained earnings was used for these purposes. Rao (1995:289) indicate that the cost of equity represents the opportunity cost of equity capital which is the implicit rate of return based on investor expectations. Therefore the cost of retained

earnings is equal to the cost of common equity while the cost of common equity will be equal to the cost of common equity plus flotation costs (Brigham and Houston, 1998:360-361). This is an important point to note as in chapter six additional items that impact funding will be introduced and explored and some of these sources will be at the cost of internal equity funding which is the same as the cost of equity.

The cost of debt and preferred stock are more easily determined than common stock due to the contractual obligations attached to the former (Brigham and Daves, 2004:300). According to Bierman and Smidt (1986:362) the rate of equity is the rate at which investors discount the expected dividends of the firm to determine share value. It can be determined by using one of the three more commonly used methods, namely capital asset pricing model (CAPM), the discounted cash flow (DCF) method and the bond yield plus risk premium approach. Each method and its component parts will be described in brief in the following sections on calculating the cost of equity. The aim of this dissertation is not to investigate the different methods used in calculating the cost of equity but to show readers that there are various ways in which the return on equity can be calculated and to highlight potential limitations. It will briefly state the different methods as well as the preferred method, which is also employed in chapter seven in the calculations. It is also important to list some of the limitations of the different methods so readers are aware of these limitations and they are also inherent in the WACC calculation employed in chapter seven.

4.4.3.1 Method 1: Capital Asset Pricing Model (CAPM)

The CAPM describes the relationship between the required rate of return and the systematic risk faced by firms as measured by the beta coefficient (De Wet and Das, 2007:4).

CAPM is based on the following assumptions (Pratt and Grabowski, 2008:86-87):

- There are no transaction costs, taxes or any other market inefficiencies.
- Markets are efficient and investors have perfect information.
- Investors can lend or borrow at the risk free rate.
- All assets are liquid.

- Investors have homogenous expectations.
- Investors are risk averse and seek to maximise their wealth.

It is important to present the CAPM model and its assumptions as it will be used later on in the calculation of the transformed WACC in chapter seven. The current model will be used and expanded upon and it is thus essential to understand the elements on which the current and expanded model is based. The assumptions of the CAPM model become the underlying assumptions of the transformed WACC calculation later on in this dissertation as the CAPM model is the preferred method of calculating the cost of equity. The assumptions of CAPM have also been tested and it has been shown that under less stringent assumptions of transaction costs and different lending and borrowing rates, CAPM still holds (Reilly and Brown, 2003:260-261) The testing of the CAPM assumptions indicate that the CAPM model still holds true and its validity as a scientific formula is strong. The underlying assumptions on which the transformed WACC model will be based are strong and still hold under stress testing.

CAPM and its component parts can be shown in the CAPM formula⁶:

$$\text{CAPM} = R_f + RP_m (\beta_i)$$

With:

R_f=risk free rate of return; **RP_m**=market risk premium and **β_i** =stock beta

The following section will describe the different components of CAPM.

4.4.3.1.1 Estimating the risk free rate

The starting point in the CAPM calculation is the risk free rate. In essence there is no instrument that is truly riskless. The concept of risk free relates to being certain and in a world bound by the forward looking arrow of time the future is uncertain and with it comes risk. The risk free rate is made up of two components namely the real rate of

⁶ Bruner, RF, Eades, KM, Harris, RS & Higgins, RC, 1998, 'Estimating the cost of capital: survey and synthesis', *Financial Practice and Education*, vol. 8, iss. 1,p16 and Bodie, Z, Kane, A & Marcus, AJ, 2005, *Investments*, 6th edition, US: McGraw-Hill/ Irwin, p295

interest and expected inflation which in turn is called the nominal risk free rate (Ogier, Rugman and Spicer, 2004:31). The difference between nominal and real rate is important as it leads to confusion when one rate is real and one is nominal.

Most companies turn to government securities as a proxy for the risk free rate as these securities essentially have zero default risk (Pettit, 2007:13). The next question is which government securities to use? There are long and medium term treasury bonds and short term treasury bills. Long term government bonds are more commonly used as a proxy for the risk free rate (Bruner, Eades, Harris and Higgins, 1998:19). The use of long term government bonds as a proxy for the risk free rate is due to the following reasons:

- Treasury bills are more volatile than treasury bonds because the bill rate varies over time (Brigham and Daves, 2004:302). For the purpose of this dissertation it is especially true in the South African market where currently interest rates change every quarter. This causes short term interest rates to fluctuate more frequently than long term rates. For calculation purposes in chapter seven a long-term government bond rate namely the R153 is used.
- The CAPM is a measure over an expected period of time (Correia *et al*, 2003:7-1 to 7-19). In chapter seven it is assumed that the WACC produces the cost of long-term sources of funding. The cost of capital is long term in nature because the underlying sources of capital have a longer term view.
- Common stock is generally viewed as long term securities (Marx *et al*, 1999:234). For purposes of this dissertation it is assumed that stockholders would want to invest with a long term view in mind thus it is logical to use a long term rate as proxy in chapter seven.

In view of the above, Bruner *et al* (1998:19) recommend using the government long term bond rate as the risk free rate in the CAPM formula. The use of the long term government bond rate is an important aspect of the CAPM formula and one that will be used in chapter seven. The risk free rate that will be used in this dissertation is the

rate on the R153 which is a long term government bond. The long term rate is used, discussed above, as it is more relevant to use a longer term rate.

4.4.3.1.2 Estimating the market risk premium

The market risk premium consists of the expected market return minus the risk free rate. The market risk premium can be calculated by using either historical data or forward looking data (Pettit, 2007:5-9). The question is whether to use historical data that is based on fact or forward looking data based on best estimates about the future. The cost of capital model is a forward looking concept and the inputs into the model are based on assumptions and estimates about the future. It can be argued that the best way to estimate the future is to look at the past but one can argue that the past doesn't repeat itself or that it is impossible to predict the future. The market risk premium relates to the extra return a company can make on investments over and above the risk free rate of interest.

Historical data can be found from various sources in different countries. Historic returns can be calculated using either an arithmetic or geometric mean (Pratt and Grabowski, 2008:95). The arithmetic mean is simply put the average annual returns over the period considered, while the geometric mean represents the annual compound growth in returns over the period. The more commonly used method is the geometric mean.

The main problem encountered with using historical data is that the past might not be an accurate reflection of the future and that past data used to project future returns must be approached with caution (Ogier *et al*, 2004:72-73). Historical data may overstate returns providing a company much more incentive to invest in instruments and stock that it shouldn't invest in.

The alternative is to use forward looking or *ex ante* risk premiums. This method rests on the principle of predictability. It attempts to predict expected market returns by making plausible assumptions about the future. The forward looking risk premium takes current data and uses certain assumptions to adjust it for future risk. This can

be achieved by using the discounted cash flow method (Brigham and Daves, 2004:303-304). The method can be explained by re-arranging the dividend discount model to show that the expected market return is equal to the expected dividend of the firm divided by the share price of the firm plus the expected growth rate of the firm. Using this formula the market return can be calculated and is then used to calculate the market risk premium. The problem with this approach is obtaining information with regards to the inputs in the formula for market return. Expected dividend information is not always readily obtainable and projecting future dividends is very subjective.

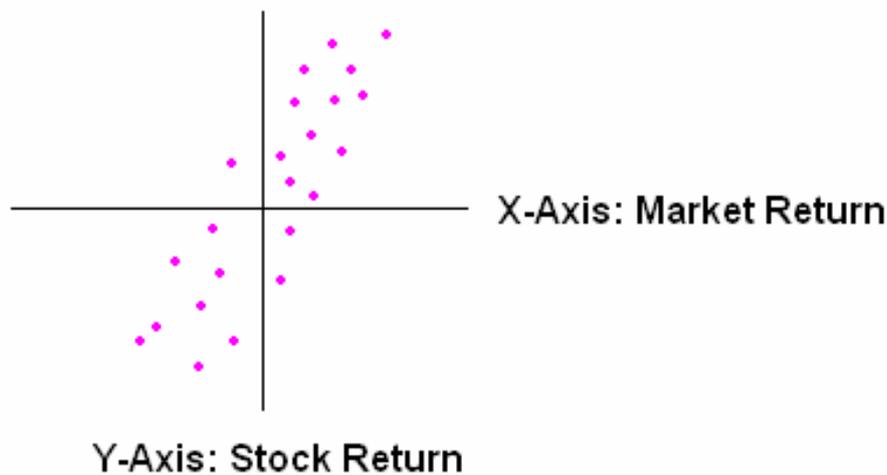
Based on research Brigham and Daves (2004:305) propose that the norm is to use a risk premium of between 3 and 6 percent, while Pettit (2007:5) indicate that the risk premium can be anywhere between 3 to 8 percent. The lower boundary represents companies which are seen as sound and not that risky while the upper boundary will be an estimate of more risky and unstable companies. The more risky the company the higher the risk premium will be. As will be shown in chapter seven the risk premium used by McGregor BFA – a financial analyst company – for South African companies is taken as 6 percent (BFA McGregor, 2008). This rate is high since South Africa is an emerging market and a higher risk premium is used. This rate is influenced by various factors such as economic stability, political risk, credit ratings, etc. For example if the sovereign credit rating of South Africa would to be downgraded it will cause the risk premium to increase and vice versa. Also if there was political unrest and instability in the country the risk premium will increase in order to compensate international investors for taking on the risk of investing in a politically unstable country rather than a stable economy.

4.4.3.1.3 Estimating beta

Beta represents the excess return an investment can earn over and above the risk free rate. The risk free rate is the minimum return an investment can earn if it is assumed that there are no risks such as risk of default (Hull, 2005:64). The figure on the next page illustrates the concept of beta. Beta can be seen as the slope

coefficient in a regression whereby the market returns are on the X-axis and the company's stock returns on the Y-axis (Bodie *et al*, 2005:351-352):

Figure 4.3: Graphical representation of the Beta slope coefficient



(Source: Own observation)

In the graph above the X-axis is the excess return the market can earn above the risk free rate while the Y-axis represents the excess return the stock can earn over the risk free rate. The different dots represents different combinations of excess returns, for example the stock can have an excess return of 3% above the risk free rate while the market can have an excess return of 1% above the risk free rate. The beta is the slope coefficient which represents the best fit line that can be traced on the graph above. The beta indicates how a company relates to the overall market. If the market is experiencing a downturn will the company also experience a decrease in its value or will it move in the opposite direction? This is what the beta is an indicator of. A beta of one shows that a company moves in perfect tandem with the market, while a beta below one indicates that the company moves in the opposite direction than the market and a beta of above one shows movement in the same direction, but faster than the market.

The beta computed through regression analysis is known as the historical beta. This process seems straightforward, but it gives rise to the following complications:

- There is no guidance as to the holding period over which to measure returns (Bruner *et al*, 1998:20). The implication for this dissertation is that beta can be calculated using daily, monthly, weekly or yearly return, all with different betas. Beta is also sensitive to the number of observations used in the regression model. This has implications for the research in arriving at a correct estimate for beta. In chapter seven, beta is calculated based on a daily return. If the incorrect period is selected beta may deliver biased results.
- The market return is theoretically supposed to include all asset classes but in practice a composite index is usually used to represent all asset classes (Pratt and Grabowski, 2008:1222). This implies that the market return for the transformed WACC model in chapter seven will be calculated using a return based on some index that is indicative of the asset classes available on the exchange. For example in South Africa the all share or ALSI top 40 is used to represent the market return. In chapter seven the market return is represented by the return on the All Share Index.
- In some instances the beta is modified in order to reflect a more accurate beta (Ogier *et al*, 2004:54-55). For this dissertation the beta has not been modified. This can be done by either adjusting the beta to make it closer to the average beta of one (adjusted or Bayesian beta) or modifying the beta to incorporate factors specific to the company such as operational, financial and cyclical (fundamental beta).
- The estimate of beta can be subject to statistical impreciseness. In chapter seven the beta used is obtained from BFA McGregor which is subject to the measures they use. The beta is a statistical measure and subject to errors if the input is not exact.
- Numerous factors affect the return calculation in the beta estimation. For example the number of years, the period of return or style of return, all of which in turn affect beta (Weaver and Weston, 2001:288). In this dissertation

the All Share Index is used as a proxy for the market return. The beta will thus be biased toward the shares not included in the return, in this case all unlisted entities.

Again it is not the aim of this dissertation to address issues related to the calculation of beta. They are presented above so that the reader is aware that there are certain limitations to the calculation methods used in this chapter and in following chapters. The purpose of showing the limitations to the calculation methods, in this case beta, is to indicate the limitations in the methods employed and that these limitations might give rise to further research in the future.

Although beta suffers from certain shortcomings the beta based on regression analysis is still used in the CAPM calculation. Beta is not absolutely correct. This is an indication that there are some issues in the accuracy of the cost of capital as a measurement tool and that these issues of measurement need to be addressed. The purpose of this dissertation is to address the accounting classification issue with regard to debt and equity instruments.

4.4.3.2 Method 2: The discounted cash flow approach

If a company's dividends are expected to grow at a constant rate then the following expression can be used to determine the price of the shares⁷:

$$P_0 = D_1 / r - g$$

With:

P₀=price of company shares; **D₁**= expected dividend; **r**=required rate of return and **g**=growth rate of company.

⁷ Brigham, EF & Houston, JF, 1998, *Fundamentals of financial management*, 8th edition, US: Dryden Press, p358-359; Bierman, H & Smidt, S, 1986, *Financial management for decision making*, US: MacMillan Publishing Company, p362-363 and Siegel, JJ, 1985, 'The application of the DCF methodology for determining the cost of equity capital', *Financial Management*, vol. 14, iss. 1, p47

Rearranging this formula, the required rate of return for equity can be calculated as follows:

$$R_s = D_1 / P_0 + g$$

The investor thus receives a dividend portion (D_1 / P_0) as well as capital gains (g). This method is called the discounted cash flow approach to calculating cost of equity in the cost of capital model (Pratt and Grabowski, 2008:256), or otherwise known as the constant growth model or Gordon model. This model can be used to show the relationship between the cost of capital model and stock market prices. If a graph of stock prices is presented, it indicates some sort of pattern with up- and downward movement. The cost of capital will also follow a profile similar to the stock prices.

Inputs in DCF:

- current stock price
- expected dividend
- growth rate

The calculation of the growth rate warrants a bit more explanation as there are three ways for calculating the growth rate (Weaver and Weston, 2001:284). The three ways in which to calculate growth rates are considered because of the important role it plays in the model shown above. It is one of the inputs to the discount model and just as the beta is explained as an input in CAPM so will the different methods for growth be explained. It must be noted that these measures are explained for information purposes as the calculation of the cost of equity in chapter seven is based on CAPM (due to information constraints the CAPM method was used).

Firstly, historical growth rates can be used if earnings and dividends have remained relatively stable over the past few years (Brigham and Daves, 2004:307-308). Secondly most firms use the retention growth model whereby the growth rate is determined by taking the firm's retention ratio times the firm's return on equity (ROE) (Brigham and Houston, 1998:359). This is the more commonly used method for

calculating the firm's growth rate. Lastly analyst's forecasts can be used as an estimate for growth (Ehrhardt, 1994:39). Security analysts publish growth estimates for most of the larger publicly owned companies.

4.4.3.3 Method 3: The bond yield plus risk premium approach

The last method in calculating a firm's cost of equity is known as the bond yield plus risk premium approach. This method entails taking the interest rate of the firm's long term debt and adding a risk premium to it (Pagano and Stout, 2004:15). This method is very subjective as it relies on a judgmental risk premium of 3 to 5 percent. Due to the large range of the risk premium this approach is likely to produce a precise cost of equity.

4.4.3.4 The cost of newly issued stock

As mentioned earlier the cost of issuing new equity is normally higher than using internal funds such as retained earnings. The reason for new equity to be more costly is flotation costs. The model on the next page shows the impact of flotation costs on the cost of equity⁸:

$$\text{Component cost of newly issued common shares} = R_s = D_1/P_0(1-F) + g$$

With:

R_s =return on common shares; D_1 = expected dividend; P_0 =share price; F =flotation costs and g =growth rate of company.

The impact of flotation costs is that the company's cost of equity will be higher and hence also the cost of capital. Flotation costs are the reason why companies are not eager to issue new common equity.

⁸ Marx, J, De Swart, C & Nortjé, A, 1999, *Financial management in Southern Africa*, 1st edition, South Africa: Mills Litho, p245 and Weaver, SC and Weston, JF, 2001, *Finance and accounting for non-financial managers*, United States of America, McGraw –Hill, p293

4.4.3.5 Choosing between methods

Looking at the three most commonly used methods to calculate the cost of equity, the question that naturally arises is which method is the more correct method to use? The table below gives a summary of the three methods:

Table: 4.1. Summary of methods for calculating the cost of equity

METHOD	INPUTS	DESCRIPTION
CAPM	Risk free rate (rf)	This method is based on assumptions regarding capital markets. It describes the relationship between the required rate of return and the non-diversifiable risk of companies.
	Market risk premium (RPM)	
DCF	Beta (b)	This method relies on the assumption that a firm's dividends are going to grow at some constant rate. It takes the dividend portion as well as the capital gains portion into account in the calculation of the return on equity.
	Expected dividend (d1)	
	Share price (Po)	
Bond plus risk premium	Growth rate (g)	This method is the most subjective as it takes the interest rates on long term debt plus some risk premium to derive a cost of equity.
	Risk premium (RP)	
	Return on debt (Rd)	

(Source: Own observation)

Brigham and Daves (2004:309-310) suggest using all three methods to determine the cost of equity and then taking the average of the three methods as the figure to represent the cost of equity in the overall cost of capital calculation. Correia *et al* (2003:7-9 to 7-10) suggest that the choice in method is subjective while Ogier *et al* (2004:95) supports this by stating that the model used must suit the company's circumstances in which they operate. In practice it is more common to use the CAPM to calculate the cost of equity as can be shown by the use of it by McGregor BFA in chapter seven. The results of a research survey done by Graham and Harvey (2001:201) also indicate that CAPM is the most popular method used in practice to determine the cost of equity. The popularity of the CAPM method is attributable to the fact that the inputs are more readily available than for the other methods.

4.5 ALTERNATIVE METHODS FOR CALCULATING COMPONENT COSTS

The purpose of this section is to briefly mention some of the alternative ways in which each cost of capital component can be calculated. This section is only for information purposes as the WACC calculation in chapter seven is based on the CAPM approach for equity and the normal current interest rate approach for debt.

4.5.1 ALTERNATIVES FOR THE COST OF DEBT

The alternative approach to the methods mentioned above for calculating the cost of debt is to take all debt shown on a company's balance sheet including both long and short term debt. Each type of debt is then given a weight according to its balance divided by the total balance of debt (Weaver and Weston, 2001:278). The interest rate associated with that debt is then multiplied by the weight. The total weighted average of all interest rates related to debt is then representative of the cost of debt (Weaver and Weston, 2001:278). This method uses all the interest rates according to the type of debt a company utilises. This method can be a time consuming exercise as each interest rate associated with specific types of debt instruments must be determined.

A slight deviation on the approach is to combine current and expected debt. An additional line can be added to the balance sheet indicating new debt to be issued, the amount and estimated interest rate (Weaver and Weston, 2001:278). This is then included in the calculation of the weighted average interest rates calculation as explained above (Weaver and Weston, 2001:278). In this case provision is made for any future debt that may be acquired by a company. Estimating the interest rate might prove difficult as it is based on future debt markets and circumstances.

4.5.2 ALTERNATIVES FOR THE COST OF COMMON STOCK

A number of empirical tests (Stein, 1996:1-3) have been done on the validity of CAPM. These tests were conducted as some of the assumptions of the CAPM model were seen as too restrictive and unrealistic. In South Africa the markets are far from perfect markets as assumed by the CAPM model. Borrowers and lenders require different rates and returns to compensate them for lending and borrowing money, while transaction costs are high and certain assets are not liquid. In order to incorporate some of these real world facts alternatives to the CAPM model were created. These alternatives attempted to address some of the short-comings of the CAPM model and they include the Arbitrage pricing model (APT) and the FAMA-FRENCH model.

4.5.2.1 Arbitrage pricing model (APT)

CAPM looks at the movements in stock returns relative to the movements in market returns. Beta is the main driver of the cost of equity since the other components are common across all shares. The APT is an extension of CAPM and attempts to address some of the shortcomings of CAPM related to risks other than market risk an organisation faces (Pratt and Grabowski, 2008:244). The APT model includes various risk factors and sensitivities. The risk factors included are subject to company specifics and vary from company to company. For example a timber factory will face the risk of termites while a bank would not be faced with the same risk regarding termites.

The following framework represents the APT model⁹:

$$\text{APT} = R_f + R_1(\beta_1) + R_2(\beta_2) + R_1(\beta_1) + \dots + R_n(\beta_n)$$

⁹ Bodie, Z, Kane, A & Marcus, AJ, 2005, *Investments*, 6th edition, US: McGraw-Hill/ Irwin, p356 and Pratt, SP & Grabowski, RJ, 2008, *Cost of capital-applications and examples*, 3rd edition, US: John Wiley & Sons Inc, p244

With:

R_f =risk free rate of return; $R_1... R_n$ =expected risk premium and $\beta_1... \beta_n$ =sensitivity factor of each security

The APT model allows for different variables to be taken into account and may give a better explanation of returns than CAPM. The APT includes risk factors that are excluded by CAPM. In the CAPM calculation it is assumed that companies have diversified away all company specific risks and are only left with uncontrollable market risks (Bodie *et al*, 2005:356). Reasons for not using the APT model include its lack of transparency and its use of past data to reflect future events (Ogier *et al*, 2004:88). These limitations to the APT have made it a less used tool than CAPM. It involves more detailed calculation and subjective assumptions regarding risks faced by an organisation thus making it not as popular as CAPM.

4.5.2.2 Fama-French three factor model

The Fama-French model is built on the same principles as CAPM and APT. it combines CAPM with the effect of size and book value on the cost of equity¹⁰:

$\text{Fama-French} = \text{RPM}(\beta_i) + \beta_s \text{SMB} + \beta_h \text{HML}$
--

With:

RPM=market risk premium; β_i = sensitivity of security to market risk premium; β_s = sensitivity of security to SMB; **SMB** = Small minus big – expected return for small capitalisation firms; β_h = sensitivity of security to HML; **HML**= high minus low – expected return for high book to market value firms.

The model follows CAPM but introduces company specific factors that Fama and French believe improve the performance of the model (Stein, 1996:2-3). The firm size and ratio of book to market value implies that the cost of equity is higher for small and lower capitalisation firms. These two factors are seen as the two most important

¹⁰ Ogier, T, Rugman, J and Spicer, L, & Madura, J, 2004, *The real cost of capital: a business field guide to better financial decisions*, UK: Pearson Education Limited, p88

factors that lead to differences in return. Small capitalisation firms normally outperform large capitalisation firms and high book value firms are outperformed by low book value firms.

4.6 RELEVANT WEIGHTS FOR WACC

The final step in the cost of capital calculation is to assign appropriate weights to the debt and equity components. The weights can be based either on book values or market values (Brigham and Houston, 1998:363). The book value of the capital structure is represented by the figures found in the balance sheet as prescribed by International Financial Reporting Standards (IFRS). The market value is the total amount of shares outstanding times the current market price of the shares (independent of accounting numbers). The market value method to calculating weights gives a more accurate reflection of a firm's debt - equity mix while book values are based on historical cost and not an accurate reflection of a company's true position (Marx *et al*, 1999:245). This point can be challenged on the basis of fair value accounting. If a company applies fair value accounting the book value of the assets and liabilities will be very close to the actual market value. Alternatively companies can have strategic plans in place to establish an optimal capital structure that it will strive to obtain over time (Brigham and Daves, 2004:310). Companies set certain target debt-equity ratios and incorporate these targets into their cost of capital calculation.

Based on budgeted projects and capital needed, target weights with regard to debt and equity funding is established to ensure optimal funding is gained. If the company is actively pursuing the objective of the target ratio then the target weights are more appropriate to use. The method for calculating weights that will be adopted in this dissertation is the book value method. This method is preferred to the other methods as it is the less subjective method. The target weights method is based on future expectations while the market values method assumes that market prices for shares are readily obtainable. The book value method stems directly from accounting information and is based on data already captured and recorded.

4.7 DRIVERS AND LIMITATIONS OF WACC

4.7.1 DRIVERS OF THE COST OF CAPITAL

The following are factors that influence the cost of capital:

- **The level of interest rates**

The impact of interest rates on the cost of capital, can be explained by looking at the impact higher rates have on the cost of debt and equity (Brigham and Houston, 1998:370-371). If you were, for example, to add 1% (100 basis points) to the cost of debt for ABSA Group Ltd, that is one of the selected companies in chapter seven, it will cause the WACC to increase because of the high weighting assigned to debt financing for this company.

- **Market risk premium**

The market risk premium is based on the perception of risk inherent in stocks as well as investors' risk aversion (Reilly and Brown, 2003:238-271). If for example we were to change the market risk premium of BFA McGregor that is used in chapter seven to say 10% instead of the 6% used, it would cause the cost of equity of the selected companies to increase and also the cost of capital. Companies do not have any control over this factor but it affects the cost of equity and thus the cost of capital.

- **Tax rates**

Taxes influence the cost of capital through the impact it has on a firm's financial policy and its investment decision (King, 1974:21-35). If for example company tax rates were to go up by 3%, the cost of debt would also change for all companies in chapter seven. Changing tax rates influence the use of certain sources of funds. The additional sources of funding that will be shown in chapter six will also be influenced by the tax rate. If certain financial instruments are tax exempt or have preferential tax treatment they will be used before other sources of funding.

- **Capital structure**

If a company has a given capital structure with target weights for debt and equity then these weights are used in the cost of capital calculation (Myers, 2001:81). If for example Pick 'n Pay Ltd in chapter seven were to decide that they want to use more equity, financing the composition of their cost of capital will change as well as their cost of capital number.

- **Dividend policy**

The percentage of dividends paid out influences the cost of capital. The dividend decision is not independent from investment opportunities and financing strategies. The dividend growth rate is related to a firm's return and rate of investment (Brigham and Gordon, 1968:102). The dividend payout ratio plays an important part in dividend policy and capital decisions (Archer *et al*, 1979:261-289). For example if The York Timber Organisation Ltd, another company chosen in chapter seven, decide that they are not going to pay out dividends this year and use their earnings on a new expansion project it would imply that York wouldn't have to go into the market to find debt financiers or issue new stock. They would be able to use internal funds which would cause their cost of capital number to change.

- **The investment policy of a firm**

The cost of capital model is based on the assumption that the rates of return reflect the risk of a firm's existing assets (Marx *et al*, 1999:238). It is thus implicitly assumed that the firm will invest new capital in assets with similar risk characteristics. This implies that firms are 'creatures' of habit. If RMB holdings Ltd from chapter seven normally invest in companies with credit ratings of BBB or better, they would not easily change their investment strategy unless it is warranted. If they were to decide to change their investment policy, they would need to determine their new risk appetite and available sources of funding. This would affect the capital structure and the cost of capital.

4.7.2 LIMITATIONS TO THE COST OF CAPITAL AS A MEASURE

The following section will indicate some of the problem areas in calculating the cost of capital. Each problem will be discussed on the following page with a mention of relevant research done. This section serves to highlight some of the contentious issues around the cost of capital model. This dissertation will not address all these issues but will focus on the last point raised.

Problem: Privately owned firms (Brigham and Houston, 1998:376). Difficulty arises in estimating a return on equity because they don't have publicly traded shares.

Research: Cotner and Fletcher (2000:27-33) discussed the problem faced when calculating the cost of capital for a privately owned firm. They came up with a solution to estimate the cost of equity for such firms. The analytical hierarchy process (AHP) was used to estimate an equity risk premium for privately held firms.

Problem: Measurement problems relating to the calculation of the equity component of cost of capital (Bierman and Smidt, 1986:370). There are three different models used to calculate the return in equity and each of them are based on assumptions and estimations. The three models are the capital asset pricing model (CAPM); the Gordon growth model or debt plus risk premium model.

Research: Computing the equity component of WACC can be done via the use of the CAPM model. The CAPM model itself is bound to certain assumptions. One component of CAPM is the market risk premium. Gode and Mohanram (2003) used the Ohlson-Jeuttner (OJ) and residual income model in order to compute the market risk premium used in the CAPM model. These models infer the risk premium from the current stock price and future expected dividends. They showed that

the residual income model outperformed the OJ model due to the fact that it incorporates more information.

Problem: The cost of capital for projects with different degrees of risks (Ehrhardt, 1994:101-120). Due to this fact the weighted average cost of capital has received much criticism, especially the usage of WACC as the cut off rate in capital budgeting decisions.

Research: Arditti and Levy (1977:24-43) wrote an article in which they showed that the correct measure of debt in the WACC formula is only R_d and not $R_d(1-t)$. They proved that this formula for debt is better due to the fact that the interest saving is accounted for in the after tax cost of equity, R_e , and including it in the debt component double counts the benefit of tax deductible interest. Paulo (1992) showed that WACC is an inappropriate discount rate for capital budgeting purposes due to the fact that companies normally raise specific funds for a project instead of raising funds from a pool of various capital components. He argues for sequential margin costing as a more appropriate discount rate in valuing capital budgeting projects as this approach takes specific sources of funding into consideration.

Problem: The cost of capital model is based on accounting classification of debt and equity instruments. Certain items have characteristics of both debt and equity and pose questions as to the impact on the cost of capital model. In the current theoretical model these items are excluded from the calculation. Accounting book entries also pose some concerns as to their impact on funding. The impact of these accounting items has also not been considered in the cost of capital calculation.

Research: It is the aim of this dissertation to address the above issue. The cost of capital model is based on accounting information and balance sheet classification. There are certain items (discussed in full in chapter six) that have characteristics of both debt and equity that have not been considered for inclusion into the cost of capital model. This dissertation

will discuss these items and propose a decision-useful cost of capital model that will incorporate these items that have 'grey' accounting classifications. In the conclusion it calls for a re-examination of the current accounting framework in order to accommodate so-called 'grey accounting areas' in a fast changing complex financial world.

4.8 SUMMARY AND CONCLUSION

The cost of capital is an invaluable financial and business tool. It is used in investment decision-making by individuals, companies and governments. It is also used in business models to determine company valuation and corporate strategies. According to Ogier *et al* (2004:4):

"The cost of capital shapes the world we live in, by determining the balance between investment, consumption and economic growth at the macroeconomic level and how many factories, hospitals and road are constructed at the macro economic level".

The aim of this chapter was to present the definitions and details of the cost of capital model as well as limitations and areas requiring further research. It is not the purpose of this chapter to nullify the assumptions on which the current model is based, but to show the limitations of the current assumptions which in turn present research opportunities. One of the limitations concerning the dual accounting classification of certain financial instruments as well as the impact of accounting book entries on capital will be presented as the research opportunity on which the remaining chapters will focus. These chapters will look at certain areas that have 'grey' accounting classification issues due to the duality of their nature. These items will be examined and based on the current cost of capital model and its assumptions a more comprehensive model will be proposed that will include the impact of these items of funding in the concepts capital and cost of capital.

CHAPTER 5: UNBUNDLING CAPITAL – PRESENTING THE METAMORPHOSIS OF THE CAPITAL FRAMEWORK

*“We are living in the opening phases of a period of social
and ecological instability – at a crucial decision window”*

- Erving Laszlo

CHAPTER 5

UNBUNDLING CAPITAL – PRESENTING THE METAMORPHOSIS OF THE CAPITAL FRAMEWORK

5.1 INTRODUCTION

Due to rapid growth and technological change from the time of the industrial revolution the world is facing some unique economic, demographic, environmental, financial and social challenges. The careful management of all of these challenges over the next few decades will determine whether we reach sustainable development or collapse. For business enterprises this sustainable development will relate to the proper management of all its resources and specifically its capital, which is the focus of this dissertation. For a business to reach sustainability, it will have to be able to maintain and grow its capital base in the most efficient manner. The cost of capital is one of the methods available to manage and maintain capital. In order for the cost of capital model to remain relevant, it needs some re-organising and re-modelling.

Laszlo calls this era of change the chaos point. According to Laszlo (2006:11) the world is at the brink of transformation which manifests itself in the following four phases:

1. Trigger phase – innovation of hard technology bring about greater efficiency in using natural resources. In relation to the use of capital, this phase represents the time of the industrial revolution when the focus was on developing machinery and equipment to transform natural resources as quickly and effectively as possible. Financial capital was a scarce commodity at that time and a lot of emphasis was placed on money. The cost of capital model evolved naturally in an answer to better manage financial sources of funds.

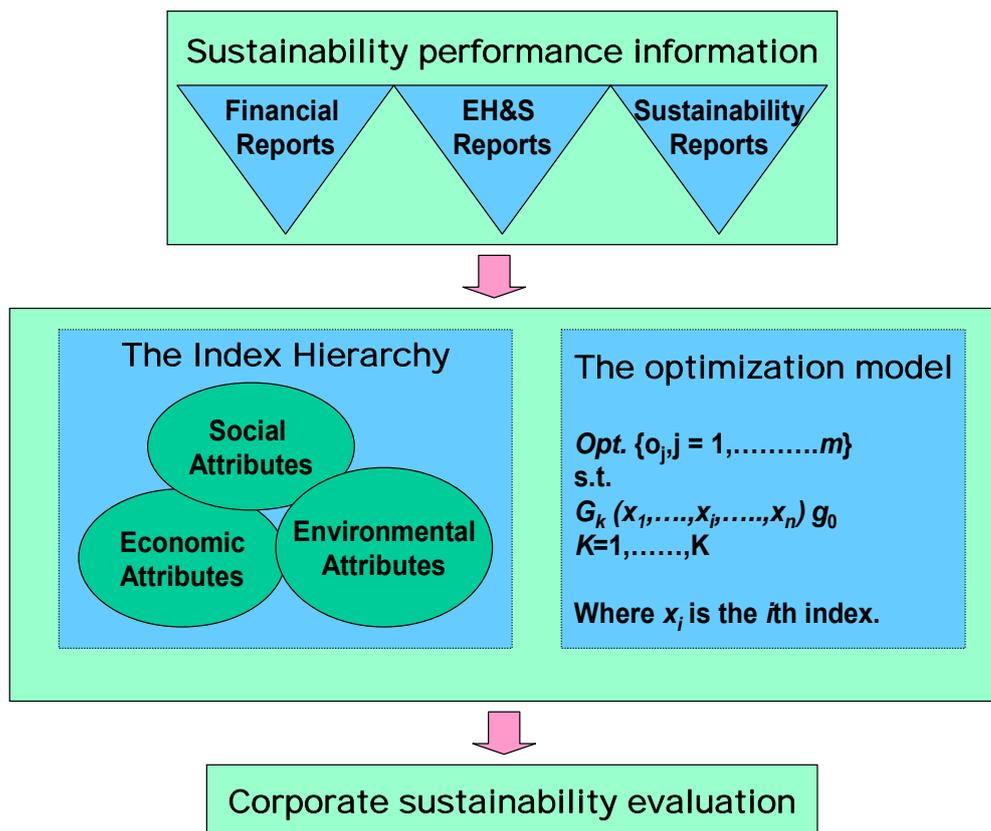
2. The accumulation phase – technological innovation changes the social and environmental relationships and brings about higher levels of resource production, faster population growth, more complex social relations and an increasing impact on environmental and social factors. This phase in terms of capital sees the introduction of more complex sources of capital into academic literature. The need to address social and intellectual issues brought about concepts such as intangible assets and relationship management.
3. Decision window – social and environmental pressures place long standing values and world views into question. The world has become unstable. The impact of this on capital is that the traditional sources of capital namely debt and equity is placed under pressure and there is a need to develop a new view on capital.
4. The chaos point – the *status quo* is questioned and a decision will be made that can lead to either a breakdown or a breakthrough. At this point in time the traditional capital model is either kept in place that will indicate that companies have an inaccurate view of all their capital resources and their costs or the current model is expanded to include new age research and ideas relating to capital.

Business enterprises must find a sustainable way in which to grow their capital base in order to steer them away from the chaos point. Accurate capital measures and business tools need to be in place to ensure that capital is managed appropriately. The current cost of capital model is one of the tools used to measure capital so it is important to fully understand the assumptions underlying this measure. The assumptions underlying the cost of capital are also subject to the assumptions underlying capital itself and a model will be presented to explain the capital framework underlying the cost of capital calculation.

Early attempts to challenge the traditional business and capital models focused on setting up a more comprehensive reporting framework that centred on the three spheres of business namely finances, economics and social impact. This reporting framework is known as triple bottom line accounting. The goal of the triple bottom line

(TBL) framework is to fully capture and disclose the values and liabilities of achieving sustainability (Wang and Lin, 2007:1067). The following table represents the framework for TBL:

Figure 5.1: Framework for triple bottom line reporting



(Source: Wang, L & Lin, L, 2007, 'A methodological framework for the triple bottom line accounting and management of industry enterprises', *International Journal of Production Research*, vol. 45, iss. 5, p1072)

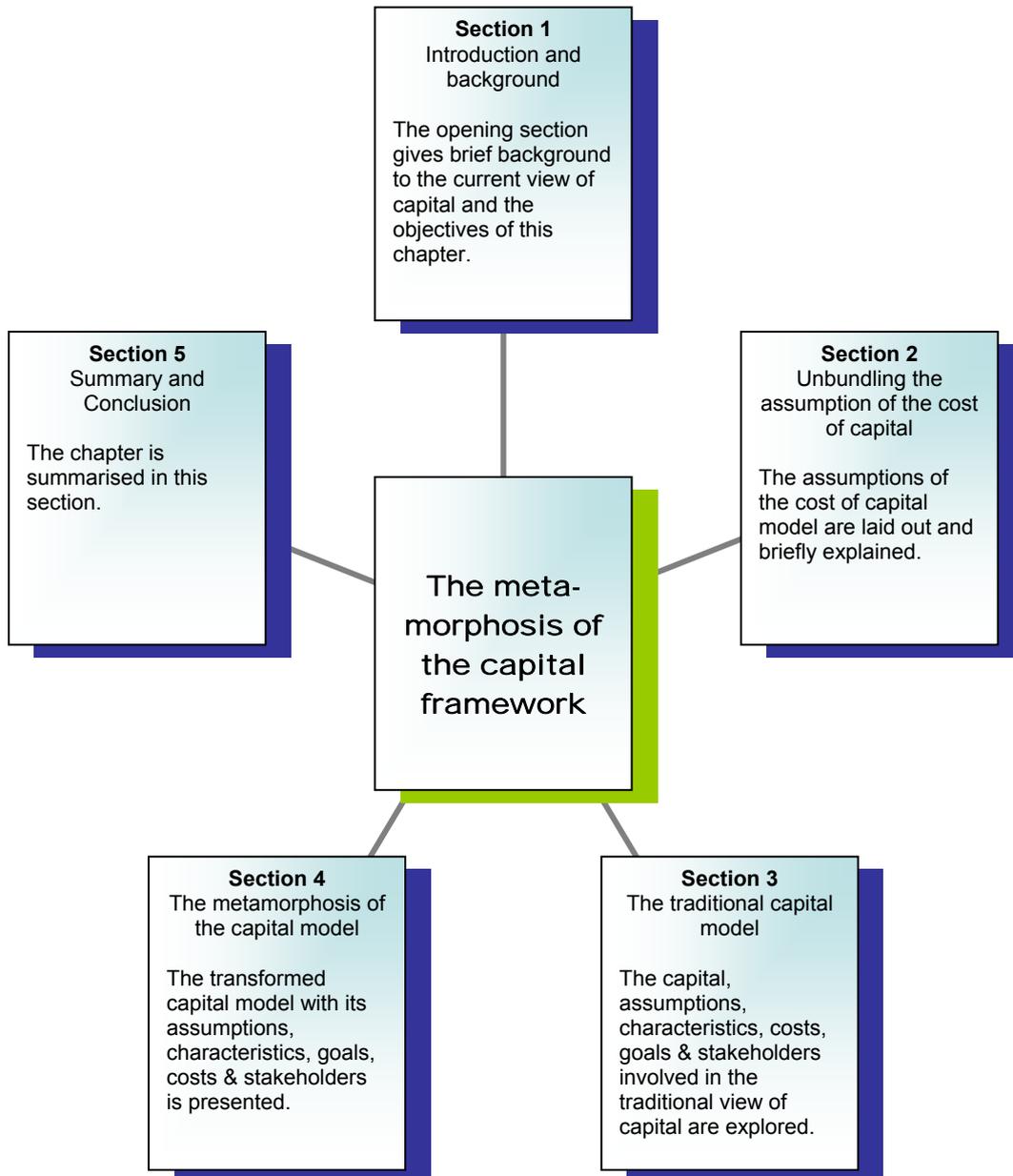
The framework is based on three basic elements of sustainable development namely economic prosperity, environmental quality and social justice. A company needs to report on all three areas in order to achieve sustainable reporting. It deviates from the traditional accounting model that focuses only on economic performance. This model indicates that there are shortcomings in the current accounting and capital frameworks. The problem with triple bottom line accounting is that it only added extra

reporting layers and wasn't fully incorporated into business models, processes and measures.

In this chapter the cost of capital model is unbundled. It identifies some of the assumptions underlying the cost of capital model and if these underlying assumptions are clearly communicated and investigated, it can add to the development of better capital measures. In addition, the assumptions of capital will be presented in a more comprehensive capital framework that will add to a better understanding of the concept of capital and how it can be presented, reported and measured. The limitations of the existing financial reporting system for capital stakeholders have motivated an evolving dialogue on finding new ways to measure and report on a company's capital.

The second section of this chapter will present the different assumptions of the cost of capital model. Each assumption will be discussed in brief. The third section will look at the traditional business model, its assumptions and characteristics. The traditional model will be challenged based on changes in the business environment. The fourth section will introduce a more comprehensive capital model for business enterprises. In this section the assumptions of the transformed capitalistic framework will be put forth along with a new framework of characteristics. It will define the different forms of capital, their costs, responsible stakeholders and how these all interact and ensure a sustainable business. The figure on the next page indicates the layout of this chapter. The chapter will end with a brief summary of the model and its usefulness.

Figure 5.2: Chapter outline

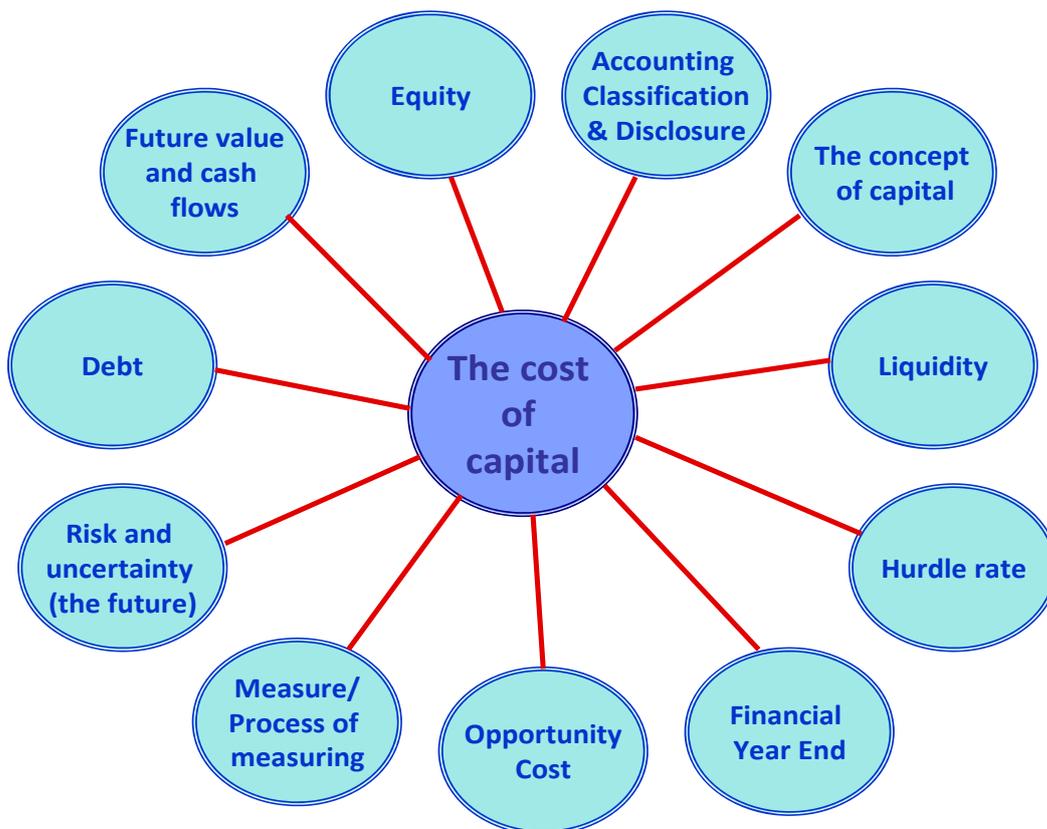


(Source: Own observation)

5.2 UNBUNDLING THE ASSUMPTIONS OF THE COST OF CAPITAL MODEL

Real science is not to make assumptions but to get rid of them (Passuello, 2008:2). In order to get rid of some of the assumptions of the cost of capital model it is important to first of all know what they are. The assumptions on which the cost of capital model rest are not always very clear and the figure below is an attempt to highlight some of the more important assumptions. It not the intention of this dissertation to challenge all of the assumptions mentioned below. The assumption with regards to accounting classification, debt and equity definition, liquidity and capital will be explored in the current and following chapters. The figure below indicates the assumptions followed by a brief description of these assumptions:

Figure 5.3: The assumptions of the cost of capital model



(Source: Own observation)

Each of the assumptions will be briefly discussed below:

5.2.1 CAPITAL

The concept of capital is at the centre of the cost of capital model and any assumptions made on the capital side of business become assumptions of the cost of capital model. In later sections some of the assumptions of capital will be discussed. A change in the assumptions of capital will also cause changes in the cost of capital model.

5.2.2 ACCOUNTING CLASSIFICATION AND DISCLOSURE

The cost of capital calculation is done based on accounting data and classification. The way in which financial instruments are classified will impact the cost of capital as this is dependent on the accounting classification of capital items as debt or equity. Higher quality accounting information improves liquidity and reduces capital costs which in turn reduce the cost of capital of a company (Easley and O'Hara, 2004:1553). In chapter six some of the hidden constituents of the cost of capital will be discussed. These hidden constituents relate to accounting items which have dual accounting classifications as debt and equity and accounting book entries found on the balance sheet.

Disclosure requirements also influence the cost of capital model. Increasing the quality of disclosure reduces the cost of capital of firms (Leuz and Wysocki, 2008:19). Off balance sheet items is an example of disclosure requirements that influence the cost of capital (Pratt and Grabowski, 2008:56). For example if operating leases are not required to be disclosed on the face of the balance sheet they will be treated as an off-balance sheet item. This influences the cost of capital as the model only includes items of funding that are disclosed on the face of the balance sheet. This could have significant impact on the cost of capital model as there can be significant amounts of funding being disclosed as off balance sheet items.

5.2.3 LIQUIDITY

Liquidity has a big impact on the cost of capital. Liquidity refers to the amounts of funding available in capital markets (own observation). If liquidity is low then it implies that funding is difficult to come by and *vice versa*. Low liquidity also leads to the increase in the cost of debt and equity financing, due to lenders requiring more margin to compensate for taking on higher risk. Illiquidity and bid-ask spreads lead to trading costs that affect investment decisions. Investors must be compensated for higher trading costs and this result in a higher return and cost of capital for firms (Luez and Wysocki, 2008:8). Higher margins on funding due to increased costs cause the cost of capital of a company to increase.

When looking at liquidity on a company level it represents the cash on hand. The more cash a company has the more liquid that company will be (Archer *et al*, 1979:540). Cash, which is an unutilised source of funding, can have an impact on the cost of capital. If some of the cash is used to repay debt or finance projects it can be used to decrease the cost of capital. In chapter seven the impact of utilising some portion of cash, as a source of funding, is explored.

5.2.4 HURDLE RATE

The cost of capital is the hurdle rate for capital investment (Myers, 2001:84) It is used to determine whether investments and projects will be profitable or not. The return the investment offers needs to be more than the cost of capital to ensure that economic profits are made (Brigham and Houston, 1978:398). The cost of capital is the minimum return a company needs to make to cover all their funding costs. If this hurdle rate is calculated incorrectly it can have severe consequences on any business. The cost of capital can also be determined on a project level to measure the success of that project. When calculating a project specific WACC the specific risks associated with the project need to be determined and factored into the calculation of the project WACC. In a survey conducted by Brigham and Mercurio (1982:25) they indicate that 60% of firms factor project specific risks into the cost of

capital for projects. If the return on the project outweighs the project WACC then the project is pursued. The project WACC can differ from the company WACC as the project risk factors differ from the company risk factors.

5.2.5 DEBT

The characteristics and definition of debt instruments also influence the cost of capital. The manner in which debt instruments are valued differ from the way in which equity instruments are valued and this indicates that their costs will vary. To define an item as debt it is assumed that the item has certain characteristics and it is these characteristics that determine if an instrument is debt in nature. These characteristics become part of the assumptions of the cost of capital model. Debt is defined in chapter six.

5.2.6 EQUITY

Equity instruments also have their own unique characteristics that result in their being defined as such. Equity instruments include ordinary share capital, preference shares, retained earnings, reserves and provisions. Equity instruments are valued differently to debt instruments and bear a different cost. These characteristics will also then form part of the characteristics of the cost of capital model along with the assumptions of debt instruments. Equity is also defined in chapter six.

5.2.7 OPPORTUNITY COST

As mentioned in previous chapters the cost of capital model is based on the assumption of opportunity cost. The different sources of funding all bear an implicit opportunity cost. As stated in chapter one opportunity cost refers to “benefits forgone by particular use of resources” (Palmer and Raftery, 1999:1552). In order to value an item you need to take into account its opportunity cost.

5.2.8 MEASURE/ PROCESS OF MEASURING

It is important to distinguish whether the cost of capital is a measure or the process of measuring. To determine this it is important to define what is meant by measure and process of measuring. Measure is defined as *“the number or quantity that records a directly observable value or performance. All measures have units attached to them: inch, centimetre, dollar, liter, etc”* (Business Dictionary, 2009). A measure thus defines how an activity is calculated. The process of measuring refers to an *‘ordered reference standard’* (Wordnet 3.0, 2006) and measurement can be defined as *“the assignment of numerals to objects or events according to rules.” The assignment of different rules leads to different kinds of scales and measurement.”* (Stevens, 1946:677) A scale therefore relates to a rule of measurement that describes the relationship between an empirical and numerical relational structure (Musvoto and Gouws: 2010:434). There are four scales of measurement namely nominal, ordinal, interval and ratio scales. For the cost of capital to be seen as a process of measurement it must describe the properties of the particular elements and how these properties are defined in terms of a form of scale. In order for an item to be classified as a measurement process its must specify a scale of measurement. (Ryan, Scapens and Theobald, 2002, quoted in Musvoto and Gouws: 2010:423) From the distinction between measure and measurement above it can be seen that the cost of capital is a measure as it records the directly observable values of the different sources of debt and equity finance. It indicates how the costs of these sources are calculated. It is not a measurement technique *per se* as it does not assign numbers to debt and equity through one of the scales of measurement as mentioned above. There are already attributes (quantities) assigned to debt and equity. It just records this information. The cost of capital is thus a measure that represents the different costs of sources of funding.

5.2.9 RISK AND UNCERTAINTY (THE FUTURE)

The cost of capital is a forward looking measure and relies on assumptions made to project future earnings. The cost of capital represents the discount rate that

companies use to determine future value. It is the discount rate used to discount free cash flows to determine current firm value. In a survey of the fortune 1000 companies Ryan and Ryan (2002:362) indicate that the cost of capital is the preferred discount rate for capital budgeting purposes. Analysts also employ the cost of capital as a tool to determine if companies are worth investing in. The cost of capital represents the expected return on a firm's stock (Lambert, Leuz and Verrecchia, 2005:6). The cost of capital is a measure of risk as it incorporates the opportunity cost of not receiving expected returns on investment capital (Brigham and Houston, 1978:122). The cost of capital therefore compensates firms for the risk of not receiving expected returns. As Bruner *et al* (1998:23) puts it "*a firm's overall WACC is a suitable benchmark for a firm's average risk investments.*" There are debates as to whether the cost of capital is an adequate measure to value a firm's value or if the cost of capital needs to be adjusted for other risks. Madura (2006:591-594) indicates that the cost of capital for a multinational firm needs to be adjusted to reflect country specific risks such as interest rates, foreign currencies and tax laws. The cost of capital is an important measure of a firm's value and the risk inherent in a company.

5.2.10 FINANCIAL YEAR END

Another assumption of the cost of capital measure is that it is bound to a company's financial year end. The cost of capital is a measure of capital based on a twelve month cycle as a company's financial year end is for a period of twelve months. The value of debt and equity is taken from the balance sheet which is measured at the end of the twelve month cycle (financial year end). As shown in chapter two accounting attempts to fit certain parameters to the concept of capital by measuring it at a certain point in time i.e. year end. Also the movement between year end dates are smoothed to show an artificial picture of reality. Capital has a cyclical nature and measuring it on accounting information alone does not provide an accurate reflection of the nature of capital.

5.2.11 FUTURE VALUE AND CASH FLOWS

The cost of capital relies on the estimation of future cash flows which in turn determines the future value of companies. The cost of capital model is based on the CAPM model which calculates the return of equity for firms. The CAPM model in turn relies on the beta coefficient, which is an input into the model. The beta coefficient represents the co-variance of the company's future return with that of the market (Bodie *et al*, 2005:283). The beta is a forward-looking parameter based on future cash flows which drives the return of a firm (Lambert *et al*, 2005:6-7). Lambert *et al* (2005:8) also go on to explain that the cost of capital of a firm depends on four factors, namely the risk free rate, the aggregate risk tolerance of the market, the expected cash flow of the firm and the co-variance of the firm's cash flows with the sum of the cash flows of all the firms in the market. This indicates that the cost of capital is dependent on the prediction of future cash flows as an input into its calculation. Another way to look at the link between cash flows and the cost of capital model is the fact that investment decisions are highly correlated with cash flows (Gilchrist and Himmelberg, 1995:542). This implies that cash flows drive investment decisions which, in turn, as shown in chapter four, affect a firm's cost of capital.

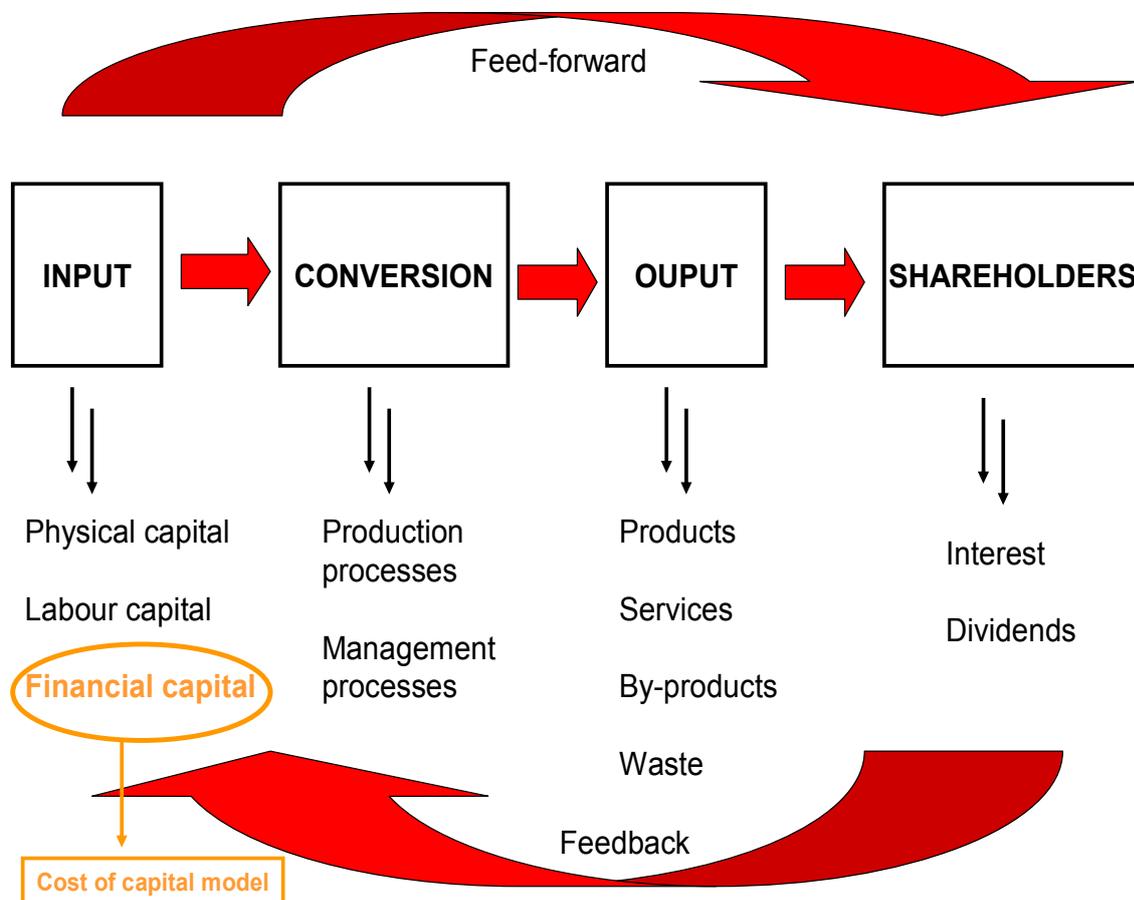
The rest of this chapter will focus on the assumptions of capital. In chapter six and seven some of the other assumptions of the cost of capital model will be challenged. For now it is important to also unpack the assumptions on capital as these assumptions directly feed into the cost of capital model. It is the traditional assumptions regarding the importance of financial capital that gave birth to the cost of capital model but, as will be shown below, financial capital has lost some of its relevance and other resources have been identified as being the main drivers of business.

5.3 THE TRADITIONAL CAPITAL BUSINESS MODEL

5.3.1 THE MODEL

Figure 5.4 below depicts the traditional business model with all its capital resources, processes, goals and stakeholders.

Figure 5.4: The traditional capital business model



(Source: Own observation)

The traditional model of capital as indicated above is based on the basic business process which involves the conversion of resource inputs into outputs consumed by customers. The model relies on feedback to ensure that resources are utilised in the most effective and efficient manner. The end result of this process is measured in

monetary terms and presented as income on financial statements. This income is then distributed to shareholders or re-deployed into the business to fund expansions and projects. This capital conversion process has two main goals, namely shareholder wealth maximisation and growth. If the company can grow, it can best its competitors and gain competitive advantage. The stakeholders that are involved in the business process can be seen from the figure above. Shareholders and creditors (highlighted in green) receive a portion of the distribution of income in the form of dividends and interest. The traditional cost of capital model (indicated in the orange block) presents the financial capital costs which are the costs associated with shareholders and external suppliers of funds (creditors). The costs associated with employees and the government (taxes) are direct expenses already included in net profits. The following sections will explore the different forms of capital recognised by the traditional capital model, some of the assumptions and characteristics driving this model, the main goals of the model, the costs of the different forms of capital and the different stakeholders involved in the model.

The purpose of showing the traditional view of capital is to be able to contrast it to the transformed view of the capital system of businesses as presented in section 5.4 of this chapter. This will highlight some of the shortcomings of how the concept of capital is currently applied and how changes will impact the view of capital as well as the cost of capital framework. Explaining the current view of capital will help with understanding the assumptions underlying capital and ultimately the cost of capital model.

5.3.2 THE TRADITIONAL FORMS OF CAPITAL

The above model recognised four main forms of capital as drivers and inputs into the conversion process, that result in profits. The main forms of capital are financial, physical, labour capital and natural resources (environmental capital). Each of these resources is discussed below:

5.3.2.1 Physical capital

These assets are designed and made by humans and are not readily found in nature and can be defined as assets that are ‘*man-made and employed in the production of goods and services*’ (Wikipedia, 2009). These resources are the tools used to aid man in satisfying wants and needs. The following represents a broad classification of these physical assets:

- **Machinery**

A machine can be defined as “*an assemblage of parts that transmit forces, motion and energy one to another in a predetermined manner.*” (Merriam-Webster Online Dictionary, 2009) Machines are devices used to perform activities such as construction and production more efficiently and effectively than pure human labour. They aid people in doing their work.

- **Equipment**

Equipment refers to “*all the things that are needed or used for a particular job or activity.*” (Collins New School Dictionary, 1999) For accounting purposes they are all the fixed assets other than land and buildings of an enterprise as these are shown as separate items on the balance sheet (own observation). They are items that are there to assist along with machinery in the production of goods. Equipment for accounting purposes are assigned a useful life and as this life passes, a portion of the value of the equipment is used to provide for the replacement thereof. This is known as depreciation (Vorster *et al*, 2004: 396-401). This concept of depreciation also applies to other forms of physical capital.

- **Buildings**

Buildings are defined as ‘a structure with a roof and walls’ (Concise Oxford English Dictionary, 2004). They are the establishments that provide shelter to people and organisations where they can work, eat and sleep. They are

constructed on land and have a very long life span. They provide a place of refuge where production or work can take place.

- **Inventory**

Inventory refers to the list of goods or materials held in stock by a company (Concise Oxford English Dictionary, 2004). Inventory can be divided into three categories namely raw materials, work in progress and finished goods (Archer *et al*, 1979:646). Raw materials are those materials and inputs used in making other goods. Work in progress is materials and inputs that have begun their transformation into finished goods. Finished goods are those products that are sold to clients.

These items are tangible in the sense that they are observable (real). They are man made and have thus a finite existence although they can be replaced or upgraded. This form of capital is also more easily measurable in a monetary sense as costs can be attributed to the acquisition or making of these items. They are also a means to an end as they contribute to the production of other goods and services.

5.3.2.2 Financial capital

Financial capital refers to the funds available to a business in order to acquire assets as well as fund operations and can be classified in two broad terms of borrowed money or equity (Van Zyl, Botha and Skerritt, 2003:14). The firm can either lend money from parties outside the business or use internal funds to finance projects and day to day operations. The funds can then be employed to either buy fixed assets such as property, plant and equipment or it can be used for day to day expenses such as buying stock or paying credit cards. This short term form of funds is known as working capital, while the long term funds are known as fixed capital (Dictionary of Finance and Investment Terms, 2006). Financial capital can be raised from different sources. The different types of financial markets include:

- **Equity markets**

In this type of market, companies offer a portion of ownership for cash. Company shares are exchanged for funds. There are two types of markets namely primary and secondary (Gitman and Madura, 2001:32). In primary markets new shares are sold which haven't been offered to the market before, while in secondary markets shares already issued are bought and sold (Brigham and Houston, 1978:111). A share offering is also the most expensive form of raising money as already existing shareholders feel their share value is diluted and they need to be compensated for this.

- **Debt markets**

The debt market is where companies borrow money from mostly banks or financial institutions. In this market companies do not offer a portion of the company in exchange for cash, they borrow money which bears interest at an agreed interest rate (Van Zyl *et al*, 2003:19). The debt market normally caters for companies looking for long term funding.

- **Money markets**

Money markets are the short term form of debt markets. In money markets funds are borrowed for shorter time periods. Money market instruments normally have a maturity of a year or less (Brigham and Houston, 1978:110). The money market caters for companies that need short term loans.

Financial capital relates to the money a company has at its disposal. These monetary funds can either be borrowed or self-generated. The capitalistic system, as it developed from the time of the Industrial Revolution, placed a lot of emphasis on financial capital. In those days money was considered a scarce commodity and any person who had it was considered wealthy. Wealth was measured by the amount of money you had. Due to the emphasis placed on money financial capital was seen as the dominant and only capital. People who had money and were prepared to invest it

in business enterprises (shareholders or lenders) were compensated for their placement of funds in the form of interest payments and profit distributions (dividends). The traditional capital model as presented above is based on this notion that financial capital is the main form of capital but as will be shown later on this framework of thinking has changed and financial capital is not the only and dominant capital anymore. The aim of this chapter is to indicate that there are a lot more aspects to capital other than financial, and in later chapters the cost of capital model is expanded to show this.

5.3.2.3 Labour capital

Adam Smith defined labour as one of the factors of production and calls it the acquired and useful abilities of people (Nerdrum and Erikson, 2001:128). People provide physical skill and human effort in production. It is these skills and effort that are known as labour capital. The skills and abilities that are brought to the workplace can be divided into two components namely education and experience (Wasmer, 2001:861). Education is the starting point for any person's entry into the workplace. A person spends years of his life to be educated in a certain field. This schooling is then taken to the workplace and a person applies his/her education to the job. Experience only comes with being in the workplace for a while. Experience is something that cannot be taught or inherited, it comes with time.

There is a distinction between labour and intellectual capital. *"Knowledge has two incarnations: Knowledge applied to existing processes, services, and products is productivity; knowledge applied to the new is innovation."*- Peter Drucker. It will be shown later on in the chapter that intellectual capital refers to the creation and storage of knowledge i.e. the innovation part Drucker refers to, while labour capital entails the repetition and enhancement of knowledge and expertise, i.e. the productivity part Drucker refers to. Labour capital is the practice and refinement of skills already obtained via education. These skills and levels of education are endowments of people relying on their nature and nurture and comprise the labour capital of an organisation (Nerdrum and Erikson, 2001:129-130). Labour capital has an element of cost and profit to it. The expenses related to the employment of

labourers are currently seen as expenses (costs) taken to the income statement. But labour also contributes to the creation of profit. Intellectual capital refers to the improvement of the effectiveness and productivity of labour capital (own observation). That is the skills and knowledge a labourer attains over and above his/her normal schooling and skill set. In some circumstances it will lead to the improvement of current practices. The line between intellectual capital and labour capital is very fine. Only when a labourer steps out of his field of knowledge and does something creative and innovative does it lead to knowledge creation and intellectual capital. Experience is something that can fall into both categories. Experience can assist an employee in being innovative and coming up with better ways of doing business (being effective). Experience can also assist an employee with becoming more efficient and doing things faster. Efficiency tends to fall in with labour capital while effectiveness tends more to intellectual capital. There is also a distinction between labourers and management. The labourers are the people responsible for the operational functions of an organisation and are involved in daily processes while management are responsible for the strategic planning and execution which span over longer time periods.

5.3.2.4 Natural resource capital

Natural capital refers to all the resources of the earth and can be categorised as renewable and non-renewable natural resources. Non-renewable resources are natural resources that cannot be produced, re-grown, regenerated or re-used on a scale which can sustain its consumption (Wikipedia, 2009). These resources often exist in a fixed amount or are consumed faster than they can be regenerated. Fossil fuels such as coal, petroleum and natural gas are examples of non renewable resources. Renewable resources on the other hand are natural resources that can be regenerated, replenished or reproduced (Hinterberger, Luks and Schmidt-Bleek, 1997:3). These resources include trees, water and air.

Nature is not an asset such as a savings account, but a naturally ever changing ecological environment. The depletion of natural resources in pursuit of economic growth is the same as living off capital rather than income (Victor, 1991:191).

Maintaining natural capital is becoming a more common theme in modern day life. For a company to maintain its positive income flows, its sources of capital must be non-declining. In order to ensure that natural capital stays at a non-declining level, renewable resources must only be used at a regeneration rate and output of the economy cannot exceed the assimilative capacity of the ecosphere (Goodland, 1995:10). Non-renewable resources should technically speaking not be used or only be used insofar substitutes are created.

These are the main forms of capital that drive the traditional business model. These forms of capital also led to the development of certain assumptions and characteristics that helped shape the definition of capital and cost of capital. Some of these assumptions and characteristics are discussed below.

5.3.3 SOME ASSUMPTIONS AND CHARACTERISTICS OF THE TRADITIONAL CAPITAL MODEL

5.3.3.1 Value – the main driver of business

Value as defined by the Oxford English Dictionary (2004) is 'the regard that something is held to deserve; importance or worth; material or monetary worth; the worth of something compared to its price: at £12.50 the book is good value.' Value lies in use which in turn generates needs. If an item is of use it has value. Value is a measurement term and normally associated with quantity, amount, etc. If something has use i.e. the ability to re-create, re-produce, re-shape or add, then it can be measured through value (own observation). The value of an item is conferred by its desirability which is based on a person's emotions and feelings (Simmel, 1900:577). Value is thus not certain and differs from person to person. What one person perceives as valuable may mean nothing to the next. The mind is able to prescribe utility to items through emotion. Value is in fact a perception that is shaped by what we see as real (Pulic, 2004:63). As reality changes, so does our idea of value. Reality and value do not exist it is co-created through our acts of observation, what we choose to notice (Wheatley, 2006:36). Value is a construct of the mind and

based on perceived reality. It is also a future orientated object. An item can only add or re-create itself in the future.

If an item can be exchanged the sacrifice made to give up the item for another represents its value (Simmel, 1900:580-581). Scarcity gives rise to value - the scarcer an item, the more value is attributed to it. If items are plentiful their perceived value is less than an item that is rare and difficult to come by. For example in the desert water is a scarce commodity and a person in the desert will be willing to give more for a glass of water than a person living in a city with ample water supply. Value is thus also created through exchange which is a necessary condition of any economic system. Value can also be described in terms of systems theory. According to Whitehead anything has value that conforms to the aim of the system (Yuliang, n.d:2). Every system thus has its own aim which guides its survival and relationships. Any means to achieve this aim thus represents value.

Businesses are experts at creating perceived use for items and creating the opportunity (market) to trade those items of use. Any items that contribute to the goal of shareholder wealth maximisation create value for the organisation. The traditional business model subscribes to creating value through the process of converting/utilising the four resources into items of use to which monetary value is attached according to the ability to trade those items. This process has been recorded and accounted for use in traditional accounting and finance models. The types of capital, products and processes have been recorded and are used by stakeholders and investors as a measure of the relative wealth and success of the business. Due to all businesses adopting similar practices with regard to disclosure and presentation of information (for example using accounting statements or adopting a standard costing process) there is monetary value attached to these resources and processes and thus also an observable price which is translated into the market or book prices for these resources, thus creating a framework for measurement. This is done in an observable market space, in other words everyone has access to and can price these resources, products and even standardised processes. The typical business strives to produce profits in order to maximise shareholder's wealth. If a business does not utilise the four main identified resources

in the model above to produce profit and continue to do business it will face bankruptcy and closure.

5.3.3.2 Other characteristics of the traditional forms of capital

Financial capital is already in measurement form – monetary units. Physical capital is valued at the price it is bought or made. Labour capital is measured in labour hours and wage rates. Natural resources also have observable market prices attached to them although it can be debated whether these prices reflect actual value or just estimated value. Either way natural resources can be measured in monetary terms.

The table below indicates some further characteristics of the traditional forms of capital following on the basis that these resources are observable. The traditional capital sources prescribe to the accounting definition of assets and liabilities and accordingly the different sources of capital need to exhibit certain characteristics to ensure they meet the definition. These traditional types of characteristics are listed in the table below:

Table 5.1: The traditional characteristics of capital resources

Types of capital		Natural resources	Labour	Financial	Physical
Characteristics	Description				
1. Form	Can be either physical or intangible	Normally in physical form such as land, gold, trees, etc. but can also be in the form of mineral rights for example.	Physical form – people.	Physical – actual paper money, coins and bank accounts. Intangible in the form of internet banking, etc.	Physical in the form of machinery, equipment and inventory.
2. Long lived asset	It must be shown as a resource to the company in the long term	It is a resource that is utilised in the normal course of business and can be classified as long term.	Labour force definitely viewed as long term and it is a resource utilised by the company.	Can be short or long term. Sources of funding obtained in financial markets in the form of debt and equity is normally more long term in nature.	They represent assets used in the production process and are normally of a long term nature.

<p>3. Control</p>	<p>Control of the resource must be with the company. It does not require legal ownership rights to be seen as a resource to the company.</p>	<p>Control over natural resources used by a company resides with the company after acquisition.</p>	<p>People employed by the company are under company control as their job definition and requirements are prescribed by the company.</p>	<p>Monetary funds fall under the control of the company.</p>	<p>Property. Plant and equipment is normally acquired by funds controlled by the enterprise and fall under direct ownership of the company which imply control over these items.</p>
<p>4. Risks and rewards</p>	<p>Benefits and risks associated with the (use of) resource must flow to the company.</p>	<p>Income and expenses and risk of loss in the transformation of natural resources are attributed to the controlling company.</p>	<p>Risks such as work related injuries and benefits in the form of income produced by employees are all borne by the company.</p>	<p>Interest on company money invested or losses made on funds invested flow directly to the company. Interest on borrowed funds and dividends on owner funds are paid directly by the organisation.</p>	<p>All risks such as breakdown of machinery or obsolete inventory reside with the controlling company. Provision of depreciation to replace these assets also falls to the company as well as any of the income.</p>
<p>5. Quantifiable</p>	<p>The cost or value of the resource must be estimated reliably to be classified on the balance sheet.</p>	<p>Natural resources acquired from other parties can be shown at cost while natural resources available to company with no specific owner such as minerals can be valued according to, for example, current demand for that resource.</p>	<p>Labour capital can be measured by total compensation packages paid by employers or in terms of unit of labour hours.</p>	<p>Money designated in specific currency as quantifiable unit of measurement.</p>	<p>These physical assets are normally bought at an identifiable market price at which its cost is recorded.</p>
<p>6. Substitute/ Compliment</p>	<p>Can the resource be replaced with another or does it add to the efficiency of other resources?</p>	<p>Natural resources can be replaced in the sense that coal as energy source can be replaced by burning wood instead. Natural resources are mainly used in the production of other resources or goods.</p>	<p>People within the organisation can be substituted by other people and machinery. The labour force is also complimentary to other resources such as natural resources which are converted by labourers.</p>	<p>Money is the most easily substitutable resource as it can be substituted by any other form of capital. It also is used to obtain other resources.</p>	<p>Machinery and equipment can be a substitute in certain cases for labourers. It is also complimentary to other resources such as natural resources which are converted via equipment and machinery.</p>

7. Convertible/ Appropriate	Can the resources be used for other purposes or can it be transformed into other resources?	Natural resources are probably the most easily convertible resources as they are taken from their raw form and converted into goods, e.g. gold smelted into jewellery.	Labour capital can be used for purposes other than actual labour. It can be used as a complement to intellectual capital in the stimulation and creation of knowledge. Labour also improves the efficiency.	Can be converted into any other resources for example money exchanged for oil. Money can also be used for any purpose be it paying employees or obtaining property plant and equipment.	Physical assets can be put to a variety of uses although they are not so easily transformed into other resources.
8. Private or Public goods	It must be a private good as public goods are not under the control of the company.	Although a public good, natural resources are normally acquired by businesses thus from a business perspective it is a private good owned by the company.	Labour from an organisation's view is a private good as it belongs to the organisation and is used exclusively for the benefit of the organisation.	Money is a privately owned good that is available for the owner's exclusive use.	Property, plant, equipment and inventory are viewed as private goods as their use is excluded from others outside the organisation.
9. Maintenance	Resources must be maintained either physically or financially to ensure profits	Natural resources can be divided into renewable and non renewable. Renewable resources place responsibility on a company to replace resources as they are used in order to ensure continued use.	A company's labour force must be constantly updated and vacant posts must be filled in order to ensure success.	Money can be maintained in the form of savings.	In order to replace physical assets depreciation is a measure of the replacement cost of these assets in order to ensure they are maintained (replaced) after their useful life is over.
Is it capital?		Yes	Yes	Yes	Yes

(Source: Characteristics of capital is adapted from Adler, PS & Kwon, S, 2002, "Social capital: Prospects for a new concept" *Academy of Management Review*, 2002. Vol. 27, Iss. 1, p17-40. Application of characteristics to different sources of capital –own observation written in blue)

The first column indicates the different characteristics of capital, the second column follows with a brief description of the characteristics while the rest of the table indicates the application of these characteristic to the different forms of capital. It is also important to show these characteristics as they are the reason why newer forms of capital such as intangible assets (trademarks for example) and social capital will not be seen as forms of capital in the traditional model. Attempting to classify the newer forms of capital, as will be described in the section 5.4 below, according to the

characteristics above is very difficult to nearly impossible. For example one of the characteristics of capital in the traditional model is that of measurement. Attempting to assign a scale of measurement to business know-how or client relationships is a daunting task at this stage. These forms of capital are more qualitative in nature and until a proper measurement system for these types of capitals is developed, they will not qualify as capital in the traditional model. As will be indicated below these types of capital are in fact very important to the success in the long run of any business.

5.3.4 GOALS OF TRADITIONAL CAPITAL MODEL

5.3.4.1 Shareholder wealth maximisation

Financial textbooks of the twentieth and early twenty first century (Gitman and Madura, 2001:361; Archer, Choate and Racette, 1979:16-19) advocated shareholder wealth maximisation as the main goal of any organisation. This can be obtained by realising the highest earnings possible. These earnings are based on accounting principles of *income – expenses = profit*. This profit is the driver of all businesses and if no profit is made the organisation will face eventual bankruptcy. The original idea of wealth maximisation and profitability rests on the assumption that a business is driven by the forms of capital as defined above. The combined workings of these types of capital give rise to profit. Financial capital is obtained in order to acquire resources which are then converted through labour into products which are sold at a price higher than cost and which then produce profit. Feedback allows this system to ensure that value is added to the different processes and stages in order to ensure growth and competitive advantage.

The end goal of the model is wealth maximisation. In order to ensure that profit is made the principle of going concern is applied. The going concern principle of business stems from the current financial reporting framework. A going concern is seen as any business that can “*continue activities in the foreseeable future with neither the intention nor necessity to cease trading, liquidate or seek protection from creditors.*” (International auditing standard 570, 2000:2) It is based on this principle that assets and liabilities are recorded on the balance sheet.

5.3.4.2 Growth

To grow means “to increase in size or amount”. (Collins New School Dictionary, 1999) Growth refers to the quantitative increase in physical terms. Without going into too much detail on economic growth, it refers to the increase in amount of goods and services produced by an economy over time (Encyclopaedia Britannica, 2005). It is typically measured as the percentage increase in the real gross domestic product (GDP) of a country. It is in this classical economic framework that business has adopted the idea of growth in order to achieve maximum profits. Without growth an entity will cease to be competitive and probably go bankrupt. The current mindset of business enterprises is to foster growth and it is included in their long term strategy but it must be said that growth cannot be maintained for long periods of time.

5.3.5 THE COSTS ASSOCIATED WITH THE TRADITIONAL FORMS OF CAPITAL

5.3.5.1 The cost of natural resources

The cost of natural resources is capitalised to the balance sheet and shown as an asset. The cost of natural resources normally entails the costs of removing the minerals from the earth, replacing damage to the earth and if these minerals need refinement the refinement costs are included (Anon, 1993:63). Many of these costs are treated as off-balance sheet items (Buxton and Nielsen, 1995:29). The opportunity cost of natural resources is not taken into account as natural resources are seen as free gifts from nature that bear no cost.

5.3.5.2 The cost of physical capital

As with natural resources the cost of physical assets are capitalised to the balance sheet. Costs that are capitalised to the balance sheet with regard to property, plant and equipment include the cost price of the items, initial delivery and installation costs and initial estimates of the cost of dismantling, removing or restoring sites on which assets are located (Vorster *et al*, 2004:392)

5.3.5.3 The cost of labour capital

These are the actual costs incurred by employers for the use of their employees' time and labour. Labour costs normally include the cost of wages and benefits. The costs are normally determined by the amount of labour hours and the productivity of the labourer (Buckley and Lightner, 1973:751-767). These costs are also determined based on some unit of measurement. Labour costs for accounting purposes are viewed as expenses and are recognised on the income statement.

5.3.5.4 The cost of financial capital

The cost of financial capital is represented by the current cost of capital model. The cost of capital model is the weighted average cost of the debt and equity sources of funding. The model includes long term sources of debt, preference shares, common shares and retained earnings (Brigham and Houston: 1978:353). The current cost of capital model reflects only the financial resources of a company and is not reflected in the financial statements.

5.3.6 STAKEHOLDERS IN THE TRADITIONAL CAPITAL MODEL

- **Shareholders**

Shareholders provide equity funding to the business. For the funding they provide they expect a return on their investment. The return they earn is in the form of dividends.

- **Creditors**

Creditors provide debt funding to companies. They lend funds to enterprises with the expectation of receiving returns on their loans. The return they earn is interest. Before distributing income in the form of dividends to shareholders, interest is paid to creditors.

- **Government**

Government is the overseer of companies and the economy and must ensure that good corporate governance practices are adhered to. Government receives taxes. Taxes are treated as an expense and paid before any income distribution.

- **Customers**

Customers indirectly invest in business by buying and using their products and services. They provide funds in exchange for goods and services which represent gross revenues. From gross revenues all costs are subtracted to get to net income which is then either distributed to shareholders or used to fund new projects and expansions.

- **Management and employees**

The management and employees of business enterprises are responsible for the operations and strategic policies of any business. They are compensated in the form of salaries and wages which are shown as an expense. In some instances managers and employers share in the profits of the organisation in the form of employee stock options which allow them to own shares in the business and share in the profits.

- **Suppliers**

The suppliers provide basic services to any organisation. These services may include basic materials, the maintenance of machinery and equipment, the upkeep of property or *ad hoc* services such as legal services. They receive compensation for these services and these items are shown as expenses on the income statement.

- **Community and future generations**

Although they do not participate directly with the organisation, the community and future generations are influenced by business decisions. Large industrial sites that

pollute water supplies greatly affect the nearby community causing illness, etc. The effects of air pollution due to the burning of hazardous materials by manufacturers might not be felt directly but in ten years time the new generation must deal with the consequences of business decisions.

This has been the basic business model in a capitalistic framework for decades. The 21st century brings this basic model into question and it is argued that there are far more factors leading to a business making profits and being able to stay afloat. Already concepts such as triple bottom line accounting has received much attention and in South Africa the King III report on corporate governance rests on triple bottom line principles. The triple bottom line focuses on three areas of reporting namely financial profits, social responsibility and environmental accountability. The next section will focus on a capital framework that will attempt to address the shortcomings of the traditional model by incorporating additional forms of capital and re-designing some of the assumptions and characteristics of capital and the cost of capital.

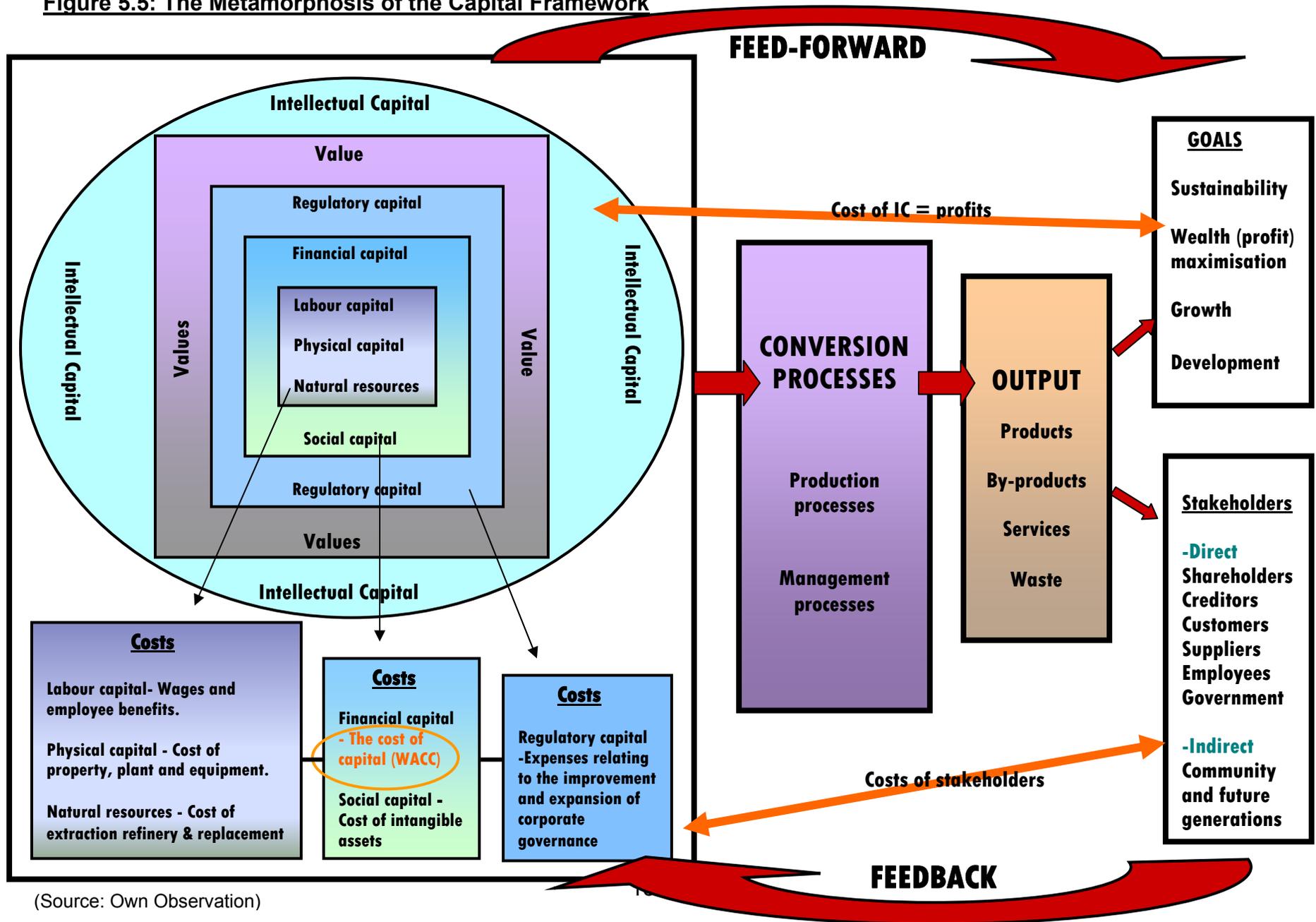
5.4 THE METAMORPHOSIS OF THE CAPITAL FRAMEWORK

Capital is a much more complex concept than the current traditional model indicates. This chapter in the context of the theme introduces a morphed business model that is holistic and sets the background as to the need to re-invent the cost of capital model. The traditional capital business model presented above has a very narrow focus on the long standing capitalistic driver namely profit. It is only companies that adopt a more holistic business view that will attain success in the new century. This holistic view is based on a more comprehensive framework with regard to the different resources available and how these resources interact in order to ensure a profitable organisation in a sustainable environmental structure.

5.4.1 THE MODEL

Concepts such as social and intellectual capital have also become the focus of many studies (see for example MacDougall and Hurst, 2005 on intellectual capital and Portes, 1998 on social capital). The concept of shareholders wealth maximisation has been replaced by a wider view of stakeholder wealth which includes stakeholders such as employees, suppliers, government and the community. Capital has always been viewed in a purely economic sense but it should also function in an ethical context. The business has a responsibility to all these stakeholders and it will have to move away from a narrow shareholder perspective to a much wider stakeholder perspective (Cloninger (1995) in Robinson, 1996:187). The metamorphosis of the capital framework for businesses can be presented in the figure on the next page.

Figure 5.5: The Metamorphosis of the Capital Framework



(Source: Own Observation)

The business process is still structured in a way similar to the traditional model in that inputs (represented by left-hand side of the model) is put through a process of conversion to deliver outputs. The right-hand side of the model indicates that the system pursues certain goals and has a responsibility to various stakeholders. The model recognises that all the stakeholders play a role in the creation of wealth and that the costs associated with the various stakeholders can be shown on the input side as the different forms of capital. Further a firm cannot grow forever and its ability to stay competitive depends on its ability to develop. A company must strive to grow and develop to ensure survival. On the input side the model indicates that there are various additional forms of capital not presented in the traditional model.

Each coloured block presents a different level and form of capital. At the centre of the model are the basic forms of capital, namely physical capital, labour capital and natural resources. These capitals are the starting point of business and inter-act with each other to ensure resource flow. The costs attributed to each of these capitals are also presented. The second layer is presented by social and financial capital. These two capitals bring the basic capitals in the middle together. Financial capital is used to purchase natural resources and physical capital goods but is also used to compensate labourers. Financial capital facilitates the flow of the other resources and is also one of the outputs of the business system.

Profits are expressed in monetary terms. Social capital also aid in the inter-workings of the basic forms of capital. It facilitates the relationship between labourers and management. Social and financial capital contributes to the development and transformation of the other resources. The next level of resources is regulatory capital. Regulatory capital circles the other capitals as these inputs need to operate in a regulated environment to ensure that the business operations are not to the detriment of any stakeholders involved in participating in the capital system. The next level of business inputs represents the principles of value and values. These principles are the building blocks of any organisation. A business aims to add and create value but this

must be done in a moral and ethical manner. The different resources must be converted and maintained under these principles to ensure a sustainable business.

The traditional business model had a stronger focus on the creation of value and the values principle was sometimes forgotten. The failure of big business enterprises such as Enron and Worldcom indicated how important it is to operate in an ethical environment and that the pursuit of monetary wealth is not the only important goal. The last level that encompasses the whole capital process is that of intellectual capital. Intellectual capital refers to the creation and use of knowledge. This new knowledge will lead to innovative thinking and ideas that will give a company its competitive edge. If a company can actively manage its knowledge resources (people) it will be able to stimulate innovative thinking and knowledge creation that are required to ensure the future of any business organisation. Intellectual capital is the capital that drives everything else in an organisation and leads ultimately to the creation of wealth. Intellectual capital thus causes profits. The different components and interactions of the model will be described below.

5.4.2 THE DIFFERENT FORMS OF CAPITAL INVOLVED IN THE METAMORPHOSIS OF THE CAPITAL FRAMEWORK

The following section represents the different types of resources an organisation has available to them in order to achieve both profitability and sustainability. The different forms of capital as presented in the model above represent all the resources available to a business enterprise.

5.4.2.1 Physical, financial and labour capital

These capitals are the same as explained in the traditional model above. Financial capital is presented alongside social capital in the morphed model. The reason for this is that financial and social capital assist in the development and transformation of the other

resources. Financial capital can be used at any stage in the business process to supplement the flow of resources. Financial capital is also the result of the process. If profits are retained then it is presented as a form of financial capital. Financial capital flows through the entire process.

5.4.2.2 Environmental capital (traditional natural resources)

Natural resources are further defined in this model to include any environmental services. Ecological services describe a wide range of ecosystem processes and functions such as maintenance of the composition of the atmosphere, amelioration of the climate, drinking water supply, waste soils, pollination of crops, provision of food from the sea, maintenance of species etc (Thamapapillai and Uhlin, 1997:379-380). These ecological services relate to non-constructed factors in the form of climate, water and geology. Natural resources are not only renewable and non-renewable natural resources but also include environmental services. The more comprehensive view of natural resources will be known as environmental capital.

Underlying environmental capital is the principle of sustainability. In order for a company to be sustainable in the case of natural resources it must give back what it takes in order to ensure the wellbeing of future generations. If there are declining levels of natural resources but these resources are substitutable by other resources it is referred to as weak sustainability (Goodland, 1995:15).

Natural resources tend to be partially a public good (Pretty and Ward, 2001:4). It is a complex mixture of both public and private goods that rarely have a market attached to it, thus complicating the difficult task of valuing natural capital. The environment is seen as a public good because the consumption thereof cannot be withheld from another group (Fullerton and Stavins, 1998:434). On the other hand it is seen as a private good because once an organisation takes for example ownership of land it becomes their property and is cut off from the use of other parties. People tend to take the benefits of the resources without contributing anything themselves. As it is seen as a public good it

is considered free and valued at zero. Value is only attached to natural resources once they are converted into something else. The profit of converting resources into goods is shown on the income statement and balance sheet but the cost of obtaining natural resources or services is not shown at all (Pretty and Ward, 2001:4). The emphasis is on proper management of natural resources in order to ensure that it is reflected at its true cost and not as something that is free. The responsibility of preventing total depletion of all natural resources rests with business and individuals. Environmental capital isn't limited to only natural resources but also describes the impact of using natural resources on the environment. It follows the principle of sustainability and can be described as a partial public good as changes in the environment impacts society as a whole.

5.4.2.3 Social capital

The objectives of any firm can only be achieved through a network of relationships. These relationships, be it employer–employee, employer-customer or employer-creditor relations, are crucial to the success of any business. They ensure the efficient and speedy delivery of products and knowledge. The term social capital refers to these relational networks and only in the sphere of these relations can sustainable growth be achieved.

Coleman (1988:s98) indicates that social relationships facilitate co-operation between actors. Nahapiet and Ghoshal (1998:243) enforces this idea by stating that social capital is concerned with relational resources and delivers a formal definition of social capital as:

“The actual and potential resources embedded within, available through and derived from a social network of relationships possessed by an individual or social unit, social capital thus comprises both the network and the assets that may be mobilised through the network”.

The idea of social capital being defined as the social relational networks in which systems like businesses, people and nature operate, is further elaborated by Putnam. According to Putnam (1995:66), social capital represents the relationship among and between people. These relationships are a jointly owned resource by parties involved in the relationship and it derives its value from the fact that these relationships cannot be traded easily. Friendships and obligations cannot be traded easily from one person to another and social capital cannot be achieved without certain relationships.

As from the above descriptions it can be shown that social capital lends itself to certain societal structures being formed by groups of people through interaction and communication with the result of information flowing between these groups of people. This information can then be utilised by either adding to or creating a new wealth of knowledge. Social capital forms the basis for co-operation and information sharing between parties. It is the web of networks established by business with its environment in order to survive and fight off competition. Social capital is presented on the same level as financial capital in the model. Social capital is a conductor for the other forms of capital and facilitates the flow and conversion of the other resources. Social capital actually envelops the entire business process as social capital supports the feedback loop. The establishment of relationships and networks aids in proper feedback being presented to the different areas of the business system.

5.4.2.4 Regulatory capital

Corporate governance has become the new buzzword around the world. Following the collapse of large enterprises such as Enron and the current financial crisis company stakeholders placed much more emphasis on ethics and good values systems. Corporate governance is the way in which companies control and direct their assets, resources and actions. (Grant Thornton, 2002:1). Control and direction lie with the board of directors who is accountable to shareholders and other stakeholders such as government, employees, suppliers, customers and the community.

In South Africa the minimum requirements for good corporate governance is prescribed by the King report published in 1994 which was later on supplemented by the King II report in 2002 and revised in the King III report of 2009. Maintaining an appropriate balance between the sometimes conflicting interest of the different stakeholders and the overall interest of the company is a primary challenge for any board. The King III report emphasises the importance of corporate governance and integrated sustainability. Its aim is to improve governance and accountability (Deloitte and Touche, 2009:1). This is achieved through the following seven primary characteristics of good corporate governance (extracts taken from Grant Thornton, 2002, “The King Report 2002 - An Introduction) namely discipline, transparency, independence, accountability, responsibility, fairness and social responsibility.

5.4.2.4.1 King III

The following are the key aspects of the King III report and are based on the underlying characteristics of corporate governance. Each aspect is further explored in terms of its role in the development and maintenance of a company’s capital base (aspects taken from Deloitte and Touche, 2009:1 and capital role –own observation):

1. **Ethical leadership and corporate citizenship** – capital must be managed and monitored in a manner that is not to the detriment of any stakeholders.
2. **Board and directors** - it is the responsibility of the board and its directors to ensure that capital and the cost of capital is managed in line with corporate strategy and benefits all stakeholders.
3. **Audit committee** - the audit committee need to ensure that the variable inputs into the calculation of the cost of capital is correct and relevant and that management keep to the agreed capital framework.

4. **Governance of risk** - the cost of capital is an invaluable tool used in the management of company risks and proper governance over the cost of capital inputs and methodologies will ensure that risks are properly managed.
5. **Governance of information technology (IT)** - Information technology can aid in the development of software solutions to effectively monitor and manage capital information and models.
6. **Compliance with laws, rules, codes and standards** – Where there are standards governing capital and the cost of capital (for example the Basel Accord in the banking industry) management must ensure that companies are fully compliant with standards, rules, etc.
7. **Internal audit** - Internal audit can aid in the development and refinement of processes and procedures surrounding the management and allocation of capital.
8. **Governing stakeholder relationships** - The proper management of the different costs of capital to different stakeholders will ensure good relationships.
9. **Integrated reporting and disclosure** – developing better reporting and disclosure frameworks for finance and risk information will aid in better information being available from which capital decisions can be made.

The King III report advocates a proactive approach to governance that focuses on creating future value for an organisation. King III thus offers guidance which is not compulsory but will rather be adopted due to the benefit and value it will add to any organisation. The King III report indicates that there is a gap in reporting and disclosure and that business must actually be reporting their resource position in a more comprehensive and sustainable manner. This report attempts to guide business to a more comprehensive capital framework. This will also lead to a more comprehensive cost of capital model.

5.4.2.4.2 International Financial Reporting Standards (IFRS)

Many countries across the globe have called for the harmonisation of global accounting standards. The International Accounting Standards Board (IASB) was created to improve and extend existing international accounting standards (IAS) (CGF Research Institute, 2004). The need for global standards is a reflection of international trade and how globalised the world has become. These international standards will make financial comparison between countries possible and facilitate the needs of global investors when analysing international companies.

IFRS statements are the new name given to the collection of accounting standards previously referred to as IAS. IFRS comprises individual international financial reporting standards, individual international accounting standards as well as all interpretations originating from these international standards (CGF Research Institute, 2004). The idea is to have one GAAP to which all countries prescribe. Currently listed companies in the European Union (EU), Australia, South Africa, Denmark and New Zealand have adopted IFRS statements. It will mean that investors and other stakeholder will be able to compare international companies with each other and it will help firms to compete on equal footing when raising capital in world markets. IFRS has been established to provide one accounting language and methodology that is based on data that is accurate and reliable.

These international standards attempt to align reporting and disclosure around the world. This would lead to greater transparency and comparability between countries. As will be mentioned in chapter six accounting classification play a great role in the cost of capital and determines which instruments are included in the cost of capital model.

5.4.2.4.3 Basel Accord

The Basel Committee was established by the central banks of the governors of the group of ten countries in 1974. The committee was concerned with the capital adequacy

of banks and a weighted approach to the measurement of risk on and off balance sheet was discussed (The Banking Association of South Africa, 2005:1). In 1987 a capital measurement system referred to as the Basel Capital Accord was approved and distributed to central banks across the globe. The framework establishes the minimum capital requirements for banks and in 2004 the initial accord was modified (Basel II) to include more guidelines with regards to credit and operational risk (The Banking Association of South Africa, 2005:2).

The Basel Accord indicates that capital measures are inadequate to capture all the different areas of capital. Banks have already adopted the Basel Accord to calculate their cost of capital and this clearly establishes the need to bring the cost of capital model in line with current issues faced in the market.

The above mentioned regulatory frameworks are just some examples of oversight and regulatory bodies' attempt to ensure good corporate governance practices are adhered to by the modern day business entity. Regulatory capital is shown as a form of capital on its own in the morphed capital framework. It is a type of capital that is derived from the use of other capitals. If labourers and people were not part of the capital process then there would have been no need to protect them from unfair practices or discrimination. If there were no capital markets financial regulatory bodies would not need to be created. Regulatory capital came into existence based on the need to protect the other forms of capital.

5.4.2.5 Intellectual capital

“As knowledge becomes the central resource of the economy, society is bound to evolve into a post-business, a knowledge society.” (Drucker, 1989:180) The most powerful tool available to any organisation is that of the human mind. This statement shows that the greatest focus should be placed on the human talent of an organisation more so than any physical resource available to them. The world of business is focusing on knowledge management. This new type of management structure calls for an increased

role of intellectual capital in business. Petty and Guthrie (2000:157) elaborate on these developments that have called for intellectual capital being emphasised. According to them they are:

1. The rising importance of knowledge and knowledge-based economics.
2. The revolution in information technology.
3. Changing patterns of networks and interpersonal activities.
4. The emergence of innovation as a major determinant of competitiveness.

Out of these developments arise challenges for all businesses – the greater need for innovation and value creation. The question that now arises is how is innovation and value creation achieved? The simple business answer will be through better and smarter products. But where do these better and smarter products come from? Beinhocker (2007:317) states that the origin of wealth is knowledge. Knowledge is information that is useful and serves a purpose. Information on its own can be worthless. *“We now know that the source of wealth is something specifically human: knowledge. If we apply knowledge to tasks we already know how to do, we call it productivity. If we apply knowledge to tasks that are new and different, we call it innovation. Only knowledge allows us to achieve those two goals.”* – P Drucker. Only if information is applied and processed and fit for purpose can it be transformed into knowledge. By combining existing information in different ways than previous combinations people can create new knowledge and thus new and better products. Innovation can only be facilitated by knowledge creation. But with knowledge creation come knowledge conservation. New knowledge can only be created by relying on old ideas and thoughts. Intellectual capital thus refers to the wealth of knowledge at the disposal of an organisation be it in the form of knowledge transfer, storage or creation.

Nahapiet and Ghoshal (1998:245) support this idea of intellectual capital by defining it as *“the knowledge and knowing capability of individuals, organisations or society as a whole”*. They elaborate further on the process of knowledge creation by ascertaining that knowledge is created through two processes namely combination and exchange.

Combination refers to the different ways in which information and materials can be combined (Nahapiet and Ghoshal, 1998:248). Normally there are two ways of combining them. The first is by making small changes to existing knowledge while the second method requires radical changes to knowledge. Only through radical changes can innovation be achieved. Exchange refers to resources that can be exchanged between parties (Nahapiet and Ghoshal, 1998:248). Exchange is a necessity to knowledge creation because without sharing your findings with others it is not knowledge. Only when distributed does it become knowledge.

Knowledge can also be further divided into different types or methods of learning. Learning can happen either via single loop or double loop learning. Single loop learning refers to fixing problems as they occur while double loop learning refer to finding solutions as to why the problems occurred in the first place (Anonymous, 2006:17). Intellectual capital can also be defined in the different disciplines. In accounting it is referred to as intangible assets which provide useful information for economic decision-making and the component parts are those assets which are identifiable and controlled by the firm. They include goodwill, research and development and other identifiable assets such as patents and copyrights (Marr and Moustaghfir, 2005:1124). The inclusion of intangible assets in the accounting framework was an attempt to make accounting information more decision-useful. The current framework on intangible assets doesn't capture the full scope of intellectual capital and only includes items for which some sort of value can be estimated. Patents, trademarks and goodwill are items that aid in the creation of knowledge. In the area of finance the definition indicates that intellectual capital has no immediate measurable or certain payoff. These types of assets are also not susceptible to the development of secondary markets in which to value them due to their nature. They represent a firm's growth opportunities (Housel and Nelson, 2005:547). Intangible assets do not actually depreciate like normal assets but can increase in value over time. Patents do not decrease in value due to use but as time goes on can actually become more valuable. Intellectual capital refers to something intangible and it is difficult to capture its essence in the current accounting framework. The current intangible asset framework in accounting still needs to broaden its scope if it

wants to be the statement used for capturing intellectual capital onto the balance sheet. Measures other than quantitative scales need to be considered and developed and incorporated into the accounting framework to be able to report on the intangible assets available to organisations.

From all of the above it can be taken that intellectual capital is the focal point of business and should receive more attention. As Cuganesan (2005:358) puts it: *“information and knowledge is seen as the principal driver of value-creation and competitive advantage”*. Economist Irving Fisher indicated that all types of stocks will be capital when yielding services which give rise to income (Fisher, 1930: I.I.28). Based on this, intellectual capital can be seen as a form of capital. Intellectual capital is also important to manage properly as it is linked to corporate strategy, valuations and production decision making. Proper recognition and classification of intellectual assets are needed.

Social, regulatory and intellectual capital are combined with physical, financial, labour and natural resource capital to make up the resources available to an organisation. It is important to explain the make-up of each form of capital as this determines the assumptions of capital and ultimately the cost of capital. As stated initially, the first step to good research is to unbundle the assumptions of the cost of capital model. The assumptions and definitions of the various forms of capital drive the assumptions and measurement of the cost of capital model. Each of these resources has their own costs attributed to them and each resource is contributed by various stakeholders. The following section will look at the combined effects of prescribing to adding value while adhering to values in the new model as well as the four main goals a business entity must strive to achieve to ensure long term success.

5.4.3 SOME ASSUMPTIONS AND CHARACTERISTICS UNDERLYING THE METAMORPHOSIS OF CAPITAL

5.4.3.1 The building blocks of business – the principles of value and values

The traditional capital model focused on value as described above. Value is an important aspect of any business and by adding value businesses can grow and change. But if value is not created in a framework of morals and ethics then it will not benefit shareholders alike. Added value can only be put to good use if it is done on the back of sound values and principles. Values can be defined as “*in general, important and enduring beliefs or ideals shared by the members of a culture about what is good and desirable and what is not.*” (Business Dictionary, 2009) Values are established through moral obligations passed down from generations. They are related to the norms of a culture which in turn refer to rules of behaviour (Wikipedia, 2009). These norms are grounded in the nature of the world which revolves around right or wrong. It is the nature of mankind not to intentionally harm or destroy. Thus common beliefs and what society views as right or wrong is rooted in the way of the world and thus is embedded in the idea of holism and systems.

The values concept to building a business rests on the principle of sustainability and optimality. Instead of only focusing on adding value through maximising profits and achieving growth, companies must add value based on a strong set of values through developing ideas, concepts, processes and people in order to achieve an optimal level of balance which can be maintained throughout the life of the organisation. Instead of maximising shareholder wealth a business must reach an optimal level of balance between social, environmental and economic achievement. In the light of the need for balance between the different forms of capital it is important that the balance can be maintained. Unprecedented growth is all good and well but cannot be maintained for long periods of time thus business must rather strive to adopt policies and practices that focus on maintaining levels of achievement rather than speeding up achievement. A

business enterprise must exist on the principles of value and values. This is presented in the model above by indicating that the principles of value and values encircle the different forms of capital.

5.4.3.2 Assumptions underlying the metamorphosis of the capital framework

The concept of value and values is the starting point from which business enterprises operate. The concepts do not only underlie business enterprises but are firmly embedded in societal structures and world economies. Naturally the assumptions underlying the transformed capital framework stem from the principles of value and values and are adapted from Capra's principles of ecology. These principles of ecology are the assumptions that underlie systems theory. In this dissertation a business enterprise is seen as an open system that interacts with its environment and as it is a system it is bound by the principles that govern systems. These assumptions not only govern business systems but will also govern the transformed capital framework as set out in section 5.4. They explain the interaction and relationship between the different capital resources and how they interact within the business environment to create wealth and value for an organisation. These assumptions include (Capra, 2002:202):

1. Networks and partnerships

Organisations find themselves in a system of networks. It is an organisational system that communicates and interacts with other systems. It exchanges resources and information with its external environments. These webs of networks can only be facilitated through co-operation and not solely competition (Capra and Pauli, 1995:10-11). The business system is based on a network of relationships and there need to be co-operation between the different networks to ensure that business goals and strategies are met.

The first assumption of the model indicates that business enterprises are based on a web of underlying networks of relationships and without these relationships

no business would survive. The cost of capital model is also based on a relationship between the sources of capital and their cost drivers.

2. Resources (energy)

These are the building blocks of any system and without the continuous flow of resources a system would cease to exist. A business organisation depends on the influx of resources to continue to grow, develop, maintain and expand its operations. The resources are the inputs and starting point of the business process.

In terms of the morphed capital framework these resources are represented by the capital resources on the left side of the model. These capital resources including natural resources, labour, finances, regulations, physical capital, social capital and intellectual capital form part of the necessary resources that govern the business enterprise. These resources are essential in the growth and development of the business and needs to be maintained and replaced in order to ensure sustained business.

3. Diversity

Businesses achieve profits, stability and resilience through the interaction and complexity of their networks. Being a part of a large diverse universe, business is able to create, innovate and thrive. With diversity comes opportunity and competition (Capra and Pauli, 1995:12). A proper plan and strategy that foster diversity will lead to success.

Diversity is also necessary in the capital framework as described in previous sections. It is the diverse nature of the different sources of capital that facilitate their interaction and aid in creating the different relationships between the resources. For example, social capital, which is very different from natural

resources, aids in building the relationships that help in the acquisition, transformation and transport of natural resources.

4. Cycles

Just as the environment goes through cycles of winter, summer, autumn and spring so does the economy and business. Continuous resource flow will ensure that any enterprise can weather negative cycles.

As explained in chapter two, capital also has a cyclical nature. If capital resources is used in the creation of value and value can be represented by the cyclical share price movements of a company then it naturally follows that capital will also have cyclical up and down movements. This cyclical nature of capital is difficult to capture with accounting data alone as accounting information is not a good mould to cyclical information as it reports information from one time period to the next.

5. Dynamic balance (flexibility)

A business is a flexible ever fluctuating system. Its flexibility is a consequence of multiple feedback loops that keep the business in a state of dynamic balance (Wheatley, 2006:78-79). The crux behind dynamic balance is that no one variable (profits) is maximised but all variables (profit, social and environmental) fluctuates around their optimal value.

The transformed capital framework indicates that value can only be created when all the different capital resources are used in conjunction with each other and that there is no longer only a focus on financial capital. Later on in this chapter it will be shown that intellectual capital brings dynamic balance to this transformed framework. Intellectual capital is the one capital that causes the interaction between all the other capitals and that it also generates feedback not only

between the different capital resources but also between all the different areas of the business model.

6. Inter-dependence

Businesses, customers, supplier and communities are all interconnected in a web of relationships that all contribute and influence business processes and strategies.

The capital framework also indicates that there is an inter-dependency between the different sources of capital and it is their interaction that leads to the creation of wealth and value. For example natural resources wouldn't mean much if there wasn't physical machinery and labourers available to convert them into goods. Also financial capital wouldn't be able to circulate if it wasn't for people using the money to purchase goods and services. All these resources depend on some of the other resources to ensure their proper use and application.

7. Co-evolution

As society and economies evolve, business enterprises will create and adapt to changes in these and other systems.

As the social economic and ecological environments change so will the business environment and its capital framework. A change in business strategies and goals will lead to a change in the capital framework. For example if a business operation cannot obtain wood from its natural environment anymore it will have to change its business plan to continue without wood. Its capital framework will be adapted and wood will no longer be an input into the business model. Business is set up to follow economic principles of supply and demand. If there is no longer a demand for or supply of certain products or items business systems will evolve and adapt to be able to carry on without those items.

5.4.3.3 '(R)evolutionising' the characteristics of capital

The different forms of capital can be divided into two broad classes, namely observable and unobservable capital. Observable capital is those forms of capital readily found in the traditional capital model namely natural resources, financial, physical and labour capital. As mentioned above, these forms of capital are normally more easily measured and tangible, while social, regulatory and intellectual capital are known as intangible or soft capitals as they are not readily observable in the market and nor do they have observable prices or market and book values. The soft capitals are not easily measured in terms of quantity or monetary units. They are interpretive in nature and leaves room for lots of speculation as to their nature and meaning. Due to the fact that they cannot be easily measured they are referred to as metaphorical capital and have to date not been properly recorded and accounted for by business. These types of capitals also call for a more comprehensive report that will go out to all the stakeholders that organisations report to. The collective public/community and future generations will have to be included as stakeholders and enterprises will have to take accountability for their decisions and actions regarding important resources. Intellectual, social and regulatory capital have been seen as the non-financial aspects of a business and normally not included in the profit calculations. But as can be seen from the model above and other chapters, these types of capitals are just as important in creating monetary profits. The reason they are seen as non-financial value generators is the fact that they are not as easily quantifiable and measured as the traditional forms of capital. These soft capitals together with the tangible capitals (physical, financial, labour and natural resources) represent the combined resources available to an organisation and it is their combined interaction that will lead to successful organisations.

The author proposes that a new set of characteristics be set forth that will allow for the inclusion of all types of capital. These characteristics come from Beinhocker's (2007) "*The Origin of Wealth*". He refines the work of economist N Georgescu-Roegen and proposes three sets of criteria for the creation of wealth namely irreversibility, lowering entropy and fitness. It is these three parallel processes that create value or wealth.

Irreversibility implies that all economic activities are bound by the arrow of time (Beinhocker, 2007:303-317). Everything is forward-looking and can only move in one direction namely forward (into the future). Activities can be based on past events but can never change the past, while the present describes activities as they take place. Activities can only be planned and co-ordinated for the future and past activities cannot be reversed or changed.

The second criterion entropy lowering refers to reducing uncertainty and creating knowledge. Only through gaining knowledge can uncertainty be reduced. It indicates that everything that is future orientated is uncertain and that businesses attempt to reduce this uncertainty by making assumptions and predictions on future events in order to prepare themselves better. If a business enterprise can gain more knowledge it is in a better position to make predictions about the future as it has more knowledge and can make a more informed decision. For example you are at a cross road and need to make a decision between two routes. The first route you know nothing of and you are uncertain as to where it would lead. The second route you have knowledge about and know it leads to a garage with fuel and water. It is obvious that the person would choose the second route because they have knowledge about the route and knows it would lead to safety. Business enterprises attempt to gain knowledge so that when it comes to a cross road it has some knowledge as to which route to take. Entropy indicates that the more predictable a business enterprise is the easier it will be to reduce uncertainty as the predictions will be more accurate. This characteristic refers to all economic activities that lower entropy. Economic activities are there to add value to the lives of people thus it lowers entropy in the local economy but unfortunately adds to increase entropy globally.

Lastly fitness indicates that all economic activities are completed with the goal of satisfying human wants and needs. The economy is built on satisfying human needs and businesses were established with this goal in mind.

The creation of wealth can be described as the end result of business evolution. Just as nature evolves to cope with changing circumstances so does business. The business enterprise goes through various steps of 'evolution' and it is fitting that these terms normally associated with biology and evolution can readily be applied to business. The criteria Beinhocker (2007:303-317) describes for the creation of wealth, can also be seen as the characteristics that capital sources need to have, as capital is the cornerstone of creating wealth. Businesses are built through the use and application of the different forms of capital. In the past raising financial capital was seen as the starting point of a successful business and the funding element as the foundation. Later on in this chapter it will be shown that it is a combination of the different types of capital that will lead to a successful long-standing company. The different forms of capital are what give life to an organisation and the correct combination of the different capital types will lead to the creation of wealth. The following table gives a brief description of each criterion based on Beinhocker's work as well how it will apply to each form of capital:

Table 5.2: New characteristics for capital resources

Types of capital		Natural resources	Labour	Financial	Physical	Social	Regulatory	Intellectual
Characteristics	Description							
1. Irreversibility	All business activities and transactions are thermodynamically irreversible.	Natural resources follow the arrow of time. Renewable resources can be used up and need to be replaced while non-renewable resources cannot be replaced once used.	Labourers can only perform work based on the arrow of time. People can re-work natural resources into useful tools and appliances but it cannot go back into the past to undo things already made.	Financial capital refers to money. The use of money is also bound by the law of physics. Money cannot be raised retrospectively and is repaid in the future.	Human-made objects are also bound by the arrow of time as it has a finite life and period of use. It is bound to become obsolete at some future date.	Networks of people and relationships are also bound by the life time of its members. It also moves with time.	The rule of law, as everything else in life, has a finite lifespan and cannot change the past but only strive to improve the future.	Intellectual capabilities are also finite and bound to the arrow of time. Knowledge can be passed down from generation to generation.
2. Entropy	All business activities and transactions reduce entropy in the local economy but increase it globally.	The use of natural resources such as water and wood can assist a community in not dying from hunger or thirst but the use of these resources mean they are not available to anyone else.	Labour allows for resources to be transformed into goods that assist people in one community while globally the use of materials might cause the destruction of forests or the pollution of the environment.	Money assists in lowering entropy as it helps one economy to acquire goods needed to survive. Globally money can be distributed unequally and communities may not have the financial resources to acquire goods and services.	Physical capital aids in the survival of the community and is created to the detriment of natural resources and the environment.	Relationships and communication within a community can improve the quality of life for that community but relationships can also be to the detriment of people and can lead to civil uprisings and war.	Rules and regulations were put in place to protect the well-being of its community, citizens and businesses. Some rules and regulations may be detrimental to society as a whole but could've been established with the best intentions.	Knowledge can assist businesses in adopting strategies and processes that will assist in their survival. The continuous life cycle of a business enterprise can take its toll on the environment as a whole.
3. Fitness	All business activities and transactions are fit for human consumption and use.	Natural resources are transformed into goods that aid to satisfy human wants and needs. Water satisfies the need for liquids while trees can be re-worked and used to build a house that satisfies the need for shelter.	Labour is applied to transform resources into goods and services used by human beings. It is labour that allows for items to be created that satisfy wants and needs.	Money is a means to acquire goods and services that fulfil wants and needs. It is also the creator of wants and needs. The more money you have the more material objects you desire.	Buildings, cars, power tools, etc is created with the purpose of aiding people in satisfying wants and needs.	The human need to be recognised, rewarded and seeking companionship are satisfied through social relationships with other people or groups of people.	Law and order is established through regulations in order to protect people and satisfy the need to be secure.	Knowledge and learning can assist people in fulfilling their desire to succeed and improve their ability to satisfy wants and needs.

(Source: Adapted Beinhocker, 2007, "The Origin of Wealth: evolution, complexity and the radical remaking of economics", p303-317; own observation in blue)

The table above can be contrasted to the traditional characteristics of capital. It indicates that the traditional linear approach to business is being replaced by a more flexible organization that is focused on the idea of holism and sustainability. The above criteria in no way suggest that the traditional characteristics and processes be done away with but that it should be infused with holistic concepts and ideas that will lead to a more comprehensive business model, that when applied, will lead to a sustainable future for organisations and society alike. This will also open the door for new and innovative measures and systems for financial reporting and tools.

5.4.4 THE FOUR MAIN GOALS UNDERLYING THE METAMORPHOSIS OF THE CAPITAL FRAMEWORK

5.4.4.1 Growth and development

As explained in the section above the traditional capital model aims to grow a business. Growth is desired but a company cannot grow forever. A company must aim to grow and develop. To develop means “*to expand or realise the potentialities of; bring gradually to a fuller, greater or better state*” and it also implies that development is the qualitative improvement or revealing of potential (Daly, 1990:1). Development can take place without growth and *vice versa*. The ecosystem in which we live cannot grow or expand in quantitative terms, but it can be developed. As Capra and Puali (1995:14) put it “*development is learning*” and business must focus on applying the correct mix of growth and development in order to reach a state of greatness.

Growth must be applied in the beginning stages of business because then quantitative growth is necessary to achieve goals and establish proper business relations. But as business become set up and mature it must focus on development. It must continually improve itself through innovative thinking and learning in order to unlock potential that will drive the company to success and competitive advantage. Thus the modern business organisation must seek to attain both growth and development.

5.4.4.2 Wealth maximisation and sustainability

Current financial textbooks have changed their approach to shareholder wealth maximisation. There is no longer only a focus on shareholders but an enterprise-wide stakeholder view has been adopted (Cloninger (1995) in Robinson, 1996:187) Other stakeholders recognised by businesses are employees, suppliers, customers, the government, society, creditors, etc. Organisations are directly responsible to each of these stakeholders and their role and responsibilities to them are normally set out in the core values and goals of the organisation. In order to facilitate stakeholder wealth maximisation, organisations must still adopt the going concern approach and must still strive to maximise profits as described above in the traditional model. The difference is that organisations need to find some optimal level at which profits can be divided between the different stakeholders while still maintaining a sustainable business model.

The next section will spend some time on how businesses can achieve sustainability within the transformed capital framework. Ideas such as wealth maximisation are not thrown out the window but are combined with new ideas to create a more sustainable capital framework. Business enterprises are directly and indirectly responsible for most human impacts on the earth. Organisations normally satisfy their own needs without any thought as to future generations and there has been a shift in focus to social and ecological sustainability. The traditional definition of sustainability has been prescribed by the Brundtland Commission (Lems, Van der Kooi and De Swaan Arons, 2002:308) as *“development that meets the needs of the present generation without compromising the needs of future generations”*. The Brundtland definition is specifically focused on natural resources and there are many more aspects of business that must be sustainable to ensure success and a long term future. In terms of the transformed model sustainability is based on the ability of the organisation to adapt to changing circumstances. Sustainability as defined by Holling (2000:4) is the *“capacity to create, test and maintain adaptive capability”*. Sustainability deviates from the normal wealth maximisation and profit growth concepts, which only allow for business to get better while sustainability allows for business to get worse in order to adapt to changes so that things can get

better again. As long as a business entity can go through economic, social and regulatory cycles of change and adapt to them it will be sustainable.

Sustainability deviates from classic accounting assumptions that indicate that items such as profit and assets are measured at a specific point in time. Sustainability indicates that the flow of resources span over time (Voinov and Farley, 2007:108) and it is much more difficult to get an accurate representation of resources by measuring it at a certain point in time. This implies that there is a shortcoming in the current accounting framework that does not allow for the measurement of concepts over time. The balance sheet for example is a statement of a company's position which is taken as a snapshot at a certain point in time but in actual fact is a continuous flow of items that is not properly represented at a specific point in time but should rather be measured over a period of time to get to its nature and intent.

Two of the more important characteristics of a sustainable business include renewal or self-maintenance and self-transcendence. Autopoiesis refers to the biological term of self-maintenance (Wheatley, 2006:85). Autopoiesis is the process of self-organisation or renewal and self-transcendence According to Luisi (2003:57) the process of self-maintenance involves generation from within. This implies that all components within a business system should continually re-generate themselves within the limits of the business system. Companies must be able to keep operations continually going to ensure that they are able to adapt to changes. An organisation that is faced with system disruptions either from the outside or from within can respond in a dynamic manner by being a versatile and flexible organisation that will be able to weather the disruptions (Gouws and Lucouw, 2000:30). This requires organisations to be flexible and innovative in order to ensure re-generation from within. If a company cannot manage and continue its internal operations (employees, training, management, etc) as well as manage external relationships (customers, suppliers, government, etc) it will not be able to deliver sustainable services to clients. The continuous preservation of capital is a necessity for any business that wishes to uphold its operations.

The next level a company needs to reach to be sustainable is that of self-transcendence. Self-transcendence takes self-maintenance to the next level. Self-transcendence refers to an organisation being able to change. The only way in which an organisation can change is through gaining and creating knowledge. In order to be able to create knowledge an organisation needs to change its current way of thinking. To be able to do this it needs to be able to unlearn previous information and rethink. In order to unlearn and rethink in innovative ways an organisation must be able to challenge itself (Merry, 1999:267). The ability to challenge oneself to excel creates flexibility. By continuously trying to best oneself and striving for excellence one develops one's abilities to adapt to circumstances and think in new and different ways. The more one challenges oneself and exceeds expectations the better positioned one is to adapt to change. If a business stagnates and only focuses on current policies and procedures without challenging itself to do better and create new and better policies, procedures and goals it will not be a sustainable business and will wither with time. Self-transcendence talks to challenging oneself to be creative and innovative in order to adapt faster to change. Businesses are experts at re-active thinking which entail solving problems as they arise. Self-transcendence teaches businesses not to solve problems as they arise but to anticipate them and come up with solutions pro-actively through innovative and creative problem-solving. Sustainability involves a combination of self-maintenance and self-transcendence. Self-transcendence does not necessarily imply that new technology and knowledge have to be invented or created but finding new ways of putting already existing knowledge together in a way no one has thought of.

Another characteristic of sustainability is that it cannot be seen on component level but must be achieved on an overall level (Voinov and Farley, 2007:107). For example a business cannot have sustainable use of natural resources if it does not have sustainable client relationships. The new sustainable goal of business will be to earn profits according to a flexible framework whereby all resources utilised is acknowledged and accounted for. Wealth maximisation was set as the primary goal of organisations to ensure that management and shareholder goals are aligned. As shown there is more than one stakeholder that a business is responsible to, and shareholder wealth

maximisation only speaks to the needs of shareholders and not all stakeholders. The concept of optimality attempts to find some balance between elements instead of maximising only one element at the cost of others. Optimality incorporates all stakeholders and implies that business needs to reach some optimum level of profits so as not to result in the detriment of any other stakeholders. Business has always sought to maximise profits at the cost of say regulatory requirements. In the world of sustainability all elements should be considered and an optimal state should be reached. Business should look at optimal profit levels that will bring with it optimal client and vendor relations.

5.4.5 THE DIFFERENT COSTS OF CAPITAL IN TRANSFORMED CAPITAL FRAMEWORK

The following section investigates the cost of each of the capital forms suggested in the model. These costs will not be described in detail but it is worth noting the different costs currently attributable to the resources and how they are treated in accounting terms. This section bring to light some issues relating to the costs ascribed to the different forms of capital and can lead to future research topics.

5.4.5.1 Natural resource capital costs

As mentioned in the section on natural resources it is difficult to determine exactly the cost of natural resources as they are considered a gift from nature and viewed as having zero cost (Pretty and Ward, 2001:4). Companies do however recognise costs with regards to extracting and refining natural resources. These costs are then recognised on the balance sheet in accounting terms. The issue that needs further investigation is the fact that natural resources bear an opportunity cost. The costs relating to the environment are often hidden costs that are treated as overheads so that their visibility to management is reduced to an extent (Bennet and James, 1998:21). These hidden

opportunity costs (the benefit of the natural resources not available to future generations or applied for other uses) are difficult to determine (see Robinson (1996:185-195) for a discussion on different methods for determining the cost of natural resources). Currently natural resources are measured at the cost of extracting, replacing and refining them. The depletion of natural resources has been neglected to be reported and its cost is left to disappear in the profit or income.

5.4.5.2 Physical capital costs

The cost of physical capital goods is more easily measured than natural resources and these costs are recognised on the balance sheet and sometimes the income statement. It is the cost of a company's property, plant and equipment. The cost of physical capital consist of the purchase price, freight, insurance and installation where the asset is purchased and cost of development including raw materials, labour and overheads where the asset is developed (Buckley and Lightner, 1973:522). The cost is recognised on the face of the balance sheet while items such as equipment services and parts are expenses and taken to the income statement. These costs are quantifiable and described in units of measurement.

5.4.5.3 Labour capital costs

Labour capital has always been measured in terms of labour hours and wage rates and for accounting purposes wages are shown as an expense as mentioned in section 5.3. As Adam Smith indicates the *“acquisition of a worker's talents is a real expense which is fixed capital”* (Smith, 5th edition, 1904: II.1.17).The spend on human resources has traditionally been reported in the accounts as a cost rather than an investment (Petty and Guthrie, 2000:166). Labour capital should be recognised on the face of the balance sheet, as human experience, talents and abilities are fixed resources which are an asset to any company. Accounting rules state that expenses can be capitalised if the asset is acquired for use in operations or held as an investment; the asset item is of a material

amount; similar items should be treated the same and the asset must benefit more than one accounting period (Buckley and Lightner, 1973:527). If there are future benefits attributable to the resource and it can be estimated reliably then it should be capitalised and shown on the balance sheet. Labour costs can fall into the accounting definition of capitalised costs as it is an expense for which future benefits will be derived.

5.4.5.4 Financial capital costs

As shown in the definition of financial capital above, it involves debt and equity instruments. The current cost of capital was established to provide a tool of measurement to these financial resources. The current cost of capital model measures the cost of debt and equity of a firm. In chapter four a detailed description of the different sources of debt and equity is provided. Currently the cost of capital model includes the cost of long term debt, preferred stock, retained earnings and common stock. In chapter six it will be shown that there are other hidden sources of funding not yet considered in the cost of capital. As this is a tool invented to measure the cost of financial capital it should include all financial resources available. The cost of capital of a firm is not disclosed on its income statement thus measures such EVA has been developed to include the cost of capital in order to determine overall firm performance.

5.4.5.5 Regulatory capital costs

The question of recognising expenses relating to implementing and adhering to certain legal rules is still a much debated issue. It is of the opinion of the writer that costs relating to the implementation of rules and regulation are not pure expenses but they should be capitalised and shown on the balance sheet due to future benefits they carry. These benefits include positive shareholder sentiment which causes increased share prices. If shareholders perceive the company as being transparent they feel more comfortable and will rather invest in a company with a good corporate governance structure. This sentiment trickles through the market and has a positive influence on

share prices. These expenses meet the definition of capital expenditures as resources (funds) used to increase the asset's capacity, efficiency or useful life in the production of current and future income (Harrison and Horngren, 2001:316). These expenses need to be incurred to ensure future income and if a company does not comply with certain rules and regulations it can be closed down and no profit will flow.

5.4.5.6 Social capital costs

Determining the cost of building relationships and networks is more easily said than done. Currently there is no real measurement scale to determine the value attributable to building a strong network. This type of capital has more qualitative factors and these qualitative factors are not measured in terms of accounting as accounting seeks to quantify these relationships in some way or another. Currently certain aspects of social capital is measured and shown on the balance sheet. There have been advances made in measuring and disclosing items such as patents, trademarks and goodwill. These items are the result of combining different resources in different relations and networks and they are known as intangible capital. Research has advanced with new and innovative ways of measuring and disclosing these types of items (see for example Rodgers, 2003:181-190).

5.4.5.7 Intellectual capital costs

Some aspects of intellectual capital such as intellectual property rights has been recognised and disclosed on the balance sheet as intangible capital. These items do relate to a portion of intellectual capital but intellectual capital as such is a far more complex type of capital. As will be explained later on in this chapter intellectual capital is actually the one capital that causes all the other resources to interact and bind and is responsible for keeping the whole business process together. Intellectual capital causes profit and the cost of intellectual capital will be the company's profits. Profit is supposed to be that left over after taking all the other costs of resources into account. It is the

amount earned above the cost of operating the business and it is the result of innovative thinking. Profit is the residual and represents the impact intellectual capital has on the business. If profits are earned it indicates that business people was able to come up with more clever ways of thinking. This creation of knowledge to come up with more innovative and new ways of making profits and reducing costs is what intellectual capital represents.

5.4.6 STAKEHOLDERS INVOLVED IN THE METAMORPHOSIS OF THE CAPITAL FRAMEWORK

5.4.6.1 Direct stakeholders

These stakeholders are seen as direct stakeholders because there is a direct link between them and the relevant business enterprise. These stakeholders have a direct impact on the business and it is important to recognise their share of wealth distribution. Currently shareholders' interests are mainly considered and recognised by business enterprises. Shareholders are not the only stakeholders in a company and it is important to consider all the costs of all the different shareholders to get an accurate reflection of the cost of capital. The current cost of capital model only recognises the cost of creditors and equity shareholders.

➤ Creditors

They are providers of debt financing. Creditors will still share in the income distribution of firms. They will receive interest for the funds lent to the business.

➤ Government

Government provides a form of funding to the business in deferred taxes. When deferred taxes are non-reversing they can be viewed as equity and a form of funding for

the business enterprise. The current cost of capital model does not include the cost of deferred taxes. Normal taxes are paid out of earnings before the latter is distributed to other shareholders. The government also oversees the regulatory bodies that in turn oversee business enterprises. The value added by these regulatory bodies is currently expensed on the income statement.

➤ **Management and Employees**

Managers and employees receive compensation in the forms of wages and salaries. They do not always participate in the distribution of after-tax income. In some case managers and employees receive company stock options in return for services rendered.

➤ **Suppliers**

Suppliers provide materials and services to the business enterprise to ensure that the business process runs smoothly. These materials and services can be introduced at various stages of the resource conversion process.

➤ **Shareholders**

These shareholders provide equity funding to the business. They receive dividends as compensation for business utilising their funds.

➤ **Customers**

Customers buy and acquire services from business enterprises. The money they pay for these goods and services presents the income flow for the organisation. In return for money paid for goods and services, customers expect to receive goods and services of the highest quality.

5.4.6.2 Indirect stakeholders

These stakeholders are viewed as indirect stakeholders as there is not a direct link between them and the business organisation. Although there is not a direct link, business organisations still have a responsibility to these stakeholders.

➤ Community and future generations

As mentioned in the section on the traditional capital stakeholders, business enterprises have a responsibility to future generations and the community. Organisations must factor their responsibility to future generations into their current goals and processes to ensure that they protect the future. The responsibility they have to future generations will lead to hidden opportunity costs for the business and it will be more beneficial to recognise these costs so they can be properly managed. It will be an indirect opportunity cost that businesses have to bear.

5.5 INTELLECTUAL CAPITAL: FINDING FLEXIBILITY IN BUSINESS ORGANISATIONS

Intellectual capital allows for momentum in the system. It drives flexibility which in turn aids businesses in adapting to change by causing flow in the system (Capra and Pauli, 1995:13). In systems theory this point is known as the bifurcation point - the point that causes change through motion which in turn results in flow (Ball, 2004:131-132). Open systems are in a process of continual flow and change. In the business system profit is the product of motion caused by the core. In the capital model above this point is represented by intellectual capital (IC). It is the fundamental building material and engine that turns the modern business organisation. Intellectual capital is at the core of business as it is involved in both the value and values side of business. It stands in the middle as it is a class of capital on its own. It is the capital that ties everything together and brings dynamic balance into the system. It is the driver of business and ultimately

the wealth of nations. It is presented in the model above as the resource that encircles everything else. Without intellectual capital a company cannot transform the other resources while acting in a principled way and creating value.

Intellectual capital includes all intellectual material, knowledge and experience that when combined contribute to the wealth of the organisation and indicates how intelligent and enterprising a firm is in generating cash flows and profits from its tangible resources (MacDougall and Hurst, 2005:53-54). Without the human mind which stores and creates knowledge, a business would not be able to operate but would only consist of the component parts of natural resources. All other capitals are the result of applying IC in one form or another. Profit can thus be seen as the result of intellectual capital. Intellectual capital is the origin of profit/wealth. Sudarsanam, Sorwar, and Marr (2006:292) supports this claim by stating that: *“many organisations have realised that knowledge represents a crucial factor in creating economic value that underpins a firm’s value creation performance”*.

It is intellectual capital that causes momentum within an organisation and the result is the flow of resources through the conversion process into goods and services. In order for a business to have momentum it needs to be adaptive. Adaptiveness necessitates creating business structures that fit to new circumstances (Wheatley, 2006:82). Intellectual capital offers a business enterprise the ability to learn and innovate in order to adapt to different landscapes. This adaptability allows an organisation to continually evolve and formulate strategy. It is also referred to as flexibility. Intellectual capital offers this flexibility by stimulating the capacity of an organisation as a whole to gather information and to create and utilise knowledge. By increasing information flows (gathering and creating) flexibility will be enhanced (Doktor and Lie, 1991:128). Some of the characteristics of flexibility are efficiency and effectiveness. The first maintains and the second develops (Merry, 1999:260). Efficiency improves current practices while effectiveness searches for better ways in which to do things right (The Office of Planning and Institutional Assessment, 2006:1-4). Intellectual capital offers both efficiency and effectiveness in the capital framework. It aids in the maintenance of the other resources

and the business process but also brings about innovative thinking that leads to improvements in the resource conversion process as well as the creation of wealth. Intellectual capital enables business enterprises to change and create knowledge out of current information by creating an environment in which people within the business enterprise is encouraged to relearn and rethink in new ways.

This flexibility offered by intellectual capital indicates that the business system is a model of continuous motion. Intellectual capital can also be called the system's kinetic capital. For example a human would look at a piece of wood and by applying his mind construct a use for the piece of wood, in this case a wooden spoon. He would utilise other resources such as money to buy physical goods such as tools. By applying some physical labour and brain power the result would be the spoon that can be used for a variety of uses. The piece of wood was put through a process of transformation and flow. Momentum is caused through the conversion of the piece of wood into a spoon by applying intellect to get from the starting point (the piece of wood) to the end point (the spoon). Continual motion is necessary to keep business afloat. If one environment changes, for example the client's wants and needs, then it disturbs the system's cycles as a whole and the system acts as a self regulating feedback loop to bring the system back into balance (Wheatley, 2006:78-79). These feedback loops can be self-balancing (negative) or self-reinforcing (positive) feedback loops (Gouws and Lucouw, 2000:36). Both types of feedback is necessary to ensure that business enterprises continually address shortcoming in processes and systems and allow for action to be taken. The more the capabilities of companies change the more dynamic the system and the greater the ability to adapt to changing conditions (Foster, 2000:371). Intellectual capital creates the ability to adapt to changing circumstances and is the core of any business enterprise. Another important characteristic of intellectual capital that is very important but not always considered is that intellectual capital is a complementary form of capital. Intellectual capital uses and transforms the other forms of capital in order for them to be productive. It is not a substitute for the other forms of capital as it cannot replace natural resources or money, but works with these resources to add value. It is this complementary nature of intellectual capital that also makes it more unique than other

resources (for more on the complementary nature of intellectual capital refer to Nerdrum and Erikson (2001) and Nerdrum (1999).

5.6 INTERRELATIONSHIP OF THE COMPONENTS INVOLVED IN THE METAMORPHOSIS OF CAPITAL

Organisations are always co-evolving with their competitors and environment. The model implies an inter-dependency between the different components. The model is a multi-dimensional representation of the interactive workings of the flow of the different capitals (resources) within the business system. This implies that there is an inter-relationship between the different areas and components of the model. For example, Nahapiet and Ghoshal (1998:250) indicate that knowledge creation is a socially embedded process. Social capital represents relationships which in turn facilitate the flow and development of intellectual capital. Intellectual capital in turn can foster increased skills through investment in labour capital and natural resources. Financial capital enables the attainment of physical and labour capital while regulatory capital protects people and the environment from unlawful activities. Two other aspects of the different forms of capital that lend themselves to the inter-related nature of these capitals are substitution and compliments. Some forms of capitals can work as substitutes for others while other forms of capital work as compliments (Daly, 1990:3-5). For example social capital is a complimentary type of capital as it uses other forms of capital to build relationships with. Financial capital on the other hand can be used as a substitute for labour capital. If employees do not show up for work money can be paid to other parties to ensure the work is done.

All the different capitals need to work in conjunction with each other to ensure survival. The relationships within the different components are the drivers of profit. If the different capitals are viewed in isolation they would not add value to any business. What would a business be if it had all the natural resources and machinery and equipment but no labourers to work in the factory? No company would be successful if it had the brightest

people but no inter-action and or network building. It is very important to recognise that the different forms of capital cannot bring success or wealth if they do not interact and co-evolve with the other forms of capital.

This inter-relationship between the different components of capital indicates that the mechanistic view of the world is outdated and that everything feeds off its relationships with other things, systems and people. The capital of an organisation can be viewed, defined and measured in different forms but in the end it is the inter-connectedness of the business that determines its success and ultimately its wealth.

5.7 FINDING DYNAMIC BALANCE

An organisation is an example of a complex adaptive system that shares the following dimensions namely direction, flow and flexibility (Gouws and Lacouw, 2000:39). It is the combined inter-relationship and workings of these three dimensions that will allow companies to reach a dynamic state of balance that will ensure its success. According to Merry (1999:268), survival refers to *“climbing local peaks, re-engineering, negative feedback, internal structuring, obeying rules, hierarchy and optimisation.”* For business to survive, it needs to consider all of these elements and how they are interrelated. You can have natural resources but without labour and social networks it cannot be converted into products. If the traditional business capital model is followed the value side of business is maximised. The only way to achieve sustainable success in today’s world is through dynamic balance. The transformed capital framework, as presented in section 5.4 of this chapter, indicate that businesses need to move away from an ultimate goal of profit maximisation to a framework of optimality whereby a steady balance between the different resources and the allocation of profits are reached. This will result in a business needing to maintain its functioning at the edge of the chaos point as mentioned in the introduction. If a business is too stable not much new learning will occur and it will not undertake changes necessary to ensure flexibility. A business must have the stability to process information and the flexibility (Intellectual capital) to adapt to

new information. A business enterprise can hold on to stability and lose its ability to adapt and survive or it can find its dynamic balance by creating a flexible organisation (Gouws and Lucouw, 2000:30) Flexibility indicates that a business system is a model of continuous motion. Continual motion is necessary to keep business afloat. Businesses are faced with different cycles as client needs change or the business environment change. These cycles are also bound by the irreversibility characteristic in that they are moving into the future. The pattern of flow of a business is a cyclical flow that is impacted by external and internal events. The cyclical nature of businesses is already evident in places such as the stock market. Graphical representations of company's stock prices show that returns move in a pattern and this pattern moves in up and down cycles over time. These items indicate capital funds flow through a business and need to be maintained. Business enterprises need to find a dynamic balance in order to promote these flows to ensure a sustainable future while maintaining a strong framework of value and values.

5.8 SUMMARY AND CONCLUDING REMARKS

This chapter presented the metamorphosis of the capital business model. It indicates that there are many resources available to an organisation and that some of these resources are not easily defined or measured. The chapter presented a new conceptual capital model based on the principles of systems theory. The model shows that it is important to find a dynamic balance between the different resources to ensure a long sustainable life for business enterprises. The model also indicates that the current cost of capital model is based on outdated principles and there is a need to re-define current best practice. Capital is the driver of any organisation and it is essential to accurately define and measure this concept.

CHAPTER 6: LOST IN TRANSLATION – REVEALING THE HIDDEN CONSTITUENTS OF COST OF CAPITAL

“We all know that Art (Accounting) is not truth. Art (Accounting) is a lie that makes us realize truth, at least the truth that is given us to understand. The artist (accountant) must know the manner whereby to convince others of the truthfulness of his lies.” -Adapted quote from Pablo Picasso

CHAPTER 6

LOST IN TRANSLATION- REVEALING THE HIDDEN CONSTITUENTS OF THE COST OF CAPITAL

6.1 INTRODUCTION

The 'crisis cycle' started in late 2007 with the American housing market being brought to its knees by over-extended sub-prime lending. This was shortly followed by scandals of rogue trading in Europe and came to a climax with some of the world's leading financial institutions such as Lehman Brothers filing for bankruptcy and another long standing financial firm, Merrill Lynch, being bailed out by the Bank of America.

The result of this financial crisis is that businesses are re-assessing their strategies and reverting to basic business in an attempt to rebuild a strong capital foundation. As the financial world evolved throughout the centuries it has become a very complex system which is not always adequately represented by income statements and balance sheets. The more complex the world has become the more there is a need for simplicity. This simplicity is offered through the proper classification of financial instruments to ensure all real risks and rewards are transparent.

Innovation in business instruments and models such as the Black and Scholes option pricing model, exotic financial instruments and complex debt instruments such as mortgage backed securities are just some of the examples of the complexity of financial markets. This resulted in intricate accounting statements (such as IAS 39) prescribing measurement and recognition criteria for these new and exotic instruments into the current framework. This has led to so called 'grey areas' of accounting classification where instruments with both characteristics of debt and equity are lone-standing items on financial statements with no real clarity as to their nature. Proper allocation of exotic

instruments and accounting entries have become essential as far as capital is concerned and with the current crisis all firms are determined to re-assess their capital and associated costs in order to obtain a better reflection of their true position.

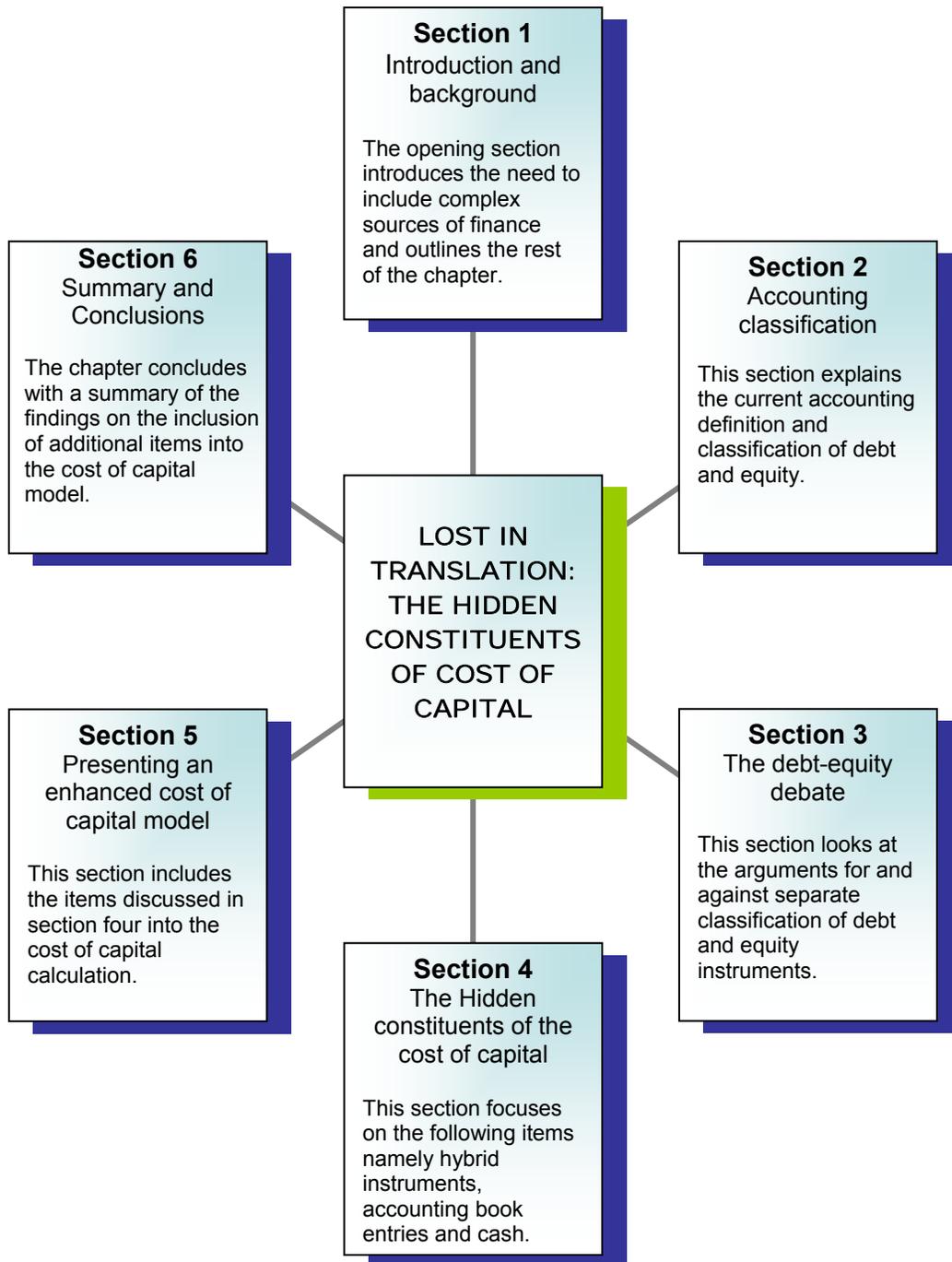
The concept of capital has often been a debated issue. Modigliani and Miller argued that the mixture of debt and equity is irrelevant to a company and has no effect on the cost of capital (Modigliani and Miller, 1958:261-262). Later on, they also argued that the more leverage a company uses, the lower the cost of capital due to the tax benefits ascribed to debt instruments (Modigliani and Miller, 1963:442). As shown in chapter four certain assumptions regarding the Capital Asset Pricing Model (CAPM) and market risk premium, relevant to the calculation of the cost of equity, has been analyzed and scrutinized again and again. The issue still outstanding is the classification of certain items as debt or equity. It has become necessary to re-asses the basic principles of debt and equity and to examine certain items that have come under scrutiny as to their classification, those so called 'grey areas' of accounting. These sophisticated instruments needs to be examined at their most basic level to ensure that they are correctly provided and accounted for. These items are the hidden constituents of capital, visible to all financial parties but never included in the cost of capital model before. They are already included in the balance sheet but have not been included in the cost of capital calculation. They are visible to users of financial information but hidden to the cost of capital model.

The aim of this chapter is to expand on the current cost of capital model by including some of the hidden constituents of the cost of capital. The cost of capital model can be compared to an iceberg. When looking at an iceberg only the top part of the iceberg is visible to the naked eye but its massive body is hidden below the surface of the water. The cost of capital model is similar as only certain aspects are visible above the water. These aspects relate to the accounting classification of debt and equity instruments. On surface level it looks like the cost of capital model incorporates the debt and equity of a firm but on a closer inspection there are various issues relating to instruments with dual debt and equity characteristics and accounting book entries influencing the sources of

funding that are hidden beneath the surface and that need to be included in order to have a complete picture of the actual cost of capital of a firm. The items hidden beneath the surface pertain to hybrid financial instruments, accounting entries that impact the sources of funding such as deferred taxes and accumulated depreciation.

As shown in the chapter outline on the next page, the first section will describe the accounting classification framework and the accounting definitions of debt and equity. The next section will focus on the relevance of a debt-equity classification while the section following will look at the grey areas of accounting classification. These grey areas are divided into three classes namely hybrid instruments, accounting book entries and cash. The last section will show how the current cost of capital model can be expanded to include these complex sources of financing and book entries.

Figure 6.1 Chapter overview



(Source: Own observation)

6.2 ACCOUNTING CLASSIFICATION

The importance of financial statements is well known to all decision-makers across the globe. These statements are the starting point of company valuations, budgets and strategic planning. Management turns to ‘the numbers’ in order to make important decisions that determine the future of any business.

As illustrated by the following table, financial reporting has several very important economic consequences not only for businesses but also for the economy as a whole:

Table 6.1: Economic consequences of financial reporting

<ol style="list-style-type: none"><i>1. The allocation of resources among enterprises.</i><i>2. The use of resources in the search for information in the private sector.</i><i>3. The use of resources devoted to the preparation, dissemination, processing, analysis, interpretation and certification of financial information.</i><i>4. The use of resources in the development, compliance, enforcement and litigation of rules and regulations.</i><i>5. The aggregate production and consumption.</i><i>6. The distribution of wealth among individuals.</i><i>7. The aggregate level of risk and allocation of risk among individuals.</i>
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(Source: Beaver, 1981, tables 1-3:16)

The Industrial Revolution brought about a change in the form of business organisations and ownership. It became increasingly difficult for one man businesses to survive and individuals began pooling resources together to cope with increasing demand for goods and services (Gaffikin, 2008:4). With this change in the structure of business and society

– from feudal to industrial – social and institutional needs called for the development of some form of accounting framework.

The double entry system for bookkeeping evolved out of social and economic needs (Gaffikin, 2008:4). It was only much later that formal standards for accounting practice were developed. These statements became known as the generally accepted accounting practice (GAAP) (Vorster *et al*, 2004:1-5). With the statements came the formalisation of the theory and the accounting equation which can be written as:

$$\text{Asset} = \text{Liabilities} + \text{Owner's Equity}^{11}$$

Official International Accounting Standards (IAS) define the various components of the accounting equation as follows:

Table 6.2: Accounting definitions

TERM	DEFINITION
Assets	<i>'A resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise'.</i>
Liabilities	<i>'A present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits'.</i>
Equity	<i>'The residual interest in the assets of the enterprise after deducting all its liabilities'.</i>

(Source: South African Institute of Chartered Accountants (SAICA), 2003/2004, *SAICA Handbook–Accounting*, volume 1A, SA: LexisNexis, p16-19)

¹¹ Taken from Buckley, JW and Lightner, KM, 1973, "Accounting –an information systems approach", Dickenson publish Co. p88

Equity is defined as the residual of assets minus liabilities. Equity represents stockholders claims to the company and is made up of the following components namely preferred stock, common shares, retained earnings, reserves, etc (McMullen, 1979:145-161). These components of equity are important as they directly influence the decision to use this type of financing.

Another underlying assumption of the accounting framework is accrual accounting. Accrual accounting involves recognizing revenue at the time of sale and expenses when they are incurred (Opperman, Booysen, Binnekade, and Oberholster, 2005:3). This deviates from the cash basis of recognition that only record revenue and expenses when they actually occur. Accrual accounting shows cash flows in periods other than when the actual cash flow happened.

Financial statements are prepared based on the conceptual framework of accounting as briefly shown above. Many valuation and financial analysis tools rest on information found in financial statements. Company valuation methods such as discounted cash flow models use accounting information in the valuation of firms. Credit rating agencies such as Moody's use financial ratios to assign particular corporate debt ratings to clients. It is thus crucial that accounting information accurately reflects business reality.

This chapter will examine the 'grey areas' of accounting classification and accounting book entries in an attempt to shed some light on how they impact the cost of capital model. Further on in the chapter certain areas in the debt-equity classification scheme as well as accounting book entries will be disseminated, but first a look will be taken at the relevance of the debt-equity distinction for capital structure and cost of capital purposes.

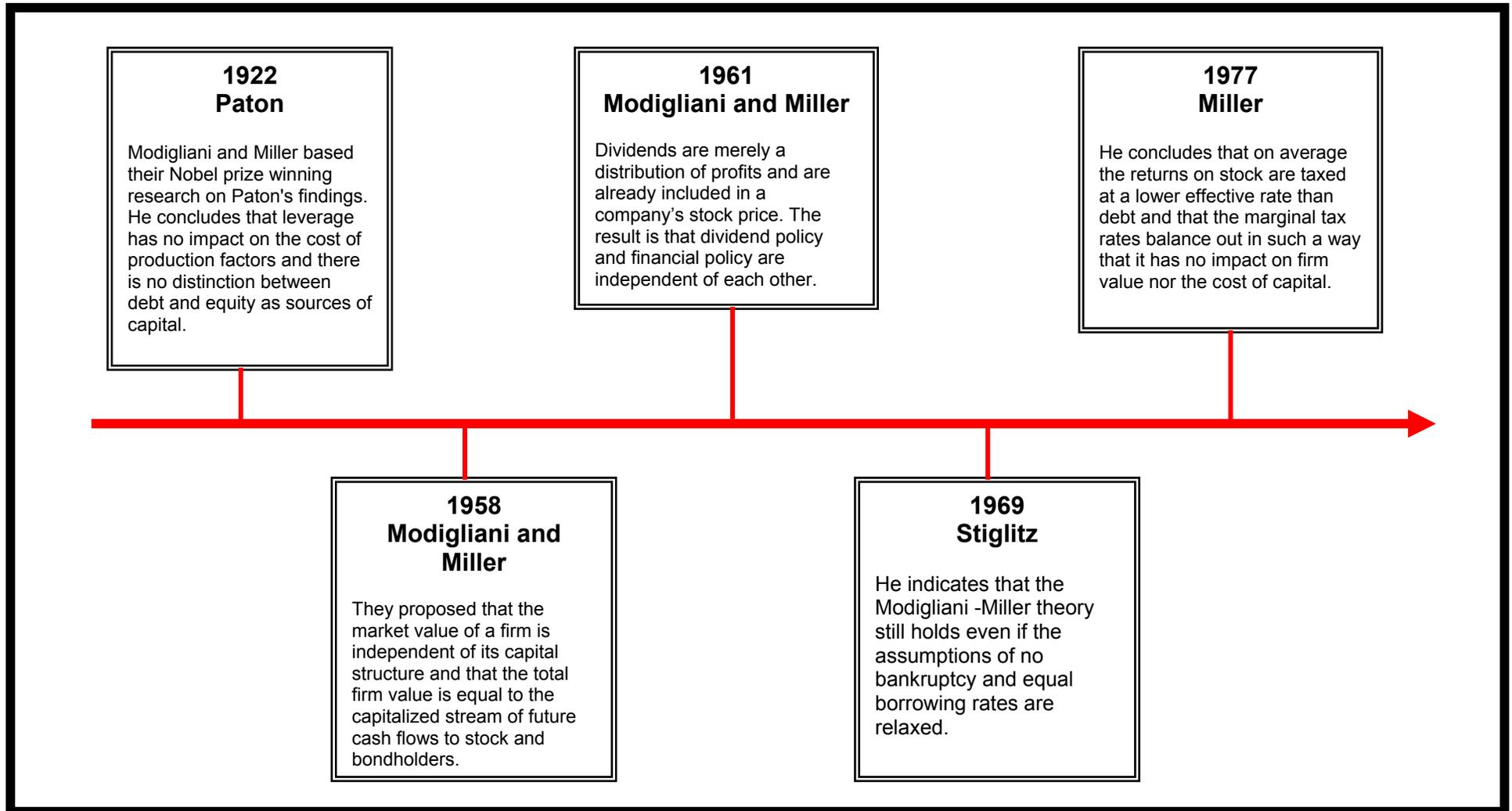
6.3 THE DEBT VS EQUITY DEBATE

The debt-equity distinction spans many generations of accounting and finance history and is a much debated and contentious issue but one that deserves attention. The main question to be addressed is – is the distinction between debt and equity relevant to end users of financial statements? This question touches on the very fundamental nature of financial instruments.

The Financial Services Board (FSB) delved into this issue with their discussion memorandum of 1990 on the distinction between debt and equity instruments. They make a strong case for keeping the distinction and further raise issues with regards to the classification of financial instruments that derive their value (in full or part) from the company's own stock. The discussion escalates with the possible re-classification of items that have traditionally been accounted for as equity but has more features of debt (Gunderson, 2009:2-4). The FSB raises the point that accountants have an obligation to disclose the different elements of a firm's capital structure in such a manner so that users of financial statements can assess how debt and equity instruments will impact on the distribution and availability of resources and ultimately risk and uncertainty (Dopuch and Sunder, 1980:3). This point made by the FSB is the main reason why the distinction between debt and equity is important. Debt and equity instruments cannot be seen as the same because their very nature and pricing are different.

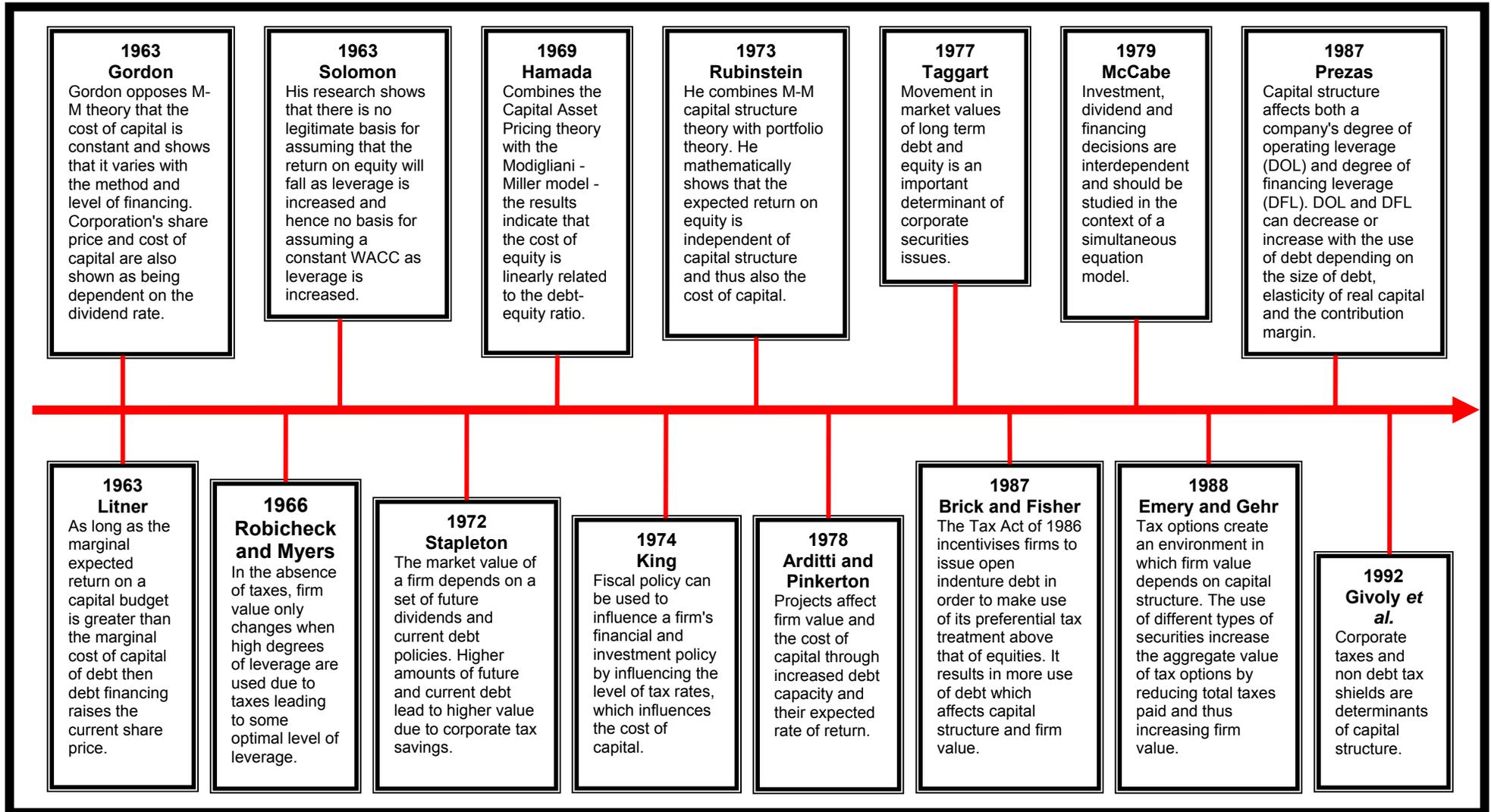
Accounting practice and theory present opposing views on the nature of debt and equity. One view is that debt and equity are indistinguishable and that the accounting equation should be rewritten as $\text{Assets} = \text{Equity}$ (Clark, 1993:19). This view indicates that there is no difference between financing a project with debt or equity. This cannot be taken as a valid reason for making no distinction between debt and equity because these methods of financing are very different in pricing, products and markets. The other view is that debt and equity must be distinguished and is vital for analysts in order to assess how each of these elements affects firm value. Figure 4.4 on the next page shows proponents and their theories (research) for each of these views.

Figure 6.2: Presentation of research supporting the debt-equity irrelevance theory



(Source: Adapted from Clark, MW, 1993, 'Entity theory, modern capital structure theory, and the distinction between debt and equity', *Accounting Horizons*, vol. 7, iss. 3, p14-31; with own observations added-please refer to references for complete list of articles referenced above)

Figure 6.3: Presentation of research supporting the debt-equity relevance theory



(Source: Adapted from Clark, MW, 1993, 'Entity theory, modern capital structure theory, and the distinction between debt and equity', *Accounting Horiz* iss. 3, p14-31; with own observations added-please refer to references for complete list of articles referenced above)

From the tables above it can be shown that literature on the distinction between debt and equity can be divided into irrelevance and relevance theory. The research of each of these theories will be briefly discussed. After the theories are explored a look will be taken at what has changed in capital structure research since the time of the Modigliani-Miller proposition.

6.3.1 THE DEBT – EQUITY DISTINCTION IS IRRELEVANT

6.3.1.1 Entity Theory

Long before the Modigliani-Miller (M-M) model on capital structure, Paton described entity theory. According to this theory both stockholders and creditors provide capital to a firm for which they receive compensation (Paton in Chen, 1975: 538-542). These sources of capital neither affect nor are affected by the business's operations. Paton and then later on the M-M model rested on the assumptions that firm value is unaffected by the type of capital employed and that investment and financing decisions are independent of each other (Brigham, 2004:497). This indicates that equity and debt products are similar and can be classified in the same manner. Entity theory indicates that interest and dividends are both distributions of income and argue that debt and equity can be seen as substitutes for each other because their costs are similar (Husband, 1954:560). This means that debt products do not have a different impact on profits than equity products. The bottom line will thus be unaffected by the use of debt or equity. As a result, an enterprise's debt-equity ratio does not impact on the enterprise's value and thus the question of debt versus equity is irrelevant to financing and decision-making.

6.3.1.2 The M-M Irrelevance and other theories

In 1958 Modigliani and Miller proposed that the market value of a firm is independent of its capital structure and that the total firm value is equal to the capitalized stream of future cash flows to stock and bondholders (Modigliani and Miller, 1958: 261-296). This implies that as leverage increases, more weight is given to the lower cost of debt, but at the same time equity gets riskier and drives up the cost of equity. The lower cost of debt and higher cost of equity set each other off to keep the weighted average cost of capital constant. M-M assume a world devoid of taxes, no transaction and bankruptcy costs, corporate and individual borrowing rates are the same and investors have perfect information (Modigliani and Miller, 1958:265-268). These assumptions are the reason why their model was considered unrealistic because most markets face costs and differential borrowing rates. Their theory is consistent with Paton's and follows the same argument that the total market value of an enterprise is equal to the sum of the market values of all sources of capital. Hence the amount of each element (debt and common stock) is a matter of indifference and leverage is therefore irrelevant. They strengthened their irrelevance theory even further in another article in 1961, in which they state that dividends are merely a distribution of profits and are already included in a company's stock price (Modigliani and Miller, 1961:431-432). The result of this view is that dividend policy and financial policy are independent of each other.

Joseph Stiglitz (1969:784-793) supports the work of Modigliani and Miller by showing that their theory holds even if two of the more important assumptions are relaxed. The two assumptions are individuals can borrow at the same rate as firms and no bankruptcy is assumed. He shows that individuals can substitute personal for corporate borrowing. His paper was an attempt to include more lenient assumptions but issues such as bankruptcy are a reality and cannot be ignored.

In 1977 Miller investigated the effects of corporate and personal taxes on capital structure and the cost of capital. He shows that income from debt is in the form of interest which is taxed at the personal tax rate while income from equity is normally in

the form of dividends and treated as capital gains for tax purposes (Miller, 1977:267). In some countries dividends are exempt or partially exempt from taxes while capital gains tax is normally a fixed rate but deferred until the shares are sold. He concludes that this implies that on average returns on stocks are taxed at a lower effective rate than debt and that the marginal tax rates balance out in such a way that they have no impact on firm value or the cost of capital. His paper presents further arguments for the validity of M-M's first conclusions regarding capital structure irrelevance.

6.3.1.3 The impact of debt-equity irrelevance on financial reporting

In the works of Clark (1993:20-25) he lays out the form the balance sheet will take in the presence of the irrelevance theory. The balance sheet will only have an asset and equity section. Liabilities are merged into the equities portion of the balance sheet. The income statement reflects income to the business while the cash flow statement show interest and taxes as financing activities. This indicates that the M-M and Paton model will treat all providers of capital in the same way. According to these theories, corporate assets belong to the firm and not its stockholders. Income generated by these assets is unaffected by the claims of or distributions to the suppliers of capital. There is thus no distinction between debt and equity and no debt-equity ratios to compute.

6.3.2 THE DEBT – EQUITY DESTINCTION IS RELEVANT

6.3.2.1 Research supporting debt-equity relevance

Further research into the relevance of capital structure indicated that the Paton/M-M assumptions may be invalid (De Wet, 2006:5). The consensus in literature is that the debt-equity distinction is of utmost importance and relevant to decision makers as shown in the table above.

One area of research shows that capital structure impacts on a firm's risk and return models. Hamada (1969:13-31) and Rubinstein (1973: 167-181) show that the returns of a firm and its systematic risk are linear functions of the amount of leverage used by a firm. The higher the level of debt employed, the greater the risk to the company, thus resulting in a higher return required by shareholders to compensate them for the higher levels of risk. Their research show that the use of more debt makes a company more risky due to compulsory repayments, and because of this increased risk, shareholders must be compensated in the form of higher returns which push up the cost of capital.

Capital structure also has an impact on production decisions. The financing decision drives production in order to ensure that future cash flows and returns are generated by the sale of produced goods and services. Prezas (1987:39-40) show that the degree of operating leverage (DOL) and degree of financing leverage (DFL) can decrease or increase with the use of debt depending on the size of debt, elasticity of real capital and the contribution margin. This shows that the cost of capital has a direct impact in operating and profitability ratios. The use of different sources of financing will have different impacts on the ratios. If, for example, less debt is used the DOL will be lower.

Favourable tax laws and rebates can be an incentive to firms to use more of one type of financing. As in the case of South Africa, the use of debt instruments is favoured due to tax deductions on interest payments. These types of tax laws and rebates affect the debt capacity of a company. Due to the tax advantages of using debt, there may be a tendency to finance growth opportunities with debt (Arditti and Pinkerton, 1978:67-69). Givoly, Hyan, Aharon, and Sarig (1992:346) also indicate that there is a positive relationship between changes in debt-equity ratios and changes in tax rates, while Taggart (1977:1481) found that firms tend to adjust their long term targets when factors such as tax rates change.

According to M-M (1958:296) dividend and finance decisions are independent of each other. This statement is rejected by Gordon (1963:264-265) who states that the discount rate used to discount dividends in valuation models is a function of a firm's growth rate,

which in turn is linked to financing decisions. It thus indicates that growth, finance and dividend policy are all functionally related to each other. Another approach to the rejection of the independence of finance and dividend policy is the fact that financial policy affects the cash flows of a firm which in turn affect the firm's ability to pay dividends (Stapleton, 1972:1273). These arguments indicate that dividend policy is actually an input in the calculation of cost of capital as the cost of equity can directly be impacted by the dividend payout ratio. This further strengthens the case for the relevance of the debt-equity distinction.

6.3.2.2 Debt –equity relevance and its impact on financial reporting

Clark (1993:25) provides examples of financial statements according to the relevance theories. The balance sheet keeps the distinction between debt and equity, while the income statement shows income available to cover debt services. Subtracting interest and taxes from income indicates what portion of income is available for dividends to common shareholders. The cash flow statement includes taxes as operating activities while under the irrelevance theory it is treated as a financing activity (Clark, 1993:26). Under the relevance theory stock and bondholders supply capital to the business for which they receive compensation. Models based on leverage theories show that interest, taxes and preferred dividends reduce the return to common equity and thus the debt-equity ratio is an important decision-making tool.

The consensus in recent literature is that capital structure impacts a firm's future value. The addition of financial instruments to a simple capital structure affects the amount and timing of future cash flows (Brigham and Daves, 2004:488). Hence, the separation of equity from other capital structure components conveys relevant information to readers of published financial statements. It is vital that analysts be able to assess how each element of a corporation's capital structure may affect firm value. Published financial statements are intended to enable each type of user — investors, creditors, government, etc — to assess the impact of a firm's resource financing and selection (McMullen, 1979:3-4). The amount of debt included in a firm's capital structure is correlated with firm

value (Choi, 1988:22). Debt versus equity is relevant and the current sharp distinction between debt and equity should be continued.

This is a very important part as it relates to the cost of capital model. The weighted average cost of capital (WACC) is based on capital structure theory and on the distinction between debt and equity. If the distinction between these two elements is irrelevant then a company can show its cost of capital as a single representative number. As indicated above, this is clearly not the way forward as the cost of debt and equity differs significantly and is further impacted by taxes and the use of debt and equity clearly impacts the value of the firm.

6.3.3 THE DEBT-EQUITY DEBATE: WHAT HAS CHANGED SINCE THE M-M MODEL?

To summarize the above section on the relevance of the distinction between debt and equity instruments, it is useful to look at what has changed since Modigliani and Miller published their capital structure theory. The first area of change relates to their initial assumptions. As indicated in previous sections their assumptions were too restrictive. They assumed that businesses operate in perfect markets with no transaction costs and bankruptcy and that lenders and borrowers can obtain funds at similar rates. Obviously these assumptions were too restrictive and the M-M model was subsequently tested under more realistic real world circumstances.

The second area that underwent some change is the view of stakeholders. In the early years of capitalism, financial resources were considered the most valuable attribute to an organization and wealth was measured in monetary terms. Due to the scarcity of these financial resources the suppliers of funds were seen as the main shareholder in an enterprise and profits were distributed to these shareholders. As we enter the new millennium, focus has shifted away from the shareholders view to a more comprehensive stakeholder view whereby all stakeholders of a business organization

are recognized. This also indicates that financial resources has lost its dominance as the main resource available to companies and the importance of resources such as intellect have been highlighted.

The third area of change relates to the importance being placed by businesses on their funding decision. In the past not a lot of emphasis was placed on the mix between debt and equity financing. The focus was more on dividend policy and growing the bottom line. With the current economic crisis companies are more focused on getting their capital base correct and growing their business to ensure their capital costs are adequately covered. Another area that witnessed change is financial instruments. From the time of the M-M model there has been rapid advancement in the development of new and complex financial instruments and funding solutions. Instruments such as mortgage backed securities and exotic options made their appearance while financing structures such as securitization vehicles were offered to clients. These complex instruments and structures changed the way funding was acquired and managed and also brought complexity to the cost of capital calculation.

The last area of change that will be mentioned here is that of accounting standards. Accounting standards have undergone some significant changes since the day of M-M. New standards on financial instruments (IAS 39) and fair value accounting (IFRS 7) have brought their own complexity to the classification of debt and equity instruments and these aspects have not been adequately incorporated into the cost of capital model. The classification of some complex and hybrid financial instruments will be discussed further on.

The changes discussed above all brought some complexity to the cost of capital calculation and many of these issues have not been dealt with, leaving an opportunity open for business enterprises to manipulate the cost of capital to better suit their needs. If there is no clear guidance as to what items constitute debt instruments and which items constitute equity items and how to measure these it is subject to manipulation and best guesses.

6.4 LOST IN TRANSLATION - THE HIDDEN CONSTITUENTS OF THE COST OF CAPITAL

The areas that deserve attention in the calculation of cost of capital are related to 'grey areas' of accounting classification and items influencing the capital decision of organisations. These are the items that are considered the hidden constituents of the cost of capital as they are visible to users of financial information but have never been applied to the cost of capital model before. They are called hidden constituents because they have been excluded and have been unveiled as important areas that warrant further discussion. They are discussed and tested for inclusion in the cost of capital model in the next two chapters. For this dissertation these 'grey areas' will be divided into three sections. The first will look at hybrid instruments. These include derivatives and compound instruments. The second area deals with book entries. These are accounting entries that relate to the artificial creation of items such as reserves and provisions. These entries are not physical transactions but accounting constructions. The last area relates to the use of cash in a business. The following section will describe each of these areas and how they potentially impact capital decisions.

6.4.1 HYBRID INSTRUMENTS

Hybrid instruments are those instruments which have characteristics of both debt and equity. The complexity of innovations in hybrid securities raises difficult conceptual issues with regard to balance sheet classification. Hybrid financial instruments normally fall under the definition of financial assets and liabilities and this is governed by the international accounting standard on financial instruments, namely IAS 39.

According to IAS 39 financial instruments are recognized as 'assets or liabilities that require probable receipt (or sacrifice) of a future benefit and reliability of measurement'. An entity shall therefore recognize a financial asset or liability on its balance sheet only

when the entity becomes a party to the contractual provisions of the instruments (Vorster et al, 2004:442). Hybrid instruments can be divided into two broad classes, namely derivative and compound instruments. Each of these classes will be discussed below.

6.4.1.1 Derivative instruments

A derivative instrument can be defined as a financial instrument that derives its value from some fundamental underlying instrument (Reilly and Brown, 2003:862). For example stock options on company X's shares will be valued and priced according to the price of company X's shares. These instruments also involve future exchange and can take the form of options, forwards, futures contracts, and swaps. The following table gives a brief description of each of these types of instruments:

Table 6.3: Definitions derivative type instruments

TERM	DEFINITION
Options	<p><i>'An option contract gives the holder the right but not the obligation to conduct a transaction involving an underlying security or commodity at a predetermined future date and at a predetermined price. There are two types of options namely call and put. Call options give the holder the right to buy the underlying while put options give the holder the right to sell the underlying'.</i></p>
Forwards	<p><i>'It gives the holder of the contract the right and full obligation to conduct a transaction involving another security or commodity –</i></p>

	<i>the underlying asset – at a predetermined future date and at a predetermined price’.</i>
Futures	<i>‘A futures contract is a type of forward with highly standardized and closely specified contract terms. It also calls for the exchange of some good at a future date and at a specified price’.</i>
Swaps	<i>‘An agreement between two or more parties to exchange sequences of cash flows over a period in the future. The basic types of swaps are interest rate and currency swaps’.</i>

(Source: Reilly, FK & Brown, KC, 2003, *Investment analysis and portfolio management*, 7th edition, US: Thomson South-Western, p864-869 & 1026)

These instruments are also known as conditional instruments as they are based on the future exchange of financial instruments between entities (Bodie *et al*, 2005:54). This future exchange characteristic of these instruments makes it difficult to classify them as debt or equity because there is no certainty as to whether exchange will take place in the future or not. This is also where they differ from normal debt type instruments, which according to Clark (1993:26) is the ‘one way transfer of assets’ from one enterprise to the next. There is more certainty attached to debt repayments and instruments than there is to derivative instruments.

Option contracts on a company’s own stock (known as warrants) can sometimes be considered equity because the exercise of the warrants will lead to an increase in the number of shares outstanding and a dilution of shareholders equity (Galai and Schneller, 1978:1333). Warrants involve the future exchange of own shares and dilutes shareholder value. This feature normally leads to them being considered equity (Hull, 2005:99). The counter argument is that the obligation inherent in the option contract is

seen as a liability due to the obligation to deliver, be it assets or shares, at the end of the contract.

The following section will look at options and will show research that supports their classification as liabilities. Options are discussed as they are more complex and intricate than other derivative instruments. Forwards and futures are contracts that lock in the future exchange of items. Although only deliverable in the future it is a contract that creates obligations to both parties in the contract and fits nicely into the definition of a liability. Swaps are used to exchange interest rates or currency and they also create an obligation to pay or receive cash flows at pre-determined dates and are classified accordingly as assets or liabilities. There are no contingencies included in a standard vanilla swap agreement (Rao, 1995:336-337). Options on the other hand can be exercised or not and this feature makes them a bit more tricky to classify.

Traditionally the value of options on a firm's stock is derived from the value of the underlying stock price (Adair, 2006:211). This would indicate that options can be viewed as equity because they derive their value from the market price of the stock. This is true but there are also other factors that affect an option's value such as probability of exercise and the exercise price of the option, to name but a few. Black and Scholes are known as the pioneers in option pricing models. They started off by showing that the value of an option is a function of the expectations regarding the underlying share price less the present value of the exercise price (Kolb, 2003:438).

Factors that affect the value of an option is the risk free interest rate, dividends paid on stock, time to maturity, and volatility (FASB, 10/95). The table on the next page is a summary of the factors that influence the value (price) of an option as well as the direction of their impact on the option value:

Table 6.4: Factors affecting option values

	Will cause an increase/decrease in:	
An increase in the:	Call value	Put value
Stock price (S)	Increase	Decrease
Exercise price (X)	Decrease	Increase
Risk free rate (r_f)	Increase	Decrease
Stock volatility (σ)	Increase	Increase
Time to expiration (T)	Increase	Increase or decrease

(Source: Reilly, FK & Brown, KC, 2003, *Investment analysis and portfolio management*, 7th edition, US: Thomson South-Western, p976)

From the above table it can be seen that the value of an option is not solely influenced by the market price of a company's stock. According to Black and Scholes (1973:649-650) corporate debt can be seen as options and thus because an option gives the holder the right to exchange financial instruments on specified terms, they can be considered corporate liabilities. According to IAS39 an option contract is recognized as an asset or liability when the holder or writer becomes party to the contract (Vorster *et al*, 2004:444). When the contract can be settled by either delivering or receiving a fixed number of shares in exchange for a variable amount of cash or another financial instrument the contract is seen as a financial asset or liability (Opperman *et al*, 2005:668). This indicates that it does not matter if cash or anything else is exchanged for shares and that the contract is therefore similar to a normal debt obligation to issue cash or other assets.

According to Clark (1993:27) the current option price measures the market's perception of the value of the obligation to deliver equity securities contingent on the probability of exercise. If you compare this to the definition of liability given in the section 6.2 above then an option can be seen as a company liability. The price of the option fluctuates with the stock price which is contingent on business performance and investors normally trade options to hedge current transactions or to speculate (Kolb, 2003:311-312). This indicates that investors do not enter into option contracts with the same intentions as buying shares directly and they do not transact with enterprises in the role of owner (i.e. with the intent of becoming shareholders). There is also no distribution made to option holders nor are they entitled to dividends unless specified otherwise (Brigham and Houston, 1998:740).

To summarise: the value of the financial option is thus affected by movements in the underlying equity stock price but the option itself does not possess the characteristics of the underlying equity. The debate as to the classification of derivative instruments can be long and involved. For the purposes of this research it will be accepted that derivatives will be seen as liabilities or assets as they are obligations to settle or receive, albeit in stock. The fact that companies may end up issuing stock does not detract from the nature of the obligation. It is still defined as a liability - it is just settled with stock instead of cash or other assets as normal liabilities are. These instruments can be classified as liabilities and therefore need to be included in the capital structure of companies as there are actual cash flows to the organisation.

6.4.1.2 Compound instruments

A compound financial instrument is an instrument that has two or more different types of financial instrument components. There are two broad classes of compound instruments namely convertibles (redeemable) and instruments with options attached. Convertible securities are preferred stock or bonds that can be exchanged for common stock under specified terms and conditions (Ford *et al*, 2006:31), while callable preferred stock can be redeemed at the option of the issuing company at the price stated in the contract

(Needles and Powers, 2004:547). It does not bring in new financing but simply converts debt into common equity. It improves debt ratios and gives firms the ability to raise additional funds. Instruments with options attached normally include callable and puttable bonds. These debt instruments have options attached to them that involve early settlement (Reilly and Brown, 2003:698). It is very similar to convertible bonds as both have options attached. Convertibles give the option holder the right to convert while callable and puttable bonds give the option holder the right to early termination.

What makes these types of financial instruments interesting is the fact that they can consist of both debt and equity component parts. The question is then do you treat these component parts as separate instruments or is valuable information lost when this is the case?

According to Opperman *et al* (2005:669) the components on hybrid instruments must be recognized and classified separately when initially recording the transaction. The reasons cited for this treatment is that each component of the holistic capital framework has unique information content and thus deserves separate disclosure. In order to get a better understanding of a company's structure it is important to understand the capital make-up of the business. This type of information is normally obtained from financial statements and to disclose different instrument types in a similar manner will lead to incorrect information and decisions being made. It is further strengthened by research by Lewellen and Mauer (1988) that shows complex capital structures have multiple classes of securities that present differing claims on the firm. Their values are affected differently by changes in the business environment and management decisions.

For the investor this means that each element of the capital structure has decision usefulness and that breaking down compound financial instruments into their component parts is important. For example a convertible bond comprises of the straight debt component and the option to convert. Under the above classification both component parts will be classified as liabilities. The bond instrument as well as the derivative will fall under the definition of debt. Both are current obligations that will result in the outflow of

economic benefits. Each compound instrument must be broken down into its component parts and classified as such.

The hybrid instruments described above is not always easily classified in the current accounting framework of assets, liabilities and equity. These items that possess characteristics of both debt and equity in the opinion of the author need their own classification group. In this group they will appear in their own section of the balance sheet and their cost will be a mixture of debt and equity. This will indicate that the current accounting framework will need to be expanded to include this fourth group of instruments. This is a step away from the traditional thinking around these instruments and their current treatment. Also this dissertation will only mention this concept and will put it forward as a possible future research topic.

6.4.2 BOOK ENTRIES

“Accounting is the result of procedures that have been installed to record events, occurrences and transactions that may have taken place and decisions that have been taken”. – Gouws and Van der Poll (2004:101-102)

Accounting transactions are based on either actual occurrences/reality or future events (Sorter (1969) and Cushing (1989)). Book entries relate to the recording of these future events. Actual events are reality as they have occurred and are certain while future events are based on uncertainty and are left up to the judgment of the accountant passing the entry. These book entries are created in order to decrease uncertainty. Book entries can be used as income smoothing tools or as part of creative accounting (Gouws and Van der Poll, 2004:108). These misuses of book entries indicate how important it is to keep proper control over them and what important role they play.

Accounting book entries are items that are created to reflect reality. They are created in order to simulate future occurrences and are posted to reduce uncertainty with regards

to the future. Because they are not actual events and are based on assumptions with regards to the future they can affect the reliability of accounting information. They are not actual events that occurred but accounting constructs used to provide for future events. They are thus future orientated entries that provide for future risks. An example of these future orientated entries is specific credit impairments. The entry is based on the assumption that in the future a client might struggle to pay and default and a provision is raised to provide for this eventuality. The entry is based on a future event that has not actually happened.

The following are some accounting entries that does not classify as pure events namely accruals; cost or revenue allocations; depreciation; accounting classification valuations of intangible assets; financial statement consolidations; judgments regarding bad debts, reserves, warranties and contingencies and changes in value associated with lower to cost or market method (Cushing, 1989:33). These entries are based on the accountant's judgment.

The book entries that will be discussed in this dissertation are accumulated depreciation and deferred taxes.

6.4.2.1 Accumulated depreciation

Depreciation refers to the systematic allocation of the depreciable amount of an asset over its useful life (Wells and Stainbank, 2002: Chapter 10 page 9). The aim of depreciation is to distribute the cost of the asset over the periods that benefit from the services of the asset (Needles and Powers, 2004:458). Depreciation is not used to value the asset but is purely an allocation of costs. It doesn't imply anything as to the market value of the asset.

From an accounting perspective, depreciation is seen as the recovery of cost while from a financial control perspective it relates to the financing of replacement assets (Wilson, 1974:248). In other words depreciation increases the level of available internal funds (a

credit on the balance sheet) rather than being an outright expense that is paid directly out of the bank. This is also supported by Paulo (1992:180) who indicates that depreciation is a major source of equity finance.

In their research on the integrity of accounting book entries Gouws and Van der Poll (2004:111) clearly indicate that depreciation is a way of creating internal funds. This is confirmed by Gitman and Madura (2001:281) who indicate that accumulated depreciation is a source of funds in the sense that it frees up funds that would otherwise have been paid as taxes. Depreciation expenses are tax deductible and thus no taxes are paid on them. The money thus saved from not paying taxes can then be used for purposes such as financing projects or purchasing new assets.

The cash flows generated by an asset must be reduced by the amount required to replace the asset in order to determine the earnings generated by the asset. According to Shondi *et al* (2003:705) this is the underlying principle of depreciation and accumulated depreciation is seen as the portion of cash flows used for re-investment in assets. The depreciation charge is labelled as the replacement charge for when an asset comes to the end of its useful life and it needs to be traded in for a new one (Baxter and Carrier, 1971:195). Accumulated depreciation caters for the replacement of assets at the end of their life. The company already created a source of financing for the replacement of assets.

Simon (1959:102-103) indicates that the statement of financial condition is a summary of the cumulative effect of changes in its different components namely assets, liabilities and equity. The balance sheet is seen as a breakdown of the funds invested on the asset side and the funds obtained on the liability and equity side. According to Simon (1959:102-103) depreciation is seen as a source of funds because the allocation of the cost of the asset to the income statement results in profits being retained by reducing the net income by the depreciation charge. As a result of this depreciation can be seen as a reserve that should be shown on the liability and equity side of the balance sheet.

Airey (1959:571) rebuttals Simons works and states that depreciation is not a source of funding nor a reserve but a bookkeeping entry that need to be offset against the asset. If bookkeeping entries were a source of funding then according to Airey (1959:571) people would be much richer as they can create funding through book entries. He further states that Simon labels depreciation as a source of funds because retained earnings is recognized as a source of funds. He goes further to state that it is actually the sum of retained earnings and depreciation that provides funds and to view them separately is futile.

To summarise accounting views depreciation as the periodic allocation of the cost of the asset to the income statement. This is a non-cash book entry to ensure that the cost of the asset is allocated to the periods in which the asset produces income.

The second view is that depreciation creates a source of funding through retaining profits by reducing net income with the depreciation charge to cater for the future replacement of assets. To clarify the nature and impact of depreciation it is easier to look at an example of what happens to the balance sheet when depreciation is recorded and what the impact is on the cost of capital of a firm:

Scenario A

Company XYZ borrowed R100 long term and sold R100 worth of ordinary shares to raise capital. Assume no expenses, etc on the income statement. Assume that the cost of debt (R_d) = 6% and the cost of equity (R_e)=10%

The balance sheet before any investments or expenses incurred or income made will look as follows:

Consolidated statement of financial position

ASSETS	R amount
Cash and cash equivalents	200
Total assets	200
EQUITY AND LIABILITIES	
Liabilities	
Long term liabilities	100
Total liabilities	100
Equity	
Ordinary shares	100
Total equity	100
Total equity and liabilities	200

And the cost of capital will be calculated as follows:

$$\text{Weight for debt } W_d = 100/200 = 50\%$$

$$\text{Weight for equity } W_e = 100/200 = 50\%$$

$$\begin{aligned} \text{Cost of capital} &= W_d \cdot R_d + W_e \cdot R_e \\ &= 0.5(0.06) + 0.5(0.1) \\ &= \mathbf{8\%} \end{aligned}$$

Scenario B

Company XYZ is now ready to buy some machinery for R100. Assume no depreciation, expenses, etc on the income statement. Assume the cost of debt and equity remain six and eight percent respectively.

The balance sheet, after the machinery was bought, but before expenses are incurred or income made will look as follows:

Consolidated statement of financial position

ASSETS	R amount
Property, plant and equipment	100
Cash and cash equivalents	100
Total assets	200
EQUITY AND LIABILITIES	
Liabilities	
Long term liabilities	100
Total liabilities	100
Equity	
Ordinary shares	100
Total equity	100
Total equity and liabilities	200

And the cost of capital will be calculated as follows:

$$\text{Weight for debt } W_d = 100/200 = 50\%$$

$$\text{Weight for equity } W_e = 100/200 = 50\%$$

$$\begin{aligned} \text{Cost of capital} &= W_d \cdot R_d + W_e \cdot R_e \\ &= 0.5(0.06) + 0.5(0.1) \\ &= 8\% \end{aligned}$$

Scenario C

A year has passed and Company XYZ now accounts for the depreciation of the asset. Assume the asset is depreciated over 5yrs and was bought at the beginning of the accounting period and depreciation is the only expense recognized thus far. Assume the cost of debt and equity is still at six and ten percent respectively.

The balance sheet after the asset bought and depreciation is recognized for a year:

Consolidated statement of financial position

ASSETS	R amount
Property, plant and equipment	100
<i>Less: Accumulated depreciation</i>	-20
Cash and cash equivalents	100
	100
Total assets	180
EQUITY AND LIABILITIES	
Liabilities	
Long term liabilities	100
	100
Total liabilities	100
Equity	
Ordinary shares	100
Retained earnings	-20
	80
Total equity	80
 Total equity and liabilities	 180

And the cost of capital will be calculated as follows:

$$\text{Weight for debt } W_d = 100/180 = 55.56\%$$

$$\text{Weight for equity } W_e = 80/180 = 44.44\%$$

$$\begin{aligned} \text{Cost of capital} &= W_d \cdot R_d + W_e \cdot R_e \\ &= 0.5556(0.06) + 0.4444(0.1) \\ &= \mathbf{7.77\%} \end{aligned}$$

From the example above it can be concluded that depreciation understates the cost of capital through its impact on the retained earnings of an organisation. Depreciation is the allocation of costs over the useful life of an asset and this shouldn't impact capital structure as the money has already left the company on date of acquisition. Currently depreciation affects capital structure by understating equity through the impact it has on retained earnings. Depreciation needs to be added back to equity because the funding of the asset has already happened and the money will be made back through the

income produced by the asset. Accounting attempts to match the income produced by the asset with its cost by allocating it periodically over the assets useful life.

The asset was bought for a R100 and a R100 funding was needed (actual cash that left the company). The asset being now recorded after depreciation at a level of R80 doesn't imply less funding is required as a R100 was paid not R80. By allocating the cost of the asset to the income statement from a capital point of view it implies that there is less capital (in the form of retained earnings) to fund an asset worth less (shown as the net asset). The fact is that the funding that was spent was R100 and the cost of the asset was R100 not the lesser current book value of the asset. As also stated depreciation is the allocation of costs not a valuation of the asset's true current market value (Needles and Powers, 2004:458). If one argues that your current capital structure is used to predict future funding requirements the asset's true value is not reflected in the balance sheet but its book value. Accumulated depreciation thus needs to be added to equity funding to show the actual funding mix and the correct cost of capital. The author argues that accumulated depreciation should be added to the cost of capital calculation at the equity rate.

The research presented above states that accumulated depreciation can be seen as a source of funding. The author argues that the exclusion of accumulated depreciation understates the cost of capital of an organization and need to be regarded as equity 'funding' from a capital structure point of view so that it can offset the effect of depreciation on retained earnings. Or alternatively accumulated depreciation can be added to retained earnings before any capital cost calculations are done.

If it is true that the balance sheet indicates how the funds of a business is invested it stands to reason that the amount invested was the R100 cost of the asset the actual cash outflow and this should be reflected on the equity and liability section of the balance sheet as well. Accumulated depreciation needs to be added back to the capital structure of a business to show the initial cash investment in the asset (Keys, Azamhuzjaev and Mackey, 2001:68). The author is of the opinion that the accumulated

depreciation charge be included in the capital structure of a business or offset against retained earnings to show the initial investment of cash into the assets so as not to understate the cost of capital of a firm Accumulated depreciation will be included in the reformed cost of capital model presented in the next chapter.

6.4.1.3 Deferred taxes

The following section will look at deferred taxes and the impact it has on capital structure. This will be done by looking at the current definition and components of deferred taxes as describes by international accounting standards (IAS12). After the current framework has been established issues and research around deferred taxes will be discussed with a conclusion on its potential impact on a company's capital structure.

On the balance sheet there is an item labelled deferred income taxes. This item represents the cumulative difference between actual taxes paid and taxes calculated at the statutory rate (Poterba, Rao and Seidman, 2009:4-5). This difference arises from the different treatment of tax and accounting income. Normally accounting income is based on the accrual method discussed above and tax income is based on actual cash flows.

The objective of financial reporting is to provide users with information regarding the financial position, performance and cash flows of an enterprise. For these purposes financial reporting is based on the accrual accounting concept. Under accrual accounting, management can select the revenue and expense recognition method that best reflects and smoothes performance (Gitman and Madura, 2001:269). This choice of method can cause tax and accounting mismatches which give rise to deferred taxes.

Tax reporting on the other hand reflects the objectives of economic tax policies (Shondi *et al*, 2003:291). The different recognition methods between financial and tax reporting can lead to differences in taxes payable and reported income tax expense. These differences can be divided into permanent and temporary differences.

Permanent differences result from revenues and expenses that are reported on either the financial statement or tax returns but not in both (Schneider, 2005:s26). For example goodwill will be shown in the financial statements but not on the tax return. These permanent differences will not lead to the recognition of deferred taxes but there will be a difference between the effective tax rate and the statutory rate (Poterba *et al*, 2009:4-5).

Temporary differences on the other hand lead to the recognition of deferred taxes. Temporary differences arise due to differences in accounting and tax treatment of revenues and expenses (Mills and Plesko, 2003:12). For example fee income can be recognized over the period it is earned for financial purposes while for tax purposes it is recognized when received.

The following are factors identified by Shondi *et al* (2003:301-304) that must be considered when establishing if a temporary or permanent difference exists and how to recognise the difference. The factors are:

1. Non-recurring items and equity adjustments

Non-recurring and extraordinary items can complicate the tax analysis as they may have current and future tax implications (Deloitte, 2010: IAS 12.15 and 12.24). Accounting changes can also result in deferred taxes especially if a method is adopted that is not permitted for tax reporting (Deloitte, 2010: IAS 12.15 and 12.24). An example will illustrate this point. For accounting, all unrealized gains and losses from mark to market movements are shown on the income statement. For tax purposes these unrealized items are not taken into account because there is no actual cash flow. This will result in a difference between accounting and tax income. Whether these types of items give rise to permanent differences should be carefully considered.

2. Changes in accounting methods, tax laws and rates

There are different methods used to recognize certain expenses. A different method can be used for accounting than for tax (Kaplan and Roll, 1972:225). The choice of treatment determines the amount of the difference. Depreciation is a good example of an expense that can be treated in different ways. Normally depreciation is recognized for accounting purposes on the straight line method whereby an equal amount of depreciation is shown each year. For tax purposes the depreciation is recognized using the accelerated recognition method whereby a larger portion of the depreciation is shown in the early years. The reason for the different methods is that a company can recognize a tax benefit upfront with the accelerated method while a smaller amount is recognized for accounting and the company realizes a tax benefit. Another example is if tax rates are cut. This will reduce deferred taxes as well which must be adjusted accordingly by decreasing the liability and increasing equity.

3. The firm's growth rate

A firm's growth rate can give an indication as to business' expectations on future expansion and growth. This will impact the expectations on a firm's profitability and whether there will be sufficient profits against which deferred tax balances can be recognised. The firm's growth profile will also impact the growth in the deferred tax balance over time.

6.4.1.3.1 Deferred taxes defined

Deferred taxes have been a much debated topic and several approaches to recognising deferred taxes have been proposed by various parties. Before setting out the current approach adopted by international accounting standards it is worthwhile to define these different approaches. There are three views on how deferred taxes should be recognised. The first method is the deferral method whereby the effects of current timing differences are deferred and allocated to periods in the future when it is expected that

the timing difference will reverse. These differences are treated as deferred tax credits and debits on the balance sheet (Kwok and Ho, 2002: 247). The second approach is the liability method of allocating deferred taxes whereby the expected tax effect of cumulative timing differences are appropriately recorded as either liabilities or assets (Kwok and Ho, 2002: 247). The last approach is the flow through approach whereby no deferred taxes are recognised as reported taxes should follow the tax return and a company doesn't have a present obligation for income taxes that might appear on future tax returns. (Chaney and Jeter, 1988:41). The liability method can further be split into partial and comprehensive allocation. Under partial allocation timing differences that are expected to reverse in the near future (3-5 years) are recognised (Shwartz, 1980:74) while the comprehensive method requires all temporary timing differences irrespective of expected reversal be recognised. Further on in this section research will be discussed by proponents of the various approaches.

Current international accounting standards prescribe the following treatment for deferred taxes (IAS 12). Temporary differences are further divided in IAS12 into taxable and deductible differences. A taxable temporary difference is a difference that will lead to a taxable amount in the future when the carrying amount of the asset is recovered or the liability liquidated (IAS 12.5). Deductible temporary differences will lead to amounts that are deductible from tax in the future when the carrying amount of the asset is recovered or the liability liquidated (IAS 12.5).

A deferred tax liability is the amount of income taxes payable in future periods related to all taxable temporary differences (IAS 12.5) except when:

- The liability arises from the initial recognition of goodwill
- The liability arises from the initial recognition of asset//liabilities, other than business combinations or where at the time of the transaction tax profits or accounting is not affected (IAS 12.15)
- Liabilities that arise from investments in subsidiaries, branches, associated companies and joint ventures where the dominant entity is able to control the

timing of the reversal and it is probable the reversal will not occur in the foreseeable future (IAS 12.39)

A deferred tax asset is recognised for deductible temporary differences, compensation for losses from previous years which has not been subject to tax relief and unused appropriations from previous years to the extent that it is probable that taxable profits will be available against which the deductible temporary difference can be recognised against (IAS 12.5 and IAS 12.24) unless the deferred tax asset arises from the initial recognition of asset/liabilities, other than business combinations or where at the time of the transaction it does not affect tax or accounting profits. (IAS12.24). Deferred tax assets are also recognised for investments in subsidiaries, branches, associated companies and joint ventures to the extent that the temporary difference will reverse in the foreseeable future and its expected that future revenues will be available against which the temporary difference can be offset (IAS12.44). A deferred tax asset from unused tax losses and tax credits should only be recognised if it is very certain and probable that there will be future taxable profits will be earned against which the asset can be utilised (Chang, Herbohn and Tuttici, 2009:653). Also the amount of deferred taxes should be reviewed at the end of each reporting period to establish if sufficient taxable income will be recognised otherwise the asset should be reduced to the extent it is no longer probable that sufficient taxable profits will be recognised against which the deferred tax asset can be used. The reduction can be reversed if it becomes probable that sufficient taxable profits will be available (IAS12.37).therefore the asset should only be recognised is there is assurance and high probability that enough profits will be earned in the future to offset the asset (Chang, Herbohn and Tuttici, 2009:653)

Deferred tax assets and liabilities should be measured at the tax rates expected to apply when the asset is recovered or the liability liquidated based on tax regulations and rates that have been approved or are about to be adopted at balance sheet date (IAS 12.47). The measurement should reflect the organisation's expectation at balance sheet date as to the manner in which the carrying amount of the asset or liability is settled or liquidated. (IAS 12.51) Deferred tax assets and liabilities are disclosed on the asset and

liability section of the balance sheet respectively at the undiscounted amount (IAS12.53) and can only be offset if the entity has the legal right to net settle and is levied by the same tax authority on the same entity or different entities expecting to realise the asset or settle the liability at the same time (IAS 12.74).

It can be summarised from the above that international accounting standards prescribe the liability method with comprehensive allocation whereby the tax effect of all temporary differences are recognised.

6.4.1.3.2 Research and concerns on the topic of deferred taxes

Several concerns have been raised about accounting for deferred taxes in the areas of recognition and value relevance of deferred taxes (partial vs. comprehensive allocation or no recognition of deferred taxes) and measurement of deferred taxes (discounting vs. non-discounting) The following section will summarise various research done in these areas.

It is common practice (Jeter and Chaney, 1988:41) to classify deferred taxes as either liabilities or assets. The concern is whether the deferred tax asset or liability will reverse in the future. If the deferred taxes will not reverse it is highly debatable whether they should remain as assets or liabilities or whether it is more appropriate to classify them as increases or decreases in equity. There are two theories on the allocation of deferred taxes. Proponents of the comprehensive liability view argue that deferred tax liabilities and assets account for future tax payments and benefits and will impact the cash flows of an organisation (Chludek, 2011:2). The proponents of the partial allocation view state that a major part of deferred taxes will not be recognised in the future as the deferral arises from operating and recurring business activities so that reversing temporary differences are offset by the creation of new temporary differences and in total deferring the aggregate temporary difference indefinitely (Kwok and Ho, 2002: 250).

The reversal rate of a deferred tax liability can be seen as the difference between the rate of economic depreciation and the rate of re-investment. If the re-investment

happens faster than the asset depreciates then the deferred tax liability grows (Sansing and Guenther, 2000:2-3). If the taxes are likely to be paid then a deferred liability should be recognized. If the likelihood of reversal is doubted then it should be shown as equity. Keys *et al* (2001:68) investigate the EVA model as proposed by Stern and Steward and its component parts. The model includes certain equity equivalents in the capital structure of an organisation (for a full discussion of all the components please refer to Keys *et al*, 2001:67-68). One of the items they include is the deferred tax reserve. They argue for the inclusion of the deferred tax reserve into the equity portion of the balance sheet because as long as a company replaces, maintains and expands its operations deferred taxes will not decrease and the reserve never repaid thus it constitutes permanent capital (Keys *et al*, 2001:68) This view is supported by research done by Chaney and Jeter (1989: 9-13). They provide empirical evidence on a sample of 882 companies between 1981 and 1983 and indicate that 69% of the deferred tax balance is due to the differential treatment of depreciation and that non-recurring items didn't occur in all three years selected and that recurring differences provide little value relevant information and should not be recognised. Waugh (1968:358) also argues that deferred taxes should only be recognised when it is likely that events will lead to significant deferred taxes and that these amounts can be estimated with reasonable certainty. He proposes that a time horizon should be established that will set a reasonable time frame in which deferred taxes can be reasonably measured. From the above it can be concluded that deferred taxes should be recognised only for non-recurring items while recurring items doesn't seem likely to reverse as long as a business is a going concern.

Gouws and Van der Poll (2004:110) reflect on research done in the field of deferred taxes by Fridson and Alvarez. They also find that the likelihood of deferred tax liabilities reversing is not very promising and thus not a real liability at all and should be added back to equity. Amir, Kirscheinheiter and Willard (2001:276) show that it is accounting practice in the UK to show long-term deferred taxes as equity rather than debt. Givoly and Hyan (1992:394-410) indicate that a portion of deferred tax liabilities should be viewed as equity. They provide empirical evidence that indicate in 1984 the market value of deferred tax liabilities was 56cents supporting their conclusion in favour of

partial allocation of short term temporary differences. While Wong, Wong and Naiker (n.d:3-19) investigated the topic of partial vs. comprehensive allocation in New Zealand. They found that partial allocation of deferred taxes is value relevant and contains reliable information that can be disclosed in investor valuation assessments while the comprehensive allocation is not value relevant

Hanlon (2005:163) studies a sample of companies from the period 1994-2000 and investigate the market's use of book-tax differences in assessing the persistence (quality) of earnings. The results indicate that overall book-tax differences does influence investor's perception of earnings quality but large book-tax differences doesn't aid in explaining the persistence of earnings or its components due to return inefficiencies remaining in the sample selection suggesting that deferred taxes contain value relevant information. Chludek (2011:1-25) also provides research on the value relevance of deferred taxes and does a comprehensive analysis on the components of deferred taxes. The study also includes the reversal of balances. It indicates that deferred taxes is of little value relevance due to lacking cash flow implications and that deferrals arise predominantly from recurring operating activities causing larger reversals and associated cash flows to be deferred into the future. The research also indicates that deferred tax assets are more reversing than liabilities and most likely translate into cash flow and is value relevant (Chludek, 2011:25). Thus this research suggests that the largest portion of the deferred tax liability is of a recurring nature and recognising it will not lead to value relevant information to investors while recognising deferred tax assets will deliver value relevant information.

The following research focuses on the creation of deferred tax assets and the possible value relevance contained within this item. Kumar and Visvanathan (2003:488) indicate that by using an event study approach that deferred tax assets and associated information regarding the realisability of future earnings is value relevant information to investors. DeWaegenaere, Sansing and Wielhouwer (2003:78) also examine the valuation of deferred tax assets from tax loss carry-forwards and its effect on the market and book value of a firm's assets. They indicate that the tax loss carry-forward has a

direct impact on the market value of a firm as it shelters future income from taxes and a direct effect on the book value of a firm as a deferred tax asset is recognised. (DeWaegenaere *et al*, 2003:65) The deferred tax asset carries a market to book ratio of between zero and one because of the possibility of expiration and the fact that the amount of deferred assets are not discounted (DeWaegenaere *et al*, 2003:78). It can be concluded that the recognition of deferred tax assets contain value relevant information to investors and reverses more regularly than deferred tax liabilities.

To understand the impact of partial allocation on ratios such debt-equity the nature of deferred taxes and the likelihood of reversal need to be determined. True non-recurring differences should be shown as a liability while non-recurring differences should be taken to equity. This will cause equity to be higher thus reducing the debt-equity ratio (Jeter and Chaney, 1988:42- 47). On the balance sheet liabilities will be reduced by the amount of the deferred tax while equity will increase (Lasman and Weil, 1978:53). Although it has a nil effect on total liabilities and equity the debt-equity ratio will be lower due to a lower numerator and higher denominator.

Opponents of the partial allocation view indicate that an aggregate view of deferred taxes confuses the individual transactions. They indicate that an individual transaction will reverse in subsequent years when the asset is recovered or the liability settled and should be accounted for separately rather than aggregated with older transactions which are reversing in the current period creating the non-reversing effect partial allocation proponents argue for (Kwok and Ho, 2002: 250). This is also the argument the IASB uses to justify comprehensive tax allocation. If aggregation is allowed for taxes then accounts payable and receivable should also be viewed in aggregate not individually. Colley, Rue and Volkan (2006:4-5) refutes this by stating that deferred taxes are recognised if there is sufficient taxable income in the future. The individual transaction is dependent on future events/income which is an aggregate financial result not individual tax events. Also the recoverability or saleability of assets/liabilities is part of the total financing decision process and not dependent on a single event.

Sansing (1998:357) indicates that even if the deferred tax liability never reverses it is still a real economic burden. He shows that the difference between tax and economic depreciation decreases over time because the tax base of the asset moves away from its replacement cost. There is a gap between the replacement value of the asset and the market value of the firm due to the fact that the firm no longer receives the tax benefit in the form of tax depreciation in excess of economic depreciation as the difference decreases (Sansing, 1998:360). He indicates that deferred taxes contain value relevant information even if a firm's investment strategy ensures the deferred tax never reverses. Sansing and Guenther (2000:11) confirm this conclusion in a follow-on study. They indicate that the expected reversal of timing differences has no effect on firm value and that the deferred tax liability arising from depreciation has a market value lower than its book value implying that the deferred tax liability contains value relevant information. They indicate that the deferred tax asset is different from the liability and that there is a link between the expected reversal of the deferred tax asset and a firm's cash flows and market value (Sansing and Guenther, 2000:2). The valuation of the deferred tax asset depends on whether the associated liability is discounted under GAAP. If it is discounted then the market and book value of the deferred asset will be the same and if it is undiscounted then there will be a difference between the market and book value (Sansing and Guenther, 2000:2). This also indicates that the deferred tax asset contains value relevant information that can affect firm value. Additional research by Sansing and Guenther (2004:437-451) investigated the relations between the deferred tax liability and firm value and how quickly the deferred tax liability reverses. They concluded that the value of the deferred tax liability is dependent on the tax depreciation rate and the discount rate and not related to the time it takes for the deferred liability to reverse (Sansing and Guenther, 2004:449). This indicates that the reversal rate of deferred taxes is irrelevant and that the comprehensive method for allocating deferred taxes results in value relevant information.

Studies from other countries were also conducted. Kwok and Ho (2002:251) carried out a survey in Singapore on the allocation method adopted by companies, where the companies have a choice between comprehensive or partial allocation. The result

indicates that companies use the comprehensive allocation more. Lynn, Seethamraju and Seethamaramanl (2008:107-130) conducted a study into the use of the partial allocation method employed in the UK whereby the recognised portion (non-reversing) of deferred taxes are disclosed on the balance sheet and the unrecognised (reversing) portion is disclosed in the footnotes of financial statements. They employed an empirical model to test whether the recognised portion of deferred tax liabilities is valued at the same rate as the unrecognised portion implying the timing of reversal is irrelevant. They find that both the recognised and unrecognised portion of the deferred tax liability is value relevant thus supporting comprehensive allocation. They also indicate that partial allocation is subject to opportunistic management and results indicate that marginal relevance is low. This conclusion was supported by Gordon and Joos (2004). They indicate that deferred tax management in the UK heavily influences leverage indicators of a firm. They analysed the information relevance under the partial allocation method in the UK of both the recognised and unrecognised portions of deferred taxes. They concluded that managers uses deferred taxes to manage the balance sheet by managing leverage thus the partial allocation method is subjective and too flexible but it also doesn't reduce the ability of the unrecognised portion to predict future profitability. (Gordon and Joos, 2004:123). The research above indicates that partial allocation only leads to opportunistic management and that both the recognised and unrecognised portion contain value relevant information thus supporting the comprehensive view of allocating deferred taxes.

There is a third group of researchers that propose that no deferred taxes should be recognised in part or in whole. Colley *et al* (2006:5) indicate that a deferred tax liability doesn't meet the definition of a liability. A liability as defined by accounting standards is *'a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits'* (IFRS, 2011, Conceptual framework). Deferred taxes are dependent on the future occurrence of income or losses and not the mere result of past transactions or events. Also deferred taxes arising from the use of different depreciation methods is based on the useful live and residual value of the asset with reflects future events not

past events and thus a deferred tax liability shouldn't be recognised (Colley *et al*, 2006: 5-8). Rosenfield and Dent (1983:44) indicate that reported taxes should follow the tax return and that no deferred taxes should be recognised. They argue that differences between what did happen and what didn't happen shouldn't be recorded on the income statement and that deferred taxes are exactly that. It represents the income tax saving between what happened and what should've happened in the absence of tax schemes. They indicate that only items that did occur should be recorded (Rosenfield and Dent, 1983:44). They also argue that the deferred tax liability is also not a true liability as it is not the result of past events but a combination of past and future events and thus cannot be considered a liability. It is dependent on events occurring after balance sheet date and if these events are merely ancillary then it could still be considered a liability but if the liability is the result of these future ancillary events then it doesn't strictly meet the definition of a liability (Rosenfield and Dent, 1983:47). DeFliese (1983:95) presents arguments against the conclusion reached by Rosenfield and Dent. He indicated that inter-period tax allocation is important as it attempts to provide a sound approach to income tax allocation. He argues that Rosenfield and Dent's view of deferred taxes not being a liability is incorrect and that the future benefits or sacrifices of tax effects need to be recognised.

To summarise the research above predominantly indicates that deferred taxes do contain value relevant information to users of financial statements. There are however conflicting views on whether deferred taxes should be raised for all temporary differences or only those differences that is of a non-recurring nature. Some researchers argue that the recurring nature and timing of reversal of items have no impact on the value of deferred taxes while others argue that because of the recurring nature of certain items they will never reverse in aggregate as long as the business continues operating. There is however a consistent view that deferred tax assets are more reversing than deferred liabilities and contain value relevant information to users of financial statements and should thus be recognised.

The following section will present some research on the topic of discounting deferred taxes. Chaney and Jeter (1989:8) questions the reasoning as to why deferred taxes are not discounted along with other balance sheet items and that this leads to an inconsistency of methodology applied by accounting standards. Givoly and Hyan (1992:406) propose that investors should discount deferred taxes according to the timing and likelihood of settlement. Lee (1998:74-78) also indicate that deferred taxes should be discounted to its present values and that a discount factor can be approximated by analysing trends in a firm's deferred tax expense over a twelve year period. Brown and Lippitt (1987:130) also investigate the appropriateness of discounting deferred taxes. They find that discounting deferred taxes with different reversal patterns becomes an arbitrary choice. They further conclude that deferred taxes arising from depreciation methodologies cant be discounted as it is not an actual cash flow nor an economic flow thus calculating the tax benefit is not appropriate and discounting not applicable. Stepp (1985:100) on the other hand presents convincing arguments for not discounting deferred taxes. He views deferred taxes as an interest-free loan from government due to tax incentives offered through tax laws. He states that there is no proper interest rate attached to deferred taxes and this complicates the discounting thereof. Deferred taxes differ in nature from other liabilities as the deferral of timing differences is not the result of negotiations between parties but from provisions in tax laws and is therefore not directly influenced by a change in market interest rates or the creditworthiness of the taxpayer. From the above it can be summarised that there are conflicting views on whether it is appropriate to discount deferred taxes along with other balance sheet items.

The final section will look at research that suggests alternative approaches to valuing and disclosing deferred taxes. Deferred taxes make up a considerable amount of a company's balance sheet. In 1985 it constituted 8.9% of total assets of the top 50 US firms (Cheung 1989:626-627). Cheung proposes an option pricing framework for valuing deferred taxes. The option framework deals with the contingent nature of deferred cash flows and assumes that tax incentives are a form of government assistance. The call like

option can be viewed as an option issued by the firm and held by government and that deferred taxes affect the value of the option by altering the exercise price. .

Graul and Lemke (1976) take a different view on the recognition and classification of deferred taxes. They reason that deferred taxes are an equity investment by government that should be treated as additional equity because tax incentives provided to an organisation to stimulate certain economic activities has the characteristics of an equity investment. They propose that a new balance sheet item namely equity investment by government be created as this will alleviate some of the controversy around the balance sheet classification of deferred taxes (Graul and Lemke, 1976:14). They don't advocate the comprehensive or partial allocation methodologies but rather focuses on the classification of the differences by the causes and sources of government economic and administrative policy. The different policy sources affect the economic relationship between the business and government as well as the economic substance of the tax effect (Graul and Lemke, 1976:15). They find in their study that timing differences between tax and accounting due to tax incentive programs implemented through tax laws differ from deferred taxes due to tax administrative policies. Deferred taxes resulting from incentive programs through tax laws have similar characteristics to equity investments. Through these policies government aims to stimulate certain areas of economic activity. These policies normally allow for a faster tax write off and accelerated depreciation. They argue that in these circumstances the government becomes a constructive funder to the business by increasing the available amount of cash to organisations (Graul and Lemke, 1976:20). Deferred taxes arising from administrative policies on the other hand have the characteristics of assets and liabilities and should be recognised as such. These will relate to items such as instalment sales and revenue received in advance. In these circumstances tax payments are recognised when actual cash is received while for accounting the income is already recognised. In these circumstances it is prudent to recognise deferred taxes until such time that actual cash is received (Graul and Lemke, 1976:23). Graul and Lemke concludes that deferred taxes should be classified according to those two sets of

characteristics and treated as equity from government or an asset or liability (Graul and Lemke, 1976:33)

The research presented above indicates that deferred taxes are a form of government funding and should be treated as such. Cheung proposes an option pricing model to present this government funding while Graul and Lemke suggest looking at the intention of the deferral to establish whether it is a true tax incentive (equity investment by government) or a real timing difference between tax and accounting that will subsequently reverse.

6.4.1.3.3 Summary and approach adopted

The research and concerns raised in this section on deferred taxes make for some compelling arguments. From the above the author concludes that deferred taxes do provide value relevant information to users of financial statements and should still be recognised and not be done away with. The contentious issue is with regards to comprehensive or partial allocation and both sides of the coin can be argued. The author supports the partial allocation view of deferred taxes on the basis that taxes is an aggregate item in financial statements and is dependent on an aggregate of events occurring i.e. a total profit or loss recognised, etc. If the deferred tax is recurring in nature and the likelihood of reversal is remote then it should not be recognised as long as the company is a going concern and the items is the result of recurring operating and financing decisions. Once a company is no longer viewed as a going concern or certain activities do not occur as frequently as in the past then it can be assessed as to whether deferred taxes should be raised against items that was previously recurring in nature. Also the author agrees with the view of deferred taxes as government incentive in the form of an interest free loan from that cannot be discounted like other balance sheet items because there is no market interest rate attached to it. Thus disclosing the deferred tax at its undiscounted amount is probably more correct than attempting to proxy a discount rate as there are too many complexities and arguments to find the correct discount rate. The author is also of the view that the recognition of deferred tax

assets is much more stringent than liabilities and it is subject to annual review and depends on certainty around future profitability. Research above also indicated that deferred tax assets contain value relevant information and reverses more frequently than deferred liabilities. This indicates that deferred tax assets fall more into the non-recurring category of partial allocation and tend to reverse over time. For this dissertation the impact on capital structure and the cost of capital of adopting partial allocation to deferred taxes will be investigated.

Under current accounting standards companies recognise deferred taxes for all temporary differences. To show the effect of adopting partial allocation it will be assumed that 60% of a company's deferred tax liability never reverses and should be taken to equity. It is assumed that any deferred tax asset balances will reverse in future and is of a non-recurring nature and thus not taken to equity. This will be illustrated in chapter seven on the selected sample of 20 companies listed on the Johannesburg Stock Exchange (JSE). It must be noted that this is obviously a very crude manner to show the impact of partial allocation of deferred taxes on capital structure but it will illustrate the point. Future research can focus on obtaining proper information on the content of the deferred tax balance sheet item to establish proper splits between recurring and non-recurring deferred tax items.

6.4.3 CASH

The purest form of funds for any business is cold hard cash. Cash is ready money that includes money, negotiable money orders and checks and bank account balances (Buckley and Lightner, 1973:383). It may also include 'unutilized portions of overdraft facilities or lines of credit' (Business Dictionary, 2009). According to Brigham and Daves (2004:705) 1.5 percent of industrial companies' assets are held in the form of cash, which is defined as demand deposits plus currency.

The reasons for holding cash can be divided as follows:

- **The transaction motive**

Cash is held by businesses for use in the ordinary course of business with regard to routine payments and receipts from clients (Rao, 1995:670). Each and every company has a bank account out of which payments for invoices or goods and services are made. Without money on hand a business cannot execute daily payments.

- **Compensating balances**

Banks provide a service to customers in the form of loans and may require customers to leave a minimum balance on deposit to cover costs for services rendered (Bierman and Smidt, 1986:600). In South Africa all banks charge people and companies for the use of their facilities and for any transactions done. The charges are normally subtracted directly from your bank account. The banks ensure that a minimum amount is left on deposit in your account at all times to ensure that in the case of bankruptcy their costs can be covered.

- **Speculative motive**

This relates to holding cash to take advantage of unexpected situations such as bargain purchases or to take advantage of arbitrage opportunities. Most firms use portfolios of marketable securities nowadays for speculative purposes (Marx et al, 1999:117). This refers to unexpected opportunities that may arise, be it from suppliers (bulk discount) or market inefficiencies (mismatch in share pricing). The time margin on these unexpected offers is available for short periods only and if there isn't any cash available immediately such opportunities might be missed.

- **Precautionary motive**

Firms use their cash account as a buffer for unexpected contingencies. A firm will thus have easy access to funds in cases of emergency (Brigham and Houston, 1998:620). In setting up an investment policy statement for individuals a portfolio manager will ensure clients are solvent before tying up their money in investments. The same applies here – companies will ensure they have enough money to cover any additional expenses that might not have been planned.

Cash can also be seen as an unutilized source of financing that could bring relief to the capital structure and should be considered as a third source of funding available to organisations. Normally cash is held as a buffer in difficult times. Companies that are cash flush use their surplus cash to fund projects and doesn't require third party funding. Cash can also be used to reduce debt payments and thus the levels of debt or it can be used instead of retained earnings to fund projects as retained earnings carry a higher cost of financing. Cash is often called a non-earning asset as it earns no interest (Archer *et al*, 1979:604), but as the age old saying goes 'there's no such thing as a free lunch'. This unutilized source of financing is not free as there is an opportunity cost attached to cash. This will have an impact on your cost of capital as it can reduce the cost of debt or replace the more expensive form of equity financing. It thus reduces the cost of capital by its opportunity cost.

6.5 INTRODUCING A TRANSFORMED COST OF CAPITAL MODEL – INCORPORATING THE HIDDEN CONSTITUENTS INTO THE TRADITIONAL MODEL

These 'grey areas' of accounting classification and accounting entries affecting the sources of financing have left a gap in financial statement analysis and financial management tools. In ratio analysis much discretion is left to the analyst to make certain

adjustments to get ratios that reflect proper positions. Analysts should be wary of using traditional accounting (GAAP) numbers – in many cases the necessary adjustments will lead to a lower debt-equity ratio (Lasman and Weil, 1978:49). For example in the debt-equity ratio calculation the normal ratio will not include off-balance sheet items such as operating leases while from an analyst perspective the ratio is adjusted to show these off-balance sheet financing activities. Also the use of valuation tools such as the discounted cash flow method calls for the adjustment of operating earnings to reflect actual cash flows (Reilly and Brown, 2003:388). Adjustments include the exclusion of depreciation, extraordinary items and the inclusion of changes in working capital.

These adjustments that need to be made to give a more accurate reflection of a company's state of affairs emphasize the gap between decision useful information and accounting information. Francis and Shipper (1999:323) describe this mismatch as follows:

“It has been asserted that the current reporting model does not appropriately recognize and measure the economic assets deployed to create shareholder value. This situation might result either because accounting standards and practices have remained stagnant while business has changed, or because accounting standards and practices have changed in ways that diverge from providing value-relevant information or both.”

The extract above refers to the fact that the business environment has changed significantly while accounting practices are based on sometimes old and outdated concepts. This mismatch between the needs of the business world and the accounting system has caused classification issues and has led to complex accounting treatments that are not always clear.

The purpose of this research is to highlight certain areas of the classification framework that need further attention as well as accounting items that influence the sources of funding and the impact it has on one of the most important financial management tools namely the cost of capital. A transformed model will be presented shortly based on the inclusion of the grey areas in the accounting classification framework as well as

accounting book entries as discussed above. The above grey areas can be represented by the figure on the next page, taken from the works of Gouws (2007). He proposes the following preliminary framework for the classification of equity and liabilities that involve what he calls the ‘no man’s land’ funds:

Table 6.5: An alternative for the classification of equity and liabilities

Internal Funds		Source's of Funds "no man's land" or Hybrid funds		External funds
Owner s equity		Future Equity		Liabilities
Share capital	Maintenance funds	Funds with more attribute s of equity than liabilities	Funds with more attribute s of liabilities than equity	Liabilities
Ordinary	<i>Retained income</i>	<i>Deferred taxation (during growth phase)</i>	<i>Deferred taxation (during no growth or decline)</i>	Core
Share premium	<i>Reserves: Distributable Non-Distributable</i>	<i>Accumulated depreciation</i>	<i>Outstanding ESOs</i>	Non-core
	<i>Over-provisions</i>	<i>Convertible preference Shares</i>	<i>Redeemable preference shares</i>	

(Source: Gouws, 2007)

Gouws divides the different types of funding into three main categories namely internal funds, external funds and hybrid funds. The internal funds are generated either by issuing share capital or by maintenance funds such as retained earnings, reserves and provisions. These maintenance funds are the items that need to be replaced every year and represents the actual profits of the organizations that are split for different purposes such as dividend payments or provisioning for future occurrences. These internal funds are normally classified as equity type instruments. The external funds are normally the liabilities raised to fund either the core or non-core activities of the enterprise. The last

group of funds comprises items that have qualities of both debt and equity and cannot be classified so easily. They fall somewhere in the middle but some of the instruments such as accumulated depreciation exhibit more features of equity while other items such as redeemable preference shares tends to have more debt features. This middle area represents the 'grey areas' of accounting classification. The focal point for the current research is on complex financial instruments, accounting book entries and unutilized funds such as cash and how they impact on the current cost of capital model.

6.5.1 THE TRADITIONAL COST OF CAPITAL MODEL – WACC

The conventional cost of capital model is represented by the following formula¹²:

$$\text{WACC}_{\text{old}} = \omega_d R_d (1-t) + \omega_{ps} R_{ps} + \omega_e R_e$$

With:

ω_d =weight of debt; ω_{ps} =weight of preferred stock; ω_e =weight of common stock; R_d =return on debt; R_{ps} =return on preferred stock; R_e =return on common stock and t =corporate tax rate

The debt-equity components taken into account in the above formula are long-term debt instruments, preferred stock, retained earnings and new common shares issued. This traditional model is based on current accounting classification and only looks at the more basic forms of financing. This excludes the forms of financing discussed above and as clearly shown they need to be included in the cost of capital formula.

¹² See Brigham, EF & Daves, PR, 2004, *Intermediate financial management*, 8th edition, New York: South Western, p363-373; Correia, C, Flynn, D, Uliana, E & Wormwald, M, 2003, *Financial Management*, 5th edition, Cape Town: Juta and co, p7-4 to 7-10 and Weaver, SC and Weston, JF, 2001, *Finance and accounting for non-financial managers*, United States of America, McGraw –Hill, p271.

6.5.2 THE TRANSFORMED COST OF CAPITAL MODEL

The formula on the following page addresses these shortcomings by expanding on the existing model:

$$\text{WACC}_{\text{transformed}} = \omega_d R_d (1-t) + \omega_{ps} R_{ps} + \omega_{\text{hybrids}} R_{\text{hybrids}} + \omega_{\text{bookentries}} R_{\text{bookentries}} + \omega_e R_e - \omega_{\text{cash}} R_{\text{cash}}$$

With:

ω_d =weight of debt; **ω_{ps}** =weight of preferred stock; **ω_e** =weight of common stock; **R_d** =return on debt; **R_{ps}** =return on preferred stock; **R_e** =return on common stock; **ω_{hybrids}** =weight of hybrid financial instruments; **$\omega_{\text{bookentries}}$** =weight of accounting book entries; **ω_{cash}** =weight of cash; **R_{hybrids}** =return on hybrid financial instruments; **$R_{\text{bookentries}}$** =return on accounting book entries; **R_{cash}** =return on cash and **t** =corporate tax rate

The transformed model proposed above allows for the inclusion of hybrid financial instruments, funds created through book entries and unutilized financing in the form of cash. Hybrid instruments can take on characteristics of either debt or equity or both. These instruments as mentioned above can be divided into two groups namely derivative and compound instruments. These instruments must be evaluated on a case by case basis in order to ensure that the different components are classified correctly as debt or equity. If they take the form of equity then they must bear the cost of equity and if they are debt they must bear the cost of debt.

Funds created through book entries include accumulated depreciation and deferred taxes. Accumulated depreciation represents funds for the replacement of assets while deferred taxes represent the difference between the accounting and tax recognition of income and expenses. If the difference is unlikely to reverse then the provision created through the deferred asset/liability can be used for financing purposes. These items can be shown at the cost at which retained earnings is shown as they have the same characteristics as retained earnings or impact retained earnings and if these entries

were not posted by the accountant it would have formed part of the retained earnings balance of a company.

Cash represents an unutilized form of financing that can either reduce the cost of debt or replace equity financing with a cheaper form. As shown above it can be used to reduce the cost of capital to a firm. The cost of cash will be the opportunity cost of funds in the bank account. For illustrative purposes the current cost of debt is used as these funds are not specifically assigned a use and could have been used to repay some outstanding debt. An assumption is made that cash would rather be used to repay debt than utilizing it in the acquisition of equity as debt is a more preferred vehicle of financing.

After taking the above into consideration the formula can be refined a bit more as follows:

$$\text{WACC}_{\text{transformed}} = \omega_d R_d (1-t) + \omega_{ps} R_{ps} + \omega_{\text{derivatives}} R_{\text{derivatives}} + \omega_{\text{compounds}} R_{\text{compounds}} + \omega_{\text{accumdepr}} R_{\text{accumdepr}} + \omega_{\text{deftax}} R_{\text{deftax}} + \omega_e R_e - \omega_{\text{cash}} R_{\text{cash}}$$

With:

ω_d =weight of debt; ω_{ps} =weight of preferred stock; ω_e =weight of common stock; R_d =return on debt; R_{ps} =return on preferred stock; R_e =return on common stock; $\omega_{\text{derivatives}}$ =weight of derivative financial instruments; $\omega_{\text{compounds}}$ =weight of compound financial instruments; $\omega_{\text{accumdepr}}$ =weight of accumulated depreciation; ω_{deftax} =weight of deferred taxes; ω_{cash} =weight of cash; $R_{\text{derivatives}}$ =return on derivative financial instruments; R_{compound} =return on compound financial instruments; $R_{\text{accumdepr}}$ =return on accumulated depreciation; R_{deftax} =return on deferred taxes; R_{cash} =return on cash and t =corporate tax rate

It is useful to split out hybrids, book entries and cash into their own categories even if they carry the same cost as normal debt or equity. The split is useful for decision-making purposes so that firms can analyse the use and cost of each component separately.

6.6 SUMMARY AND CONCLUSION

The areas described above include instruments that show characteristics of both debt and equity as well the impact of book entries on the sources of funding. This chapter indicated that instruments with hybrid natures should be disseminated at their component level and be included in the sources of funding available to an organisation. The impact of accounting book entries on the sources of funding can be debated but it is shown above that they have merits for being considered in the capital structure of an organisation and must not be discarded. The cost of capital model is based on the cost of debt and equity and these items definitely warrant being included in the cost of capital since they can impact business decisions. The next chapter will take theory to practice and show the effects of including these items in the cost of capital calculation of 20 randomly selected companies.

CHAPTER 7: TAKING THEORY TO PRACTICE – APPLYING A TRANSFORMED COST OF CAPITAL MODEL TO LISTED COMPANIES

“He who loves practice without theory is like the sailor who boards ship without a rudder and compass and never knows where he may cast” – Leonardo da Vinci

CHAPTER 7

TAKING THEORY TO PRACTICE – APPLYING A TRANSFORMED COST OF CAPITAL MODEL TO LISTED COMPANIES

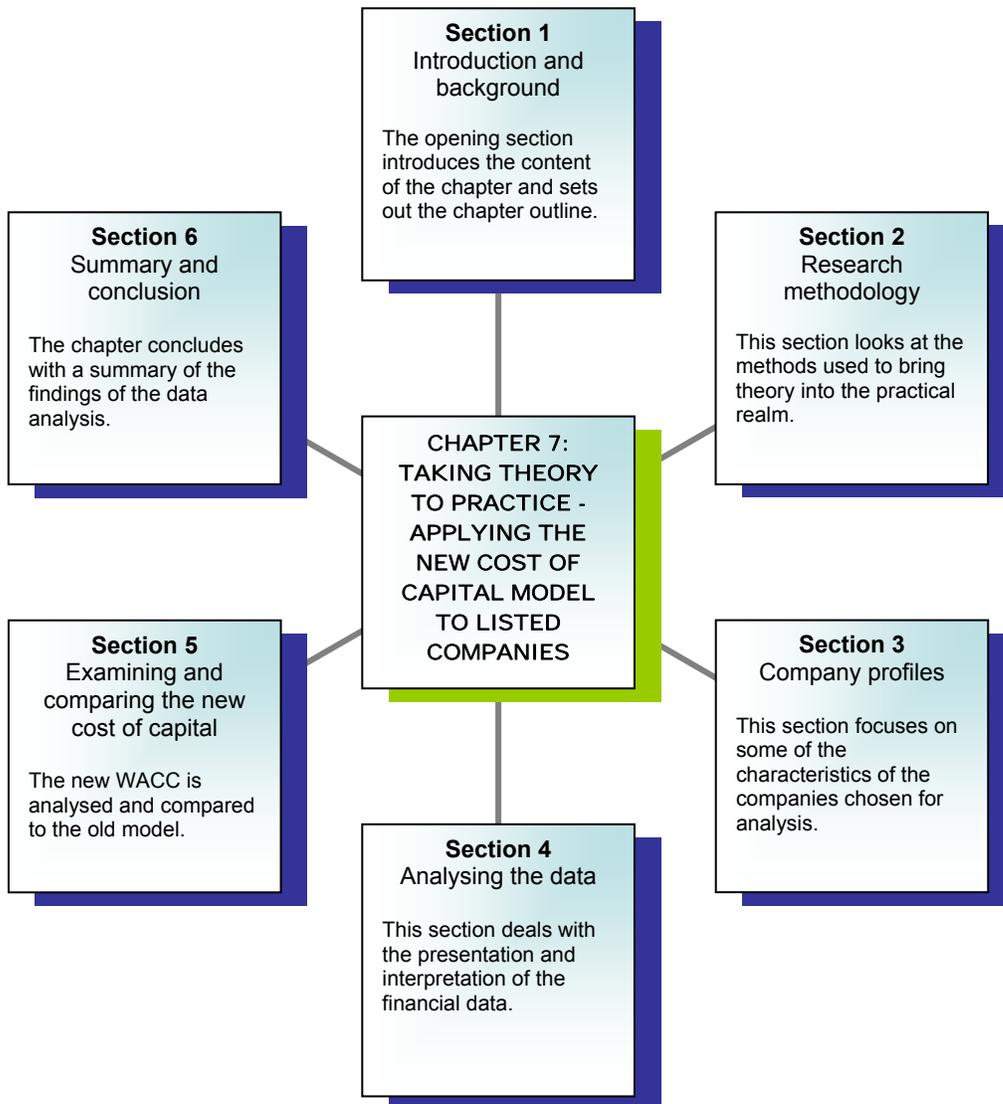
7.1 INTRODUCTION

As the world moves into an age of technological advancement and fast-paced innovation, it beckons companies to evolve by means of extraordinary project selection and management that will give them the competitive edge necessary to succeed. Ignoring capital costs could lead to impending disaster for a company. By underestimating their cost of capital companies can face disastrous losses. The cost of capital is used by management to identify and decide on projects, strategies, deals and portfolios that will essentially add value to the company and its shareholders. A company's strategic vision and goals can best be achieved through applying the most accurate cost of capital calculation to dynamic projects.

In the previous chapters the different forms of capital were explored as well as their possible impact on the current cost of capital model. Chapter six proposed a more comprehensive cost of capital model by including the impact of certain accounting classification issues such as derivatives, deferred taxes and provisions in the cost of capital. The theory behind the more inclusive model was presented and a transformed formula for the calculation of the cost of capital was developed.

The gap between theory and practice has often been emphasised and it is the aim of this chapter to take theory to practice by testing the transformed model on certain real life companies. The traditional cost of capital model will be compared to the transformed model to assess the impact of the items discussed in chapter six on the cost of capital of organisations. The structure and contents of this chapter is set out in the figure below:

Figure 7.1: Outline of chapter



(Source: Own observation)

7.2 RESEARCH METHODOLOGY

7.2.1 FINANCIAL DATA ANALYSIS

The analysis of financial data is at the heart of financial management. The examination of numerical data can be used to discover relationships in the numbers. These relationships can then be interpreted to bring meaning to the data. Financial statements are already a form of data analysis. It represents the accounting form of creating relationships out of the raw data. The information in financial statements can be reworked into a numerical form that can be interpreted. For purposes of this dissertation financial statements and ratios will be used to give an indication of the funding mix and balance sheet composition of the selected companies. Data presented in financial statements can be compared through different time periods. Trends and relationships can then be identified and further explored. These trends and relationships are normally recognised by applying statistical analysis techniques. These techniques can take the form of graphs or ratios and can be tested to ensure that they interpret valid relations and not nonsensical ones. In applying statistical methods it must be remembered that the researcher is working with a sample and that sample statistics is applied.

After the foundation has been set out the WACC model of the companies will be presented. The traditional WACC model as well as the transformed WACC model will be presented. The traditional model will be used as the base and starting point of the transformed model. Additional items impacting debt and equity will be included in the traditional model as discussed in chapter six. The traditional model will be contrasted against the transformed model to assess the impact of the inclusion of certain balance sheet items.

7.2.2 SAMPLE SELECTION

The research was conducted by way of financial data analysis. The first step in the data analysis is to identify a sample of listed companies on the Johannesburg Stock Exchange (JSE). The sample was chosen based on random stratified sampling. Stratification refers to the process of grouping members of a population into homogenous groups (Steyn *et al*, 1994:25). Each group or strata, as they are referred to, must be mutually exclusive - in other words each member can only be assigned to one stratum. After the strata are selected, random or systematic sampling is effected in each group. This method of sampling reduces sampling error. For purposes of this analysis the subgroups (strata) are already grouped in the form of sectors on the JSE. From these sectors one or two companies were randomly selected depending on the sector size.

7.2.3 FINANCIAL DATA SELECTION

In order to obtain financial data on the companies selected for testing the database McGregor BFA was employed. McGregor BFA was chosen because it is one of the leading providers of research and stock market and financial news to the corporate financial sector. It is also the only database that provides standardised financial statements, which is important for comparison and calculation purposes. BFA McGregor also provides ratios based on standardised financial statements which will be used to interpret the funding and asset mix and composition of the selected companies. The BFA McGregor also provides information on the traditional WACC model which will be utilised. The WACC model presented in the BFA database is based on the traditional assumptions and items of WACC. This will be used to show the traditional WACC of the selected companies. It will also be the starting point of the enhanced WACC model. The assumptions regarding the calculation of the component costs will not be altered but the assumptions regarding the different balance sheet components of WACC will be altered in the transformed model to include the items discussed in chapter six.

7.2.4 LIMITATIONS TO FINANCIAL DATA ANALYSIS

The following are some of the limitations when applying financial data analysis:

- The results of any data analysis technique rely on the accuracy and correctness of the underlying data. The saying garbage in garbage out applies here. If the underlying data is false then the results obtained by utilising this false information will be invalid and of no use.
- When making use of a sample, large enough sample sizes should be chosen in order to ensure that it is representative of the entire group otherwise the findings might be biased.
- Data can be manipulated via analysis techniques to show what management want to see.
- In this case there is reliance on accounting information which is subject to its own biases, constraints and manipulations.

The results of applying different data analysis techniques are only as good as the assumptions underlying the techniques. If a model is based, for example on the assumption that markets are efficient, it will only hold under this assumption and may not be necessarily true in inefficient markets.

7.3 COMPANY PROFILE

The companies that were selected are all listed on the JSE and belong to different industry sectors namely banks, speciality chemicals, building materials and fixtures, mobile telecommunications, investment services, asset managers, computer services, distillers and vintners, real estate investment services, real estate investment trusts,

insurance brokers, industrial machinery, containers and packaging, diversified industrials and forestry. The table on the next page indicates which companies have been selected and some additional information on these companies. The additional information relates the sectors these companies trade in and their financial year end.

Figure 7.2: Information on selected companies

Company Name	Industry/Sector	Financial Year end	Company website address
ABSA Group Ltd	Banks	Dec	www.absa.co.za
A E C I Ltd	Specialty chemicals	Dec	www.aeci.co.za
Afrimat Ltd	Building materials and fixtures	Feb	www.arfimat.co.za
AG Industries Ltd	Building materials and fixtures	Jun	www.ag-industries.com
Allied technologies Ltd	Mobile telecommunications	Feb	www.altech.co.za
Foschini	Apparel Retailers	March	www.foschinigroup.com
Argent Industrial Ltd	Diversified Industrials	March	www.argent.co.za
Barnard Jacobs Mellet Holdings Ltd	Investment services	March	www.bjmh.co.za
Coronation Fund Managers Ltd	Asset Managers	Sept	www.coronation.com
Barloworld	Diversified industrials	Sept	www.barloworld.com
Distell Group Ltd	Distillers and vinters	Jun	www.distell.com
Emergent Properties Ltd	Real estate investments	Sept	-
Emira Property Fund	Real estate investment trust	Jun	www.emira.co.za
Glenrand MIB Ltd	Non-life insurance	Jun	www.glenrandmib.co.za
Pick n Pay	Food Retailers & Wholesalers	Feb	www.picknpay.co.za
Howden Africa Holdings Ltd	Industrial machinery	Dec	www.howden.co.za
Nampak Ltd	Containers and packaging	Sept	http://www.nampak.com
Remgro Ltd	Diversified industrials	March	www.remgro.com
RMB Holdings Ltd	Banks	Jun	www.rmbh.co.za
The York Timber Organisation Ltd	Forestry and Paper	Dec	www.yorkcor.co.za

(Source: Own observation)

Forty-five percent of the chosen firms employed less than 2000 employees, while the other fifty-five percent employed more than 2000 people. Of the 55 percent 20 percent employ between 2000 and 5000 people while 20 percent employ between 5000 and 10 000 and 15 percent more than 20 000 people. From this it can be shown that there are a variety of both small and large companies. The companies operate domestically and internationally. Most of the companies can be regarded as old, established enterprises,

because 75% of them have been in operation for over 30 years, while 15% are new businesses established within the last five years. The large size of the companies is also confirmed by their net income numbers, with 65% of the companies having income in excess of R500 million while 35% reported income less than R500m. This is also corroborated by the fact that 75% the companies have total assets in excess of R 1 billion, 10% have assets totalling over R500m and 20% have assets less than R500m.

In addition 65% of the companies sampled had more than R500m in equity capital, while 35% had less than R1 billion in equity capital. The majority of companies (75%) make use of more than R500m in long-term financing; and 25% make use of less than R500 million in borrowings.

7.4 PRESENTING THE DATA

7.4.1 THE FINANCIAL STATEMENTS

The financial statements of the companies were compiled by the BFA data base spanning a five year period. For purposes of this dissertation the balance sheet, income statement, statement of changes in equity and sundry items were utilised. The full set of these financials can be found in Appendix A. For additional information regarding the financial statements please visit the BFA database at www.mcgregorbfa.com.

The BFA data base allows you to view financial statements either as published or standardised. The standardised view was used here as it lends itself to comparability. The form and content of the financial statements as presented by McGregor BFA are largely determined by the Companies Act, 1973 as amended (BFA, 2009:3).

Some of the financial lines that were utilised in the WACC calculations can be seen in the figure on the following pages. Please note that the extract on the next pages only

highlights the inputs used in the WACC calculations and are only for the 2007 financial period. The section on ratios will include the balance sheet items relating to each ratio.

BFA assumptions on the underlying financial statements

For a list of the assumptions regarding financial statements please refer to appendix B which is an extract of the description (taken directly from BFA McGregor guide) of the relevant line items used in this dissertation. For a complete guide to the financial statements please visit www.mcgregorbfa.com.

Figure 7.3: Extract of financial statements for selected companies from McGregor BFA

FINANCIAL STATEMENTS REPORT										
Balance Sheet [Year: 2007, Financials: Standardised]										
	ABSA	AECI	AFRIMAT	AG Industries	Allied Technologies	Foschini	Argent	Barnard Jabobs Mellet	Coronation	Barloworld
Year	2007	2007	2007	2007	2007	2007	2007	2007	2007	2007
Months Covered	12	12	12	12	12	12	12	12	12	12
Year End Month	Dec	Dec	Feb	Jun	Feb	Mar	Mar	Mar	Sep	Sep
Balance Sheet Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR
<u>001 Ordinary Share Capital</u>	1,350,000	110,000	1,245	1,019	1,000	2,700	4,023	833	32	10,000
<u>002 Non Distributable Reserves</u>	2,698,000	614,000	245,762	83,815	-152,000	-125,700	301,917	126,498	408,264	2,796,000
<u>003 Distributable Reserves</u>	33,821,000	2,743,000	195,106	297,990	1,680,000	3,504,500	454,362	184,560	494,982	7,908,000
<u>011 Total Depreciation: Land and Buildings</u>	534,000	131,000	386	3,533	21,000	52,000	7,502	-	1,317	427,000
<u>013 Total Depreciation: Other Fixed Assets</u>	3,435,000	1,184,000	37,273	59,805	405,000	1,037,500	84,094	14,451	12,793	4,990,000
<u>029 Cash And Bank</u>	18,040,000	441,000	37,955	44,112	1,173,000	69,100	14,272	153,042	119,134	244,000
General Supplementary										
<u>214 Convertible Preference Shares</u>	-	-	-	-	-	-	-	-	-	-
<u>215 Convertible Debentures & Loans</u>	-	-	-	-	-	-	-	-	-	-
<u>218 Depreciation / Amortisation on Mine Assets</u>	-	-	2,391	-	-	-	-	-	-	-
<u>221 Long Term Loans - Interest Bearing</u>	64,867,000	502,000	17,551	76,214	30,000	1,014,600	111,442	2,420	-	4,379,000
<u>223 Short Term Loans - Interest Bearing</u>	514,951,000	927,000	20,806	76,068	-	5,900	88,861	554,478	-	2,629,000
Sundry Items [Year: 2007, Financials: Standardised]										
	2,007	2,007	2,007	2,007	2,007	2,007	2,007	2,007	2,007	2,007
Year End Month	Dec	Dec	Feb	Jun	Feb	Mar	Mar	Mar	Sep	Sep
Sundry Items Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR
<u>128 Deferred Tax Total</u>	2,465,000	165,000	38,243	-29,550	-58,000	32,900	44,730	7,954	45,916	18,000
Inputs into traditional WACC										
Additional inputs into the transformed WACC										

(Source: Extract from financial statements in Appendix A taken from McGregor BFA, 2009, available online from www.mcgregorbfa.com)

Figure 7.3: Extract of financial statements for selected companies (continued..)

FINANCIAL STATEMENTS REPORT										
Balance Sheet [Year: 2007, Financials: Standardised]										
	Distell	Emergent Properties	Emira	Glenrand MIB	Pick N Pay	Howden Africa holdings	Nampak	Remgro	RMB Holdings	York Timber
Year	2007	2007	2007	2007	2007	2007	2007	2007	2007	2007
Months Covered	12	12	12	12	12	12	12	12	12	12
Year End Month	Jun	Sep	Jun	Jun	Feb	Dec	Sep	Mar	Jun	Dec
Balance Sheet Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR
<u>001 Ordinary Share Capital</u>	1,996	9	3,512,323	4,531	5,700	657	29,100	8,000	11,900	552
<u>002 Non Distributable Reserves</u>	895,763	2,960	2,095,973	65,057	-348,700	-1,499	147,100	25,592,000	14,072,800	3,061
<u>003 Distributable Reserves</u>	2,957,035	2,962	258,138	82,126	702,100	63,330	6,077,700	19,792,00	1,515,100	109,708
<u>011 Total Depreciation: Land and Buildings</u>	24,157	-	-	4,004	65,600	1,943	318,000	408,000	6,100	3,868
<u>013 Total Depreciation: Other Fixed Assets</u>	917,485	-	26,646	45,092	2,051,100	43,521	3,042,900	1,407,000	102,200	14,524
<u>029 Cash And Bank</u>	332,426	401	13,886	232,995	709,100	19,902	183,400	5,004,000	238,700	14,614
General Supplementary										
<u>214 Convertible Preference Shares</u>	-	-	-	-	-	-	-	-	-	-
<u>215 Convertible Debentures & Loans</u>	-	60	-	-	27,600	-	-	-	15,000	-
<u>218 Depreciation / Amortisation on Mine Assets</u>	-	-	-	-	-	-	-	-	-	-
<u>221 Long Term Loans - Interest Bearing</u>	2,629	9,777	1,197,050	2,222	197,800	20,000	526,500	161,000	751,700	32,757
<u>223 Short Term Loans - Interest Bearing</u>	329,473	-	9,238	357	51,600	718	416,800	64,000	12,200	12,050
Sundry Items [Year: 2007, Financials: Standardised]										
Year	2,007	2,007	2,007	2,007	2,007	2,007	2,007	2,007	2,007	2,007
Year End Month	Jun	Sep	Jun	Jun	Feb	Dec	Sep	Mar	Jun	Dec
Sundry Items Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR
<u>128 Deferred Tax Total</u>	135,271	-	259,483	-40,691	-151,200	-15,702	733,100	1,081,000	-73,100	9,414
Inputs into traditional WACC										
Additional inputs into the transformed WACC										

(Source: Extract from financial statements in Appendix A taken from McGregor BFA, 2009, available online from www.mcgregorbfa.com)

7.4.2 RATIO ANALYSIS

Ratios show the relationship between accounting information found in financial statements. Ratios can be used to interpret the financial position of a company. It can provide insight into the performance of a company or its liquidity position. Ratios can be divided into five broad classes, namely activity, liquidity, profitability, debt and market ratios (Gitman and Madura, 2001:221). Activity ratios measure how effectively the company is using its resources (Weaver and Weston, 2001: 154), while liquidity ratios measures the firms ability to meet short term obligations as they become due (Gitman and Madura, 2001: 222). Profitability ratios provide insight into the effectiveness of a firm's operations (Needles and Powers, 2004:260). Debt/leverage ratios measures the extent to which a firm uses debt (external funding) to generate profits (Weaver and Weston, 2001:159) Lastly market ratios relate a firm's current share price to earnings, book values and cash flows (Brigham and Daves, 2004:241). The following section will examine some of the advantages and limitations of using ratios.

7.4.2.1 The advantages and limitations of ratios

The following are some of the advantages of utilising ratios

- **Simplify financial statements**

Ratios assist in the interpretation of financial information and simplify the understanding of financial statements by telling the story of changes in the financial position of a company (Needles and Powers, 2004:667). It is a useful tool to help in understanding the information contained in financial statements.

- **Assist in financial planning**

Ratios can assist management in the forecasting, budgeting, co-ordination, control and communication (Lacoma, n.d,1). Ratios are helpful in aiding managers to identify trends in financial information that will help in forecasting and budgeting.

- **Assist in investment decisions**

Ratios can assist investors in assessing the performance and position of companies and industries to better understand their workings (Lacoma, n.d,1). It can also assist lenders in analysing potential clients as to their repayment ability and history.

The following are some of the limitations of ratio analysis:

- **Limitations of financial statements**

Ratios are only as good as its underlying information (Brigham and Daves, 2004:252). If information is incorrectly disclosed or omitted in financial statements it will not be visible in the ratio analysis

- **Comparative information required**

For a ratio analysis to be useful it needs to be compared to past data and industry ratios otherwise it is not very meaningful (Reilly and Brown, 2003:320). Ratios need to be analysed over a period of time to provide more meaningful insight into them.

- **Limited use of single ratios**

A single ratio does not provide adequate insight into a business' operations and need to be looked at in conjunction with other ratios (Gitman and Madura, 2001:220). A single ratio can provide only limited insight into its component parts.

There is no single ratio that encompasses all information on the position and well-being of a firm.

- **Personal bias**

The same ratio can be interpreted in different ways by different users. Ratios are only an aid in analysing financial information.

- **Incomparability**

Industries and firms differ thus it can make comparison of ratios difficult and misleading. (Reilly and Brown, 2003:320) Firms differ in size and some companies have multiple products making it more difficult to compare to a single industry. Also accounting procedures might differ from company to company.

The following section will focus on the interpretation of the financial statements by looking at some ratios. The underlying information on the ratios can be found in the financial statements in Appendix A. Appendix C and D includes the ratios and industry averages. The ratios were interpreted in conjunction with the financial statements and reference will be made to the financial statements. In order to interpret the ratios they will be analysed over a four period (2003-2007) and will be graphically presented to recognise trends. The company ratios will also be compared to their industry averages to give more insight into the ratios. The author has selected the following four ratios to aid in the understanding of the balance sheet of the various companies. The four ratios have a bigger focus on leverage and liquidity:

- **Quick ratio**

The quick ratio is useful in measuring the liquidity of a company. It measure's a firm's ability (current assets) to pay of current obligations (current liabilities) and is more rigorous than the current ratio as it excludes the impact of inventory on current assets (Gitman and Madura, 2001:222). Usually a high liquidity ratio

indicates that a firm is liquid and able to pay of current liabilities in time while a low ratio indicates that a firm's liquidity is not good. A quick ratio of 1:1 is seen as satisfactorily.

- **Debt-Asset ratio**

This ratio gives an indication of the level of debt a firm utilises to fund its total assets. A ratio close to one indicates that more debt is used to fund assets while a ratio close to zero indicates that firm's rely less on debt financing. The higher the ratio the higher the indebtedness and the more leverage a company has (Gitman and Madura, 2001:227). It gives insight into the levels of gearing of companies.

- **Debt-Equity ratio**

The debt-equity ratio indicates what proportion of a firm's capital is obtained from debt compared to equity sources (Reilly and Brown, 2003:341). The purpose of the ratio is to give an indication of the mix between debt and equity funding. A ratio of 1:1 is seen as adequate but there is no rule of thumb. A lower ratio indicates that owner's interests are higher than that of creditors and this is seen as the company being highly solvent. A higher ratio indicates the company is more leveraged.

- **Return on average equity**

Return on average equity is seen as a measure of profitability as it indicates how well management has utilised shareholder's funds (Needles and Powes, 2004:263). The higher the return the more profitable the organisation is in efficiently managing its equity. The ratio should be observed over a time period to get a sense of profitability.

The debt-equity and return on average equity ratios will also be tested under the assumptions discussed in chapter six. The additional items included for testing is accumulated depreciation and deferred taxes. As motivated they impact retained earnings and equity and are thus added to equity to assess the impact on the two ratios dealing with the equity component. Compound financial instruments are traditionally already included in the items used for ratio analysis thus their impact on ratios are already included in the results

The following pages will present the ratios of the various companies compared to the industry average over a four year period for each company. The interpretation of each ratio will be given. Also the impact of book entries discussed in chapter six will be tested on the debt-equity and return on average equity. The results are also interpreted by adding the additional assumptions.

Company:
Industry:

ABSA
Banks

Ratio Type **Quick ratio**

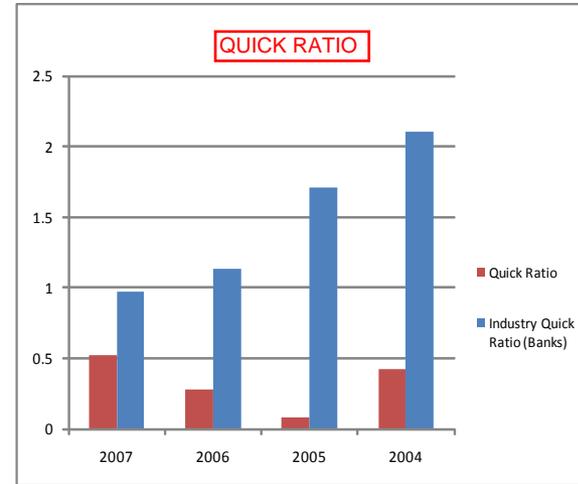
Balance sheet components	2007	2006	2005	2004
Total current assets	276,444,000	116,126,000	28,610,000	110,241,000
Total inventory	-	-	-	-
Total current liabilities	530,460,000	418,033,000	365,435,000	263,985,000

Ratio	Formula	2007	2006	2005	2004	Comments
Quick Ratio	$\frac{((\text{Total Current Assets}) - (\text{Total Inventory}))}{(\text{Total Current Liabilities})}$	0.52	0.28	0.08	0.42	To measure the liquidity of a company's short term assets relative to its short term liabilities
Industry Quick Ratio (Banks)		0.97	1.13	1.71	2.11	

Summary

The quick ratio is a measure of a company's ability to pay short term debt obligation as they become due. The quick ratio excludes the effect of inventory. A ratio of 1:1 is considered adequate but a higher or lower ratio doesn't necessarily imply a company is better or worse off.

Abisa's quick ratio over the past four years declined between 2004 and 2005 but thereafter increased. To ascertain why the ratio moved the financial statements in Appendix A were consulted. The decrease in 2005 was due to a large decrease in short term advances. In 2006 and 2007 short term advances increased. The ratio is much lower than the industry average which indicates that compared to its peers, ABSA favours short-term funding and long-term investments as a strategy. One could summarise that short-term funding is used to fund longer term assets rather than through funds raised in the longer term that are more costly or change the capital structure of the business. The implication of this is a quick ratio lower than the industry average. Absa does not necessarily face liquidity constraints with regards to settling short term liabilities other than short term borrowings. If short term creditors demand immediate settlement of amounts outstanding Absa could run into liquidity constraints but this is general to the banking industry. Also banks in South Africa do carry minimum reserve and capital requirements as set out by the Reserve Bank as buffer for times of liquidity constraint.



Ratio Type **Debt/Assets**

Balance sheet components	2007	2006	2005	2004
Total long term loan capital	67,367,000	41,340,000	14,156,000	22,670,000
Total current liabilities	530,460,000	418,033,000	365,435,000	263,985,000
Total assets	640,314,000	494,729,000	407,128,000	306,519,000

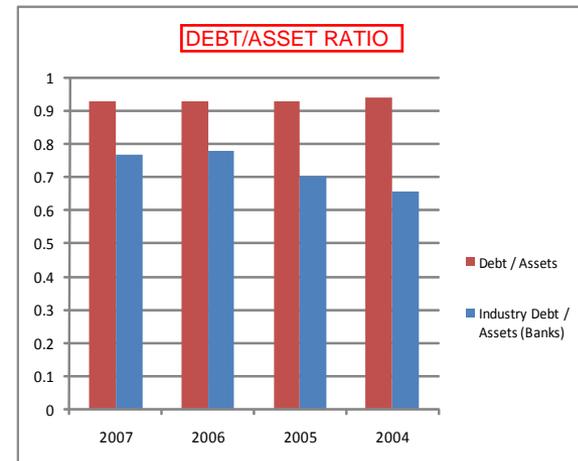
Ratio	Formula	2007	2006	2005	2004	Comments
Debt / Assets	$\frac{((\text{Total Long Term Loan Capital}) + (\text{Total Current Liabilities}))}{(\text{Total Assets})}$	0.93	0.93	0.93	0.94	debt in comparison to total assets as indication of financing mix
Industry Debt / Assets (Banks)		0.77	0.78	0.70	0.66	

Summary

The debt/asset ratio gives an indication as to how a company finances its assets. A ratio close to one indicates that a company uses predominantly debt rather than equity as the preferred method of financing.

Abisa's debt to asset ratio has been fairly consistent over the past four years at around 0.9. It indicates that Absa uses predominantly debt to finance its assets. Also compared to the industry average Absa uses more debt financing than its peers in the market although the industry average indicates that high levels of debt are utilised by banks to finance assets. Also it can be seen from the above information that current liabilities make up a large proportion of total debt. From the financial statements included in Appendix A the current liabilities of Absa over the period has been consistently made up of short term borrowings. On the asset side it can be seen that long term advances make up the bulk of total assets. This indicates that Absa utilises short term debt financing to fund long term advances which is consistent with what one would expect given the nature of the South African banking sector.

Also from the information provided later on in the cost of capital calculation section it can be seen that the cost of debt is also much lower for Absa than the cost of equity implying that debt funding is cheaper than raising money in equity capital markets.



Ratio Type Debt/Equity

Balance sheet components	2007	2006	2005	2004
Total owners interest	42,487,000	35,356,000	27,537,000	19,864,000
Total current liabilities	530,460,000	418,033,000	365,435,000	263,985,000
Total long term loan capital	67,367,000	41,340,000	14,156,000	22,670,000
Accumulated depreciation	3,969,000	4,342,000	4,339,000	3,471,000
Deferred taxes (60% non-reversing)	1,479,000	1,444,800	1,485,600	698,400

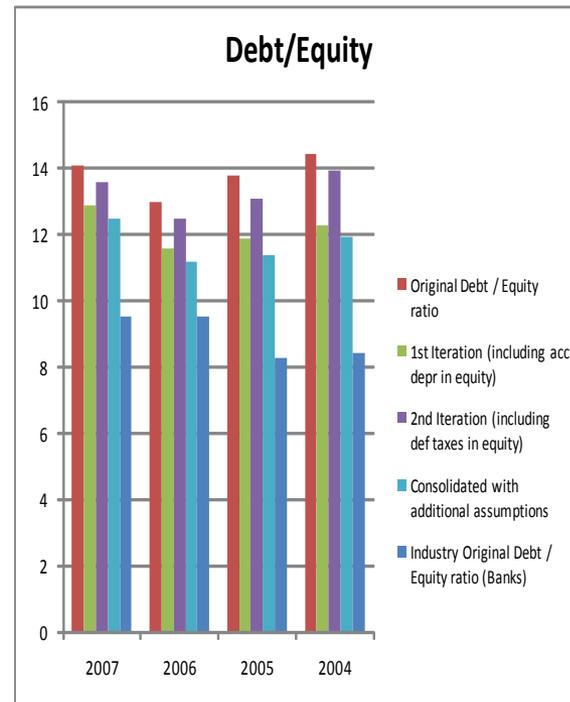
Ratio	Formula	2007	2006	2005	2004	Comments
Original Debt / Equity ratio	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})}$	14.07	12.99	13.78	14.43	Debt to equity ratio indicates the proportionate claims of owners and creditors against the firm's assets.
Industry Original Debt / Equity ratio (Banks)		9.53	9.52	8.28	8.44	
1st Iteration (including acc depr in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})}$	12.87	11.57	11.91	12.28	The formula is expanded to add accumulated depr to owners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Deferred taxes})}$	13.60	12.48	13.08	13.94	The formula is expanded to add 60% of deferred taxes to owners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})+(\text{Deferred taxes})}$	12.47	11.17	11.38	11.93	The formula is expanded to add 60% of deferred taxes and accumulated depr to owners interest in the denominator

Summary

The debt to equity ratio indicates the proportionate claims of owners and outside funders against the company's assets. The purpose is to get an idea of the cushion available to outsiders on the liquidation of the firm. A ratio of 1:1 is usually considered to be satisfactory ratio although there cannot be rule of thumb or standard norm for all types of businesses. Theoretically if the owners interests are greater than that of creditors, the financial position is highly solvent.

The debt-equity ratio of Absa has been fairly consistent over the four year period. The ratio of around 13 indicates that Absa is fairly geared and uses predominantly debt funding. Compared to the industry average of around 9 Absa is more geared than its peers. From the above information it can also be seen that Absa's debt is mainly short term and from the company financials it can be seen the current liability is composed mainly of short term borrowings.

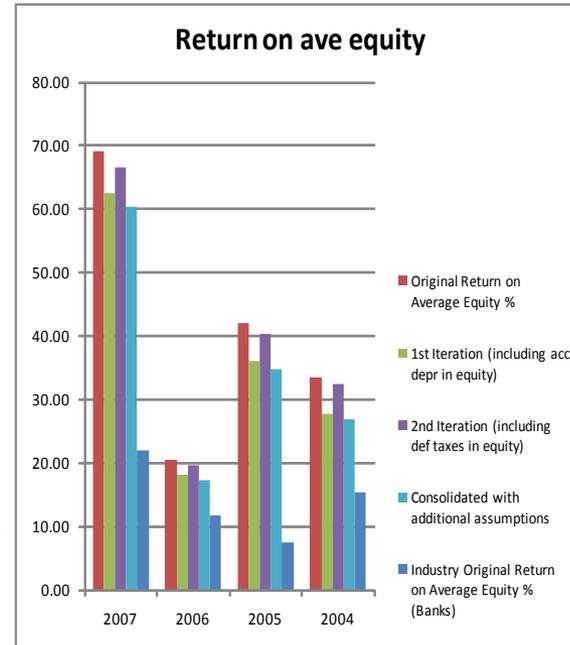
The debt equity ratio is also used to analyse the impact of the items discussed in chapter six that influence the debt/equity mix. Compound and hybrid instruments are already included in the total owners interest and long term loan capital. The two items remaining are deferred taxes and accumulated depreciation. If these items are included in equity, as motivated in chapter six, it will reduce the debt-equity ratio of Absa as shown above. This implies that the company's leverage ratio will decrease if the effect of accumulated depreciation and deferred taxes on equity is considered.



Ratio Type Return on ave equity

Balance sheet components	2007	2006	2005	2004
Profit after taxation	26,732,000	8,460,000	11,747,000	4,527,000
Total profits extraordinary nature	-184,000	2,013,000	1,773,000	-1,768,000
Total ow ners interest	42,487,000	35,356,000	27,537,000	19,864,000
Total ow ners interest previous	35,356,000	27,537,000	19,864,000	17,649,000
Accumulated depreciation	3,969,000	4,342,000	4,339,000	3,471,000
Deferred taxes (60% non-reversing)	1,479,000	1,444,800	1,485,600	698,400
Accumulated depreciation - previous	4,342,000	4,155,000	3,554,000	4,532,000
Deferred taxes (60% non-reversing) -previous	1,444,800	1,485,600	698,400	736,800

Ratio	Formula	2007	2006	2005	2004	Comments
Original Return on Average Equity %	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature})) / ((\text{Total Ow ners Interest}) + ((\text{Total Ow ners Interest previous}))) / 2) * 100}{}$	69.15	20.50	42.08	33.56	The return on average equity is a measure of performance. It indicates how well the management has used the investment made by ow ners into the business
Industry Original Return on Average Equity % (Banks)		21.87	11.77	7.52	15.39	
1st Iteration (including acc depr in equity)	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature})) / ((\text{Total Ow ners Interest}) + (\text{Accumulated depreciation}) + (\text{Total Ow ners Interest previous} + \text{Accumulated depreciation previous}))) / 2) * 100}{}$	62.48	18.06	36.08	27.66	The formula is expanded to add accumulated depr to ow ners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature})) / ((\text{Total Ow ners Interest}) + (\text{Deferred taxes}) + (\text{Total Ow ners Interest previous} + \text{Deferred taxes previous}))) / 2) * 100}{}$	66.65	19.59	40.23	32.32	The formula is expanded to add 60% of deferred taxes to ow ners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature})) / ((\text{Total Ow ners Interest}) + (\text{Accumulated depreciation}) + (\text{Deferred taxes}) + (\text{Total Ow ners Interest previous} + \text{Accumulated depreciation previous} + \text{Deferred taxes previous}))) / 2) * 100}{}$	60.43	17.35	34.71	26.82	The formula is expanded to add 60% of deferred taxes and accumulated depr to ow ners interest in the denominator



Summary

The return on average equity indicates how well the management has used the investment made by ow ners into the business. The primary objective of business is to earn profit and a higher return on average equity indicates that the firm is using its equity funds more efficiently. The ratio can be found for a number of years so as to find a trend as to whether the profitability of the company is improving or otherwise.

The trend over the past four years indicate an increase in this ratio for Absa except in 2006 where it decreased but subsequently increased in 2007 again. The decrease in 2006 is the result of a decrease in interest received causing a smaller net profit to be recognised while ow ners equity increased in 2006. From the above it can be seen that Absa has a return ratio above the industry average indicating that it has utilised its equity financing in an efficient manner in producing income.

The inclusion of accumulated depreciation and deferred taxes in equity causes the ratio to decrease slightly due to the income earned being divided by a larger equity base. Thus it indicates that Absa is overstating returns on equity by not including the impact of deferred taxes and accumulated depreciation on capital structure, as these are associated costs of earning the returns from assets used by the company.

Company:
Industry:

AECI
Speciality chemicals

Ratio Type **Quick ratio**

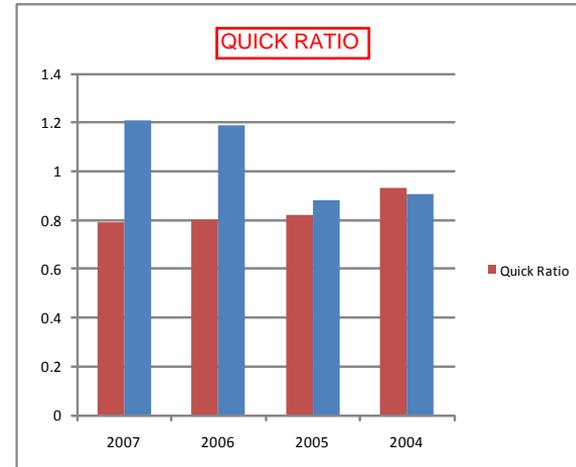
Balance sheet components	2007	2006	2005	2004
Total current assets	4,564,000	4,349,000	3,557,000	2,941,000
Total inventory	1,786,000	1,732,000	1,370,000	1,159,000
Total current liabilities	3,529,000	3,282,000	2,676,622	1,908,000

Ratio	Formula	2007	2006	2005	2004	Comments
Quick Ratio	$\frac{((\text{Total Current Assets}) - (\text{Total Inventory}))}{(\text{Total Current Liabilities})}$	0.79	0.8	0.82	0.93	To measure the liquidity of a company's short term assets relative to its short term liabilities
Industry Quick Ratio (Speciality Chemicals)		1.21	1.19	0.88	0.91	

Summary

The quick ratio is a measure of a company's ability to pay short term debt obligation as they become due. The quick ratio excludes the effect of inventory. A ratio of 1:1 is considered adequate but a higher or lower ratio doesn't necessarily imply a company is better or worse off.

AECI's quick ratio has declined steadily over the four year period. This can be explained by the larger proportionate increase in creditors over the four years. The ratio is lower than the industry average which indicates that compared to its peers, AECI might run into liquidity constraints if all short term liabilities become due and payable at the same time. Looking at the financial statements included in Appendix A it can be seen that debtors make up a large portion of short term assets. It indicates that AECI is dependent on their cash conversion cycle and the frequency of debtors paying in order to meet the settlement of short term liabilities. The short term liability section comprises predominantly creditors with some short term borrowings. The average industry ratio indicates that peer groups in this sector has better quick ratios than AECI. AECI can improve this ratio by actively managing and collecting outstanding debtor accounts.



Ratio Type **Debt/Assets**

Balance sheet components	2007	2006	2005	2004
Total long term loan capital	876,000	909,000	1,104,000	1,396,000
Total current liabilities	3,529,000	3,282,000	2,676,622	1,908,000
Total assets	7,027,000	6,632,000	5,376,000	4,698,000

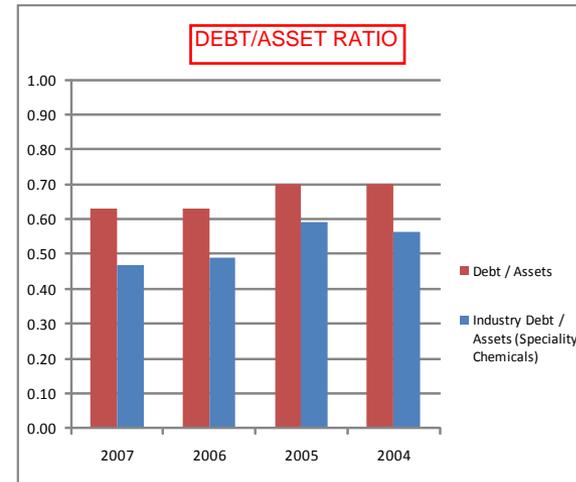
Ratio	Formula	2007	2006	2005	2004	Comments
Debt / Assets	$\frac{((\text{Total Long Term Loan Capital}) + (\text{Total Current Liabilities}))}{(\text{Total Assets})}$	0.63	0.63	0.70	0.70	To measure the level of debt in comparison to total assets as indication of financing mix
Industry Debt / Assets (Speciality Chemicals)		0.47	0.49	0.59	0.56	

Summary

The debt-asset ratio gives an indication as to how a company finances its assets. A ratio close to one indicates that a company uses predominantly debt rather than equity as the preferred method of financing.

AECI's debt to asset ratio has been fairly consistent over the past four years at levels between 0.6 to 0.7. It indicates that AECI uses predominantly debt to finance its assets. Also compared to the industry average AECI uses more debt financing than peers in the market with the industry average indicating level of close to 50/50 of debt and equity being utilised. It can also be seen from the above information that current liabilities make up a large proportion of total debt. From the financial statements included in Appendix A the current liabilities of AECI over the period has been consistently made up of creditors. On the asset side it can be seen that about two thirds of total assets comprise current assets with fixed assets comprising a third of total assets. The use of short term debt funding is in line with the nature of the types of assets found on the balance sheet.

Also from the information provided later on in the cost of capital calculation section it can be seen that the cost of debt is also much lower for AECI than the cost of equity implying that debt funding is cheaper than raising money in equity capital markets.



Ratio Type Debt/Equity

Balance sheet components	2007	2006	2005	2004
Total owners interest	2,622,000	2,441,000	1,595,378	1,394,000
Total current liabilities	3,529,000	3,282,000	2,676,622	1,908,000
Total long term loan capital	876,000	909,000	1,104,000	1,396,000
Accumulated depreciation	1,315,000	2,150,000	1,978,000	1,788,000
Deferred taxes (60% non-reversing)	-	-	-	-

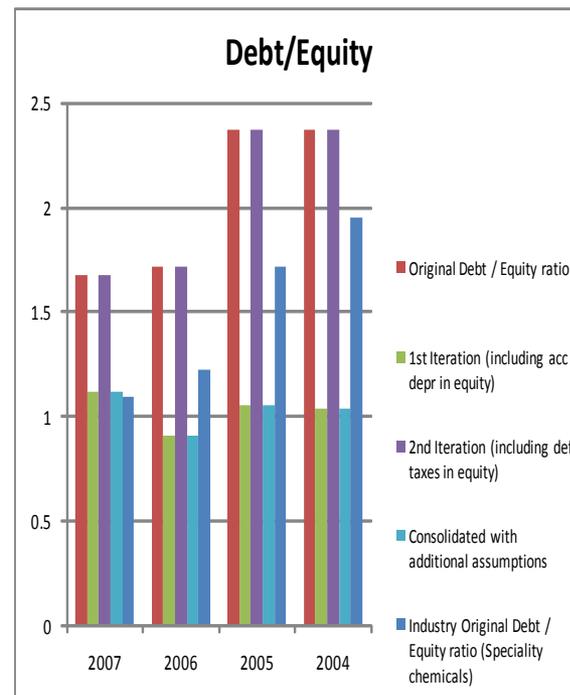
Ratio	Formula	2007	2006	2005	2004	Comments
Original Debt / Equity ratio	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})}$	1.68	1.72	2.37	2.37	Debt to equity ratio indicates the proportionate claims of owners and creditors against the firm's
Industry Original Debt / Equity ratio (Speciality)		1.09	1.23	1.72	1.96	
1st Iteration (including acc depr in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})}$	1.12	0.91	1.06	1.04	The formula is expanded to add accumulated depr to owners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Deferred taxes})}$	1.68	1.72	2.37	2.37	The formula is expanded to add 60% of deferred taxes to owners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})+(\text{Deferred taxes})}$	1.12	0.91	1.06	1.04	The formula is expanded to add 60% of deferred taxes and accumulated depr to owners interest in the denominator

Summary

The debt to equity ratio indicates the proportionate claims of owners and outside funders against the company's assets. The purpose is to get an idea of the cushion available to outsiders on the liquidation of the firm. A ratio of 1:1 is usually considered to be satisfactory ratio although there cannot be rule of thumb or standard norm for all types of businesses. Theoretically if the owners interests are greater than that of creditors, the financial position is highly solvent.

The debt-equity ratio of AECI has decreased from 2005 to 2006 and then remained at fairly consistent levels thereafter. This indicates that AECI reduced its use of debt funding in favour of equity funding. The ratio indicates that AECI still utilises more debt than equity financing but is not overly geared. Compared to the industry average AECI seems to be more geared than its peers. From the above information it can also be seen that AECI uses mainly short term debt and from the company financials it can be seen that current liabilities consist mainly of creditors.

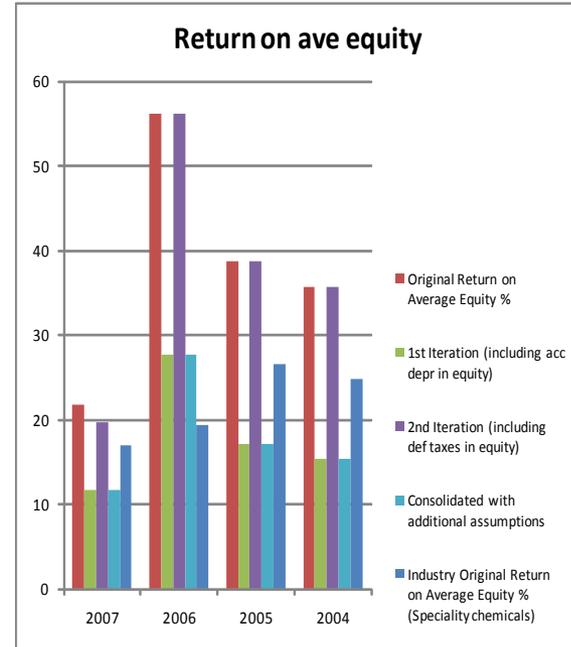
The debt equity ratio is also used to analyse the impact of the items discussed in chapter six that influence the debt/equity mix. Compound and hybrid instruments are already included in the total owners interest and long term loan capital. The two items remaining are deferred taxes and accumulated depreciation. If these items are included in equity, as motivated in chapter six, it will reduce the debt-equity ratio of AECI as shown above. This implies that the company's leverage ratio



Ratio Type Return on ave equity

Balance sheet components	2007	2006	2005	2004
Profit after taxation	427,000	1,158,000	503,000	379,000
Total profits extraordinary nature	-73,000	26,000	-76,000	-79,000
Total ow ners interest	2,622,000	2,441,000	1,595,378	1,394,000
Total ow ners interest previous	2,441,000	1,595,378	1,394,000	1,168,000
Accumulated depreciation	1,315,000	2,150,000	1,978,000	1,788,000
Deferred taxes (60% non-reversing)	-	1	2	3
Accumulated depreciation - previous	2,150,000	1,978,000	1,788,000	1,623,000
Deferred taxes (60% non-reversing) -previous				

Ratio	Formula	2007	2006	2005	2004	Comments
Original Return on Average Equity %	$\frac{((\text{Profit After Taxation}) - (\text{Total Profits Extraordinary Nature}))}{((\text{Total Ow ners Interest}) + (\text{Total Ow ners Interest previous}))} \times 100$	21.81	56.09	38.74	35.75	The return on average equity is a measure of performance. It indicates how well the management has used the investment made by ow ners into the business
Industry Original Return on Average Equity % (Speciality chemicals)		17.02	19.40	26.60	24.80	
1st Iteration (including acc depr in equity)	$\frac{((\text{Profit After Taxation}) - (\text{Total Profits Extraordinary Nature}))}{((\text{Total Ow ners Interest}) + (\text{Accumulated depreciation}) + (\text{Total Ow ners Interest previous}) + (\text{Accumulated depreciation previous}))} \times 100$	11.73	27.73	17.14	15.34	The formula is expanded to add accumulated depr to ow ners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Profit After Taxation}) - (\text{Total Profits Extraordinary Nature}))}{((\text{Total Ow ners Interest}) + (\text{Deferred taxes}) + (\text{Total Ow ners Interest previous}) + (\text{Deferred taxes previous}))} \times 100$	19.75	56.09	38.74	35.75	The formula is expanded to add 60% of deferred taxes to ow ners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Profit After Taxation}) - (\text{Total Profits Extraordinary Nature}))}{((\text{Total Ow ners Interest}) + (\text{Accumulated depreciation}) + (\text{Deferred taxes}) + (\text{Total Ow ners Interest previous}) + (\text{Accumulated depreciation previous}) + (\text{Deferred taxes previous}))} \times 100$	11.73	27.73	17.14	15.34	The formula is expanded to add 60% of deferred taxes and accumulated depr to ow ners interest in the denominator



Summary

The return on average equity indicates how well the management has used the investment made by ow ners into the business. The primary objective of business is to earn profit and a higher return on average equity indicates that the firm is using its equity funds more efficiently. The ratio can be found for a number of years so as to find a trend as to whether the profitability of the company is improving or otherwise.

The trend over the past four years indicate the return on equity for AECI has been inconsistent with a fairly large increase in 2006 and a decrease in 2007. The increase in 2006 is due to a larger increase in turnover than the increase in costs which seem fairly consistent over the four year period. The levels of income was reduced in 2007 from the higher levels of 2006 due to relative increase in taxes and expenses to income. Shareholder equity seem to have increased at consistent levels over the four year period. Although the return increases and decreases between periods it is still higher than the average industry return in each of the four year periods. This indicates that AECI is able to utilise its equity financing in a more efficient manner than its peers in producing income.

The inclusion of accumulated depreciation (there are no deferred taxes for AECI) in equity causes the return to decrease significantly due to the high levels of accumulated depreciation. This indicates that AECI is overstating returns on equity by not including the impact of accumulated depreciation on capital structure,

Company:
Industry:

Afrimat
Building materials and fixtures

Ratio Type **Quick ratio**

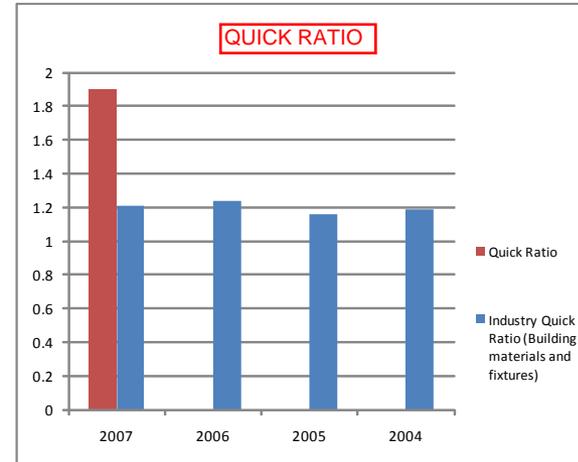
Balance sheet components	2007	2006	2005	2004
Total current assets	188,083	-	-	-
Total inventory	35,909	-	-	-
Total current liabilities	80,081	-	-	-

Ratio	Formula	2007	2006	2005	2004	Comments
Quick Ratio	$\frac{((\text{Total Current Assets}) - (\text{Total Inventory}))}{(\text{Total Current Liabilities})}$	1.9	#N/A	#N/A	#N/A	To measure the liquidity of a company's short term assets relative to its short term liabilities
Industry Quick Ratio (Building materials and fixtures)		1.21	1.24	1.16	1.19	

Summary

The quick ratio is a measure of a company's ability to pay short term debt obligation as they become due. The quick ratio excludes the effect of inventory. A ratio of 1:1 is considered adequate but a higher or lower ratio doesn't necessarily imply a company is better or worse off.

Afrimat was only listed on the JSE in 2007 thus no prior financial information published on McGregor BFA. Afrimat's current ratio of 1.9 indicate that Afrimat can settle its current obligations two times over with its current assets. The ratio is higher than the industry average which indicates that compared to its peers, Afrimat seems fairly liquid based on one year only (please note that the picture may look different once a trend is established). Looking at the financials provided in Appendix A it can be seen that debtors and short term advances make up the biggest portion of short term assets. It indicates that Afrimat is somewhat dependent on their cash conversion cycle and the frequency of debtors paying in order to meet the settlement of short term liabilities. The short term liability section comprises predominantly creditors with some short term borrowings. The average industry ratio indicates that peer groups in this sector has adequate quick ratios and depending on the composition of short term assets can readily meet current liabilities as they become due.



Ratio Type **Debt/Assets**

Balance sheet components	2007	2006	2005	2004
Total long term loan capital	23,501	-	-	-
Total current liabilities	80,081	-	-	-
Total assets	390,370	-	-	-

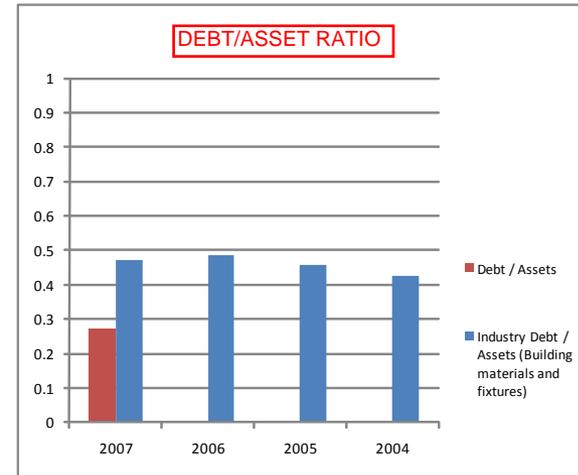
Ratio	Formula	2007	2006	2005	2004	Comments
Debt / Assets	$\frac{((\text{Total Long Term Loan Capital}) + (\text{Total Current Liabilities}))}{(\text{Total Assets})}$	0.27	#N/A	#N/A	#N/A	To measure the level of debt in comparison to total assets as indication of financing mix
Industry Debt / Assets (Building materials and fixtures)		0.47	0.49	0.46	0.43	

Summary

The debt-asset ratio gives an indication as to how a company finances its assets. A ratio close to one indicates that a company uses predominantly debt rather than equity as the preferred method of financing.

Afrimat's debt to asset ratio is 0.27 in 2007 indicating that Afrimat uses predominantly equity to finance its assets. Also compared to the industry average Afrimat uses more equity financing that its peers in the market with the industry average indicating levels of close to 50/50 of debt and equity being utilised. It can also be seen from the above information that current liabilities make up a large proportion of total debt. From the financial statements included in the appendices the current liabilities of Afrimat over the period has been consistently made up of creditors while equity comprises mainly of non-distributable reserves. On the asset side it can be seen that short term asset make up about 50% of total assets while the remainder is made up of fixed assets. The funding mix indicates that equity financing is predominantly used to finance the assets of which half is of a longer term nature.

Also from the information provided later on in the cost of capital calculation section it can be seen that the cost of equity was also much lower for Afrimat in 2007 implying that equity funding was cheaper for them to come by than debt funding.



Ratio Type Debt/Equity

Balance sheet components	2007	2006	2005	2004
Total owners interest	286,788	-	-	-
Total current liabilities	80,081	-	-	-
Total long term loan capital	23,501	-	-	-
Accumulated depreciation	37,659	-	-	-
Deferred taxes (60% non-reversing)	22,946	-	-	-

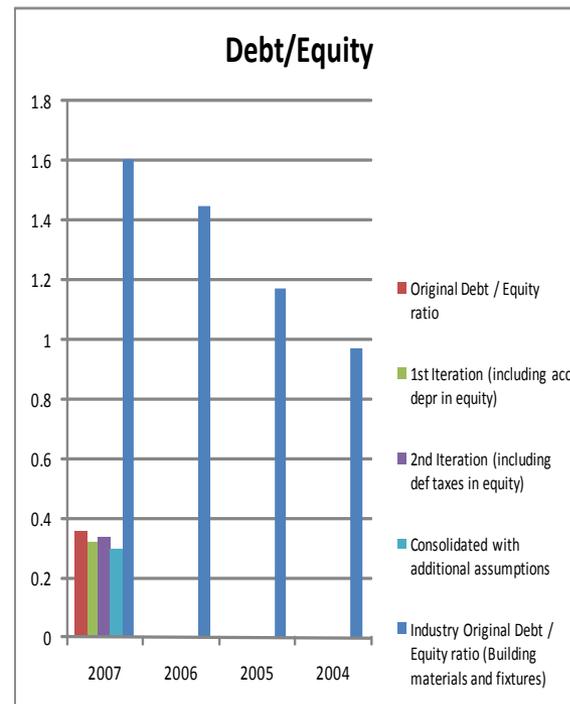
Ratio	Formula	2007	2006	2005	2004	Comments
Original Debt / Equity ratio	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})}$	0.36	#N/A	#N/A	#N/A	Debt to equity ratio indicates the proportionate claims of owners and creditors against the firm's assets.
Industry Original Debt / Equity ratio (Building materials and fixtures)		1.61	1.45	1.17	0.97	
1st Iteration (including acc depr in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})}$	0.32	#DIV/0!	#DIV/0!	#DIV/0!	The formula is expanded to add accumulated depr to owners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Deferred taxes})}$	0.33	#DIV/0!	#DIV/0!	#DIV/0!	The formula is expanded to add 60% of deferred taxes to owners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})+(\text{Deferred taxes})}$	0.30	#DIV/0!	#DIV/0!	#DIV/0!	The formula is expanded to add 60% of deferred taxes and accumulated depr to owners interest in the denominator

Summary

The debt to equity ratio indicates the proportionate claims of owners and outside funders against the company's assets. The purpose is to get an idea of the cushion available to outsiders on the liquidation of the firm. A ratio of 1:1 is usually considered to be satisfactory ratio although there cannot be rule of thumb or standard norm for all types of businesses. Theoretically if the owners interests are greater than that of creditors, the financial position is highly solvent.

The debt-equity ratio of Afrimat indicate that in 2007 Afrimat favoured equity financing over debt. The ratio indicates that Afrimat utilises much less debt than its peers who favours debt financing more. Compared to the industry average Afrimat is not very geared. This might change as the business becomes more mature and equity financing becomes more expensive.

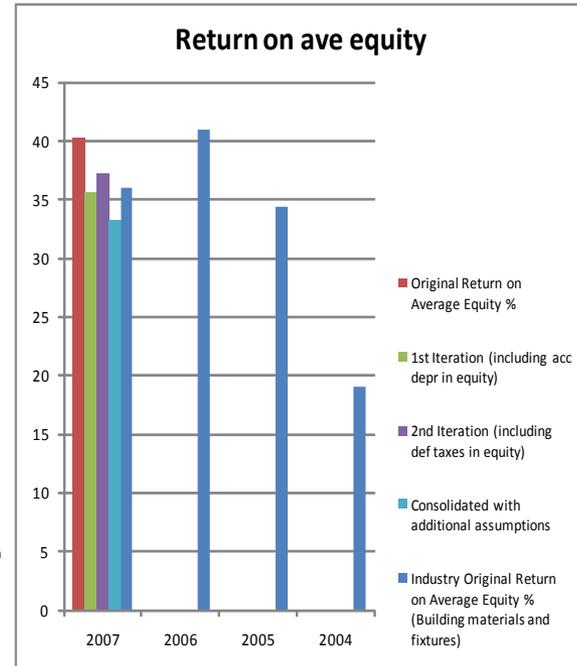
The debt equity ratio is also used to analyse the impact of the items discussed in chapter six that influence the debt/equity mix. Compound and hybrid instruments are already included in the total owners interest and long term loan capital. The two items remaining are deferred taxes and accumulated depreciation. If these items are included in equity, as motived in chapter six, it will reduce the debt-equity ratio of Afrimat as shown above. This implies that the company's leverage ratio will decrease.



Ratio Type Return on ave equity

Balance sheet components	2007	2006	2005	2004
Profit after taxation	57,940	-	-	-
Total profits extraordinary nature	141	-	-	-
Total ow ners interest	286,788	-	-	-
Total ow ners interest previous	-	-	-	-
Accumulated depreciation	37,659	-	-	-
Deferred taxes (60% non-reversing)	22,946	-	-	-
Accumulated depreciation - previous	-	-	-	-
Deferred taxes (60% non-reversing) -previous	-	-	-	-

Ratio	Formula	2007	2006	2005	2004	Comments
Original Return on Average Equity %	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature})) / ((\text{Total Ow ners Interest} + (\text{Total Ow ners Interest previous}))) / 2) * 100}{}$	40.31	#N/A	#N/A	#N/A	The return on average equity is a measure of performance. It indicates how well the management has used the investment made by ow ners into the business
Industry Original Return on Average Equity % (Building materials and fixtures)		36.05	41.02	34.36	19.07	
1st Iteration (including acc depr in equity)	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature})) / ((\text{Total Ow ners Interest} + (\text{Accumulated depreciation} + (\text{Total Ow ners Interest previous} + \text{Accumulated depreciation previous}))) / 2) * 100}{}$	35.63	#DIV/0!	#DIV/0!	#DIV/0!	The formula is expanded to add accumulated depr to ow ners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature})) / ((\text{Total Ow ners Interest} + (\text{Deferred taxes} + (\text{Total Ow ners Interest previous} + \text{Deferred taxes previous}))) / 2) * 100}{}$	37.32	#DIV/0!	#DIV/0!	#DIV/0!	The formula is expanded to add 60% of deferred taxes to ow ners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature})) / ((\text{Total Ow ners Interest} + (\text{Accumulated depreciation} + (\text{Deferred taxes} + (\text{Total Ow ners Interest previous} + \text{Accumulated depreciation previous} + \text{Deferred taxes previous}))) / 2) * 100}{}$	33.28	#DIV/0!	#DIV/0!	#DIV/0!	The formula is expanded to add 60% of deferred taxes and accumulated depr to ow ners interest in the denominator



Summary

The return on average equity indicates how well the management has used the investment made by ow ners into the business. The primary objective of business is to earn profit and a higher return on average equity indicates that the firm is using its equity funds more efficiently. The ratio can be found for a number of years so as to find a trend as to whether the profitability of the company is improving or otherwise.

Afirmat's return on equity is higher than the industry average. Without other years to compare to it makes interpretation more difficult. A return higher than the industry can indicate that Afrimat is able to utilise its equity financing in a more efficient manner than its peers in producing income.

The inclusion of accumulated depreciation and deferred taxes in equity causes the return to decrease slightly. This indicates that Afrimat is overstating returns on equity by not including the impact of accumulated depreciation and deferred taxes on capital structure, as these are associated costs of earning the returns from assets used by the company.

Company:
Industry:

AG Industries
Building materials and fixtures

Ratio Type **Quick ratio**

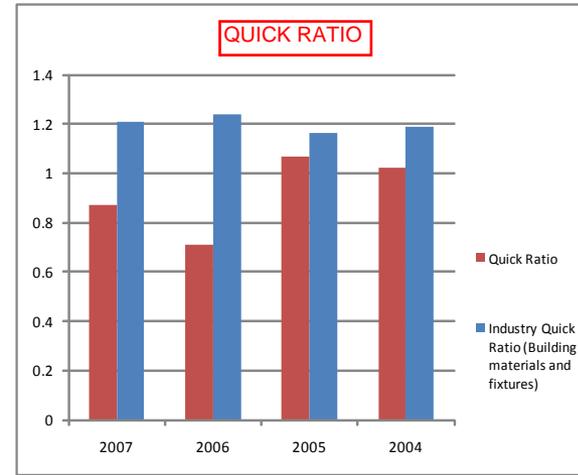
Balance sheet components	2007	2006	2005	2004
Total current assets	663,524	437,371	373,190	358,461
Total inventory	228,409	208,692	151,505	148,587
Total current liabilities	500,260	320,260	206,641	206,592

Ratio	Formula	2007	2006	2005	2004	Comments
Quick Ratio	$\frac{((\text{Total Current Assets}) - (\text{Total Inventory}))}{(\text{Total Current Liabilities})}$	0.87	0.71	1.07	1.02	To measure the liquidity of a company's short term assets relative to its short term liabilities
Industry Quick Ratio (Building materials and fixtures)		1.21	1.24	1.16	1.19	

Summary

The quick ratio is a measure of a company's ability to pay short term debt obligation as they become due. The quick ratio excludes the effect of inventory. A ratio of 1:1 is considered adequate but a higher or lower ratio doesn't necessarily imply a company is better or worse off.

AG Industries quick ratio has declined over the past three years with an increase in 2007. The decline can be explained by the larger proportionate increase in bank overdraft facilities in 2006. The ratio was as increased in 2007 by the inclusion of other current assets. The ratio is lower than the industry average which indicates that compared to its peers, AG Industries might run into liquidity constraints if all short term liabilities become due and payable at the same time. Looking at the financial statements in Appendix A it can be seen that debtors make up a large portion of short term assets. It indicates that AG Industries is dependent on their cash conversion cycle and the frequency of debtors paying in order to meet the settlement of short term liabilities. The short term liability section comprises predominantly creditors and bank overdraft facilities. The average industry ratio indicates that peer groups in this sector has better quick ratios than AG Industries. The liquidity position can be improved by actively managing and collecting outstanding debtor accounts.



Ratio Type **Debt/Assets**

Balance sheet components	2007	2006	2005	2004
Total long term loan capital	92,425	117,109	91,631	63,681
Total current liabilities	500,260	320,260	206,641	206,592
Total assets	869,910	662,591	494,995	464,140

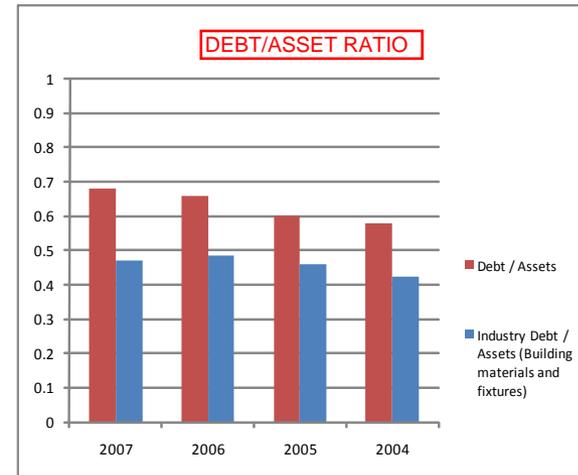
Ratio	Formula	2007	2006	2005	2004	Comments
Debt / Assets	$\frac{((\text{Total Long Term Loan Capital}) + (\text{Total Current Liabilities}))}{(\text{Total Assets})}$	0.68	0.66	0.6	0.58	To measure the level of debt in comparison to total assets as indication of financing mix
Industry Debt / Assets (Building materials and fixtures)		0.47	0.49	0.46	0.43	

Summary

The debt/asset ratio gives an indication as to how a company finances its assets. A ratio close to one indicates that a company uses predominantly debt rather than equity as the preferred method of financing.

AG Industries debt to asset ratio has been fairly consistent over the past four years at levels of 0.6. It indicates that AG uses predominantly debt to finance its assets. Also compared to the industry average AG uses more debt financing than peers in the market with the industry average indicating levels of close to 50/50 debt and equity being utilised. It can also be seen from the above information that current liabilities make up a large proportion of total debt. From the financial statements included in the appendices the current liabilities of AG over the period has been consistently made up of creditors and bank overdrafts. On the asset side short term assets comprises almost two thirds of total assets while fixed assets make up the remainder. This is also reflected in the funding mix that indicate AG utilises predominantly short term debt financing to fund its assets.

Also from the information provided later on in the cost of capital calculation section it can be seen that the cost of debt and equity financing is very similar for AG making the choice between debt and equity a bit more arbitrary and driven by the asset composition.



Ratio Type Debt/Equity

Balance sheet components	2007	2006	2005	2004
Total owners interest	277,225	225,222	196,723	193,867
Total current liabilities	500,260	320,260	206,641	206,592
Total long term loan capital	92,425	117,109	91,631	63,681
Accumulated depreciation	63,338	48,518	75,722	73,244
Deferred taxes (60% non-reversing)			1,603	1,850

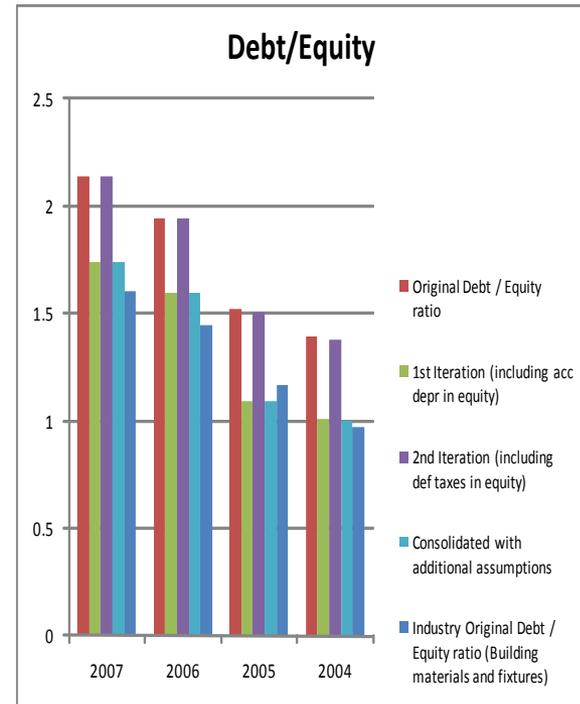
Ratio	Formula	2007	2006	2005	2004	Comments
Original Debt / Equity ratio	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})}$	2.14	1.94	1.52	1.39	Debt to equity ratio indicates the proportionate claims of owners and creditors against the firm's assets.
Industry Original Debt / Equity ratio (Building materials and fixtures)		1.61	1.45	1.17	0.97	
1st Iteration (including acc depr in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})}$	1.74	1.60	1.09	1.01	The formula is expanded to add accumulated depr to owners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Deferred taxes})}$	2.14	1.94	1.50	1.38	The formula is expanded to add 60% of deferred taxes to owners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})+(\text{Deferred taxes})}$	1.74	1.60	1.09	1.00	The formula is expanded to add 60% of deferred taxes and accumulated depr to owners interest in the denominator

Summary

The debt to equity ratio indicates the proportionate claims of owners and outside funders against the company's assets. The purpose is to get an idea of the cushion available to outsiders on the liquidation of the firm. A ratio of 1:1 is usually considered to be satisfactory ratio although there cannot be rule of thumb or standard norm for all types of businesses. Theoretically if the owners interests are greater than that of creditors, the financial position is highly solvent.

The debt-equity ratio of AG has increased over the four year period indicating that AG has geared itself more through the years relying more on debt financing. The ratio indicates that AG utilises more debt than equity financing. Compared to the industry average AG seems to be more or less at the same levels of gearing than its peers. From the above information it can also be seen that AG uses mainly short term debt and from the company financials it can be seen that current liabilities comprises mainly creditors and bank overdraft facilities.

The debt equity ratio is also used to analyse the impact of the items discussed in chapter six that influence the debt/equity mix. Compound and hybrid instruments are already included in the total owners interest and long term loan capital. The two items remaining are deferred taxes and accumulated depreciation. If these items are included in equity, as motivated in chapter six, it will reduce the debt-equity ratio of AG as shown above. This implies that the company's leverage ratio will decrease.



Ratio Type Return on ave equity

Balance sheet components	2007	2006	2005	2004
Prof it after taxation	54,255	82,241	17,763	37,692
Total profits extraordinary nature	67,094	59	-18,952	-4,652
Total ow ners interest	277,225	225,222	196,723	193,867
Total ow ners interest previous	220,364	192,319	188,758	159,792
Accumulated depreciation	63,338	48,518	75,722	73,244
Deferred taxes (60% non-reversing)	-	-	1,603	1,850
Accumulated depreciation - previous	48,518	75,722	73,244	60,548
Deferred taxes (60% non-reversing) -previous	-859	1,603	1,850	386

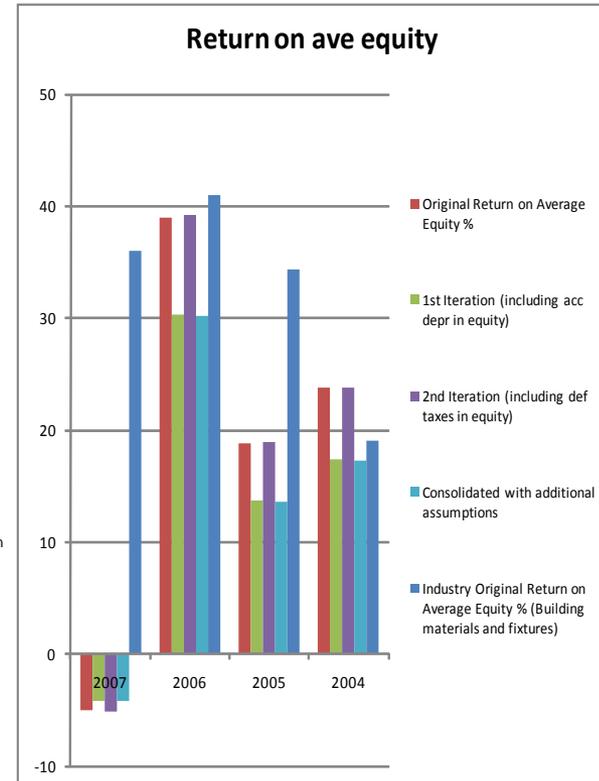
Ratio	Formula	2007	2006	2005	2004	Comments
Original Return on Average Equity %	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Ow ners Interest} + (\text{Total Ow ners Interest previous}))) / 2 * 100$	-4.97	38.95	18.8	23.77	The return on average equity is a measure of performance. It indicates how well the management has used the investment made by ow ners into the business
Industry Original Return on Average Equity % (Building materials and fixtures)		36.05	41.02	34.36	19.07	
1st Iteration (including acc depr in equity)	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Ow ners Interest} + (\text{Accumulated depreciation} + (\text{Total Ow ners Interest previous} + \text{Accumulated depreciation previous}))) / 2 * 100$	-4.21	30.34	13.74	17.37	The formula is expanded to add accumulated depr to ow ners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Ow ners Interest} + (\text{Deferred taxes} + (\text{Total Ow ners Interest previous} + \text{Deferred taxes previous}))) / 2 * 100$	-5.17	39.21	18.88	23.80	The formula is expanded to add 60% of deferred taxes to ow ners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Ow ners Interest} + (\text{Accumulated depreciation} + (\text{Deferred taxes} + (\text{Total Ow ners Interest previous} + \text{Accumulated depreciation previous} + \text{Deferred taxes previous}))) / 2 * 100$	-4.22	30.25	13.65	17.29	The formula is expanded to add 60% of deferred taxes and accumulated depr to ow ners interest in the denominator

Summary

The return on average equity indicates how well the management has used the investment made by ow ners into the business. The primary objective of business is to earn profit and a higher return on average equity indicates that the firm is using its equity funds more efficiently. The ratio can be found for a number of years so as to find a trend as to whether the profitability of the company is improving or otherwise.

The trend over the past four years indicate the return on equity for AG has been inconsistent with fairly large decreases in 2005 and 2007. The decrease in 2005 is due to lower trading profits being recognised compared to 2004 and 2006 while costs increased at a constant basis and equity remaining relatively flat over the period. The negative return in 2007 is due to the main profit driver for that year being an extraordinary item which is excluded from the return. The item relates to surplus profits on the sale of an asset. Apart from 2004 AG's return has been lower than the industry average which indicates that they have not been as successful in utilising their equity financing to produce income.

The inclusion of accumulated depreciation and deferred taxes in equity causes the return to decrease slightly. This indicates that AG is overstating returns on equity by not including the impact of accumulated depreciation on capital structure, as these are associated costs of earning the returns from assets used by the company.



Company:
Industry:

Allied technologies
Mobile telecommunication

Ratio Type **Quick ratio**

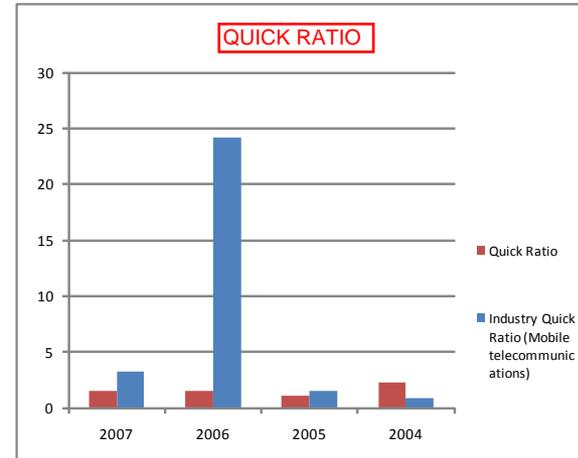
Balance sheet components	2007	2006	2005	2004
Total current assets	2,240,000	2,326,000	1,678,000	2,123,000
Total inventory	400,000	290,000	285,000	252,000
Total current liabilities	1,245,000	1,371,000	1,264,000	814,000

Ratio	Formula	2007	2006	2005	2004	Comments
Quick Ratio	$\frac{((\text{Total Current Assets}) - (\text{Total Inventory}))}{(\text{Total Current Liabilities})}$	1.48	1.49	1.1	2.3	To measure the liquidity of a company's short term assets relative to its short term liabilities
Industry Quick Ratio (Mobile telecommunications)		3.29	24.19	1.56	0.88	

Summary

The quick ratio is a measure of a company's ability to pay short term debt obligation as they become due. The quick ratio excludes the effect of inventory. A ratio of 1:1 is considered adequate but a higher or lower ratio doesn't necessarily imply a company is better or worse off.

Allied Tech's quick ratio declined from 2004 to 2005 but then levelled out in 2006 and 2007. The decline in 2005 can be explained by the larger proportionate increase in creditors and decrease in short term advances in 2005. The ratio indicates that current assets to liabilities is at least higher than a 1:1 ratio which indicates that Allied Tech should be able to meeting short term settlements as they become due. The ratio is lower than the industry average which indicates that compared to its peers, Allied Tech is not as liquid as its peers in the industry. Looking at the financial statements provided in the appendices it can be seen that short term advances and cash in bank make up a large portion of short term assets. It indicates that Allied Tech does have ready money to aid in the payment of short term liabilities. The short term liability section comprises predominantly creditors. The average industry ratio indicates that peer groups in this sector has better quick ratios than Allied Tech but Allied has a short term assets in the form of advances and cash which can be more easily used to pay liabilities.



Ratio Type **Debt/Assets**

Balance sheet components	2007	2006	2005	2004
Total long term loan capital	30,000	30,000	100,000	48,000
Total current liabilities	1,245,000	1,371,000	1,264,000	814,000
Total assets	2,500,000	2,605,000	2,204,000	2,244,000

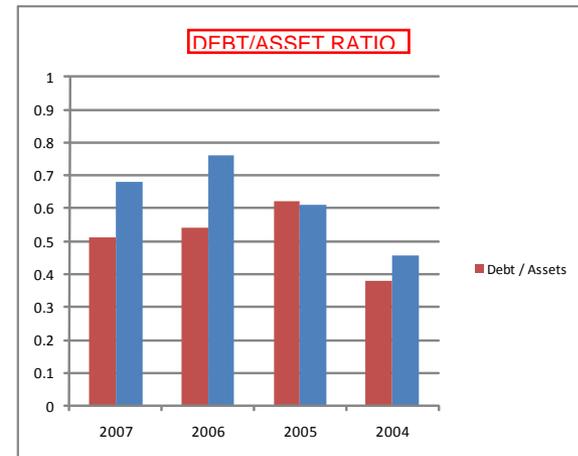
Ratio	Formula	2007	2006	2005	2004	Comments
Debt / Assets	$\frac{((\text{Total Long Term Loan Capital}) + (\text{Total Current Liabilities}))}{(\text{Total Assets})}$	0.51	0.54	0.62	0.38	To measure the level of debt in comparison to total assets as indication of financing mix
Industry Debt / Assets (Mobile telecommunications)		0.68	0.76	0.61	0.455	

Summary

The debt-asset ratio gives an indication as to how a company finances its assets. A ratio close to one indicates that a company uses predominantly debt rather than equity as the preferred method of financing.

Allied Tech's debt to asset ratio has been consistently downward trending over the past three years apart from an increase in 2005. It indicates that Allied Tech uses predominantly debt to finance its assets. Compared to the industry average Allied Tech uses less debt financing than peers in the market with the industry average indicating levels of 60/40 split between debt and equity financing. This indicates that compared to its peers Allied Tech is not as heavily geared. It can also be seen from the above information that current liabilities make up a large proportion of total debt. From the financial statements included in the appendices the current liabilities of AG over the period has been consistently made up of creditors. On the asset side short term assets comprises most of total assets while fixed assets make up a smaller portion. This is also reflected in the funding mix that indicates Allied Tech utilises predominantly short term debt financing to fund its assets.

Also from the information provided later on in the cost of capital calculation section it can be seen that the cost of debt seems to be increasing and even surpassing the cost of equity financing which can indicate the reason as to why Allied Tech has been deleveraging itself over the past few years.



Ratio Type Debt/Equity

Balance sheet components	2007	2006	2005	2004
Total owners interest	1,164,000	1,115,000	748,000	1,386,000
Total current liabilities	1,245,000	1,371,000	1,264,000	814,000
Total long term loan capital	30,000	30,000	100,000	48,000
Accumulated depreciation	426,000	420,000	349,000	161,000
Deferred taxes (60% non-reversing)				

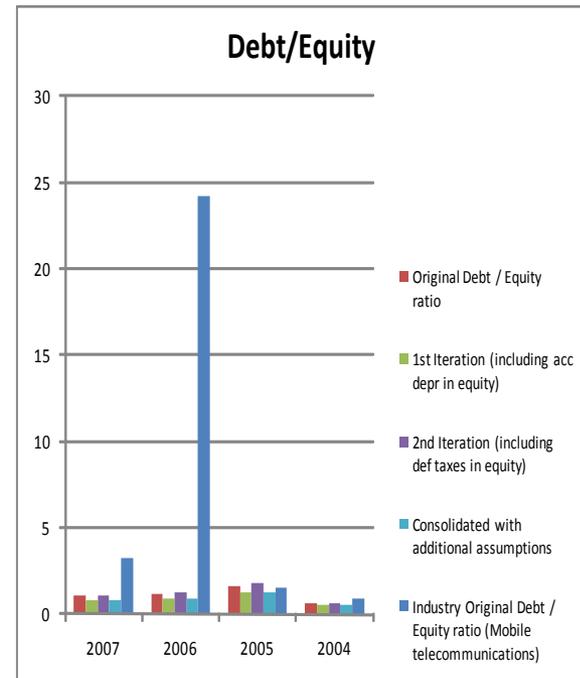
Ratio	Formula	2007	2006	2005	2004	Comments
Original Debt / Equity ratio	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})}$	1.04	1.16	1.62	0.62	Debt to equity ratio indicates the proportionate claims of owners and creditors against the firm's assets.
Industry Original Debt / Equity ratio (Mobile telecommunications)		3.29	24.19	1.56	0.88	
1st Iteration (including acc depr in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest}+(\text{Accumulated depreciation}))}$	0.80	0.91	1.24	0.56	The formula is expanded to add accumulated depr to owners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest}+(\text{Deferred taxes}))}$	1.10	1.26	1.82	0.62	The formula is expanded to add 60% of deferred taxes to owners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest}+(\text{Accumulated depreciation}+(\text{Deferred taxes}))}$	0.80	0.91	1.24	0.56	The formula is expanded to add 60% of deferred taxes and accumulated depr to owners interest in the denominator

Summary

The debt to equity ratio indicates the proportionate claims of owners and outside funders against the company's assets. The purpose is to get an idea of the cushion available to outsiders on the liquidation of the firm. A ratio of 1:1 is usually considered to be satisfactory ratio although there cannot be rule of thumb or standard norm for all types of businesses. Theoretically if the owners interests are greater than that of creditors, the financial position is highly solvent.

The debt-equity ratio of Allied tech increased in 2005 but decreased over the other three years indicating that Allied tech has deleveraged itself through by increasing the levels of equity financing. The ratio indicates that Allied tech still utilises more debt than equity financing but is narrowing the gap by increasing its equity financing and decreasing its debt portion. Compared to the industry average Allied tech seems to be less geared than its peers. From the above information it can also be seen that Allied tech uses a mix of short term debt financing and equity financing. The short term debt financing comprises mainly creditors while equity comprises mainly distributable reserves.

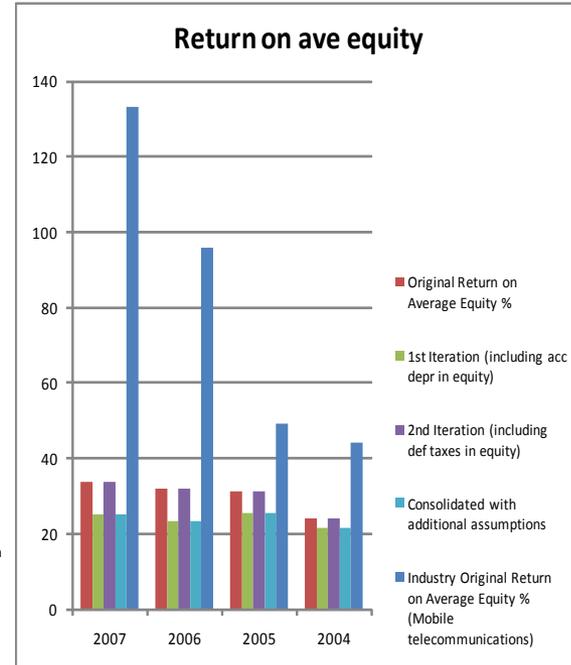
The debt equity ratio is also used to analyse the impact of the items discussed in chapter six that influence the debt/equity mix. Compound and hybrid instruments are already included in the total owners interest and long term loan capital. The two items remaining are deferred taxes and accumulated depreciation. If these items are included in equity, as motivated in chapter six, it will reduce the debt-equity ratio of Allied tech as shown above. This implies that the company's leverage ratio will decrease.



Ratio Type Return on ave equity

Balance sheet components	2007	2006	2005	2004
Profit after taxation	396,000	396,000	349,000	315,000
Total profits extraordinary nature	-13,000	69,000	2,000	1,000
Total ow ners interest	1,225,000	1,204,000	840,000	1,382,000
Total ow ners interest previous	1,204,000	840,000	1,382,000	1,238,285
Accumulated depreciation	426,000	420,000	349,000	161,000
Deferred taxes (60% non-reversing)	-	-	-	-
Accumulated depreciation - previous	420,000	349,000	161,000	137,299
Deferred taxes (60% non-reversing) -previous	-	-	-	-

Ratio	Formula	2007	2006	2005	2004	Comments
Original Return on Average Equity %	$\frac{((\text{Profit After Taxation}) - (\text{Total Profits Extraordinary Nature}))}{((\text{Total Ow ners Interest}) + ((\text{Total Ow ners Interest previous}))/2)} * 100$	33.68	32	31.23	23.97	The return on average equity is a measure of performance. It indicates how well the management has used the investment made by ow ners into the business
Industry Original Return on Average Equity % (Mobile telecommunications)		133.28	95.80	49.18	44.15	
1st Iteration (including acc depr in equity)	$\frac{((\text{Profit After Taxation}) - (\text{Total Profits Extraordinary Nature}))}{((\text{Total Ow ners Interest}) + (\text{Accumulated depreciation}) + (\text{Total Ow ners Interest previous} + \text{Accumulated depreciation previous}))/2)} * 100$	24.98	23.25	25.40	21.52	The formula is expanded to add accumulated depr to ow ners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Profit After Taxation}) - (\text{Total Profits Extraordinary Nature}))}{((\text{Total Ow ners Interest}) + (\text{Deferred taxes}) + (\text{Total Ow ners Interest previous} + \text{Deferred taxes previous}))/2)} * 100$	33.68	32.00	31.23	23.97	The formula is expanded to add 60% of deferred taxes to ow ners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Profit After Taxation}) - (\text{Total Profits Extraordinary Nature}))}{((\text{Total Ow ners Interest}) + (\text{Accumulated depreciation}) + (\text{Deferred taxes}) + (\text{Total Ow ners Interest previous} + \text{Accumulated depreciation previous} + \text{Deferred taxes previous}))/2)} * 100$	24.98	23.25	25.40	21.52	The formula is expanded to add 60% of deferred taxes and accumulated depr to ow ners interest in the denominator



Summary

The return on average equity indicates how well the management has used the investment made by ow ners into the business. The primary objective of business is to earn profit and a higher return on average equity indicates that the firm is using its equity funds more efficiently. The ratio can be found for a number of years so as to find a trend as to whether the profitability of the company is improving or otherwise.

The trend over the past four years indicate the return on equity for Allied tech has fairly been increasing. The can be seen through a fairly consistent increase in net profits over the period. Allied tech's returns has been lower than the industry average which could indicate that they have not been as successful in utilising their equity financing in the most efficient manner that will result in higher levels of income being produced. Although a return of 30% does indicate a fairly decent return and that there might be some bias in the industry average caused by an outlier.

The inclusion of accumulated depreciation (Allied tech has no deferred taxes) in equity causes the return to decrease. This indicates that Allied tech is overstating returns on equity by not including the impact of accumulated depreciation on capital structure, as these are associated costs of earning the returns from assets used by the company.

Company:
Industry:

Argent Industrial
Diversified Industrials

Ratio Type **Quick ratio**

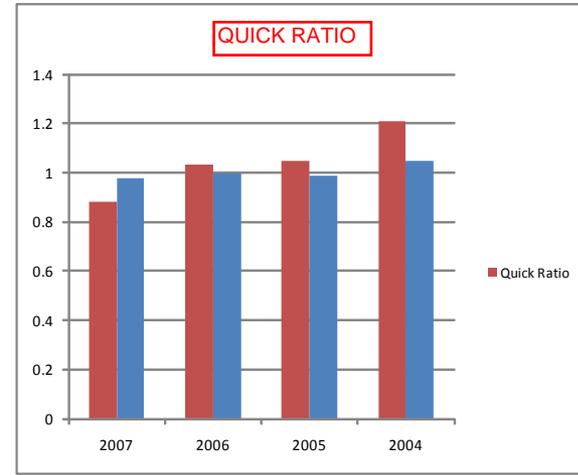
Balance sheet components	2007	2006	2005	2004
Total current assets	634,629	488,824	410,105	265,616
Total inventory	332,618	233,324	199,466	96,481
Total current liabilities	344,795	247,505	200,567	139,382

Ratio	Formula	2007	2006	2005	2004	Comments
Quick Ratio	$((\text{Total Current Assets}) - (\text{Total Inventory})) / (\text{Total Current Liabilities})$	0.88	1.03	1.05	1.21	To measure the liquidity of a company's short term assets relative to its short term liabilities
Industry Quick Ratio (Diversified industrials)		0.98	1.00	0.99	1.05	

Summary

The quick ratio is a measure of a company's ability to pay short term debt obligation as they become due. The quick ratio excludes the effect of inventory. A ratio of 1:1 is considered adequate but a higher or lower ratio doesn't necessarily imply a company is better or worse off.

Argent's quick ratio has declined over the past four years. The decline can be explained by the larger proportionate increase in creditors than debtors. The ratio is fairly similar to the industry average which indicates that Argent has sufficient short term assets to cover short term liabilities although Argent might run into liquidity constraints if all short term liabilities become due and payable at the same time. Looking at the financial statements included in the appendices it can be seen that debtors make up a large portion of short term assets. It indicates that Argent is dependent on its cash conversion cycle and the frequency of debtors paying in order to meet the settlement of short term liabilities. The short term liability section comprises predominantly creditors. The average industry ratio indicates that peer groups in this sector has similar quick ratios to Argent and that if there's a liquidity crisis then the entire industry will face similar challenges. The liquidity position can be improved by actively managing and collecting outstanding debtor accounts.



Ratio Type **Debt/Assets**

Balance sheet components	2007	2006	2005	2004
Total long term loan capital	111,442	91,677	51,927	47,423
Total current liabilities	344,795	247,505	200,567	139,382
Total assets	1,112,427	846,175	616,963	424,274

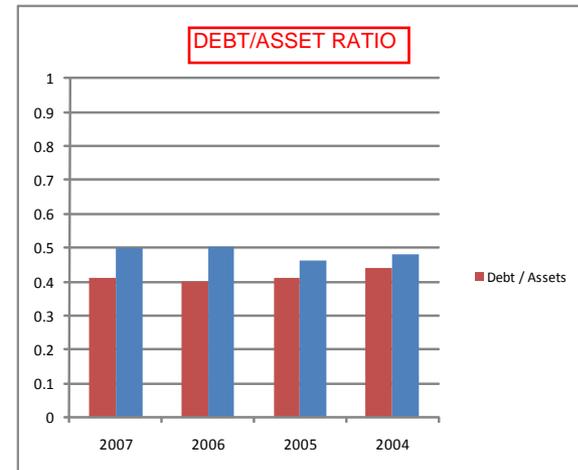
Ratio	Formula	2007	2006	2005	2004	Comments
Debt / Assets	$((\text{Total Long Term Loan Capital}) + (\text{Total Current Liabilities})) / (\text{Total Assets})$	0.41	0.4	0.41	0.44	To measure the level of debt in comparison to total assets as indication of financing mix
Industry Debt / Assets (Diversified industrials)		0.50	0.50	0.46	0.48	

Summary

The debt-asset ratio gives an indication as to how a company finances its assets. A ratio close to one indicates that a company uses predominantly debt rather than equity as the preferred method of financing.

Argent's debt to asset ratio has been fairly consistent over the past four years at a level of 0.4. It indicates that Argent uses predominantly equity to finance its assets. Compared to the industry average Argent uses less debt financing than peers in the market with the industry average of 0.5 indicating similar levels of both debt and equity being utilised. This indicates that compared to its peers Argent is not as heavily geared. It can also be seen from the above information that current liabilities make up a fairly large proportion of total debt. From the financial statements included in the appendices the current liabilities of Argent over the period has been consistently made up of creditors. On the asset side there is about a 60/40 split between fixed assets and short term assets. This is also reflected in the funding mix that indicates Argent utilises a 60/40 equity to debt funding ratio to fund its assets.

Also from the information provided later on in the cost of capital calculation section it can be seen that the cost of debt was higher in certain years than the cost of equity which could provide some insight as to the funding mix of Argent.



Ratio Type Debt/Equity

Balance sheet components	2007	2006	2005	2004
Total owners interest	656,190	506,993	364,469	237,469
Total current liabilities	344,795	247,505	200,567	139,382
Total long term loan capital	111,442	91,677	51,927	47,423
Accumulated depreciation	91,596	75,941	55,952	44,401
Deferred taxes (60% non-reversing)	26,838	25,591	8,200	6,052

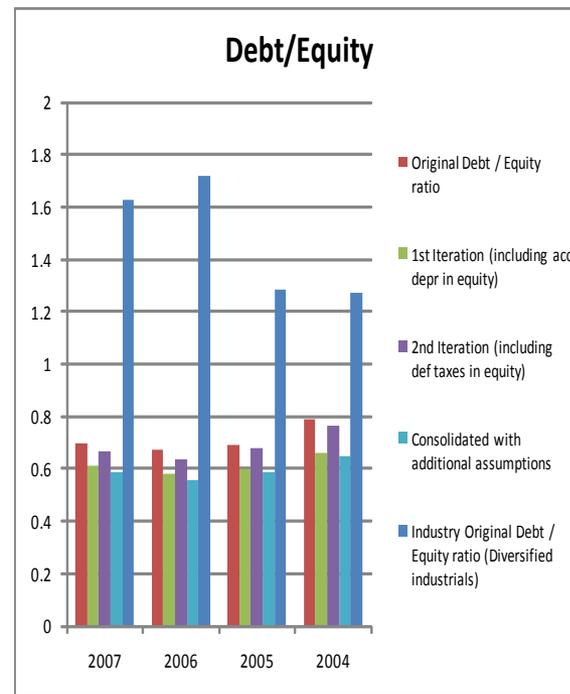
Ratio	Formula	2007	2006	2005	2004	Comments
Original Debt / Equity ratio	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})}$	0.7	0.67	0.69	0.79	Debt to equity ratio indicates the proportionate claims of owners and creditors against the firm's assets.
Industry Original Debt / Equity ratio (Diversified industrials)		1.63	1.72	1.28	1.27	
1st Iteration (including acc depr in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})}$	0.61	0.58	0.60	0.66	The formula is expanded to add accumulated depr to owners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Deferred taxes})}$	0.67	0.64	0.68	0.77	The formula is expanded to add 60% of deferred taxes to owners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})+(\text{Deferred taxes})}$	0.59	0.56	0.59	0.65	The formula is expanded to add 60% of deferred taxes and accumulated depr to owners interest in the denominator

Summary

The debt to equity ratio indicates the proportionate claims of owners and outside funders against the company's assets. The purpose is to get an idea of the cushion available to outsiders on the liquidation of the firm. A ratio of 1:1 is usually considered to be satisfactory ratio although there cannot be rule of thumb or standard norm for all types of businesses. Theoretically if the owners interests are greater than that of creditors, the financial position is highly solvent.

The debt-equity ratio of Argent have been fairly consistent at a level of between 0.6 and 0.7 over the past four years. The ratio indicates that Argent utilises more equity than debt financing and is fairly solvent. Compared to the industry average Argent seems to be far less geared than its peers. From the above information it can also be seen that Argent uses a mix of short term debt and equity financing. The short term debt financing comprises mainly creditors while equity comprises mainly distributable reserves.

The debt equity ratio is also used to analyse the impact of the items discussed in chapter six that influence the debt/equity mix. Compound and hybrid instruments are already included in the total owners interest and long term loan capital. The two items remaining are deferred taxes and accumulated depreciation. If these items are included in equity, as motivated in chapter six, it will reduce the debt-equity ratio of Argent as shown above. This implies that the company's leverage ratio will decrease.



Ratio Type Return on ave equity

Balance sheet components	2007	2006	2005	2004
Profit after taxation	161,896	116,433	88,265	66,260
Total profits extraordinary nature	24,437	-769	1,057	-3,086
Total ow ners interest	656,190	506,993	364,469	237,469
Total ow ners interest previous	506,993	364,469	237,469	184,127
Accumulated depreciation	91,596	75,941	55,952	44,401
Deferred taxes (60% non-reversing)	26,838	25,591	8,200	6,052
Accumulated depreciation - previous	75,941	55,952	44,401	37,938
Deferred taxes (60% non-reversing) -previous	25,591	8,200	6,052	3,950

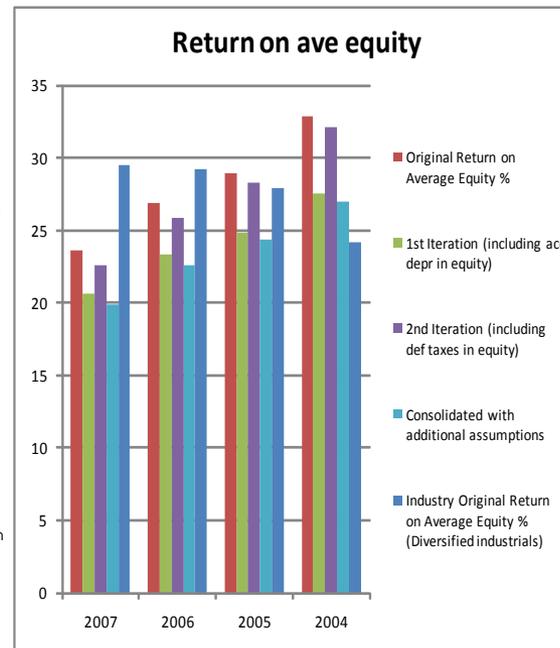
Ratio	Formula	2007	2006	2005	2004	Comments
Original Return on Average Equity %	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature})) / ((\text{Total Ow ners Interest}) + ((\text{Total Ow ners Interest previous}))) / 2) * 100$	23.64	26.9	28.98	32.9	The return on average equity is a measure of performance. It indicates how well the management has used the investment made by ow ners into the business
Industry Original Return on Average Equity % (Diversified industrials)		29.47	29.22	27.92	24.20	
1st Iteration (including acc depr in equity)	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature})) / ((\text{Total Ow ners Interest}) + (\text{Accumulated depreciation}) + (\text{Total Ow ners Interest previous} + \text{Accumulated depreciation previous}))) / 2) * 100$	20.66	23.36	24.84	27.52	The formula is expanded to add accumulated depr to ow ners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature})) / ((\text{Total Ow ners Interest}) + (\text{Deferred taxes}) + (\text{Total Ow ners Interest previous} + \text{Deferred taxes previous}))) / 2) * 100$	22.62	25.89	28.31	32.13	The formula is expanded to add 60% of deferred taxes to ow ners interest in the denominator
Consolidated w ith additional assumptions	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature})) / ((\text{Total Ow ners Interest}) + (\text{Accumulated depreciation}) + (\text{Deferred taxes}) + (\text{Total Ow ners Interest previous} + \text{Accumulated depreciation previous} + \text{Deferred taxes previous}))) / 2) * 100$	19.88	22.60	24.34	26.99	The formula is expanded to add 60% of deferred taxes and accumulated depr to ow ners interest in the denominator

Summary

The return on average equity indicates how well the management has used the investment made by ow ners into the business. The primary objective of business is to earn profit and a higher return on average equity indicates that the firm is using its equity funds more efficiently. The ratio can be found for a number of years so as to find a trend as to whether the profitability of the company is improving or otherwise.

The trend over the past four years indicate the return on equity for Argent have been decreasing. This can be seen through the fairly consistent increase in net profits over the period that is offset by the steady increase in shareholders equity. Argent's returns surpassed the industry in 2004 and 2005 but was below the industry in 2006 and 2007 which could indicate that they have not been as successful in utilising their equity financing in producing higher levels of income. Although a return in excess of 20% does indicate a fairly decent return and it could be that there might be some bias in the industry average caused by an outlier.

The inclusion of accumulated depreciation and deferred taxes in equity causes the return to decrease. This indicates that Argent is overstating returns on equity by not including the impact of accumulated depreciation on capital structure, as these are associated costs of earning the returns from assets used by the company.



Company:
Industry:

Barloworld
Diversified Industrials

Ratio Type **Quick ratio**

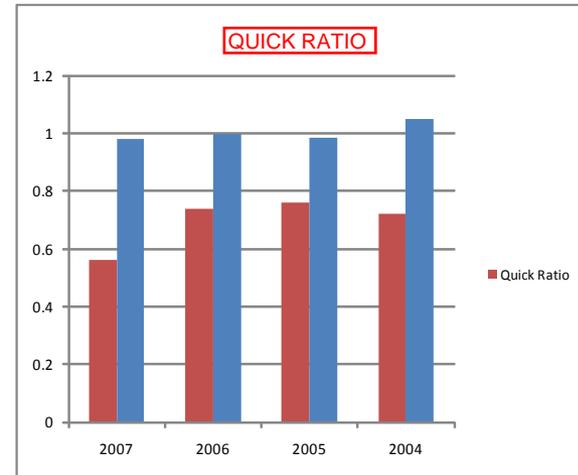
Balance sheet components	2007	2006	2005	2004
Total current assets	13,759,000	16,476,000	11,981,000	11,843,000
Total inventory	6,100,000	5,907,000	4,825,000	5,134,000
Total current liabilities	13,783,000	14,260,000	9,417,000	9,296,000

Ratio	Formula	2007	2006	2005	2004	Comments
Quick Ratio	$\frac{((\text{Total Current Assets}) - (\text{Total Inventory}))}{(\text{Total Current Liabilities})}$	0.56	0.74	0.76	0.72	To measure the liquidity of a company's short term assets relative to its short term liabilities
Industry Quick Ratio (Diversified industrials)		0.98	1.00	0.99	1.05	

Summary

The quick ratio is a measure of a company's ability to pay short term debt obligation as they become due. The quick ratio excludes the effect of inventory. A ratio of 1:1 is considered adequate but a higher or lower ratio doesn't necessarily imply a company is better or worse off.

Barloworld's quick ratio has been fairly consistent from 2004 to 2006 but then declined in 2007. The decline in 2007 can be explained by the larger proportionate increase in bank overdrafts to short term assets. The ratio is consistently lower than the industry average which indicates that Barloworld might run into liquidity concerns if all short term liabilities become payable at once. Looking at the financial statements included in Appendix A it can be seen that debtors make up a large portion of short term assets. It indicates that Barloworld is dependent on their cash conversion cycle and the frequency of debtors paying in order to meet the settlement of short term liabilities. The short term liability section comprises mainly of creditors, bank overdraft and short term borrowings. The average industry ratio indicates that peer groups in this sector has higher quick ratios to Barloworld. The liquidity position can be improved by actively managing and collecting outstanding debtor accounts.



Ratio Type **Debt/Assets**

Balance sheet components	2007	2006	2005	2004
Total long term loan capital	5,417,000	7,050,000	6,197,000	6,099,000
Total current liabilities	13,783,000	14,260,000	9,417,000	9,296,000
Total assets	27,415,000	31,559,000	25,272,000	24,636,000

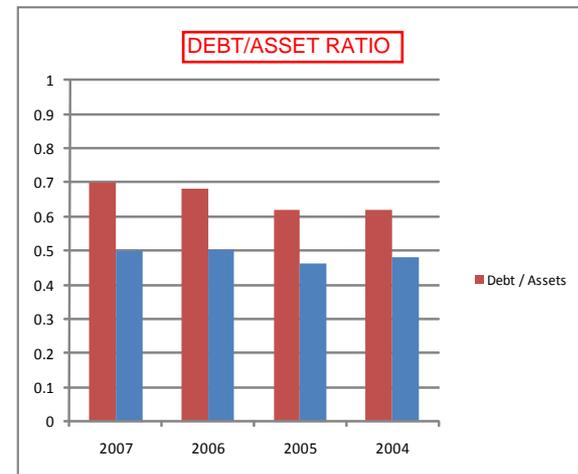
Ratio	Formula	2007	2006	2005	2004	Comments
Debt / Assets	$\frac{((\text{Total Long Term Loan Capital}) + (\text{Total Current Liabilities}))}{(\text{Total Assets})}$	0.7	0.68	0.62	0.62	To measure the level of debt in comparison to total assets as indication of financing mix
Industry Debt / Assets (Diversified industrials)		0.50	0.50	0.46	0.48	

Summary

The debt-asset ratio gives an indication as to how a company finances its assets. A ratio close to one indicates that a company uses predominantly debt rather than equity as the preferred method of financing.

Barloworld's debt to asset ratio has been increasing over the past four years. It indicates that Barloworld uses predominantly debt to finance its assets. Compared to the industry average Barloworld uses more debt financing than peers in the market with the industry average of 0.5 indicating similar levels of both debt and equity being utilised. This indicates that compared to its peers Barloworld is more geared. It can also be seen from the information above that current liabilities make up a fairly large proportion of total debt. From the financial statements included in the appendices the current liabilities of Barloworld over the period has been consistently made up of creditors, bank overdrafts and short term borrowings. On the asset side there is about a 50/50 split between fixed assets and short term assets. The funding mix indicate that debt is predominantly used to fund its assets.

Also from the information provided later on in the cost of capital calculation section it can be seen that the cost of debt is less than the cost of equity for Barloworld which might point to a motivation for utilising more debt funding.



Ratio Type Debt/Equity

Balance sheet components	2007	2006	2005	2004
Total owners interest	8,215,000	10,249,000	9,658,000	9,241,000
Total current liabilities	13,783,000	14,260,000	9,417,000	9,296,000
Total long term loan capital	5,417,000	7,050,000	6,197,000	6,099,000
Accumulated depreciation	5,417,000	7,413,000	6,415,000	6,071,000
Deferred taxes (60% non-reversing)	-	-	-	-

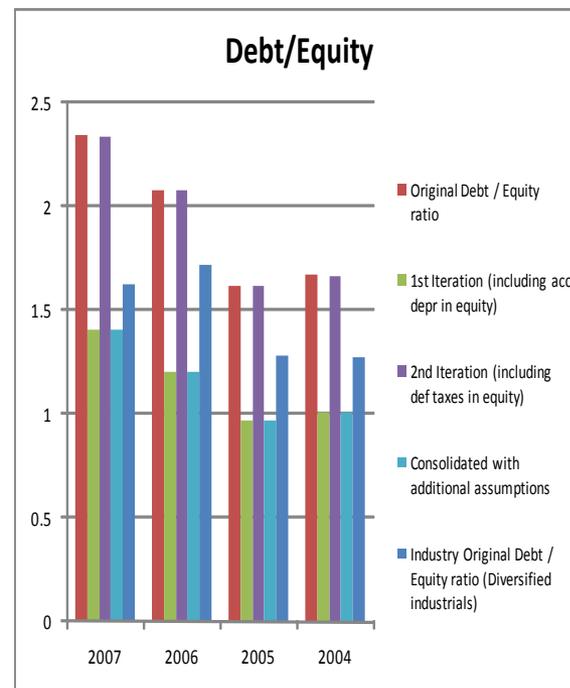
Ratio	Formula	2007	2006	2005	2004	Comments
Original Debt / Equity ratio	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})}$	2.34	2.08	1.62	1.67	Debt to equity ratio indicates the proportionate claims of owners and creditors against the firm's assets.
Industry Original Debt / Equity ratio (Diversified industrials)		1.63	1.72	1.28	1.27	
1st Iteration (including acc depr in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})}$	1.41	1.21	0.97	1.01	The formula is expanded to add accumulated depr to owners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Deferred taxes})}$	2.34	2.08	1.62	1.67	The formula is expanded to add 60% of deferred taxes to owners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})+(\text{Deferred taxes})}$	1.41	1.21	0.97	1.01	The formula is expanded to add 60% of deferred taxes and accumulated depr to owners interest in the denominator

Summary

The debt to equity ratio indicates the proportionate claims of owners and outside funders against the company's assets. The purpose is to get an idea of the cushion available to outsiders on the liquidation of the firm. A ratio of 1:1 is usually considered to be satisfactory ratio although there cannot be rule of thumb or standard norm for all types of businesses. Theoretically if the owners interests are greater than that of creditors, the financial position is highly solvent.

The debt-equity ratio of Barloworld have been increasing over the past four years. The ratio indicates that Barloworld utilises more debt than equity financing. Compared to the industry average Barloworld seems to be more geared than its peers. From the above information it can also be seen that Barloworld uses a mix of predominantly short term debt financing. The short term debt financing comprises mainly creditors, bank overdrafts and short term borrowings.

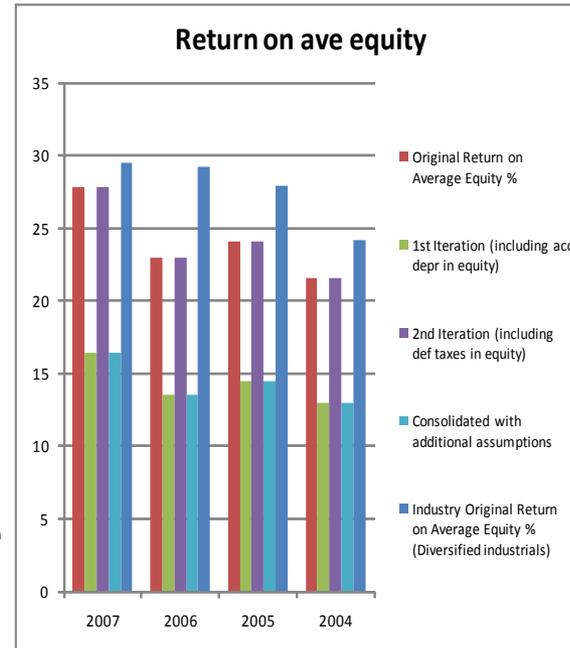
The debt equity ratio is also used to analyse the impact of the items discussed in chapter six that influence the debt/equity mix. Compound and hybrid instruments are already included in the total owners interest and long term loan capital. The two items remaining are deferred taxes and accumulated depreciation. If these items are included in equity, as motivated in chapter six, it will reduce the debt-equity ratio of Barloworld as shown above. This implies that the company's leverage ratio will decrease due to the inclusion of accumulated depreciation.



Ratio Type Return on ave equity

Balance sheet components	2007	2006	2005	2004
Profit after taxation	2,784,000	2,731,000	2,055,000	2,065,045
Total profits extraordinary nature	214,000	448,000	-220,000	142,000
Total owners interest	8,215,000	10,249,000	9,658,000	9,241,000
Total owners interest previous	10,249,000	9,658,000	9,241,000	8,592,000
Accumulated depreciation	5,417,000	7,413,000	6,415,000	6,071,000
Deferred taxes (60% non-reversing)	-	-	-	-
Accumulated depreciation - previous	7,413,000	6,415,000	6,071,000	5,761,000
Deferred taxes (60% non-reversing) -previous	-	-	-	-

Ratio	Formula	2007	2006	2005	2004	Comments
Original Return on Average Equity %	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature})) / ((\text{Total Owners Interest}) + ((\text{Total Owners Interest previous})) / 2) * 100}$	27.84	22.94	24.08	21.57	The return on average equity is a measure of performance. It indicates how well the management has used the investment made by owners into the business
Industry Original Return on Average Equity % (Diversified industrials)		29.47	29.22	27.92	24.20	
1st Iteration (including acc depr in equity)	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature})) / ((\text{Total Owners Interest}) + (\text{Accumulated depreciation}) + (\text{Total Owners Interest previous} + \text{Accumulated depreciation previous}) / 2) * 100}$	16.42	13.53	14.50	12.97	The formula is expanded to add accumulated depr to owners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature})) / ((\text{Total Owners Interest}) + (\text{Deferred taxes}) + (\text{Total Owners Interest previous} + \text{Deferred taxes previous}) / 2) * 100}$	27.84	22.94	24.08	21.57	The formula is expanded to add 60% of deferred taxes to owners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature})) / ((\text{Total Owners Interest}) + (\text{Accumulated depreciation}) + (\text{Deferred taxes}) + (\text{Total Owners Interest previous} + \text{Accumulated depreciation previous} + \text{Deferred taxes previous}) / 2) * 100}$	16.42	13.53	14.50	12.97	The formula is expanded to add 60% of deferred taxes and accumulated depr to owners interest in the denominator



Summary

The return on average equity indicates how well the management has used the investment made by owners into the business. The primary objective of business is to earn profit and a higher return on average equity indicates that the firm is using its equity funds more efficiently. The ratio can be found for a number of years so as to find a trend as to whether the profitability of the company is improving or otherwise.

The trend over the past four years indicate the return on equity for Barloworld has been increasing except for a decrease in 2006. The decrease in 2006 can be explained by a fairly large amount of extraordinary profits due to the sale of an investment and asset while shareholders equity increased in 2006. Barloworld's returns have been consistently below the industry returns which could indicate that they have not been as successful in utilising their equity financing in an efficient manner which will result in higher levels of income being produced. Although a return in excess of 20% does indicate a fairly decent return and also the return is not much lower than industry average. There might be some bias in the industry average caused by an outlier.

The inclusion of accumulated depreciation and deferred taxes in equity causes the return to decrease. This indicates that Barloworld is overstating returns on equity by not including the impact of accumulated depreciation on capital structure, as these are associated costs of earning the returns from assets used by the company.

Company: Barnard Jacobs Mellet Holdings
Industry: Investment services

Ratio Type Quick ratio

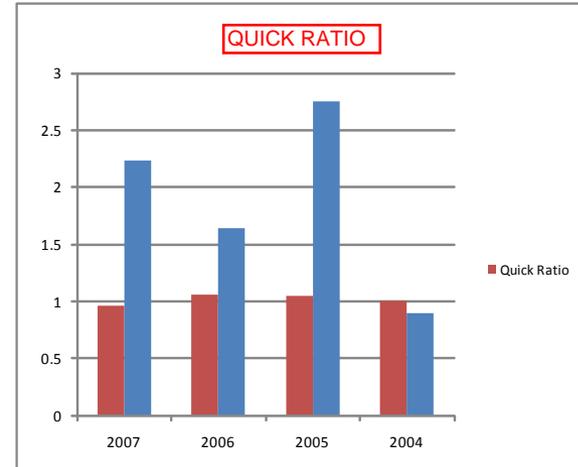
Balance sheet components	2007	2006	2005	2004
Total current assets	5,812,098	4,092,331	2,751,971	2,551,395
Total inventory	-	-	-	-
Total current liabilities	6,068,377	3,852,291	2,616,431	2,544,519

Ratio	Formula	2007	2006	2005	2004	Comments
Quick Ratio	$\frac{((\text{Total Current Assets}) - (\text{Total Inventory}))}{(\text{Total Current Liabilities})}$	0.96	1.06	1.05	1	To measure the liquidity of a company's short term assets relative to its short term liabilities
Industry Quick Ratio (Investment services)		2.23	1.64	2.75	0.90	

Summary

The quick ratio is a measure of a company's ability to pay short term debt obligation as they become due. The quick ratio excludes the effect of inventory. A ratio of 1:1 is considered adequate but a higher or lower ratio doesn't necessarily imply a company is better or worse off.

Barnard Jacob's quick ratio has been fairly consistent over the past four years at a level of around 1, which indicates that they have enough current assets to cover current liabilities. The ratio from 2005 onwards is lower than the industry average which indicates that Barnard Jacob might run into liquidity concerns if all short term liabilities become payable at once. Looking at the financial statements included in the appendices it can be seen that debtors make up a large portion of short term assets. It indicates that Barnard Jacobs is dependent on its cash conversion cycle and the frequency of debtors paying in order to meet the settlement of short term liabilities. The short term liability section comprises mainly of creditors. The average industry ratio indicates that peer groups in this sector has higher quick ratios to Barnard Jacob. The liquidity position can be improved by actively managing and collecting outstanding debtor accounts.



Ratio Type Debt/Assets

Balance sheet components	2007	2006	2005	2004
Total long term loan capital	3,239	-	-	61,529
Total current liabilities	6,068,377	3,852,291	2,616,431	2,544,519
Total assets	6,370,829	4,141,099	3,007,764	2,982,125

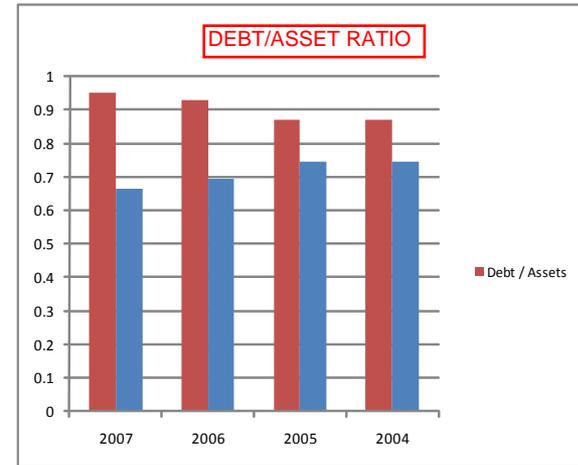
Ratio	Formula	2007	2006	2005	2004	Comments
Debt / Assets	$\frac{((\text{Total Long Term Loan Capital}) + (\text{Total Current Liabilities}))}{(\text{Total Assets})}$	0.95	0.93	0.87	0.87	To measure the level of debt in comparison to total assets as indication of financing mix
Industry Debt / Assets (Investment services)		0.66	0.70	0.74	0.74	

Summary

The debt-asset ratio gives an indication as to how a company finances its assets. A ratio close to one indicates that a company uses predominantly debt rather than equity as the preferred method of financing.

Barnard Jacob's debt to asset ratio has been increasing over the past four years. It indicates that Barnard Jacobs uses predominantly debt to finance its assets. Compared to the industry average Barnard Jacobs uses significantly more debt financing than peers in the market with the industry average declining from levels of around 0.7 to 0.6 over the past four years. This indicates that the industry as a whole utilises more debt than equity financing. This indicates that compared to its peers Barnard Jacobs is heavily geared. It can also be seen from the above information that current liabilities make up the largest proportion of total debt. From the financial statements included in the appendices the current liabilities of Barloworld over the period has been consistently made up of creditors. The assets consist mainly of short term assets with a small amount of fixed assets on the balance sheet. The funding mix indicates that short term debt is predominantly used to fund its assets which are also of a short term nature.

Also from the information provided later on in the cost of capital calculation section it can be seen that the cost of debt is less than the cost of equity for Barnard Jacobs which might point to a motivation for utilising more debt funding.



Ratio Type Debt/Equity

Balance sheet components	2007	2006	2005	2004
Total owners interest	299,213	288,808	391,333	376,077
Total current liabilities	6,068,377	3,852,291	2,616,431	2,544,519
Total long term loan capital	3,239	-	-	61,529
Accumulated depreciation	14,451	15,260	15,595	14,587
Deferred taxes (60% non-reversing)	-	-	-	-

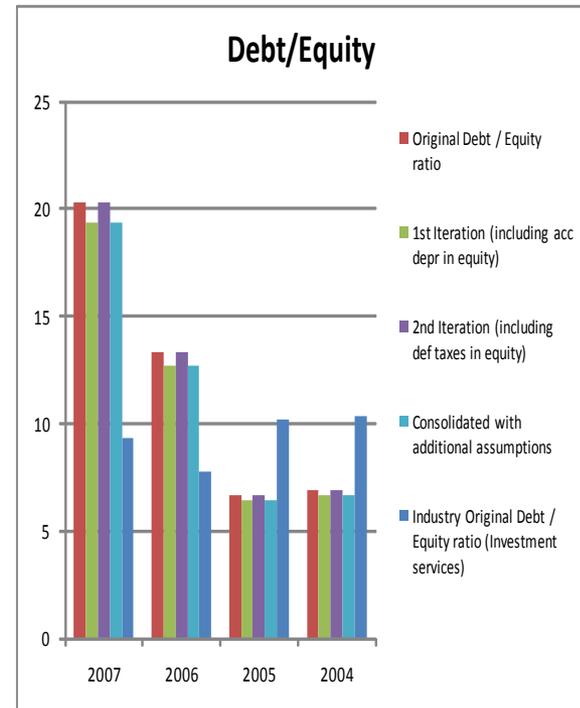
Ratio	Formula	2007	2006	2005	2004	Comments
Original Debt / Equity ratio	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})}$	20.29	13.34	6.69	6.93	Debt to equity ratio indicates the proportionate claims of owners and creditors against the firm's assets.
Industry Original Debt / Equity ratio (Investment services)		9.33	7.74	10.22	10.34	
1st Iteration (including acc depr in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})}$	19.36	12.67	6.43	6.67	The formula is expanded to add accumulated depr to owners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Deferred taxes})}$	20.29	13.34	6.69	6.93	The formula is expanded to add 60% of deferred taxes to owners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})+(\text{Deferred taxes})}$	19.36	12.67	6.43	6.67	The formula is expanded to add 60% of deferred taxes and accumulated depr to owners interest in the denominator

Summary

The debt to equity ratio indicates the proportionate claims of owners and outside funders against the company's assets. The purpose is to get an idea of the cushion available to outsiders on the liquidation of the firm. A ratio of 1:1 is usually considered to be satisfactory ratio although there cannot be rule of thumb or standard norm for all types of businesses. Theoretically if the owners interests are greater than that of creditors, the financial position is highly solvent.

The debt-equity ratio of Barnard Jacobs have been increasing over the past four years. The ratio indicates that Barnard Jacobs utilises more debt than equity financing. Compared to the industry average Barnard Jacobs seems to be overly geared. From the above information it can also be seen that Barnard Jacob's uses a mix of predominantly short term debt financing. The short term debt financing comprises mainly creditors.

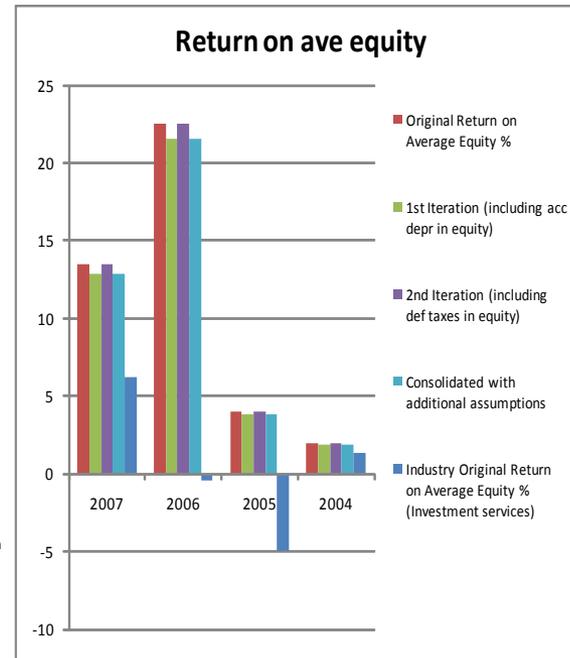
The debt equity ratio is also used to analyse the impact of the items discussed in chapter six that influence the debt/equity mix. Compound and hybrid instruments are already included in the total owners interest and long term loan capital. The two items remaining are deferred taxes and accumulated depreciation. If these items are included in equity, as motived in chapter six, it will reduce the debt-equity ratio of Barnard Jacobs as shown above. This implies that the company's leverage ratio will decrease.



Ratio Type Return on ave equity

Balance sheet components	2007	2006	2005	2004
Profit after taxation	114,059	83,604	21,946	-17,099
Total profits extraordinary nature	74,366	7,108	6,748	-24,559
Total ow ners interest	299,213	288,808	391,333	376,077
Total ow ners interest previous	288,808	391,333	376,077	373,817
Accumulated depreciation	14,451	15,260	15,595	14,587
Deferred taxes (60% non-reversing)	-	-	-	-
Accumulated depreciation - previous	15,260	15,595	14,587	16,665
Deferred taxes (60% non-reversing) -previous	-	-	-	-

Ratio	Formula	2007	2006	2005	2004	Comments
Original Return on Average Equity %	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Ow ners Interest}) + ((\text{Total Ow ners Interest previous})) / 2) * 100$	13.5	22.49	3.96	1.99	The return on average equity is a measure of performance. It indicates how well the management has used the investment made by ow ners into the business
Industry Original Return on Average Equity % (Investment services)		6.22	-0.40	-4.94	1.33	
1st Iteration (including acc depr in equity)	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Ow ners Interest} + \text{Accumulated depreciation}) + (\text{Total Ow ners Interest previous} + \text{Accumulated depreciation previous})) / 2) * 100$	12.85	21.52	3.81	1.91	The formula is expanded to add accumulated depr to ow ners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Ow ners Interest} + \text{Deferred taxes}) + (\text{Total Ow ners Interest previous} + \text{Deferred taxes previous})) / 2) * 100$	13.50	22.49	3.96	1.99	The formula is expanded to add 60% of deferred taxes to ow ners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Ow ners Interest} + \text{Accumulated depreciation} + \text{Deferred taxes}) + (\text{Total Ow ners Interest previous} + \text{Accumulated depreciation previous} + \text{Deferred taxes previous})) / 2) * 100$	12.85	21.52	3.81	1.91	The formula is expanded to add 60% of deferred taxes and accumulated depr to ow ners interest in the denominator



Summary

The return on average equity indicates how well the management has used the investment made by ow ners into the business. The primary objective of business is to earn profit and a higher the return on average equity indicates that the firm is using its equity funds more efficiently. The ratio can be found for a number of years so as to find a trend as to whether the profitability of the company is improving or otherwise.

The trend over the past four years indicate the return on equity for Barnard Jacobs increased except for the larger than normal increase in 2006. The increase in 2006 can be explained by a fairly large increase in trading profits compared to other years. In 2007 the effect of higher levels of trading profits was offset with an amount of extraordinary profits due to the sale of an investment. Barnard Jacob's returns have been consistently above the industry average which could indicate that they have been successful in utilising their equity financing in the most efficient manner that will result in higher levels of income being produced.

The inclusion of accumulated depreciation and deferred taxes in equity causes the return to decrease. This indicates that Barnard Jacobs is overstating returns on equity by not including the impact of accumulated depreciation on capital structure, as these are associated costs of earning the returns from assets used by the company.

Company:
Industry:

Coronation
Asset managers

Ratio Type **Quick ratio**

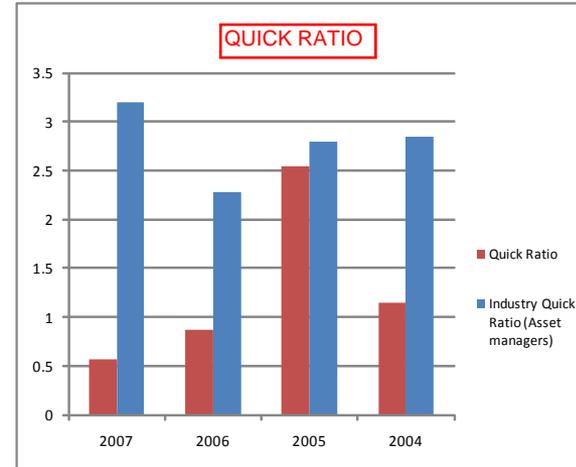
Balance sheet components	2007	2006	2005	2004
Total current assets	287,399	351,227	356,100	230,361
Total inventory	-	-	-	-
Total current liabilities	505,616	404,047	139,955	202,360

Ratio	Formula	2007	2006	2005	2004	Comments
Quick Ratio	$\frac{((\text{Total Current Assets}) - (\text{Total Inventory}))}{(\text{Total Current Liabilities})}$	0.57	0.87	2.54	1.14	To measure the liquidity of a company's short term assets relative to its short term liabilities
Industry Quick Ratio (Asset managers)		3.20	2.28	2.79	2.85	

Summary

The quick ratio is a measure of a company's ability to pay short term debt obligation as they become due. The quick ratio excludes the effect of inventory. A ratio of 1:1 is considered adequate but a higher or lower ratio doesn't necessarily imply a company is better or worse off.

Coronation's quick ratio increased from 2004 to 2005 and then decreased in the following years. The increase in 2005 was due to higher levels of cash being recognised in short term assets and the provision for distribution in current liabilities being reduced. The decrease in 2006 is due to a large increase in provision for distribution in current liabilities reducing the overall quick ratio. The further decline in 2007 is due to an increase in creditors and a decrease in cash. Compared to the industry average Coronation's quick ratio is much lower and could indicate that they might face liquidity constraints as their current assets are insufficient to cover current liabilities. Looking at the financial statements included in the appendices it can be seen that cash in bank and debtors make up the largest portion of short term assets. It indicates that Coronation is also dependent on their cash conversion cycle and the frequency of debtors paying in order to meet the settlement of short term liabilities. The short term liability section comprises mainly of creditors and tax provisions. The average industry ratio indicates that peer groups in this sector have higher quick ratios to Coronation. The liquidity position can be improved by actively managing and collecting outstanding debtor accounts.



Ratio Type **Debt/Assets**

Balance sheet components	2007	2006	2005	2004
Total long term loan capital	18,437,426	15,743,747	13,536,419	11,425,459
Total current liabilities	505,616	404,047	139,955	202,360
Total assets	18,879,174	16,302,453	13,892,977	11,769,632

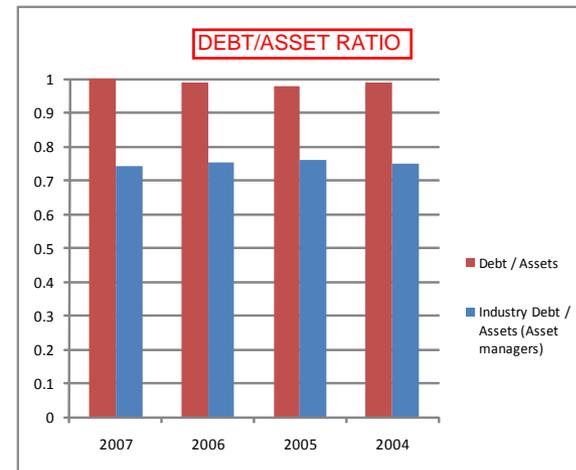
Ratio	Formula	2007	2006	2005	2004	Comments
Debt / Assets	$\frac{((\text{Total Long Term Loan Capital}) + (\text{Total Current Liabilities}))}{(\text{Total Assets})}$	1	0.99	0.98	0.99	To measure the level of debt in comparison to total assets as indication of financing mix
Industry Debt / Assets (Asset managers)		0.74	0.75	0.76	0.75	

Summary

The debt-asset ratio gives an indication as to how a company finances its assets. A ratio close to one indicates that a company uses predominantly debt rather than equity as the preferred method of financing.

Coronation's debt to asset ratio has been fairly consistent over the past four years at levels close to one. It indicates that Coronation uses predominantly debt to finance its assets. Compared to the industry average Coronation uses significantly more debt financing than peers in the market, with the industry average at levels of around 75% over the past four years. This indicates that the industry as a whole utilises more debt than equity financing. This indicates that compared to its peers Coronation is heavily geared. It can also be seen from the above information that long term liabilities make up the largest proportion of total debt. From the financial statements included in the appendices the long term liabilities of Coronation over the period has been consistently made up of other long term borrowings. The assets consist mainly of long term assets with a small amount of current assets on the balance sheet. The long term assets comprises mainly listed investments. The funding mix indicates that long term debt is predominantly used to fund its assets which are also of a long term nature.

Also from the information provided later on in the cost of capital calculation section it can be seen that the cost of debt is less than the cost of equity for Coronation which might point to a motivation for utilising more debt funding.



Ratio Type Debt/Equity

Balance sheet components	2007	2006	2005	2004
Total owners interest	-63,868	154,659	216,603	141,813
Total current liabilities	505,616	404,047	139,955	202,360
Total long term loan capital	18,437,426	15,743,747	13,536,419	11,425,459
Accumulated depreciation	14,110	11,196	6,875	5,709
Deferred taxes (60% non-reversing)	27,550	22,717	-2,386	6,997

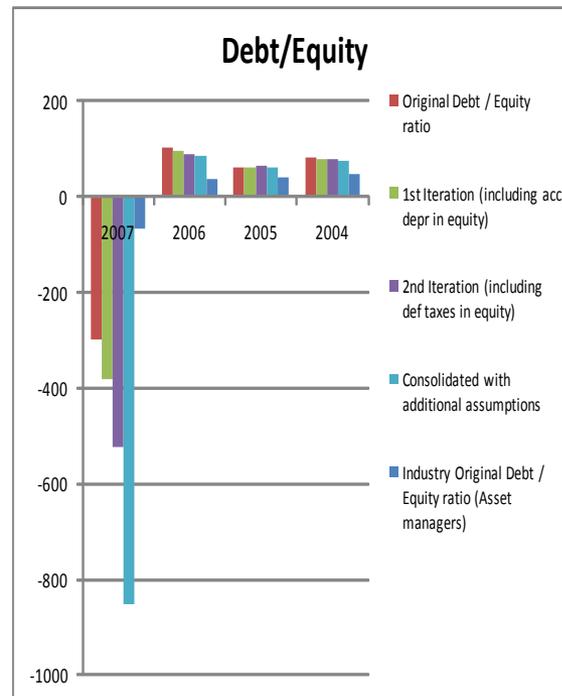
Ratio	Formula	2007	2006	2005	2004	Comments
Original Debt / Equity ratio	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})}$	-296.6	104.41	63.14	81.99	Debt to equity ratio indicates the proportionate claims of owners and creditors against the firm's assets.
Industry Original Debt / Equity ratio (Asset)		-65.21	38.32	42.01	49.33	
1st Iteration (including acc depr in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})}$	-380.70	97.36	61.20	78.82	The formula is expanded to add accumulated depr to owners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Deferred taxes})}$	-521.58	91.04	63.84	78.14	The formula is expanded to add 60% of deferred taxes to owners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})+(\text{Deferred taxes})}$	-852.97	85.63	61.86	75.25	The formula is expanded to add 60% of deferred taxes and accumulated depr to owners interest in the denominator

Summary

The debt to equity ratio indicates the proportionate claims of owners and outside funders against the company's assets. The purpose is to get an idea of the cushion available to outsiders on the liquidation of the firm. A ratio of 1:1 is usually considered to be satisfactory ratio although there cannot be rule of thumb or standard norm for all types of businesses. Theoretically if the owners interests are greater than that of creditors, the financial position is highly solvent.

The debt-equity ratio of Coronation have been at high levels over the past four years. In 2007 a negative ratio is shown due to a negative number being recorded for ordinary shareholders interest. The ratio does indicate that Coronation utilises much more debt than equity financing. Compared to the industry average Coronation seems to be overly geared. From the above information it can also be seen that Coronation uses a mix of predominantly long term debt financing. The long term debt financing comprises mainly other long term borrowings.

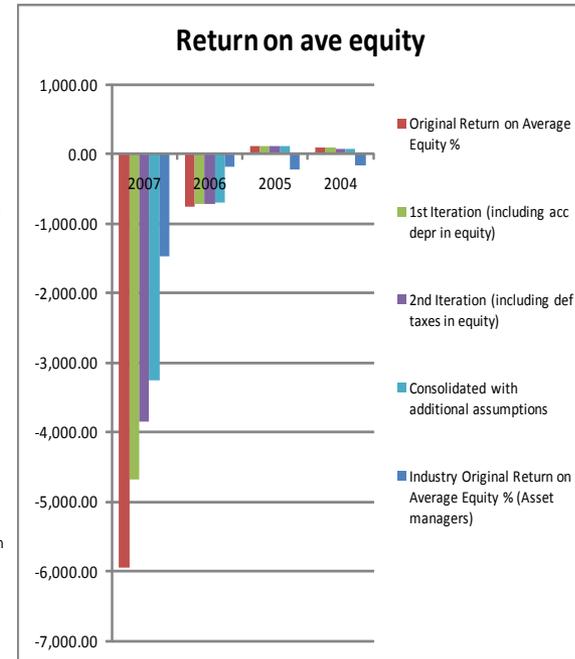
The debt-equity ratio is also used to analyse the impact of the items discussed in chapter six that influence the debt/equity mix. Compound and hybrid instruments are already included in the total owners interest and long term loan capital. The two items remaining are deferred taxes and accumulated depreciation. If these items are included in equity, as motivated in chapter six, it will reduce the debt/equity ratio of Coronation as shown above. This implies that the company's leverage ratio will decrease.



Ratio Type Return on ave equity

Balance sheet components	2007	2006	2005	2004
Profit after taxation	300,129	214,641	178,665	87,653
Total profits extraordinary nature	3,017,581	1,634,744	-26,261	-27,854
Total ow ners interest	-63,868	154,659	216,603	141,813
Total ow ners interest previous	154,659	216,603	141,813	139,726
Accumulated depreciation	14,110	11,196	6,875	5,709
Deferred taxes (60% non-reversing)	27,550	22,717	-2,386	6,997
Accumulated depreciation - previous	11,196	6,875	5,709	2,203
Deferred taxes (60% non-reversing) -previous	22,717	-2,386	6,997	21,241

Ratio	Formula	2007	2006	2005	2004	Comments
Original Return on Average Equity %	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature})) / ((\text{Total Owners Interest} + (\text{Total Owners Interest previous}))) / 2) * 100$	-5,958.50	-765.01	114.35	82.05	The return on average equity is a measure of performance. It indicates how well the management has used the investment made by owners into the business
Industry Original Return on Average Equity % (Asset managers)		-1,480.51	-178.37	-224.65	-170.19	
1st Iteration (including acc depr in equity)	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature})) / ((\text{Total Owners Interest} + (\text{Accumulated depreciation} + (\text{Total Owners Interest previous} + \text{Accumulated depreciation previous}))) / 2) * 100$	-4681.35	-729.51	110.47	79.81	The formula is expanded to add accumulated depr to owners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature})) / ((\text{Total Owners Interest} + (\text{Deferred taxes} + (\text{Total Owners Interest previous} + \text{Deferred taxes previous}))) / 2) * 100$	-3852.96	-725.30	112.90	74.57	The formula is expanded to add 60% of deferred taxes to owners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature})) / ((\text{Total Owners Interest} + (\text{Accumulated depreciation} + (\text{Deferred taxes} + (\text{Total Owners Interest previous} + \text{Accumulated depreciation previous} + \text{Deferred taxes previous}))) / 2) * 100$	-3266.88	-693.30	109.12	72.72	The formula is expanded to add 60% of deferred taxes and accumulated depr to owners interest in the denominator



Summary

The return on average equity indicates how well the management has used the investment made by owners into the business. The primary objective of business is to earn profit and a higher return on average equity indicates that the firm is using its equity funds more efficiently. The ratio can be found for a number of years so as to find a trend as to whether the profitability of the company is improving or otherwise.

The trend over the past four years indicate the return on equity for Coronation has been fairly high in 2004 and 2005 and negative returns recognised in 2006 and 2007. The high returns in 2004 and 2005 is due to good profit levels, low levels of extraordinary income and low levels of equity. It can indicate that Coronation effectively utilised its small equity based in these two years to generate profits. In 2006 however the negative returns were due to profits mainly consisting of extraordinary profit from the sale of investments while negative trading profits were recognised resulting in a negative return. In 2007 Coronation again recorded negative trading profits which were offset with extraordinary profits from the sale of an investment. Also the ordinary shareholders interest for 2007 were recorded as a negative which also results in a negative return. Coronation outperformed its industry in 2004 and 2005 but underperformed relative to its peers in 2006 and 2007. This could indicate Coronation does not have consistent performance of its equity which could imply that it is struggling to generate sufficient returns for equity holders.

Company:
Industry:

Foschini
Apparel retailers

Ratio Type **Quick ratio**

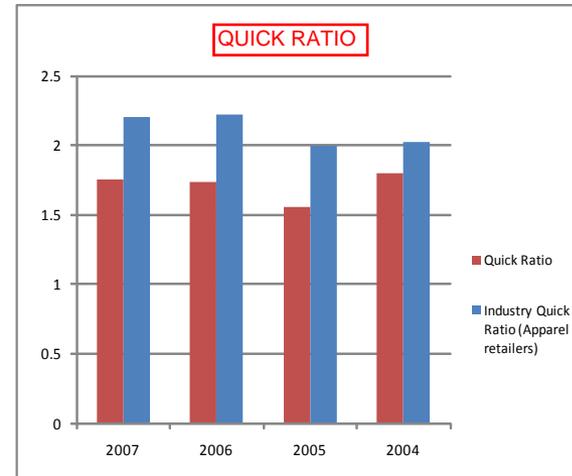
Balance sheet components	2007	2006	2005	2004
Total current assets	4,902,600	4,623,300	4,170,200	3,422,100
Total inventory	1,290,000	1,292,900	1,090,800	912,100
Total current liabilities	2,500,600	1,905,200	1,767,700	1,606,500

Ratio	Formula	2007	2006	2005	2004	Comments
Quick Ratio	$\frac{((\text{Total Current Assets}) - (\text{Total Inventory}))}{(\text{Total Current Liabilities})}$	1.75	1.74	1.56	1.8	To measure the liquidity of a company's short term assets relative to its short term liabilities
Industry Quick Ratio (Apparel retailers)		2.21	2.22	1.99	2.02	

Summary

The quick ratio is a measure of a company's ability to pay short term debt obligation as they become due. The quick ratio excludes the effect of inventory. A ratio of 1:1 is considered adequate but a higher or lower ratio doesn't necessarily imply a company is better or worse off.

Foschini's quick ratio decreased from 2004 to 2005 and then subsequently increased in 2006. The decrease in 2005 was due to a proportionately higher increase in current liabilities (mainly creditors and also provisions for taxes and distribution) compared to current assets. The increase in 2006 is due to a larger increase in current assets (mainly debtors and cash) than the increase in current liabilities. Foschini's quick ratio is relatively lower than the industry average and this could indicate that Foschini might face liquidity constraints but their ratio is more than one indicating that their current assets are sufficient to cover current liabilities. Looking at the financial statements included in the appendices it can be seen that debtors make up the most of short term assets. It indicates that Foschini is also dependent on their cash conversion cycle and the frequency of debtors paying in order to meet the settlement of short term liabilities. The short term liability section comprises mainly of creditors. The average industry ratio indicates that peer groups in this sector have higher quick ratios than Foschini. The liquidity position can be improved by actively managing and collecting outstanding debtor accounts.



Ratio Type **Debt/Assets**

Balance sheet components	2007	2006	2005	2004
Total long term loan capital	690,000	1,135,600	1,115,100	853,400
Total current liabilities	2,500,600	1,905,200	1,767,700	1,606,500
Total assets	6,869,100	6,573,100	5,671,400	4,878,100

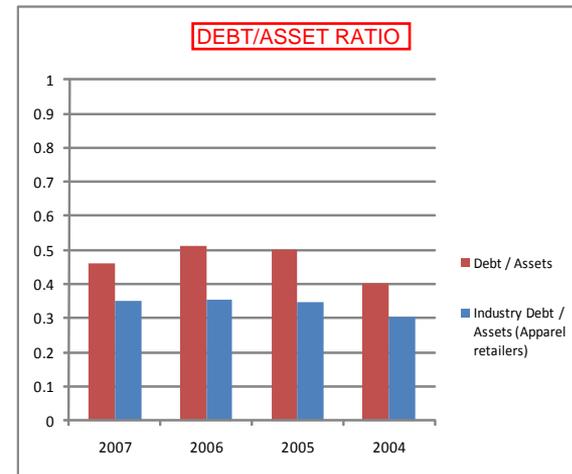
Ratio	Formula	2007	2006	2005	2004	Comments
Debt / Assets	$\frac{((\text{Total Long Term Loan Capital}) + (\text{Total Current Liabilities}))}{(\text{Total Assets})}$	0.46	0.51	0.5	0.4	To measure the level of debt in comparison to total assets as indication of financing mix
Industry Debt / Assets (Apparel retailers)		0.35	0.36	0.35	0.30	

Summary

The debt-asset ratio gives an indication as to how a company finances its assets. A ratio close to one indicates that a company uses predominantly debt rather than equity as the preferred method of financing.

Foschini's debt to asset ratio has been fairly consistent over the past four years at levels between 40-50%. It indicates that Foschini finances about half of its assets with debt financing. Compared to the industry average Foschini uses more debt financing than peers in the market, with the industry average at levels of around 35% over the past four years. This indicates that the industry as a whole prefers to use equity financing to fund the business rather than debt financing. It can also be seen from the above information that short term liabilities make up the largest proportion of total debt. From the financial statements included in the appendices the short term liabilities of Foschini over the period has been consistently made up of creditors. The assets consists of about 70% short term assets mainly in the form of debtors and inventory while 30% long term assets consist mainly of fixed assets. The funding mix indicates that short term debt is predominantly used to fund its assets which are also of a shorter term nature with some longer term debt to finance the longer term assets.

Also from the information provided later on in the cost of capital calculation section it can be seen that the cost of debt is less than the cost of equity for Foschini which might point to a motivation for utilising more debt funding.



Ratio Type Debt/Equity

Balance sheet components	2007	2006	2005	2004
Total owners interest	3,678,500	3,532,300	2,788,600	2,418,200
Total current liabilities	2,500,600	1,905,200	1,767,700	1,606,500
Total long term loan capital	690,000	1,135,600	1,115,100	853,400
Accumulated depreciation	1,191,200	1,089,500	1,037,700	868,100
Deferred taxes (60% non-reversing)				10,140

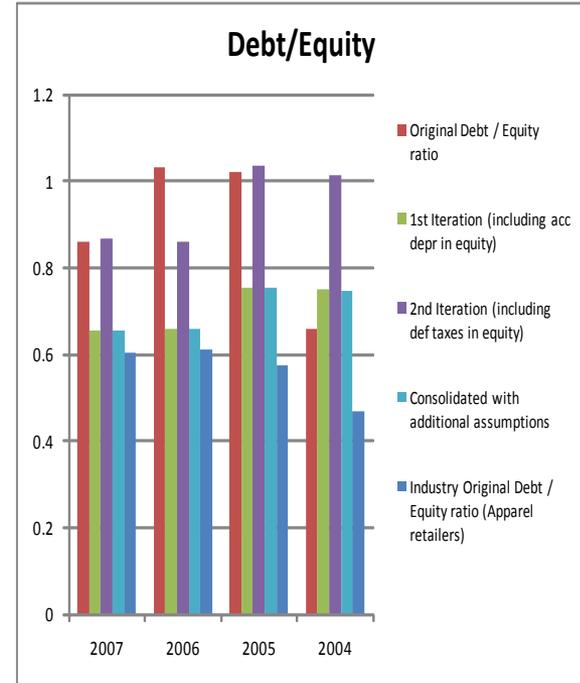
Ratio	Formula	2007	2006	2005	2004	Comments
Original Debt / Equity ratio	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})}$	0.86	1.03	1.02	0.66	Debt to equity ratio indicates the proportionate claims of owners and creditors against the firm's assets.
Industry Original Debt / Equity ratio (Apparel retailers)		0.60	0.61	0.58	0.47	
1st Iteration (including acc depr in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})}$	0.66	0.66	0.75	0.75	The formula is expanded to add accumulated depr to owners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Deferred taxes})}$	0.87	0.86	1.03	1.01	The formula is expanded to add 60% of deferred taxes to owners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})+(\text{Deferred taxes})}$	0.66	0.66	0.75	0.75	The formula is expanded to add 60% of deferred taxes and accumulated depr to owners interest in the denominator

Summary

The debt to equity ratio indicates the proportionate claims of owners and outside funders against the company's assets. The purpose is to get an idea of the cushion available to outsiders on the liquidation of the firm. A ratio of 1:1 is usually considered to be satisfactory ratio although there cannot be rule of thumb or standard norm for all types of businesses. Theoretically if the owners interests are greater than that of creditors, the financial position is highly solvent.

The debt-equity ratio of Foschini increased from the period 2004 to 2006 and then decreased in 2007. The decrease in 2007 is due to the decrease in long term loan capital. The ratio indicates that Foschini utilises debt and equity in an almost equal manner with slightly more debt used. Compared to the industry average Foschini seems more geared. The industry average indicate that the industry is not overly geared and utilises more equity financing. In 2007 and 2004 Foschini utilised predominantly equity financing and in 2005 and 2006 slightly more debt financing. From the above information it can also be seen that Foschini uses a mix of predominantly short term debt financing in total debt. The total equity comprises mainly distributable reserves.

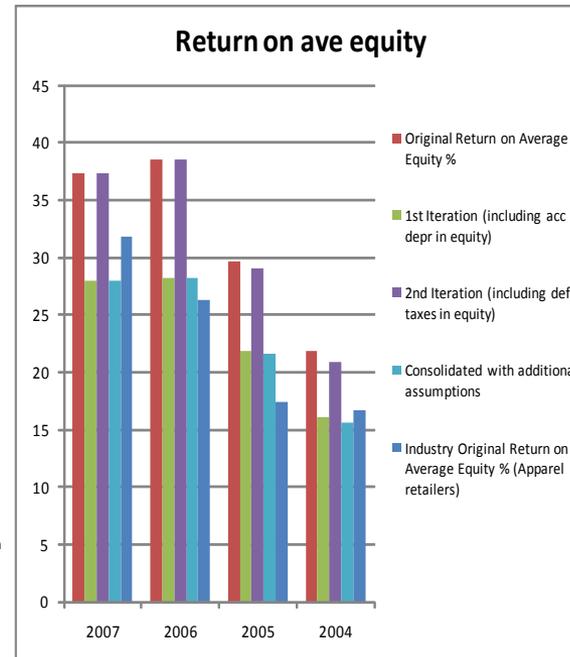
The debt equity ratio is also used to analyse the impact of the items discussed in chapter six that influence the debt/equity mix. Compound and hybrid instruments are already included in the total owners interest and long term loan capital. The two items remaining are deferred taxes and accumulated depreciation. If these items are included in equity, as motived in chapter six, it will reduce the debt-equity ratio of Foschini as shown above. This implies that the company's leverage ratio will decrease.



Ratio Type Return on ave equity

Balance sheet components	2007	2006	2005	2004
Profit after taxation	1,181,000	999,800	699,700	470,800
Total profits extraordinary nature	-100	-1,600	2,300	-12,600
Total ow ners interest	3,532,300	2,788,600	2,418,200	2,280,700
Total ow ners interest previous	2,788,600	2,418,200	2,280,700	2,147,900
Accumulated depreciation	1,089,500	1,037,700	868,100	807,500
Deferred taxes (60% non-reversing)			10,140	90,360
Accumulated depreciation - previous	1,037,700	868,100	807,500	757,100
Deferred taxes (60% non-reversing) -previous			90,360	100,380

Ratio	Formula	2007	2006	2005	2004	Comments
Original Return on Average Equity %	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Ow ners Interest}) + ((\text{Total Ow ners Interest previous}))) / 2}{2} * 100$	37.37	38.47	29.68	21.83	The return on average equity is a measure of performance. It indicates how well the management has used the investment made by ow ners into the business
Industry Original Return on Average Equity % (Apparel retailers)		31.84	26.30	17.39	16.71	
1st Iteration (including acc depr in equity)	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Ow ners Interest} + \text{Accumulated depreciation}) + (\text{Total Ow ners Interest previous} + \text{Accumulated depreciation previous}))) / 2}{2} * 100$	27.96	28.16	21.88	16.13	The formula is expanded to add accumulated depr to ow ners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Ow ners Interest} + \text{Deferred taxes}) + (\text{Total Ow ners Interest previous} + \text{Deferred taxes previous}))) / 2}{2} * 100$	37.37	38.47	29.06	20.93	The formula is expanded to add 60% of deferred taxes to ow ners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Ow ners Interest} + \text{Accumulated depreciation} + \text{Deferred taxes}) + (\text{Total Ow ners Interest previous} + \text{Accumulated depreciation previous} + \text{Deferred taxes previous}))) / 2}{2} * 100$	27.96	28.16	21.54	15.63	The formula is expanded to add 60% of deferred taxes and accumulated depr to ow ners interest in the denominator



Summary

The return on average equity indicates how well the management has used the investment made by ow ners into the business. The primary objective of business is to earn profit and a higher return on average equity indicates that the firm is using its equity funds more efficiently. The ratio can be found for a number of years so as to find a trend as to whether the profitability of the company is improving or otherwise.

The trend over the past four years indicate the return on equity for Foschini has been increasing with a slight decrease in 2007. The decrease is due to an increase in equity while profits after tax have been consistently increasing. Foschini consistently outperformed its industry over the four year period indicating it utilises its equity in an efficient manner and is able to generate higher levels of returns to equity holders.

The inclusion of accumulated depreciation and deferred taxes in equity causes the return to decrease. This indicates that Foschini is overstating returns on equity by not including the impact of accumulated depreciation on capital structure, as these are associated costs of earning the returns from assets used by the company.

Company:
Industry:

Distell
Distillers and vinters

Ratio Type **Quick ratio**

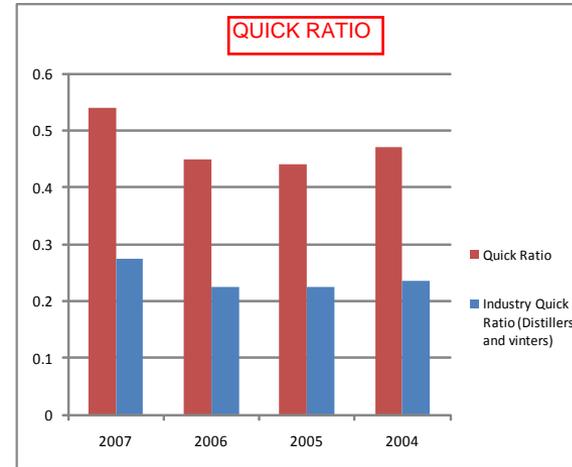
Balance sheet components	2007	2006	2005	2004
Total current assets	3,844,995	3,343,892	3,044,222	2,913,330
Total inventory	2,703,336	2,499,217	2,244,129	2,207,296
Total current liabilities	2,095,799	1,864,670	1,829,639	1,488,308

Ratio	Formula	2007	2006	2005	2004	Comments
Quick Ratio	$\frac{((\text{Total Current Assets}) - (\text{Total Inventory}))}{(\text{Total Current Liabilities})}$	0.54	0.45	0.44	0.47	To measure the liquidity of a company's short term assets relative to its short term liabilities
Industry Quick Ratio (Distillers and vinters)		0.28	0.23	0.23	0.24	

Summary

The quick ratio is a measure of a company's ability to pay short term debt obligation as they become due. The quick ratio excludes the effect of inventory. A ratio of 1:1 is considered adequate but a higher or lower ratio doesn't necessarily imply a company is better or worse off.

Distell's quick ratio has been fairly consistent over the past four years with a slight increase in 2007. The increase in 2007 is due to a higher increase in current assets (mainly debtors) to the increase in current liabilities. The ratio indicates that Distell might run into liquidity constraints if all current liabilities become due at the same time. The ratio is however consistently higher than the industry average which indicates that Distell might be in a better liquidity position than its peers. Looking at the financial statements in the appendices it can be seen that debtors make up a large portion of short term assets. It indicates that Distell is dependent on their cash conversion cycle and the frequency of debtors paying in order to meet the settlement of short term liabilities. The short term liability section comprises mainly of creditors. The average industry ratio indicates that peer groups in this sector has lower quick ratios to Distell. The liquidity position can be improved by actively managing and collecting outstanding debtor accounts.



Ratio Type **Debt/Assets**

Balance sheet components	2007	2006	2005	2004
Total long term loan capital	15,471	363,990	350,405	771,506
Total current liabilities	2,095,799	1,864,670	1,829,639	1,488,308
Total assets	5,934,482	5,388,274	4,934,376	4,789,881

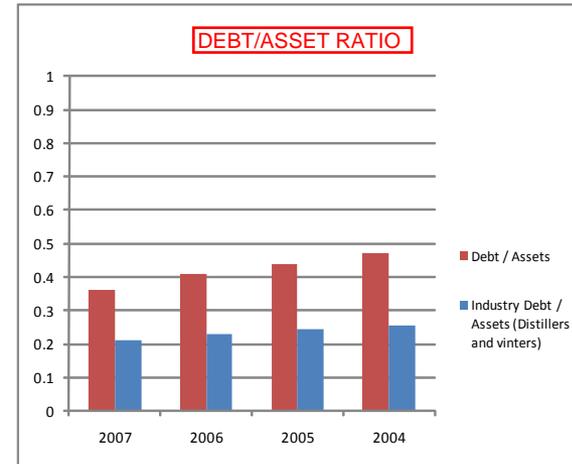
Ratio	Formula	2007	2006	2005	2004	Comments
Debt / Assets	$\frac{((\text{Total Long Term Loan Capital}) + (\text{Total Current Liabilities}))}{(\text{Total Assets})}$	0.36	0.41	0.44	0.47	To measure the level of debt in comparison to total assets as indication of financing mix
Industry Debt / Assets (Distillers and vinters)		0.21	0.23	0.25	0.26	

Summary

The debt-asset ratio gives an indication as to how a company finances its assets. A ratio close to one indicates that a company uses predominantly debt rather than equity as the preferred method of financing.

Distell's debt to asset ratio has been decreasing over the past four years. It indicates that Distell uses predominantly equity to finance its assets and is less dependent on debt financing. Compared to the industry average Distell still uses more debt financing than peers in the market with the industry average of 0.2. This indicates that peer groups prefer equity financing to debt. Compared to its peers Distell is more geared but at not very high levels. It can also be seen from the above information that current liabilities make up a fairly large proportion of total debt. From the financial statements included in the appendices the current liabilities of Distell over the period has been consistently made up of creditors, while equity financing consists mainly of distributable reserves. On the asset side there is about a 30/70 split between fixed assets and short term assets. Short term assets comprise mainly of inventory. The funding mix indicate that there is a 30/70 split between debt and equity to finance assets which is predominantly short term in nature.

Also from the information provided later on in the cost of capital calculation section it can be seen that the cost of equity is less than the cost of debt for Distell which might point to a motivation for utilising more equity funding.



Ratio Type Debt/Equity

Balance sheet components	2007	2006	2005	2004
Total owners interest	3,823,212	3,159,614	2,754,332	2,530,067
Total current liabilities	2,095,799	1,864,670	1,829,639	1,488,308
Total long term loan capital	15,471	363,990	350,405	771,506
Accumulated depreciation	941,642	866,445	835,112	804,851
Deferred taxes (60% non-reversing)	81,163	40,066	30,477	38,818

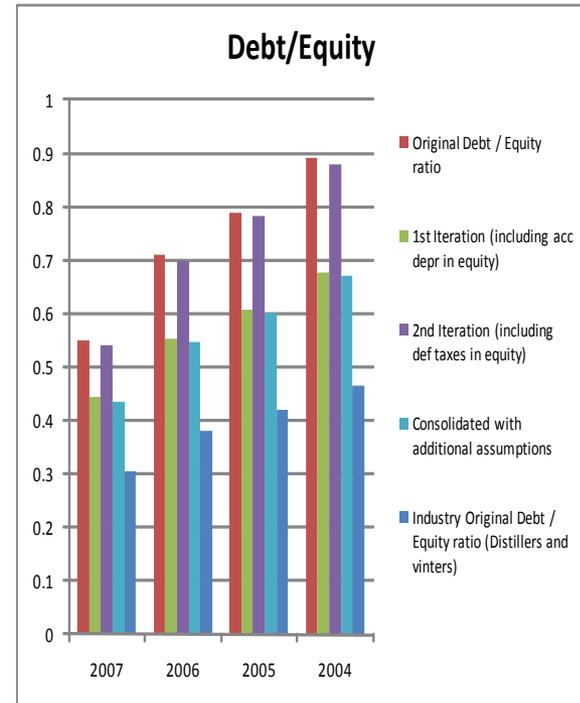
Ratio	Formula	2007	2006	2005	2004	Comments
Original Debt / Equity ratio	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})}$	0.55	0.71	0.79	0.89	Debt to equity ratio indicates the proportionate claims of owners and creditors against the firm's assets.
Industry Original Debt / Equity ratio (Distillers and vinters)		0.31	0.38	0.42	0.47	
1st Iteration (including acc depr in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})}$	0.44	0.55	0.61	0.68	The formula is expanded to add accumulated depr to owners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Deferred taxes})}$	0.54	0.70	0.78	0.88	The formula is expanded to add 60% of deferred taxes to owners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})+(\text{Deferred taxes})}$	0.44	0.55	0.60	0.67	The formula is expanded to add 60% of deferred taxes and accumulated depr to owners interest in the denominator

Summary

The debt to equity ratio indicates the proportionate claims of owners and outside funders against the company's assets. The purpose is to get an idea of the cushion available to outsiders on the liquidation of the firm. A ratio of 1:1 is usually considered to be satisfactory ratio although there cannot be rule of thumb or standard norm for all types of businesses. Theoretically if the owners interests are greater than that of creditors, the financial position is highly solvent.

The debt-equity ratio of Distell have been decreasing over the past four years. The ratio indicates that Distell have decreased their use of debt financing over the past for years in favour of equity financing. Compared to the industry average Distell seems to be more geared than its peers but still have low levels of debt financing. From the above information it can also be seen that Distell uses predominantly equity financing composed of distributable reserves while total debt financing is mainly short term in nature due to high levels of creditors.

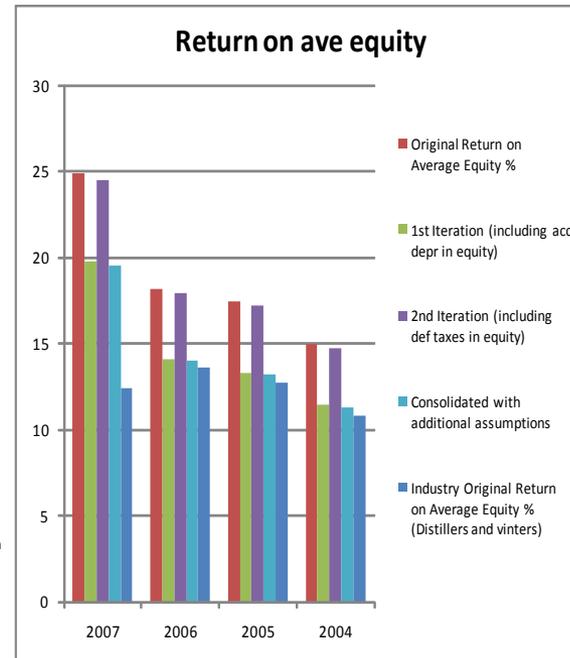
The debt-equity ratio is also used to analyse the impact of the items discussed in chapter six that influence the debt/equity mix. Compound and hybrid instruments are already included in the total owners interest and long term loan capital. The two items remaining are deferred taxes and accumulated depreciation. If these items are included in equity, as motivated in chapter six, it will reduce the debt-equity ratio of Distell as shown above. This implies that the company's leverage ratio will decrease.



Ratio Type Return on ave equity

Balance sheet components	2007	2006	2005	2004
Profit after taxation	877,143	545,534	458,308	342,048
Total profits extraordinary nature	8,795	8,788	-2,505	-19,502
Total ow ners interest	3,823,212	3,159,614	2,754,332	2,530,067
Total ow ners interest previous	3,159,614	2,754,332	2,530,067	2,302,040
Accumulated depreciation	941,642	866,445	835,112	804,851
Deferred taxes (60% non-reversing)	81,163	40,066	30,477	38,818
Accumulated depreciation - previous	866,445	835,112	804,851	693,310
Deferred taxes (60% non-reversing) -previous	40,066	30,477	38,818	36,953

Ratio	Formula	2007	2006	2005	2004	Comments
Original Return on Average Equity %	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature})) / ((\text{Total Ow ners Interest}) + ((\text{Total Ow ners Interest previous})) / 2) * 100$	24.87	18.15	17.44	14.96	The return on average equity is a measure of performance. It indicates how w ell the management has used the investment made by ow ners into the business
Industry Original Return on Average Equity % (Distillers and vinters)		12.40	13.62	12.74	10.80	
1st Iteration (including acc depr in equity)	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature})) / ((\text{Total Ow ners Interest}) + (\text{Accumulated depreciation}) + (\text{Total Ow ners Interest previous} + \text{Accumulated depreciation previous})) / 2) * 100$	19.76	14.10	13.31	11.42	The formula is expanded to add accumulated depr to ow ners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature})) / ((\text{Total Ow ners Interest}) + (\text{Deferred taxes}) + (\text{Total Ow ners Interest previous} + \text{Deferred taxes previous})) / 2) * 100$	24.45	17.94	17.21	14.73	The formula is expanded to add 60% of deferred taxes to ow ners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature})) / ((\text{Total Ow ners Interest}) + (\text{Accumulated depreciation}) + (\text{Deferred taxes}) + (\text{Total Ow ners Interest previous} + \text{Accumulated depreciation previous} + \text{Deferred taxes previous})) / 2) * 100$	19.49	13.97	13.18	11.29	The formula is expanded to add 60% of deferred taxes and accumulated depr to ow ners interest in the denominator



Summary

The return on average equity indicates how w ell the management has used the investment made by ow ners into the business. The primary objective of business is to earn profit and a higher return on average equity indicates that the firm is using its equity funds more efficiently. The ratio can be found for a number of years so as to find a trend as to whether the profitability of the company is improving or otherwise.

The trend over the past four years indicate the return on equity for Distell has been increasing. The increasing trend is attributable to increasing levels of profits after tax over the four year period. Distell's returns have been consistently above the industry average which could indicate that they have been successful in utilising their equity financing in the most efficient manner that w ill result in higher levels of income being produced.

The inclusion of accumulated depreciation and deferred taxes in equity causes the return to decrease. This indicates that Distell is overstating returns on equity by not including the impact of accumulated depreciation and deferred taxes on capital structure, as these are associated costs of earning the returns from assets used by the company.

Company:
Industry:

Emergent properties
Real Estate Investment & Services

Ratio Type **Quick ratio**

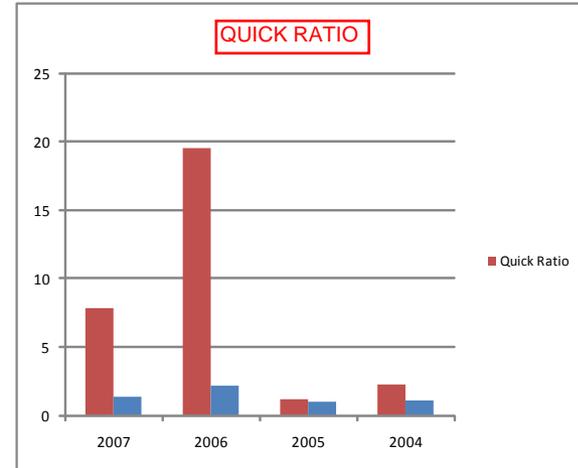
Balance sheet components	2007	2006	2005	2004
Total current assets	2,979	10,463	13,169	15,263
Total inventory	-	-	9,203	7,739
Total current liabilities	380	536	3,466	3,346

Ratio	Formula	2007	2006	2005	2004	Comments
Quick Ratio	$\frac{((\text{Total Current Assets}) - (\text{Total Inventory}))}{(\text{Total Current Liabilities})}$	7.84	19.52	1.14	2.25	To measure the liquidity of a company's short term assets relative to its short term liabilities
Industry Quick Ratio (Real estate investment and services)		1.34	2.19	0.97	1.04	

Summary

The quick ratio is a measure of a company's ability to pay short term debt obligation as they become due. The quick ratio excludes the effect of inventory. A ratio of 1:1 is considered adequate but a higher or lower ratio doesn't necessarily imply a company is better or worse off.

Emergent's quick ratio has been inconsistent over the past four years. The decrease in 2005 is due to the decrease of the cash component in current assets. The subsequent increase in 2006 is due to an increase in cash in current assets and the decrease in creditors on the current liability side. The decrease in 2007 is due to the decrease in cash in current assets. Emergent's ratio is much higher than the industry average but this can be explained due to the almost non-existent current liabilities which can indicate that the company is experiencing difficulty and is keeping current debt levels very low. Looking at the balance sheet it can be seen that debtors and cash make up a large portion of short term assets. The short term liability section is basically cleared out with a small balance on creditors remaining. The average industry ratio indicates that peer groups in this sector has lower quick ratios to Emergent and possibly higher levels of current liabilities.



Ratio Type **Debt/Assets**

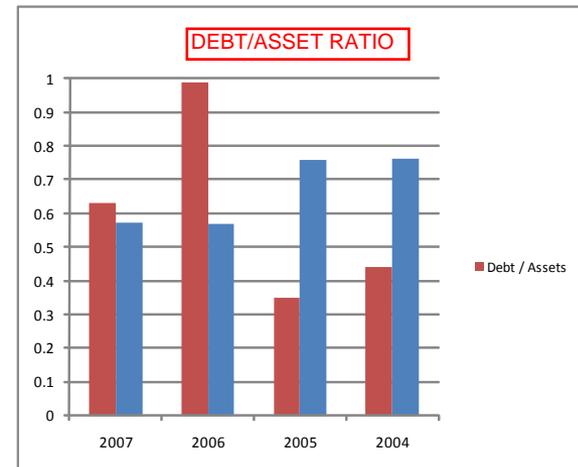
Balance sheet components	2007	2006	2005	2004
Total long term loan capital	9,777	9,777	1,552	3,928
Total current liabilities	380	536	3,466	3,346
Total assets	16,052	10,465	14,244	16,586

Ratio	Formula	2007	2006	2005	2004	Comments
Debt / Assets	$\frac{((\text{Total Long Term Loan Capital}) + (\text{Total Current Liabilities}))}{(\text{Total Assets})}$	0.63	0.99	0.35	0.44	To measure the level of debt in comparison to total assets as indication of financing mix
Industry Debt / Assets (Real estate investment and services)		0.57	0.57	0.76	0.76	

Summary

The debt-asset ratio gives an indication as to how a company finances its assets. A ratio close to one indicates that a company uses predominantly debt rather than equity as the preferred method of financing.

Emergent's debt to asset ratio has been increasing over the past four years. It indicates that Emergent uses slightly more debt to finance its assets in recent years. The industry average has been decreasing over the past four years indicating that Emergent's peers have moved from debt financing to equity. Compared to the industry average Emergent uses more debt financing than its peers with the industry average indicating that the industry as a whole utilises debt financing. This indicates that compared to its peers Emergent has become more geared over the years relying more on debt financing. Also Emergent went from utilising low levels of debt to higher levels over the years. It can also be seen from the above information that long term liabilities make up the largest proportion of total debt. From the financial statements included in the appendices the long term liabilities of Emergent over the period has been consistently made up of debentures. The assets consist mainly of short term assets with a small amount of fixed assets on the balance sheet. The funding mix indicates that long term debt is predominantly used to fund its assets which are of a short term nature.



Ratio Type Debt/Equity

Balance sheet components	2007	2006	2005	2004
Total owners interest	5,895	152	9,226	9,312
Total current liabilities	380	536	3,466	3,346
Total long term loan capital	9,777	9,777	1,552	3,928
Accumulated depreciation	-	-	11,609	11,362
Deferred taxes (60% non-reversing)	-	-	50	72

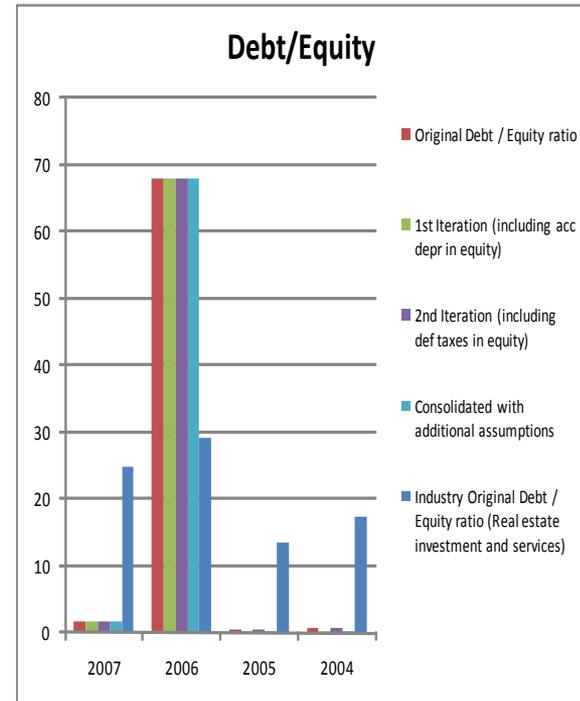
Ratio	Formula	2007	2006	2005	2004	Comments
Original Debt / Equity ratio	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})}$	1.72	67.85	0.54	0.78	Debt to equity ratio indicates the proportionate claims of owners and creditors against the firm's assets.
Industry Original Debt / Equity ratio (Real estate investment and services)		24.72	29.11	13.39	17.26	
1st Iteration (including acc depr in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})}$	1.72	67.85	0.24	0.35	The formula is expanded to add accumulated depr to owners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Deferred taxes})}$	1.72	67.85	0.54	0.78	The formula is expanded to add 60% of deferred taxes to owners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})+(\text{Deferred taxes})}$	1.72	67.85	0.24	0.35	The formula is expanded to add 60% of deferred taxes and accumulated depr to owners interest in the denominator

Summary

The debt to equity ratio indicates the proportionate claims of owners and outside funders against the company's assets. The purpose is to get an idea of the cushion available to outsiders on the liquidation of the firm. A ratio of 1:1 is usually considered to be satisfactory ratio although there cannot be rule of thumb or standard norm for all types of businesses. Theoretically if the owners interests are greater than that of creditors, the financial position is highly solvent.

The debt-equity ratio of Emergent indicates that over the past four years Emergent have decreased the levels of equity financing thus increasing the debt-equity ratio. The large increase in 2006 was due to a sharp decrease in equity financing. The ratio indicates that Emergent has steadily increased its debt financing over the past years. Compared to the industry average Emergent seems to be under geared. From the above information it can also be seen that Emergent uses a mix of predominantly long term debt financing in recent years. The long term debt financing comprises mainly debentures.

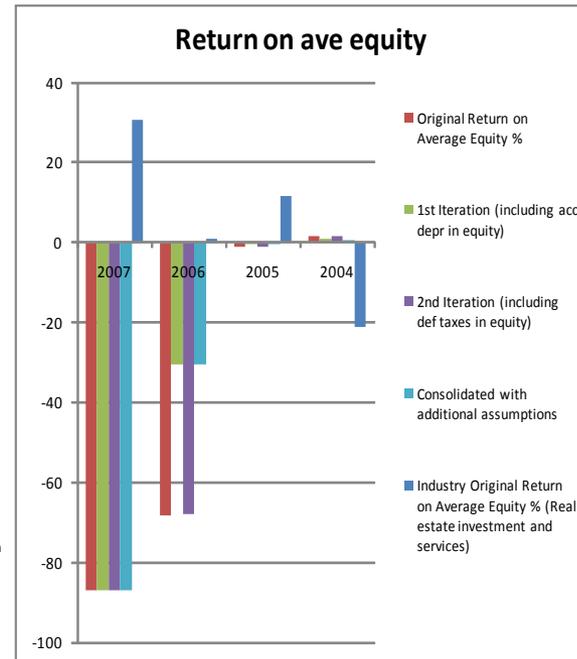
The debt equity ratio is also used to analyse the impact of the items discussed in chapter six that influence the debt/equity mix. Compound and hybrid instruments are already included in the total owners interest and long term loan capital. The two items remaining are deferred taxes and accumulated depreciation. If these items are included in equity, as motivated in chapter six, it will reduce the debt-equity ratio of Emergent as shown above. This implies that the company's leverage ratio will decrease.



Ratio Type Return on ave equity

Balance sheet components	2007	2006	2005	2004
Profit after taxation	4,963	-9,075	-86	207
Total profits extraordinary nature	7,596	-5,879	2	55
Total owners interest	5,895	152	9,226	9,312
Total owners interest previous	152	9,226	9,312	9,105
Accumulated depreciation	-	-	11,609	11,362
Deferred taxes (60% non-reversing)	-	-	50	72
Accumulated depreciation - previous	-	11,609	11,362	11,211
Deferred taxes (60% non-reversing) -previous	-	50	72	36

Ratio	Formula	2007	2006	2005	2004	Comments
Original Return on Average Equity %	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Owners Interest} + (\text{Total Owners Interest previous}))) / 2 * 100$	-87.08	-68.16	-0.95	1.65	The return on average equity is a measure of performance. It indicates how well the management has used the investment made by owners into the business
Industry Original Return on Average Equity % (Real estate investment and services)		30.65	0.87	11.74	-21.18	
1st Iteration (including acc depr in equity)	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Owners Interest} + (\text{Accumulated depreciation} + (\text{Total Owners Interest previous} + \text{Accumulated depreciation previous}))) / 2 * 100$	-87.08	-30.46	-0.42	0.74	The formula is expanded to add accumulated depr to owners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Owners Interest} + (\text{Deferred taxes} + (\text{Total Owners Interest previous} + \text{Deferred taxes previous}))) / 2 * 100$	-87.08	-67.80	-0.94	1.64	The formula is expanded to add 60% of deferred taxes to owners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Owners Interest} + (\text{Accumulated depreciation} + (\text{Deferred taxes} + (\text{Total Owners Interest previous} + \text{Accumulated depreciation previous} + \text{Deferred taxes previous}))) / 2 * 100$	-87.08	-30.38	-0.42	0.74	The formula is expanded to add 60% of deferred taxes and accumulated depr to owners interest in the denominator



Summary

The return on average equity indicates how well the management has used the investment made by owners into the business. The primary objective of business is to earn profit and a higher return on average equity indicates that the firm is using its equity funds more efficiently. The ratio can be found for a number of years so as to find a trend as to whether the profitability of the company is improving or otherwise.

The trend over the past four years indicates the return on equity for Emergent has been decreasing. From 2005 onwards Emergent has not recognised any profit and the 2007 profit is due to income from an extraordinary nature. Emergent's returns have been consistently below the industry average which could indicate that they have been unsuccessful in utilising their equity financing in the most efficient manner and have not been able to produce profits in the past four years indicating that the business could be in distress.

The inclusion of accumulated depreciation and deferred taxes in equity causes the return to decrease. This indicates that Emergent is overstating returns on equity by not including the impact of accumulated depreciation on capital structure, as these are associated costs of earning the returns from assets used by the company.

Company: Emira properties
Industry: Real estate investment trust

Ratio Type Quick ratio

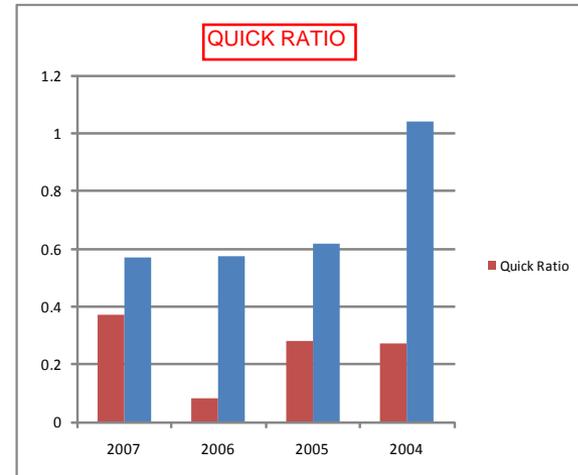
Balance sheet components	2007	2006	2005	2004
Total current assets	95,804	12,340	41,009	32,400
Total inventory	-	-	-	-
Total current liabilities	257,062	163,004	148,036	120,702

Ratio	Formula	2007	2006	2005	2004	Comments
Quick Ratio	$\frac{((\text{Total Current Assets}) - (\text{Total Inventory}))}{(\text{Total Current Liabilities})}$	0.37	0.08	0.28	0.27	To measure the liquidity of a company's short term assets relative to its short term liabilities
Industry Quick Ratio (Real estate investment trust)		0.57	0.57	0.62	1.04	

Summary

The quick ratio is a measure of a company's ability to pay short term debt obligation as they become due. The quick ratio excludes the effect of inventory. A ratio of 1:1 is considered adequate but a higher or lower ratio doesn't necessarily imply a company is better or worse off.

Emira's quick ratio has been increasing slightly in the past four years apart from 2006. The decrease in the quick ratio in 2006 is due to the sharp decline in debtors while current liabilities remained at relatively constant levels. The ratio is consistently lower than the industry average which indicates that Emira might run into liquidity concerns if all short term liabilities become payable at once. Looking at the financial statements included in the appendices it can be seen that debtors make up a large portion of short term assets. It indicates that Emira is dependent on their cash conversion cycle and the frequency of debtors paying in order to meet the settlement of short term liabilities. The short term liability section comprises mainly of creditors and provisions for distribution. The average industry ratio indicates that peer groups in this sector has higher quick ratios to Emira. The liquidity position can be improved by actively managing and collecting outstanding debtor accounts.



Ratio Type Debt/Assets

Balance sheet components	2007	2006	2005	2004
Total long term loan capital	1,197,050	458,330	364,141	310,978
Total current liabilities	257,062	163,004	148,036	120,702
Total assets	7,410,546	3,104,599	2,300,783	1,933,427

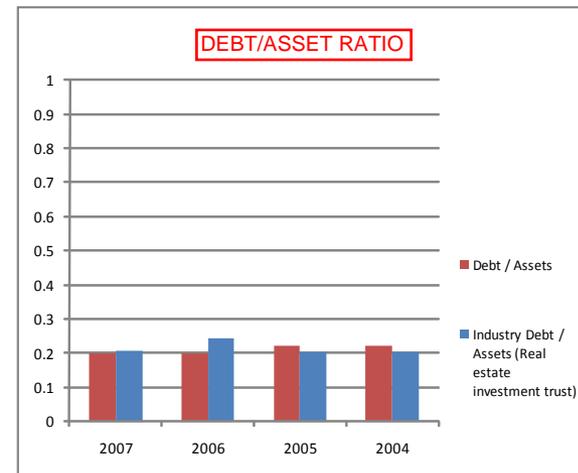
Ratio	Formula	2007	2006	2005	2004	Comments
Debt / Assets	$\frac{((\text{Total Long Term Loan Capital}) + (\text{Total Current Liabilities}))}{(\text{Total Assets})}$	0.2	0.2	0.22	0.22	To measure the level of debt in comparison to total assets as indication of financing mix
Industry Debt / Assets (Real estate investment trust)		0.21	0.24	0.20	0.20	

Summary

The debt-asset ratio gives an indication as to how a company finances its assets. A ratio close to one indicates that a company uses predominantly debt rather than equity as the preferred method of financing.

Emira's debt to asset ratio has been at fairly consistent levels over the past four years. It indicates that Emira has a low debt-asset ratio which implies that Emira uses predominantly equity to finance its assets. Compared to the industry average Emira uses around the same levels of debt to finance assets as its peers. This also indicates Emira is not overly geared. It can also be seen from the above information that long term liabilities make up a fairly large proportion of total debt. From the financial statements included in the appendices the long term liabilities of Emira over the period has been consistently made up of secured long term borrowings. The assets consist mainly of long term assets mainly related to land and buildings. The funding mix indicate that equity is predominantly used to fund its assets which are of a longer term nature.

Also from the information provided later on in the cost of capital calculation section it can be seen that the cost of equity in subsequent years after 2005 is less than the cost of debt for Emira which might point to a motivation for utilising more debt funding.



Ratio Type Debt/Equity

Balance sheet components	2007	2006	2005	2004
Total owners interest	5,956,434	2,483,265	1,788,606	1,501,747
Total current liabilities	257,062	163,004	148,036	120,702
Total long term loan capital	1,197,050	458,330	364,141	310,978
Accumulated depreciation	26,646	16,681	9,405	3,004
Deferred taxes (60% non-reversing)	155,690	-	-	-

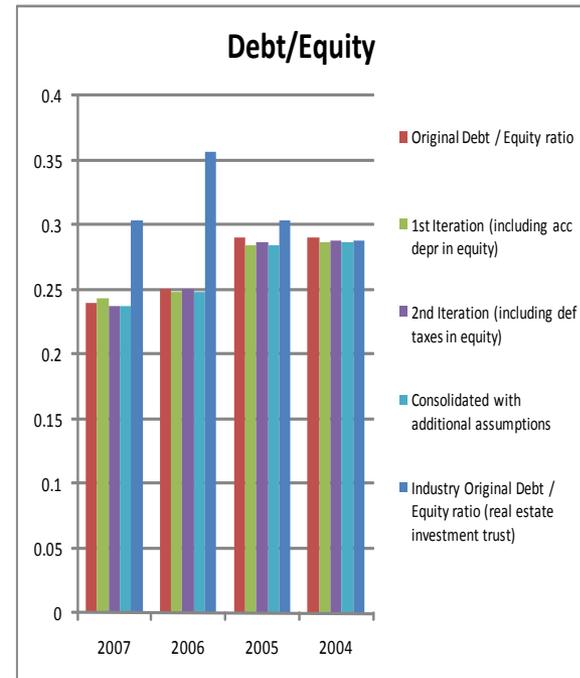
Ratio	Formula	2007	2006	2005	2004	Comments
Original Debt / Equity ratio	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})}$	0.24	0.25	0.29	0.29	Debt to equity ratio indicates the proportionate claims of owners and creditors against the firm's assets.
Industry Original Debt / Equity ratio (real estate investment trust)		0.30	0.36	0.30	0.29	
1st Iteration (including acc depr in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})}$	0.24	0.25	0.28	0.29	The formula is expanded to add accumulated depr to owners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Deferred taxes})}$	0.24	0.25	0.29	0.29	The formula is expanded to add 60% of deferred taxes to owners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})+(\text{Deferred taxes})}$	0.24	0.25	0.28	0.29	The formula is expanded to add 60% of deferred taxes and accumulated depr to owners interest in the denominator

Summary

The debt to equity ratio indicates the proportionate claims of owners and outside funders against the company's assets. The purpose is to get an idea of the cushion available to outsiders on the liquidation of the firm. A ratio of 1:1 is usually considered to be satisfactory ratio although there cannot be rule of thumb or standard norm for all types of businesses. Theoretically if the owners interests are greater than that of creditors, the financial position is highly solvent.

The debt-equity ratio of Emira have been at fairly consistent levels over the past four years. The ratio indicates that Emira utilises more equity than debt financing. Compared to the industry average Emira doesn't seem to be overly geared and uses the same funding mix as its peers. From the above information it can also be seen that Emira uses a mix of predominantly equity financing. The equity financing component is made up of predominantly ordinary share capital and non-distributable reserves. The debt component comprises mainly long term debt financing in the form of secured long term borrowings.

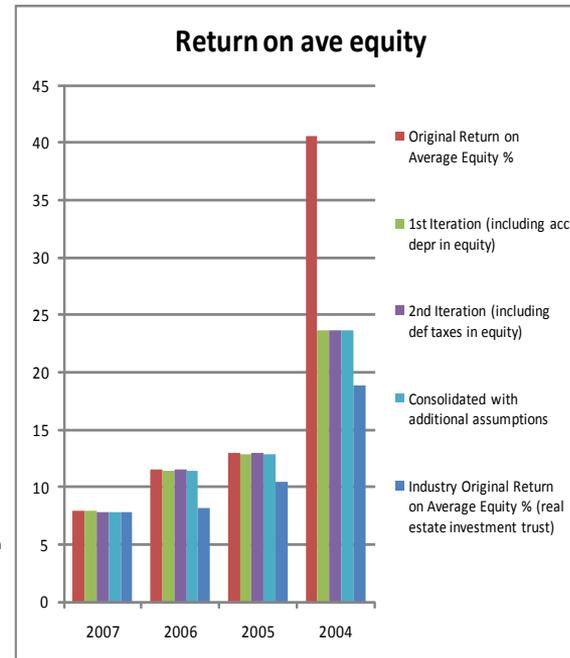
The debt equity ratio is also used to analyse the impact of the items discussed in chapter six that influence the debt/equity mix. Compound and hybrid instruments are already included in the total owners interest and long term loan capital. The two items remaining are deferred taxes and accumulated depreciation. If these items are included in equity, as motived in chapter six, it will slightly reduce the debt-equity ratio of Emira as shown above. The reason for only a slight decrease is due to the small amount of accumulated depreciation and deferred taxes compared to the level of equity and debt.



Ratio Type Return on ave equity

Balance sheet components	2007	2006	2005	2004
Profit after taxation	284,778	247,182	191,046	177,490
Total profits extraordinary nature	-49,904	1,459	-21,594	-
Total ow ners interest	5,956,434	2,483,265	1,788,606	1,501,747
Total ow ners interest previous	2,483,265	1,788,606	1,501,747	-
Accumulated depreciation	26,646	16,681	9,405	3,004
Deferred taxes (60% non-reversing)	155,690	-	-	-
Accumulated depreciation - previous	16,681	9,405	3,004	-
Deferred taxes (60% non-reversing) -previous	-	-	-	-

Ratio	Formula	2007	2006	2005	2004	Comments
Original Return on Average Equity %	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Ow ners Interest}) + ((\text{Total Ow ners Interest previous}))) / 2}{2} * 100$	7.93	11.5	12.93	40.52	The return on average equity is a measure of performance. It indicates how well the management has used the investment made by ow ners into the business
Industry Original Return on Average Equity % (real estate investment trust)		7.76	8.12	10.45	18.85	
1st Iteration (including acc depr in equity)	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Ow ners Interest} + \text{Accumulated depreciation}) + (\text{Total Ow ners Interest previous} + \text{Accumulated depreciation previous}))) / 2}{2} * 100$	7.89	11.43	12.88	23.59	The formula is expanded to add accumulated depr to ow ners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Ow ners Interest} + \text{Deferred taxes}) + (\text{Total Ow ners Interest previous} + \text{Deferred taxes previous}))) / 2}{2} * 100$	7.79	11.50	12.93	23.64	The formula is expanded to add 60% of deferred taxes to ow ners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Ow ners Interest} + \text{Accumulated depreciation} + \text{Deferred taxes}) + (\text{Total Ow ners Interest previous} + \text{Accumulated depreciation previous} + \text{Deferred taxes previous}))) / 2}{2} * 100$	7.75	11.43	12.88	23.59	The formula is expanded to add 60% of deferred taxes and accumulated depr to ow ners interest in the denominator



Summary

The return on average equity indicates how well the management has used the investment made by ow ners into the business. The primary objective of business is to earn profit and a higher return on average equity indicates that the firm is using its equity funds more efficiently. The ratio can be found for a number of years so as to find a trend as to whether the profitability of the company is improving or otherwise.

The trend over the past four years indicate the return on equity for Emira has been decreasing over time. The decreasing trend can be explained by the increase in shareholders equity while profits have stayed at fairly consistent levels. Emira's returns have been consistent with the industry returns which could indicate that Emira have been successful in utilising their equity financing in the most efficient manner that will result in higher levels of income being produced. Although the increase in equity has not resulted in much higher levels of profits indicating that Emira can do more to effectively apply its equity capital to increase profits.

The inclusion of accumulated depreciation and deferred taxes in equity causes the return to decrease slightly because the Rand amount of these items are relatively small compared to the overall levels of equity. This indicates that Emira is overstating returns on equity by not including the impact of accumulated depreciation on capital structure, as these are associated costs of earning the returns from assets used by the company.

Company:
Industry:

Glenrand MIB Ltd
NonLife Insurance

Ratio Type **Quick ratio**

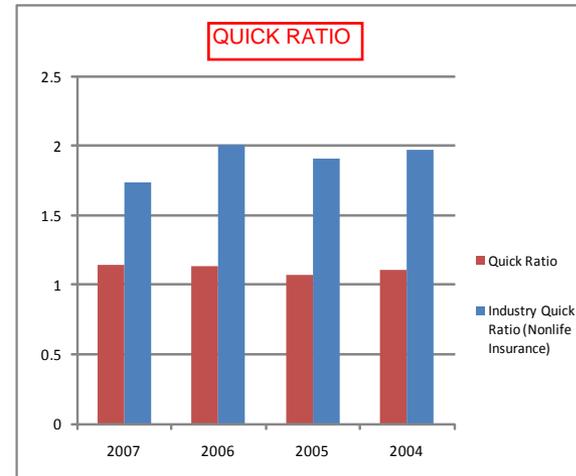
Balance sheet components	2007	2006	2005	2004
Total current assets	526,526	565,772	605,613	706,183
Total inventory	-	-	-	-
Total current liabilities	462,162	500,313	566,696	635,275

Ratio	Formula	2007	2006	2005	2004	Comments
Quick Ratio	$\frac{((\text{Total Current Assets}) - (\text{Total Inventory}))}{(\text{Total Current Liabilities})}$	1.14	1.13	1.07	1.11	To measure the liquidity of a company's short term assets relative to its short term liabilities
Industry Quick Ratio (Nonlife Insurance)		1.73	2.00	1.90	1.97	

Summary

The quick ratio is a measure of a company's ability to pay short term debt obligation as they become due. The quick ratio excludes the effect of inventory. A ratio of 1:1 is considered adequate but a higher or lower ratio doesn't necessarily imply a company is better or worse off.

Glenrand's quick ratio has been fairly consistent over the past four years at a level higher than 1 which indicates that Glenrand has enough current assets to cover current liabilities. The Glenrand ratio is lower than the industry average which indicates that Glenrand might run into liquidity concerns if all short term liabilities become payable at once. Looking at the balance sheet it can be seen that short term advances and debtors make up a large portion of short term assets. It indicates that Glenrand is potentially dependent on their cash conversion cycle and the frequency of debtors paying in order to meet the settlement of short term liabilities. The short term liability section comprises mainly of creditors. The average industry ratio indicates that peer groups in this sector has higher quick ratios to Glenrand. The liquidity position can be improved by actively managing and collecting outstanding debtor accounts.



Ratio Type **Debt/Assets**

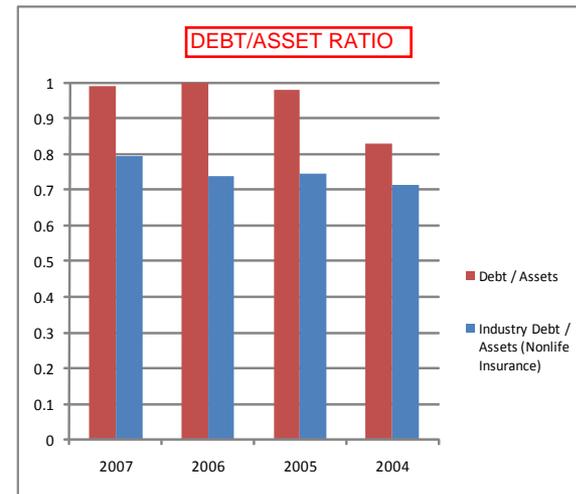
Balance sheet components	2007	2006	2005	2004
Total long term loan capital	5,504,163	5,284,600	3,355,421	34,792
Total current liabilities	462,162	500,313	566,696	635,275
Total assets	6,030,344	5,765,216	4,014,062	803,790

Ratio	Formula	2007	2006	2005	2004	Comments
Debt / Assets	$\frac{((\text{Total Long Term Loan Capital}) + (\text{Total Current Liabilities}))}{(\text{Total Assets})}$	0.99	1	0.98	0.83	To measure the level of debt in comparison to total assets as indication of financing mix
Industry Debt / Assets (Nonlife Insurance)		0.79	0.74	0.75	0.71	

Summary

The debt/asset ratio gives an indication as to how a company finances its assets. A ratio close to one indicates that a company uses predominantly debt rather than equity as the preferred method of financing.

Glenrand's debt to asset ratio has been consistent at levels of close to 1 over the past four years. It indicates that Glenrand uses predominantly debt to finance its assets. Compared to the industry average Glenrand uses more debt financing than peers with the industry average being at levels of around 0.75 over the past four years indicating that the industry as a whole do utilise more debt than equity financing. This indicates that compared to its peers Glenrand is heavily geared. It can also be seen from the above information that long term liabilities make up the largest proportion of total debt. From the financial statements included in the appendices the long term liabilities of Glenrand over the period has been consistently made up of other long term borrowings. The assets consist mainly of long term assets with a large amount of unlisted investments on the balance sheet. The funding mix indicates that long term debt is predominantly used to fund its assets which are also of a long term nature.



Ratio Type Debt/Equity

Balance sheet components	2007	2006	2005	2004
Total owners interest	64,019	-19,697	91,945	133,723
Total current liabilities	462,162	500,313	566,696	635,275
Total long term loan capital	5,504,163	5,284,600	3,355,421	34,792
Accumulated depreciation	49,096	47,722	81,815	72,463
Deferred taxes (60% non-reversing)	-	-	-	-

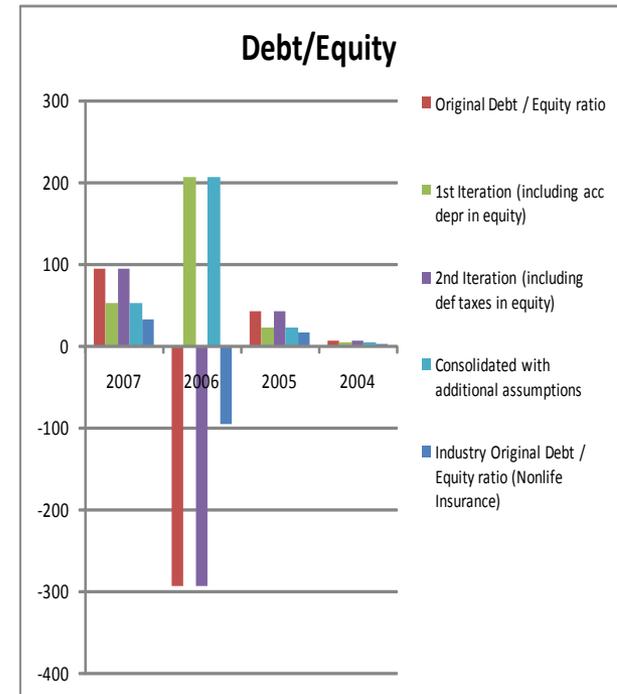
Ratio	Formula	2007	2006	2005	2004	Comments
Original Debt / Equity ratio	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})}$	93.2	-293.7	42.66	5.01	Debt to equity ratio indicates the proportionate claims of owners and creditors against the firm's assets.
Industry Original Debt / Equity ratio (Nonlife Insurance)		32.78	-96.86	15.35	2.94	
1st iteration (including acc depr in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})}$	52.75	206.42	22.57	3.25	The formula is expanded to add accumulated depr to owners interest in the denominator
2nd iteration (including def taxes in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Deferred taxes})}$	93.20	-293.70	42.66	5.01	The formula is expanded to add 60% of deferred taxes to owners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})+(\text{Deferred taxes})}$	52.75	206.42	22.57	3.25	The formula is expanded to add 60% of deferred taxes and accumulated depr to owners interest in the denominator

Summary

The debt to equity ratio indicates the proportionate claims of owners and outside funders against the company's assets. The purpose is to get an idea of the cushion available to outsiders on the liquidation of the firm. A ratio of 1:1 is usually considered to be satisfactory ratio although there cannot be rule of thumb or standard norm for all types of businesses. Theoretically if the owners interests are greater than that of creditors, the financial position is highly solvent.

The debt-equity ratio of Glenrand have been increasing over the past four years except for 2006. The negative ratio recorded in 2006 is due to the negative shareholders interest recorded on the balance sheet. The ratio indicates that Glenrand utilises more debt than equity financing. Compared to the industry average Glenrand seems to be overly geared. The industry also uses high levels of debt to finance operations. From the above information it can also be seen that Glenrand uses a mix of predominantly long term debt financing. The long term debt financing comprises mainly other long term borrowings.

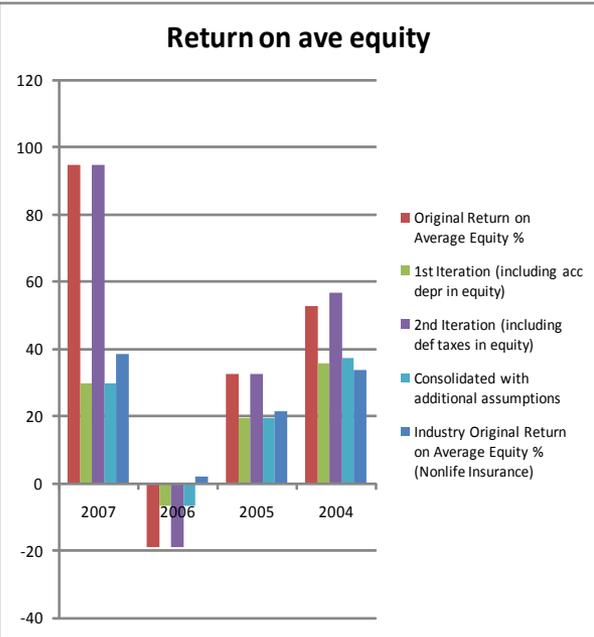
The debt-equity ratio is also used to analyse the impact of the items discussed in chapter six that influence the debt/equity mix. Compound and hybrid instruments are already included in the total owners interest and long term loan capital. The two items remaining are deferred taxes and accumulated depreciation. If these items are included in equity, as motivated in chapter six, it will reduce the debt-equity ratio of Glenrand as shown above. This implies that the company's leverage ratio will decrease.



Ratio Type Return on ave equity

Balance sheet components	2007	2006	2005	2004
Profit after taxation	95,387	77,753	43,473	43,644
Total profits extraordinary nature	74,382	84,603	6,934	-38,123
Total ow ners interest	64,019	-19,697	91,945	133,723
Total ow ners interest previous	-19,697	91,945	133,723	176,999
Accumulated depreciation	49,096	47,722	81,815	72,463
Deferred taxes (60% non-reversing)	-	-	-	-
Accumulated depreciation - previous	47,722	81,815	72,463	76,005
Deferred taxes (60% non-reversing) -previous	-	-	-	-21,426

Ratio	Formula	2007	2006	2005	2004	Comments
Original Return on Average Equity %	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Ow ners Interest} + ((\text{Total Ow ners Interest previous}))) / 2) * 100$	94.78	-18.96	32.38	52.63	The return on average equity is a measure of performance. It indicates how well the management has used the investment made by ow ners into the business
Industry Original Return on Average Equity % (Nonlife Insurance)		38.31	2.17	21.34	33.55	
1st Iteration (including acc depr in equity)	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) + (\text{Accumulated depreciation}) + (\text{Total Ow ners Interest previous} + \text{Accumulated depreciation previous})) / 2 * 100$	29.76	-6.79	19.23	35.61	The formula is expanded to add accumulated depr to ow ners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) + (\text{Total Ow ners Interest} + (\text{Deferred taxes})) + (\text{Total Ow ners Interest previous} + \text{Deferred taxes previous})) / 2 * 100$	94.78	-18.96	32.38	56.53	The formula is expanded to add 60% of deferred taxes to ow ners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) + (\text{Accumulated depreciation}) + (\text{Deferred taxes}) + (\text{Total Ow ners Interest previous} + \text{Accumulated depreciation previous} + \text{Deferred taxes previous})) / 2 * 100$	29.76	-6.79	19.23	37.36	The formula is expanded to add 60% of deferred taxes and accumulated depr to ow ners interest in the denominator



Summary

The return on average equity indicates how well the management has used the investment made by ow ners into the business. The primary objective of business is to earn profit and a higher return on average equity indicates that the firm is using its equity funds more efficiently. The ratio can be found for a number of years so as to find a trend as to whether the profitability of the company is improving or otherwise.

The trend over the past four years indicate the return on equity for Glenrand has not been very stable. The decrease in 2005 is due a large amount of extraordinary losses being added back to profits. The negative return in 2006 is due to a large extraordinary profit on the sale of an investment making up the largest portion of profits while a negative shareholders equity amount was recognised in 2006. Glenrand's returns have been consistently above the industry average apart from 2006 which could indicate that they have been successful in utilising their equity financing in the most efficient manner that will result in higher levels of income being produced.

The inclusion of accumulated depreciation and deferred taxes in equity causes the return to decrease. This indicates that Glenrand is overstating returns on equity by not including the impact of accumulated depreciation on capital structure, as these are associated costs of earning the returns from assets used by the company.

Company: Howden Africa Holdings
Industry: Industrial machinery

Ratio Type Quick ratio

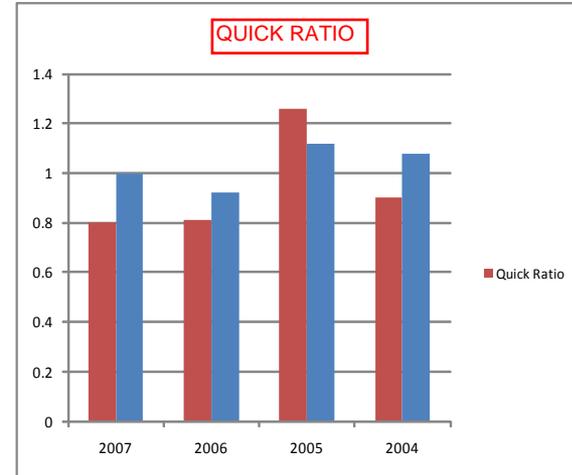
Balance sheet components	2007	2006	2005	2004
Total current assets	241,605	202,711	221,960	195,170
Total inventory	32,197	32,431	18,656	48,804
Total current liabilities	260,297	210,156	161,589	162,463

Ratio	Formula	2007	2006	2005	2004	Comments
Quick Ratio	$\frac{((\text{Total Current Assets}) - (\text{Total Inventory}))}{(\text{Total Current Liabilities})}$	0.8	0.81	1.26	0.9	To measure the liquidity of a company's short term assets relative to its short term liabilities
Industry Quick Ratio (Industrial machinery)		1.00	0.92	1.12	1.08	

Summary

The quick ratio is a measure of a company's ability to pay short term debt obligation as they become due. The quick ratio excludes the effect of inventory. A ratio of 1:1 is considered adequate but a higher or lower ratio doesn't necessarily imply a company is better or worse off.

Howden's quick ratio has increased slightly in 2005 thereafter decreasing to a level of 0.8. The increase in 2005 was due to an increase in short term advances and a decrease in creditors. In 2006 creditors increased while cash decreased. The Howden ratio is lower than the industry average which indicates that Howden might run into liquidity concerns if all short term liabilities become payable at once. Looking at the financial statements included in the appendices it can be seen the debtors make up a large portion of short term assets. It indicates that Howden is potentially dependent on their cash conversion cycle and the frequency of debtors paying in order to meet the settlement of short term liabilities. The short term liability section comprises mainly of creditors. The average industry ratio indicates that peer groups in this sector have higher quick ratios than Howden and their current assets at least covers their current liabilities on a one to one basis. The liquidity position can be improved by actively managing and collecting outstanding debtor accounts.



Ratio Type Debt/Assets

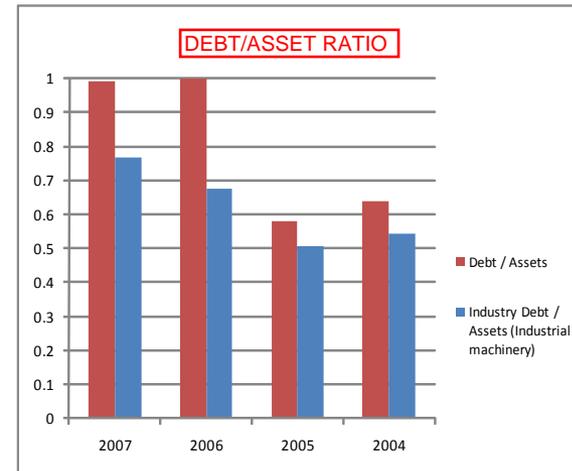
Balance sheet components	2007	2006	2005	2004
Total long term loan capital	23,680	83,764	6,377	-
Total current liabilities	260,297	210,156	161,589	162,463
Total assets	287,532	274,238	291,869	252,599

Ratio	Formula	2007	2006	2005	2004	Comments
Debt / Assets	$\frac{((\text{Total Long Term Loan Capital}) + (\text{Total Current Liabilities}))}{(\text{Total Assets})}$	0.99	1.07	0.58	0.64	To measure the level of debt in comparison to total assets as indication of financing mix
Industry Debt / Assets (Industrial machinery)		0.77	0.68	0.51	0.54	

Summary

The debt-asset ratio gives an indication as to how a company finances its assets. A ratio close to one indicates that a company uses predominantly debt rather than equity as the preferred method of financing.

Howden's debt to asset ratio decreased in 2005 and subsequently increased to levels close to one. The decrease in 2005 is due to the reduction in long term loan capital which increased in subsequent years causing the ratio to increase. It indicates that Howden uses predominantly debt to finance its assets. Compared to the industry average Howden uses more debt financing than peers with the industry average being at levels that increased from 0.5 to almost 0.8 over the past four years. This indicates that the industry is favouring debt over equity financing in recent years. Howden is more geared compared to its peers. It can also be seen from the above information that short term liabilities make up the largest proportion of total debt. From the financial statements included in the appendices the short term liabilities of Howden over the period has been consistently made up of creditors. The assets consist mainly of short term assets with a large amount of debtors on the balance sheet. The funding mix indicates that short term debt is predominantly used to fund its assets which are also of a short term nature.



Ratio Type Debt/Equity

Balance sheet components	2007	2006	2005	2004
Total ow ners interest	3,555	-19,682	123,903	90,136
Total current liabilities	260,297	210,156	161,589	162,463
Total long term loan capital	23,680	83,764	6,377	-
Accumulated depreciation	45,464	44,176	41,992	42,100
Deferred taxes (60% non-reversing)	-	-	-	-

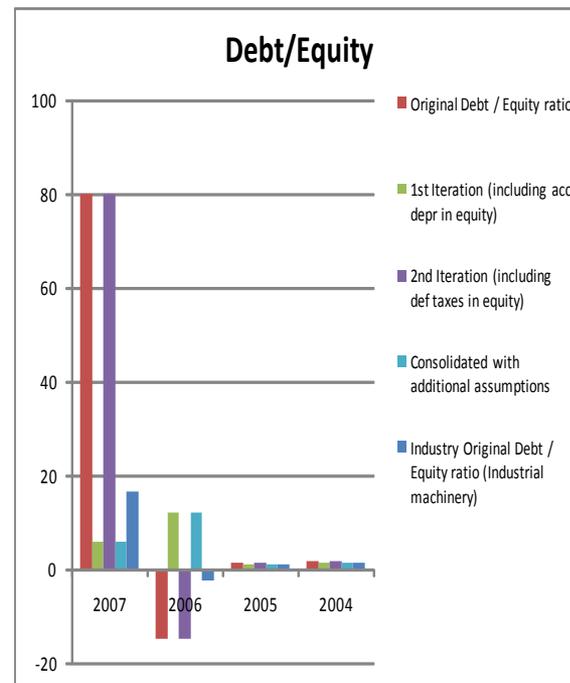
Ratio	Formula	2007	2006	2005	2004	Comments
Original Debt / Equity ratio	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Ow ners Interest})}$	79.88	-14.93	1.36	1.8	Debt to equity ratio indicates the proportionate claims of ow ners and creditors against the firm's assets.
Industry Original Debt / Equity ratio (Industrial machinery)		16.43	-2.40	1.05	1.24	
1st iteration (including acc depr in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Ow ners Interest})+(\text{Accumulated depreciation})}$	5.79	12.00	1.01	1.23	The formula is expanded to add accumulated depr to ow ners interest in the denominator
2nd iteration (including def taxes in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Ow ners Interest})+(\text{Deferred taxes})}$	79.88	-14.93	1.36	1.80	The formula is expanded to add 60% of deferred taxes to ow ners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Ow ners Interest})+(\text{Accumulated depreciation})+(\text{Deferred taxes})}$	5.79	12.00	1.01	1.23	The formula is expanded to add 60% of deferred taxes and accumulated depr to ow ners interest in the denominator

Summary

The debt to equity ratio indicates the proportionate claims of ow ners and outside funders against the company's assets. The purpose is to get an idea of the cushion available to outsiders on the liquidation of the firm. A ratio of 1:1 is usually considered to be satisfactory ratio although there cannot be rule of thumb or standard norm for all types of businesses. Theoretically if the ow ners interests are greater than that of creditors, the financial position is highly solvent.

The debt-equity ratio of How den have been increasing over the past four years except for 2006. The negative ratio recorded in 2006 is due to the negative shareholders interest recorded on the balance sheet. The ratio indicates that How den utilises more debt than equity financing. Compared to the industry average How den seems to be overly geared in 2007. The industry also uses high levels of debt to finance operations. From the above information it can also be seen that How den uses a mix of predominantly short term debt financing. The short term debt financing comprises mainly creditors.

The debt equity ratio is also used to analyse the impact of the items discussed in chapter six that influence the debt/equity mix. Compound and hybrid instruments are already included in the total ow ners interest and long term loan capital. The two items remaining are deferred taxes and accumulated depreciation. If these items are included in equity, as motived in chapter six, it will reduce the debt-equity ratio of How den as shown above. This implies that the company's leverage ratio will decrease.



Ratio Type Return on ave equity

Balance sheet components	2007	2006	2005	2004
Profit after taxation	61,003	24,033	25,725	9,701
Total profits extraordinary nature	-1,168	6,019	-492	-1,767
Total ow ners interest	3,555	-19,682	123,903	90,136
Total ow ners interest previous	-19,682	123,903	90,136	85,985
Accumulated depreciation	45,464	44,176	41,992	42,100
Deferred taxes (60% non-reversing)	-	-	-	-
Accumulated depreciation - previous	44,176	41,992	42,100	38,748
Deferred taxes (60% non-reversing) -previous	-	-	-	-

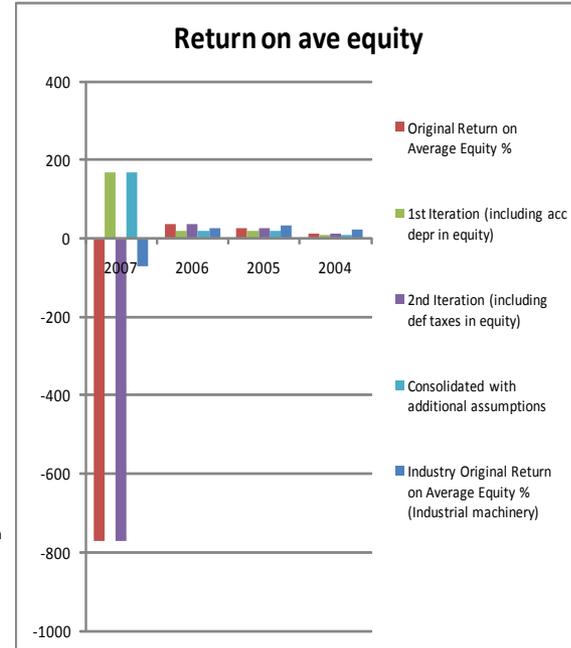
Ratio	Formula	2007	2006	2005	2004	Comments
Original Return on Average Equity %	$\frac{((\text{Profit After Taxation}) - (\text{Total Profits Extraordinary Nature})) / ((\text{Total Ow ners Interest}) + ((\text{Total Ow ners Interest previous})) / 2) * 100$	-772.36	34.57	24.5	13.02	The return on average equity is a measure of performance. It indicates how well the management has used the investment made by ow ners into the business
Industry Original Return on Average Equity % (Industrial machinery)		-70.76	25.35	31.15	22.72	
1st Iteration (including acc depr in equity)	$\frac{((\text{Profit After Taxation}) - (\text{Total Profits Extraordinary Nature})) / ((\text{Total Ow ners Interest}) + (\text{Accumulated depreciation previous} + \text{Accumulated depreciation previous}) / 2) * 100$	169.14	18.92	17.59	8.93	The formula is expanded to add accumulated depr to ow ners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Profit After Taxation}) - (\text{Total Profits Extraordinary Nature})) / ((\text{Total Ow ners Interest}) + (\text{Deferred taxes previous} + \text{Total Ow ners Interest previous} + \text{Deferred taxes previous}) / 2) * 100$	-771.02	34.57	24.50	13.02	The formula is expanded to add 60% of deferred taxes to ow ners interest in the denominator
Consolidated w ith additional assumptions	$\frac{((\text{Profit After Taxation}) - (\text{Total Profits Extraordinary Nature})) / ((\text{Total Ow ners Interest}) + (\text{Accumulated depreciation previous} + \text{Deferred taxes previous} + \text{Accumulated depreciation previous} + \text{Deferred taxes previous}) / 2) * 100$	169.14	18.92	17.59	8.93	The formula is expanded to add 60% of deferred taxes and accumulated depr to ow ners interest in the denominator

Summary

The return on average equity indicates how well the management has used the investment made by ow ners into the business. The primary objective of business is to earn profit and a higher return on average equity indicates that the firm is using its equity funds more efficiently. The ratio can be found for a number of years so as to find a trend as to whether the profitability of the company is improving or otherwise.

The trend over the past four years indicate the return on equity for How den was increasing until 2007. The negative return in 2007 is due to negative shareholder's interest being recognised in the previous period and low levels of shareholders equity in 2007 causing an average negative shareholder return number and a negative return. How den's returns have been below the industry average apart from 2006 which could indicate that they have been unsuccessful in utilising their equity financing in the most efficient manner that will result in higher levels of income being produced.

The inclusion of accumulated depreciation and deferred taxes in equity causes the return to decrease. This indicates that How den is overstating returns on equity by not including the impact of accumulated depreciation on capital structure, as these are associated costs of earning the returns from assets used by the company.



Company:
Industry:

Nampak
Containers and packaging

Ratio Type **Quick ratio**

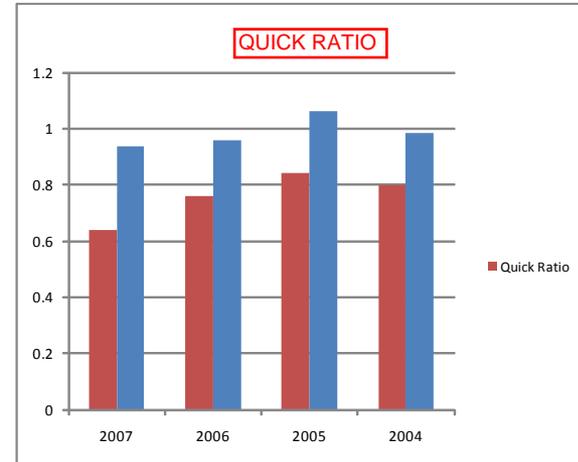
Balance sheet components	2007	2006	2005	2004
Total current assets	5,890,800	5,735,200	5,198,800	5,443,600
Total inventory	2,361,300	2,169,200	2,049,900	2,055,900
Total current liabilities	5,548,300	4,705,700	3,760,200	4,227,300

Ratio	Formula	2007	2006	2005	2004	Comments
Quick Ratio	$\frac{((\text{Total Current Assets}) - (\text{Total Inventory}))}{(\text{Total Current Liabilities})}$	0.64	0.76	0.84	0.8	To measure the liquidity of a company's short term assets relative to its short term liabilities
Industry Quick Ratio (Containers and packaging)		0.94	0.96	1.06	0.98	

Summary

The quick ratio is a measure of a company's ability to pay short term debt obligation as they become due. The quick ratio excludes the effect of inventory. A ratio of 1:1 is considered adequate but a higher or lower ratio doesn't necessarily imply a company is better or worse off.

Nampak's quick ratio has been declining over the four year period. The Nampak ratio is lower than the industry average which indicates that Nampak might run into liquidity concerns if all short term liabilities become payable at once. Looking at the financial statements included in the appendices it can be seen that debtors makes up a large portion of short term assets. It indicates that Nampak is potentially dependent on their cash conversion cycle and the frequency of debtors paying in order to meet the settlement of short term liabilities. The short term liability section comprises mainly of creditors. The average industry ratio indicates that peer groups in this sector has higher quick ratios to Nampak and their current assets at least covers their current liabilities on a one to one basis. The liquidity position can be improved by actively managing and collecting outstanding debtor accounts.



Ratio Type **Debt/Assets**

Balance sheet components	2007	2006	2005	2004
Total long term loan capital	1,105,300	1,762,600	1,205,400	1,360,500
Total current liabilities	5,548,300	4,705,700	3,760,200	4,227,300
Total assets	11,876,700	11,268,500	9,305,000	9,822,400

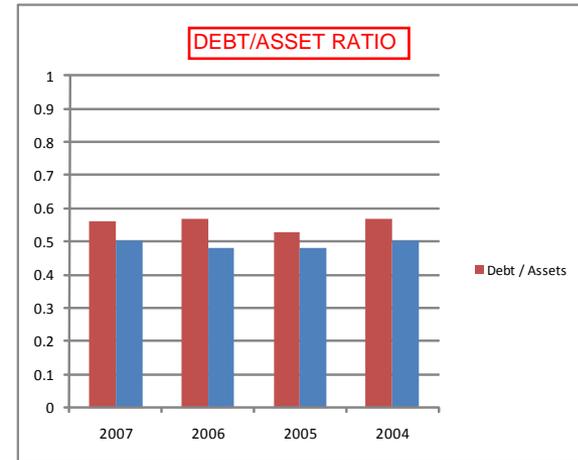
Ratio	Formula	2007	2006	2005	2004	Comments
Debt / Assets	$\frac{((\text{Total Long Term Loan Capital}) + (\text{Total Current Liabilities}))}{(\text{Total Assets})}$	0.56	0.57	0.53	0.57	To measure the level of debt in comparison to total assets as indication of financing mix
Industry Debt / Assets (containers and packaging)		0.50	0.48	0.48	0.50	

Summary

The debt-asset ratio gives an indication as to how a company finances its assets. A ratio close to one indicates that a company uses predominantly debt rather than equity as the preferred method of financing.

Nampak's debt to asset ratio has been fairly consistent over the past four years at levels between 0.55 and 0.6. It indicates that Nampak uses about a fifty-fifty mix of debt and equity to finance its assets. Compared to the industry average Nampak uses similar mix of funding than its peers with the industry average being at levels of 0.5 over the past four years indicating that the industry uses an equal blend of debt and equity financing. This indicates that compared to its peers Nampak is similarly geared. It can also be seen from the above information that short term liabilities make up the largest proportion of total debt. From the financial statements included in the appendices the short term liabilities of Nampak over the period has been consistently made up of creditors. The assets consist of a 50/50 split between short and long term assets. Long term assets consist mainly of mainly of fixed assets while short term assets consists predominantly of debtors. The funding mix indicates that short term debt is predominantly used to fund short term assets while long term assets are financed with equity capital.

Also from the information provided later on in the cost of capital calculation section it can be seen that the cost of debt and equity are similarly priced for Nampak which might serve to point to a motivation as to the funding mix.



Ratio Type Debt/Equity

Balance sheet components	2007	2006	2005	2004
Total owners interest	5,223,100	4,800,200	4,339,400	4,234,600
Total current liabilities	5,548,300	4,705,700	3,760,200	4,227,300
Total long term loan capital	1,105,300	1,762,600	1,205,400	1,360,500
Accumulated depreciation	3,360,900	2,940,900	4,816,400	5,809,200
Deferred taxes (60% non-reversing)	439,860	404,280	298,560	243,420

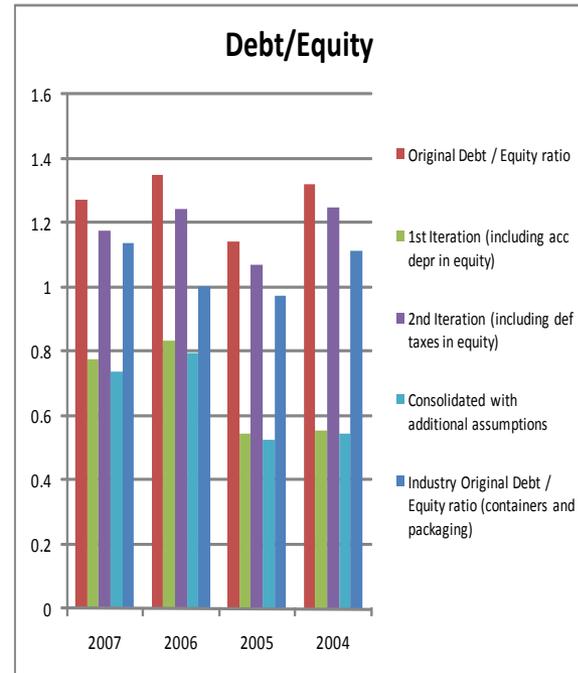
Ratio	Formula	2007	2006	2005	2004	Comments
Original Debt / Equity ratio	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})}$	1.27	1.35	1.14	1.32	Debt to equity ratio indicates the proportionate claims of owners and creditors against the firm's assets.
Industry Original Debt / Equity ratio (containers and packaging)		1.14	1.00	0.98	1.12	
1st Iteration (including acc depr in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})}$	0.78	0.84	0.54	0.56	The formula is expanded to add accumulated depr to owners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Deferred taxes})}$	1.17	1.24	1.07	1.25	The formula is expanded to add 60% of deferred taxes to owners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})+(\text{Deferred taxes})}$	0.74	0.79	0.53	0.54	The formula is expanded to add 60% of deferred taxes and accumulated depr to owners interest in the denominator

Summary

The debt to equity ratio indicates the proportionate claims of owners and outside funders against the company's assets. The purpose is to get an idea of the cushion available to outsiders on the liquidation of the firm. A ratio of 1:1 is usually considered to be satisfactory ratio although there cannot be rule of thumb or standard norm for all types of businesses. Theoretically if the owners interests are greater than that of creditors, the financial position is highly solvent.

The debt-equity ratio of Nampak have been at fairly consistent levels over the past four years. The ratio indicates that Nampak uses an almost even mix of debt and equity financing with slightly higher amounts of debt being utilised. This is consistent with the industry ratio of close to one which indicates that peer groups in the industry also uses an almost equal amount of debt and equity financing with the preference for slightly more equity financing. Compared to its industry Nampak is slightly more geared but not overly geared. The industry uses almost equal levels of debt and equity financing as do Nampak. From the above information it can also be seen that Nampak uses predominantly short term debt financing compared to total debt. The short term debt financing comprises mainly creditors, while equity financing comprised mostly distributable reserves.

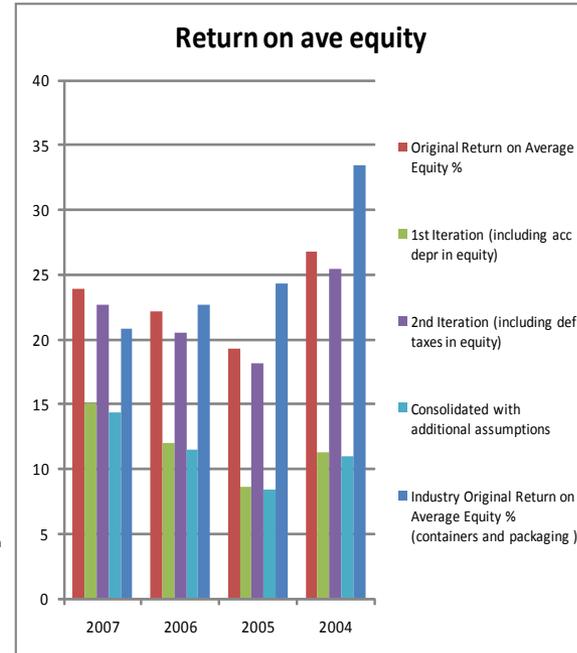
The debt equity ratio is also used to analyse the impact of the items discussed in chapter six that influence the debt/equity mix. Compound and hybrid instruments are already included in the total owners interest and long term loan capital. The two items remaining are deferred taxes and accumulated depreciation. If these items are included in equity, as motivated in chapter six, it will reduce the debt-equity ratio of Nampak even further as shown above. This implies that the company's leverage ratio will decrease.



Ratio Type Return on ave equity

Balance sheet components	2007	2006	2005	2004
Prof it after taxation	1,152,700	1,182,200	928,100	1,155,800
Total profits extraordinary nature	-81,700	170,300	99,500	66,600
Total ow ners interest	5,223,100	4,800,200	4,339,400	4,234,600
Total ow ners interest previous	4,800,200	4,339,400	4,234,600	3,888,200
Accumulated depreciation	3,360,900	2,940,900	4,816,400	5,809,200
Deferred taxes (60% non-reversing)	439,860	404,280	298,560	243,420
Accumulated depreciation - previous	2,940,900	4,816,400	5,809,200	5,387,000
Deferred taxes (60% non-reversing) -previous	404,280	298,560	243,420	201,000

Ratio	Formula	2007	2006	2005	2004	Comments
Original Return on Average Equity %	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Ow ners Interest} + (\text{Total Ow ners Interest previous}))) / 2 * 100$	23.92	22.14	19.33	26.82	The return on average equity is a measure of performance. It indicates how well the management has used the investment made by ow ners into the business
Industry Original Return on Average Equity % (containers and packaging)		20.83	22.62	24.27	33.49	
1st Iteration (including acc depr in equity)	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Ow ners Interest} + \text{Accumulated depreciation} + \text{Total Ow ners Interest previous} + \text{Accumulated depreciation previous}))) / 2 * 100$	15.12	11.98	8.63	11.28	The formula is expanded to add accumulated depr to ow ners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Ow ners Interest} + \text{Deferred taxes} + \text{Total Ow ners Interest previous} + \text{Deferred taxes previous}))) / 2 * 100$	22.72	20.56	18.18	25.43	The formula is expanded to add 60% of deferred taxes to ow ners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Ow ners Interest} + \text{Accumulated depreciation} + \text{Deferred taxes} + \text{Total Ow ners Interest previous} + \text{Accumulated depreciation previous} + \text{Deferred taxes previous}))) / 2 * 100$	14.38	11.50	8.39	11.02	The formula is expanded to add 60% of deferred taxes and accumulated depr to ow ners interest in the denominator



Summary

The return on average equity indicates how well the management has used the investment made by ow ners into the business. The primary objective of business is to earn profit and a higher return on average equity indicates that the firm is using its equity funds more efficiently. The ratio can be found for a number of years so as to find a trend as to whether the profitability of the company is improving or otherwise.

The trend over the past four years indicate the return on equity saw a decrease in 2005 due to lower levels of profits being recognised and higher levels of extraordinary profits. In 2006 the situation improved with higher levels of profits being recognised in subsequent years. In 2007 the return improved slightly due to extraordinary losses being added back to profits. Nampak managed to improve returns above the industry average from 2006 onwards but in prior years the return was below industry averages which could indicate that Nampak had difficulties in generating higher returns for equity shareholders in earlier years but managed to improve performance of equity capital and generate higher returns to equity shareholders.

The inclusion of accumulated depreciation and deferred taxes in equity causes the return to decrease. This indicates that Nampak is overstating returns on equity by not including the impact of accumulated depreciation on capital structure, as these are associated costs of earning the returns from assets used by the company.

Company:
Industry:

PicknPay stores
Food retailers and wholesalers

Ratio Type **Quick ratio**

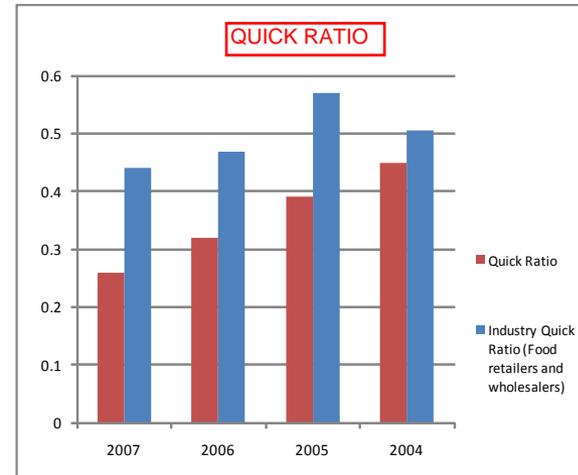
Balance sheet components	2007	2006	2005	2004
Total current assets	4,020,200	3,679,500	3,842,300	3,709,300
Total inventory	2,367,400	1,984,200	1,878,800	1,578,700
Total current liabilities	6,371,600	5,381,300	5,087,200	4,706,000

Ratio	Formula	2007	2006	2005	2004	Comments
Quick Ratio	$\frac{((\text{Total Current Assets}) - (\text{Total Inventory}))}{(\text{Total Current Liabilities})}$	0.26	0.32	0.39	0.45	To measure the liquidity of a company's short term assets relative to its short term liabilities
Industry Quick Ratio (Food retailers and wholesalers)		0.44	0.47	0.57	0.51	

Summary

The quick ratio is a measure of a company's ability to pay short term debt obligation as they become due. The quick ratio excludes the effect of inventory. A ratio of 1:1 is considered adequate but a higher or lower ratio doesn't necessarily imply a company is better or worse off.

PicknPay's quick ratio has been declining over the four year period. The decline in the ratio can be attributable to a higher increase in creditors to the increase in debtors. The PicknPay ratio is lower than the industry average which indicates that PicknPay might run into liquidity concerns if all short term liabilities become payable at once. Looking at the financial statements included in the appendices it can be seen that debtors make up a large portion of short term assets. It indicates that PicknPay is potentially dependent on their cash conversion cycle and the frequency of debtors paying in order to meet the settlement of short term liabilities. The short term liability section comprises mainly of creditors. The average industry ratio indicates that peer groups in this sector has higher quick ratios than PicknPay. The liquidity position can be improved by actively managing and collecting outstanding debtor amounts. Low levels of debtors indicate that PicknPay are much more strict with handing out credit lines to customers which makes good business sense but the high levels of creditors is a concern if they become due and payable immediately.



Ratio Type **Debt/Assets**

Balance sheet components	2007	2006	2005	2004
Total long term loan capital	911,400	923,200	368,500	349,200
Total current liabilities	6,371,600	5,381,300	5,087,200	4,706,000
Total assets	6,737,500	5,757,400	5,460,000	5,161,900

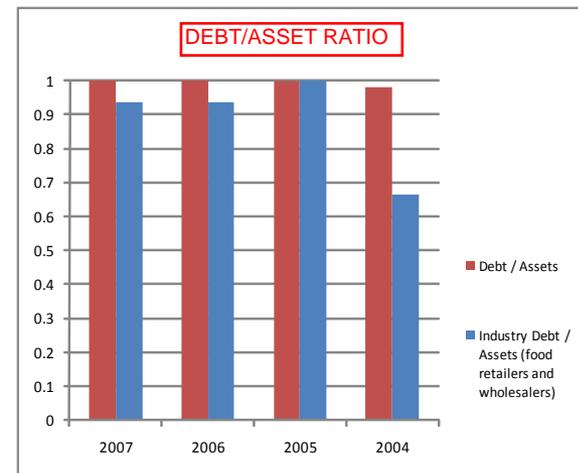
Ratio	Formula	2007	2006	2005	2004	Comments
Debt / Assets	$\frac{((\text{Total Long Term Loan Capital}) + (\text{Total Current Liabilities}))}{(\text{Total Assets})}$	1.08	1.1	1	0.98	To measure the level of debt in comparison to total assets as indication of financing mix
Industry Debt / Assets (food retailers and wholesalers)		0.94	0.94	1.05	0.67	

Summary

The debt-asset ratio gives an indication as to how a company finances its assets. A ratio close to one indicates that a company uses predominantly debt rather than equity as the preferred method of financing.

PicknPay's debt to asset ratio has been fairly consistent over the past four years at levels close to one. It indicates that PicknPay uses predominantly debt to finance its assets. Compared to the industry average PicknPay uses similar mix of funding than its peers with the industry average being at levels close to 1 over the past four years, indicating that the industry also uses predominantly debt to finance assets. This indicates that compared to its peers PicknPay is similarly geared. It can also be seen from the above information that short term liabilities make up the largest proportion of total debt. From the financial statements included in the appendices the short term liabilities of PicknPay over the period has been consistently made up of creditors. The assets consist of a 60/40 split between short and long term assets. Long term assets consist mainly of fixed assets while short term assets consists predominantly of debtors. The funding mix indicates that short term debt is predominantly used to fund the assets which are predominantly short term in nature.

Also from the information provided later on in the cost of capital calculation section it can be seen that the cost of debt is cheaper than equity for PicknPay which might serve to point to a motivation as to the funding mix.



Ratio Type Debt/Equity

Balance sheet components	2007	2006	2005	2004
Total owners interest	-545,500	-547,100	4,300	106,700
Total current liabilities	6,371,600	5,381,300	5,087,200	4,706,000
Total long term loan capital	911,400	923,200	368,500	349,200
Accumulated depreciation	2,116,700	1,813,500	1,532,600	1,806,500
Deferred taxes (60% non-reversing)	-	-	-	20,820

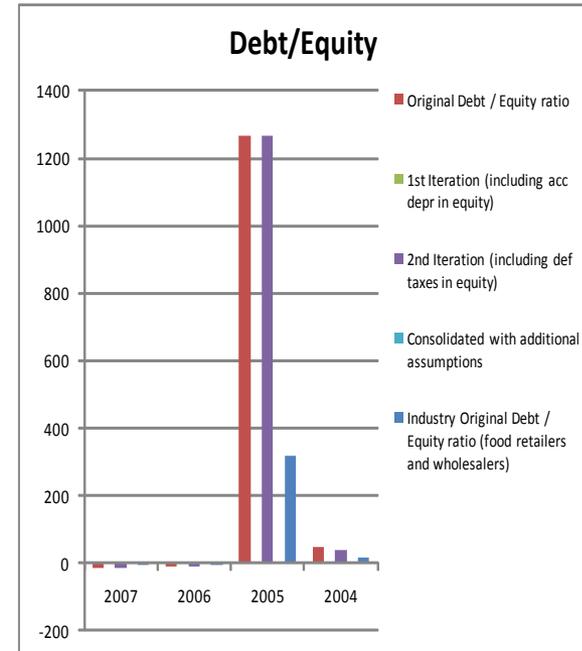
Ratio	Formula	2007	2006	2005	2004	Comments
Original Debt / Equity ratio	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})}$	-13.35	-11.52	1,268.77	47.38	Debt to equity ratio indicates the proportionate claims of owners and creditors against the firm's assets.
Industry Original Debt / Equity ratio (food retailers and wholesalers)		-6.75	-5.23	318.79	15.04	
1st Iteration (including acc depr in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})}$	4.64	4.98	3.55	2.64	The formula is expanded to add accumulated depr to owners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Deferred taxes})}$	-13.35	-11.52	1268.77	39.64	The formula is expanded to add 60% of deferred taxes to owners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})+(\text{Deferred taxes})}$	4.64	4.98	3.55	2.61	The formula is expanded to add 60% of deferred taxes and accumulated depr to owners interest in the denominator

Summary

The debt to equity ratio indicates the proportionate claims of owners and outside funders against the company's assets. The purpose is to get an idea of the cushion available to outsiders on the liquidation of the firm. A ratio of 1:1 is usually considered to be satisfactory ratio although there cannot be rule of thumb or standard norm for all types of businesses. Theoretically if the owners interests are greater than that of creditors, the financial position is highly solvent.

The debt-equity ratio of PicknPay were at high levels in 2004 and 2005 with negative ratios being recognised in 2006 and 2007. The negative ratios indicate that PicknPay have recorded negative equity shareholders interest for 2006 and 2007. This indicates that PicknPay relies heavily on debt financing and is highly leveraged. The industry ratio indicates that peer groups in the industry also rely heavily on debt financing. Compared to its industry PicknPay seems more geared than its peers. From the above information it can also be seen that PicknPay uses predominantly short term debt financing compared to total debt. The short term debt financing comprises mainly creditors.

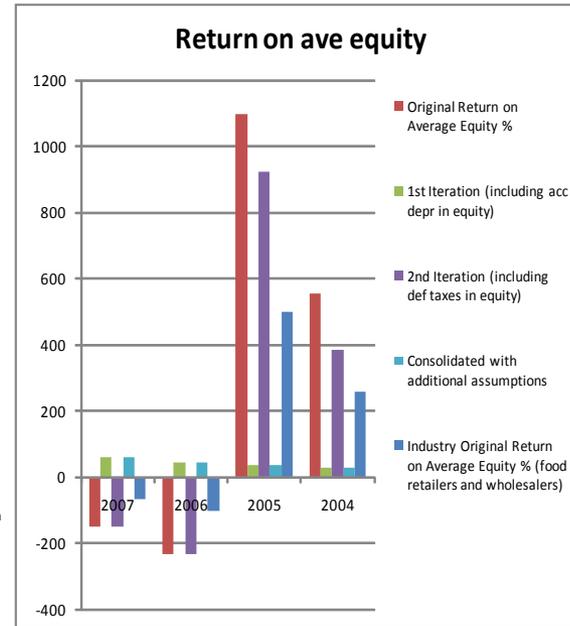
The debt-equity ratio is also used to analyse the impact of the items discussed in chapter six that influence the debt/equity mix. Compound and hybrid instruments are already included in the total owners interest and long term loan capital. The two items remaining are deferred taxes and accumulated depreciation. If these items are included in equity, as motivated in chapter six, it will reduce the debt-equity ratio of PicknPay even further as shown above. This implies that the company's leverage ratio will decrease. It is interesting to note that in periods where negative shareholders equity is recognised the inclusion of accumulated depreciation and deferred taxes improves the ratio by increasing the equity financing base of PicknPay.



Ratio Type Return on ave equity

Balance sheet components	2007	2006	2005	2004
Profit after taxation	763,000	630,300	539,900	507,400
Total profits extraordinary nature	-65,200	-2,500	-68,700	15,500
Total owners interest	-545,500	-547,100	4,300	106,700
Total owners interest previous	-547,100	4,300	106,700	70,400
Accumulated depreciation	2,116,700	1,813,500	1,532,600	1,806,500
Deferred taxes (60% non-reversing)	-	-	-	20,820
Accumulated depreciation - previous	1,813,500	1,532,600	1,806,500	1,558,100
Deferred taxes (60% non-reversing) -previous	-	-	20,820	57,180

Ratio	Formula	2007	2006	2005	2004	Comments
Original Return on Average Equity %	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Owners Interest} + ((\text{Total Owners Interest previous})) / 2) * 100}$	-151.6	-233.16	1,096.58	555.51	The return on average equity is a measure of performance. It indicates how well the management has used the investment made by owners into the business
Industry Original Return on Average Equity % (food retailers and wholesalers)		-68.78	-103.86	500.49	258.66	
1st Iteration (including acc depr in equity)	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Owners Interest} + (\text{Accumulated depreciation} + (\text{Total Owners Interest previous} + \text{Accumulated depreciation previous})) / 2) * 100}$	58.37	45.15	35.28	27.78	The formula is expanded to add accumulated depr to owners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Owners Interest} + (\text{Deferred taxes} + (\text{Total Owners Interest previous} + \text{Deferred taxes previous})) / 2) * 100}$	-151.60	-233.16	923.38	385.65	The formula is expanded to add 60% of deferred taxes to owners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Owners Interest} + (\text{Accumulated depreciation} + (\text{Deferred taxes} + (\text{Total Owners Interest previous} + \text{Accumulated depreciation previous} + \text{Deferred taxes previous})) / 2) * 100}$	58.37	45.15	35.07	27.18	The formula is expanded to add 60% of deferred taxes and accumulated depr to owners interest in the denominator



Summary

The return on average equity indicates how well the management has used the investment made by owners into the business. The primary objective of business is to earn profit and a higher return on average equity indicates that the firm is using its equity funds more efficiently. The ratio can be found for a number of years so as to find a trend as to whether the profitability of the company is improving or otherwise.

The trend over the past four years indicate the return on equity for PcknPay was at very high levels in 2004 and 2005 due to large profits compared to the small equity investment. In 2006 and 2007 negative returns were recognised due to negative shareholders interest being recognised on the balance sheet. This diminished returns to equity shareholders. Compared to its peers PcknPay made returns much higher than industry in 2004 and 2005 but much lower than average returns in 2006 and 2007 which could indicate that PcknPay was effective in managing shareholder capital in earlier periods but ran into some problems due to negative equity being shown on balance sheet. There seems to be sufficient profits being recognised but the equity capital position is negative.

The inclusion of accumulated depreciation and deferred taxes in equity causes the return to decrease in periods where a positive return was recognised but in periods of negative returns it serves to improve the return on shareholders equity as it increasing the equity capital of PcknPay to a positive number thus resulting in a positive return which is still much lower than previous returns. This indicates that PcknPay is overstating returns on equity by not including the impact of accumulated depreciation on capital structure, as these are associated costs of earning the returns from assets used by the company.

Company:
Industry:

Remgro
Diversified industrials

Ratio Type **Quick ratio**

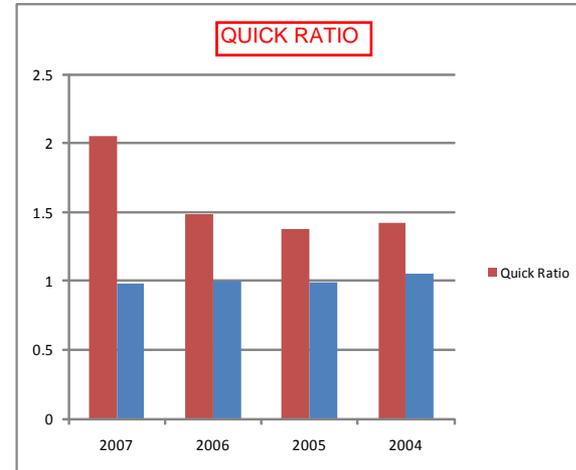
Balance sheet components	2007	2006	2005	2004
Total current assets	7,312,000	8,143,000	4,705,000	5,177,000
Total inventory	755,000	620,000	653,000	464,000
Total current liabilities	3,201,000	5,076,000	2,945,000	3,324,000

Ratio	Formula	2007	2006	2005	2004	Comments
Quick Ratio	$\frac{((\text{Total Current Assets}) - (\text{Total Inventory}))}{(\text{Total Current Liabilities})}$	2.05	1.48	1.38	1.42	To measure the liquidity of a company's short term assets relative to its short term liabilities
Industry Quick Ratio (Diversified industrials)		0.98	1.00	0.99	1.05	

Summary

The quick ratio is a measure of a company's ability to pay short term debt obligation as they become due. The quick ratio excludes the effect of inventory. A ratio of 1:1 is considered adequate but a higher or lower ratio doesn't necessarily imply a company is better or worse off.

Remgro's quick ratio has been at fairly consistent levels over the period 2004 to 2006. In 2007 there was a large increase in Remgro's quick ratio. The increase in the ratio can be attributable to a decrease in the provision for distribution account which almost halved in 2007. The Remgro ratio is higher than the industry average which indicates that Remgro has sufficient short term assets to cover short term liabilities. Remgro might run into liquidity concerns if all short term liabilities become payable at once but looking at the financial statements included in the appendices most of the current assets is in the form of cash which would indicate that Remgro is not as dependent on its debtor book and cash conversion cycle as some of the other companies. This would indicate that Remgro's current assets are fairly liquid and sufficient to cover outstanding current liabilities. The short term liability section comprises mainly of creditors and provisions for distribution. The average industry ratio indicates that peer groups in this sector also has current ratios close to one indicating that they can at least cover current liabilities once with current assets.



Ratio Type **Debt/Assets**

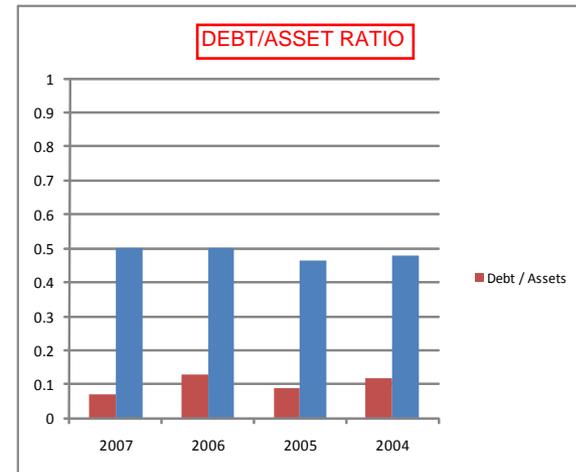
Balance sheet components	2007	2006	2005	2004
Total long term loan capital	375,000	354,000	431,000	291,000
Total current liabilities	3,201,000	5,076,000	2,945,000	3,324,000
Total assets	49,310,000	40,827,000	39,207,000	30,147,000

Ratio	Formula	2007	2006	2005	2004	Comments
Debt / Assets	$\frac{((\text{Total Long Term Loan Capital}) + (\text{Total Current Liabilities}))}{(\text{Total Assets})}$	0.07	0.13	0.09	0.12	To measure the level of debt in comparison to total assets as indication of financing mix
Industry Debt / Assets (Diversified industrials)		0.50	0.50	0.46	0.48	

Summary

The debt-asset ratio gives an indication as to how a company finances its assets. A ratio close to one indicates that a company uses predominantly debt rather than equity as the preferred method of financing.

Remgro's debt to asset ratio has been fairly consistent over the past four years at very low levels. It indicates that Remgro relies less on debt to finance its asset and prefers to use equity financing in stead. Compared to the industry average Remgro uses much lower levels of debt than its peers with the industry average being at levels close to 0.5 over the past four years, indicating that the industry uses an equal mix of debt and equity to finance assets. This indicates that compared to its peers Remgro is not heavily geared at all and uses low levels of debt indicating there is room for Remgro to utilise more debt funding if a need arises. It can also be seen from the above information that the small portion of debt to assets consist mainly of short term liabilities. From the financial statements included in the appendices the short term liabilities of Remgro over the period has been consistently made up of creditors and provisions for distribution. The assets consist of a 80/20 split between long and short term assets. Long term assets consist mainly of mainly of listed and unlisted investments while short term assets consists predominantly of cash in bank. The funding mix indicates that equity financing is used to finance most of the long term assets while short term debt is used to fund the short term asset portion of the balance sheet.



Ratio Type Debt/Equity

Balance sheet components	2007	2006	2005	2004
Total owners interest	45,734,000	35,397,000	35,831,000	26,532,000
Total current liabilities	3,201,000	5,076,000	2,945,000	3,324,000
Total long term loan capital	375,000	354,000	431,000	291,000
Accumulated depreciation	1,815,000	1,676,000	2,187,000	1,832,000
Deferred taxes (60% non-reversing)	648,600	420,000	167,400	190,200

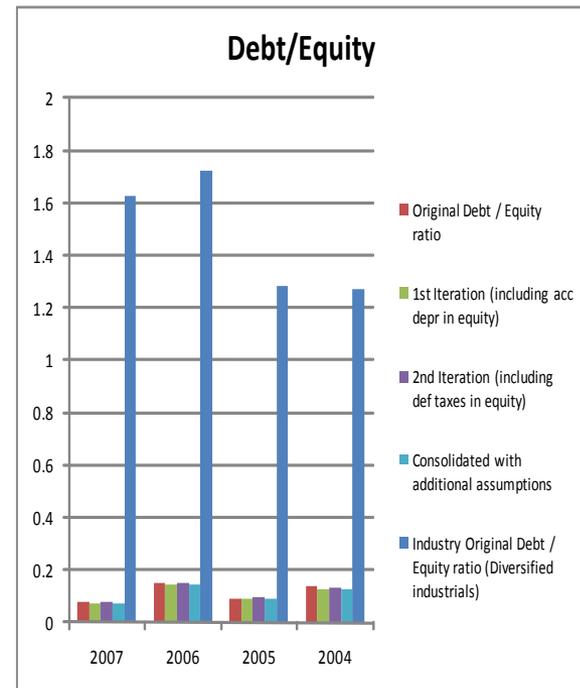
Ratio	Formula	2007	2006	2005	2004	Comments
Original Debt / Equity ratio	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})}$	0.08	0.15	0.09	0.14	Debt to equity ratio indicates the proportionate claims of owners and creditors against the firm's assets.
Industry Original Debt / Equity ratio (Diversified industrials)		1.63	1.72	1.28	1.27	
1st Iteration (including acc depr in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})}$	0.08	0.15	0.09	0.13	The formula is expanded to add accumulated depr to owners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Deferred taxes})}$	0.08	0.15	0.09	0.14	The formula is expanded to add 60% of deferred taxes to owners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})+(\text{Deferred taxes})}$	0.07	0.14	0.09	0.13	The formula is expanded to add 60% of deferred taxes and accumulated depr to owners interest in the denominator

Summary

The debt to equity ratio indicates the proportionate claims of owners and outside funders against the company's assets. The purpose is to get an idea of the cushion available to outsiders on the liquidation of the firm. A ratio of 1:1 is usually considered to be satisfactory ratio although there cannot be rule of thumb or standard norm for all types of businesses. Theoretically if the owners interests are greater than that of creditors, the financial position is highly solvent.

The debt-equity ratio of Remgro has been at consistently low levels over the four year period. This indicates that Remgro prefers the use of equity financing to debt and is not highly leveraged. The industry ratio indicates that peer groups in the industry rely more on debt financing and is more geared. From the above information it can also be seen that Remgro uses predominantly equity financing which consists mainly of distributable and non-distributable reserves. This indicates that Remgro utilises its accumulated profits to fund its operations.

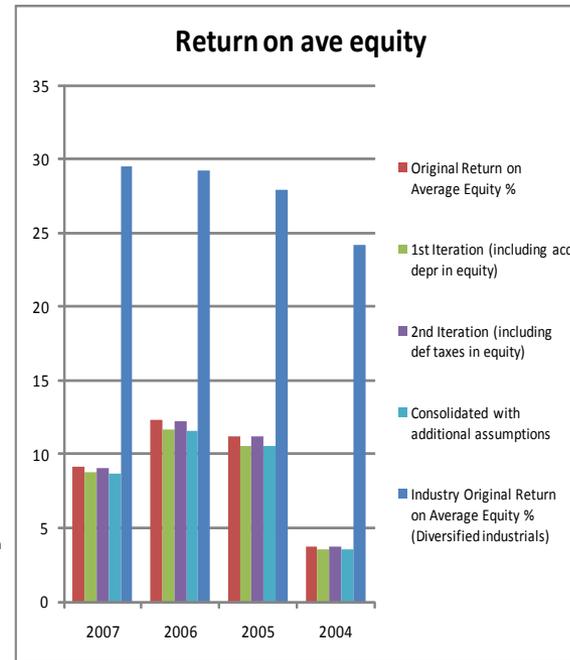
The debt equity ratio is also used to analyse the impact of the items discussed in chapter six that influence the debt/equity mix. Compound and hybrid instruments are already included in the total owners interest and long term loan capital. The two items remaining are deferred taxes and accumulated depreciation. If these items are included in equity, as motivated in chapter six, it will reduce the debt-equity ratio of Remgro even further as shown above. This implies that the company's leverage ratio will decrease slightly due to the higher levels of equity financing compared to accumulated depreciation and deferred taxes.



Ratio Type Return on ave equity

Balance sheet components	2007	2006	2005	2004
Profit after taxation	3,886,000	7,591,000	5,620,000	1,576,000
Total profits extraordinary nature	180,000	3,199,000	2,115,000	605,000
Total ow ners interest	45,734,000	35,397,000	35,831,000	26,532,000
Total ow ners interest previous	35,397,000	35,831,000	26,532,000	25,245,000
Accumulated depreciation	1,815,000	1,676,000	2,187,000	1,832,000
Deferred taxes (60% non-reversing)	648,600	420,000	167,400	190,200
Accumulated depreciation - previous	1,676,000	2,187,000	1,832,000	1,646,000
Deferred taxes (60% non-reversing) -previous	420,000	167,400	190,200	18,600

Ratio	Formula	2007	2006	2005	2004	Comments
Original Return on Average Equity %	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature})) / ((\text{Total Ow ners Interest}) + ((\text{Total Ow ners Interest previous})) / 2) * 100$	9.14	12.33	11.24	3.75	The return on average equity is a measure of performance. It indicates how well the management has used the investment made by ow ners into the business
Industry Original Return on Average Equity % (Diversified industrials)		29.47	29.22	27.92	24.20	
1st Iteration (including acc depr in equity)	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature})) / ((\text{Total Ow ners Interest}) + (\text{Accumulated depreciation}) + (\text{Total Ow ners Interest previous} + \text{Accumulated depreciation previous})) / 2) * 100$	8.76	11.70	10.56	3.51	The formula is expanded to add accumulated depr to ow ners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature})) / ((\text{Total Ow ners Interest}) + (\text{Deferred taxes}) + (\text{Total Ow ners Interest previous} + \text{Deferred taxes previous})) / 2) * 100$	9.02	12.23	11.18	3.74	The formula is expanded to add 60% of deferred taxes to ow ners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature})) / ((\text{Total Ow ners Interest}) + (\text{Accumulated depreciation}) + (\text{Deferred taxes}) + (\text{Total Ow ners Interest previous} + \text{Accumulated depreciation previous} + \text{Deferred taxes previous})) / 2) * 100$	8.65	11.61	10.50	3.50	The formula is expanded to add 60% of deferred taxes and accumulated depr to ow ners interest in the denominator



Summary

The return on average equity indicates how well the management has used the investment made by ow ners into the business. The primary objective of business is to earn profit and a higher return on average equity indicates that the firm is using its equity funds more efficiently. The ratio can be found for a number of years so as to find a trend as to whether the profitability of the company is improving or otherwise.

The trend over the past four years indicate the return on equity for Remgro was on an increasing trend until 2007 when the ratio declined by a few percent due to lower profits being recorded than in previous years. The lower profit number is attributable to lower levels of trading profits and investment income earned. Compared to its peers Remgro could potentially be seen as not employing its large equity base to its full potential as its returns are much lower than its peers. This could indicate that Remgro is struggling to effectively plough back previous earnings into the business to generate higher levels of income.

The inclusion of accumulated depreciation and deferred taxes in equity causes the return to decrease. This indicates that Remgro is overstating returns on equity by not including the impact of accumulated depreciation on capital structure, as these are associated costs of earning the returns from assets used by the company.

Company:
Industry:

RMB Holdings
Banks

Ratio Type **Quick ratio**

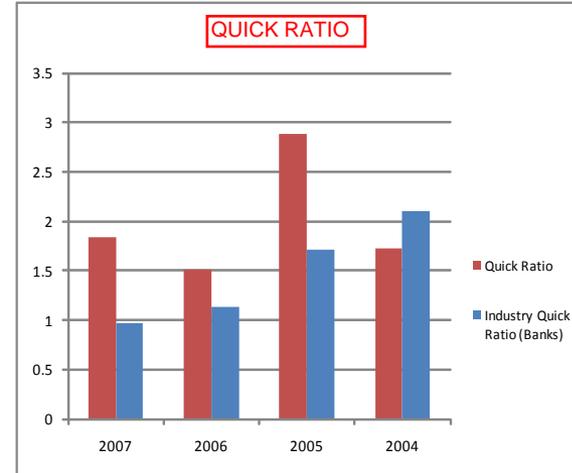
Balance sheet components	2007	2006	2005	2004
Total current assets	2,505,000	1,528,300	4,497,600	2,630,100
Total inventory	-	-	-	-
Total current liabilities	1,364,900	1,009,114	1,559,460	1,528,200

Ratio	Formula	2007	2006	2005	2004	Comments
Quick Ratio	$\frac{((\text{Total Current Assets}) - (\text{Total Inventory}))}{(\text{Total Current Liabilities})}$	1.84	1.51	2.88	1.72	To measure the liquidity of a company's short term assets relative to its short term liabilities
Industry Quick Ratio (Banks)		0.97	1.13	1.71	2.11	

Summary

The quick ratio is a measure of a company's ability to pay short term debt obligation as they become due. The quick ratio excludes the effect of inventory. A ratio of 1:1 is considered adequate but a higher or lower ratio doesn't necessarily imply a company is better or worse off.

RMB's quick ratio has been at fairly consistent levels between 1.5 and 1.8 apart from 2005 when the ratio almost doubled. The reason for the higher quick ratio in this year is due to cash and bank almost doubling and subsequently reversing bringing the ratio back down to previous levels. The ratio indicates that RMB can at least cover its current liabilities once with current assets. The ratio was lower than the industry average in 2004 but thereafter higher. RMB's short term assets consist mainly of cash and short term advances while its short term liabilities relate mainly to creditors and provision for distribution accounts. From this it can be seen that RMB does not rely heavily on debtors and have cash and short term advances which are fairly liquid at its disposal to settle short term liabilities as they become due.



Ratio Type **Debt/Assets**

Balance sheet components	2007	2006	2005	2004
Total long term loan capital	5,193,100	4,229,200	3,330,800	2,685,000
Total current liabilities	1,364,900	1,009,114	1,559,460	1,528,200
Total assets	23,248,400	19,052,500	15,683,100	12,937,500

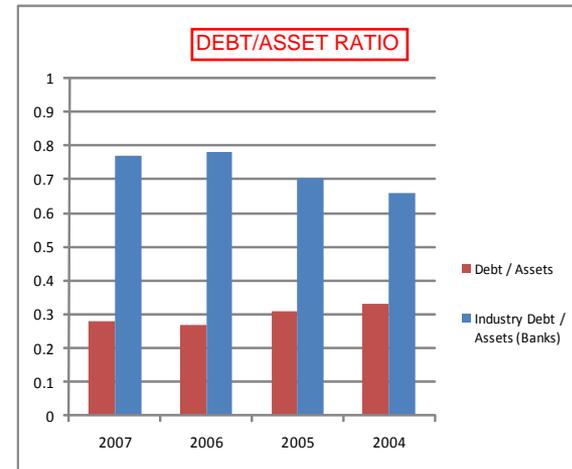
Ratio	Formula	2007	2006	2005	2004	Comments
Debt / Assets	$\frac{((\text{Total Long Term Loan Capital}) + (\text{Total Current Liabilities}))}{(\text{Total Assets})}$	0.28	0.27	0.31	0.33	To measure the level of debt in comparison to total assets as indication of financing mix
Industry Debt / Assets (Banks)		0.77	0.78	0.70	0.66	

Summary

The debt-asset ratio gives an indication as to how a company finances its assets. A ratio close to one indicates that a company uses predominantly debt rather than equity as the preferred method of financing.

RMB's debt to asset ratio has been fairly consistent over the past four years at levels of between 0.2 and 0.3. It indicates that RMB uses little debt to finance its assets and prefers to use equity financing instead. Compared to the industry average RMB uses far less debt than its peers although the industry average indicates that high levels of debt are utilised by banks to finance assets. Also it can be seen from the above information that long term liabilities make up a large proportion of total debt. From the financial statements included in the appendices the long term liabilities of RMB over the period has been consistently made up of other long term borrowings. On the asset side it can be seen that long term advances make up the bulk of total assets, while short term assets consist mainly of cash. This indicates that RMB utilises equity financing to fund long term assets.

Also from the information provided later on in the cost of capital calculation section it can be seen that the cost of debt is also much lower for RMB than the cost of equity which is interesting considering that they make use of equity financing rather than debt.



Ratio Type Debt/Equity

Balance sheet components	2007	2006	2005	2004
Total owners interest	16,690,400	13,814,186	10,792,840	8,724,300
Total current liabilities	1,364,900	1,009,114	1,559,460	1,528,200
Total long term loan capital	5,193,100	4,229,200	3,330,800	2,685,000
Accumulated depreciation	108,300	89,700	68,800	48,900
Deferred taxes (60% non-reversing)	-	43,860	-	-

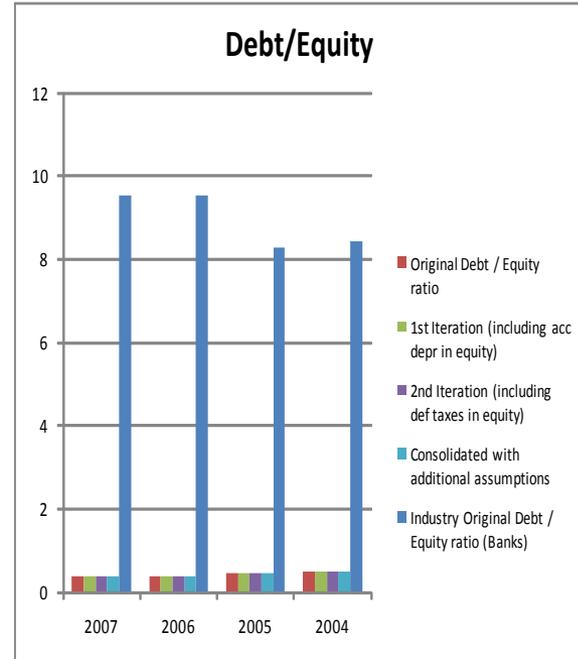
Ratio	Formula	2007	2006	2005	2004	Comments
Original Debt / Equity ratio	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})}$	0.39	0.38	0.45	0.48	Debt to equity ratio indicates the proportionate claims of owners and creditors against the firm's assets.
Industry Original Debt / Equity ratio (Banks)		9.53	9.52	8.28	8.44	
1st Iteration (including acc depr in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})}$	0.39	0.38	0.45	0.48	The formula is expanded to add accumulated depr to owners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Deferred taxes})}$	0.39	0.38	0.45	0.48	The formula is expanded to add 60% of deferred taxes to owners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})+(\text{Deferred taxes})}$	0.39	0.38	0.45	0.48	The formula is expanded to add 60% of deferred taxes and accumulated depr to owners interest in the denominator

Summary

The debt to equity ratio indicates the proportionate claims of owners and outside funders against the company's assets. The purpose is to get an idea of the cushion available to outsiders on the liquidation of the firm. A ratio of 1:1 is usually considered to be satisfactory ratio although there cannot be rule of thumb or standard norm for all types of businesses. Theoretically if the owners interests are greater than that of creditors, the financial position is highly solvent.

The debt-equity ratio of RMB has been at consistently low levels over the four year period. This indicates that RMB prefers the use of equity financing to debt and is not highly leveraged. The industry ratio indicates that peer groups in the industry rely more on debt financing and is more geared. Compared to its industry RMB is not as geared and there is room for taking up additional debt to finance assets should the need arise. From the above information it can also be seen that RMB uses predominantly equity financing which consists mainly of distributable and non-distributable reserves. This indicates that RMB utilises its accumulated profits to fund its operations.

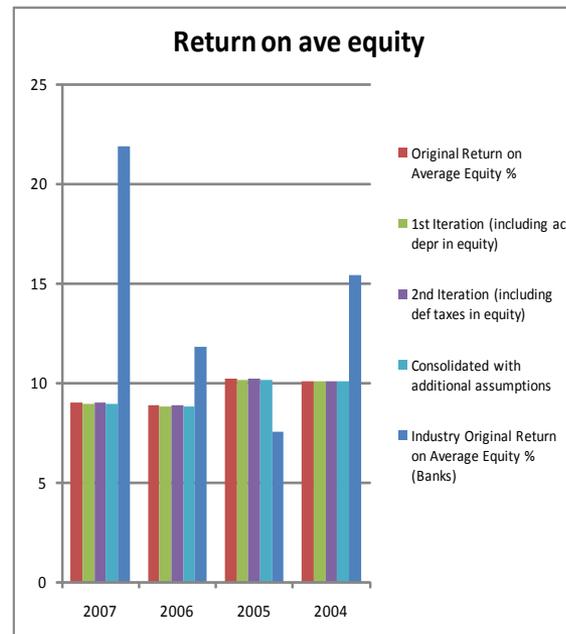
The debt equity ratio is also used to analyse the impact of the items discussed in chapter six that influence the debt/equity mix. Compound and hybrid instruments are already included in the total owners interest and long term loan capital. The two items remaining are deferred taxes and accumulated depreciation. If these items are included in equity, as motivated in chapter six, it will reduce the debt-equity ratio of RMB even further as shown above. This implies that the company's leverage ratio will decrease slightly due to the higher levels of equity financing compared to accumulated depreciation and deferred taxes.



Ratio Type Return on ave equity

Balance sheet components	2007	2006	2005	2004
Prof it after taxation	2,268,800	1,750,700	1,914,800	1,077,800
Total profits extraordinary nature	895,900	657,200	921,900	244,000
Total ow ners interest	16,690,400	13,814,186	10,792,840	8,724,300
Total ow ners interest previous	13,814,186	10,792,840	8,724,300	7,796,800
Accumulated depreciation	108,300	89,700	68,800	48,900
Deferred taxes (60% non-reversing)	-	43,860	-	-
Accumulated depreciation - previous	89,700	68,800	48,900	35,100
Deferred taxes (60% non-reversing) -previous	43,860	-	-	-

Ratio	Formula	2007	2006	2005	2004	Comments
Original Return on Average Equity %	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Ow ners Interest} + ((\text{Total Ow ners Interest previous}))) / 2) * 100$	9	8.89	10.17	10.09	The return on average equity is a measure of performance. It indicates how well the management has used the investment made by ow ners into the business
Industry Original Return on Average Equity % (Banks)		21.87	11.77	7.52	15.39	
1st Iteration (including acc depr in equity)	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Ow ners Interest} + (\text{Accumulated depreciation} + (\text{Total Ow ners Interest previous} + \text{Accumulated depreciation previous}))) / 2) * 100$	8.94	8.83	10.11	10.04	The formula is expanded to add accumulated depr to ow ners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Ow ners Interest} + (\text{Deferred taxes} + (\text{Total Ow ners Interest previous} + \text{Deferred taxes previous}))) / 2) * 100$	8.99	8.87	10.17	10.09	The formula is expanded to add 60% of deferred taxes to ow ners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Profit After Taxation}) - ((\text{Total Profits Extraordinary Nature}))) / ((\text{Total Ow ners Interest} + (\text{Accumulated depreciation} + (\text{Deferred taxes} + (\text{Total Ow ners Interest previous} + \text{Accumulated depreciation previous} + \text{Deferred taxes previous}))) / 2) * 100$	8.93	8.82	10.11	10.04	The formula is expanded to add 60% of deferred taxes and accumulated depr to ow ners interest in the denominator



Summary

The return on average equity indicates how well the management has used the investment made by ow ners into the business. The primary objective of business is to earn profit and a higher the return on average equity indicates that the firm is using its equity funds more efficiently. The ratio can be found for a number of years so as to find a trend as to whether the profitability of the company is improving or otherwise.

The trend over the past four years indicate the return on equity for RMB was at a level of around 10% then in 2007 there was a decrease of 2% and in 2007 a slight recovery again. The decrease in 2006 is attributable to lower profits being recognised and a larger amount of extraordinary profits being recorded. Also there was a large increase in shareholder equity in 2006. In 2007 RMB recorded higher levels of profits increasing the return. Compared to its peers RMB could potentially be seen as not employing its large equity base to its full potential as its returns are lower than its peers. This could indicate that RMB is struggling to effectively plough back previous earnings into the business to generate higher levels of income. Or it could indicate that there is a lag between equity invested and the resultant profits.

The inclusion of accumulated depreciation and deferred taxes in equity causes the return to decrease. This indicates that RMB is overstating returns on equity by not including the impact of accumulated depreciation on capital structure, as these are associated costs of earning the returns from assets used by the company.

Company: The York timber organisation
Industry: Forestry & Paper

Ratio Type Quick ratio

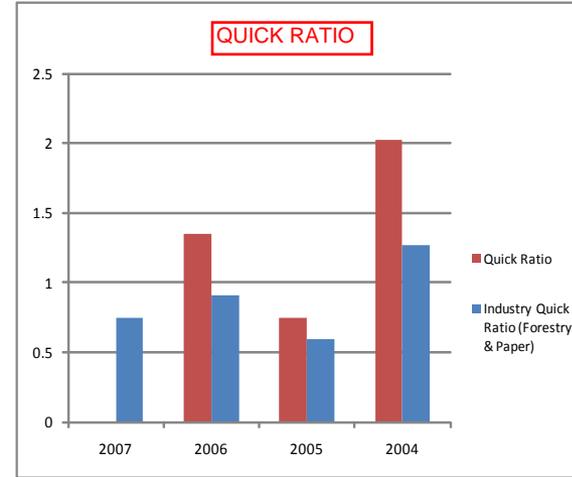
Balance sheet components	2007	2006	2005	2004
Total current assets	-	136,364	68,019	89,233
Total inventory	-	34,724	24,066	12,777
Total current liabilities	-	75,200	58,759	37,916

Ratio	Formula	2007	2006	2005	2004	Comments
Quick Ratio	$\frac{((\text{Total Current Assets}) - (\text{Total Inventory}))}{(\text{Total Current Liabilities})}$	#N/A	1.35	0.75	2.02	To measure the liquidity of a company's short term assets relative to its short term liabilities
Industry Quick Ratio (Forestry & Paper)		0.75	0.91	0.59	1.27	

Summary

The quick ratio is a measure of a company's ability to pay short term debt obligation as they become due. The quick ratio excludes the effect of inventory. A ratio of 1:1 is considered adequate but a higher or lower ratio doesn't necessarily imply a company is better or worse off.

Please note that financial statement for the 2007 period was not available for York. York's quick ratio has been at various levels over the past three years. The decline in 2005 was due to an increase in creditors and a decrease in cash. In 2006 the situation was improved by an increase in short term advances. The ratio indicates that York can at least meet its current obligations with its available current assets. York's quick ratio has been consistently above its industry average. York's short term assets comprises mainly debtors and short term advances while creditors and short term borrowing make up short term liabilities. York is also dependent on its debtor book and the ability of clients to pay their outstanding debt. This indicates that the short term liquidity of York is dependent on its debtors recovery rate and cash conversion cycle. To ensure it remains liquid York needs to manage its debtor book in the most effective and efficient manner to ensure monies are collected.



Ratio Type Debt/Assets

Balance sheet components	2007	2006	2005	2004
Total long term loan capital	-	40,646	27,463	16,948
Total current liabilities	-	75,200	58,759	37,916
Total assets	-	229,167	163,275	163,742

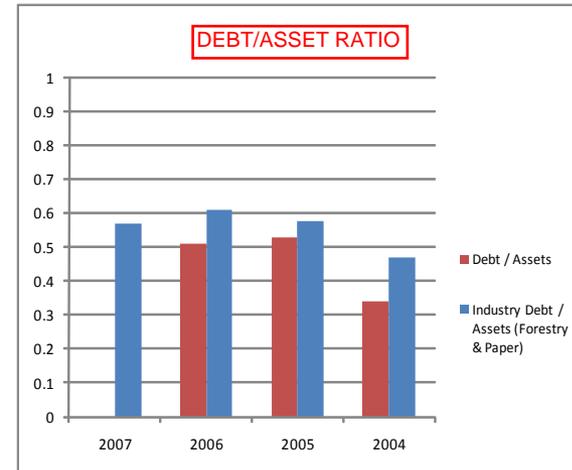
Ratio	Formula	2007	2006	2005	2004	Comments
Debt / Assets	$\frac{((\text{Total Long Term Loan Capital}) + (\text{Total Current Liabilities}))}{(\text{Total Assets})}$	#N/A	0.51	0.53	0.34	To measure the level of debt in comparison to total assets as indication of financing mix
Industry Debt / Assets (Forestry & Paper)		0.57	0.61	0.575	0.47	

Summary

The debt-asset ratio gives an indication as to how a company finances its assets. A ratio close to one indicates that a company uses predominantly debt rather than equity as the preferred method of financing.

York's debt to asset ratio increased in 2005 and remained at consistent levels of 0.5 thereafter. It indicates that York uses about a fifty-fifty mix of debt and equity to finance its assets. Compared to the industry average York uses similar mix of funding than its peers with the industry average being at levels of 0.5 over the past four years. This indicates that compared to its peers York is similarly geared. It can also be seen from the above information that short term liabilities make up the larger proportion of total debt. From the financial statements included in the appendices the short term liabilities of York over the period has been consistently made up of creditors. The assets consist of about a 50/50 split between short and long term assets. Long term assets consist mainly of mainly of fixed assets while short term assets consists predominantly of debtors. The funding mix indicates that short term debt is predominantly used to fund short term assets while long term assets are financed with equity capital.

Also from the information provided later on in the cost of capital calculation section it can be seen that the cost of debt is slightly higher than equity for York which might serve to point to a motivation as to the funding mix.



Ratio Type Debt/Equity

Balance sheet components	2007	2006	2005	2004
Total owners interest	-	113,321	77,053	108,878
Total current liabilities	-	75,200	58,759	37,916
Total long term loan capital	-	40,646	27,463	16,948
Accumulated depreciation	-	18,392	13,502	12,744
Deferred taxes (60% non-reversing)	-	5,648	2,764	7,130

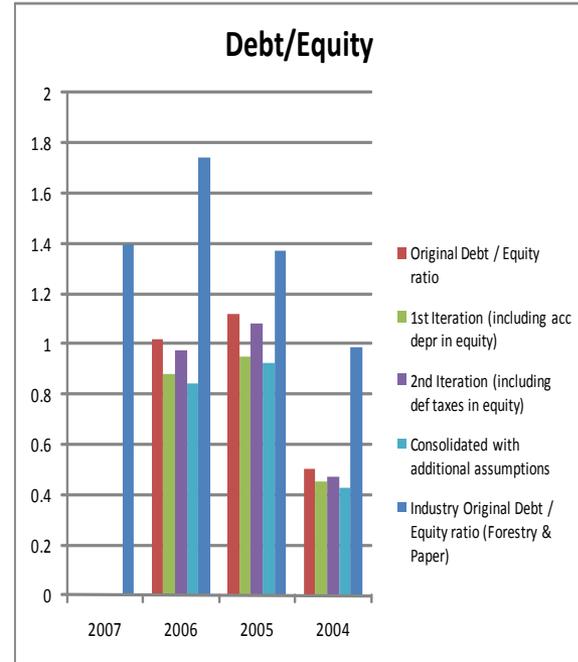
Ratio	Formula	2007	2006	2005	2004	Comments
Original Debt / Equity ratio	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})}$	#N/A	1.02	1.12	0.5	Debt to equity ratio indicates the proportionate claims of owners and creditors against the firm's assets.
Industry Original Debt / Equity ratio (Forestry & Paper)		1.40	1.74	1.37	0.99	
1st Iteration (including acc depr in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})}$	#DIV/0!	0.88	0.95	0.45	The formula is expanded to add accumulated depr to owners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Deferred taxes})}$	#DIV/0!	0.97	1.08	0.47	The formula is expanded to add 60% of deferred taxes to owners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Total Long Term Loan Capital})+(\text{Total Current Liabilities}))}{(\text{Total Owners Interest})+(\text{Accumulated depreciation})+(\text{Deferred taxes})}$	#DIV/0!	0.84	0.92	0.43	The formula is expanded to add 60% of deferred taxes and accumulated depr to owners interest in the denominator

Summary

The debt to equity ratio indicates the proportionate claims of owners and outside funders against the company's assets. The purpose is to get an idea of the cushion available to outsiders on the liquidation of the firm. A ratio of 1:1 is usually considered to be satisfactory ratio although there cannot be rule of thumb or standard norm for all types of businesses. Theoretically if the owners interests are greater than that of creditors, the financial position is highly solvent.

The debt-equity ratio of York have increased from 2005 to a fairly consistent level of close to one. The ratio indicates that York uses an almost even mix of debt and equity financing with slightly higher amounts of debt being utilised. This is consistent with the industry ratio of close to one which indicates that peer groups in the industry also uses an almost equal amount of debt and equity financing with the preference for slightly more debt financing. Compared to its industry York is slightly less geared which indicates that it still has appetite for debt financing. From the above information it can also be seen that York uses predominantly short term debt financing compared to total debt. The short term debt financing comprises mainly creditors, while equity financing comprised mostly distributable reserves.

The debt equity ratio is also used to analyse the impact of the items discussed in chapter six that influence the debt/equity mix. Compound and hybrid instruments are already included in the total owners interest and long term loan capital. The two items remaining are deferred taxes and accumulated depreciation. If these items are included in equity, as motivated in chapter six, it will reduce the debt-equity ratio of York even further as shown above. This implies that the company's leverage ratio will decrease.



Ratio Type Return on ave equity

Balance sheet components	2007	2006	2005	2004
Profit after taxation	-	47,050	-12,725	8,799
Total profits extraordinary nature	-	6,347	4,542	5,462
Total ow ners interest	-	113,321	77,053	108,878
Total ow ners interest previous	113,321	77,053	108,878	94,634
Accumulated depreciation	-	18,392	13,502	12,744
Deferred taxes (60% non-reversing)	-	5,648	2,764	7,130
Accumulated depreciation - previous	18,392	13,502	12,744	7,484
Deferred taxes (60% non-reversing) -previous	5,648	2,764	7,130	6,370

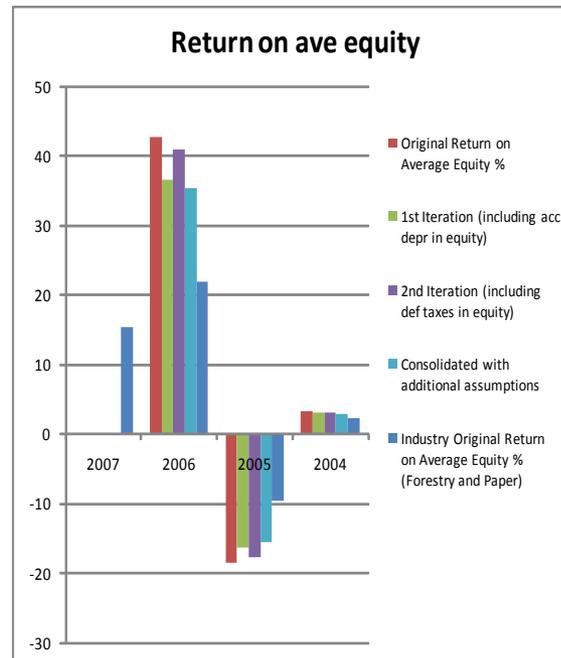
Ratio	Formula	2007	2006	2005	2004	Comments
Original Return on Average Equity %	$\frac{((\text{Profit After Taxation}) - (\text{Total Profits Extraordinary Nature}))}{((\text{Total Owners Interest}) + ((\text{Total Owners Interest previous})) / 2)} * 100$	#N/A	42.76	-18.57	3.28	The return on average equity is a measure of performance. It indicates how well the management has used the investment made by owners into the business
Industry Original Return on Average Equity % (Forestry and Paper)		15.35	21.97	-9.59	2.35	
1st Iteration (including acc depr in equity)	$\frac{((\text{Profit After Taxation}) - (\text{Total Profits Extraordinary Nature})) + (\text{Accumulated depreciation}) + (\text{Total Owners Interest previous} + \text{Accumulated depreciation previous}) / 2}{((\text{Total Owners Interest}) + (\text{Total Owners Interest previous} + \text{Deferred taxes previous}) / 2)} * 100$	0.00	36.63	-16.28	2.98	The formula is expanded to add accumulated depr to owners interest in the denominator
2nd Iteration (including def taxes in equity)	$\frac{((\text{Profit After Taxation}) - (\text{Total Profits Extraordinary Nature})) + (\text{Total Owners Interest previous} + \text{Deferred taxes previous}) / 2}{((\text{Total Owners Interest}) + (\text{Total Owners Interest previous} + \text{Deferred taxes previous}) / 2)} * 100$	0.00	40.95	-17.64	3.08	The formula is expanded to add 60% of deferred taxes to owners interest in the denominator
Consolidated with additional assumptions	$\frac{((\text{Profit After Taxation}) - (\text{Total Profits Extraordinary Nature})) + (\text{Accumulated depreciation}) + (\text{Deferred taxes}) + (\text{Total Owners Interest previous} + \text{Accumulated depreciation previous} + \text{Deferred taxes previous}) / 2}{((\text{Total Owners Interest}) + (\text{Total Owners Interest previous} + \text{Accumulated depreciation previous} + \text{Deferred taxes previous}) / 2)} * 100$	0.00	35.29	-15.55	2.81	The formula is expanded to add 60% of deferred taxes and accumulated depr to owners interest in the denominator

Summary

The return on average equity indicates how well the management has used the investment made by owners into the business. The primary objective of business is to earn profit and a higher return on average equity indicates that the firm is using its equity funds more efficiently. The ratio can be found for a number of years so as to find a trend as to whether the profitability of the company is improving or otherwise.

The trend over the past four years indicate the return on equity decreased in 2005 due to losses being recognised in that particular year. In the prior and subsequent year York managed to earn a positive return on shareholders equity. Compared to the industry average York managed to outperform its peers apart from in 2005 when it recognised losses. The return indicates that York is able to generate returns higher than the industry average for its shareholders.

The inclusion of accumulated depreciation and deferred taxes in equity causes the return to decrease. This indicates that York is overstating returns on equity by not including the impact of accumulated depreciation on capital structure, as these are associated costs of earning the returns from assets used by the company.



7.4.2.2 Summary of the ratios

The results of the ratios give a good indication as to the liquidity and leverage of the selected companies. From the interpretations above it can be concluded that four (20%) of the companies had quick ratios lower than 0.5 indicating that they might face some liquidity constraints as short term obligations become due and payable. Five of the companies (25%) had quick ratios between 0.5 and 1 also indicating that their current assets are not enough to cover current liabilities at least once. Eleven of the twenty companies (55%) had quick ratios of higher than 1 indicating that they can at least cover short term obligations as they become due and payable. Overall current assets of the companies comprised mainly debtors and cash in bank. While current liabilities comprised mostly of creditors indicating that overall most of the companies should be wary of their cash conversion cycle and frequency of payments made by debtors to ensure they don't run into too serious liquidity problems.

By looking at the financial statements for all twenty companies it can be concluded that current debt consists predominantly of creditors and some short term borrowings while long term debt is mainly in the form of other borrowings for the selected companies. Equity consists of predominantly distributable and non-distributable reserves. Overall long term assets comprises mainly fixed assets, long term advances and investments while current assets contains mainly debtors. The debt-asset and debt-equity ratio indicated that ten (50%) of the companies prefer debt to equity financing and uses predominantly debt to finance its operations. Of the ten companies seven uses short term debt financing and three utilises long term debt financing. Of seven companies employing short term debt funding five companies have mainly short term assets which would indicate that they use short term debt financing to fund short term assets. While the remaining two of the seven company's use short term debt financing to fund longer term assets. Of the three companies using long term debt it can be seen that they have mainly assets of a longer term nature. Four (20%) companies use an almost equal mix of debt and equity to fund their assets. In two of the four cases the companies have a 50/50 mix of long and short term assets indicating longer term equity is used to finance the longer term assets and short term debt to finance the short term assets. The other two

companies use a mix of debt and equity financing to fund mainly short term assets. The remaining six companies (30%) prefer to use predominantly equity financing to finance its operations. Four of the six companies' balance sheet consists mainly of long term assets while one company uses equity to fund mainly short term assets and the other company funds an equal mix of long and short term assets via equity.

The return on average equity ratio indicated that six of the twenty companies (30%) had returns less than 20% while four companies (20%) recognised negative returns due to either low levels of profits, large extraordinary items or negative shareholders equity. A return lower than 20% does not necessarily indicate bad performance as the company still delivers value to equity holders. The companies with negative returns need to establish why these returns are negative and ensure returns are generated otherwise equity holders might pull their funding. Ten companies (50%) recognised average returns higher than 20% indicating that they are employing shareholders' equity in an effective manner and are delivering good returns to equity investors.

The impact of accumulated depreciation and deferred taxes were assessed on the debt-equity ratio and return on average equity. Overall most firms experienced a decline in the debt-equity ratio due to the inclusion of accumulated depreciation and deferred taxes in equity. As mentioned previously, compound financial instruments and derivatives are already included in the ratios in total debt or total equity. The return on average equity is also lower when the effect of book entries is considered. This implies that a company has more equity resources that it need to effectively manage to produce higher returns.

7.4.3 DETERMINATION OF THE TRADITIONAL COST OF CAPITAL

The weighted cost of capital (WACC) is represented by the following theoretical framework¹³:

$$WACC = \omega_d R_d (1-t) + \omega_{ps} R_{ps} + \omega_e R_e$$

¹³ See Bruner *et al.* (1998:14) and Paulo (1992:178).

With:

ω_d =weight of debt; ω_{ps} =weight of preferred stock; ω_e =weight of common stock

R_d =return on debt; R_{ps} =return on preferred stock; R_e =return on common stock and

t =corporate tax rate

The BFA McGregor WACC calculation relies on the assumptions and inputs of the traditional cost of capital model as illustrated above and will be used to calculate WACC under the original assumptions. Please note that the traditional WACC model includes the cost of preference share funding. Due to data limitations the author was not able to calculate the cost of preference share funding and thus it is not included although it is part of the traditional WACC model. The cost of preference funding is also excluded from the transformed WACC due to data constraints. The impact of preference share funding was also limited to only a few of the selected companies.

The BFA McGregor WACC calculation is used to present the traditional WACC model as it is used in practice. The BFA model is the practical application of the traditional model and will be used to represent the inputs into the traditional WACC from a practical point of view.

The WACC formula as prescribed by the BFA can be shown as follows¹⁴:

$$\text{WACC} = E/V * R_e + D/V * R_d * (1 - T_c)$$

With

R_e = Cost of equity; R_d = Cost of debt; E = Market value of the firm's equity; D = Market value of the firm's debt; $V = E + D$; E/V = Percentage of financing that is equity; D/V = Percentage of financing that is debt and T_c = Corporate tax rate

The table on the next page is an extract of the WACC calculation for the chosen companies:

¹⁴ Formula taken from McGregor BFA, 2009 Available online at www.mcgregorbfa.com

Table 7.1: Calculation of traditional WACC for selected companies

TRADITIONAL WACC CALCULATION										
Balance sheet values (taken from F/S in 000's)	ABSA	AECI	Afrimat	AG Industries	Allied Technology	Foschini	Argent	Barnard Jacobs	Coronation	Barloworld
Ordinary shareholders interest (001 Ordinary share capital + 002 non-distributable reserves + 003 distributable reserves)	37,869,000	3,467,000	442,113	382,824	1,529,000	3,381,500	760,302	311,891	903,278	10,714,000
Debt (221 Long term loans interest bearing + 223 Short term loans interest bearing)	579,818,000	1,429,000	38,357	152,282	30,000	1,020,500	200,303	556,898	-	7,008,000
	617,687,000	4,896,000	480,470	535,106	1,559,000	4,402,000	960,605	868,789	903,278	17,722,000
Weight of each component										
(Balance sheet item/Total of balance sheet items)										
Ordinary shareholders interest (We)	0.0613	0.7081	0.9202	0.7154	0.9808	0.7682	0.7915	0.3590	1.0000	0.6046
Debt (Wd)	0.9387	0.2919	0.0798	0.2846	0.0192	0.2318	0.2085	0.6410	0.0000	0.3954
	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Cost of each component										
(Taken from BFA McGregor)										
Ordinary shareholders interest (Re)	12.9988	13.3180	12.9342	13.5382	11.8572	11.9322	11.6502	10.3206	12.7288	15.3982
Debt (Rd)	4.3846	7.8863	6.5363	25.0021	13.3400	6.8637	9.3592	0.1608	#N/A	10.5410

WACC (weighted cost of components)	ABSA	AECI	Afrimat	AG Industries	Allied Technology	Foschini	Argent	Barnard Jacobs	Coronation	Barloworld
(Weight of each component*Cost of each component)										
Ordinary shareholders interest (We*Re)	0.7969	9.4309	11.9016	9.6855	11.6290	9.1660	9.2209	3.7050	12.7288	9.3091
Debt (Wd*Rd)	4.1158	2.3018	0.5218	7.1152	0.2567	1.5912	1.9516	0.1031	#N/A	4.1683
TOTAL WACC (Sum of the weighted cost of each component)	4.9127	11.7326	12.4234	16.8006	11.8857	10.7572	11.1725	3.8081	#N/A	13.4775

(Source: WACC calculation taken from McGregor BFA, 2009. Available online from www.mcgregorbfa.com)

Table 7.1: Calculation of traditional WACC for selected companies (continued..)

Balance sheet values (taken from F/S in 000's)	Distell	Emergent	Emira	Glenrand	Pick N Pay	Howden	Nampak	Remgro	RMB	York Timber
Ordinary shareholders interest (001 Ordinary share capital + 002 non-distributable reserves + 003 distributable reserves)	3,854,794	5,895	5,866,434	151,714	359,100	62,488	6,253,900	45,392,000	15,599,800	113,321
Debt (221 Long term loans interest bearing + 223 Short term loans interest bearing)	332,102	9,777	1,206,288	2,579	249,400	20,718	943,300	225,000	763,900	44,807
	4,186,896	15,672	7,072,722	154,293	608,500	83,206	7,197,200	45,617,000	16,363,700	158,128

Weight of each component	Distell	Emergent	Emira	Glenrand	Pick N Pay	Howden	Nampak	Remgro	RMB	York Timber
(Balance sheet item/Total of balance sheet items)										
Ordinary shareholders interest (We)	0.9207	0.3761	0.8294	0.9833	0.5901	0.7510	0.8689	0.9951	0.9533	0.7166
Debt (Wd)	0.0793	0.6239	0.1706	0.0167	0.4099	0.2490	0.1311	0.0049	0.0467	0.2834
	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Cost of each component										
(Taken from BFA McGregor)										
Ordinary shareholders interest (Re)	12.6286	6.2068	10.9966	9.2080	10.1166	10.8904	13.0612	11.4108	12.7234	10.5700
Debt (Rd)	16.6324	10.9543	5.4196	289.3621	11.0895	32.2577	21.1848	9.8133	7.2360	#N/A
WACC (weighted cost of components)										
(Weight of each component*Cost of each component)										
Ordinary shareholders interest (We*Re)	11.6269	2.3347	9.1211	9.0541	5.9702	8.1787	11.3493	11.3545	12.1294	7.5749
Debt (Wd*Rd)	1.3193	6.8339	0.9243	4.8367	4.5451	8.0321	2.7766	0.0484	0.3378	#N/A
TOTAL WACC	12.9462	9.1685	10.0454	13.8908	10.5154	16.2108	14.1259	11.4029	12.4672	#N/A
(Sum of the weighted cost of each component)										

(Source: WACC calculation taken from McGregor BFA, 2009. Available online from www.mcgregorbfa.com)

Appendix E contains a five year history of the WACC calculation for each of the companies.

ASSUMPTIONS OF THE BFA MODEL¹⁵:

The BFA defines the weighted average cost of capital as:

“A calculation of a firm's cost of capital in which each category of capital is proportionately weighted. All capital sources - ordinary shares, preferred shares, debentures and any other long-term debt - are included in a WACC calculation. WACC is calculated by multiplying the cost of each capital component by its proportional weight and then summing the weighted components”
(BFA, 2009:2)

The definition of the WACC model prescribed by the BFA is in line with the traditional definition of the cost of capital. BFA is also limited to the data it receives. It specifically defines the capital sources as ordinary shares, preference shares and debt. Again it must be noted that due to limited data the cost of preference share capital could not be calculated and excluded from calculations. The rationale behind the calculation of WACC is to determine the average costs of the different sources of financing namely debt and equity and to gauge insight into how much interest a company has to pay for every rand of financing.

The BFA also describes the WACC as an internal rate of return used by companies to determine the economic feasibility of expansionary projects and opportunities (BFA, 2009:2). This implies that the WACC is an important management tool and one that plays an important role in valuing opportunities and cash flows.

¹⁵ Taken from Financial Models – Understanding the weighted average cost of capital model (WACC)
www.Mcgregorbfa.com

The following section lists the different components of the BFA WACC as well as the assumptions that underlie each of them. These assumptions are in line with the traditional cost of capital model thus they are used to aid in the calculation of the traditional model of WACC.

7.4.3.1 The cost of debt

The cost of debt as calculated by the BFA can be shown as follows:

$$\text{CoD} = \text{Cost of Debt (After Taxation)}$$

The calculation of the cost of debt done by BFA is to take the interest paid during the given financial year and express it as a percentage of the total of the interest-bearing long and short term debt (BFA). This figure is then multiplied by one minus the company's tax rate to get to an after tax figure.

The interest paid is for the period the debt was utilized during the year while total debt outstanding is taken as at the amount at the end of the financial year.

7.4.3.2 The cost of equity

The cost of equity component according to BFA can be calculated as follows:

$$K_e = R_f + \text{Beta}(R_m - R_f)$$

Re = Cost of equity

Rf = The risk-free rate of return

Rm = The expected market return

The cost of equity is calculated by making use of the Capital Asset Pricing Model (CAPM) as shown above.

The component parts of the CAPM are in turn calculated as follows:

7.4.3.2.1 Beta

The beta is pre-calculated on a daily basis and stored in the BFA data base. The calculation is done using basic least square regression analysis with the company return on the Y-axis and the market return on the X-axis (please see chapter 3 for more detailed discussion of this method).

7.4.3.2.2 Risk free rate, market return and the market risk premium

The risk free rate is taken as the rate on the R153 bonds, in South Africa, as the default rate with five years of historical data stored. There is an option to use other government bonds as proxies for the risk free rate.

The All Share Index is used as a proxy for the market return and a frequency of four weeks in calculating the company and market return is used. The market risk premium is set at a default of 6% which can be changed by the user.

The table on the next page summarises the calculation of the cost components of debt and equity for the selected companies as calculated by BFA McGregor:

Figure 7.4: Calculation of the debt and equity cost component

Calculation of component costs			
Company	CoD = Cost of Debt (After Taxation)	Cost of equity based on CAPM	
		Risk-free rate + Beta (Market Risk Premium)	= Cost Of Equity
ABSA	4.3846	$9.3700 + (0.6048 * 6.0000)$	=12.9988
AECI	7.8863	$9.3700 + (0.6580 * 6.0000)$	=13.318
Afrimat	6.5363	$7.9800 + (0.8257 * 6.0000)$	=12.9342
AG Industries	25.0021	$9.0850 + (0.7422 * 6.0000)$	=13.5382
Allied Technology	13.34	$7.9800 + (0.6462 * 6.0000)$	=11.8572
Foschini	6.8637	$8.1900 + (0.6237 * 6.0000)$	=11.9322
Argent	9.3592	$8.1900 + (0.5767 * 6.0000)$	=11.6502
Barnard Jacobs	0.1608	$8.1900 + (0.3551 * 6.0000)$	=10.3206
Coronation	#N/A	$8.9500 + (0.6298 * 6.0000)$	=12.7288
Barloworld	10.541	$8.9500 + (1.0747 * 6.0000)$	=15.3982
Distell	16.6324	$9.0850 + (0.5906 * 6.0000)$	=12.6286
Emergent	10.9543	$8.9500 + (-0.4572 * 6.0000)$	=6.2068
Emira	5.4196	$9.0850 + (0.3186 * 6.0000)$	=10.9966
Glenrand	289.3621	$9.0850 + (0.0205 * 6.0000)$	=9.208
Pick N Pay	11.0895	$7.9800 + (0.3561 * 6.0000)$	=10.1166
Howden	32.2577	$9.3700 + (0.2534 * 6.0000)$	=10.8904
Nampak	21.1848	$8.9500 + (0.6852 * 6.0000)$	=13.0612
Remgro	9.8133	$8.1900 + (0.5368 * 6.0000)$	=11.4108
RMB	7.236	$9.0850 + (0.6064 * 6.0000)$	=12.7234
York Timber	#N/A	$9.3700 + (0.2000 * 6.0000)$	=10.5700

(Source: Figures obtained from McGregor BFA, 2011, available online www.Mcgregorbfa.com)

7.4.3.3 Quantifying the weights

In order to determine the weights used in the WACC calculation, the BFA bases their weights on the total of the long and short term interest-bearing debt and the total ordinary shareholders' equity.

The weight of debt will be calculated as the total of the long and short term interest-bearing debt as a percentage of the total of the long and short term interest-bearing debt plus the total of ordinary shareholders' equity.

The weight of equity on the other hand will be shown as the total of ordinary shareholders' equity as a percentage of the total of the long and short term interest-bearing debt plus the total of ordinary shareholders' equity.

From the above it can be seen that the BFA McGregor WACC calculation is based on the traditional assumptions as described in chapter four. The next section will add to the traditional assumptions by including additional balance sheet items into the WACC calculation. The enhanced model does not discount the inputs into the traditional model nor does it invalidate any of the assumptions. It uses these traditional assumptions and inputs as a starting point. The transformed model enhances the traditional model by including additional items and assumptions that impact the funding mix and decisions of an organisation. The next section will add these additional assumptions to the traditional WACC model and indicate that the enhanced model is more inclusive. The enhanced model will be compared to the traditional model to show the impact of the additional balance sheet items on the cost of capital.

7.5 THE TRANSFORMED MODEL

7.5.1 PRESENTATION AND CALCULATION OF THE TRANSFORMED WACC

As presented in chapter six, the following is the formula for the calculation of the transformed WACC:

$$\text{WACC}_{\text{transformed}} = \omega_d R_d (1-t) + \omega_{ps} R_{ps} + \omega_{\text{derivatives}} R_{\text{derivatives}} + \omega_{\text{compounds}} R_{\text{compounds}} + \omega_{\text{accumdepr}} R_{\text{accumdepr}} + \omega_{\text{deftax}} R_{\text{deftax}} + \omega_e R_e - \omega_{\text{cash}} R_{\text{cash}}$$

With:

ω_d =weight of debt; ω_{ps} =weight of preferred stock; ω_e =weight of common stock; R_d =return on debt; R_{ps} =return on preferred stock; R_e =return on common stock; $\omega_{derivates}$ =weight of derivative financial instruments; $\omega_{compounds}$ =weight of compound financial instruments; $\omega_{accumdepr}$ =weight of accumulated depreciation; ω_{deftax} =weight of deferred taxes ω_{cash} =weight of cash; $R_{derivatives}$ =return on derivative financial instruments; $R_{compound}$ =return on compound financial instruments; $R_{accumdepr}$ =return on accumulated depreciation; R_{deftax} =return on deferred taxes; R_{cash} =return on cash and t =corporate tax rate

The transformed WACC does not discount the inputs of the traditional WACC model. It suggests that additional items impacting the funding mix be included in the calculation of WACC. Thus the transformed WACC model relies on the inputs discussed above for the traditional model. The cost of debt and equity will be the same as prescribed by the traditional model. The transformed WACC will include additional balance sheet items. The following are the additional assumptions of the transformed WACC:

ADDITIONAL ASSUMPTIONS OF THE TRANSFORMED WACC:

For illustrative purposes it was assumed that:

- Preference shares are excluded due to data limitations on calculating its cost.
- Derivative liability instruments are included in the transformed WAC and are shown at the cost of debt. From the information available in the financial statements there does not appear to be liability derivatives disclosed by any of the companies thus its impact is zero.
- Compound financial instruments consist of convertible debentures and convertible preference shares
- Convertible debentures are shown at the cost of debt, assuming none are equity related. It is stated in the financial statements that convertible preference share and debentures are ultimately converted into equity. It is assumed for illustrative

purposes that any convertible securities are still in early stages and that the conversion date is still some time in the future thus they are deemed liabilities until they reach closer to conversion date when they will be deemed equity.

- Convertible preference shares are considered equity and shown at the cost of equity. None of the companies have convertible preference shares.
- Deferred taxes and accumulated depreciation is shown at the cost of equity.
- 60% of deferred tax liabilities are assumed to be non-reversible and thus a source of funding. Deferred tax assets are assumed to be reversing in the foreseeable future and is thus excluded from the calculation and left as an asset.
- The cash portion is shown at the cost of debt.
- 20% of a company's cash base can be utilised to pay off debt rather than sitting in the bank account. Companies normally have pre-specified uses for cash but there is always an unutilised portion sitting in bank. Where a company's cash exceeds its levels of debt the amount of cash is capped at the maximum amount of debt that can be repaid.
- Total of debt and ordinary equity is the same as prescribed by McGregor BFA and the cost as calculated by the BFA is attributed to each component.
- One year's worth of financials and WACC has been used for analytical purposes.

The tables on the following pages present the calculation and results for the transformed WACC.

Table 7.2: Presentation of the calculation of the transformed cost of capital

TRANSFORMED WACC CALCULATION										
Balance Sheet values (taken from F/S in 000's)	ABSA	AECI	Afrimat	AG Industries	Allied Technology	Foschini	Argent	Barnard Jacobs	Coronation	Barloworld
(Taken from financial statements disclosed in Appendix A)										
Ordinary shareholders interest (001 Ordinary share capital + 002 non-distributable reserves + 003 distributable reserves)	37,869,000	3,467,000	442,113	382,824	1,529,000	3,381,500	760,302	311,891	903,278	10,714,000
Debt (221 Long term loans interest bearing + 223 Short term loans interest bearing)	579,818,000	1,429,000	38,357	152,282	30,000	1,020,500	200,303	556,898	-	7,008,000
Accumulated depreciation (011 Total depreciation: Land and buildings + 013 Total depreciation: Other fixed assets)	3,969,000	1,315,000	40,050	63,338	426,000	1,089,500	91,596	14,451	14,110	5,417,000
Compound financial instruments (214 Convertible preference shares + 215 Convertible debentures & Loans)	-	-	-	-	-	-	-	-	-	-
Deferred taxes -(60% of 128 Deferred Tax Total taken as non-reversible)	1,479,000	-	22,946	-	-	-	26,838	-	27,550	-
Cash (20% of 029 Cash and Bank to be used to repay debt)	3,608,000	88,200	7,591	8,822	30,000	13,820	2,854	30,608	-	48,800
	626,743,000	6,299,200	551,057	607,266	2,219,600	5,505,320	1,081,893	913,848	968,764	23,187,800
Weight calculation (Balance sheet item/Total of balance sheet items)										
Ordinary shareholders interest (We)	0.0604	0.5504	0.8058	0.6304	0.7588	0.6142	0.7028	0.3413	0.9559	0.4621
Debt (Wd)	0.9251	0.2269	0.0699	0.2508	0.0149	0.1854	0.1851	0.6094	0.0000	0.3022
Accumulated depreciation (Wad)	0.0063	0.2088	0.0686	0.1043	0.2114	0.1979	0.0847	0.0158	0.0149	0.2336
Compound financial instruments (Wci)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Deferred taxes (Wdt)	0.0024	0.0000	0.0418	0.0000	0.0000	0.0000	0.0248	0.0000	0.0292	0.0000
Cash (Wc)	0.0058	0.0140	0.0138	0.0145	0.0149	0.0025	0.0026	0.0335	0.0000	0.0021

	1	1	1	1	1	1	1	1	1	1
Cost of each component (Taken from McGregor BFA database)	ABSA	AECI	Afrimat	AG Industries	Allied Technology	Foschini	Argent	Barnard Jacobs	Coronation	Barloworld
Ordinary shareholders interest (Re)	12.9988	13.318	12.9342	13.5382	11.8572	11.9322	11.6502	10.3206	12.7288	15.3982
Debt (Rd)	4.3846	7.8863	6.5363	25.0021	13.34	6.8637	9.3592	0.1608	#N/A	10.541
Accumulated depreciation (Rad)	12.9988	13.318	12.9342	13.5382	11.8572	11.9322	11.6502	10.3206	12.7288	15.3982
Compound financial instruments (Rci)	4.3846	7.8863	6.5363	25.0021	13.34	6.8637	9.3592	0.1608	#N/A	10.541
Deferred taxes (Rdt)	12.9988	13.318	12.9342	13.5382	11.8572	11.9322	11.6502	10.3206	12.7288	15.3982
Cash (Rc)	4.3846	7.8863	6.5363	25.0021	13.34	6.8637	9.3592	0.1608	#N/A	10.541
Weighted cost of each component (Weight of each component*cost of each component)										
Ordinary shareholders interest (We*Re)	0.7854	7.3301	10.4223	8.5346	8.9973	7.3290	8.1872	3.5224	12.1676	7.1148
Debt (Wd*Rd)	4.0563	1.7890	0.4570	6.2697	0.1986	1.2723	1.7328	0.0980	#N/A	3.1858
Accumulated depreciation (Wad*Rad)	0.0823	2.7802	0.8878	1.4120	2.5068	2.3614	0.9863	0.1632	0.1901	3.5972
Compound financial instruments (Wci*Rci)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	#N/A	0.0000
Deferred taxes (Wdt*Rdt)	0.0307	0.0000	0.5409	0.0000	0.0000	0.0000	0.2890	0.0000	0.3711	0.0000
Cash (Wc*Rc)	-0.0252	-0.1104	-0.0904	-0.3632	-0.1986	-0.0172	-0.0247	-0.0054	#N/A	-0.0222
TOTAL TRANSFORMED WACC (Sum of the weighted cost of each component)	4.9295	11.7889	12.2175	15.8530	11.5041	10.9455	11.1706	3.7782	#N/A	13.8756

(Source: Own observation)

Table 7.2: Presentation of the calculation of the transformed cost of capital (continued..)

Balance Sheet values (taken from F/S in 000's)	Distell	Emergent	Emira	Glenrand	Pick N Pay	Howden	Nampak	Remgro	RMB	York Timber
(Taken from financial statements disclosed in Appendix A)										
Ordinary shareholders interest (001 Ordinary share capital + 002 non-distributable reserves + 003 distributable reserves)	3,854,794	5,895	5,866,434	151,714	359,100	62,488	6,253,900	45,392,000	15,599,800	113,321
Debt (221 Long term loans interest bearing + 223 Short term loans interest bearing)	332,102	9,777	1,206,288	2,579	249,400	20,718	943,300	225,000	763,900	44,807
Accumulated depreciation (011 Total depreciation: Land and buildings + 013 Total depreciation: Other fixed assets)	941,642	-	26,646	49,096	2,116,700	45,464	3,360,900	1,815,000	108,300	18,392
Compound financial instruments (214 Convertible preference shares + 215 Convertible debentures & Loans)	-	60	-	-	27,600	-	-	-	15,000	-
Deferred taxes -(60% of 128 Deferred Tax Total taken as non-reversible)	81,163	-	155,690	-	-	-	439,860	648,600	-	5,648
Cash (20% of 029 Cash and Bank to be used to repay debt)	66,485	80	2,777	2,579	141,820	3,980	36,680	225,000	47,740	2,923
	5,276,186	15,812	7,257,835	205,968	2,894,620	132,650	11,034,640	48,305,600	16,534,740	185,091
Weight calculation										
(Balance sheet item/Total of balance sheet items)										
Ordinary shareholders interest (We)	0.7306	0.3728	0.8083	0.7366	0.1241	0.4711	0.5668	0.9397	0.9435	0.6122
Debt (Wd)	0.0629	0.6183	0.1662	0.0125	0.0862	0.1562	0.0855	0.0047	0.0462	0.2421
Accumulated depreciation (Wad)	0.1785	0.0000	0.0037	0.2384	0.7313	0.3427	0.3046	0.0376	0.0065	0.0994
Compound financial instruments (Wci)	0.0000	0.0038	0.0000	0.0000	0.0095	0.0000	0.0000	0.0000	0.0009	0.0000
Deferred taxes (Wdt)	0.0154	0.0000	0.0215	0.0000	0.0000	0.0000	0.0399	0.0134	0.0000	0.0305
Cash (Wc)	0.0126	0.0051	0.0004	0.0125	0.0490	0.0300	0.0033	0.0047	0.0029	0.0158
	1	1	1	1	1	1	1	1	1	1

Cost of each component	Distell	Emergent	Emira	Glenrand	Pick N Pay	Howden	Nampak	Remgro	RMB	York Timber
(Taken from McGregor BFA database)										
Ordinary shareholders interest (Re)	12.6286	6.2068	10.9966	9.208	10.1166	10.8904	13.0612	11.4108	12.7234	10.57
Debt (Rd)	16.6324	10.9543	5.4196	289.3621	11.0895	32.2577	21.1848	9.8133	7.236	#N/A
Accumulated depreciation (Rad)	12.6286	6.2068	10.9966	9.208	10.1166	10.8904	13.0612	11.4108	12.7234	10.57
Compound financial instruments (Rci)	16.6324	10.9543	5.4196	289.3621	11.0895	32.2577	21.1848	9.8133	7.236	#N/A
Deferred taxes (Rdt)	12.6286	6.2068	10.9966	9.208	10.1166	10.8904	13.0612	11.4108	12.7234	10.57
Cash (Rc)	16.6324	10.9543	5.4196	289.3621	11.0895	32.2577	21.1848	9.8133	7.236	#N/A
Weighted cost of each component										
(Weight of each component*cost of each component)										
Ordinary shareholders interest (We*Re)	9.2265	2.3140	8.8884	6.7825	1.2550	5.1302	7.4025	10.7225	12.0040	6.4714
Debt (Wd*Rd)	1.0469	6.7733	0.9008	3.6232	0.9555	5.0382	1.8110	0.0457	0.3343	#N/A
Accumulated depreciation (Wad*Rad)	2.2538	0.0000	0.0404	2.1949	7.3978	3.7325	3.9781	0.4287	0.0833	1.0503
Compound financial instruments (Wci*Rci)	0.0000	0.0416	0.0000	0.0000	0.1057	0.0000	0.0000	0.0000	0.0066	#N/A
Deferred taxes (Wdt*Rdt)	0.1943	0.0000	0.2359	0.0000	0.0000	0.0000	0.5206	0.1532	0.0000	0.3226
Cash (Wc*Rc)	-0.2096	-0.0556	-0.0021	-3.6232	-0.5433	-0.9679	-0.0704	-0.0457	-0.0209	#N/A
TOTAL TRANSFORMED WACC	12.5119	9.0732	10.0634	8.9774	9.1707	12.9329	13.6418	11.3045	12.4073	#N/A
(Sum of the weighted cost of each component)										

(Source: Own observation)

7.5.2 COMPARING OLD WACC TO THE TRANSFORMED WACC

The table below compares the calculation of the transformed WACC to that of the traditional model. The two models are compared to assess the impact of including the additional balance sheet items that affects the capital structure of organisations.

Table 7.3: Comparing the results of the transformed WACC calculation

Company name	Traditional WACC results	Transformed WACC results	Difference	Causes for in/decrease in transformed WACC from old WACC
ABSA	4.9127	4.9295	0.0168	The increase in the transformed WACC is due to the inclusion of deferred taxes and accumulated depreciation at cost of equity which is higher than the cash saving.
AECI	11.7325	11.7889	0.0564	The increase in the transformed WACC is due to the inclusion of accumulated depreciation which has a significant weighting that is at the higher cost of equity.
Afrimat	12.4236	12.2175	-0.2061	The decrease in the transformed WACC is due to the lower weighting assigned to ordinary share capital which carries the higher cost as well as the decrease due to the cash component.
AG Industries	16.8008	15.8530	-0.9478	The re-weighting of debt which is carried at a higher cost than equity caused a decrease in the transformed WACC, while the cash component which is at the debt cost also contributed to the lower WACC.
Allied Technology	11.8857	11.5041	-0.3816	A re-weighting of the cost of ordinary shares as well as high weighting assigned to cash at the higher cost of debt caused a significant decrease in WACC.
Foschini	10.7573	10.9455	0.1882	An increase in the transformed WACC is caused by a significant weighing of accumulated depreciation at the cost of equity.
Argent	11.1725	11.1706	-0.0019	The decrease in the transformed WACC is due to the lower weighting assigned to ordinary share capital which carries the higher cost as well as the decrease due to the cash component.
Barnard Jacobs	3.8082	3.7782	-0.0300	The re-weighting of ordinary share capital, which is carried at a higher cost than debt as well as the inclusion of the cash component caused a decrease in the transformed WACC. In this case a higher weighting to debt with a very low cost also contributed to the l
Coronation	#N/A	#N/A	#N/A	No sensible results delivered

Barloworld	13.4777	13.8756	0.3979	The increase in the transformed WACC is due to the inclusion of accumulated depreciation which has a significant weighting that is at the higher cost of equity.
Distell	12.9461	12.5119	-0.4342	A significant re-weighting of the cost of ordinary shares as well as high weighting assigned to cash at the cost of debt caused a significant decrease in WACC.
Emergent	9.1688	9.0732	-0.0956	The inclusion of the cash component caused decreases in the transformed WACC due to the cost of debt being higher than the cost of equity.
Emira	10.0452	10.0634	0.0182	The increase in the transformed WACC is due to the inclusion of deferred taxes and accumulated depreciation at cost of equity which is higher than the cash saving.
Glenrand	13.8866	8.9774	-4.9092	A significant re-weighting of the cost of ordinary shares as well as high weighting assigned to cash at the higher cost of debt caused a significant decrease in WACC.
Pick N Pay	10.5154	9.1707	-1.3447	The decrease in the transformed WACC is due to the lower weighting assigned to ordinary share capital which carries the higher cost as well as the decrease due to the cash component.
Howden	16.2109	12.9329	-3.2780	In this case the re-weighting of debt which carries the higher cost as well as the decrease due to the cash component caused a decrease in the transformed WACC.
Nampak	14.1262	13.6418	-0.4844	The decrease in the transformed WACC is due to the lower weighting assigned to ordinary share capital which carries the higher cost as well as the decrease due to the cash component.
Remgro	11.403	11.3045	-0.0985	The decrease in the transformed WACC is due to the lower weighting assigned to ordinary share capital which carries the higher cost as well as the decrease due to the cash component.
RMB Holdings	12.4671	12.4073	-0.0598	The cause for the decrease in the transformed WACC is due to inclusion of cash at the cost of debt.
York Timber	#N/A	#N/A	#N/A	No sensible results delivered

(Source: Own observation)

As seen in the table the inclusion of the new items of funding namely accumulated depreciation, deferred taxes, hybrid and derivative instruments and the cash component lead to a re-weighting of the ordinary share capital and debt components. On average the ordinary share capital weight changed from 74% in the old WACC formula to 60% in the

transformed WACC formula while debt remained fairly close at 26% versus 21%. The average weights for the new components in the cost of capital model vary from 15% for accumulated depreciation to 0.7% for compound instruments. In the cases where a bigger balance sheet value is assigned to the accumulated depreciation, deferred taxes or hybrid/derivative instruments, the cost of capital will be higher - AECl and Foschini have fairly sizable accumulated depreciation balances which results in a higher WACC as shown in the table below. In turn, where the cash component has a significant value it will have a higher weighting which causes a lower WACC – Allied Technology shows a 10% weight assigned to cash which caused its transformed WACC to decrease. Sixty percent of the companies have a higher cost of equity than debt, while 40% of the companies finance debt at a higher cost than issuing equity.

From the results it can be seen that in 65% of the companies the transformed WACC was lower than the traditional WACC while in 25% of the cases the transformed WACC was higher and 10% of the cases did not deliver sensible results. The main reason for the lower transformed WACC (in 65% of cases where transformed WACC < old WACC) is the decreased weighting assigned to ordinary share capital, which in most cases is carried at the higher cost, as well as the inclusion of the cash component which decreases the cost of capital. The other reasons for the lower WACC include the re-weighting of the debt component, where the cost of debt is higher than the cost of equity (15% of the cases) as well as the decrease offered by the inclusion of the cash component. This will cause a reduced WACC due to the subtraction of the cash component, which is shown at the higher cost of debt. In the cases where the transformed WACC is higher than the old WACC (25%) there is a significantly higher amount prescribed to items such as deferred taxes and accumulated depreciation, which causes a higher WACC due to the cost of equity being assigned to these items and this is normally the higher of the costs.

7.5.3 IMPLICATIONS OF RESULTS

The results of applying the transformed WACC model were surprising. The transformed WACC adds more items (accumulated depreciation, compound and derivative

instruments and deferred taxes) while subtracting the cash component and intuitively it should lead to a higher WACC. The results above indicate that the WACC in most cases (65%) was lower than the traditional WACC. The reason for this is that companies have, in most cases in this dissertation, small or no amounts for accumulated depreciation, compound or derivative instruments and deferred tax liabilities on their balance sheets while every company has a decent amount of cash on hand. Thus they don't have a lot of items increasing WACC but everyone has one item reducing WACC (cash). This result may be positive news for some companies as it implies that their cost of capital is overstated, which will lead to improved indicators such as NAICC (net income after the cost of capital) and EVA (economic value added). On the other hand a higher WACC is not always good news but it might ensure that companies use a higher but more prudent number to ensure that they can cover their capital costs and still deliver positive returns after the cost of capital.

This transformed WACC model should be taken on a case by case basis as it could lead to varying results for different companies depending on a company's balance sheet make-up. If a company has a fairly large amount of accumulated depreciation or trade in derivative contracts their cost of capital might be higher depending on the variables. The results above are also based on the assumption that companies can use some of their cash on hand to repay a portion of debt which might not always be the case. If the cash component is left out it will lead to a higher WACC.

7.6 STRESS TESTING OF THE CASH COMPONENT

Cash is an important aspect in any business and the following section will show the impact that cash can have on the cost of capital. By managing the cash of a business, managers can also manage the cost of capital. Stress testing involves changing certain assumptions regarding a model and testing the impact and significance of the results. In this case the inputs in the WACC model are assumed constant except for the cash variable. The impact of the cash variable on the WACC is then tested by looking at

various scenarios (stresses) of cash. The different scenarios includes a company using 2.5% of its cash to pay off debts, a company using 20% of its cash to pay off debts and a company using 40% of its cash to pay off its debts. Where the levels of cash under the different scenarios exceed the level of debt for companies the cash component is capped at the total amount of debt outstanding and it is assumed that the company has sufficient cash to settle all its debts which will lower the cost of capital. For this stress testing of cash it is assumed that cash is the only additional factor (deferred taxes, accumulated depreciation and hybrid instruments are ignored) that can influence the cost of capital calculation. This section assumes that cash can have a positive impact on the cost of capital of companies by reducing capital costs to a business. Different assumptions regarding the level of cash is made to illustrate the impact it can have on the cost of capital. The table on the following page indicates the results from applying the cash component at different ratios to the cost of capital calculation.

Table 7.4 Workings on stress testing the cash component

	ABSA	AECI	Afrimat	AG Industries	Allied Technology	Foschini	Argent	Barnard Jacobs	Coronation	Barloworld
Balance Sheet values (taken from F/S in 000's)										
Debt (221 Long term loans interest bearing + 223 Short term loans interest bearing)	579,818,000	1,429,000	38,357	152,282	30,000	1,020,500	200,303	556,898	-	7,008,000
Cash (029 Cash and Bank)	18,040,000	441,000	37,955	44,112	1,173,000	69,100	14,272	153,042	119,134	244,000
Cash to debt ratio (cash/debt)	0.03	0.31	0.99	0.29	39.10	0.07	0.07	0.27	#DIV/0!	0.03
Percentage of cash used to repay debt										
2.50% of cash in bank	451,000	11,025	949	1,103	29,325	1,728	357	3,826	-	6,100
20% of cash in bank	3,608,000	88,200	7,591	8,822	30,000	13,820	2,854	30,608	-	48,800
40% of cash in bank	7,216,000	176,400	15,182	17,645	30,000	27,640	5,709	61,217	-	97,600

Impact of different levels of cash on WACC

	ABSA	AECI	Afrimat	AG Industries	Allied Technology	Foschini	Argent	Barnard Jacobs	Coronation	Barloworld
Balance Sheet values (taken from F/S in 000's) (Taken from financial statements disclosed in Appendix C)										
Ordinary shareholders interest (001 Ordinary share capital + 002 non-distributable reserves + 003 distributable reserves)	37,869,000	3,467,000	442,113	382,824	1,529,000	3,381,500	760,302	311,891	903,278	10,714,000
Debt (221 Long term loans interest bearing + 223 Short term loans interest bearing)	579,818,000	1,429,000	38,357	152,282	30,000	1,020,500	200,303	556,898	-	7,008,000
Cash (2.5% Of 029 Cash and Bank to be used to repay debt)	451,000	11,025	949	1,103	29,325	1,728	357	3,826	-	6,100

	ABSA	AECI	Afrimat	AG Industries	Allied Technology	Foschini	Argent	Barnard Jacobs	Coronation	Barloworld
Cash (20% Of 029 Cash and Bank to be used to repay debt)	3,608,000	88,200	7,591	8,822	30,000	13,820	2,854	30,608	-	48,800
Cash (40% Of 029 Cash and Bank to be used to repay debt)	7,216,000	176,400	15,182	17,645	30,000	27,640	5,709	61,217	-	97,600

Weight calculation

(Balance sheet item/Total of balance sheet items)

Cash at 2.5%

Ordinary shareholders interest (We)	0.0613	0.7065	0.9184	0.7139	0.9626	0.7679	0.7912	0.3574	1.0000	0.6044
Debt (Wd)	0.9380	0.2912	0.0797	0.2840	0.0189	0.2317	0.2084	0.6382	0.0000	0.3953
Cash at 2.5% (Wc2.5%)	0.0007	0.0022	0.0020	0.0021	0.0185	0.0004	0.0004	0.0044	0.0000	0.0003

Cash at 20%

Ordinary shareholders interest (We)	0.0610	0.6956	0.9059	0.7038	0.9622	0.7658	0.7891	0.3468	1.0000	0.6029
Debt (Wd)	0.9332	0.2867	0.0786	0.2800	0.0189	0.2311	0.2079	0.6192	0.0000	0.3944
Cash at 20% (Wc20%)	0.0058	0.0177	0.0156	0.0162	0.0189	0.0031	0.0030	0.0340	0.0000	0.0027

Cash at 40%

Ordinary shareholders interest (We)	0.0606	0.6835	0.8920	0.6926	0.9622	0.7634	0.7868	0.3354	1.0000	0.6012
Debt (Wd)	0.9279	0.2817	0.0774	0.2755	0.0189	0.2304	0.2073	0.5988	0.0000	0.3933
Cash at 40% (Wc40%)	0.0115	0.0348	0.0306	0.0319	0.0189	0.0062	0.0059	0.0658	0.0000	0.0055

Cost of each component

(Taken from McGregor BFA database)

Ordinary shareholders interest (Re)	12.9988	13.318	12.9342	13.5382	11.8572	11.9322	11.6502	10.3206	12.7288	15.3982
Debt (Rd)	4.3846	7.8863	6.5363	25.0021	13.34	6.8637	9.3592	0.1608	#N/A	10.541
Cash (Rc)	4.3846	7.8863	6.5363	25.0021	13.34	6.8637	9.3592	0.1608	#N/A	10.541

Weighted cost of each component

(Weight of each component*cost of each component)
Cash at 2.5%

	ABSA	AECI	Afrimat	AG Industries	Allied Technology	Foschini	Argent	Barnard Jacobs	Coronation	Barloworld
Ordinary shareholders interest (We*Re)	0.7963	9.4097	11.8782	9.6655	11.4143	9.1624	9.2175	3.6888	12.7288	9.3059
Debt (Wd*Rd)	4.1128	2.2966	0.5208	7.1005	0.2520	1.5906	1.9508	0.1026	#N/A	4.1669
Cash at 2.5% (Wc2.5%*Rc)	-0.0032	-0.0177	-0.0129	-0.0514	-0.2463	-0.0027	-0.0035	-0.0007	#N/A	-0.0036

Cash at 20%

Ordinary shareholders interest (We*Re)	0.7923	9.2640	11.7165	9.5284	11.4095	9.1373	9.1936	3.5790	12.7288	9.2836
Debt (Wd*Rd)	4.0919	2.2610	0.5137	6.9998	0.2519	1.5862	1.9458	0.0996	#N/A	4.1569
Cash at 20% (Wc20%*Rc20%)	-0.0255	-0.1396	-0.1017	-0.4055	-0.2519	-0.0215	-0.0277	-0.0055	#N/A	-0.0289

Cash at 40%

Ordinary shareholders interest (We*Re)	0.7877	9.1029	11.5371	9.3763	11.4095	9.1088	9.1665	3.4612	12.7288	9.2581
Debt (Wd*Rd)	4.0683	2.2217	0.5058	6.8880	0.2519	1.5813	1.9400	0.0963	#N/A	4.1455
Cash at 40% (Wc40%*Rc)	-0.0506	-0.2743	-0.2002	-0.7981	-0.2519	-0.0428	-0.0553	-0.0106	#N/A	-0.0577

WACC at 2.5%

	4.9059	11.6886	12.3861	16.7147	11.4200	10.7503	11.1649	3.7907	12.7288	13.4692
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(Sum of the weighted cost of each component at 2.5%)

WACC at 20%

	4.8587	11.3855	12.1286	16.1226	11.4095	10.7020	11.1117	3.6730	12.7288	13.4115
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(Sum of the weighted cost of each component at 20%)

WACC at 40%

	4.8054	11.0504	11.8427	15.4662	11.4095	10.6472	11.0512	3.5469	12.7288	13.3459
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(Sum of the weighted cost of each component at 40%)

(Source: Own observation)

Table 7.4 Workings on stress testing the cash component (continued)

	Distell	Emergent	Emira	Glenrand	Pick N Pay	Howden	Nampak	Remgro	RMB	York Timber
Balance Sheet values (taken from F/S in 000's)										
Debt (221 Long term loans interest bearing + 223 Short term loans interest bearing)	332,102	9,777	1,206,288	2,579	249,400	20,718	943,300	225,000	763,900	44,807
Cash (029 Cash and Bank)	332,426	401	13,886	232,995	709,100	19,902	183,400	5,004,000	238,700	14,614
Cash to debt ratio (cash/debt)	1.00	0.04	0.01	90.34	2.84	0.96	0.19	22.24	0.31	0.33
Percentage of cash used to repay debt										
2.50% of cash in bank	8,311	10	347	2,579	17,728	498	4,585	125,100	5,968	365
20% of cash in bank	66,485	80	2,777	2,579	141,820	3,980	36,680	225,000	47,740	2,923
40% of cash in bank	132,970	160	5,554	2,579	249,400	7,961	73,360	225,000	95,480	5,846

Impact of different levels of cash on WACC

	Distell	Emergent	Emira	Glenrand	Pick N Pay	Howden	Nampak	Remgro	RMB	York Timber
Balance Sheet values (taken from F/S in 000's)										
(Taken from financial statements disclosed in Appendix C)										
Ordinary shareholders interest (001 Ordinary share capital + 002 non-distributable reserves + 003 distributable reserves)	3,854,794	5,895	5,866,434	151,714	359,100	62,488	6,253,900	45,392,000	15,599,800	113,321
Debt (221 Long term loans interest bearing + 223 Short term loans interest bearing)	332,102	9,777	1,206,288	2,579	249,400	20,718	943,300	225,000	763,900	44,807

	Distell	Emergent	Emira	Glenrand	Pick N Pay	Howden	Nampak	Remgro	RMB	York Timber
Cash (2.5% Of 029 Cash and Bank to be used to repay debt)	8,311	10	347	2,579	17,728	498	4,585	125,100	5,968	365
Cash (20% Of 029 Cash and Bank to be used to repay debt)	66,485	80	2,777	2,579	141,820	3,980	36,680	225,000	47,740	2,923
Cash (40% Of 029 Cash and Bank to be used to repay debt)	132,970	160	5,554	2,579	249,400	7,961	73,360	225,000	95,480	5,846

Weight calculation

(Balance sheet item/Total of balance sheet items)

Cash at 2.5%

Ordinary shareholders interest (We)	0.9189	0.3759	0.8294	0.9671	0.5734	0.7465	0.8684	0.9923	0.9530	0.7150
Debt (Wd)	0.0792	0.6235	0.1705	0.0164	0.3983	0.2475	0.1310	0.0049	0.0467	0.2827
Cash at 2.5% (Wc2.5%)	0.0020	0.0006	0.0000	0.0164	0.0283	0.0059	0.0006	0.0027	0.0004	0.0023

Cash at 20%

Ordinary shareholders interest (We)	0.9063	0.3742	0.8291	0.9671	0.4786	0.7167	0.8645	0.9902	0.9505	0.7036
Debt (Wd)	0.0781	0.6207	0.1705	0.0164	0.3324	0.2376	0.1304	0.0049	0.0465	0.2782
Cash at 20% (Wc20%)	0.0156	0.0051	0.0004	0.0164	0.1890	0.0457	0.0051	0.0049	0.0029	0.0181

Cash at 40%

Ordinary shareholders interest (We)	0.8923	0.3723	0.8288	0.9671	0.4186	0.6854	0.8602	0.9902	0.9478	0.6911
Debt (Wd)	0.0769	0.6175	0.1704	0.0164	0.2907	0.2273	0.1297	0.0049	0.0464	0.2733
Cash at 40% (Wc40%)	0.0308	0.0101	0.0008	0.0164	0.2907	0.0873	0.0101	0.0049	0.0058	0.0356

Cost of each component

(Taken from McGregor BFA database)

Ordinary shareholders interest (Re)	12.6286	6.2068	10.9966	9.208	10.1166	10.8904	13.0612	11.4108	12.7234	10.57
Debt (Rd)	16.6324	10.9543	5.4196	289.3621	11.0895	32.2577	21.1848	9.8133	7.236	#N/A
Cash (Rc)	16.6324	10.9543	5.4196	289.3621	11.0895	32.2577	21.1848	9.8133	7.236	#N/A

Weighted cost of each component

(Weight of each component*cost of each component)

Cash at 2.5%

Ordinary shareholders interest (We*Re)

Debt (Wd*Rd)

	Distell	Emergent	Emira	Glenrand	Pick N Pay	Howden	Nampak	Remgro	RMB	York Timber
Cash at 2.5% (Wc2.5%*Rc)	11.6039	2.3332	9.1206	8.9052	5.8012	8.1301	11.3421	11.3235	12.1250	7.5574
	1.3167	6.8295	0.9243	4.7572	4.4165	7.9843	2.7748	0.0483	0.3377	#N/A
Cash at 20%	-0.0329	-0.0070	-0.0003	-4.7572	-0.3139	-0.1917	-0.0135	-0.0268	-0.0026	#N/A

Ordinary shareholders interest (We*Re)

Debt (Wd*Rd)

Cash at 20% (Wc20%*Rc20%)	11.4452	2.3228	9.1175	8.9052	4.8418	7.8053	11.2918	11.2988	12.0942	7.4374
	1.2986	6.7991	0.9240	4.7572	3.6861	7.6654	2.7625	0.0482	0.3368	#N/A
Cash at 40%	-0.2600	-0.0558	-0.0021	-4.7572	-2.0961	-1.4727	-0.1074	-0.0482	-0.0210	#N/A

Ordinary shareholders interest (We*Re)

Debt (Wd*Rd)

Cash at 40% (Wc40%*Rc)	11.2690	2.3110	9.1139	8.9052	4.2346	7.4646	11.2348	11.2988	12.0591	7.3049
Ordinary shareholders interest (We)	1.2787	6.7646	0.9236	4.7572	3.2238	7.3307	2.7486	0.0482	0.3358	#N/A
Debt (Wd)	-0.5120	-0.1110	-0.0043	-4.7572	-3.2238	-2.8168	-0.2138	-0.0482	-0.0420	#N/A

WACC at 2.5%

(Sum of the weighted cost of each component at 2.5%)

12.8876	9.1557	10.0447	8.9052	9.9038	15.9227	14.1034	11.3449	12.4601	#N/A
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WACC at 20%

(Sum of the weighted cost of each component at 20%)

12.4838	9.0661	10.0393	8.9052	6.4318	13.9980	13.9469	11.2988	12.4099	#N/A
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WACC at 40%

(Sum of the weighted cost of each component at 40%)

12.0357	8.9647	10.0333	8.9052	4.2346	11.9785	13.7696	11.2988	12.3529	#N/A
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(Source: Own observation)

The following table contains the results of the stress testing completed in the workings above.

Table 7.5: Results of cash stress testing on the cost of capital

Cash Stress Testing							
Company	Traditional WACC	New WACC	Difference	New WACC	Difference	New WACC	Difference
		(cash at 2.5%)		(cash at 20%)		(cash at 40%)	
ABSA	4.9127	4.9059	-0.0068	4.8587	-0.0540	4.8054	-0.1073
AECI	11.7325	11.6886	-0.0439	11.3855	-0.3470	11.0504	-0.6821
Afrimat	12.4236	12.3861	-0.0375	12.1286	-0.2950	11.8427	-0.5809
AG Industries	16.8008	16.7147	-0.0861	16.1226	-0.6782	15.4662	-1.3346
Allied Technology	11.8857	11.4200	-0.4657	11.4095	-0.4762	11.4095	-0.4762
Foschini	10.7573	10.7503	-0.0070	10.7020	-0.0553	10.6472	-0.1101
Argent	11.1725	11.1649	-0.0076	11.1117	-0.0608	11.0512	-0.1213
Barnard Jacobs	3.8082	3.7907	-0.0175	3.6730	-0.1352	3.5469	-0.2613
Coronation	12.7288	12.7288	0.0000	12.7288	0.0000	12.7288	0.0000
Barloworld	13.4777	13.4692	-0.0085	13.4115	-0.0662	13.3459	-0.1318
Distell	12.9461	12.8876	-0.0585	12.4838	-0.4623	12.0357	-0.9104
Emergent	9.1688	9.1557	-0.0131	9.0661	-0.1027	8.9647	-0.2041
Emira	10.0452	10.0447	-0.0005	10.0393	-0.0059	10.0333	-0.0119
Glenrand	13.8866	8.9052	-4.9814	8.9052	-4.9814	8.9052	-4.9814
Pick N Pay	10.5154	9.9038	-0.6116	6.4318	-4.0836	4.2346	-6.2808
Howden	16.2109	15.9227	-0.2882	13.9980	-2.2129	11.9785	-4.2324
Nampak	14.1262	14.1034	-0.0228	13.9469	-0.1793	13.7696	-0.3566
Remgro	11.403	11.3449	-0.0581	11.2988	-0.1042	11.2988	-0.1042
RMB Holdings	12.4671	12.4601	-0.0070	12.4099	-0.0572	12.3529	-0.1142
York Timber	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A

(Source: Own observation)

The table assumes that different percentages of total cash available can be applied to lower the cost of capital. If 2.5% of a company's cash is used, the impact differs from company to company and in our sample the cost of capital is lowered by between 0.0006% and 4.98%. If 20% of cash is employed to fund projects, expansions, etc it can be seen that the cost of capital for the selected companies is lowered between 0.005% and 4.98%. If 40% of cash is ploughed back into the business, the impact on the cost of capital is between 0.02% and 6.2%. For certain companies the level of cash exceeds the level of debt, if cash is used to repay the full amount of debt then the cost of capital can be lowered. This can be seen in the case of Allied Technologies, Glenrand and Remgro.

The impact of cash on the cost of capital varies depending on the amount of cash held by a business. If cash makes up a significant amount on the balance sheet, then it will have a bigger impact on the cost of capital than companies holding little to no cash. All businesses have some form of cash on hand and if managed properly, it can be used to lower the cost of capital of a company.

7.7 SUMMARY AND CONCLUSION

From the research conducted in this chapter the following table represents a summary of the factors that affect the cost of capital and the impact they have on the cost of capital model. This table indicates that the cost of capital model is influenced by various factors and it is important to take all these factors into consideration when making decisions regarding obtaining and utilising capital.

Table: 7.5: Summary of factors that impact the cost of capital model

Factors influencing the cost of capital	Impact of factors on the cost of capital
Retained reserves	Higher levels of retained reserves increases the cost of capital
Long-term debt	Higher levels of debt increases the cost of capital
Accumulated depreciation	Higher levels of accumulated depreciation increases the cost of capital
Hybrid instruments (derivatives and compound instruments)	Higher levels of hybrid instruments increases the cost of capital
Cash	Higher levels of cash decreases the cost of capital
Ordinary share capital	Higher levels of share capital increases the cost of capital

Deferred taxes	Higher levels of deferred taxes increases the cost of capital
Cost of debt -dependent on level of interest, debt and tax rates	A higher cost of debt will increase the cost of capital
-Level of interest and interest rates	Higher interest rates causes higher interest payments which will cause a higher cost of debt
-Level of debt	Higher levels of debt will cause a lower cost of debt
-Tax rate	A higher tax rate will cause the cost of debt to be lower
Cost of equity-dependent on beta, market returns and the risk free rate	A higher cost of equity will increase the cost of capital
-Beta	A higher beta, keeping all other factors constant, will cause a higher cost of equity
-Market returns	Higher market returns, keeping all other factors constant, will increase the cost of equity
-Risk free rate	A higher risk free rate of return, keeping all other factors constant, will also cause a higher cost of equity

(Source: Own observation)

The cost of capital is an important management tool as it is used to evaluate and manage capital expenditures, projects and budgets. The application of the transformed WACC calculation can lead to companies either reducing or increasing their capital cost base. This can have significant impact on a business model and for lenders of capital it will have consequences on the capital pricing of funding. The practical application of the transformed cost of capital needs to be further investigated to show the impact on financial reporting and investment analysis tools such as discounted free cash flow models and ratios (debt/equity, return on capital, etc).

CHAPTER 8: SUMMARY AND CONCLUSION

“The only real voyage of discovery consists not in seeing new landscapes, but having new eyes in seeing the universe with the eyes of another, of hundreds of others, in seeing the hundreds of universes that each of them sees” –

Marcel Proust

CHAPTER 8

SUMMARY AND CONCLUSION

8.1 INTRODUCTION

“We were once made secure by things visible, by structures we could see. Now it is time to embrace the invisible” - Margaret Wheatley

The world today is faced with many unique challenges arising from past economic, social and cultural decisions. Global warming, depletion of natural resources and looming pandemics are just some of these issues that modern society has to deal with. The world is at a decision point – carry on the path of self-destruction or build a better future. In order to reach a better future, a paradigm shift is needed in the current world view. In this shift the classic scientific view of the world is questioned and there is a call to view the world in totality. Capra calls this a crisis in perception. According to him people and business enterprises subscribe to an outdated view of the world that is based on perceived reality that is inadequate to deal with our inter-connected world and its challenges (Capra and Puali, 1995:8). The current world view was fashioned by the industrial revolution several hundred years ago and has shaped modern society and the world as we know it. This era in human history was based on the mechanical view of the universe, whereby the world was viewed as a machine composed of different components with each component having its own elementary parts. The assumptions underlying this view were to achieve maximum growth for the different component parts at the cost of others - survival of the fittest was at the order of the day.

The new paradigm is based on a holistic view of the world where each part is seen as an integral part of the whole which cannot be viewed separately. This shift in perception developed from viewing the world as a collection of objects to seeing it as a complex web

of relationships. Leading researchers in all spheres of science, technology and business are busy developing a new vision of reality that will form the foundation for the future.

Business enterprises are some of the most powerful institutions in the world and can lead the world to a better future, thus, in part at least, the responsibility for change must come from them. In order to address these responsibilities, companies cannot focus on cost cutting to improve returns. The dawn of the new millennium sees the expectation of business to deliver on all the areas, while being considerate of issues such as the environment, communities and relationships.

But what does this paradigm shift entitle for business enterprises and their sources of capital? The World Bank, in its conference paper *“The wealth of nations – the millennium capital assessment”*, indicate that there are three sources of capital namely produced, natural and intangible on which development depends. The report shows that the predominant form of wealth worldwide is intangible assets. It defines intangible capital as “all those assets unaccounted for in the other two wealth components and include assets such as skills, know-how embodied in the work force, social capital and effective judicial and government systems” (The World Bank, 2006:18). The tangible forms of capital such as natural and produced capital has been identified and measured and is clearly shown on the balance sheet. Accounting has attempted to capture the financial effect of intangible assets but there is still some way to go in the measurement and recognition requirements for these types of resources. Currently intangible assets are predominantly measured in the goodwill number of a company or not included at all which makes it difficult to ascertain the total benefit derived from this resource. The World Bank report indicates what an important part intangible assets play in the development of the world. This fact, together with the gaps in accounting for intangible assets, clearly indicate that a lot of research needs to be done to develop a financial reporting framework that can supply information on all forms of capital - even intangible ones.

The cost of capital is a tool often used by management in project selection and performance measurement (EVA for example) and therefore an essential characteristic of any successful firm in a rapidly changing and competitive business world. The problem

with the current cost of capital model is the fact that it relies on the accounting definition of debt and equity and sources of funding. The new business environment brings with it more advanced and complex forms of debt and equity instruments and the current accounting framework does not always allow for the proper classification of these instruments. This results in these items being ignored for cost of capital purposes. The result could have significant financial and strategic implications as demonstrated in previous chapters.

The concept “capital” is one of ambiguity and confusion. The definition of capital has many layers and as economic, financial and accounting history progressed so has the definition been adapted to meet the requirements of the time. First capital referred to a sum of money and later on it referred to physical goods giving it a dual meaning for describing a great many things. This confusing definition “acquired” certain characteristics as it was employed in the field of accounting. These characteristics created a strict set of guidelines by which instruments were measured to determine whether they classify as capital or not. This led to the exclusion of certain forms of capital that didn’t meet the exact characteristic requirements. Items such as intellectual capital, the environment and social networks didn’t fall into the scope of the capital definition and did not make their way into the calculation of the cost of capital. These instruments that do not strictly meet the accounting definition of capital have caused an informational mismatch as to what analysts require and what is afforded by accounting information. This has led to various adjustments to key ratios such as the return on equity, debt - equity and other ratios (Lasman and Weil, 1978:49).

The research topic poses a threat to the *status quo* in the accounting discipline and profession. The metamorphosis of the cost of capital model and capital business framework demands a new type of thinking, business structure and strategic focus. This also points to the possible development of a new accounting framework or classification system that incorporates alternative sources of funding or hybrid instruments into its own class. This new mind set will challenge the accounting profession to adapt to a changing business environment in order to meet the demands of the new age business world. Accounting has always been reactionary and developments in the framework have

always followed major events in the financial world. Accounting needs to become more pro-active and it must be an efficient and effective facilitator of information for businesses through anticipating and driving change and continually strive to improve the decision-usefulness of its reporting framework.

This research on the cost of capital should be useful to management, accountants and employees in creating awareness of the need to focus on proper capital management, measurement and disclosure to ensure that correct decision are taken. It should also be of interest to investors and analysts as it attempts to align accounting information with analytical decision-useful information. Standard setters can use this research to expand disclosure requirements and even use it to develop new disclosure requirements for financial reporting purposes. Other researchers may also find this research useful as it spans across various different disciplines.

In this chapter an overview of the dissertation is provided. The conclusions drawn are a result of the research discussed, and the contributions made to all the different financial disciplines are summarised followed by some suggestions for further research in the future.

8.2 OVERVIEW

The problem addressed in this dissertation concerns the definition of capital and the exclusion of the impact of certain accounting book entries on capital as well as certain sources of capital that have both debt and equity components, that have received no clear guidance in the accounting definition of debt and equity. Studies have indicated that accounting information has lost its decision-usefulness and relevance and cannot efficiently keep up with the changing demands of users of business information (Francis and Schipper, 1999:319). In addressing these issues, the proposition in this dissertation is that the traditional model for the cost of capital is based on accounting classification of debt and equity instruments that have not properly captured their true nature. In this dissertation instruments that have 'grey' accounting classifications are introduced and

incorporated into the current cost of capital model. The impact of certain accounting book entries on capital structure is also investigated.

Three areas of research were identified in this dissertation namely:

- To trace the concept of capital through accounting, finance and economic history to better understand aspects thereof so that a renewed definition of capital can be developed.
- To explore the hidden variables that contributes to the capital mix of organisations and their impact on the cost of capital.
- To introduce a renewed model for the cost of capital that represents the different sources of funding not previously recognised.

The first research area was addressed in chapter two, where the definition of capital is traced throughout accounting, economic and finance history in order to point out the restrictions around the definition of capital. It shows that the definition of capital has always revolved around tangible resources. At the end of the chapter a broader definition of capital is given to show that there are more dimensions to capital than only “real” or tangible sources involved in the production of wealth.

The second research point is explored in chapter five. The different forms of capital are discussed and it is shown that even though some sources are more difficult to measure in traditional management accounting terms, they are still very relevant in the system of wealth production. The chapter shows that businesses need to find a balance between traditional and new views. On the one hand profit maximisation is still important to success but on the other hand so is the environment and society as a whole. Businesses need to find a balance between the use of tangible and intangible resources and should start developing a business strategy that allows for this. In order to accommodate this balanced business view, the business is seen as a self functioning system that is part of the larger systems that are nature and society. In order to show this systems view of the world, systems theory was adopted. It talks to the holistic view of the world and shows that one system cannot function to the detriment of the other systems. Mankind

functioned on his own without regard to the larger system it formed part of and this has led to many problems, some incorrigible, that we have to address if we want to survive. Business must take the lead and develop strategies and plans that indicate their role and the part they are going to play in order to create a future for our children. This implies that “soft capitals” should start making their way into business strategies and reporting tools (financial and non-financial). It paves the way for new and innovative ideas around measurement and presentation. Although chapter five proposes that there are various sources of capital. Chapter six explores the current balance sheet and financial instruments and uncovers various items that can impact the capital structure of organisations. The chapter explores items that the current cost of capital model does not include and reasons that these items need to be included in the cost of capital calculation as these items have capital implications. These items are divided into three broad categories namely hybrid financial instruments, accounting book entries and cash. These items are labelled the hidden constituents of the cost of capital as they have not been included in the cost of capital calculation before. They are hidden because they have not yet been uncovered or treated as sources of funding. This item will explore the capital structure implications of these items.

The last research area is explained in chapters six and seven. In chapter six the current cost of capital model is adapted to changing circumstances in the modern business world. It introduces a transformed cost of capital model that addresses some of the shortcomings of the traditional model by including unconventional forms of funding that is shown in the chapter as being relevant sources. The transformed model does not discount the current model and uses all the assumptions and inputs of the traditional model. It is an expansion of the traditional model to include other items that impact the capital structure of organisations. The transformed model is presented and then tested in chapter seven with real world case scenarios to indicate the impact the transformed model has on the cost of capital of a firm. In some cases the actual cost of capital was lower and in others it was higher than the traditional cost of capital. This indicates that companies are over or understating their capital costs which can have serious impacts on their profitability and solvency.

In the dissertation the following main and secondary assumptions were made around the nature of capital and the cost of capital. The main assumptions are:

- The cost of capital is a function of decision-useful information.

Information that is useful to decision makers is included in the calculation. Accounting information is not necessarily all inclusive and should be considered in conjunction with supplementary information such as management reports, sustainability reports, etc.

- The cost of capital is based on the principle of opportunity cost.

The cost of capital is not a cost that is recognised in the income statement or balance sheet. It is the opportunity cost of obtaining financing in order to create value. It is representative of the opportunity cost by taking certain financing and investing decisions.

The secondary assumptions made with regards to the research include:

- The cost of capital is a measurement tool

The sources of funding for an enterprise at different levels can be measured, thus allowing comparison over time in one company and between companies and industries. Measurement is taken in accounting context – financial or quantitative measures.

- The cost of capital is future orientated (uncertain)

The cost of capital model is used for decision-making purposes based on future happenings. It is used in budgeting and forecasting and in valuation models all based on uncertainty and aimed towards the future. Management uses the cost of capital as a tool of prediction.

- The cost of capital is observable
The use and influence of cost of capital on decisions both internal (management) and external (analysts) to the organisation can be observed and recorded.
- The cost of capital is a construct of time
Like all things in life a business organisation and its capital is time bound. This also speaks towards the future orientated nature of the cost of capital. The arrow of time is forward looking and indicative of the way business is conducted – based on the future not the past.
- The cost of capital is a measure of risk
The cost of capital is used in valuation models as the discount factor which is used to measure the risk inherent in the valuation calculation. In capital budgeting it is also used to measure the riskiness of projects.

From the above assumptions it can be concluded that the transformed cost of capital model will be useful to decision makers and should be communicated to the various stakeholders.

Capital is a multi-layered concept that has various definitions ascribed to this single word. In this dissertation the root of business is recognised as its capital and explored. This phenomenon is re-defined, delineated and categorised into the different types of funding. The conclusion can be reached in this dissertation that capital can be defined as follows:

Capital is the collective term that represents the interaction of the different resources available to an organisation.

The transformed cost of capital model will offer the following benefits:

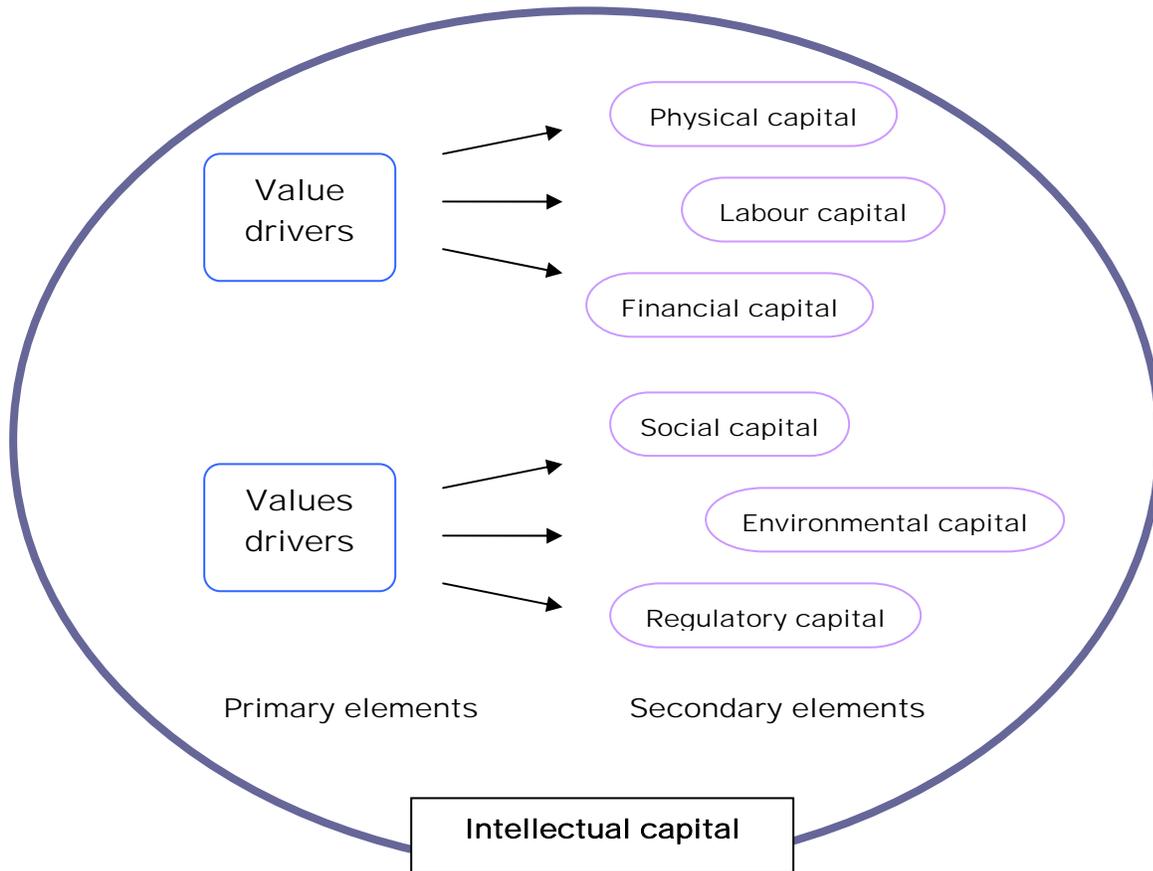
- ❖ It provides information to management that will drive change in business strategies with a greater focus on the sources and cost of funds.

- ❖ It will call for more accurate analysis of sources of funding and will lead to better business decisions regarding capital budgeting, investments analysis and financing.
- ❖ It provides greater insight into the ability of a business to finance itself in an ever-changing business world.
- ❖ It provides management with means of adding value to the business.

The aim of this dissertation was to establish the need to re-mould the cost of capital model. First of all business needs to adapt to a changing world view that will shift focus away from the traditional hard capital sources to a new focus on the soft capitals. The need to show a more holistic business model has been identified. The second aspect of change is to recognise a change in the funding items of a business in the cost of capital model. The WACC is based on accounting information and over the past few decades a clear need for a more comprehensive framework has arisen as the financial world has become more complex and technologically advanced. The world has become virtual and with a click of a single button needs are satisfied and business are run from home by a single person with a computer.

The research was carried out in accordance with the Mitroff research model described in chapter three. Chapter four to six form the activity of conceptualisation that is used to create the conceptual model. The concept of capital was defined, demarcated and organized in chapter two and five to form the basis of the transformed model. The conceptual model consists of the following primary and secondary elements:

Figure 8.1: The conceptual capital model



(Source: Own observation)

The primary element of the model is explained in chapter five and defines the two main ideas of business, namely value and values. The secondary elements refer to the different forms of capital available to an organisation. These forms are also explained in chapter five and are vital to the continuous success and existence of any business enterprise. The idea behind the conceptual model is to create awareness of all the different sources of capital and the fact that these sources are overlooked in our current reporting framework and that it can have serious implications if overlooked by management and other users of financial information. The role intellectual capital plays in the model is the fundamental unifying theme underlying the morphed model. Without intellectual capital none of the other capitals can be used and/or created to facilitate business. Intellectual capital is the core capital and without it no knowledge or wealth can be created or stored.

The conceptual model is operationalized with regard to accounting and its framework in chapter six. The conceptual framework from chapter five in terms of Mitroff's model is then modelled to create the transformed model. This transformed model involves creating a mathematical formula based on tested assumptions that uses accounting information to deliver sensible results that will lead to informed decision making.

In chapter seven the transformed cost of capital is evaluated against accounting information and feedback is provided regarding the results and comments are made for improvement. This represents the feedback loop proposed by Mitroff in his research model. As a result of the feedback loop the conclusion was reached that the transformed cost of capital model delivers sensible results that will benefit users of financial information. In the longer term the results of this dissertation imply that some fundamental changes to the accounting framework need to be made that will result in an information system better suited to the needs of its users.

8.3 CONCLUSIONS

The following conclusions regarding the cost of capital and accounting have been reached, based on the research done:

- ❖ The definition of capital has not kept up with the changes in the business world. Concepts such as intellectual and social capital have no place in the current definition but are very relevant capital sources.
- ❖ The current cost of capital is based on current definitions of debt and equity. Accounting is criticised in literature for failing to reflect reality and not providing information that is relevant and useful to decision makers.
- ❖ The current accounting definitions of debt and equity do not properly incorporate hybrid instruments or the no man's land items into the current balance sheet framework.

- ❖ The current cost of capital model does not include any of the so-called no man's land items and should be re-considered to accurately reflect the cost of sources of funding.
- ❖ The current accounting framework needs to be updated to properly accommodate complex forms of funding in its framework to ensure relevant and decision-useful information is disclosed to users.
- ❖ The transformed cost of capital indicates that firms currently over or under estimate their cost of capital which can have significant impact on project selection, investment analysis and capital budgeting to name but a few.

The following concluding remarks can be made around the business environment, capital and management:

- ❖ The world of business is facing certain unique challenges in the environmental, social and economic sphere. These challenges can be addressed by a change to business fundamentals.
- ❖ The focus has shifted away from shareholder wealth maximisation to a broader stakeholder view and in order to ensure stakeholders interests are looked after, the different sources of funding provided by all stakeholders must be recognised, measured and reported. This calls for a more comprehensive definition and model for recording all the different forms of capital.
- ❖ Capital is an intriguing concept that managers believe they understand and manage appropriately. As this research has shown, capital is a much more complex phenomenon that still needs a lot more attention and research in order to ensure proper capital management.

- ❖ The cost of capital is a tool developed and implemented by business organisations in order to measure and improve their funding costs and charges in relation to their competitors.
- ❖ The cost of capital can be measured using both financial and non-financial measures. Measurement is important as it makes the concept visible and the different components can be identified.
- ❖ Information regarding the cost of capital is useful to a wide range of decision-makers as it can be used to determine the funding capabilities of an organisation as well as a tool used in performance management.

8.4 CONTRIBUTIONS TO RESEARCH

The research makes several contributions to financial management and other fields of study. The contributions to financial, business and organisational management are the following:

- ❖ It re-moulds the cost of capital construct by incorporating more useful and relevant data into the current model. This makes the model more decision-useful.
- ❖ It refines the nature of capital through the development of a model for the categories and aspects of capital. This is used to clarify and emphasise the importance of the capital structure in business.
- ❖ It emphasises the fact that all capital holders (thus all stakeholders) are important and each bears a cost of funding and that ignoring these costs can have serious implications.

- ❖ It creates greater awareness of the different types of capital and the importance of proper capital management among managers and employees in order to ensure all stakeholders are looked after.
- ❖ It provides management with a more accurate reflection of its capital position.
- ❖ It provides the platform for the improvement and focus on business strategies revolving around capital and resource planning.

The contributions to the field of accounting can be summarised as follows:

- ❖ It indicates potential problems with the accounting definition of debt and equity by identifying items such as derivatives and convertible bonds that have characteristics of both debt and equity.
- ❖ It emphasises the criticisms levelled at accounting data for not being relevant and decision useful.
- ❖ It suggests improvements around future research regarding the classification framework and the proper disclosure of certain items of funding.
- ❖ It suggests that the problems faced by accounting must be viewed as the workings of an open system which interacts freely with all its components and which can adapt to changes in components.

The application of the Mitroff model in chapter three forms the basis for the empirical validity of the model:

- ❖ The activities as set out in the Mitroff model assist in outlining the scope of the research.

- ❖ The different actions represented in the model also help in identifying the sequence of chapters necessary for research.
- ❖ The model also follows logical steps that prompt different thought processes along the way. It involves lateral thinking in the first steps of conceptualisation that evolves into logical ordering and modelling in the final stages.
- ❖ The model also encourages researchers to develop models, formulas, etc in a holistic framework.

Systems theory was also employed to develop the conceptual model and contributed the following to the research:

- ❖ It made it possible for the research to be conducted by making use of an interdisciplinary approach by considering the impact of the model on the business environment, the enterprise and accounting and financial management sectors.
- ❖ It provided the means necessary to explain the complex relationships surrounding business enterprises, their stakeholders and the business environment.
- ❖ It provides a useful method for studying the business and its environment in a holistic manner.
- ❖ It emphasis the feedback loop within a system, so that the system can incorporate the feedback within itself and effect changes where necessary.

8.5 FURTHER RESEARCH

The following areas have been identified as possible future research opportunities:

- ❖ The traditional definition of assets and liabilities needs to be revisited to include intangible assets. This can also give rise to further research in re-designing the face of the balance sheet and possibly the creation of transformed categories of transaction classes.
- ❖ Further exploration into the current accounting framework with regard to instruments with characteristics of both debt and equity. Perhaps a re-invention of the current accounting classification system to incorporate these hybrid instruments into its own category.
- ❖ The development of measurement tools and criteria to measure the different sources of capital. These measures can be qualitative or quantitative.
- ❖ The further development of the cost of capital to incorporate all sources of funding identified.
- ❖ The refinement of the capital model to business enterprises in terms of implementation and measurement.
- ❖ Exploring the impact of the development of a transformed cost of capital model on the risk and capital models of organisations.

Further research is also needed in the following financial fields:

- ❖ Investment management: the impact of the cost of capital in discounting models must be investigated.
- ❖ Auditing: the impact of a change in accounting classification regarding debt and equity on audit requirements and assessment must be explored.
- ❖ Taxation: the impact of the reclassification of items under debt and equity and tax rates and the irreversibility of deferred taxes must be considered.

- ❖ Organisation theory: the impact of capital on the culture and structure of organisations must be examined.
- ❖ Strategic management: the impact of capital management in the development of strategies and business plans must be assessed.
- ❖ Behavioural science: the impact of capital on human behaviour must be researched. How will capital impact the routines and activities of people in the organisation?
- ❖ Education: the impact of capital on the education of financial management students and accountants as well as the development of skills to manage capital properly must be investigated.

8.6 MOVING INTO THE FUTURE

The concept of capital and compensating investors for their funds are at the heart of any capitalistic system. The theme was always shareholder wealth maximisation, but with the new economy comes more responsibility and the shareholder view is expanded to include all stakeholders. These stakeholders have also invested in the business in some or the other way and as shareholders are entitled to a portion of the business' wealth. The creation of wealth is a very important and relevant topic for business enterprises. In the current economic recession the lessons were learnt and proper capital management were highlighted. The concept of capital is at the core of business and the cost of capital is used more and more in strategic planning. The sources of wealth creation is scrutinised more carefully and emphasis placed on intangible assets. The movement of the economy is more towards intangible resources as the finite tangible resources of our planet become scarcer. The focus is on intangibles but there are large gaps in measurement tools, reporting and disclosure frameworks for these instruments.

The future will see the development of alternative measures and new disclosure requirements. The drive will come from business as it has far reaching implications for management, the organisation and the accounting discipline. As M Wheatley (2006:4) puts it: “change and constant creation were ways of sustaining order and capacity”. This speaks to the fact that a new framework needs to be developed to address concepts that clashes with current accounting view and researchers and accountants alike need to wrap their heads around new ways of thinking. The new world view will require more work around measurement frameworks and accounting classification of resources. This will include the clean-up of items that currently have issues regarding their classification. Accounting needs to become more flexible. The turn around time for revisions to statements is about two years. By that time there are new issues that need be addressed and the issues that were relevant two years ago may not be relevant or have become obsolete. The future will see a move towards more flexible reporting frameworks that can adapt to the changing needs of users of financial information.

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APPENDIX A



Balance Sheet [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	21	12	12
Year End Month	Dec	Dec	Dec	Mar	Mar
Balance Sheet Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
<u>001 Ordinary Share Capital</u>	1,350,000	1,338,000	1,327,000	1,291,000	1,303,000
<u>002 Non Distributable Reserves</u>	2,698,000	2,479,000	2,675,000	2,143,000	1,975,000
<u>003 Distributable Reserves</u>	33,821,000	28,389,000	23,329,000	16,364,000	14,262,000
<u>004 Cost Of Control</u>	154,000	139,000	139,000	84,000	132,000
<u>005 Intangible Assets</u>	147,000	91,000	52,000	50,000	-
<u>006 Ordinary Shareholders Interest</u>	37,568,000	31,976,000	27,140,000	19,664,000	17,408,000
<u>007 Minority Interest</u>	4,766,000	3,228,000	397,000	200,000	241,000
<u>008 Preference Share Capital</u>	153,000	152,000	-	-	-
<u>009 Total Owners Interest</u>	42,487,000	35,356,000	27,537,000	19,864,000	17,649,000
<u>010 Land And Buildings</u>	2,360,000	2,183,000	2,159,000	2,408,000	1,958,000
<u>011 Total Depreciation: Land and Buildings</u>	534,000	479,000	663,000	396,000	382,000
<u>012 Cost Other Fixed Assets</u>	6,219,000	6,207,000	5,828,000	4,840,000	5,893,000
<u>013 Total Depreciation: Other Fixed Assets</u>	3,435,000	3,863,000	3,676,000	3,075,000	4,053,000
<u>014 Total Fixed Assets</u>	4,610,000	4,048,000	3,648,000	3,777,000	3,416,000
<u>015 Long Term Loans Advanced</u>	343,737,000	341,415,000	324,425,000	154,898,000	138,667,000
<u>016 Unlisted Investments</u>	9,356,000	23,774,000	13,702,000	13,998,000	10,843,000
<u>017 Shares In Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>018 Listed Investments</u>	6,167,000	9,366,000	36,743,000	23,605,000	38,651,000
<u>019 Total Long Term Investments</u>	359,260,000	374,555,000	374,870,000	192,501,000	188,161,000
<u>020 Total Long Term Assets</u>	363,870,000	378,603,000	378,518,000	196,278,000	191,577,000
<u>021 Secured Long Term Borrowings</u>	-	-	-	-	-
<u>022 Debentures</u>	9,796,000	7,960,000	6,114,000	6,900,000	5,400,000
<u>023 Other Long Term Borrowings</u>	57,571,000	33,380,000	8,042,000	15,770,000	9,246,000
<u>024 Total Long Term Loan Capital</u>	67,367,000	41,340,000	14,156,000	22,670,000	14,646,000
<u>025 Net Investment in Long Term Assets</u>	296,503,000	337,263,000	364,362,000	173,608,000	176,931,000
<u>026 Total Inventory</u>	-	-	-	-	-
<u>027 Debtors</u>	4,635,000	11,877,000	6,431,000	5,063,000	5,738,000
<u>028 Short Term Loans Advances</u>	252,381,000	91,261,000	10,890,000	97,058,000	64,430,000
<u>029 Cash And Bank</u>	18,040,000	12,988,000	10,732,000	8,012,000	6,833,000
<u>030 Other Current Assets</u>	1,388,000	-	557,000	108,000	116,000
<u>031 Total Current Assets</u>	276,444,000	116,126,000	28,610,000	110,241,000	77,117,000
<u>032 Short Term Borrowings</u>	515,769,000	405,154,000	333,806,000	225,122,000	216,657,000
<u>033 Creditors</u>	12,301,000	9,827,000	30,308,000	37,608,000	18,876,000
<u>034 Bank Overdraft</u>	-	-	-	-	-
<u>035 Provision For Taxation</u>	-	1,157,000	421,000	539,000	312,000
<u>036 Provision For Distribution</u>	2,390,000	1,895,000	900,000	716,000	554,000
<u>037 Total Current Liabilities</u>	530,460,000	418,033,000	365,435,000	263,985,000	236,399,000
<u>038 Net Current Assets</u>	-254,016,000	-301,907,000	-336,825,000	-153,744,000	-159,282,000
<u>039 Net Assets</u>	42,487,000	35,356,000	27,537,000	19,864,000	17,649,000
<u>042 Surplus Value Over Bookvalue of Investment</u>	-26,000	14,000	2,427,000	359,000	326,000
<u>040 Total Assets</u>	640,314,000	494,729,000	407,128,000	306,519,000	268,694,000
<u>041 Operating Assets</u>	28,673,000	28,913,000	21,368,000	16,960,000	16,103,000

General Supplementary

<u>201 Shares In Issue Y/E Ordinary</u>	675,108	669,122	663,393	645,679	651,547
<u>202 Shares In Issue Y/E 'N'</u>	-	-	-	-	-
<u>203 Shares In Issue Y/E 'A'</u>	-	-	-	-	-
<u>204 Shares In Issue Y/E 'B'</u>	-	-	-	-	-
<u>248 Shares In Issue Y/E 'C'</u>	-	-	-	-	-
<u>251 Shares In Issue Y/E 'E'</u>	-	-	-	-	-
<u>273 Shares In Issue Y/E Deferred</u>	-	-	-	-	-
<u>259 Shares Authorised Ordinary</u>	-	-	-	-	-
<u>260 Par Value Ordinary Shares (cents)</u>	-	-	-	-	-
<u>261 Shares Authorised 'N'</u>	-	-	-	-	-
<u>262 Par Value 'N' Shares (cents)</u>	-	-	-	-	-
<u>263 Shares Authorised 'A'</u>	-	-	-	-	-
<u>264 Par Value 'A' Shares (cents)</u>	-	-	-	-	-
<u>265 Shares Authorised 'B'</u>	-	-	-	-	-
<u>266 Par Value 'B' Shares (cents)</u>	-	-	-	-	-
<u>267 Shares Authorised 'C'</u>	-	-	-	-	-
<u>268 Par Value 'C' Shares (cents)</u>	-	-	-	-	-
<u>269 Shares Authorised 'E'</u>	-	-	-	-	-
<u>270 Par Value 'E' Shares (cents)</u>	-	-	-	-	-
<u>271 Shares Authorised Deferred</u>	-	-	-	-	-
<u>272 Par Value Deferred Shares (cents)</u>	-	-	-	-	-
<u>206 Shares In Issue Weighted Average</u>	671,500	666,100	662,100	645,890	651,547
<u>207 Shares In Issue Fully Diluted</u>	716,400	703,200	690,800	651,333	-
<u>232 Treasury Shares (Number '000)</u>	787	178	388	-	-
<u>233 Treasury Shares (Value R'000)</u>	1,000	-	1,000	-	-
<u>249 Share Trusts and Other (Number '000)</u>	2,678	2,655	-	-	-
<u>250 Share Trusts and Other (Value R'000)</u>	6,000	6,000	-	-	-
<u>274 Share Buyback (Number '000)</u>	-	-	-	-	-
<u>275 Share Buyback (Value R'000)</u>	-	-	-	-	-
<u>238 Preference shares issued by a subsidiary</u>	4,644,000	2,992,000	151,000	-	-
<u>208 Revaluation Reserve</u>	-836,000	-356,000	-	-	-129,000
<u>209 Minority Revaluation Reserve</u>	-	-	-	-	-
<u>210 Minority Equity Accounted Reserve</u>	-	-	-	-	-
<u>228 Foreign Currency Translation Reserve Cumulative</u>	94,000	154,000	-178,000	-	-
<u>211 Commitments: Land & Buildings</u>	2,967,000	2,590,000	2,540,000	3,997,000	4,446,000
<u>212 Commitments: Other</u>	-	-	-	40,000	73,000
<u>213 Foreign Borrowings</u>	39,203,000	21,785,000	16,720,000	21,378,000	27,143,000
<u>214 Convertible Preference Shares</u>	-	-	-	-	-
<u>215 Convertible Debentures & Loans</u>	-	-	-	138,000	286,000
<u>216 Share In Issue Latest</u>	-	-	-	-	-
<u>217 Mining Assets at Cost</u>	-	-	-	-	-
<u>218 Depreciation / Amortisation on Mine Assets</u>	-	-	-	-	-
<u>219 Medical Aid Liabilities</u>	-	-	-	-	-
<u>220 Pension Fund Liabilities</u>	355,000	308,000	285,000	-	-
<u>221 Long Term Loans - Interest Bearing</u>	64,867,000	39,350,000	12,401,000	18,889,000	13,487,000
<u>222 Long Term Loans - Interest Free</u>	2,500,000	1,990,000	1,755,000	3,781,000	1,159,000
<u>223 Short Term Loans - Interest Bearing</u>	514,951,000	403,957,000	332,825,000	224,012,000	216,420,000
<u>224 Short Term Loans - Interest Free</u>	818,000	1,197,000	981,000	1,110,000	237,000
<u>225 Property Revaluation Surplus - I/S</u>	-	-	-	-	-
<u>226 Profit /Loss Forex Translations - B/S</u>	-	-	-107,000	-290,000	-725,000
<u>227 Profit /Loss Forex Transactions - B/S</u>	-	-	-	-	-
<u>229 Foreign Assets</u>	13,152,000	10,992,000	-	-	-
<u>230 Foreign Liabilities</u>	10,336,000	7,903,000	-	-	-
<u>276 Asset Retirement Obligations - Mining Assets</u>	-	-	-	-	-
<u>231 Provisions</u>	-	-	-	-	-
<u>236 Provisions - Long term</u>	-	-	-	-	-
<u>237 Provisions - Short term</u>	-	-	-	-	-

<u>234 Share Trust scheme</u>					
<u>235 Capital Distributions (Cash)</u>					
<u>239 Non Current Assets held for sale - Land & Buildings</u>		298,000	197,000		
<u>240 Non Current Assets held for sale - Investments</u>					
<u>241 Non Current Assets held for sale - Other</u>					
<u>258 Total Bookvalue Land & Buildings</u>	1,826,000	1,704,000	1,496,000	2,012,000	1,576,000
<u>252 Total Bookvalue Other Fixed Assets</u>	2,784,000				
<u>253 Bookvalue Plant & Machinery/Manufacturing Equipment</u>					
<u>254 Bookvalue Furniture & Office Equipment</u>	1,319,000				
<u>255 Bookvalue Vehicles</u>	10,000				
<u>256 Bookvalue Computer Hardware & Software</u>	1,455,000				
<u>257 Bookvalue Other fixed assets</u>					
<u>242 Listed Unconsolidated Subsidiaries</u>					
<u>243 Market Value of Listed Unconsolidated Subsidiaries</u>					
<u>244 Unlisted Unconsolidated Subsidiaries</u>					
<u>245 Directors Valuation of Unlisted Unconsolidated Subsidiaries</u>					
<u>246 Minority dividends declared - B/S</u>	219,000				
<u>247 BEE Share of accumulative profits - B/S</u>					
Bank Supplementary					
<u>231 Risk Weighted Capital Adequacy Ratio x10</u>	13	13	11	12	13
<u>232 Doubtful Debt - General</u>	2,010,000	1,704,000	-	-	1,589,000
<u>233 Doubtful Debt - Specific</u>	3,656,000	3,048,000	5,923,000	7,703,000	6,508,000
<u>234 Contingencies - Guarantees</u>	9,884,000	9,616,000	14,037,000	12,868,000	10,131,000
<u>235 Contingencies - Accepts</u>	40,040,000	-	-	-	-
<u>236 Contingencies - Credits</u>	3,273,000	2,139,000	2,294,000	3,769,000	4,144,000
<u>237 Insurance Funds</u>	3,318,000	3,187,000	2,736,000	4,115,000	1,396,000
<u>238 Deposits & Current Accounts</u>	368,545,000	403,605,000	328,729,000	234,380,000	222,056,000
<u>239 Net Advances</u>	509,983,000	407,974,000	326,699,000	222,395,000	199,297,000
<u>240 Remittances In Transit</u>					
<u>241 Trust Activities</u>	121,550,000	91,597,000	87,860,000	70,195,000	55,541,000
<u>242 Investment Portfolio</u>	25,963,000	14,980,000	30,959,000	29,364,000	29,338,000
<u>243 Trading Portfolio</u>	29,188,000	18,106,000	22,830,000	1,875,000	2,693,000
<u>244 Total Banking Assets</u>					
<u>245 Total Banking Liabilities</u>					
<u>246 Gross Advances</u>	515,649,000	412,726,000	332,622,000	230,098,000	207,394,000
<u>247 Non-performing Advances: Outstanding</u>	5,666,000	4,928,000	5,576,000	8,688,000	10,586,000
<u>248 Non-performing Advances: Secured</u>		2,840,000	2,004,000	3,356,000	4,451,000
<u>249 Net Provision for Non-Performing Advances</u>	2,851,000	2,088,000	3,572,000	5,332,000	6,508,000
<u>250 Capital Adequacy: Bank Option 1</u>	33,117,000	26,998,000	19,009,000	13,633,000	10,170,000
<u>251 Capital Adequacy: Bank Option 2</u>	11,953,000	9,408,000	7,259,000	8,108,000	7,698,000
<u>252 Capital Adequacy: Non Bank</u>					
<u>253 Risk Weighted Assets: Group</u>	359,661,000	302,458,000	246,135,000	176,317,000	156,022,000
<u>254 Liquid Investment Assets</u>	38,495,000	37,290,000	27,596,000	26,666,000	12,617,000
<u>255 Money Market Invested Assets</u>	4,271,000	2,193,000	5,342,000	3,688,000	11,740,000
<u>256 Medium to Long-Term Invested Assets @ Book value</u>	36,939,000	31,347,000	22,240,000	15,577,000	16,785,000
<u>257 Client Accept (Assets/Liabilities)</u>			961,000	1,483,000	2,165,000
<u>258 Local Investments</u>			43,359,000	33,232,000	27,049,000
<u>259 Foreign Investments</u>			6,167,000	12,699,000	14,093,000
<u>Insurance Supplementary</u>					
<u>261 Adjusted & Market Value of Assets</u>					
<u>262 Liabilities</u>					
<u>263 Actuarial Valued Policy Liabilities</u>					
<u>264 Current Liabilities</u>					
<u>265 Excess Assets / Liabilities</u>					
<u>266 Share Capital & Premium</u>					
<u>267 Distributable Reserves</u>					

<u>268 Capital Adequacy Requirements</u>	-	-	-	-	-
<u>269 Balance of Excess</u>	-	-	-	-	-
<u>271 Surplus Arising</u>	-	-	-	-	-
<u>272 ADD : Dividends</u>	-	-	-	-	-
<u>273 Surplus: Other</u>	-	-	-	-	-
<u>274 Total Surplus</u>	-	-	-	-	-
<u>275 New Share Issues</u>	-	-	-	-	-
<u>276 Special Bonus & Aid Fund</u>	-	-	-	-	-
<u>277 Net Surplus</u>	-	-	-	-	-
<u>278 Operating Surplus After Tax</u>	-	-	-	-	-
<u>279 Investment Return Free Assets</u>	-	-	-	-	-
<u>280 Administered Pension Fund Liabilities</u>	-	-	-	-	-

Income Statement [Year: 2007 - 2003, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	21	12	12
Year End Month	Dec	Dec	Dec	Mar	Mar
Income Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
<u>051 Turnover</u>	-	-	-	-	-
<u>052 Change In Turnover %</u>	-	-	-	-	-
<u>053 Cost Of Sales</u>	-	-	-	-	-
<u>054 Trading Profit</u>	-2,764,000	-3,979,000	-3,375,000	-67,000	-2,792,000
<u>055 Interest Received</u>	54,573,000	38,868,000	50,344,000	28,901,000	30,299,000
<u>056 Income Unlisted Investment</u>	1,109,000	439,000	27,000	16,000	-
<u>057 Income Listed Investment</u>	-	238,000	454,000	192,000	169,000
<u>058 Income Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>059 Total Income Investment</u>	55,682,000	39,545,000	50,825,000	29,109,000	30,468,000
<u>060 Surplus Sale Investment</u>	-405,000	1,875,000	1,836,000	-1,511,000	-213,000
<u>061 Surplus Sale Non Trading Assets</u>	22,000	7,000	32,000	7,000	30,000
<u>062 Extraordinary Profits</u>	199,000	131,000	-95,000	-264,000	-725,000
<u>063 Total Profits Extraordinary Nature</u>	-184,000	2,013,000	1,773,000	-1,768,000	-908,000
<u>064 Auditors Remuneration And Costs</u>	67,000	67,000	139,000	49,000	39,000
<u>065 Depreciation Other Fixed Assets</u>	721,000	680,000	1,116,000	617,000	606,000
<u>066 Depreciation Land And Buildings</u>	59,000	59,000	97,000	46,000	50,000
<u>067 Rental Fixed Assets</u>	817,000	757,000	1,294,000	689,000	585,000
<u>068 Directors Remuneration: Direct</u>	-	-	9,000	3,000	3,000
<u>069 Directors Remuneration: Other</u>	76,000	66,000	67,000	25,000	23,000
<u>070 Management And Other Services</u>	1,260,000	1,272,000	1,824,000	783,000	485,000
<u>071 Total Cost Shown</u>	3,000,000	2,901,000	4,546,000	2,212,000	1,791,000
<u>054 Trading Profit</u>	-2,764,000	-3,979,000	-3,375,000	-67,000	-2,792,000
<u>059 Total Income Investment</u>	55,682,000	39,545,000	50,825,000	29,109,000	30,468,000
<u>063 Total Profits Extraordinary Nature</u>	-184,000	2,013,000	1,773,000	-1,768,000	-908,000
<u>072 Total Income</u>	52,734,000	37,579,000	49,223,000	27,274,000	26,768,000
<u>071 Total Cost Shown</u>	3,000,000	2,901,000	4,546,000	2,212,000	1,791,000
<u>073 Profit Before Interest And Tax (EBIT)</u>	49,734,000	34,678,000	44,677,000	25,062,000	24,977,000
<u>074 Total Interest Paid</u>	35,673,000	23,271,000	30,133,000	19,183,000	21,467,000
<u>075 Profit Before Taxation</u>	14,061,000	11,407,000	14,544,000	5,879,000	3,510,000
<u>076 Taxation</u>	3,721,000	2,947,000	2,797,000	1,352,000	622,000
<u>077 Profit After Taxation</u>	10,340,000	8,460,000	11,747,000	4,527,000	2,888,000
<u>078 Minority Interest In Profit</u>	649,000	161,000	142,000	91,000	70,000

	 UNIVERSITEIT VAN PRETORIA UNIVERSITY OF PRETORIA YUNIBESITHI YA PRETORIA				
079 Profit to Ordinary And Preference Shareholders	9,691,000		11,605,000	4,436,000	2,818,000
080 Ordinary Dividend	3,791,000	3,175,000	3,923,000	1,185,000	945,000
081 Preference Dividend	-	187,000	-	-	-
082 Retained Profits	5,900,000	4,937,000	7,682,000	3,251,000	1,873,000
083 Earnings Before Interest, Tax, Depreciation And Amortisation (EBITDA)	50,599,000	35,520,000	46,067,000	25,774,000	25,729,000
General Supplementary					
301 Lease Charge: Land Building	817,000	757,000	1,281,000	665,000	567,000
302 Lease Charge: Other	-	-	13,000	24,000	18,000
303 Research & Development	-	-	-	-	-
304 EPS-Equity Accounted	1,429	1,217	1,567	698	520
305 EPS-Bottom Line	1,429	1,217	1,567	698	520
306 EPS-Headline	1,402	1,182	1,581	689	528
307 EPS-Fully Diluted Headline	1,316	1,121	1,522	683	-
308 EPS-Fully Diluted Bottomline	1,341	1,154	1,508	692	-
374 EPS-Continuing Operations	-	-	-	-	-
359 Earnings per Linked Unit	-	-	-	-	-
375 Core Headline Earnings - Total Value	-	-	-	-	-
376 Core Headline Earnings Per Share	-	-	-	-	-
380 Dividend per Share	560	608	590	182	145
381 Interest Distribution per Unit	-	-	-	-	-
382 Capital Distribution per Share	-	-	-	-	-
309 Effective Tax Rate	29	28	31	26	24
310 Deferred Tax: Contingent Liability	-	-	-	-	-
311 Deferred Tax: Current	272,000	154,000	1,412,000	192,000	421,000
312 Deferred Tax: Other	-	-	-	-	-
318 Accumulated Assessed Tax Loss	-	-	-	-	-
319 Accumulated Computed Tax Loss	742,000	618,000	618,000	401,000	465,000
320 Prior Year Tax Adjustment	-16,000	34,000	20,000	55,000	91,000
333 STC as Published	346,000	199,000	265,000	74,000	52,000
338 Foreign Tax	280,000	110,000	160,000	-	-
364 Foreign Tax - Normal	280,000	110,000	160,000	-	-
365 Foreign Tax - Previous year	-	-	-	-	-
366 Foreign Tax - Deferred	-	-	-	-	-
313 Interest Capitalised	-	-	-	-	-
373 Interest Paid - Debentures	-	-	-	-	-
314 Invest Allowance Benefit	-	-	-	-	-
315 Dilution: Interest Saved	-	-	-	-	-
316 Dilution: Dividends Saved	-	-	-	-	-
317 Dilution: Equity Income Converted	-	-	-	-	-
322 Intangible Assets Written Off	85,000	103,000	70,000	-	-
350 Impairments of intangible assets	-	66,000	40,000	-	-
349 Reversal impairments/Intangible Assets - prev years	-	-	-	-	-
383 Goodwill Written Off	-	-	-	-	-
351 Impairments of goodwill	-	-	-	-	-
346 Reversal of impairments of Goodwill - prev years	-	-	-	-	-
323 Amortisation of goodwill	-	-	107,000	49,000	96,000
324 Impairment of Investments	-	-10,000	-44,000	-1,978,000	-49,000
348 Reversal of impairments/Investments - prev years	-	5,000	-	-	-
325 Impairment of Loans	-2,851,000	-	-	-	-
368 Reversal of impairments/Loans - prev years	418,000	-	-	-	-
326 Capital Profit /Loss on Financial Assets	1,336,000	2,263,000	1,880,000	467,000	-164,000
360 Gains/Losses on Mark to Market Value of Financial Assets	692,000	-383,000	-	-	-
327 Impairment of Fixed Assets	-58,000	-4,000	-	-38,000	-
347 Reversal of impairm/Other Fixed assets - prev years	-	-	-	-	-
328 Capital Profit /Loss on Fixed Assets	80,000	11,000	32,000	45,000	30,000
329 Profit /Loss Forex Translations - I/S	-	-	-	-	-
330 Profit /Loss Forex Transactions - I/S	95,000	81,000	-	-	-

	36,		UNIVERSITEIT VAN PRETORIA UNIVERSITY OF PRETORIA YUNIBESITHI YA PRETORIA	12,000	26,000	-
<u>331 Profit /Loss Disposal of Subsidiaries/ Businesses</u>						
<u>332 Profit /Loss Sundry Extraordinaries</u>	68,000					
<u>352 Extraordinary items - unconsolidated subs</u>						
<u>367 Share issue expenses written off</u>						
<u>377 Expense in regard to BEE transaction</u>						
<u>336 Foreign Turnover</u>						
<u>337 Foreign Profit</u>	425,000		93,000			
<u>339 Ordinary Dividends - Ordinary Shareholders</u>	3,791,000		3,175,000	3,923,000		
<u>340 Ordinary Dividends - Minority Shareholders</u>						
<u>357 Ordinary dividends declared</u>	3,791,000		3,175,000	3,923,000		
<u>358 Ordinary dividends paid</u>	3,401,000		2,294,000	3,739,000		
<u>341 Preference Dividends - Ordinary Shareholders</u>			187,000			
<u>342 Preference Dividends - Minority Shareholders</u>						
<u>353 Minority dividends paid</u>	313,000					
<u>354 Minority dividends declared - I/S</u>	418,000					
<u>321 Non Cash Dividends</u>						
<u>334 Non-Cash Dividend (Current Year)</u>						
<u>335 Non-Cash Dividend (Previous Year)</u>						
<u>343 Auditors - Audit Fees - current year</u>	63,000		58,000	100,000		
<u>378 Auditors - Audit Fees - previous year</u>						
<u>379 Auditors - Audit Expenses</u>						
<u>344 Auditors - Other Fees</u>	4,000		9,000	39,000		
<u>345 Staff Costs(excluding directors remuneration)</u>	9,944,000		8,577,000	12,147,000		
<u>372 Other Staff share based payments - I/S</u>	193,000		154,000			
<u>361 Directors share based payments - I/S</u>	18,000		18,000			
<u>362 Directors share based payments - B/S</u>						
<u>355 Income from Endowment policies</u>						
<u>356 Other Income from Fixed Asset Investments</u>	94,000					
<u>363 BEE Share of profits - I/S</u>						
Bank Supplementary						
<u>360 Total Revenue - Banks</u>	67,446,000		49,819,000	66,024,000	35,691,000	36,501,000
<u>351 Staff Costs</u>	9,944,000		8,577,000	12,147,000	5,708,000	5,338,000
<u>352 Other Operating Costs</u>	8,498,000		8,043,000	12,052,000	5,971,000	5,442,000
<u>353 Interest Paid Deposit Holders</u>	34,884,000		22,288,000	27,916,000	17,939,000	20,064,000
<u>354 Interest Paid Capital Providers</u>	789,000		958,000	2,217,000	980,000	929,000
<u>355 Bad & Doubt Debt Written off</u>	1,654,000		2,910,000	3,842,000	2,890,000	1,636,000
<u>356 Bad & Doubt Debt Provided</u>	2,851,000		1,952,000	2,335,000	2,112,000	2,079,000
<u>357 Commission Earnings</u>	12,873,000		10,951,000	14,477,000	6,712,000	6,139,000
<u>358 Currency Exchange Earnings</u>						
<u>359 Other Fees Earnings</u>				1,203,000	78,000	63,000
<u>801 Interest Earned ex Banking</u>	54,375,000		38,368,000	50,344,000	28,774,000	30,299,000
<u>802 Interest Paid iro Banking</u>	34,884,000		22,288,000	27,916,000	17,939,000	20,064,000
<u>803 Other Banking Income</u>	15,628,000		14,575,000	17,224,000	8,700,000	7,821,000
<u>804 Property Development Income (Bank)</u>	191,000		148,000	136,000	10,000	38,000
<u>805 Property Development Expenses (Bank)</u>						
<u>806 Property Rent Received (Bank)</u>	94,000		92,000	129,000	77,000	25,000
<u>807 Property Rent Paid (Bank)</u>						
<u>808 Treasury Operations Income</u>	1,082,000		748,000	858,000		
<u>809 Treasury Operations Expenses</u>						
<u>810 Headline Earnings (Total Value)</u>	9,413,000		7,872,000	10,386,000	4,447,000	3,441,000
<u>811 Recovery Advances Previously Written Off</u>	418,000		379,000	483,000	212,000	122,000
<u>812 Non-Interest Income</u>	16,728,000		15,502,000	21,982,000	10,753,000	9,127,000
Insurance Supplementary						
<u>371 Recurring Premiums</u>	3,192,000		3,269,000			
<u>372 Single Premiums</u>						

373 Benefits Paid	1,603,					
374 Management Expenses						
375 Sales Expenses						
376 Property Development Income (Insurance)						
377 Property Development Expenses (Insurance)						
378 Property Rent Received (Insurance)						
379 Property Rent Paid (Insurance)						
380 Net Broking Commissions	877,000	771,000	446,000	399,000	338,000	
381 Trust & Estate Income	228,000	201,000	334,000	148,000	129,000	
382 Net Insurance Underwritten Surplus			410,000	231,000	115,000	
383 Net Life Surplus			381,000	283,000	178,000	
384 Other Insurance Related Income			146,000	175,000	148,000	

Changes In Equity Statement [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	21	12	12
Year End Month	Dec	Dec	Dec	Mar	Mar
Changes In Equity Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
901 Ordinary Shareholders' Equity at Beginning of Year	31,693,000	25,755,000	-	-	-
902 Movements in Issued Capital & Share Premium	-	-	-	-	-
903 Balance at begin of year/issued capital & share premium	3,405,000	3,202,000	-	-	-
904 Adj to prior year/issued capital & share premium	-	-	-	-	-
905 Ordinary shares issued/issued capital & share premium	358,000	180,000	-	-	-
906 Share based payments/issued capital & share premium	93,000	23,000	-	-	-
907 Shares held by subsidiary company/issued capital & share premium	-	-	-	-	-
908 Share issue expenses/issued capital & share premium	-	-	-	-	-
909 Goodwill written off/issued capital & share premium	-	-	-	-	-
910 Capital distributions/issued capital & share premium	-	-	-	-	-
911 Treasury shares/issued capital & share premium	-	-	-	-	-
913 Cancelling of shares/issued capital & share premium	-74,000	-	-	-	-
912 Staff share trust/issued capital & share premium	-140,000	-	-	-	-
951 Share premium raised under share purchase scheme	-	-	-	-	-
939 Sundry/issued capital & share premium	-	-	-	-	-
940 Balance at end of year/issued capital & share premium	3,642,000	3,405,000	-	-	-
941 Movements in Non-Distributable Reserve	-	-	-	-	-
942 Balance at begin of year/non-distrib reserve	412,000	622,000	-	-	-
943 Adj to prior year/non-distrib reserve	-	-	-	-	-
944 Ordinary shares issued/non-distrib reserve	-	-	-	-	-
945 Profit/(loss) on sale of investments/non-distrib reserve	43,000	-	-	-	-
946 Shares held by subsidiary company/non-distrib reserve	-	-	-	-	-
947 Share issue expenses/non-distrib reserve	-	-	-	-	-
948 Goodwill written off/non-distrib reserve	-	-	-	-	-
949 Capital distributions/non-distrib reserve	-	-	-	-	-
950 Section 90 unbundling payment to shareholders	-	-	-	-	-
952 Treasury shares/non-distrib reserve	-	-	-	-	-
971 Cancelling of shares/non-distrib reserve	-	-	-	-	-

<u>953 Staff share trust/non-distrib reserve</u>					
<u>954 Profit/(loss) on forex translations/non-distrib reserve</u>	-60,000	332,000			
<u>955 Profit/(loss) on forex transactions/non-distrib reserve</u>					
<u>956 Tax adjustment/non-distrib reserve</u>					
<u>957 Net transfer (to)/from distributable reserve</u>	546,000	-177,000			
<u>958 Realised surplus/(loss) - sale of land & build/non-distrib reserve</u>					
<u>959 Surplus/(deficit) on revaluation of land & build/non-distrib reserve</u>					
<u>960 Derivative valuation adjustment</u>					
<u>961 Capital redemption fund</u>					
<u>962 Adj arising on changes in composition of group/non-distrib reserve</u>					
<u>963 Profit/(loss) on disposal of subs/ businesses/non-distrib reserve</u>					
<u>964 Share of associated companies' reserves</u>					
<u>965 Profit on share issue of subsidiaries</u>					
<u>966 Change in accounting policy/non-distrib reserve</u>					
<u>967 Surplus/(deficit) on revaluation of investments/non-distrib reserve</u>	17,000				
<u>968 BEE Share of accum profit/non-distrib reserve</u>					
<u>969 Share based payments/non-distrib reserve</u>	-12,000	62,000			
<u>970 Net unrealised (losses)/gains on hedging instrum/non-distrib reserve</u>	-540,000	-427,000			
<u>999 Sundry/non-distrib reserve</u>					
<u>000 Balance at end of year/non-distrib reserve</u>	406,000	412,000			
<u>001 Movements in Distributable Reserve</u>					
<u>002 Balance at begin of year/distrib reserve</u>	27,876,000	21,931,000			
<u>003 Adj to prior year/distrib reserve</u>					
<u>004 Net profit/(loss) for the year</u>	9,595,000	8,105,000			
<u>005 Ordinary dividends</u>	-3,401,000	-2,294,000			
<u>006 Preference dividends</u>					
<u>007 Treasury shares/distrib reserve</u>					
<u>028 Cancelling of shares/distrib reserve</u>					
<u>008 Net transfer (to)/from non-distributable reserves</u>	-546,000	177,000			
<u>009 Profit/(loss) on forex translations/distrib reserve</u>					
<u>010 Profit/(loss) on forex transactions/distrib reserve</u>					
<u>011 Realised surplus/(loss) - sale of land & build/distrib reserve</u>					
<u>012 Surplus/(deficit) on revaluation of land & build/distrib reserve</u>					
<u>013 Shares held by subsidiary company/distrib reserve</u>					
<u>014 Change in accounting policy/distrib reserve</u>					
<u>015 Adj arising on changes in composition of group/distrib reserve</u>	2,000	-43,000			
<u>016 Share of associated companies' retained income</u>					
<u>017 Share issue expenses/distrib reserve</u>					
<u>018 Goodwill written off/distrib reserve</u>					
<u>019 Capital distributions/distrib reserve</u>					
<u>020 Net unrealised (losses)/gains on hedging instrum/distrib reserve</u>					

<u>021 Premium on acquisition of subsidiaries</u>					
<u>022 Profit/(loss) on disposal of subs/businesses/distrib reserve</u>					
<u>023 Surplus/(deficit) on revaluation of investments/distrib reserve</u>					
<u>024 BEE Share of accum profit/distrib reserve</u>					
<u>025 Share based payments/distrib reserve</u>	1,000				
<u>026 Tax adjustment/distrib reserve</u>					
<u>027 Profit/(loss) on sale of investments/distrib reserve</u>					
<u>059 Sundry/distrib reserve</u>					
<u>060 Balance at end of year/distrib reserve</u>	33,527,000	27,876,000			
<u>061 Movements in Preference Share Capital & Equity Loans</u>					
<u>062 Balance at begin of year/pref share capital & equity loans</u>					
<u>063 Adj to prior year/pref share capital & equity loans</u>					
<u>064 Shares issued</u>					
<u>065 Share issue expenses/pref share capital & equity loans</u>					
<u>066 Distribution to shareholders</u>					
<u>067 Shares to be issued</u>					
<u>068 Debentures issued</u>					
<u>089 Sundry/pref share capital & equity loans</u>					
<u>090 Balance at end of year/pref share capital & equity loans</u>					
<u>091 Ordinary Shareholders' Equity at End Of Year</u>	37,575,000	31,693,000			

Sundry Items [Year: 2007 - 2003, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	21	12	12
Year End Month	Dec	Dec	Dec	Mar	Mar
Sundry Items Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
<u>101 Ordinary Shares in Issue @ Year End Split Adjusted</u>	675,108	669,122	663,393	645,679	651,547
<u>102 Nr of Ordinary Shares in Issue @ Year End</u>	675,108	669,122	663,393	645,679	651,547
<u>103 Par Or No Par Value</u>	1	1	1	1	1
<u>110 Debtors As Surety</u>	2	2	2	2	2
<u>111 Directors Value in Unlisted Investments</u>	9,356,000	23,774,000	14,611,000	14,253,000	11,043,000
<u>112 Market Value Listed Investments</u>	6,141,000	9,380,000	38,261,000	23,709,000	38,777,000
<u>113 Directors Valuation of Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>114 Arrear Cumulative Dividends</u>	-	-	-	-	-
<u>115 Months Covered By Financial Statements</u>	12	12	21	12	12
<u>116 Month Of Financial Year End</u>	12	12	12	3	3
<u>117 Audit Report Qualified</u>	2	2	2	2	2
<u>118 Inflation Adjusted Other Fixed Asset</u>	208,969	606,023	466,594	432,544	820,163
<u>119 Inflation Adjusted Depreciable Fixed Asset</u>	54,119	155,861	241,970	151,207	270,119
<u>120 No Of Subsidiaries</u>	37	28	16	29	14
<u>121 No Of Foreign Subsidiaries</u>	4	8	3	5	3
<u>122 No Of Quoted Subsidiaries</u>	-	-	-	-	-
<u>123 Controlled By Another Entity</u>	4	4	4	2	2
<u>124 Provision For Increased Replacement Value</u>	2	2	2	2	2
<u>125 Preference Share Issued At Par</u>	1	1	-	-	-
<u>126 Directors Shareholding Beneficial</u>	1,759	1,708	1,688	2,666	1,942
<u>127 Directors Shareholding Non-beneficial</u>	36	24	37	8	8
<u>128 Deferred Tax Total</u>	2,465,000	2,408,000	2,476,000	1,164,000	1,228,000
<u>129 Deferred Tax For Year</u>	272,000	154,000	1,412,000	192,000	421,000
<u>130 Items Not Representing Cashflow</u>	4,615,000	1,209,000	1,761,000	2,679,000	1,079,000
<u>131 No Persons Employed</u>	36,893	34,348	33,543	31,658	32,356
<u>175 Foreign Employees</u>	-	-	-	-	-
<u>132 Inventory: Raw Material</u>	-	-	-	-	-

<u>133 Inventory: Finished Goods</u>					
<u>134 Inventory: Merchandise</u>					
<u>135 Inventory: Consumable Stores</u>		-			
<u>136 Inventory: Work In Progress</u>		-			
<u>137 Inventory: Uncompleted Contracts</u>		-			
<u>138 Proportionate Profit from Associated Companies</u>	91,000	113,000	177,000	85,000	67,000
<u>139 Total Reserve Accrued: Associated Companies</u>	299,000	209,000	470,000	383,000	295,000
<u>140 Capital Commitments</u>	135,000	171,000	140,000	245,000	115,000
<u>141 Accumulated Depreciation Land & Buildings</u>	534,000	479,000	663,000	396,000	382,000
<u>142 Long Term Group Loans Advanced</u>	-	-	-	-	-
<u>143 Short Term Group Loans Advanced</u>	257,000	-	-	-	-
<u>144 Headline Earnings per Share</u>	1,402	1,182	1,581	689	528
<u>145 Long Term Group Loans Received</u>	-	-	-	-	-
<u>146 Short Term Group Loans Received</u>	21,871,000	-	-	-	-
<u>147 Notes To Statements</u>	-	-	-	-	-
<u>148 Number Of Analysts</u>	2	2	9	9	2
<u>149 Average Price Per Share</u>	13,199	10,812	7,211	3,803	3,159
<u>150 Share Price @ Company Financial Year End</u>	11,592	11,781	9,698	4,570	3,133
<u>151 Inventory Valuation Method</u>	-	-	-	-	-
<u>152 Mining Assets</u>	-	-	-	-	-
<u>153 Exploration, Amortisation Expenses Written Off</u>	-	-	-	-	-
<u>154 Undeveloped Property</u>	-	-	-	-	-
<u>155 Development Property Less Development Expense</u>	-	-	197,000	675,000	143,000
<u>156 Debtors For Property Sold</u>	-	-	-	-	-
<u>157 Provision For Future Development</u>	-	-	-	-	-
<u>158 Currency Adjustment: R1000 To ?</u>	-	-	-	-	-
<u>162 Trade Creditors</u>	7,311,000	7,473,000	9,333,000	36,336,000	17,795,000
<u>163 Loan Portion Of Tax</u>	-	-	-	-	-
<u>164 Balance Sheet LIFO Inventory Adjustment</u>	-	-	-	-	-
<u>165 Income Statement LIFO Inventory Adjustment</u>	-	-	-	-	-
<u>166 Leasehold Commitments</u>	2,967,000	2,590,000	2,540,000	4,037,000	4,519,000
<u>167 Contingent Liabilities</u>	52,373,000	285,371,000	16,331,000	16,637,000	14,383,000
<u>168 Extraordinary Item In Tax</u>	-	-	-	-	-
<u>169 Extraordinary Item In Minority Interest</u>	-	-	-	-	-
<u>170 No Of Shares Traded</u>	357,965	327,741	753,732	459,909	440,314
<u>171 No Of Transactions</u>	210,911	144,427	170,210	70,174	61,059
<u>172 Value Of Transactions</u>	47,246,978	35,436,481	54,351,965	17,491,122	13,907,544
<u>173 Split Factor (3 Decimals)</u>	1	1	1	1	1
<u>174 Month Of Stock Split</u>	-	-	-	-	-



Balance Sheet [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Dec	Dec	Dec	Dec	Dec
Balance Sheet Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
001 Ordinary Share Capital	110,000	110,000	110,000	109,000	108,000
002 Non Distributable Reserves	614,000	637,000	616,000	625,000	658,000
003 Distributable Reserves	2,743,000	2,581,000	1,706,378	1,441,000	1,291,000
004 Cost Of Control	986,000	1,019,000	920,000	822,000	916,000
005 Intangible Assets	-	-	-	-	-
006 Ordinary Shareholders Interest	2,481,000	2,309,000	1,512,378	1,353,000	1,141,000
007 Minority Interest	135,000	126,000	77,000	35,000	21,000
008 Preference Share Capital	6,000	6,000	6,000	6,000	6,000
009 Total Owners Interest	2,622,000	2,441,000	1,595,378	1,394,000	1,168,000
010 Land And Buildings	943,000	872,000	826,000	895,000	985,000
011 Total Depreciation: Land and Buildings	131,000	206,000	189,000	180,000	171,000
012 Cost Other Fixed Assets	2,485,000	3,244,000	2,877,000	2,553,000	2,414,000
013 Total Depreciation: Other Fixed Assets	1,184,000	1,944,000	1,789,000	1,608,000	1,452,000
014 Total Fixed Assets	2,113,000	1,966,000	1,725,000	1,660,000	1,776,000
015 Long Term Loans Advanced	234,000	212,000	15,000	16,000	12,000
016 Unlisted Investments	18,000	24,000	20,000	21,000	33,000
017 Shares In Unconsolidated Subsidiaries	-	-	-	-	-
018 Listed Investments	98,000	81,000	59,000	60,000	43,000
019 Total Long Term Investments	350,000	317,000	94,000	97,000	88,000
020 Total Long Term Assets	2,463,000	2,283,000	1,819,000	1,757,000	1,864,000
021 Secured Long Term Borrowings	25,000	37,000	146,000	136,000	161,000
022 Debentures	-	-	-	-	-
023 Other Long Term Borrowings	851,000	872,000	958,000	1,260,000	550,000
024 Total Long Term Loan Capital	876,000	909,000	1,104,000	1,396,000	711,000
025 Net Investment in Long Term Assets	1,587,000	1,374,000	715,000	361,000	1,153,000
026 Total Inventory	1,786,000	1,732,000	1,370,000	1,159,000	1,102,000
027 Debtors	2,337,000	2,242,000	1,778,000	1,420,000	1,280,000
028 Short Term Loans Advances	-	-	-	-	-
029 Cash And Bank	441,000	375,000	409,000	362,000	461,000
030 Other Current Assets	-	-	-	-	-
031 Total Current Assets	4,564,000	4,349,000	3,557,000	2,941,000	2,843,000
032 Short Term Borrowings	927,000	797,000	648,000	96,000	1,271,000
033 Creditors	2,271,000	2,230,000	1,777,000	1,628,000	1,409,000
034 Bank Overdraft	-	-	-	-	-
035 Provision For Taxation	175,000	99,000	118,000	81,000	64,000
036 Provision For Distribution	156,000	156,000	133,622	103,000	84,000
037 Total Current Liabilities	3,529,000	3,282,000	2,676,622	1,908,000	2,828,000
038 Net Current Assets	1,035,000	1,067,000	880,378	1,033,000	15,000
039 Net Assets	2,622,000	2,441,000	1,595,378	1,394,000	1,168,000
042 Surplus Value Over Bookvalue of Investment	-	-	-	-	-
040 Total Assets	7,027,000	6,632,000	5,376,000	4,698,000	4,707,000
041 Operating Assets	6,677,000	6,315,000	5,282,000	4,601,000	4,619,000

General Supplementary



201 Shares In Issue Y/E Ordinary	110,431	110,431	110,431	109,412	108,193
202 Shares In Issue Y/E 'N'	-	-	-	-	-
203 Shares In Issue Y/E 'A'	-	-	-	-	-
204 Shares In Issue Y/E 'B'	-	-	-	-	-
248 Shares In Issue Y/E 'C'	-	-	-	-	-
251 Shares In Issue Y/E 'E'	-	-	-	-	-
273 Shares In Issue Y/E Deferred	-	-	-	-	-
259 Shares Authorised Ordinary	-	-	-	-	-
260 Par Value Ordinary Shares (cents)	-	-	-	-	-
261 Shares Authorised 'N'	-	-	-	-	-
262 Par Value 'N' Shares (cents)	-	-	-	-	-
263 Shares Authorised 'A'	-	-	-	-	-
264 Par Value 'A' Shares (cents)	-	-	-	-	-
265 Shares Authorised 'B'	-	-	-	-	-
266 Par Value 'B' Shares (cents)	-	-	-	-	-
267 Shares Authorised 'C'	-	-	-	-	-
268 Par Value 'C' Shares (cents)	-	-	-	-	-
269 Shares Authorised 'E'	-	-	-	-	-
270 Par Value 'E' Shares (cents)	-	-	-	-	-
271 Shares Authorised Deferred	-	-	-	-	-
272 Par Value Deferred Shares (cents)	-	-	-	-	-
206 Shares In Issue Weighted Average	110,431	110,431	109,982	108,822	94,699
207 Shares In Issue Fully Diluted	111,384	111,833	112,035	111,465	97,806
232 Treasury Shares (Number '000)	10,311	10,311	10,311	-	-
233 Treasury Shares (Value R'000)	10,000	10,000	10,000	-	-
249 Share Trusts and Other (Number '000)	-	-	-	-	-
250 Share Trusts and Other (Value R'000)	-	-	-	-	-
238 Preference shares issued by a subsidiary	-	-	-	-	-
208 Revaluation Reserve	243,000	261,000	268,000	-	329,000
209 Minority Revaluation Reserve	-	-	-	-	-
210 Minority Equity Accounted Reserve	-	-	-	-	-
228 Foreign Currency Translation Reserve - Cumulative	17,000	20,000	3,000	-	-
211 Commitments: Land & Buildings	253,000	290,000	235,000	196,000	158,000
212 Commitments: Other	-	-	-	-	-
213 Foreign Borrowings	209,000	206,000	7,000	1,000	794,000
214 Convertible Preference Shares	-	-	-	-	-
215 Convertible Debentures & Loans	-	-	-	-	-
216 Share In Issue Latest	-	-	-	-	-
217 Mining Assets at Cost	-	-	-	-	-
218 Depreciation / Amortisation on Mine Assets	-	-	-	-	-
219 Medical Aid Liabilities	334,000	340,000	469,000	410,000	389,000
220 Pension Fund Liabilities	-	-	-	-	-
221 Long Term Loans - Interest Bearing	502,000	510,000	559,000	899,000	209,000
222 Long Term Loans - Interest Free	374,000	399,000	545,000	497,000	502,000
223 Short Term Loans - Interest Bearing	927,000	797,000	648,000	96,000	1,004,000
224 Short Term Loans - Interest Free	-	-	-	-	267,000
225 Property Revaluation Surplus - I/S	-	-	-	-	-
226 Profit /Loss Forex Translations - B/S	-	-	37,000	-48,000	-67,000
227 Profit /Loss Forex Transactions - B/S	-	-	-	-	-
229 Foreign Assets	394,000	339,000	-	-	-
230 Foreign Liabilities	-	206,000	-	-	-
231 Provisions	474,000	454,000	630,000	-	-
236 Provisions - Long term	374,000	389,000	542,000	-	-
237 Provisions - Short term	100,000	65,000	88,000	-	-
234 Share Trust scheme	-	-	-	-	-
235 Capital Distributions (Cash)	-	-	-	-	-
239 Non Current Assets held for sale - Land & Buildings	90,000	-	-	-	-
240 Non Current Assets held for sale - Investments	-	-	-	-	-
241 Non Current Assets held for sale - Other	-	-	-	-	-
258 Total Bookvalue Land & Buildings	812,000	666,000	637,000	715,000	814,000
252 Total Bookvalue Other Fixed Assets	1,301,000	1,300,000	1,088,000	945,000	962,000
253 Bookvalue Plant & Machinery/Manufacturing Equipment	725,000	1,300,000	1,088,000	945,000	962,000

254 Bookvalue Furniture & Office Equipment					
255 Bookvalue Vehicles	51,000	-	-	-	-
256 Bookvalue Computer Hardware & Software	39,000	-	-	-	-
257 Bookvalue Other fixed assets	462,000	-	-	-	-
242 Listed Unconsolidated Subsidiaries	-	-	-	-	-
243 Market Value of Listed Unconsolidated Subsidiaries	-	-	-	-	-
244 Unlisted Unconsolidated Subsidiaries	-	-	-	-	-
245 Directors Valuation of Unlisted Unconsolidated Subsidiaries	-	-	-	-	-
246 Minority dividends declared - B/S	-	-	-	-	-
247 BEE Share of accumulative profits - B/S	-	-	-	-	-

Income Statement [Year: 2007 - 2003, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Dec	Dec	Dec	Dec	Dec
Income Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
051 Turnover	11,040,000	10,212,000	8,768,000	7,911,000	7,659,000
052 Change In Turnover %	8	16	11	3	-2
053 Cost Of Sales	8,414,000	6,941,000	5,789,000	5,155,000	4,971,000
054 Trading Profit	1,277,000	1,743,772	1,142,406	983,000	923,000
055 Interest Received	30,000	36,000	30,000	36,000	40,000
056 Income Unlisted Investment	7,000	2,000	2,000	-	2,000
057 Income Listed Investment	4,000	3,000	2,000	2,000	1,000
058 Income Unconsolidated Subsidiaries	-	-	-	-	-
059 Total Income Investment	41,000	41,000	34,000	38,000	43,000
060 Surplus Sale Investment	18,000	29,000	18,000	4,000	-4,000
061 Surplus Sale Non Trading Assets	19,000	3,000	-3,000	-3,000	15,000
062 Extraordinary Profits	-110,000	-6,000	-91,000	-80,000	-136,000
063 Total Profits Extraordinary Nature	-73,000	26,000	-76,000	-79,000	-125,000
064 Auditors Remuneration And Costs	16,000	14,000	13,000	12,000	11,000
065 Depreciation Other Fixed Assets	213,000	206,000	196,000	210,000	207,000
066 Depreciation Land And Buildings	20,000	17,000	16,000	14,000	16,000
067 Rental Fixed Assets	90,000	85,000	55,000	-	-
068 Directors Remuneration: Direct	2,000	670	660	1,000	1,000
069 Directors Remuneration: Other	24,000	18,102	11,746	15,000	7,000
070 Management And Other Services	11,000	10,000	9,000	5,000	-
071 Total Cost Shown	376,000	350,772	301,406	257,000	242,000
054 Trading Profit	1,277,000	1,743,772	1,142,406	983,000	923,000
059 Total Income Investment	41,000	41,000	34,000	38,000	43,000
063 Total Profits Extraordinary Nature	-73,000	26,000	-76,000	-79,000	-125,000
072 Total Income	1,245,000	1,810,772	1,100,406	942,000	841,000
071 Total Cost Shown	376,000	350,772	301,406	257,000	242,000
073 Profit Before Interest And Tax (EBIT)	869,000	1,460,000	799,000	685,000	599,000
074 Total Interest Paid	165,000	150,000	120,000	162,000	190,000
075 Profit Before Taxation	704,000	1,310,000	679,000	523,000	409,000
076 Taxation	225,000	152,000	176,000	144,000	115,000
077 Profit After Taxation	479,000	1,158,000	503,000	379,000	294,000
078 Minority Interest In Profit	10,000	35,000	32,000	2,000	43,000
079 Profit to Ordinary And Preference Shareholders	469,000	1,123,000	471,000	377,000	251,000
	236,000	226,000	193,255	151,000	124,000
081 Preference Dividend	2,000	2,000	2,000	2,000	2,000

082 Retained Profits		395,000	275,745	224,000	125,000
083 Earnings Before Interest, Tax, Depreciation And Amortisation (EBITDA)	1,122,000	1,689,000	1,021,000	1,013,000	897,000
General Supplementary					
301 Lease Charge: Land Building	90,000	85,000	55,000	-	-
302 Lease Charge: Other	-	-	-	-	-
303 Research & Development	7,000	7,000	10,000	10,000	8,000
304 EPS-Equity Accounted	412	829	442	260	252
305 EPS-Bottom Line	412	829	442	260	252
306 EPS-Headline	355	853	482	392	356
307 EPS-Fully Diluted Headline	352	842	473	383	345
308 EPS-Fully Diluted Bottomline	408	819	434	254	244
374 EPS-Continuing Operations	417	-	-	-	-
359 Earnings per Linked Unit	-	-	-	-	-
375 Core Headline Earnings - Total Value	-	-	-	-	-
376 Core Headline Earnings Per Share	-	-	-	-	-
380 Dividend per Share	213	205	175	138	114
381 Interest Distribution per Unit	-	-	-	-	-
382 Capital Distribution per Share	-	-	-	-	-
309 Effective Tax Rate	32	27	30	29	28
310 Deferred Tax: Contingent Liability	-	-	-	-	-
311 Deferred Tax: Current	-61,000	192,000	42,000	25,000	37,000
312 Deferred Tax: Other	7,000	-17,000	-18,000	11,000	-38,000
318 Accumulated Assessed Tax Loss	-	-	-	-	-
319 Accumulated Computed Tax Loss	375,000	164,000	184,000	773,000	838,000
320 Prior Year Tax Adjustment	-5,000	20,000	3,000	4,000	5,000
333 STC as Published	29,000	19,000	16,000	-	-
338 Foreign Tax	-	4,000	-	-	-
364 Foreign Tax - Normal	-	4,000	-	-	-
365 Foreign Tax - Previous year	-	-	-	-	-
366 Foreign Tax - Deferred	-	-	-	-	-
313 Interest Capitalised	8,000	-	-	-	-
373 Interest Paid - Debentures	-	-	-	-	-
314 Invest Allowance Benefit	-	-	-	-	-
315 Dilution: Interest Saved	-	-	-	-	-
316 Dilution: Dividends Saved	-	-	-	-	-
317 Dilution: Equity Income Converted	-	-	-	-	-
322 Intangible Assets Written Off	-	-	-	-	-
350 Impairments of intangible assets	-	-	-	-	-
349 Reversal impairments/Intangible Assets - prev years	-	-	-	-	-
383 Goodwill Written Off	20,000	-	-	-	-
351 Impairments of goodwill	20,000	6,000	10,000	-	-
346 Reversal of impairments of Goodwill - prev years	-	-	-	-	-
323 Amortisation of goodwill	-	6,000	10,000	104,000	75,000
324 Impairment of Investments	-	-2,000	-10,000	-14,000	-
348 Reversal of impairments/Investments - prev years	-	-	-	-	-
325 Impairment of Loans	-	-	-	-	-
368 Reversal of impairments/Loans - prev years	-	-	-	-	-
326 Capital Profit /Loss on Financial Assets	4,000	31,000	28,000	18,000	-4,000
360 Gains/Losses on Mark to Market Value of Financial Assets	14,000	-	-	-	-
327 Impairment of Fixed Assets	-	-5,000	-2,000	-7,000	-
347 Reversal of impair/Other Fixed assets - prev years	-	-	-	-	-
328 Capital Profit /Loss on Fixed Assets	19,000	8,000	-1,000	4,000	15,000
329 Profit /Loss Forex Translations - I/S	-	-	-	-	-
330 Profit /Loss Forex Transactions - I/S	5,000	8,000	12,000	-15,000	-29,000
331 Profit /Loss Disposal of Subsidiaries/ Businesses	-	-7,000	-	-	-
332 Profit /Loss Sundry Extraordinaries	-115,000	-7,000	-140,000	-17,000	-40,000
352 Extraordinary items - unconsolidated subs	-	-	-	-	-
367 Share issue expenses written off	-	-	-	-	-
377 Expense in regard to BEE transaction	-	-	-	-	-
336 Foreign Turnover	2,626,000	2,302,000	-	-	-



337 Foreign Profit					
339 Ordinary Dividends - Ordinary Shareholders	236,000	226,000	193,255	-	-
340 Ordinary Dividends - Minority Shareholders	-	-	-	-	-
357 Ordinary dividends declared	236,000	226,000	193,255	-	-
358 Ordinary dividends paid	235,000	204,000	167,000	-	-
341 Preference Dividends - Ordinary Shareholders	2,000	2,000	2,000	-	-
342 Preference Dividends - Minority Shareholders	-	-	-	-	-
353 Minority dividends paid	-	-	-	-	-
354 Minority dividends declared - I/S	-	-	-	-	-
321 Non Cash Dividends	-	-	-	-	-
334 Non-Cash Dividend (Current Year)	-	-	-	-	-
335 Non-Cash Dividend (Previous Year)	-	-	-	-	-
343 Auditors - Audit Fees - current year	15,000	13,000	12,000	-	-
378 Auditors - Audit Fees - previous year	-	-	-	-	-
379 Auditors - Audit Expenses	-	-	-	-	-
344 Auditors - Other Fees	1,000	1,000	1,000	-	-
345 Staff Costs(excluding directors remuneration)	1,640,000	1,538,000	1,375,000	-	-
372 Other Staff share based payments - I/S	9,000	-	-	-	-
361 Directors share based payments - I/S	-	4,685	-	-	-
362 Directors share based payments - B/S	-	-	-	-	-
355 Income from Endowment policies	-	-	-	-	-
356 Other Income from Fixed Asset Investments	68,000	-	-	-	-
363 BEE Share of profits - I/S	-	-	-	-	-

Changes In Equity Statement [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Dec	Dec	Dec	Dec	Dec
Changes In Equity Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
901 Ordinary Shareholders' Equity at Beginning of Year	3,595,000	2,857,000	-	-	-
902 Movements in Issued Capital & Share Premium	-	-	-	-	-
903 Balance at begin of year/issued capital & share premium	453,000	453,000	-	-	-
904 Adj to prior year/issued capital & share premium	-	-	-	-	-
905 Ordinary shares issued/issued capital & share premium	-	-	-	-	-
906 Share based payments/issued capital & share premium	-	-	-	-	-
907 Shares held by subsidiary company/issued capital & share premium	-	-	-	-	-
908 Share issue expenses/issued capital & share premium	-	-	-	-	-
909 Goodwill written off/issued capital & share premium	-	-	-	-	-
910 Capital distributions/issued capital & share premium	-	-	-	-	-
911 Treasury shares/issued capital & share premium	-	-	-	-	-
913 Cancelling of shares/issued capital & share premium	-	-	-	-	-
912 Staff share trust/issued capital & share premium	-	-	-	-	-
951 Share premium raised under share purchase scheme	-	-	-	-	-
939 Sundry/issued capital & share premium	-	-	-	-	-
940 Balance at end of year/issued capital & share premium	453,000	453,000	-	-	-
941 Movements in Non-Distributable Reserve	-	-	-	-	-



<u>942 Balance at begin of year/non-distrib reserve</u>		275,000			
<u>943 Adj to prior year/non-distrib reserve</u>					
<u>944 Ordinary shares issued/non-distrib reserve</u>					
<u>945 Profit/(loss) on sale of investments/non-distrib reserve</u>					
<u>946 Shares held by subsidiary company/non-distrib reserve</u>					
<u>947 Share issue expenses/non-distrib reserve</u>					
<u>948 Goodwill written off/non-distrib reserve</u>					
<u>949 Capital distributions/non-distrib reserve</u>					
<u>950 Section 90 unbundling payment to shareholders</u>					
<u>952 Treasury shares/non-distrib reserve</u>					
<u>971 Cancelling of shares/non-distrib reserve</u>					
<u>953 Staff share trust/non-distrib reserve</u>					
<u>954 Profit/(loss) on forex translations/non-distrib reserve</u>	-6,000	23,000			
<u>955 Profit/(loss) on forex transactions/non-distrib reserve</u>					
<u>956 Tax adjustment/non-distrib reserve</u>	2,000	-5,000			
<u>957 Net transfer (to)/from distributable reserve</u>	-17,000	-7,000			
<u>958 Realised surplus/(loss) - sale of land & build/non-distrib reserve</u>					
<u>959 Surplus/(deficit) on revaluation of land & build/non-distrib reserve</u>					
<u>960 Derivative valuation adjustment</u>					
<u>961 Capital redemption fund</u>					
<u>962 Adj arising on changes in composition of group/non-distrib reserve</u>					
<u>963 Profit/(loss) on disposal of subs/ businesses/non-distrib reserve</u>					
<u>964 Share of associated companies' reserves</u>					
<u>965 Profit on share issue of subsidiaries</u>					
<u>966 Change in accounting policy/non-distrib reserve</u>					
<u>967 Surplus/(deficit) on revaluation of investments/non-distrib reserve</u>					
<u>968 BEE Share of accum profit/non-distrib reserve</u>					
<u>969 Share based payments/non-distrib reserve</u>		3,000			
<u>970 Net unrealised (losses)/gains on hedging instrum/non-distrib reserve</u>	-2,000	5,000			
<u>999 Sundry/non-distrib reserve</u>					
<u>000 Balance at end of year/non-distrib reserve</u>	271,000	294,000			
<u>001 Movements in Distributable Reserve</u>					
<u>002 Balance at begin of year/distrib reserve</u>	2,848,000	2,129,000			
<u>003 Adj to prior year/distrib reserve</u>					
<u>004 Net profit/(loss) for the year</u>	455,000	916,000			
<u>005 Ordinary dividends</u>	-235,000	-204,000			
<u>006 Preference dividends</u>					
<u>007 Treasury shares/distrib reserve</u>					
<u>028 Cancelling of shares/distrib reserve</u>					
<u>008 Net transfer (to)/from non-distributable reserves</u>	17,000	7,000			
<u>009 Profit/(loss) on forex translations/distrib reserve</u>					
<u>010 Profit/(loss) on forex transactions/distrib reserve</u>					
<u>011 Realised surplus/(loss) - sale of land & build/distrib reserve</u>					
<u>012 Surplus/(deficit) on revaluation of land & build/distrib reserve</u>					

<u>013 Shares held by subsidiary company/distrib reserve</u>					
<u>014 Change in accounting policy/distrib reserve</u>					
<u>015 Adj arising on changes in composition of group/distrib reserve</u>	-21,000				
<u>016 Share of associated companies' retained income</u>					
<u>017 Share issue expenses/distrib reserve</u>					
<u>018 Goodwill written off/distrib reserve</u>					
<u>019 Capital distributions/distrib reserve</u>					
<u>020 Net unrealised (losses)/gains on hedging instrum/distrib reserve</u>					
<u>021 Premium on acquisition of subsidiaries</u>					
<u>022 Profit/(loss) on disposal of subs/ businesses/distrib reserve</u>					
<u>023 Surplus/(deficit) on revaluation of investments/distrib reserve</u>					
<u>024 BEE Share of accum profit/distrib reserve</u>					
<u>025 Share based payments/distrib reserve</u>					
<u>026 Tax adjustment/distrib reserve</u>					
<u>027 Profit/(loss) on sale of investments/distrib reserve</u>					
<u>059 Sundry/distrib reserve</u>					
<u>060 Balance at end of year/distrib reserve</u>	3,064,000	2,848,000			
<u>061 Movements in Preference Share Capital & Equity Loans</u>					
<u>063 Adj to prior year/pref share capital & equity loans</u>					
<u>064 Shares issued</u>					
<u>065 Share issue expenses/pref share capital & equity loans</u>					
<u>066 Distribution to shareholders</u>					
<u>067 Shares to be issued</u>					
<u>068 Debentures issued</u>					
<u>089 Sundry/pref share capital & equity loans</u>					
<u>090 Balance at end of year/pref share capital & equity loans</u>					
<u>091 Ordinary Shareholders' Equity at End Of Year</u>	3,788,000	3,595,000			

Sundry Items [Year: 2007 - 2003, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Dec	Dec	Dec	Dec	Dec
Sundry Items Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
<u>101 Ordinary Shares in Issue @ Year End Split Adjusted</u>	110,431	110,431	110,431	109,412	108,193
<u>102 Nr of Ordinary Shares in Issue @ Year End</u>	110,431	110,431	110,431	109,412	108,193
<u>103 Par Or No Par Value</u>	1	1	1	1	1
<u>110 Debtors As Surety</u>	2	2	2	2	2
<u>111 Directors Value in Unlisted Investments</u>	18,000	24,000	20,000	21,000	33,000
<u>112 Market Value Listed Investments</u>	98,000	81,000	59,000	60,000	43,000
<u>113 Directors Valuation of Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>114 Arrear Cumulative Dividends</u>	-	-	-	-	-
<u>115 Months Covered By Financial Statements</u>	12	12	12	12	12
<u>116 Month Of Financial Year End</u>	12	12	12	12	12
<u>117 Audit Report Qualified</u>	2	2	2	2	2
<u>118 Inflation Adjusted Other Fixed Asset</u>	86,123	533,851	410,495	305,889	336,537
<u>119 Inflation Adjusted Depreciable Fixed Asset</u>	21,864	84,595	73,950	67,975	72,415
<u>120 No Of Subsidiaries</u>	45	54	50	46	46
<u>121 No Of Foreign Subsidiaries</u>	23	22	18	18	16

123 Controlled By Another Entity		2	2	2	2
124 Provision For Increased Replacement Value	2	2	2	2	2
125 Preference Share Issued At Par	1	1	1	1	1
126 Directors Shareholding Beneficial	21	15	15	5	5
127 Directors Shareholding Non-beneficial	-	-	-	-	-
128 Deferred Tax Total	-165,000	-111,000	-291,000	-327,000	-353,000
129 Deferred Tax For Year	-54,000	175,000	24,000	36,000	-1,000
130 Items Not Representing Cashflow	506,000	500,000	345,000	357,000	246,000
131 No Persons Employed	7,123	7,705	7,251	7,260	8,167
175 Foreign Employees	-	-	-	-	-
132 Inventory: Raw Material	544,000	572,000	487,000	440,000	403,000
133 Inventory: Finished Goods	1,220,000	1,101,000	836,000	672,000	653,000
134 Inventory: Merchandise	12,000	15,000	10,000	10,000	4,000
135 Inventory: Consumable Stores	10,000	44,000	37,000	37,000	42,000
136 Inventory: Work In Progress	-	-	-	-	-
137 Inventory: Uncompleted Contracts	-	-	-	-	-
138 Proportionate Profit from Associated Companies	1,000	2,000	1,000	1,000	1,000
139 Total Reserve Accrued: Associated Companies	4,000	4,000	4,000	2,000	2,000
140 Capital Commitments	1,251,000	650,000	97,000	294,000	189,000
141 Accumulated Depreciation Land & Buildings	131,000	206,000	189,000	180,000	171,000
142 Long Term Group Loans Advanced	-	-	-	-	-
143 Short Term Group Loans Advanced	-	-	-	-	-
144 Headline Earnings per Share	355	853	482	392	356
145 Long Term Group Loans Received	-	-	-	-	-
146 Short Term Group Loans Received	-	-	-	-	-
147 Notes To Statements	-	-	-	-	-
148 Number Of Analysts	2	7	7	2	2
149 Average Price Per Share	8,055	5,822	4,660	3,339	2,607
150 Share Price @ Company Financial Year End	7,751	6,799	5,124	3,688	3,169
151 Inventory Valuation Method	3	3	3	3	3
152 Mining Assets	-	-	-	-	-
153 Exploration, Amortisation Expenses Written Off	-	-	-	-	-
154 Undeveloped Property	-	-	-	-	-
155 Development Property Less Development Expense	45,000	1,000	2,000	1,000	68,000
156 Debtors For Property Sold	-	-	-	-	-
157 Provision For Future Development	-	-	-	-	-
158 Currency Adjustment: R1000 To ?	-	-	-	-	-
162 Trade Creditors	1,228,000	1,471,000	1,080,000	1,023,000	799,000
163 Loan Portion Of Tax	-	-	-	-	-
164 Balance Sheet LIFO Inventory Adjustment	-	-	-	-	-
165 Income Statement LIFO Inventory Adjustment	-	-	-	-	-
166 Leasehold Commitments	253,000	290,000	235,000	196,000	158,000
167 Contingent Liabilities	-	121,000	292,000	278,000	223,000
168 Extraordinary Item In Tax	1,000	-	-	-	-
169 Extraordinary Item In Minority Interest	-	-	-	-1,000	-
170 No Of Shares Traded	77,067	52,467	51,015	40,495	38,092
171 No Of Transactions	22,943	10,812	9,190	8,537	6,788
172 Value Of Transactions	6,207,851	3,054,574	2,377,386	1,352,079	993,007
173 Split Factor (3 Decimals)	1	1	1	1	1
174 Month Of Stock Split	-	-	-	-	-



Balance Sheet [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Feb	Feb	Feb	Feb	Feb
Balance Sheet Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
<u>001 Ordinary Share Capital</u>	1,245				
<u>002 Non Distributable Reserves</u>	245,762				
<u>003 Distributable Reserves</u>	195,106				
<u>004 Cost Of Control</u>	144,968				
<u>005 Intangible Assets</u>	10,382				
<u>006 Ordinary Shareholders Interest</u>	286,763				
<u>007 Minority Interest</u>	25				
<u>008 Preference Share Capital</u>	-				
<u>009 Total Owners Interest</u>	286,788				
<u>010 Land And Buildings</u>	9,793				
<u>011 Total Depreciation: Land and Buildings</u>	386				
<u>012 Cost Other Fixed Assets</u>	215,057				
<u>013 Total Depreciation: Other Fixed Assets</u>	37,273				
<u>014 Total Fixed Assets</u>	187,191				
<u>015 Long Term Loans Advanced</u>	11,594				
<u>016 Unlisted Investments</u>	3,041				
<u>017 Shares In Unconsolidated Subsidiaries</u>	-				
<u>018 Listed Investments</u>	461				
<u>019 Total Long Term Investments</u>	15,096				
<u>020 Total Long Term Assets</u>	202,287				
<u>021 Secured Long Term Borrowings</u>	17,483				
<u>022 Debentures</u>	-				
<u>023 Other Long Term Borrowings</u>	6,018				
<u>024 Total Long Term Loan Capital</u>	23,501				
<u>025 Net Investment in Long Term Assets</u>	178,786				
<u>026 Total Inventory</u>	35,909				
<u>027 Debtors</u>	66,478				
<u>028 Short Term Loans Advances</u>	47,741				
<u>029 Cash And Bank</u>	37,955				
<u>030 Other Current Assets</u>	-				
<u>031 Total Current Assets</u>	188,083				
<u>032 Short Term Borrowings</u>	20,806				
<u>033 Creditors</u>	49,820				
<u>034 Bank Overdraft</u>	957				
<u>035 Provision For Taxation</u>	8,498				
<u>036 Provision For Distribution</u>	-				
<u>037 Total Current Liabilities</u>	80,081				
<u>038 Net Current Assets</u>	108,002				
<u>039 Net Assets</u>	286,788				
<u>042 Surplus Value Over Bookvalue of Investment</u>	-				
<u>040 Total Assets</u>	390,370				
<u>041 Operating Assets</u>	327,533				

General Supplementary



201 Shares In Issue Y/E Ordinary	124,299			
202 Shares In Issue Y/E 'N'	-			
203 Shares In Issue Y/E 'A'	-			
204 Shares In Issue Y/E 'B'	-			
248 Shares In Issue Y/E 'C'	-			
251 Shares In Issue Y/E 'E'	-			
206 Shares In Issue Weighted Average	88,150			
207 Shares In Issue Fully Diluted	-			
232 Treasury Shares (Number '000)	-			
233 Treasury Shares (Value R'000)	-			
249 Share Trusts and Other (Number '000)	-			
250 Share Trusts and Other (Value R'000)	-			
238 Preference shares issued by a subsidiary	-			
208 Revaluation Reserve	-			
209 Minority Revaluation Reserve	-			
210 Minority Equity Accounted Reserve	-			
228 Foreign Currency Translation Reserve - Cumulative	-			
211 Commitments: Land & Buildings	613			
212 Commitments: Other	-			
213 Foreign Borrowings	-			
214 Convertible Preference Shares	-			
215 Convertible Debentures & Loans	-			
216 Share In Issue Latest	-			
217 Mining Assets at Cost	12,773			
218 Depreciation / Amortisation on Mine Assets	2,391			
219 Medical Aid Liabilities	-			
220 Pension Fund Liabilities	-			
221 Long Term Loans - Interest Bearing	17,551			
222 Long Term Loans - Interest Free	5,950			
223 Short Term Loans - Interest Bearing	20,806			
224 Short Term Loans - Interest Free	-			
225 Property Revaluation Surplus - I/S	-			
226 Profit /Loss Forex Translations - B/S	-			
227 Profit /Loss Forex Transactions - B/S	-			
229 Foreign Assets	-			
230 Foreign Liabilities	-			
231 Provisions	8,585			
236 Provisions - Long term	5,950			
237 Provisions - Short term	2,635			
234 Share Trust scheme	-			
235 Capital Distributions (Cash)	-			
239 Non Current Assets held for sale - Land & Buildings	-			
240 Non Current Assets held for sale - Investments	-			
241 Non Current Assets held for sale - Other	-			
258 Total Bookvalue Land & Buildings	9,407			
252 Total Bookvalue Other Fixed Assets	177,784			
253 Bookvalue Plant & Machinery/Manufacturing Equipment	94,571			
254 Bookvalue Furniture & Office Equipment	724			
255 Bookvalue Vehicles	82,489			
256 Bookvalue Computer Hardware & Software	-			
257 Bookvalue Other fixed assets	-			
242 Listed Unconsolidated Subsidiaries	-			
243 Market Value of Listed Unconsolidated Subsidiaries	-			
244 Unlisted Unconsolidated Subsidiaries	-			
245 Directors Valuation of Unlisted Unconsolidated Subsidiaries	-			
246 Minority dividends declared - B/S	-			
247 BEE Share of accumulative profits - B/S	-			

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Feb	Feb	Feb	Feb	Feb
Income Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
<u>051 Turnover</u>	349,032				
<u>052 Change In Turnover %</u>	-				
<u>053 Cost Of Sales</u>	249,766				
<u>054 Trading Profit</u>	102,625				
<u>055 Interest Received</u>	10,890				
<u>056 Income Unlisted Investment</u>	17				
<u>057 Income Listed Investment</u>	-				
<u>058 Income Unconsolidated Subsidiaries</u>	-				
<u>059 Total Income Investment</u>	10,907				
<u>060 Surplus Sale Investment</u>	-				
<u>061 Surplus Sale Non Trading Assets</u>	141				
<u>062 Extraordinary Profits</u>	-				
<u>063 Total Profits Extraordinary Nature</u>	141				
<u>064 Auditors Remuneration And Costs</u>	2,310				
<u>065 Depreciation Other Fixed Assets</u>	14,472				
<u>066 Depreciation Land And Buildings</u>	159				
<u>067 Rental Fixed Assets</u>	10,734				
<u>068 Directors Remuneration: Direct</u>	430				
<u>069 Directors Remuneration: Other</u>	3,602				
<u>070 Management And Other Services</u>	-				
<u>071 Total Cost Shown</u>	31,707				
<u>054 Trading Profit</u>	102,625				
<u>059 Total Income Investment</u>	10,907				
<u>063 Total Profits Extraordinary Nature</u>	141				
<u>072 Total Income</u>	113,673				
<u>071 Total Cost Shown</u>	31,707				
<u>073 Profit Before Interest And Tax (EBIT)</u>	81,966				
<u>074 Total Interest Paid</u>	3,623				
<u>075 Profit Before Taxation</u>	78,343				
<u>076 Taxation</u>	20,403				
<u>077 Profit After Taxation</u>	57,940				
<u>078 Minority Interest In Profit</u>	1,679				
<u>079 Profit to Ordinary And Preference Shareholders</u>	56,261				
<u>080 Ordinary Dividend</u>	-				
<u>081 Preference Dividend</u>	-				
<u>082 Retained Profits</u>	56,261				
<u>083 Earnings Before Interest, Tax, Depreciation And Amortisation (EBITDA)</u>	97,429				
General Supplementary					
<u>301 Lease Charge: Land Building</u>	4,536				
<u>302 Lease Charge: Other</u>	6,198				
<u>303 Research & Development</u>	-				
<u>304 EPS-Equity Accounted</u>	-				
<u>305 EPS-Bottom Line</u>	59				
<u>306 EPS-Headline</u>	59				
<u>307 EPS-Fully Diluted Headline</u>	-				
<u>308 EPS-Fully Diluted Bottomline</u>	-				



<u>374 EPS-Continuing Operations</u>				
<u>359 Earnings per Linked Unit</u>				
<u>375 Core Headline Earnings - Total Value</u>				
<u>376 Core Headline Earnings Per Share</u>				
<u>380 Dividend per Share</u>				
<u>381 Interest Distribution per Unit</u>				
<u>382 Capital Distribution per Share</u>				
<u>309 Effective Tax Rate</u>	31			
<u>310 Deferred Tax: Contingent Liability</u>				
<u>311 Deferred Tax: Current</u>	4,100			
<u>312 Deferred Tax: Other</u>				
<u>318 Accumulated Assessed Tax Loss</u>				
<u>319 Accumulated Computed Tax Loss</u>				
<u>320 Prior Year Tax Adjustment</u>				
<u>333 STC as Published</u>				
<u>338 Foreign Tax</u>				
<u>364 Foreign Tax - Normal</u>				
<u>365 Foreign Tax - Previous year</u>				
<u>366 Foreign Tax - Deferred</u>				
<u>313 Interest Capitalised</u>				
<u>373 Interest Paid - Debentures</u>				
<u>314 Invest Allowance Benefit</u>				
<u>315 Dilution: Interest Saved</u>				
<u>316 Dilution: Dividends Saved</u>				
<u>317 Dilution: Equity Income Converted</u>				
<u>322 Intangible Assets Written Off</u>	832			
<u>350 Impairments of intangible assets</u>				
<u>349 Reversal impairments/Intangible Assets - prev years</u>				
<u>383 Goodwill Written Off</u>				
<u>351 Impairments of goodwill</u>				
<u>346 Reversal of impairments of Goodwill - prev years</u>				
<u>323 Amortisation of goodwill</u>				
<u>324 Impairment of Investments</u>				
<u>348 Reversal of impairments/Investments - prev years</u>				
<u>325 Impairment of Loans</u>				
<u>368 Reversal of impairments/Loans - prev years</u>				
<u>326 Capital Profit /Loss on Financial Assets</u>				
<u>360 Gains/Losses on Mark to Market Value of Financial Assets</u>				
<u>327 Impairment of Fixed Assets</u>				
<u>347 Reversal of impairm/Other Fixed assets - prev years</u>				
<u>328 Capital Profit /Loss on Fixed Assets</u>	141			
<u>329 Profit /Loss Forex Translations - I/S</u>				
<u>330 Profit /Loss Forex Transactions - I/S</u>				
<u>331 Profit /Loss Disposal of Subsidiaries/ Businesses</u>				
<u>332 Profit /Loss Sundry Extraordinaries</u>				
<u>352 Extraordinary items - unconsolidated subs</u>				
<u>367 Share issue expenses written off</u>				
<u>377 Expense in regard to BEE transaction</u>				
<u>336 Foreign Turnover</u>				
<u>337 Foreign Profit</u>				
<u>339 Ordinary Dividends - Ordinary Shareholders</u>				
<u>340 Ordinary Dividends - Minority Shareholders</u>				
<u>357 Ordinary dividends declared</u>				
<u>358 Ordinary dividends paid</u>	5,265			
<u>341 Preference Dividends - Ordinary Shareholders</u>				
<u>342 Preference Dividends - Minority Shareholders</u>				
<u>353 Minority dividends paid</u>				
<u>354 Minority dividends declared - I/S</u>				

321 Non Cash Dividends				
334 Non-Cash Dividend (Current Year)				
335 Non-Cash Dividend (Previous Year)				
343 Auditors - Audit Fees - current year	1,907	-	-	
378 Auditors - Audit Fees - previous year		-	-	
379 Auditors - Audit Expenses		-	-	
344 Auditors - Other Fees	403	-	-	
345 Staff Costs(excluding directors remuneration)	70,606			
372 Other Staff share based payments - I/S				
361 Directors share based payments - I/S				
362 Directors share based payments - B/S				
355 Income from Endowment policies				
356 Other Income from Fixed Asset Investments				
363 BEE Share of profits - I/S				

Changes In Equity Statement [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Feb	Feb	Feb	Feb	Feb
Changes In Equity Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
901 Ordinary Shareholders' Equity at Beginning of Year	110,421				
902 Movements in Issued Capital & Share Premium					
903 Balance at begin of year/issued capital & share premium	2				
904 Adj to prior year/issued capital & share premium					
905 Ordinary shares issued/issued capital & share premium	246,669				
906 Share based payments/issued capital & share premium					
907 Shares held by subsidiary company/issued capital & share premium					
908 Share issue expenses/issued capital & share premium					
909 Goodwill written off/issued capital & share premium					
910 Capital distributions/issued capital & share premium					
911 Treasury shares/issued capital & share premium					
913 Cancelling of shares/issued capital & share premium					
912 Staff share trust/issued capital & share premium					
951 Share premium raised under share purchase scheme					
939 Sundry/issued capital & share premium	-105,788				
940 Balance at end of year/issued capital & share premium	140,883				
941 Movements in Non-Distributable Reserve					
942 Balance at begin of year/non-distrib reserve					
943 Adj to prior year/non-distrib reserve					
944 Ordinary shares issued/non-distrib reserve					
945 Profit/(loss) on sale of investments/non-distrib reserve					
946 Shares held by subsidiary company/non-distrib reserve					
947 Share issue expenses/non-distrib reserve					
948 Goodwill written off/non-distrib reserve					
949 Capital distributions/non-distrib reserve					



<u>950 Section 90 unbundling payment to shareholder</u>				
<u>952 Treasury shares/non-distrib reserve</u>	-			
<u>971 Cancelling of shares/non-distrib reserve</u>	-			
<u>953 Staff share trust/non-distrib reserve</u>	-			
<u>954 Profit/(loss) on forex translations/non-distrib reserve</u>	-			
<u>955 Profit/(loss) on forex transactions/non-distrib reserve</u>	-			
<u>956 Tax adjustment/non-distrib reserve</u>	-57			
<u>957 Net transfer (to)/from distributable reserve</u>	-			
<u>958 Realised surplus/(loss) - sale of land & build/non-distrib reserve</u>	-			
<u>959 Surplus/(deficit) on revaluation of land & build/non-distrib reserve</u>	-			
<u>960 Derivative valuation adjustment</u>	-			
<u>961 Capital redemption fund</u>	-			
<u>962 Adj arising on changes in composition of group/non-distrib reserve</u>	-			
<u>963 Profit/(loss) on disposal of subs/ businesses/non-distrib reserve</u>	-			
<u>964 Share of associated companies' reserves</u>	-			
<u>965 Profit on share issue of subsidiaries</u>	-			
<u>966 Change in accounting policy/non-distrib reserve</u>	-			
<u>967 Surplus/(deficit) on revaluation of investments/non-distrib reserve</u>	393			
<u>968 BEE Share of accum profit/non-distrib reserve</u>	-			
<u>969 Share based payments/non-distrib reserve</u>	-			
<u>970 Net unrealised (losses)/gains on hedging instrum/non-distrib reserve</u>	-			
<u>999 Sundry/non-distrib reserve</u>	-			
<u>000 Balance at end of year/non-distrib reserve</u>	336			
<u>001 Movements in Distributable Reserve</u>	-			
<u>002 Balance at begin of year/distrib reserve</u>	110,419			
<u>003 Adj to prior year/distrib reserve</u>	-			
<u>004 Net profit/(loss) for the year</u>	51,709			
<u>005 Ordinary dividends</u>	-5,265			
<u>006 Preference dividends</u>	-			
<u>007 Treasury shares/distrib reserve</u>	-			
<u>028 Cancelling of shares/distrib reserve</u>	-			
<u>008 Net transfer (to)/from non-distributable reserves</u>	-			
<u>009 Profit/(loss) on forex translations/distrib reserve</u>	-			
<u>010 Profit/(loss) on forex transactions/distrib reserve</u>	-			
<u>011 Realised surplus/(loss) - sale of land & build/distrib reserve</u>	-			
<u>012 Surplus/(deficit) on revaluation of land & build/distrib reserve</u>	-			
<u>013 Shares held by subsidiary company/distrib reserve</u>	-			
<u>014 Change in accounting policy/distrib reserve</u>	-			
<u>015 Adj arising on changes in composition of group/distrib reserve</u>	-			
<u>016 Share of associated companies' retained income</u>	-			
<u>017 Share issue expenses/distrib reserve</u>	-			
<u>018 Goodwill written off/distrib reserve</u>	-			
<u>019 Capital distributions/distrib reserve</u>	-			
<u>020 Net unrealised (losses)/gains on hedging instrum/distrib reserve</u>	-			

<u>021 Premium on acquisition of subsidiaries</u>					
<u>022 Profit/(loss) on disposal of subs/ businesses/distrib reserve</u>					
<u>023 Surplus/(deficit) on revaluation of investments/distrib reserve</u>					
<u>024 BEE Share of accum profit/distrib reserve</u>					
<u>025 Share based payments/distrib reserve</u>					
<u>026 Tax adjustment/distrib reserve</u>					
<u>027 Profit/(loss) on sale of investments/distrib reserve</u>					
<u>059 Sundry/distrib reserve</u>					
<u>060 Balance at end of year/distrib reserve</u>	156,863				
<u>061 Movements in Preference Share Capital & Equity Loans</u>					
<u>062 Balance at begin of year/pref share capital & equity loans</u>					
<u>063 Adj to prior year/pref share capital & equity loans</u>					
<u>064 Shares issued</u>					
<u>065 Share issue expenses/pref share capital & equity loans</u>					
<u>066 Distribution to shareholders</u>					
<u>067 Shares to be issued</u>					
<u>068 Debentures issued</u>					
<u>089 Sundry/pref share capital & equity loans</u>					
<u>090 Balance at end of year/pref share capital & equity loans</u>					
<u>091 Ordinary Shareholders' Equity at End Of Year</u>	298,082				

Sundry Items [Year: 2007 - 2003, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Feb	Feb	Feb	Feb	Feb
Sundry Items Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
<u>101 Ordinary Shares in Issue @ Year End Split Adjusted</u>	124,299				
<u>102 Nr of Ordinary Shares in Issue @ Year End</u>	124,299				
<u>103 Par Or No Par Value</u>	1				
<u>110 Debtors As Surety</u>	2				
<u>111 Directors Value in Unlisted Investments</u>	3,041				
<u>112 Market Value Listed Investments</u>	461				
<u>113 Directors Valuation of Unconsolidated Subsidiaries</u>	-				
<u>114 Arrear Cumulative Dividends</u>	-				
<u>115 Months Covered By Financial Statements</u>	12				
<u>116 Month Of Financial Year End</u>	2				
<u>117 Audit Report Qualified</u>	2				
<u>118 Inflation Adjusted Other Fixed Asset</u>	12,317				
<u>119 Inflation Adjusted Depreciable Fixed Asset</u>	1,003				
<u>120 No Of Subsidiaries</u>	14				
<u>121 No Of Foreign Subsidiaries</u>	1				
<u>122 No Of Quoted Subsidiaries</u>	-				
<u>123 Controlled By Another Entity</u>	2				
<u>124 Provision For Increased Replacement Value</u>	2				
<u>125 Preference Share Issued At Par</u>	-				
<u>126 Directors Shareholding Beneficial</u>	17,524				
<u>127 Directors Shareholding Non-beneficial</u>	22,688				
<u>128 Deferred Tax Total</u>	38,243				
<u>129 Deferred Tax For Year</u>	4,100				
<u>130 Items Not Representing Cashflow</u>	14,631				
<u>175 Foreign Employees</u>	-				
<u>132 Inventory: Raw Material</u>	3,861				

<u>134 Inventory: Merchandise</u>				
<u>135 Inventory: Consumable Stores</u>	4,439			
<u>136 Inventory: Work In Progress</u>	-			
<u>137 Inventory: Uncompleted Contracts</u>	-			
<u>138 Proportionate Profit from Associated Companies</u>	-			
<u>139 Total Reserve Accrued: Associated Companies</u>	-			
<u>140 Capital Commitments</u>	32,519			
<u>141 Accumulated Depreciation Land & Buildings</u>	386			
<u>142 Long Term Group Loans Advanced</u>	-			
<u>143 Short Term Group Loans Advanced</u>	-			
<u>144 Headline Earnings per Share</u>	59			
<u>145 Long Term Group Loans Received</u>	-			
<u>146 Short Term Group Loans Received</u>	-			
<u>147 Notes To Statements</u>	-			
<u>148 Number Of Analysts</u>	8			
<u>149 Average Price Per Share</u>	909			
<u>150 Share Price @ Company Financial Year End</u>	961			
<u>151 Inventory Valuation Method</u>	2			
<u>152 Mining Assets</u>	10,382			
<u>153 Exploration, Amortisation Expenses Written Off</u>	1,286			
<u>154 Undeveloped Property</u>	-			
<u>155 Development Property Less Development Expense</u>	-			
<u>156 Debtors For Property Sold</u>	-			
<u>157 Provision For Future Development</u>	-			
<u>158 Currency Adjustment: R1000 To ?</u>	-			
<u>162 Trade Creditors</u>	47,185			
<u>163 Loan Portion Of Tax</u>	-			
<u>164 Balance Sheet LIFO Inventory Adjustment</u>	-			
<u>165 Income Statement LIFO Inventory Adjustment</u>	-			
<u>166 Leasehold Commitments</u>	613			
<u>167 Contingent Liabilities</u>	1,534			
<u>168 Extraordinary Item In Tax</u>	-			
<u>169 Extraordinary Item In Minority Interest</u>	-			
<u>170 No Of Shares Traded</u>	20,798			
<u>171 No Of Transactions</u>	6,661			
<u>172 Value Of Transactions</u>	188,948			
<u>173 Split Factor (3 Decimals)</u>	1			
<u>174 Month Of Stock Split</u>	-			



Balance Sheet [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Jun	Jun	Jun	Jun	Jun
Balance Sheet Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
001 Ordinary Share Capital	1,019	984	975	972	978
002 Non Distributable Reserves	83,815	84,790	93,377	98,228	115,315
003 Distributable Reserves	297,990	250,764	192,056	197,895	169,049
004 Cost Of Control	110,110	116,174	86,905	99,340	115,339
005 Intangible Assets	-	-	7,184	8,997	10,211
006 Ordinary Shareholders Interest	272,714	220,364	192,319	188,758	159,792
007 Minority Interest	4,511	4,858	4,404	5,109	2,551
008 Preference Share Capital	-	-	-	-	-
009 Total Owners Interest	277,225	225,222	196,723	193,867	162,343
010 Land And Buildings	21,945	79,551	8,774	7,956	6,844
011 Total Depreciation: Land and Buildings	3,533	3,412	2,817	2,318	1,806
012 Cost Other Fixed Assets	232,616	179,179	170,183	153,712	140,708
013 Total Depreciation: Other Fixed Assets	59,805	45,106	72,905	70,926	58,742
014 Total Fixed Assets	191,223	210,212	103,235	88,424	87,004
015 Long Term Loans Advanced	1,757	2,032	5,894	3,158	3,158
016 Unlisted Investments	13,406	12,976	12,676	14,097	12,747
017 Shares In Unconsolidated Subsidiaries	-	-	-	-	-
018 Listed Investments	-	-	-	-	-
019 Total Long Term Investments	15,163	15,008	18,570	17,255	15,905
020 Total Long Term Assets	206,386	225,220	121,805	105,679	102,909
021 Secured Long Term Borrowings	66,674	49,800	33,233	25,682	29,391
022 Debentures	-	-	-	-	-
023 Other Long Term Borrowings	25,751	67,309	58,398	37,999	15,345
024 Total Long Term Loan Capital	92,425	117,109	91,631	63,681	44,736
025 Net Investment in Long Term Assets	113,961	108,111	30,174	41,998	58,173
026 Total Inventory	228,409	208,692	151,505	148,587	132,484
027 Debtors	228,003	225,850	203,692	182,298	172,974
028 Short Term Loans Advances	-	-	-	-	-
029 Cash And Bank	44,112	2,829	16,882	27,576	39,384
030 Other Current Assets	163,000	-	1,111	-	-
031 Total Current Assets	663,524	437,371	373,190	358,461	344,842
032 Short Term Borrowings	76,181	23,453	25,155	20,818	18,883
033 Creditors	190,784	178,409	128,722	141,950	109,247
034 Bank Overdraft	227,498	99,665	40,069	29,478	100,353
035 Provision For Taxation	5,730	10,491	-	1,712	2,408
036 Provision For Distribution	67	8,242	12,695	12,634	9,781
037 Total Current Liabilities	500,260	320,260	206,641	206,592	240,672
038 Net Current Assets	163,264	117,111	166,549	151,869	104,170
039 Net Assets	277,225	225,222	196,723	193,867	162,343
042 Surplus Value Over Bookvalue of Investment	-	-	-	-	-
040 Total Assets	869,910	662,591	494,995	464,140	447,751
041 Operating Assets	854,747	647,583	476,425	446,885	431,846

General Supplementary



<u>201 Shares In Issue Y/E Ordinary</u>	203,921	196,730	194,873	195,478	195,478
<u>202 Shares In Issue Y/E 'N'</u>	-	-	-	-	-
<u>203 Shares In Issue Y/E 'A'</u>	-	-	-	-	-
<u>204 Shares In Issue Y/E 'B'</u>	-	-	-	-	-
<u>248 Shares In Issue Y/E 'C'</u>	-	-	-	-	-
<u>251 Shares In Issue Y/E 'E'</u>	-	-	-	-	-
<u>206 Shares In Issue Weighted Average</u>	201,216	196,062	194,312	194,178	195,478
<u>207 Shares In Issue Fully Diluted</u>	205,827	198,905	201,688	199,144	-
<u>232 Treasury Shares (Number '000)</u>	1,705	315	-	-	-
<u>233 Treasury Shares (Value R'000)</u>	4,530	768	-	-	-
<u>249 Share Trusts and Other (Number '000)</u>	-	-	-	-	-
<u>250 Share Trusts and Other (Value R'000)</u>	-	-	-	-	-
<u>238 Preference shares issued by a subsidiary</u>	-	-	-	-	-
<u>208 Revaluation Reserve</u>	-	-	-	-	-
<u>209 Minority Revaluation Reserve</u>	-	-	-	-	-
<u>210 Minority Equity Accounted Reserve</u>	-	-	-	-	-
<u>228 Foreign Currency Translation Reserve - Cumulative</u>	-	-	-	-	-
<u>211 Commitments: Land & Buildings</u>	417,550	191,053	138,388	163,266	177,023
<u>212 Commitments: Other</u>	6,951	5,194	3,501	7,021	7,134
<u>213 Foreign Borrowings</u>	1,887	696	5,825	4,893	5,489
<u>214 Convertible Preference Shares</u>	-	-	-	-	-
<u>215 Convertible Debentures & Loans</u>	-	-	-	-	-
<u>216 Share In Issue Latest</u>	-	-	-	-	-
<u>217 Mining Assets at Cost</u>	-	-	-	-	-
<u>218 Depreciation / Amortisation on Mine Assets</u>	-	-	-	-	-
<u>219 Medical Aid Liabilities</u>	-	-	-	-	-
<u>220 Pension Fund Liabilities</u>	-	-	-	-	-
<u>221 Long Term Loans - Interest Bearing</u>	76,214	101,501	69,941	63,681	43,406
<u>222 Long Term Loans - Interest Free</u>	16,211	15,608	21,690	-	1,330
<u>223 Short Term Loans - Interest Bearing</u>	76,068	23,177	24,979	20,642	18,355
<u>224 Short Term Loans - Interest Free</u>	113	276	176	176	528
<u>225 Property Revaluation Surplus - I/S</u>	-	-	-	-	-
<u>226 Profit /Loss Forex Translations - B/S</u>	-	-	702	-10,224	-24,227
<u>227 Profit /Loss Forex Transactions - B/S</u>	-	-	-	-	-
<u>229 Foreign Assets</u>	77,840	86,498	-	-	-
<u>230 Foreign Liabilities</u>	36,749	44,225	-	-	-
<u>231 Provisions</u>	-	-	-	-	-
<u>236 Provisions - Long term</u>	-	-	-	-	-
<u>237 Provisions - Short term</u>	-	-	-	-	-
<u>234 Share Trust scheme</u>	-	-	-	-	-
<u>235 Capital Distributions (Cash)</u>	-	8,199	-	-	-
<u>239 Non Current Assets held for sale - Land & Buildings</u>	-	-	-	-	-
<u>240 Non Current Assets held for sale - Investments</u>	-	-	-	-	-
<u>241 Non Current Assets held for sale - Other</u>	-	-	-	-	-
<u>258 Total Bookvalue Land & Buildings</u>	18,412	76,139	5,957	5,638	5,038
<u>252 Total Bookvalue Other Fixed Assets</u>	172,811	134,073	97,278	82,786	81,966
<u>253 Bookvalue Plant & Machinery/Manufacturing Equipment</u>	144,506	107,535	72,703	56,454	57,428
<u>254 Bookvalue Furniture & Office Equipment</u>	12,339	11,069	12,343	13,620	13,347
<u>255 Bookvalue Vehicles</u>	15,966	15,469	12,232	12,712	11,191
<u>256 Bookvalue Computer Hardware & Software</u>	-	-	-	-	-
<u>257 Bookvalue Other fixed assets</u>	-	-	-	-	-
<u>242 Listed Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>243 Market Value of Listed Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>244 Unlisted Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>245 Directors Valuation of Unlisted Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>246 Minority dividends declared - B/S</u>	-	-	-	-	-
<u>247 BEE Share of accumulative profits - B/S</u>	-	-	-	-	-

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Jun	Jun	Jun	Jun	Jun
Income Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
051 Turnover	1,151,084	1,086,076	924,512	910,350	890,822
052 Change In Turnover %	6	17	2	2	7
053 Cost Of Sales	-	-	-	-	-
054 Trading Profit	124,976	185,418	133,278	144,841	131,099
055 Interest Received	4,246	3,498	4,802	3,931	8,498
056 Income Unlisted Investment	585	2,145	780	585	926
057 Income Listed Investment	-	-	-	-	-
058 Income Unconsolidated Subsidiaries	-	-	-	-	-
059 Total Income Investment	4,831	5,643	5,582	4,516	9,424
060 Surplus Sale Investment	-	-	-	7,277	-
061 Surplus Sale Non Trading Assets	67,094	59	-191	-194	426
062 Extraordinary Profits	-	-	-18,761	-11,735	-29,901
063 Total Profits Extraordinary Nature	67,094	59	-18,952	-4,652	-29,475
064 Auditors Remuneration And Costs	3,452	2,382	2,276	2,172	1,397
065 Depreciation Other Fixed Assets	20,237	14,671	21,054	18,599	18,460
066 Depreciation Land And Buildings	2,130	704	549	686	506
067 Rental Fixed Assets	39,195	26,601	26,227	28,401	26,522
068 Directors Remuneration: Direct	249	245	247	242	200
069 Directors Remuneration: Other	11,581	9,226	11,596	10,687	9,169
070 Management And Other Services	1,709	2,737	1,424	3,915	3,408
071 Total Cost Shown	78,553	56,566	63,373	64,702	59,662
054 Trading Profit	124,976	185,418	133,278	144,841	131,099
059 Total Income Investment	4,831	5,643	5,582	4,516	9,424
063 Total Profits Extraordinary Nature	67,094	59	-18,952	-4,652	-29,475
072 Total Income	196,901	191,120	119,908	144,705	111,048
071 Total Cost Shown	78,553	56,566	63,373	64,702	59,662
073 Profit Before Interest And Tax (EBIT)	118,348	134,554	56,535	80,003	51,386
074 Total Interest Paid	37,922	19,633	21,077	21,469	31,338
075 Profit Before Taxation	80,426	114,921	35,458	58,534	20,048
076 Taxation	25,812	32,680	17,695	20,842	17,123
077 Profit After Taxation	54,614	82,241	17,763	37,692	2,925
078 Minority Interest In Profit	1,551	1,835	-	2,736	1,661
079 Profit to Ordinary And Preference Shareholders	53,063	80,406	17,763	34,956	1,264
080 Ordinary Dividend	-	-	12,667	12,622	9,774
081 Preference Dividend	-	-	-	-	-
082 Retained Profits	53,063	80,406	5,096	22,334	-8,510
083 Earnings Before Interest, Tax, Depreciation And Amortisation (EBITDA)	153,195	149,929	79,523	109,514	80,727
General Supplementary					
301 Lease Charge: Land Building	34,514	26,601	26,227	28,401	26,522
302 Lease Charge: Other	4,681	-	-	-	-
303 Research & Development	109	271	41	419	-
304 EPS-Equity Accounted	34	41	7	18	11
305 EPS-Bottom Line	34	41	7	18	11
306 EPS-Headline	11	41	19	23	16
307 EPS-Fully Diluted Headline	11	41	18	22	-
308 EPS-Fully Diluted Bottomline	33	41	7	17	-
374 EPS-Continuing Operations	34	-	-	-	-



359 Earnings per Linked Unit					
375 Core Headline Earnings - Total Value					
376 Core Headline Earnings Per Share					
380 Dividend per Share			7	5	8
381 Interest Distribution per Unit					
382 Capital Distribution per Share		7			
309 Effective Tax Rate		29	61	38	37
310 Deferred Tax: Contingent Liability					
311 Deferred Tax: Current	-26,979	1,259	1,431	1,531	-4,230
312 Deferred Tax: Other	-1,038	130	-36	-170	-8
318 Accumulated Assessed Tax Loss					
319 Accumulated Computed Tax Loss		42,800		4,273	
320 Prior Year Tax Adjustment	1,097	-140	59	243	130
333 STC as Published	247	229	311		1,958
338 Foreign Tax	2,805	1,299			
364 Foreign Tax - Normal	2,803	1,308			
365 Foreign Tax - Previous year	2	-9			
366 Foreign Tax - Deferred					
313 Interest Capitalised	4,604	1,238	198		
373 Interest Paid - Debentures					
314 Invest Allowance Benefit					
315 Dilution: Interest Saved					
316 Dilution: Dividends Saved					
317 Dilution: Equity Income Converted					
322 Intangible Assets Written Off			1,188	1,087	912
350 Impairments of intangible assets					
349 Reversal impairments/Intangible Assets - prev years					
383 Goodwill Written Off					
351 Impairments of goodwill					
346 Reversal of impairments of Goodwill - prev years					
323 Amortisation of goodwill	12,480		197	9,139	9,463
324 Impairment of Investments					
348 Reversal of impairments/Investments - prev years					
325 Impairment of Loans					
368 Reversal of impairments/Loans - prev years					
326 Capital Profit /Loss on Financial Assets				7,277	
360 Gains/Losses on Mark to Market Value of Financial Assets					
327 Impairment of Fixed Assets					
347 Reversal of impairm/Other Fixed assets - prev years					
328 Capital Profit /Loss on Fixed Assets	67,094	59	-191	-194	426
329 Profit /Loss Forex Translations - I/S					
330 Profit /Loss Forex Transactions - I/S			3,010	-1,511	-5,674
331 Profit /Loss Disposal of Subsidiaries/ Businesses			-22,473		
332 Profit /Loss Sundry Extraordinaries					
352 Extraordinary items - unconsolidated subs					
367 Share issue expenses written off					
377 Expense in regard to BEE transaction					
336 Foreign Turnover	121,799	114,076			
337 Foreign Profit	8,933				
339 Ordinary Dividends - Ordinary Shareholders					
340 Ordinary Dividends - Minority Shareholders					
357 Ordinary dividends declared					
358 Ordinary dividends paid					
341 Preference Dividends - Ordinary Shareholders					
342 Preference Dividends - Minority Shareholders					
353 Minority dividends paid					
354 Minority dividends declared - I/S					
321 Non Cash Dividends					



334 Non-Cash Dividend (Current Year)					
335 Non-Cash Dividend (Previous Year)					
343 Auditors - Audit Fees - current year	2,986	2,129	1,786	-	-
378 Auditors - Audit Fees - previous year	344	13	-3	-	-
379 Auditors - Audit Expenses	-	-	-	-	-
344 Auditors - Other Fees	122	240	493	-	-
345 Staff Costs(excluding directors remuneration)	266,788	228,275	-	-	-
372 Other Staff share based payments - I/S	1,006	-	-	-	-
361 Directors share based payments - I/S	-	-	-	-	-
362 Directors share based payments - B/S	-	-	-	-	-
355 Income from Endowment policies	-	-	-	-	-
356 Other Income from Fixed Asset Investments	-	-	-	-	-
363 BEE Share of profits - I/S	-	-	-	-	-

Changes In Equity Statement [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Jun	Jun	Jun	Jun	Jun
Changes In Equity Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
901 Ordinary Shareholders' Equity at Beginning of Year	346,168	269,781	-	-	-
902 Movements in Issued Capital & Share Premium	-	-	-	-	-
903 Balance at begin of year/issued capital & share premium	77,466	85,081	-	-	-
904 Adj to prior year/issued capital & share premium	-	-	-	-	-
905 Ordinary shares issued/issued capital & share premium	11,243	-	-	-	-
906 Share based payments/issued capital & share premium	-	-	-	-	-
907 Shares held by subsidiary company/issued capital & share premium	-	-	-	-	-
908 Share issue expenses/issued capital & share premium	-	-11	-	-	-
909 Goodwill written off/issued capital & share premium	-	-	-	-	-
910 Capital distributions/issued capital & share premium	-3,456	-8,199	-	-	-
911 Treasury shares/issued capital & share premium	-3,762	595	-	-	-
913 Cancelling of shares/issued capital & share premium	-	-	-	-	-
912 Staff share trust/issued capital & share premium	-	-	-	-	-
951 Share premium raised under share purchase scheme	-	-	-	-	-
939 Sundry/issued capital & share premium	-	-	-	-	-
940 Balance at end of year/issued capital & share premium	81,491	77,466	-	-	-
941 Movements in Non-Distributable Reserve	-	-	-	-	-
942 Balance at begin of year/non-distrib reserve	8,308	4,106	-	-	-
943 Adj to prior year/non-distrib reserve	-	-	-	-	-
944 Ordinary shares issued/non-distrib reserve	-	-	-	-	-
945 Profit/(loss) on sale of investments/non-distrib reserve	-	-	-	-	-
946 Shares held by subsidiary company/non-distrib reserve	-	-	-	-	-
947 Share issue expenses/non-distrib reserve	-	-	-	-	-
948 Goodwill written off/non-distrib reserve	-	-	-	-	-
949 Capital distributions/non-distrib reserve	-	-	-	-	-



<u>950 Section 90 unbundling payment to shareholder</u>					
<u>952 Treasury shares/non-distrib reserve</u>					
<u>971 Cancelling of shares/non-distrib reserve</u>					
<u>953 Staff share trust/non-distrib reserve</u>					
<u>954 Profit/(loss) on forex translations/non-distrib reserve</u>	-5,009	3,347			
<u>955 Profit/(loss) on forex transactions/non-distrib reserve</u>					
<u>956 Tax adjustment/non-distrib reserve</u>					
<u>957 Net transfer (to)/from distributable reserve</u>	358	305			
<u>958 Realised surplus/(loss) - sale of land & build/non-distrib reserve</u>					
<u>959 Surplus/(deficit) on revaluation of land & build/non-distrib reserve</u>					
<u>960 Derivative valuation adjustment</u>					
<u>961 Capital redemption fund</u>					
<u>962 Adj arising on changes in composition of group/non-distrib reserve</u>					
<u>963 Profit/(loss) on disposal of subs/ businesses/non-distrib reserve</u>					
<u>964 Share of associated companies' reserves</u>					
<u>965 Profit on share issue of subsidiaries</u>					
<u>966 Change in accounting policy/non-distrib reserve</u>					
<u>967 Surplus/(deficit) on revaluation of investments/non-distrib reserve</u>	-1	-5			
<u>968 BEE Share of accum profit/non-distrib reserve</u>					
<u>969 Share based payments/non-distrib reserve</u>	-313	555			
<u>970 Net unrealised (losses)/gains on hedging instrum/non-distrib reserve</u>					
<u>999 Sundry/non-distrib reserve</u>					
<u>000 Balance at end of year/non-distrib reserve</u>	3,343	8,308			
<u>001 Movements in Distributable Reserve</u>					
<u>002 Balance at begin of year/distrib reserve</u>	260,394	180,594			
<u>003 Adj to prior year/distrib reserve</u>					
<u>004 Net profit/(loss) for the year</u>	67,504	80,559			
<u>005 Ordinary dividends</u>					
<u>006 Preference dividends</u>					
<u>007 Treasury shares/distrib reserve</u>					
<u>028 Cancelling of shares/distrib reserve</u>					
<u>008 Net transfer (to)/from non-distributable reserves</u>	-358	-305			
<u>009 Profit/(loss) on forex translations/distrib reserve</u>		-454			
<u>010 Profit/(loss) on forex transactions/distrib reserve</u>					
<u>011 Realised surplus/(loss) - sale of land & build/distrib reserve</u>					
<u>012 Surplus/(deficit) on revaluation of land & build/distrib reserve</u>					
<u>013 Shares held by subsidiary company/distrib reserve</u>					
<u>014 Change in accounting policy/distrib reserve</u>					
<u>015 Adj arising on changes in composition of group/distrib reserve</u>					
<u>016 Share of associated companies' retained income</u>					
<u>017 Share issue expenses/distrib reserve</u>					
<u>018 Goodwill written off/distrib reserve</u>					
<u>019 Capital distributions/distrib reserve</u>					
<u>020 Net unrealised (losses)/gains on hedging instrum/distrib reserve</u>					



<u>021 Premium on acquisition of subsidiaries</u>	-	-	-	-	-
<u>022 Profit/(loss) on disposal of subs/ businesses/distrib reserve</u>	-	-	-	-	-
<u>023 Surplus/(deficit) on revaluation of investments/distrib reserve</u>	-	-	-	-	-
<u>024 BEE Share of accum profit/distrib reserve</u>	-	-	-	-	-
<u>025 Share based payments/distrib reserve</u>	-	-	-	-	-
<u>026 Tax adjustment/distrib reserve</u>	-	-	-	-	-
<u>027 Profit/(loss) on sale of investments/distrib reserve</u>	-	-	-	-	-
<u>059 Sundry/distrib reserve</u>	-	-	-	-	-
<u>060 Balance at end of year/distrib reserve</u>	327,540	260,394	-	-	-
<u>061 Movements in Preference Share Capital & Equity Loans</u>	-	-	-	-	-
<u>062 Balance at begin of year/pref share capital & equity loans</u>	-	-	-	-	-
<u>063 Adj to prior year/pref share capital & equity loans</u>	-	-	-	-	-
<u>064 Shares issued</u>	-	-	-	-	-
<u>065 Share issue expenses/pref share capital & equity loans</u>	-	-	-	-	-
<u>066 Distribution to shareholders</u>	-	-	-	-	-
<u>067 Shares to be issued</u>	-	-	-	-	-
<u>068 Debentures issued</u>	-	-	-	-	-
<u>089 Sundry/pref share capital & equity loans</u>	-	-	-	-	-
<u>090 Balance at end of year/pref share capital & equity loans</u>	-	-	-	-	-
<u>091 Ordinary Shareholders' Equity at End Of Year</u>	412,374	346,168	-	-	-

Sundry Items [Year: 2007 - 2003, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Jun	Jun	Jun	Jun	Jun
Sundry Items Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
<u>101 Ordinary Shares in Issue @ Year End Split Adjusted</u>	203,921	196,730	194,873	195,478	195,478
<u>102 Nr of Ordinary Shares in Issue @ Year End</u>	203,921	196,730	194,873	195,478	195,478
<u>103 Par Or No Par Value</u>	1	1	1	1	1
<u>110 Debtors As Surety</u>	2	2	2	2	2
<u>111 Directors Value in Unlisted Investments</u>	13,406	12,976	12,676	14,097	12,747
<u>112 Market Value Listed Investments</u>	-	-	-	-	-
<u>113 Directors Valuation of Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>114 Arrear Cumulative Dividends</u>	-	-	-	-	-
<u>115 Months Covered By Financial Statements</u>	12	12	12	12	12
<u>116 Month Of Financial Year End</u>	6	6	6	6	6
<u>117 Audit Report Qualified</u>	2	2	2	2	2
<u>118 Inflation Adjusted Other Fixed Asset</u>	15,329	-	7,362	15,394	19,642
<u>119 Inflation Adjusted Depreciable Fixed Asset</u>	1,795	-	1,593	3,459	4,424
<u>120 No Of Subsidiaries</u>	41	47	47	49	46
<u>121 No Of Foreign Subsidiaries</u>	11	17	18	20	17
<u>123 Controlled By Another Entity</u>	2	2	2	2	2
<u>124 Provision For Increased Replacement Value</u>	2	2	2	2	2
<u>125 Preference Share Issued At Par</u>	-	-	-	-	-
<u>126 Directors Shareholding Beneficial</u>	26,499	30,449	31,907	33,928	34,603
<u>127 Directors Shareholding Non-beneficial</u>	1,248	1,248	1,873	2,600	2,600
<u>128 Deferred Tax Total</u>	-29,550	-1,431	2,672	3,084	644
<u>129 Deferred Tax For Year</u>	-28,017	1,389	1,395	1,361	-4,238
<u>130 Items Not Representing Cashflow</u>	23,373	15,904	44,780	19,791	19,032
<u>131 No Persons Employed</u>	2,033	1,922	1,740	1,630	1,534
<u>175 Foreign Employees</u>	99	85	-	-	-
<u>132 Inventory: Raw Material</u>	74,202	71,751	17,581	14,689	23,778



134 Inventory: Merchandise	-	-	-	-	-
135 Inventory: Consumable Stores	-	-	-	-	-
136 Inventory: Work In Progress	7,087	8,867	12,686	14,002	5,747
137 Inventory: Uncompleted Contracts	-	-	-	-	-
138 Proportionate Profit from Associated Companies	360	305	602	1,072	560
139 Total Reserve Accrued: Associated Companies	9,856	9,496	9,191	8,589	7,517
140 Capital Commitments	38,221	95,796	53,524	40,757	8,365
141 Accumulated Depreciation Land & Buildings	3,533	3,412	2,817	2,318	1,806
142 Long Term Group Loans Advanced	-	-	-	-	-
143 Short Term Group Loans Advanced	-	-	-	-	-
144 Headline Earnings per Share	11	41	19	23	16
145 Long Term Group Loans Received	-	-	-	-	-
146 Short Term Group Loans Received	-	-	-	-	-
147 Notes To Statements	-	-	-	-	-
148 Number Of Analysts	9	7	7	8	9
149 Average Price Per Share	476	316	276	197	267
150 Share Price @ Company Financial Year End	546	325	320	205	207
151 Inventory Valuation Method	2	2	2	2	2
152 Mining Assets	-	-	-	-	-
153 Exploration, Amortisation Expenses Written Off	-	-	-	-	-
154 Undeveloped Property	-	-	-	-	-
155 Development Property Less Development Expense	-	-	-	-	-
156 Debtors For Property Sold	-	-	-	-	-
157 Provision For Future Development	-	-	-	-	-
158 Currency Adjustment: R1000 To ?	-	-	-	-	-
162 Trade Creditors	126,140	119,351	78,283	102,726	70,056
163 Loan Portion Of Tax	-	-	-	-	-
164 Balance Sheet LIFO Inventory Adjustment	-	-	-	-	-
165 Income Statement LIFO Inventory Adjustment	-	-	-	-	-
166 Leasehold Commitments	424,501	196,247	141,889	170,287	184,157
167 Contingent Liabilities	5,459	16,842	2,364	11,007	7,452
168 Extraordinary Item In Tax	-	-	-	-	-
169 Extraordinary Item In Minority Interest	-	-	-	-	-
170 No Of Shares Traded	113,723	61,146	28,794	51,378	25,520
171 No Of Transactions	7,113	3,451	2,170	1,572	883
172 Value Of Transactions	541,540	193,278	79,517	101,211	68,160
173 Split Factor (3 Decimals)	1	1	1	1	1
174 Month Of Stock Split	-	-	-	-	-



Balance Sheet [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Feb	Feb	Feb	Feb	Feb
Balance Sheet Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
001 Ordinary Share Capital	1,000	1,000	2,000	1,000	526
002 Non Distributable Reserves	-152,000	-195,000	-200,000	90,000	90,464
003 Distributable Reserves	1,680,000	1,650,000	1,483,000	1,309,000	1,165,871
004 Cost Of Control	335,000	332,000	501,000	7,000	13,333
005 Intangible Assets	30,000	9,000	36,000	7,000	-
006 Ordinary Shareholders Interest	1,164,000	1,115,000	748,000	1,386,000	1,243,528
007 Minority Interest	61,000	89,000	92,000	-4,000	-5,243
008 Preference Share Capital	-	-	-	-	-
009 Total Owners Interest	1,225,000	1,204,000	840,000	1,382,000	1,238,285
010 Land And Buildings	60,000	55,000	43,000	29,000	29,370
011 Total Depreciation: Land and Buildings	21,000	17,000	17,000	12,000	11,415
012 Cost Other Fixed Assets	626,000	644,000	548,000	252,000	213,410
013 Total Depreciation: Other Fixed Assets	405,000	403,000	332,000	149,000	125,884
014 Total Fixed Assets	260,000	279,000	242,000	120,000	105,481
015 Long Term Loans Advanced	-	-	-	1,000	1,000
016 Unlisted Investments	-	-	284,000	-	200,000
017 Shares In Unconsolidated Subsidiaries	-	-	-	-	-
018 Listed Investments	-	-	-	-	-
019 Total Long Term Investments	-	-	284,000	1,000	201,000
020 Total Long Term Assets	260,000	279,000	526,000	121,000	306,481
021 Secured Long Term Borrowings	-	-	70,000	-	-
022 Debentures	-	-	-	-	-
023 Other Long Term Borrowings	30,000	30,000	30,000	48,000	47,975
024 Total Long Term Loan Capital	30,000	30,000	100,000	48,000	47,975
025 Net Investment in Long Term Assets	230,000	249,000	426,000	73,000	258,506
026 Total Inventory	400,000	290,000	285,000	252,000	174,956
027 Debtors	664,000	538,000	581,000	396,000	522,406
028 Short Term Loans Advances	3,000	1,498,000	812,000	1,475,000	1,098,133
029 Cash And Bank	1,173,000	-	-	-	-
030 Other Current Assets	-	-	-	-	-
031 Total Current Assets	2,240,000	2,326,000	1,678,000	2,123,000	1,795,495
032 Short Term Borrowings	-	-	-	-	-
033 Creditors	991,000	1,073,000	988,000	598,000	609,377
034 Bank Overdraft	-	-	-	-	-
035 Provision For Taxation	19,000	94,000	107,000	65,000	74,818
036 Provision For Distribution	235,000	204,000	169,000	151,000	131,521
037 Total Current Liabilities	1,245,000	1,371,000	1,264,000	814,000	815,716
038 Net Current Assets	995,000	955,000	414,000	1,309,000	979,779
039 Net Assets	1,225,000	1,204,000	840,000	1,382,000	1,238,285
042 Surplus Value Over Bookvalue of Investment	-	-	-	-	-
040 Total Assets	2,500,000	2,605,000	2,204,000	2,244,000	2,101,976
041 Operating Assets	2,497,000	1,107,000	1,108,000	768,000	802,843

General Supplementary



<u>201 Shares In Issue Y/E Ordinary</u>	97,820	97,699	97,413	105,224	105,217
<u>202 Shares In Issue Y/E 'N'</u>	-	-	-	-	-
<u>203 Shares In Issue Y/E 'A'</u>	-	-	-	-	-
<u>204 Shares In Issue Y/E 'B'</u>	-	-	-	-	-
<u>248 Shares In Issue Y/E 'C'</u>	-	-	-	-	-
<u>251 Shares In Issue Y/E 'E'</u>	-	-	-	-	-
<u>206 Shares In Issue Weighted Average</u>	97,763	97,591	99,344	105,221	105,088
<u>207 Shares In Issue Fully Diluted</u>	100,748	100,442	100,048	105,816	105,806
<u>232 Treasury Shares (Number '000)</u>	8,048	-	-	-	-
<u>233 Treasury Shares (Value R'000)</u>	257,000	257,000	-	-	-
<u>249 Share Trusts and Other (Number '000)</u>	-	-	-	-	-
<u>250 Share Trusts and Other (Value R'000)</u>	-	-	-	-	-
<u>238 Preference shares issued by a subsidiary</u>	-	-	-	-	-
<u>208 Revaluation Reserve</u>	-	-	-	-	-
<u>209 Minority Revaluation Reserve</u>	-	-	-	-	-
<u>210 Minority Equity Accounted Reserve</u>	-	-	-	-	-
<u>228 Foreign Currency Translation Reserve - Cumulative</u>	5,000	-	-	-	-
<u>211 Commitments: Land & Buildings</u>	133,000	118,000	115,000	86,000	62,248
<u>212 Commitments: Other</u>	30,000	17,000	30,000	16,000	4,262
<u>213 Foreign Borrowings</u>	-	-	-	-	-
<u>214 Convertible Preference Shares</u>	-	-	-	-	-
<u>215 Convertible Debentures & Loans</u>	-	-	-	-	-
<u>216 Share In Issue Latest</u>	-	-	-	-	-
<u>217 Mining Assets at Cost</u>	-	-	-	-	-
<u>218 Depreciation / Amortisation on Mine Assets</u>	-	-	-	-	-
<u>219 Medical Aid Liabilities</u>	-	-	-	-	-
<u>220 Pension Fund Liabilities</u>	-	-	-	-	-
<u>221 Long Term Loans - Interest Bearing</u>	30,000	30,000	100,000	48,000	47,975
<u>222 Long Term Loans - Interest Free</u>	-	-	-	-	-
<u>223 Short Term Loans - Interest Bearing</u>	-	-	-	-	-
<u>224 Short Term Loans - Interest Free</u>	-	-	-	-	-
<u>225 Property Revaluation Surplus - I/S</u>	-	-	-	-	-
<u>226 Profit /Loss Forex Translations - B/S</u>	-	-	-1,000	-	-
<u>227 Profit /Loss Forex Transactions - B/S</u>	-	-	-	-	-
<u>229 Foreign Assets</u>	154,000	-	-	-	-
<u>230 Foreign Liabilities</u>	33,000	-	-	-	-
<u>231 Provisions</u>	20,000	7,000	-	-	24,224
<u>236 Provisions - Long term</u>	-	-	-	-	-
<u>237 Provisions - Short term</u>	20,000	7,000	-	-	24,224
<u>234 Share Trust scheme</u>	-	-	-	-	-
<u>235 Capital Distributions (Cash)</u>	-	-	-	-	-
<u>239 Non Current Assets held for sale - Land & Buildings</u>	-	-	-	-	-
<u>240 Non Current Assets held for sale - Investments</u>	-	-	-	-	-
<u>241 Non Current Assets held for sale - Other</u>	-	-	-	-	-
<u>258 Total Bookvalue Land & Buildings</u>	39,000	38,000	26,000	17,000	17,955
<u>252 Total Bookvalue Other Fixed Assets</u>	221,000	241,000	216,000	103,000	88,000
<u>253 Bookvalue Plant & Machinery/Manufacturing Equipment</u>	140,000	155,000	123,000	38,000	34,000
<u>254 Bookvalue Furniture & Office Equipment</u>	-	-	-	-	-
<u>255 Bookvalue Vehicles</u>	-	-	-	-	-
<u>256 Bookvalue Computer Hardware & Software</u>	33,000	40,000	49,000	31,000	33,000
<u>257 Bookvalue Other fixed assets</u>	48,000	46,000	44,000	34,000	21,000
<u>242 Listed Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>243 Market Value of Listed Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>244 Unlisted Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>245 Directors Valuation of Unlisted Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>246 Minority dividends declared - B/S</u>	-	-	-	-	-
<u>247 BEE Share of accumulative profits - B/S</u>	-	-	-	-	-

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Feb	Feb	Feb	Feb	Feb
Income Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
051 Turnover	6,780,000	6,041,000	5,552,000	4,143,000	4,056,080
052 Change In Turnover %	12	9	34	2	13
053 Cost Of Sales	-	-	-	-	3,121,111
054 Trading Profit	794,000	681,129	644,000	424,802	445,544
055 Interest Received	75,000	54,000	49,000	113,000	87,314
056 Income Unlisted Investment	4,000	-	-	16,000	22,569
057 Income Listed Investment	-	-	-	-	-
058 Income Unconsolidated Subsidiaries	-	-	-	-	-
059 Total Income Investment	79,000	54,000	49,000	129,000	109,883
060 Surplus Sale Investment	-	-	-	5,000	300,122
061 Surplus Sale Non Trading Assets	-7,000	-1,000	-1,000	-1,000	85
062 Extraordinary Profits	-6,000	70,000	3,000	-3,000	47,133
063 Total Profits Extraordinary Nature	-13,000	69,000	2,000	1,000	347,340
064 Auditors Remuneration And Costs	5,000	5,000	3,000	3,000	1,265
065 Depreciation Other Fixed Assets	81,000	80,000	75,000	31,000	33,305
066 Depreciation Land And Buildings	4,000	3,000	3,000	1,000	486
067 Rental Fixed Assets	52,000	51,000	44,000	30,000	29,955
068 Directors Remuneration: Direct	1,000	445	-	229	162
069 Directors Remuneration: Other	14,000	10,684	9,000	7,573	6,752
070 Management And Other Services	59,000	41,000	32,000	14,000	14,060
071 Total Cost Shown	216,000	191,129	166,000	86,802	85,985
054 Trading Profit	794,000	681,129	644,000	424,802	445,544
059 Total Income Investment	79,000	54,000	49,000	129,000	109,883
063 Total Profits Extraordinary Nature	-13,000	69,000	2,000	1,000	347,340
072 Total Income	860,000	804,129	695,000	554,802	902,767
071 Total Cost Shown	216,000	191,129	166,000	86,802	85,985
073 Profit Before Interest And Tax (EBIT)	644,000	613,000	529,000	468,000	816,782
074 Total Interest Paid	6,000	5,000	4,000	6,000	5,109
075 Profit Before Taxation	638,000	608,000	525,000	462,000	811,673
076 Taxation	242,000	212,000	176,000	147,000	128,552
077 Profit After Taxation	396,000	396,000	349,000	315,000	683,121
078 Minority Interest In Profit	22,000	5,000	15,000	8,000	15,501
079 Profit to Ordinary And Preference Shareholders	374,000	391,000	334,000	307,000	667,620
080 Ordinary Dividend	333,000	204,000	169,000	151,000	184,102
081 Preference Dividend	-	-	-	-	-
082 Retained Profits	41,000	187,000	165,000	156,000	483,518
083 Earnings Before Interest, Tax, Depreciation And Amortisation (EBITDA)	733,000	778,000	646,000	511,000	878,911
General Supplementary					
301 Lease Charge: Land Building	49,000	47,000	40,000	27,000	26,685
302 Lease Charge: Other	3,000	4,000	4,000	3,000	3,270
303 Research & Development	105,000	65,000	43,000	57,000	87,532
304 EPS-Equity Accounted	-	373	295	-	-
305 EPS-Bottom Line	410	373	295	297	601
306 EPS-Headline	418	379	339	302	342
307 EPS-Fully Diluted Headline	406	368	337	301	340
308 EPS-Fully Diluted Bottomline	398	362	293	295	597



374 EPS-Continuing Operations					
359 Earnings per Linked Unit					
375 Core Headline Earnings - Total Value					
376 Core Headline Earnings Per Share					
380 Dividend per Share	340	209	174	125	150
381 Interest Distribution per Unit					
382 Capital Distribution per Share					
309 Effective Tax Rate	33	33	38	29	17
310 Deferred Tax: Contingent Liability					
311 Deferred Tax: Current	-37,000	-7,000	15,000	-1,000	5,735
312 Deferred Tax: Other		-18,000	1,000	-7,000	
318 Accumulated Assessed Tax Loss					
319 Accumulated Computed Tax Loss	4,000	5,000	13,000	4,000	1,000
320 Prior Year Tax Adjustment	6,000	2,000	1,000	-7,000	-4,788
333 STC as Published	38,000	22,000	19,000	15,000	
338 Foreign Tax					
364 Foreign Tax - Normal					
365 Foreign Tax - Previous year					
366 Foreign Tax - Deferred					
313 Interest Capitalised					
373 Interest Paid - Debentures					
314 Invest Allowance Benefit					
315 Dilution: Interest Saved					
316 Dilution: Dividends Saved					
317 Dilution: Equity Income Converted					
322 Intangible Assets Written Off	4,000			1,000	
350 Impairments of intangible assets					
349 Reversal impairments/Intangible Assets - prev years					
383 Goodwill Written Off					
351 Impairments of goodwill		82,000			13,623
346 Reversal of impairments of Goodwill - prev years					
323 Amortisation of goodwill		82,000	39,000	10,000	28,338
324 Impairment of Investments					
348 Reversal of impairments/Investments - prev years					
325 Impairment of Loans					
368 Reversal of impairments/Loans - prev years					
326 Capital Profit /Loss on Financial Assets				5,000	300,122
360 Gains/Losses on Mark to Market Value of Financial Assets					
327 Impairment of Fixed Assets	-5,000				
347 Reversal of impairm/Other Fixed assets - prev years					
328 Capital Profit /Loss on Fixed Assets	-2,000	-1,000	-1,000	-1,000	85
329 Profit /Loss Forex Translations - I/S					
330 Profit /Loss Forex Transactions - I/S	4,000	-5,000	14,000	-3,000	14,850
331 Profit /Loss Disposal of Subsidiaries/ Businesses		129,000			
332 Profit /Loss Sundry Extraordinaries	-10,000	-54,000	-10,000		32,283
352 Extraordinary items - unconsolidated subs					
367 Share issue expenses written off					
377 Expense in regard to BEE transaction					
336 Foreign Turnover	696,000				
337 Foreign Profit					
339 Ordinary Dividends - Ordinary Shareholders	333,000	204,000	169,000	151,000	184,102
340 Ordinary Dividends - Minority Shareholders					
357 Ordinary dividends declared	333,000	204,000	169,000	151,000	184,102
358 Ordinary dividends paid	302,000	170,000	151,000	132,000	157,670
341 Preference Dividends - Ordinary Shareholders					
342 Preference Dividends - Minority Shareholders					
353 Minority dividends paid	3,000	5,000			
354 Minority dividends declared - I/S					



321 Non Cash Dividends					
334 Non-Cash Dividend (Current Year)					
335 Non-Cash Dividend (Previous Year)					
343 Auditors - Audit Fees - current year	5,000	4,000	3,000	3,000	1,265
378 Auditors - Audit Fees - previous year					
379 Auditors - Audit Expenses					
344 Auditors - Other Fees		1,000			
345 Staff Costs(excluding directors remuneration)	778,000				
372 Other Staff share based payments - I/S	14,000				
361 Directors share based payments - I/S					
362 Directors share based payments - B/S					
355 Income from Endowment policies					
356 Other Income from Fixed Asset Investments					
363 BEE Share of profits - I/S					

Changes In Equity Statement [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Feb	Feb	Feb	Feb	Feb
Changes In Equity Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
901 Ordinary Shareholders' Equity at Beginning of Year	1,681,000	1,480,000			
902 Movements in Issued Capital & Share Premium					
903 Balance at begin of year/issued capital & share premium	-195,000	-199,000			
904 Adj to prior year/issued capital & share premium					
905 Ordinary shares issued/issued capital & share premium	2,000	4,000			
906 Share based payments/issued capital & share premium					
907 Shares held by subsidiary company/issued capital & share premium					
908 Share issue expenses/issued capital & share premium					
909 Goodwill written off/issued capital & share premium					
910 Capital distributions/issued capital & share premium					
911 Treasury shares/issued capital & share premium					
913 Cancelling of shares/issued capital & share premium					
912 Staff share trust/issued capital & share premium					
951 Share premium raised under share purchase scheme					
939 Sundry/issued capital & share premium					
940 Balance at end of year/issued capital & share premium	-193,000	-195,000			
941 Movements in Non-Distributable Reserve					
942 Balance at begin of year/non-distrib reserve	3,000				
943 Adj to prior year/non-distrib reserve					
944 Ordinary shares issued/non-distrib reserve					
945 Profit/(loss) on sale of investments/non-distrib reserve					
946 Shares held by subsidiary company/non-distrib reserve					
947 Share issue expenses/non-distrib reserve					
948 Goodwill written off/non-distrib reserve					
949 Capital distributions/non-distrib reserve					



<u>950 Section 90 unbundling payment to shareholder</u>					
<u>952 Treasury shares/non-distrib reserve</u>	-	-	-	-	-
<u>971 Cancelling of shares/non-distrib reserve</u>	-	-	-	-	-
<u>953 Staff share trust/non-distrib reserve</u>	-	-	-	-	-
<u>954 Profit/(loss) on forex translations/non-distrib reserve</u>	5,000	1,000	-	-	-
<u>955 Profit/(loss) on forex transactions/non-distrib reserve</u>	-	-	-	-	-
<u>956 Tax adjustment/non-distrib reserve</u>	-	-	-	-	-
<u>957 Net transfer (to)/from distributable reserve</u>	-1,000	-	-	-	-
<u>958 Realised surplus/(loss) - sale of land & build/non-distrib reserve</u>	-	-	-	-	-
<u>959 Surplus/(deficit) on revaluation of land & build/non-distrib reserve</u>	-	-	-	-	-
<u>960 Derivative valuation adjustment</u>	-	-	-	-	-
<u>961 Capital redemption fund</u>	-	-	-	-	-
<u>962 Adj arising on changes in composition of group/non-distrib reserve</u>	28,000	-	-	-	-
<u>963 Profit/(loss) on disposal of subs/ businesses/non-distrib reserve</u>	-	-	-	-	-
<u>964 Share of associated companies' reserves</u>	-	-	-	-	-
<u>965 Profit on share issue of subsidiaries</u>	-	-	-	-	-
<u>966 Change in accounting policy/non-distrib reserve</u>	-	-	-	-	-
<u>967 Surplus/(deficit) on revaluation of investments/non-distrib reserve</u>	-	-	-	-	-
<u>968 BEE Share of accum profit/non-distrib reserve</u>	-	-	-	-	-
<u>969 Share based payments/non-distrib reserve</u>	7,000	-	-	-	-
<u>970 Net unrealised (losses)/gains on hedging instrum/non-distrib reserve</u>	-	-	-	-	-
<u>999 Sundry/non-distrib reserve</u>	-	-	-	-	-
<u>000 Balance at end of year/non-distrib reserve</u>	42,000	1,000	-	-	-
<u>001 Movements in Distributable Reserve</u>	-	-	-	-	-
<u>002 Balance at begin of year/distrib reserve</u>	1,873,000	1,679,000	-	-	-
<u>003 Adj to prior year/distrib reserve</u>	-	-	-	-	-
<u>004 Net profit/(loss) for the year</u>	401,000	364,000	-	-	-
<u>005 Ordinary dividends</u>	-302,000	-170,000	-	-	-
<u>006 Preference dividends</u>	-	-	-	-	-
<u>007 Treasury shares/distrib reserve</u>	-	-	-	-	-
<u>028 Cancelling of shares/distrib reserve</u>	-	-	-	-	-
<u>008 Net transfer (to)/from non-distributable reserves</u>	1,000	-	-	-	-
<u>009 Profit/(loss) on forex translations/distrib reserve</u>	-	-	-	-	-
<u>010 Profit/(loss) on forex transactions/distrib reserve</u>	-	-	-	-	-
<u>011 Realised surplus/(loss) - sale of land & build/distrib reserve</u>	-	-	-	-	-
<u>012 Surplus/(deficit) on revaluation of land & build/distrib reserve</u>	-	-	-	-	-
<u>013 Shares held by subsidiary company/distrib reserve</u>	-	-	-	-	-
<u>014 Change in accounting policy/distrib reserve</u>	-	-	-	-	-
<u>015 Adj arising on changes in composition of group/distrib reserve</u>	-	-	-	-	-
<u>016 Share of associated companies' retained income</u>	-	-	-	-	-
<u>017 Share issue expenses/distrib reserve</u>	-	-	-	-	-
<u>018 Goodwill written off/distrib reserve</u>	-	-	-	-	-
<u>019 Capital distributions/distrib reserve</u>	-	-	-	-	-
<u>020 Net unrealised (losses)/gains on hedging instrum/distrib reserve</u>	-	-	-	-	-

<u>021 Premium on acquisition of subsidiaries</u>					
<u>022 Profit/(loss) on disposal of subs/ businesses/distrib reserve</u>					
<u>023 Surplus/(deficit) on revaluation of investments/distrib reserve</u>					
<u>024 BEE Share of accum profit/distrib reserve</u>					
<u>025 Share based payments/distrib reserve</u>		2,000			
<u>026 Tax adjustment/distrib reserve</u>					
<u>027 Profit/(loss) on sale of investments/distrib reserve</u>					
<u>059 Sundry/distrib reserve</u>					
<u>060 Balance at end of year/distrib reserve</u>	1,973,000	1,875,000			
<u>061 Movements in Preference Share Capital & Equity Loans</u>					
<u>062 Balance at begin of year/pref share capital & equity loans</u>					
<u>063 Adj to prior year/pref share capital & equity loans</u>					
<u>064 Shares issued</u>					
<u>065 Share issue expenses/pref share capital & equity loans</u>					
<u>066 Distribution to shareholders</u>					
<u>067 Shares to be issued</u>					
<u>068 Debentures issued</u>					
<u>089 Sundry/pref share capital & equity loans</u>					
<u>090 Balance at end of year/pref share capital & equity loans</u>					
<u>091 Ordinary Shareholders' Equity at End Of Year</u>	1,822,000	1,681,000			

Sundry Items [Year: 2007 - 2003, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Feb	Feb	Feb	Feb	Feb
Sundry Items Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
<u>101 Ordinary Shares in Issue @ Year End Split Adjusted</u>	97,820	97,699	97,413	105,224	105,217
<u>102 Nr of Ordinary Shares in Issue @ Year End</u>	97,820	97,699	97,413	105,224	105,217
<u>103 Par Or No Par Value</u>	1	1	1	1	1
<u>110 Debtors As Surety</u>	2	2	2	2	2
<u>111 Directors Value in Unlisted Investments</u>	-	-	284,000	-	200,000
<u>112 Market Value Listed Investments</u>	-	-	-	-	-
<u>113 Directors Valuation of Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>114 Arrear Cumulative Dividends</u>	-	-	-	-	-
<u>115 Months Covered By Financial Statements</u>	12	12	12	12	12
<u>116 Month Of Financial Year End</u>	2	2	2	2	2
<u>117 Audit Report Qualified</u>	2	2	2	2	2
<u>118 Inflation Adjusted Other Fixed Asset</u>	15,905	40,518	39,311	25,270	24,608
<u>119 Inflation Adjusted Depreciable Fixed Asset</u>	5,829	13,450	13,649	7,606	9,364
<u>120 No Of Subsidiaries</u>	30	31	19	17	16
<u>121 No Of Foreign Subsidiaries</u>	-	-	-	-	-
<u>122 No Of Quoted Subsidiaries</u>	-	-	-	-	-
<u>123 Controlled By Another Entity</u>	3	3	3	3	3
<u>124 Provision For Increased Replacement Value</u>	2	2	2	2	2
<u>125 Preference Share Issued At Par</u>	-	-	-	-	-
<u>126 Directors Shareholding Beneficial</u>	38	87	33	33	30
<u>127 Directors Shareholding Non-beneficial</u>	4	4	4	4	64,182
<u>128 Deferred Tax Total</u>	-58,000	-21,000	-2,000	-10,000	-2,382
<u>129 Deferred Tax For Year</u>	-37,000	-25,000	16,000	-8,000	5,735
<u>130 Items Not Representing Cashflow</u>	175,000	94,000	100,000	33,000	54,055
<u>131 No Persons Employed</u>	3,059	3,308	3,102	1,902	1,824
<u>132 Inventory: Raw Material</u>	188,000	114,000	128,000	107,000	61,612

			000	69,000	71,000	62,046
134 Inventory: Merchandise						
135 Inventory: Consumable Stores						
136 Inventory: Work In Progress	45,000	54,000	54,000	52,000	19,218	
137 Inventory: Uncompleted Contracts	25,000	12,000	3,000	9,000	3,946	
138 Proportionate Profit from Associated Companies	-	26,000	12,000	-	-	
139 Total Reserve Accrued: Associated Companies	-	-	12,000	-	-	
140 Capital Commitments	-	1,000	49,000	-	2,118	
141 Accumulated Depreciation Land & Buildings	21,000	17,000	17,000	12,000	11,415	
142 Long Term Group Loans Advanced	-	-	-	-	-	
143 Short Term Group Loans Advanced	-	-	-	-	-	
144 Headline Earnings per Share	418	379	339	302	342	
145 Long Term Group Loans Received	-	-	-	-	-	
146 Short Term Group Loans Received	-	-	-	-	-	
147 Notes To Statements	-	-	-	-	-	
148 Number Of Analysts	7	7	2	8	9	
149 Average Price Per Share	5,707	4,621	3,586	2,632	2,245	
150 Share Price @ Company Financial Year End	6,573	5,410	4,333	3,038	2,180	
151 Inventory Valuation Method	3	3	3	3	3	
152 Mining Assets	-	-	-	-	-	
153 Exploration, Amortisation Expenses Written Off	-	-	-	-	-	
154 Undeveloped Property	-	-	-	-	-	
155 Development Property Less Development Expense	-	-	-	-	-	
156 Debtors For Property Sold	-	-	-	-	-	
157 Provision For Future Development	-	-	-	-	-	
158 Currency Adjustment: R1000 To ?	-	-	-	-	-	
162 Trade Creditors	235,000	1,066,000	977,000	598,000	585,153	
163 Loan Portion Of Tax	-	-	-	-	-	
164 Balance Sheet LIFO Inventory Adjustment	-	-	-	-	-	
165 Income Statement LIFO Inventory Adjustment	-	-	-	-	-	
166 Leasehold Commitments	163,000	135,000	145,000	102,000	66,510	
167 Contingent Liabilities	-	-	27,000	27,000	-	
168 Extraordinary Item In Tax	-	-	-	-	-	
169 Extraordinary Item In Minority Interest	-	-	-	-	-	
170 No Of Shares Traded	20,596	24,216	28,966	23,350	18,833	
171 No Of Transactions	5,571	6,555	4,621	4,523	3,049	
172 Value Of Transactions	1,175,352	1,118,933	1,038,684	614,606	422,801	
173 Split Factor (3 Decimals)	1	1	1	1	1	
174 Month Of Stock Split	-	-	-	-	-	



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Balance Sheet [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Mar	Mar	Mar	Mar	Mar
Balance Sheet Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
001 Ordinary Share Capital	4,023	4,023	3,615	3,354	2,915
002 Non Distributable Reserves	301,917	298,452	191,168	137,737	127,696
003 Distributable Reserves	454,362	318,458	199,372	127,768	74,637
004 Cost Of Control	113,487	113,487	29,243	30,898	25,296
005 Intangible Assets	298	453	443	492	547
006 Ordinary Shareholders Interest	646,517	506,993	364,469	237,469	179,405
007 Minority Interest	9,673	-	-	-	4,722
008 Preference Share Capital	-	-	-	-	-
009 Total Owners Interest	656,190	506,993	364,469	237,469	184,127
010 Land And Buildings	256,874	197,887	94,531	71,577	60,350
011 Total Depreciation: Land and Buildings	7,502	5,822	4,034	3,153	2,235
012 Cost Other Fixed Assets	283,897	235,405	168,279	131,482	112,197
013 Total Depreciation: Other Fixed Assets	84,094	70,119	51,918	41,248	35,703
014 Total Fixed Assets	449,175	357,351	206,858	158,658	134,609
015 Long Term Loans Advanced	28,623	-	-	-	1,325
016 Unlisted Investments	-	-	-	-	-
017 Shares In Unconsolidated Subsidiaries	-	-	-	-	-
018 Listed Investments	-	-	-	-	-
019 Total Long Term Investments	28,623	-	-	-	1,325
020 Total Long Term Assets	477,798	357,351	206,858	158,658	135,934
021 Secured Long Term Borrowings	111,442	91,677	51,927	46,365	28,460
022 Debentures	-	-	-	-	-
023 Other Long Term Borrowings	-	-	-	1,058	2,148
024 Total Long Term Loan Capital	111,442	91,677	51,927	47,423	30,608
025 Net Investment in Long Term Assets	366,356	265,674	154,931	111,235	105,326
026 Total Inventory	332,618	233,324	199,466	96,481	112,403
027 Debtors	287,739	210,964	165,448	134,415	156,381
028 Short Term Loans Advances	-	-	-	-	-
029 Cash And Bank	14,272	44,536	45,191	34,720	6,599
030 Other Current Assets	-	-	-	-	-
031 Total Current Assets	634,629	488,824	410,105	265,616	275,383
032 Short Term Borrowings	88,861	45,081	27,905	19,871	20,644
033 Creditors	231,088	183,977	152,081	100,270	165,200
034 Bank Overdraft	-	-	-	-	-
035 Provision For Taxation	11,972	7,182	11,906	12,532	5,490
036 Provision For Distribution	12,874	11,265	8,675	6,709	5,248
037 Total Current Liabilities	344,795	247,505	200,567	139,382	196,582
038 Net Current Assets	289,834	241,319	209,538	126,234	78,801
039 Net Assets	656,190	506,993	364,469	237,469	184,127
042 Surplus Value Over Bookvalue of Investment	-	-	-	-	-
040 Total Assets	1,112,427	846,175	616,963	424,274	411,317
041 Operating Assets	1,083,804	846,175	616,963	424,274	409,992

General Supplementary



<u>201 Shares In Issue Y/E Ordinary</u>	80,462	80,462	72,296	67,090	58,308
<u>202 Shares In Issue Y/E 'N'</u>	-	-	-	-	-
<u>203 Shares In Issue Y/E 'A'</u>	-	-	-	-	-
<u>204 Shares In Issue Y/E 'B'</u>	-	-	-	-	-
<u>248 Shares In Issue Y/E 'C'</u>	-	-	-	-	-
<u>251 Shares In Issue Y/E 'E'</u>	-	-	-	-	-
<u>206 Shares In Issue Weighted Average</u>	78,844	73,074	66,894	61,867	50,580
<u>207 Shares In Issue Fully Diluted</u>	-	-	-	-	-
<u>232 Treasury Shares (Number '000)</u>	-	-	-	-	-
<u>233 Treasury Shares (Value R'000)</u>	40,084	46,366	-	-	-
<u>249 Share Trusts and Other (Number '000)</u>	-	-	-	-	-
<u>250 Share Trusts and Other (Value R'000)</u>	-	-	-	-	-
<u>238 Preference shares issued by a subsidiary</u>	-	-	-	-	-
<u>208 Revaluation Reserve</u>	48,076	50,143	836	836	836
<u>209 Minority Revaluation Reserve</u>	-	-	-	-	-
<u>210 Minority Equity Accounted Reserve</u>	-	-	-	-	-
<u>228 Foreign Currency Translation Reserve - Cumulative</u>	-906	-156	-	-	-
<u>211 Commitments: Land & Buildings</u>	3,785	170	244	-	-
<u>212 Commitments: Other</u>	-	-	-	-	-
<u>213 Foreign Borrowings</u>	-	-	-	-	-
<u>214 Convertible Preference Shares</u>	-	-	-	-	-
<u>215 Convertible Debentures & Loans</u>	-	-	-	-	-
<u>216 Share In Issue Latest</u>	-	-	-	-	-
<u>217 Mining Assets at Cost</u>	-	-	-	-	-
<u>218 Depreciation / Amortisation on Mine Assets</u>	-	-	-	-	-
<u>219 Medical Aid Liabilities</u>	-	-	-	-	-
<u>220 Pension Fund Liabilities</u>	-	-	-	-	-
<u>221 Long Term Loans - Interest Bearing</u>	111,442	91,677	51,927	47,423	30,608
<u>222 Long Term Loans - Interest Free</u>	-	-	-	-	-
<u>223 Short Term Loans - Interest Bearing</u>	88,861	45,081	27,905	19,871	20,644
<u>224 Short Term Loans - Interest Free</u>	-	-	-	-	-
<u>225 Property Revaluation Surplus - I/S</u>	-	-	-	-	-
<u>226 Profit /Loss Forex Translations - B/S</u>	-	-	-	-	-
<u>227 Profit /Loss Forex Transactions - B/S</u>	-	-	-	-	-
<u>229 Foreign Assets</u>	-	-	-	-	-
<u>230 Foreign Liabilities</u>	-	-	-	-	-
<u>231 Provisions</u>	-	-	-	-	-
<u>236 Provisions - Long term</u>	-	-	-	-	-
<u>237 Provisions - Short term</u>	-	-	-	-	-
<u>234 Share Trust scheme</u>	-	-	-	-	-
<u>235 Capital Distributions (Cash)</u>	-	-	-	-	-
<u>239 Non Current Assets held for sale - Land & Buildings</u>	-	-	-	-	-
<u>240 Non Current Assets held for sale - Investments</u>	-	-	-	-	-
<u>241 Non Current Assets held for sale - Other</u>	-	-	-	-	-
<u>258 Total Bookvalue Land & Buildings</u>	249,372	192,065	90,497	68,424	58,115
<u>252 Total Bookvalue Other Fixed Assets</u>	-	-	-	-	-
<u>253 Bookvalue Plant & Machinery/Manufacturing Equipment</u>	-	-	-	-	-
<u>254 Bookvalue Furniture & Office Equipment</u>	-	-	-	-	-
<u>255 Bookvalue Vehicles</u>	-	-	-	-	-
<u>256 Bookvalue Computer Hardware & Software</u>	-	-	-	-	-
<u>257 Bookvalue Other fixed assets</u>	-	-	-	-	-
<u>242 Listed Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>243 Market Value of Listed Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>244 Unlisted Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>245 Directors Valuation of Unlisted Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>246 Minority dividends declared - B/S</u>	-	-	-	-	-
<u>247 BEE Share of accumulative profits - B/S</u>	-	-	-	-	-

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Mar	Mar	Mar	Mar	Mar
Income Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
051 Turnover	1,296,312	1,000,002	751,858	604,639	621,381
052 Change In Turnover %	30	33	24	-3	67
053 Cost Of Sales	718,270	572,524	440,374	359,249	421,922
054 Trading Profit	239,969	181,310	141,249	110,664	75,301
055 Interest Received	15,150	7,542	2,789	8,375	3,455
056 Income Unlisted Investment	-	-	-	-	-
057 Income Listed Investment	-	-	-	-	-
058 Income Unconsolidated Subsidiaries	-	-	-	-	-
059 Total Income Investment	15,150	7,542	2,789	8,375	3,455
060 Surplus Sale Investment	-	-	-	-	-
061 Surplus Sale Non Trading Assets	1,104	-324	-115	-602	270
062 Extraordinary Profits	23,333	-445	1,172	-2,484	-1,809
063 Total Profits Extraordinary Nature	24,437	-769	1,057	-3,086	-1,539
064 Auditors Remuneration And Costs	1,001	802	529	490	434
065 Depreciation Other Fixed Assets	16,448	11,897	15,726	11,840	8,965
066 Depreciation Land And Buildings	2,232	1,686	1,279	919	672
067 Rental Fixed Assets	1,663	344	639	877	406
068 Directors Remuneration: Direct	770	373	317	295	210
069 Directors Remuneration: Other	13,901	10,443	4,173	3,033	2,132
070 Management And Other Services	-	-	-	-	-
071 Total Cost Shown	36,015	25,545	22,663	17,454	12,819
054 Trading Profit	239,969	181,310	141,249	110,664	75,301
059 Total Income Investment	15,150	7,542	2,789	8,375	3,455
063 Total Profits Extraordinary Nature	24,437	-769	1,057	-3,086	-1,539
072 Total Income	279,556	188,083	145,095	115,953	77,217
071 Total Cost Shown	36,015	25,545	22,663	17,454	12,819
073 Profit Before Interest And Tax (EBIT)	243,541	162,538	122,432	98,499	64,398
074 Total Interest Paid	25,929	16,930	10,731	15,703	9,089
075 Profit Before Taxation	217,612	145,608	111,701	82,796	55,309
076 Taxation	55,716	29,175	23,436	16,536	8,530
077 Profit After Taxation	161,896	116,433	88,265	66,260	46,779
078 Minority Interest In Profit	-	-	-	-	898
079 Profit to Ordinary And Preference Shareholders	161,896	116,433	88,265	66,260	45,881
080 Ordinary Dividend	24,701	21,118	16,055	12,747	9,460
081 Preference Dividend	-	-	-	-	-
082 Retained Profits	137,195	95,315	72,210	53,513	36,421
083 Earnings Before Interest, Tax, Depreciation And Amortisation (EBITDA)	262,376	176,173	141,141	112,791	74,674
General Supplementary					
301 Lease Charge: Land Building	1,663	344	639	877	406
302 Lease Charge: Other	-	-	-	-	-
303 Research & Development	-	-	-	-	-
304 EPS-Equity Accounted	-	-	-	-	-
305 EPS-Bottom Line	199	147	124	99	83
306 EPS-Headline	179	148	127	106	84
307 EPS-Fully Diluted Headline	-	-	-	-	-
308 EPS-Fully Diluted Bottomline	-	-	-	-	-



374 EPS-Continuing Operations					
359 Earnings per Linked Unit					
375 Core Headline Earnings - Total Value					
376 Core Headline Earnings Per Share					
380 Dividend per Share	31	27	23	19	17
381 Interest Distribution per Unit					
382 Capital Distribution per Share					
309 Effective Tax Rate	28	26	25	25	22
310 Deferred Tax: Contingent Liability					
311 Deferred Tax: Current	2,921	8,186	3,580	3,504	3,263
312 Deferred Tax: Other					
318 Accumulated Assessed Tax Loss					
319 Accumulated Computed Tax Loss	9,424	10,487	10,139	6,131	3,799
320 Prior Year Tax Adjustment	-678	-175	-270	-114	-135
333 STC as Published	3,354	2,176			
338 Foreign Tax	397	132			
364 Foreign Tax - Normal	397	132			
365 Foreign Tax - Previous year					
366 Foreign Tax - Deferred					
313 Interest Capitalised					
373 Interest Paid - Debentures					
314 Invest Allowance Benefit					
315 Dilution: Interest Saved					
316 Dilution: Dividends Saved					
317 Dilution: Equity Income Converted					
322 Intangible Assets Written Off	155	52	49	55	60
350 Impairments of intangible assets					
349 Reversal impairments/Intangible Assets - prev years					
383 Goodwill Written Off					
351 Impairments of goodwill					
346 Reversal of impairments of Goodwill - prev years					
323 Amortisation of goodwill			1,655	1,478	579
324 Impairment of Investments					
348 Reversal of impairments/Investments - prev years					
325 Impairment of Loans					
368 Reversal of impairments/Loans - prev years					
326 Capital Profit /Loss on Financial Assets					
360 Gains/Losses on Mark to Market Value of Financial Assets					
327 Impairment of Fixed Assets					
347 Reversal of impairm/Other Fixed assets - prev years					
328 Capital Profit /Loss on Fixed Assets	1,104	-324	-115	-602	270
329 Profit /Loss Forex Translations - I/S			1,125	1,475	2,301
330 Profit /Loss Forex Transactions - I/S	4,383	-445	-100	-3,959	-4,110
331 Profit /Loss Disposal of Subsidiaries/ Businesses	18,950		147		
332 Profit /Loss Sundry Extraordinaries					
352 Extraordinary items - unconsolidated subs					
367 Share issue expenses written off					
377 Expense in regard to BEE transaction					
336 Foreign Turnover					
337 Foreign Profit					
339 Ordinary Dividends - Ordinary Shareholders	24,701	21,118	16,055	12,747	9,460
340 Ordinary Dividends - Minority Shareholders					
357 Ordinary dividends declared	24,701	21,118	16,055	12,747	9,460
358 Ordinary dividends paid	23,334	18,529	14,089	11,286	4,212
341 Preference Dividends - Ordinary Shareholders					
342 Preference Dividends - Minority Shareholders					
353 Minority dividends paid					
354 Minority dividends declared - I/S					



321 Non Cash Dividends					
334 Non-Cash Dividend (Current Year)					
335 Non-Cash Dividend (Previous Year)					
343 Auditors - Audit Fees - current year	1,001	802	529	490	434
378 Auditors - Audit Fees - previous year					
379 Auditors - Audit Expenses					
344 Auditors - Other Fees					
345 Staff Costs(excluding directors remuneration)	210,121	143,158	101,234	80,117	69,262
372 Other Staff share based payments - I/S					
361 Directors share based payments - I/S	7,249				
362 Directors share based payments - B/S					
355 Income from Endowment policies					
356 Other Income from Fixed Asset Investments					
363 BEE Share of profits - I/S					

Changes In Equity Statement [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Mar	Mar	Mar	Mar	Mar
Changes In Equity Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
901 Ordinary Shareholders' Equity at Beginning of Year	589,546	391,067	-		
902 Movements in Issued Capital & Share Premium					
903 Balance at begin of year/issued capital & share premium	229,279	170,738	-		
904 Adj to prior year/issued capital & share premium					
905 Ordinary shares issued/issued capital & share premium		90,649	-		
906 Share based payments/issued capital & share premium					
907 Shares held by subsidiary company/issued capital & share premium					
908 Share issue expenses/issued capital & share premium					
909 Goodwill written off/issued capital & share premium					
910 Capital distributions/issued capital & share premium					
911 Treasury shares/issued capital & share premium	6,282	-32,108	-		
913 Cancelling of shares/issued capital & share premium					
912 Staff share trust/issued capital & share premium					
951 Share premium raised under share purchase scheme					
939 Sundry/issued capital & share premium					
940 Balance at end of year/issued capital & share premium	235,561	229,279	-		
941 Movements in Non-Distributable Reserve					
942 Balance at begin of year/non-distrib reserve	73,196	23,835	-		
943 Adj to prior year/non-distrib reserve					
944 Ordinary shares issued/non-distrib reserve					
945 Profit/(loss) on sale of investments/non-distrib reserve					
946 Shares held by subsidiary company/non-distrib reserve					
947 Share issue expenses/non-distrib reserve					
948 Goodwill written off/non-distrib reserve					
949 Capital distributions/non-distrib reserve					



<u>950 Section 90 unbundling payment to shareholder</u>				
<u>952 Treasury shares/non-distrib reserve</u>	-	-	-	
<u>971 Cancelling of shares/non-distrib reserve</u>	-	-	-	
<u>953 Staff share trust/non-distrib reserve</u>	-	-	-	
<u>954 Profit/(loss) on forex translations/non-distrib reserve</u>	-750	54	-	
<u>955 Profit/(loss) on forex transactions/non-distrib reserve</u>	-	-	-	
<u>956 Tax adjustment/non-distrib reserve</u>	-	-	-	
<u>957 Net transfer (to)/from distributable reserve</u>	-	-	-	
<u>958 Realised surplus/(loss) - sale of land & build/non-distrib reserve</u>	-	-	-	
<u>959 Surplus/(deficit) on revaluation of land & build/non-distrib reserve</u>	-2,067	49,307	-	
<u>960 Derivative valuation adjustment</u>	-	-	-	
<u>961 Capital redemption fund</u>	-	-	-	
<u>962 Adj arising on changes in composition of group/non-distrib reserve</u>	-	-	-	
<u>963 Profit/(loss) on disposal of subs/ businesses/non-distrib reserve</u>	-	-	-	
<u>964 Share of associated companies' reserves</u>	-	-	-	
<u>965 Profit on share issue of subsidiaries</u>	-	-	-	
<u>966 Change in accounting policy/non-distrib reserve</u>	-	-	-	
<u>967 Surplus/(deficit) on revaluation of investments/non-distrib reserve</u>	-	-	-	
<u>968 BEE Share of accum profit/non-distrib reserve</u>	-	-	-	
<u>969 Share based payments/non-distrib reserve</u>	-	-	-	
<u>970 Net unrealised (losses)/gains on hedging instrum/non-distrib reserve</u>	-	-	-	
<u>999 Sundry/non-distrib reserve</u>	-	-	-	
<u>000 Balance at end of year/non-distrib reserve</u>	70,379	73,196	-	
<u>001 Movements in Distributable Reserve</u>	-	-	-	
<u>002 Balance at begin of year/distrib reserve</u>	287,071	196,494	-	
<u>003 Adj to prior year/distrib reserve</u>	-	-	-	
<u>004 Net profit/(loss) for the year</u>	157,221	107,692	-	
<u>005 Ordinary dividends</u>	-21,786	-18,529	-	
<u>006 Preference dividends</u>	-	-	-	
<u>007 Treasury shares/distrib reserve</u>	-	1,414	-	
<u>028 Cancelling of shares/distrib reserve</u>	-	-	-	
<u>008 Net transfer (to)/from non-distributable reserves</u>	-	-	-	
<u>009 Profit/(loss) on forex translations/distrib reserve</u>	-	-	-	
<u>010 Profit/(loss) on forex transactions/distrib reserve</u>	-	-	-	
<u>011 Realised surplus/(loss) - sale of land & build/distrib reserve</u>	-	-	-	
<u>012 Surplus/(deficit) on revaluation of land & build/distrib reserve</u>	-	-	-	
<u>013 Shares held by subsidiary company/distrib reserve</u>	-	-	-	
<u>014 Change in accounting policy/distrib reserve</u>	-	-	-	
<u>015 Adj arising on changes in composition of group/distrib reserve</u>	-	-	-	
<u>016 Share of associated companies' retained income</u>	-	-	-	
<u>017 Share issue expenses/distrib reserve</u>	-	-	-	
<u>018 Goodwill written off/distrib reserve</u>	-	-	-	
<u>019 Capital distributions/distrib reserve</u>	-	-	-	
<u>020 Net unrealised (losses)/gains on hedging instrum/distrib reserve</u>	-	-	-	

<u>021 Premium on acquisition of subsidiaries</u>					
<u>022 Profit/(loss) on disposal of subs/ businesses/distrib reserve</u>					
<u>023 Surplus/(deficit) on revaluation of investments/distrib reserve</u>					
<u>024 BEE Share of accum profit/distrib reserve</u>					
<u>025 Share based payments/distrib reserve</u>					
<u>026 Tax adjustment/distrib reserve</u>					
<u>027 Profit/(loss) on sale of investments/distrib reserve</u>					
<u>059 Sundry/distrib reserve</u>					
<u>060 Balance at end of year/distrib reserve</u>	422,506	287,071			
<u>061 Movements in Preference Share Capital & Equity Loans</u>					
<u>062 Balance at begin of year/pref share capital & equity loans</u>					
<u>063 Adj to prior year/pref share capital & equity loans</u>					
<u>064 Shares issued</u>					
<u>065 Share issue expenses/pref share capital & equity loans</u>					
<u>066 Distribution to shareholders</u>					
<u>067 Shares to be issued</u>					
<u>068 Debentures issued</u>					
<u>089 Sundry/pref share capital & equity loans</u>					
<u>090 Balance at end of year/pref share capital & equity loans</u>					
<u>091 Ordinary Shareholders' Equity at End Of Year</u>	728,446	589,546			

Sundry Items [Year: 2007 - 2003, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Mar	Mar	Mar	Mar	Mar
Sundry Items Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
<u>101 Ordinary Shares in Issue @ Year End Split Adjusted</u>	80,462	80,462	72,296	67,090	58,308
<u>102 Nr of Ordinary Shares in Issue @ Year End</u>	80,462	80,462	72,296	67,090	58,308
<u>103 Par Or No Par Value</u>	1	1	1	1	1
<u>110 Debtors As Surety</u>	2	2	2	2	2
<u>111 Directors Value in Unlisted Investments</u>	-	-	-	-	-
<u>112 Market Value Listed Investments</u>	-	-	-	-	-
<u>113 Directors Valuation of Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>114 Arrear Cumulative Dividends</u>	-	-	-	-	-
<u>115 Months Covered By Financial Statements</u>	12	12	12	12	12
<u>116 Month Of Financial Year End</u>	3	3	3	3	3
<u>117 Audit Report Qualified</u>	2	2	2	2	2
<u>118 Inflation Adjusted Other Fixed Asset</u>	15,215	35,765	10,230	16,779	21,923
<u>119 Inflation Adjusted Depreciable Fixed Asset</u>	1,253	2,575	1,383	2,202	2,569
<u>120 No Of Subsidiaries</u>	18	18	16	16	20
<u>121 No Of Foreign Subsidiaries</u>	1	1	1	1	1
<u>122 No Of Quoted Subsidiaries</u>	-	-	-	-	-
<u>123 Controlled By Another Entity</u>	2	2	2	2	2
<u>124 Provision For Increased Replacement Value</u>	2	2	2	2	2
<u>125 Preference Share Issued At Par</u>	-	-	-	-	-
<u>126 Directors Shareholding Beneficial</u>	13,563	12,867	12,173	794	605
<u>127 Directors Shareholding Non-beneficial</u>	-	-	-	9,968	10,926
<u>128 Deferred Tax Total</u>	44,730	42,652	13,667	10,087	6,583
<u>129 Deferred Tax For Year</u>	2,921	8,186	3,580	3,504	3,263
<u>130 Items Not Representing Cashflow</u>	19,253	15,428	17,584	13,758	9,905
<u>131 No Persons Employed</u>	2,607	2,123	1,334	1,237	897
<u>132 Inventory: Raw Material</u>	212,026	115,336	106,837	61,144	85,974



134 Inventory: Merchandise	-	-	-	-	-
135 Inventory: Consumable Stores	-	-	-	-	-
136 Inventory: Work In Progress	55,041	36,234	16,424	14,500	10,116
137 Inventory: Uncompleted Contracts	-	-	-	-	-
138 Proportionate Profit from Associated Companies	-	-	-	-	-
139 Total Reserve Accrued: Associated Companies	-	-	-	-	-
140 Capital Commitments	-	-	-	-	-
141 Accumulated Depreciation Land & Buildings	7,502	5,822	4,034	3,153	2,235
142 Long Term Group Loans Advanced	-	-	-	-	-
143 Short Term Group Loans Advanced	-	-	-	-	-
144 Headline Earnings per Share	179	148	127	106	84
145 Long Term Group Loans Received	-	-	-	-	-
146 Short Term Group Loans Received	-	-	-	-	-
147 Notes To Statements	-	-	-	-	-
148 Number Of Analysts	8	7	8	7	2
149 Average Price Per Share	1,512	1,139	744	321	253
150 Share Price @ Company Financial Year End	1,746	1,339	1,043	348	295
151 Inventory Valuation Method	3	3	3	3	3
152 Mining Assets	-	-	-	-	-
153 Exploration, Amortisation Expenses Written Off	-	-	-	-	-
154 Undeveloped Property	-	-	-	-	-
155 Development Property Less Development Expense	-	-	-	-	-
156 Debtors For Property Sold	-	-	-	-	-
157 Provision For Future Development	-	-	-	-	-
158 Currency Adjustment: R1000 To ?	-	-	-	-	-
162 Trade Creditors	231,088	183,977	152,081	100,270	165,200
163 Loan Portion Of Tax	-	-	-	-	-
164 Balance Sheet LIFO Inventory Adjustment	-	-	-	-	-
165 Income Statement LIFO Inventory Adjustment	-	-	-	-	-
166 Leasehold Commitments	3,785	170	244	-	-
167 Contingent Liabilities	2,200	16,250	550	11,700	17,400
168 Extraordinary Item In Tax	-	-	-	-	-
169 Extraordinary Item In Minority Interest	-	-	-	-	-
170 No Of Shares Traded	31,499	32,452	45,005	24,493	8,544
171 No Of Transactions	8,112	9,049	8,505	4,195	1,277
172 Value Of Transactions	476,119	369,720	334,958	78,707	21,574
173 Split Factor (3 Decimals)	1	1	1	1	1
174 Month Of Stock Split	-	-	-	-	-



Balance Sheet [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Sep	Sep	Sep	Sep	Sep
Balance Sheet Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
001 Ordinary Share Capital	10,000	10,000	10,000	9,000	9,000
002 Non Distributable Reserves	2,796,000	3,777,000	1,755,000	1,763,000	1,258,000
003 Distributable Reserves	7,908,000	9,098,000	9,991,000	9,421,000	8,080,000
004 Cost Of Control	2,306,000	3,005,000	2,485,000	2,432,000	1,192,000
005 Intangible Assets	274,000	323,000	260,000	242,000	272,000
006 Ordinary Shareholders Interest	8,134,000	9,557,000	9,011,000	8,519,000	7,883,000
007 Minority Interest	80,000	691,000	646,000	721,000	708,000
008 Preference Share Capital	1,000	1,000	1,000	1,000	1,000
009 Total Owners Interest	8,215,000	10,249,000	9,658,000	9,241,000	8,592,000
010 Land And Buildings	2,083,000	3,061,000	2,028,000	1,900,000	2,042,000
011 Total Depreciation: Land and Buildings	427,000	600,000	488,000	454,000	447,000
012 Cost Other Fixed Assets	14,757,000	17,420,000	14,678,000	13,905,000	10,391,000
013 Total Depreciation: Other Fixed Assets	4,990,000	6,813,000	5,927,000	5,617,000	5,314,000
014 Total Fixed Assets	11,423,000	13,068,000	10,291,000	9,734,000	6,672,000
015 Long Term Loans Advanced	1,375,000	1,157,000	1,896,000	2,220,000	2,667,000
016 Unlisted Investments	526,000	848,000	1,096,000	831,000	503,000
017 Shares In Unconsolidated Subsidiaries	-	-	-	-	-
018 Listed Investments	332,000	10,000	8,000	8,000	331,000
019 Total Long Term Investments	2,233,000	2,015,000	3,000,000	3,059,000	3,501,000
020 Total Long Term Assets	13,656,000	15,083,000	13,291,000	12,793,000	10,173,000
021 Secured Long Term Borrowings	1,905,000	2,817,000	3,254,000	3,197,000	2,274,000
022 Debentures	-	-	-	-	36,000
023 Other Long Term Borrowings	3,512,000	4,233,000	2,943,000	2,902,000	1,975,000
024 Total Long Term Loan Capital	5,417,000	7,050,000	6,197,000	6,099,000	4,285,000
025 Net Investment in Long Term Assets	8,239,000	8,033,000	7,094,000	6,694,000	5,888,000
026 Total Inventory	6,100,000	5,907,000	4,825,000	5,134,000	5,010,000
027 Debtors	6,445,000	6,445,000	5,201,000	4,617,000	4,194,000
028 Short Term Loans Advances	970,000	2,318,000	1,779,000	1,941,000	2,230,000
029 Cash And Bank	244,000	299,000	169,000	149,000	47,000
030 Other Current Assets	-	1,507,000	7,000	2,000	-
031 Total Current Assets	13,759,000	16,476,000	11,981,000	11,843,000	11,481,000
032 Short Term Borrowings	3,276,000	3,708,000	2,296,000	2,360,000	2,050,000
033 Creditors	7,628,000	7,613,000	5,649,000	5,572,000	5,121,000
034 Bank Overdraft	2,058,000	1,348,000	375,000	678,000	818,000
035 Provision For Taxation	413,000	688,000	419,000	421,000	395,000
036 Provision For Distribution	408,000	903,000	678,000	265,000	393,000
037 Total Current Liabilities	13,783,000	14,260,000	9,417,000	9,296,000	8,777,000
038 Net Current Assets	-24,000	2,216,000	2,564,000	2,547,000	2,704,000
039 Net Assets	8,215,000	10,249,000	9,658,000	9,241,000	8,592,000
042 Surplus Value Over Bookvalue of Investment	505,000	-	-187,000	98,000	457,000
040 Total Assets	27,415,000	31,559,000	25,272,000	24,636,000	21,654,000
041 Operating Assets	24,212,000	27,226,000	20,493,000	19,636,000	15,923,000

General Supplementary



201 Shares In Issue Y/E Ordinary	203,843	200,716	208,612	203,801	196,339
202 Shares In Issue Y/E 'N'	-	-	-	-	-
203 Shares In Issue Y/E 'A'	-	-	-	-	-
204 Shares In Issue Y/E 'B'	-	-	-	-	-
248 Shares In Issue Y/E 'C'	-	-	-	-	-
251 Shares In Issue Y/E 'E'	-	-	-	-	-
273 Shares In Issue Y/E Deferred	-	-	-	-	-
259 Shares Authorised Ordinary	-	-	-	-	-
260 Par Value Ordinary Shares (cents)	-	-	-	-	-
261 Shares Authorised 'N'	-	-	-	-	-
262 Par Value 'N' Shares (cents)	-	-	-	-	-
263 Shares Authorised 'A'	-	-	-	-	-
264 Par Value 'A' Shares (cents)	-	-	-	-	-
265 Shares Authorised 'B'	-	-	-	-	-
266 Par Value 'B' Shares (cents)	-	-	-	-	-
267 Shares Authorised 'C'	-	-	-	-	-
268 Par Value 'C' Shares (cents)	-	-	-	-	-
269 Shares Authorised 'E'	-	-	-	-	-
270 Par Value 'E' Shares (cents)	-	-	-	-	-
271 Shares Authorised Deferred	-	-	-	-	-
272 Par Value Deferred Shares (cents)	-	-	-	-	-
206 Shares In Issue Weighted Average	202,673	206,959	207,367	199,375	196,028
207 Shares In Issue Fully Diluted	206,444	210,998	212,117	204,212	202,460
232 Treasury Shares (Number '000)	-	-	-	-	-
233 Treasury Shares (Value R'000)	-	-	-	-	-
249 Share Trusts and Other (Number '000)	-	-	-	-	-
250 Share Trusts and Other (Value R'000)	-	-	-	-	-
274 Share Buyback (Number '000)	-	-	-	-	-
275 Share Buyback (Value R'000)	-	-	-	-	-
238 Preference shares issued by a subsidiary	-	-	-	-	-
208 Revaluation Reserve	-31,000	142,000	32,000	22,000	15,000
209 Minority Revaluation Reserve	-	-	-	-	-
210 Minority Equity Accounted Reserve	-	-	-	-	-
228 Foreign Currency Translation Reserve - Cumulative	2,362,000	2,869,000	-	-	-
211 Commitments: Land & Buildings	1,638,000	1,955,000	1,377,000	1,734,000	1,166,000
212 Commitments: Other	301,000	554,000	305,000	258,000	197,000
213 Foreign Borrowings	2,417,000	2,874,000	3,318,000	3,099,000	2,911,000
214 Convertible Preference Shares	-	-	-	-	-
215 Convertible Debentures & Loans	-	-	-	-	216,000
216 Share In Issue Latest	-	-	-	-	-
217 Mining Assets at Cost	-	-	-	-	-
218 Depreciation / Amortisation on Mine Assets	-	-	-	-	-
219 Medical Aid Liabilities	-	-	-	-	-
220 Pension Fund Liabilities	856,000	958,000	253,000	343,000	271,000
221 Long Term Loans - Interest Bearing	4,379,000	5,475,000	5,410,000	4,871,000	3,440,000
222 Long Term Loans - Interest Free	1,038,000	1,575,000	787,000	1,228,000	845,000
223 Short Term Loans - Interest Bearing	2,629,000	3,708,000	2,296,000	2,360,000	2,050,000
224 Short Term Loans - Interest Free	647,000	-	-	-	-
225 Property Revaluation Surplus - I/S	-	-	-	-	-
226 Profit /Loss Forex Translations - B/S	-	-	-279,000	56,000	-2,072,000
227 Profit /Loss Forex Transactions - B/S	-	-	-	-	-
229 Foreign Assets	13,958,000	16,339,000	-	-	-
230 Foreign Liabilities	4,893,000	6,691,000	-	-	-
276 Asset Retirement Obligations - Mining Assets	-	-	-	-	-
231 Provisions	944,000	1,004,000	863,000	-	-
236 Provisions - Long term	344,000	468,000	383,000	-	-
237 Provisions - Short term	600,000	536,000	480,000	-	-
234 Share Trust scheme	-	-	-	-	-
235 Capital Distributions (Cash)	-	-	-	-	-
239 Non Current Assets held for sale - Land & Buildings	-	567,000	-	-	-
240 Non Current Assets held for sale - Investments	-	5,000	-	-	-
241 Non Current Assets held for sale - Other	674,000	4,202,000	-	-	-

	2007	2006	2005	2004	2003
258 Total Bookvalue Land & Buildings	161,000	1,540,000	1,446,000	1,595,000	
252 Total Bookvalue Other Fixed Assets	9,767,000	10,607,000	-	-	-
253 Bookvalue Plant & Machinery/Manufacturing Equipment	3,993,000	10,607,000	-	-	-
254 Bookvalue Furniture & Office Equipment	-	-	-	-	-
255 Bookvalue Vehicles	5,774,000	-	-	-	-
256 Bookvalue Computer Hardware & Software	-	-	-	-	-
257 Bookvalue Other fixed assets	-	-	-	-	-
242 Listed Unconsolidated Subsidiaries	-	-	-	-	-
243 Market Value of Listed Unconsolidated Subsidiaries	-	-	-	-	-
244 Unlisted Unconsolidated Subsidiaries	-	-	-	-	-
245 Directors Valuation of Unlisted Unconsolidated Subsidiaries	-	-	-	-	-
246 Minority dividends declared - B/S	-	-	-	-	-
247 BEE Share of accumulative profits - B/S	-	-	-	-	-

Income Statement [Year: 2007 - 2003, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Sep	Sep	Sep	Sep	Sep
Income Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
051 Turnover	50,259,000	44,468,000	39,401,000	36,673,000	34,603,000
052 Change In Turnover %	13	13	7	6	-4
053 Cost Of Sales	32,046,000	30,226,000	28,730,000	28,472,000	27,264,000
054 Trading Profit	7,621,000	6,952,000	6,009,000	4,999,045	4,541,000
055 Interest Received	338,000	260,000	156,000	230,000	244,000
056 Income Unlisted Investment	2,000	16,000	76,000	29,000	68,000
057 Income Listed Investment	-	-	-	-	1,000
058 Income Unconsolidated Subsidiaries	-	-	-	-	-
059 Total Income Investment	340,000	276,000	232,000	259,000	313,000
060 Surplus Sale Investment	252,000	232,000	-59,000	-81,000	-358,000
061 Surplus Sale Non Trading Assets	-122,000	228,000	101,000	130,000	59,000
062 Extraordinary Profits	84,000	-12,000	-262,000	93,000	-2,024,000
063 Total Profits Extraordinary Nature	214,000	448,000	-220,000	142,000	-2,323,000
064 Auditors Remuneration And Costs	65,000	70,000	59,000	54,000	54,000
065 Depreciation Other Fixed Assets	1,896,000	1,862,000	1,764,000	1,482,000	1,167,000
066 Depreciation Land And Buildings	65,000	68,000	62,000	53,000	59,000
067 Rental Fixed Assets	558,000	475,000	505,000	338,000	285,000
068 Directors Remuneration: Direct	10,000	6,000	5,000	4,000	2,000
069 Directors Remuneration: Other	85,000	53,000	43,000	46,000	64,000
070 Management And Other Services	175,000	164,000	128,000	99,000	82,000
071 Total Cost Shown	2,854,000	2,698,000	2,566,000	2,076,000	1,713,000
054 Trading Profit	7,621,000	6,952,000	6,009,000	4,999,045	4,541,000
059 Total Income Investment	340,000	276,000	232,000	259,000	313,000
063 Total Profits Extraordinary Nature	214,000	448,000	-220,000	142,000	-2,323,000
072 Total Income	8,175,000	7,676,000	6,021,000	5,400,045	2,531,000
071 Total Cost Shown	2,854,000	2,698,000	2,566,000	2,076,000	1,713,000
073 Profit Before Interest And Tax (EBIT)	5,321,000	4,978,000	3,455,000	3,324,045	818,000
074 Total Interest Paid	1,133,000	869,000	463,000	470,000	826,000
075 Profit Before Taxation	4,188,000	4,109,000	2,992,000	2,854,045	-8,000
076 Taxation	1,404,000	1,378,000	937,000	789,000	612,000
077 Profit After Taxation	2,784,000	2,731,000	2,055,000	2,065,045	-620,000
078 Minority Interest In Profit	289,000	389,000	315,000	259,000	211,955



079 Profit to Ordinary And Preference Shareholder		342,000	1,740,000	1,806,045	-831,955
080 Ordinary Dividend	1,425,000	1,204,000	979,000	380,000	570,000
081 Preference Dividend	-	-	-	45	45
082 Retained Profits	1,070,000	1,138,000	761,000	1,426,000	-1,402,000
083 Earnings Before Interest, Tax, Depreciation And Amortisation (EBITDA)	7,570,000	6,986,000	5,365,000	5,076,045	2,207,000
General Supplementary					
301 Lease Charge: Land Building	373,000	339,000	314,000	262,000	226,000
302 Lease Charge: Other	185,000	136,000	191,000	76,000	59,000
303 Research & Development	36,000	43,000	57,000	48,000	37,000
304 EPS-Equity Accounted	1,120	1,139	897	761	582
305 EPS-Bottom Line	1,120	1,139	897	761	582
306 EPS-Headline	1,181	1,171	894	857	593
307 EPS-Fully Diluted Headline	1,160	1,148	874	837	581
308 EPS-Fully Diluted Bottomline	1,100	1,117	877	743	571
374 EPS-Continuing Operations	774	-	-	-	-
359 Earnings per Linked Unit	-	-	-	-	-
375 Core Headline Earnings - Total Value	-	-	-	-	-
376 Core Headline Earnings Per Share	-	-	-	-	-
380 Dividend per Share	700	600	455	380	290
381 Interest Distribution per Unit	-	-	-	-	-
382 Capital Distribution per Share	175	-	-	-	-
309 Effective Tax Rate	35	33	29	31	37
310 Deferred Tax: Contingent Liability	-	-	-	-	-
311 Deferred Tax: Current	18,000	24,000	101,000	114,000	8,000
312 Deferred Tax: Other	-14,000	2,000	-14,000	-1,000	-18,000
318 Accumulated Assessed Tax Loss	-	-	-	-	-
319 Accumulated Computed Tax Loss	494,000	240,000	-	97,000	-
320 Prior Year Tax Adjustment	22,000	-12,000	-3,000	-14,000	-12,000
333 STC as Published	151,000	159,000	142,000	52,000	58,000
338 Foreign Tax	339,000	372,000	-	-	-
364 Foreign Tax - Normal	331,000	372,000	-	-	-
365 Foreign Tax - Previous year	8,000	-	-	-	-
366 Foreign Tax - Deferred	-	-	-	-	-
313 Interest Capitalised	-	-	-	-	-
373 Interest Paid - Debentures	-	-	-	-	-
314 Invest Allowance Benefit	-	-	-	-	-
315 Dilution: Interest Saved	-	-	-	-	-
316 Dilution: Dividends Saved	-	-	-	-	-
317 Dilution: Equity Income Converted	-	-	-	-	-
322 Intangible Assets Written Off	70,000	65,000	60,000	69,000	61,000
350 Impairments of intangible assets	-	-	-	-	-
349 Reversal impairments/Intangible Assets - prev years	-	-	-	-	-
383 Goodwill Written Off	-	-	-	-	-
351 Impairments of goodwill	218,000	13,000	24,000	-	-
346 Reversal of impairments of Goodwill - prev years	-	-	-	-	-
323 Amortisation of goodwill	218,000	13,000	24,000	148,000	102,000
324 Impairment of Investments	-109,000	-	-	-	-
348 Reversal of impairments/Investments - prev years	-	-	-	-	-
325 Impairment of Loans	-	-	-	-	-
368 Reversal of impairments/Loans - prev years	-	-	-	-	-
326 Capital Profit /Loss on Financial Assets	-	232,000	-59,000	-81,000	-358,000
360 Gains/Losses on Mark to Market Value of Financial Assets	361,000	-	-	-	-
327 Impairment of Fixed Assets	-45,000	-23,000	-21,000	-108,000	45,000
347 Reversal of impair/Other Fixed assets - prev years	-	-	-	-	-
328 Capital Profit /Loss on Fixed Assets	-77,000	251,000	122,000	238,000	104,000
329 Profit /Loss Forex Translations - I/S	-	-	-	-57,000	-
330 Profit /Loss Forex Transactions - I/S	223,000	-3,000	17,000	-	20,000
331 Profit /Loss Disposal of Subsidiaries/ Businesses	-63,000	-9,000	-	-	-
332 Profit /Loss Sundry Extraordinaries	-76,000	-	-	94,000	28,000

352 Extraordinary items - unconsolidated subs					
367 Share issue expenses written off					
377 Expense in regard to BEE transaction					
336 Foreign Turnover	21,166,000	17,818,000			
337 Foreign Profit	907,000	894,000			
339 Ordinary Dividends - Ordinary Shareholders	1,425,000	1,204,000	979,000		
340 Ordinary Dividends - Minority Shareholders	344,000				
357 Ordinary dividends declared	1,425,000	1,204,000	979,000		
358 Ordinary dividends paid	2,059,000	995,000	823,000		
341 Preference Dividends - Ordinary Shareholders				45	
342 Preference Dividends - Minority Shareholders					
353 Minority dividends paid	344,000	300,000	374,000		
354 Minority dividends declared - I/S					
321 Non Cash Dividends					
334 Non-Cash Dividend (Current Year)					
335 Non-Cash Dividend (Previous Year)					
343 Auditors - Audit Fees - current year	52,000	57,000	47,000		
378 Auditors - Audit Fees - previous year					
379 Auditors - Audit Expenses	1,000	1,000	1,000		
344 Auditors - Other Fees	12,000	12,000	11,000		
345 Staff Costs(excluding directors remuneration)	7,577,000	6,927,000	6,412,000		
372 Other Staff share based payments - I/S					
361 Directors share based payments - I/S	11,000				
362 Directors share based payments - B/S					
355 Income from Endowment policies					
356 Other Income from Fixed Asset Investments					
363 BEE Share of profits - I/S					

Changes In Equity Statement [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Sep	Sep	Sep	Sep	Sep
Changes In Equity Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
901 Ordinary Shareholders' Equity at Beginning of Year	13,669,000	11,486,000			
902 Movements in Issued Capital & Share Premium					
903 Balance at begin of year/issued capital & share premium	327,000	1,397,000			
904 Adj to prior year/issued capital & share premium					
905 Ordinary shares issued/issued capital & share premium	139,000	90,000			
906 Share based payments/issued capital & share premium					
907 Shares held by subsidiary company/issued capital & share premium					
908 Share issue expenses/issued capital & share premium					
909 Goodwill written off/issued capital & share premium					
910 Capital distributions/issued capital & share premium	-243,000				
911 Treasury shares/issued capital & share premium		-1,160,000			
913 Cancelling of shares/issued capital & share premium					
912 Staff share trust/issued capital & share premium					
951 Share premium raised under share purchase scheme					
939 Sundry/issued capital & share premium					

<u>940 Balance at end of year/issued capital & share premium</u>			327,000	-	-
<u>941 Movements in Non-Distributable Reserve</u>					
<u>942 Balance at begin of year/non-distrib reserve</u>	3,461,000	1,462,000		-	-
<u>943 Adj to prior year/non-distrib reserve</u>	-	-		-	-
<u>944 Ordinary shares issued/non-distrib reserve</u>	-	-		-	-
<u>945 Profit/(loss) on sale of investments/non-distrib reserve</u>	-	-		-	-
<u>946 Shares held by subsidiary company/non-distrib reserve</u>	-	-		-	-
<u>947 Share issue expenses/non-distrib reserve</u>	-	-		-	-
<u>948 Goodwill written off/non-distrib reserve</u>	-	-		-	-
<u>949 Capital distributions/non-distrib reserve</u>	-	-		-	-
<u>950 Section 90 unbundling payment to shareholders</u>	-	-		-	-
<u>952 Treasury shares/non-distrib reserve</u>	-	-		-	-
<u>971 Cancelling of shares/non-distrib reserve</u>	-	-		-	-
<u>953 Staff share trust/non-distrib reserve</u>	-	-		-	-
<u>954 Profit/(loss) on forex translations/non-distrib reserve</u>	-507,000	1,832,000		-	-
<u>955 Profit/(loss) on forex transactions/non-distrib reserve</u>	-	-		-	-
<u>956 Tax adjustment/non-distrib reserve</u>	39,000	-22,000		-	-
<u>957 Net transfer (to)/from distributable reserve</u>	-	-		-	-
<u>958 Realised surplus/(loss) - sale of land & build/non-distrib reserve</u>	-	-		-	-
<u>959 Surplus/(deficit) on revaluation of land & build/non-distrib reserve</u>	-	-		-	-
<u>960 Derivative valuation adjustment</u>	-	-		-	-
<u>961 Capital redemption fund</u>	-	-		-	-
<u>962 Adj arising on changes in composition of group/non-distrib reserve</u>	-	-		-	-
<u>963 Profit/(loss) on disposal of subs/ businesses/non-distrib reserve</u>	-	-		-	-
<u>964 Share of associated companies' reserves</u>	-	-		-	-
<u>965 Profit on share issue of subsidiaries</u>	-	-		-	-
<u>966 Change in accounting policy/non-distrib reserve</u>	-	-		-	-
<u>967 Surplus/(deficit) on revaluation of investments/non-distrib reserve</u>	-39,000	18,000		-	-
<u>968 BEE Share of accum profit/non-distrib reserve</u>	-	-		-	-
<u>969 Share based payments/non-distrib reserve</u>	-170,000	20,000		-	-
<u>970 Net unrealised (losses)/gains on hedging instrum/non-distrib reserve</u>	-173,000	125,000		-	-
<u>999 Sundry/non-distrib reserve</u>	-27,000	26,000		-	-
<u>000 Balance at end of year/non-distrib reserve</u>	2,584,000	3,461,000		-	-
<u>001 Movements in Distributable Reserve</u>					
<u>002 Balance at begin of year/distrib reserve</u>	9,881,000	8,627,000		-	-
<u>003 Adj to prior year/distrib reserve</u>	-	-		-	-
<u>004 Net profit/(loss) for the year</u>	2,270,000	2,357,000		-	-
<u>005 Ordinary dividends</u>	-2,059,000	-995,000		-	-
<u>006 Preference dividends</u>	-	-		-	-
<u>007 Treasury shares/distrib reserve</u>	-	-		-	-
<u>028 Cancelling of shares/distrib reserve</u>	-	-		-	-
<u>008 Net transfer (to)/from non-distributable reserves</u>	-	-		-	-
<u>009 Profit/(loss) on forex translations/distrib reserve</u>	-	-		-	-

010 Profit/(loss) on forex transactions/distrib reser					
011 Realised surplus/(loss) - sale of land & build/distrib reserve					
012 Surplus/(deficit) on revaluation of land & build/distrib reserve					
013 Shares held by subsidiary company/distrib reserve					
014 Change in accounting policy/distrib reserve					
015 Adj arising on changes in composition of group/distrib reserve	-1,706,000				
016 Share of associated companies' retained income					
017 Share issue expenses/distrib reserve					
018 Goodwill written off/distrib reserve					
019 Capital distributions/distrib reserve					
020 Net unrealised (losses)/gains on hedging instrum/distrib reserve					
021 Premium on acquisition of subsidiaries					
022 Profit/(loss) on disposal of subs/ businesses/distrib reserve					
023 Surplus/(deficit) on revaluation of investments/distrib reserve					
024 BEE Share of accum profit/distrib reserve					
025 Share based payments/distrib reserve					
026 Tax adjustment/distrib reserve					
027 Profit/(loss) on sale of investments/distrib reserve					
059 Sundry/distrib reserve	-52,000	-108,000			
060 Balance at end of year/distrib reserve	8,334,000	9,881,000			
061 Movements in Preference Share Capital & Equity Loans					
062 Balance at begin of year/pref share capital & equity loans					
063 Adj to prior year/pref share capital & equity loans					
064 Shares issued					
065 Share issue expenses/pref share capital & equity loans					
066 Distribution to shareholders					
067 Shares to be issued					
068 Debentures issued					
089 Sundry/pref share capital & equity loans					
090 Balance at end of year/pref share capital & equity loans					
091 Ordinary Shareholders' Equity at End Of Year	11,141,000	13,669,000			

Sundry Items [Year: 2007 - 2003, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Sep	Sep	Sep	Sep	Sep
Sundry Items Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
101 Ordinary Shares in Issue @ Year End Split Adjusted	203,843	200,716	208,612	203,801	196,339
102 Nr of Ordinary Shares in Issue @ Year End	203,843	200,716	208,612	203,801	196,339
103 Par Or No Par Value	1	1	1	1	1
110 Debtors As Surety	2	2	2	1	2
111 Directors Value in Unlisted Investments	1,031,000	848,000	909,000	929,000	688,000
112 Market Value Listed Investments	332,000	10,000	8,000	8,000	603,000
113 Directors Valuation of Unconsolidated Subsidiaries	-	-	-	-	-
114 Arrear Cumulative Dividends	-	-	-	-	-
115 Months Covered By Financial Statements	12	12	12	12	12
116 Month Of Financial Year End	9	9	9	9	9



117 Audit Report Qualified		2	2	2	2
118 Inflation Adjusted Other Fixed Asset	1,038,894	66,934	-	1,521,784	1,260,024
119 Inflation Adjusted Depreciable Fixed Asset	202,007	12,032	-	272,114	289,629
120 No Of Subsidiaries	24	22	22	22	19
121 No Of Foreign Subsidiaries	12	12	12	12	11
123 Controlled By Another Entity	2	2	2	2	2
124 Provision For Increased Replacement Value	2	2	2	2	2
125 Preference Share Issued At Par	1	1	1	1	1
126 Directors Shareholding Beneficial	337	1,142	913	759	770
127 Directors Shareholding Non-beneficial	-	-	-	20	-
128 Deferred Tax Total	-18,000	120,000	356,000	305,000	165,000
129 Deferred Tax For Year	4,000	26,000	87,000	113,000	-10,000
130 Items Not Representing Cashflow	2,308,000	1,966,000	1,920,000	1,914,000	1,654,000
131 No Persons Employed	21,960	25,716	25,963	25,233	22,749
175 Foreign Employees	11,417	-	-	-	-
132 Inventory: Raw Material	116,000	318,000	391,000	395,000	425,000
133 Inventory: Finished Goods	2,999,000	3,266,000	2,414,000	2,329,000	2,700,000
134 Inventory: Merchandise	2,647,000	1,900,000	1,606,000	2,021,000	1,506,000
135 Inventory: Consumable Stores	17,000	112,000	149,000	92,000	102,000
136 Inventory: Work In Progress	321,000	311,000	265,000	297,000	277,000
137 Inventory: Uncompleted Contracts	-	-	-	-	-
138 Proportionate Profit from Associated Companies	74,000	72,000	12,000	104,000	-52,000
139 Total Reserve Accrued: Associated Companies	183,000	147,000	47,000	183,000	143,000
140 Capital Commitments	2,295,000	3,105,000	2,842,000	692,000	1,962,000
141 Accumulated Depreciation Land & Buildings	427,000	600,000	488,000	454,000	447,000
142 Long Term Group Loans Advanced	-	-	-	-	-
143 Short Term Group Loans Advanced	-	-	-	-	-
144 Headline Earnings per Share	1,181	1,171	894	857	593
145 Long Term Group Loans Received	-	-	-	-	-
146 Short Term Group Loans Received	-	-	-	-	-
147 Notes To Statements	-	-	-	-	-
148 Number Of Analysts	2	2	7	2	2
149 Average Price Per Share	15,786	11,812	9,725	6,964	5,562
150 Share Price @ Company Financial Year End	12,327	13,216	11,036	7,673	5,858
151 Inventory Valuation Method	3	3	3	3	3
152 Mining Assets	-	-	-	-	-
153 Exploration, Amortisation Expenses Written Off	-	-	-	-	-
154 Undeveloped Property	-	-	-	-	-
155 Development Property Less Development Expense	-	-	-	-	-
156 Debtors For Property Sold	-	-	-	-	-
157 Provision For Future Development	-	-	-	-	-
158 Currency Adjustment: R1000 To ?	-	-	-	-	-
162 Trade Creditors	6,980,000	6,647,000	5,169,000	5,073,000	4,470,000
163 Loan Portion Of Tax	-	-	-	-	-
164 Balance Sheet LIFO Inventory Adjustment	-	-	-	-	-
165 Income Statement LIFO Inventory Adjustment	-	-	-	-	-
166 Leasehold Commitments	1,939,000	2,509,000	1,682,000	1,992,000	1,363,000
167 Contingent Liabilities	1,438,000	1,872,000	296,000	194,000	284,000
168 Extraordinary Item In Tax	-82,000	19,000	-6,000	23,000	-11,000
169 Extraordinary Item In Minority Interest	4,000	-	4,000	-	1,000
170 No Of Shares Traded	239,804	234,034	187,461	147,158	147,384
171 No Of Transactions	148,242	124,359	82,253	52,503	39,218
172 Value Of Transactions	37,855,322	27,644,709	18,230,050	10,247,676	8,196,816
173 Split Factor (3 Decimals)	1	1	1	1	1
174 Month Of Stock Split	-	-	-	-	-

Balance Sheet [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Mar	Mar	Mar	Mar	Mar
Balance Sheet Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
001 Ordinary Share Capital	833	833	1,105	1,102	1,035
002 Non Distributable Reserves	126,498	138,019	199,701	197,695	194,583
003 Distributable Reserves	184,560	153,648	134,179	120,932	118,519
004 Cost Of Control	11,097	3,692	3,692	3,692	360
005 Intangible Assets	1,581	-	-	-	-
006 Ordinary Shareholders Interest	299,213	288,808	331,293	316,037	313,777
007 Minority Interest	-	-	-	-	-
008 Preference Share Capital	-	-	60,040	60,040	60,040
009 Total Owners Interest	299,213	288,808	391,333	376,077	373,817
010 Land And Buildings	-	-	-	-	-
011 Total Depreciation: Land and Buildings	-	-	-	-	-
012 Cost Other Fixed Assets	20,406	18,803	20,035	19,551	22,350
013 Total Depreciation: Other Fixed Assets	14,451	15,260	15,595	14,587	16,665
014 Total Fixed Assets	5,955	3,543	4,440	4,964	5,685
015 Long Term Loans Advanced	-	-	-	66,765	70,632
016 Unlisted Investments	-	45,225	33,620	56,553	16,515
017 Shares In Unconsolidated Subsidiaries	-	-	-	-	-
018 Listed Investments	552,776	-	217,733	302,448	310,802
019 Total Long Term Investments	552,776	45,225	251,353	425,766	397,949
020 Total Long Term Assets	558,731	48,768	255,793	430,730	403,634
021 Secured Long Term Borrowings	718	-	-	61,529	150,857
022 Debentures	-	-	-	-	-
023 Other Long Term Borrowings	2,521	-	-	-	-
024 Total Long Term Loan Capital	3,239	-	-	61,529	150,857
025 Net Investment in Long Term Assets	555,492	48,768	255,793	369,201	252,777
026 Total Inventory	-	-	-	-	-
027 Debtors	5,586,177	3,508,928	2,123,191	2,200,593	962,698
028 Short Term Loans Advances	72,879	49,200	76,463	4,876	912
029 Cash And Bank	153,042	347,201	552,317	345,926	364,537
030 Other Current Assets	-	187,002	-	-	-
031 Total Current Assets	5,812,098	4,092,331	2,751,971	2,551,395	1,328,147
032 Short Term Borrowings	554,478	269,360	61,119	104,919	17,551
033 Creditors	5,479,094	3,529,263	2,533,334	2,276,558	1,085,394
034 Bank Overdraft	14,894	7,040	18,172	162,199	96,898
035 Provision For Taxation	7,223	14,438	3,729	715	7,135
036 Provision For Distribution	12,688	32,190	77	128	129
037 Total Current Liabilities	6,068,377	3,852,291	2,616,431	2,544,519	1,207,107
038 Net Current Assets	-256,279	240,040	135,540	6,876	121,040
039 Net Assets	299,213	288,808	391,333	376,077	373,817
042 Surplus Value Over Bookvalue of Investment	-	-	2,322	-	2,813
040 Total Assets	6,370,829	4,141,099	3,007,764	2,982,125	1,731,781
041 Operating Assets	5,745,174	4,046,674	2,679,948	2,551,483	1,332,920

General Supplementary



<u>201 Shares In Issue Y/E Ordinary</u>	83,296	83,296	110,519	110,246	103,495
<u>202 Shares In Issue Y/E 'N'</u>	-	-	-	-	-
<u>203 Shares In Issue Y/E 'A'</u>	-	-	-	-	-
<u>204 Shares In Issue Y/E 'B'</u>	-	-	-	-	-
<u>248 Shares In Issue Y/E 'C'</u>	-	-	-	-	-
<u>251 Shares In Issue Y/E 'E'</u>	-	-	-	-	-
<u>206 Shares In Issue Weighted Average</u>	82,982	91,249	109,985	110,246	103,296
<u>207 Shares In Issue Fully Diluted</u>	95,613	104,395	111,075	110,290	103,462
<u>232 Treasury Shares (Number '000)</u>	19,623	19,623	-	-	-
<u>233 Treasury Shares (Value R'000)</u>	196	196	-	-	-
<u>249 Share Trusts and Other (Number '000)</u>	-	-	-	-	-
<u>250 Share Trusts and Other (Value R'000)</u>	-	-	-	-	-
<u>238 Preference shares issued by a subsidiary</u>	-	-	-	-	-
<u>208 Revaluation Reserve</u>	1,417	-	-	-	-
<u>209 Minority Revaluation Reserve</u>	-	-	-	-	-
<u>210 Minority Equity Accounted Reserve</u>	-	-	-	-	-
<u>228 Foreign Currency Translation Reserve - Cumulative</u>	27,637	1,176	-	-	-
<u>211 Commitments: Land & Buildings</u>	22,632	18,148	27,127	12,144	16,573
<u>212 Commitments: Other</u>	-	-	-	-	-
<u>213 Foreign Borrowings</u>	-	-	-	-	-
<u>214 Convertible Preference Shares</u>	-	-	-	-	-
<u>215 Convertible Debentures & Loans</u>	-	-	-	-	-
<u>216 Share In Issue Latest</u>	-	-	-	-	-
<u>217 Mining Assets at Cost</u>	-	-	-	-	-
<u>218 Depreciation / Amortisation on Mine Assets</u>	-	-	-	-	-
<u>219 Medical Aid Liabilities</u>	-	-	-	-	-
<u>220 Pension Fund Liabilities</u>	-	-	-	-	-
<u>221 Long Term Loans - Interest Bearing</u>	2,420	-	-	61,529	150,857
<u>222 Long Term Loans - Interest Free</u>	819	-	-	-	-
<u>223 Short Term Loans - Interest Bearing</u>	554,478	269,360	61,119	104,919	17,551
<u>224 Short Term Loans - Interest Free</u>	-	-	-	-	-
<u>225 Property Revaluation Surplus - I/S</u>	-	-	-	-	-
<u>226 Profit /Loss Forex Translations - B/S</u>	-	-	1,152	-13,931	-42,343
<u>227 Profit /Loss Forex Transactions - B/S</u>	-	-	-	-	-
<u>229 Foreign Assets</u>	-	-	-	-	-
<u>230 Foreign Liabilities</u>	-	-	-	-	-
<u>231 Provisions</u>	-	-	-	-	-
<u>236 Provisions - Long term</u>	-	-	-	-	-
<u>237 Provisions - Short term</u>	-	-	-	-	-
<u>234 Share Trust scheme</u>	-	-	-	-	-
<u>235 Capital Distributions (Cash)</u>	-	-	-	-	-
<u>239 Non Current Assets held for sale - Land & Buildings</u>	-	-	-	-	-
<u>240 Non Current Assets held for sale - Investments</u>	-	-	-	-	-
<u>241 Non Current Assets held for sale - Other</u>	-	-	-	-	-
<u>252 Total Bookvalue Other Fixed Assets</u>	5,955	-	-	-	-
<u>253 Bookvalue Plant & Machinery/Manufacturing Equipment</u>	-	-	-	-	-
<u>254 Bookvalue Furniture & Office Equipment</u>	3,322	-	-	-	-
<u>255 Bookvalue Vehicles</u>	245	-	-	-	-
<u>256 Bookvalue Computer Hardware & Software</u>	2,388	-	-	-	-
<u>257 Bookvalue Other fixed assets</u>	-	-	-	-	-
<u>242 Listed Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>243 Market Value of Listed Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>244 Unlisted Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>245 Directors Valuation of Unlisted Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>246 Minority dividends declared - B/S</u>	-	-	-	-	-
<u>247 BEE Share of accumulative profits - B/S</u>	-	-	-	-	-



Year	2006	2005	2004	2003
Months Covered	12	12	12	12
Year End Month	Mar	Mar	Mar	Mar
Income Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR
<u>051 Turnover</u>	371,421	342,259	236,851	218,399
<u>052 Change In Turnover %</u>	9	45	8	-13
<u>053 Cost Of Sales</u>	-	-	-	-
<u>054 Trading Profit</u>	82,275	101,038	28,410	23,015
<u>055 Interest Received</u>	35,976	29,037	26,477	34,017
<u>056 Income Unlisted Investment</u>	-	-	4,661	608
<u>057 Income Listed Investment</u>	33	-	-	1,375
<u>058 Income Unconsolidated Subsidiaries</u>	-	-	-	-
<u>059 Total Income Investment</u>	36,009	29,037	31,138	36,000
<u>060 Surplus Sale Investment</u>	71,938	9,090	5,390	-10,402
<u>061 Surplus Sale Non Trading Assets</u>	-11	-1,101	38	-
<u>062 Extraordinary Profits</u>	2,439	-881	1,320	-14,157
<u>063 Total Profits Extraordinary Nature</u>	74,366	7,108	6,748	-24,559
<u>064 Auditors Remuneration And Costs</u>	3,664	2,389	1,840	1,840
<u>065 Depreciation Other Fixed Assets</u>	2,173	2,454	2,847	3,128
<u>066 Depreciation Land And Buildings</u>	-	-	-	-
<u>067 Rental Fixed Assets</u>	7,674	7,849	5,238	8,354
<u>068 Directors Remuneration: Direct</u>	950	876	1,319	990
<u>069 Directors Remuneration: Other</u>	14,726	11,892	9,311	8,048
<u>070 Management And Other Services</u>	1,992	1,993	2,543	4,327
<u>071 Total Cost Shown</u>	31,179	27,453	23,098	26,687
<u>054 Trading Profit</u>	82,275	101,038	28,410	23,015
<u>059 Total Income Investment</u>	36,009	29,037	31,138	36,000
<u>063 Total Profits Extraordinary Nature</u>	74,366	7,108	6,748	-24,559
<u>072 Total Income</u>	192,650	137,183	66,296	34,456
<u>071 Total Cost Shown</u>	31,179	27,453	23,098	26,687
<u>073 Profit Before Interest And Tax (EBIT)</u>	161,471	109,730	43,198	7,769
<u>074 Total Interest Paid</u>	1,267	2,097	15,611	24,817
<u>075 Profit Before Taxation</u>	160,204	107,633	27,587	-17,048
<u>076 Taxation</u>	46,145	24,029	5,641	51
<u>077 Profit After Taxation</u>	114,059	83,604	21,946	-17,099
<u>078 Minority Interest In Profit</u>	-	-	-	-
<u>079 Profit to Ordinary And Preference Shareholders</u>	114,059	83,604	21,946	-17,099
<u>080 Ordinary Dividend</u>	71,301	56,225	1,654	-
<u>081 Preference Dividend</u>	-	1,396	5,584	-
<u>082 Retained Profits</u>	42,758	25,983	14,708	-17,099
<u>083 Earnings Before Interest, Tax, Depreciation And Amortisation (EBITDA)</u>	164,028	112,184	46,045	11,474
General Supplementary				
<u>301 Lease Charge: Land Building</u>	7,050	7,249	4,654	7,884
<u>302 Lease Charge: Other</u>	624	600	584	470
<u>303 Research & Development</u>	-	-	-	-
<u>304 EPS-Equity Accounted</u>	-	-	-	5
<u>305 EPS-Bottom Line</u>	136	75	11	5
<u>306 EPS-Headline</u>	62	60	6	5
<u>307 EPS-Fully Diluted Headline</u>	54	52	6	5
<u>308 EPS-Fully Diluted Bottomline</u>	118	66	11	5
<u>374 EPS-Continuing Operations</u>	-	-	-	-
<u>359 Earnings per Linked Unit</u>	-	-	-	-



375 Core Headline Earnings - Total Value					
376 Core Headline Earnings Per Share					
380 Dividend per Share	19	68	2	-	4
381 Interest Distribution per Unit	-	-	-	-	-
382 Capital Distribution per Share	52	-	-	-	-
309 Effective Tax Rate	29	35	43	17	79
310 Deferred Tax: Contingent Liability	-	-	-	-	-
311 Deferred Tax: Current	1,425	10,420	3,131	1,077	-730
312 Deferred Tax: Other	2,420	92	-	288	-
318 Accumulated Assessed Tax Loss	-	-	-	-	-
319 Accumulated Computed Tax Loss	-	-	-	-	-
320 Prior Year Tax Adjustment	-3,092	-222	-	-459	-
333 STC as Published	12,480	4,475	1,450	-	-
338 Foreign Tax	673	7,036	-	-	-
364 Foreign Tax - Normal	2,611	7,036	-	-	-
365 Foreign Tax - Previous year	-1,938	-	-	-	-
366 Foreign Tax - Deferred	-	-	-	-	-
313 Interest Capitalised	-	-	-	-	-
373 Interest Paid - Debentures	-	-	-	-	-
314 Invest Allowance Benefit	-	-	-	-	-
315 Dilution: Interest Saved	-	-	-	-	-
316 Dilution: Dividends Saved	-	-	-	-	-
317 Dilution: Equity Income Converted	-	-	-	-	-
322 Intangible Assets Written Off	384	-	-	-	-
350 Impairments of intangible assets	-	-	-	-	-
349 Reversal impairments/Intangible Assets - prev years	-	-	-	-	-
383 Goodwill Written Off	-	-	-	-	-
351 Impairments of goodwill	-	-	-	-	-
346 Reversal of impairments of Goodwill - prev years	-	-	-	-	-
323 Amortisation of goodwill	-	-	-	577	487
324 Impairment of Investments	-	-	-	-	-
348 Reversal of impairments/Investments - prev years	-	-	-	-	-
325 Impairment of Loans	-	-	-	-	-
368 Reversal of impairments/Loans - prev years	-	-	-	-	-
326 Capital Profit /Loss on Financial Assets	71,938	9,090	5,390	-10,402	-3,225
360 Gains/Losses on Mark to Market Value of Financial Assets	-	-	-	-	-
327 Impairment of Fixed Assets	-	-	-	-	-
347 Reversal of impairm/Other Fixed assets - prev years	-	-	-	-	-
328 Capital Profit /Loss on Fixed Assets	-11	-1,101	38	-	-
329 Profit /Loss Forex Translations - I/S	-	-	-	-	-
330 Profit /Loss Forex Transactions - I/S	2,439	-881	168	-226	-
331 Profit /Loss Disposal of Subsidiaries/ Businesses	-	-	-	-	-
332 Profit /Loss Sundry Extraordinaries	-	-	-	-	-
352 Extraordinary items - unconsolidated subs	-	-	-	-	-
367 Share issue expenses written off	-	-	-	-	-
377 Expense in regard to BEE transaction	-	-	-	-	-
336 Foreign Turnover	-	-	-	-	-
337 Foreign Profit	-	-	-	-	-
339 Ordinary Dividends - Ordinary Shareholders	71,301	56,225	-	-	-
340 Ordinary Dividends - Minority Shareholders	-	-	-	-	-
357 Ordinary dividends declared	71,301	56,225	-	-	-
358 Ordinary dividends paid	98,712	32,875	-	-	-
341 Preference Dividends - Ordinary Shareholders	-	1,396	-	-	-
342 Preference Dividends - Minority Shareholders	-	-	-	-	-
353 Minority dividends paid	-	-	-	-	-
354 Minority dividends declared - I/S	-	-	-	-	-
321 Non Cash Dividends	-	-	-	-	-
334 Non-Cash Dividend (Current Year)	-	-	-	-	-

335 Non-Cash Dividend (Previous Year)				
343 Auditors - Audit Fees - current year	2,695	1,878	1,451	
378 Auditors - Audit Fees - previous year	433	113	156	
379 Auditors - Audit Expenses	-	-	-	
344 Auditors - Other Fees	536	398	233	
345 Staff Costs(excluding directors remuneration)	193,779	153,038	-	
372 Other Staff share based payments - I/S	8,357	-	-	
361 Directors share based payments - I/S	-	-	-	
362 Directors share based payments - B/S	-	-	-	
355 Income from Endowment policies	-	-	-	
356 Other Income from Fixed Asset Investments	-	-	-	
363 BEE Share of profits - I/S	-	-	-	

Changes In Equity Statement [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Mar	Mar	Mar	Mar	Mar
Changes In Equity Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
901 Ordinary Shareholders' Equity at Beginning of Year	329,616	323,210	-		
902 Movements in Issued Capital & Share Premium	-	-	-		
903 Balance at begin of year/issued capital & share premium	97,215	157,499	-		
904 Adj to prior year/issued capital & share premium	-	-	-		
905 Ordinary shares issued/issued capital & share premium	-	-	-		
906 Share based payments/issued capital & share premium	-	-	-		
907 Shares held by subsidiary company/issued capital & share premium	-	-	-		
908 Share issue expenses/issued capital & share premium	-	-	-		
909 Goodwill written off/issued capital & share premium	-	-	-		
910 Capital distributions/issued capital & share premium	-	-	-		
911 Treasury shares/issued capital & share premium	-8,526	-60,284	-		
913 Cancelling of shares/issued capital & share premium	-	-	-		
912 Staff share trust/issued capital & share premium	-	-	-		
951 Share premium raised under share purchase scheme	-	-	-		
939 Sundry/issued capital & share premium	-	-	-		
940 Balance at end of year/issued capital & share premium	88,689	97,215	-		
941 Movements in Non-Distributable Reserve	-	-	-		
942 Balance at begin of year/non-distrib reserve	41,637	17,473	-		
943 Adj to prior year/non-distrib reserve	-	-	-		
944 Ordinary shares issued/non-distrib reserve	-	-	-		
945 Profit/(loss) on sale of investments/non-distrib reserve	-58,514	-	-		
946 Shares held by subsidiary company/non-distrib reserve	-	-	-		
947 Share issue expenses/non-distrib reserve	-	-	-		
948 Goodwill written off/non-distrib reserve	-	-	-		
949 Capital distributions/non-distrib reserve	-	-	-		
950 Section 90 unbundling payment to shareholders	-	-	-		



<u>952 Treasury shares/non-distrib reserve</u>				
<u>971 Cancelling of shares/non-distrib reserve</u>	-			
<u>953 Staff share trust/non-distrib reserve</u>	-	-	-	
<u>954 Profit/(loss) on forex translations/non-distrib reserve</u>	26,461	-5,999	-	
<u>955 Profit/(loss) on forex transactions/non-distrib reserve</u>	-	-	-	
<u>956 Tax adjustment/non-distrib reserve</u>	-	-	-	
<u>957 Net transfer (to)/from distributable reserve</u>	-	-6,575	-	
<u>958 Realised surplus/(loss) - sale of land & build/non-distrib reserve</u>	-	-	-	
<u>959 Surplus/(deficit) on revaluation of land & build/non-distrib reserve</u>	-	-	-	
<u>960 Derivative valuation adjustment</u>	-	-	-	
<u>961 Capital redemption fund</u>	-	-	-	
<u>962 Adj arising on changes in composition of group/non-distrib reserve</u>	-	-	-	
<u>963 Profit/(loss) on disposal of subs/ businesses/non-distrib reserve</u>	-	-	-	
<u>964 Share of associated companies' reserves</u>	-	-	-	
<u>965 Profit on share issue of subsidiaries</u>	-	-	-	
<u>966 Change in accounting policy/non-distrib reserve</u>	-	-	-	
<u>967 Surplus/(deficit) on revaluation of investments/non-distrib reserve</u>	23,800	36,134	-	
<u>968 BEE Share of accum profit/non-distrib reserve</u>	606	606	-	
<u>969 Share based payments/non-distrib reserve</u>	4,652	-2	-	
<u>970 Net unrealised (losses)/gains on hedging instrum/non-distrib reserve</u>	-	-	-	
<u>999 Sundry/non-distrib reserve</u>	-	-	-	
<u>000 Balance at end of year/non-distrib reserve</u>	38,642	41,637	-	
<u>001 Movements in Distributable Reserve</u>	-	-	-	
<u>002 Balance at begin of year/distrib reserve</u>	190,764	148,238	-	
<u>003 Adj to prior year/distrib reserve</u>	-	-	-	
<u>004 Net profit/(loss) for the year</u>	112,956	68,826	-	
<u>005 Ordinary dividends</u>	-98,712	-32,875	-	
<u>006 Preference dividends</u>	-	-	-	
<u>007 Treasury shares/distrib reserve</u>	-	-	-	
<u>028 Cancelling of shares/distrib reserve</u>	-	-	-	
<u>008 Net transfer (to)/from non-distributable reserves</u>	-	6,575	-	
<u>009 Profit/(loss) on forex translations/distrib reserve</u>	-	-	-	
<u>010 Profit/(loss) on forex transactions/distrib reserve</u>	-	-	-	
<u>011 Realised surplus/(loss) - sale of land & build/distrib reserve</u>	-	-	-	
<u>012 Surplus/(deficit) on revaluation of land & build/distrib reserve</u>	-	-	-	
<u>013 Shares held by subsidiary company/distrib reserve</u>	-	-	-	
<u>014 Change in accounting policy/distrib reserve</u>	-	-	-	
<u>015 Adj arising on changes in composition of group/distrib reserve</u>	-	-	-	
<u>016 Share of associated companies' retained income</u>	-	-	-	
<u>017 Share issue expenses/distrib reserve</u>	-	-	-	
<u>018 Goodwill written off/distrib reserve</u>	-	-	-	
<u>019 Capital distributions/distrib reserve</u>	-	-	-	
<u>020 Net unrealised (losses)/gains on hedging instrum/distrib reserve</u>	-	-	-	
<u>021 Premium on acquisition of subsidiaries</u>	-	-	-	



<u>022 Profit/(loss) on disposal of subs/ businesses/distrib reserve</u>				
<u>023 Surplus/(deficit) on revaluation of investments/distrib reserve</u>				
<u>024 BEE Share of accum profit/distrib reserve</u>				
<u>025 Share based payments/distrib reserve</u>				
<u>026 Tax adjustment/distrib reserve</u>				
<u>027 Profit/(loss) on sale of investments/distrib reserve</u>				
<u>059 Sundry/distrib reserve</u>				
<u>060 Balance at end of year/distrib reserve</u>	205,008	190,764		
<u>061 Movements in Preference Share Capital & Equity Loans</u>				
<u>062 Balance at begin of year/pref share capital & equity loans</u>				
<u>063 Adj to prior year/pref share capital & equity loans</u>				
<u>064 Shares issued</u>				
<u>065 Share issue expenses/pref share capital & equity loans</u>				
<u>066 Distribution to shareholders</u>				
<u>067 Shares to be issued</u>				
<u>068 Debentures issued</u>				
<u>089 Sundry/pref share capital & equity loans</u>				
<u>090 Balance at end of year/pref share capital & equity loans</u>				
<u>091 Ordinary Shareholders' Equity at End Of Year</u>	332,339	329,616		

Sundry Items [Year: 2007 - 2003, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Mar	Mar	Mar	Mar	Mar
Sundry Items Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
<u>101 Ordinary Shares in Issue @ Year End Split Adjusted</u>	83,296	83,296	110,519	110,246	103,495
<u>102 Nr of Ordinary Shares in Issue @ Year End</u>	83,296	83,296	110,519	110,246	103,495
<u>103 Par Or No Par Value</u>	1	1	1	1	1
<u>110 Debtors As Surety</u>	2	2	2	2	2
<u>111 Directors Value in Unlisted Investments</u>	-	45,225	35,942	56,553	19,328
<u>112 Market Value Listed Investments</u>	552,776	-	217,733	302,448	310,802
<u>113 Directors Valuation of Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>114 Arrear Cumulative Dividends</u>	-	-	-	-	-
<u>115 Months Covered By Financial Statements</u>	12	12	12	12	12
<u>116 Month Of Financial Year End</u>	3	3	3	3	3
<u>117 Audit Report Qualified</u>	2	2	2	2	2
<u>118 Inflation Adjusted Other Fixed Asset</u>	1,695	798	958	1,159	1,760
<u>119 Inflation Adjusted Depreciable Fixed Asset</u>	619	553	614	730	1,133
<u>120 No Of Subsidiaries</u>	14	11	14	11	10
<u>121 No Of Foreign Subsidiaries</u>	4	4	4	4	4
<u>123 Controlled By Another Entity</u>	2	2	2	2	2
<u>124 Provision For Increased Replacement Value</u>	2	2	2	2	2
<u>125 Preference Share Issued At Par</u>	-	-	2	2	2
<u>126 Directors Shareholding Beneficial</u>	27,082	27,047	1,707	21,870	15,660
<u>127 Directors Shareholding Non-beneficial</u>	-	-	24,908	24,855	24,855
<u>128 Deferred Tax Total</u>	-7,954	-5,047	-20,353	-23,398	-22,909
<u>129 Deferred Tax For Year</u>	3,845	10,512	3,131	1,365	-730
<u>130 Items Not Representing Cashflow</u>	2,184	4,436	2,847	13,163	6,885
<u>131 No Persons Employed</u>	-	192	192	177	150
<u>175 Foreign Employees</u>	-	20	-	-	-
<u>132 Inventory: Raw Material</u>	-	-	-	-	-
<u>133 Inventory: Finished Goods</u>	-	-	-	-	-



135 Inventory: Consumable Stores	-	-	-	-	-
136 Inventory: Work In Progress	-	-	-	-	-
137 Inventory: Uncompleted Contracts	-	-	-	-	-
138 Proportionate Profit from Associated Companies	-	-	-	-1,035	-184
139 Total Reserve Accrued: Associated Companies	-	-	-	-	-397
140 Capital Commitments	-	-	-	-	-
141 Accumulated Depreciation Land & Buildings	-	-	-	-	-
142 Long Term Group Loans Advanced	-	-	-	-	-
143 Short Term Group Loans Advanced	-	-	-	-	-
144 Headline Earnings per Share	62	60	6	5	2
145 Long Term Group Loans Received	-	-	-	-	-
146 Short Term Group Loans Received	-	-	-	-	-
147 Notes To Statements	-	-	-	-	-
148 Number Of Analysts	7	7	2	2	2
149 Average Price Per Share	541	413	261	238	267
150 Share Price @ Company Financial Year End	587	547	287	279	244
151 Inventory Valuation Method	-	-	-	-	-
152 Mining Assets	-	-	-	-	-
153 Exploration, Amortisation Expenses Written Off	-	-	-	-	-
154 Undeveloped Property	-	-	-	-	-
155 Development Property Less Development Expense	-	-	-	-	-
156 Debtors For Property Sold	-	-	-	-	-
157 Provision For Future Development	-	-	-	-	-
158 Currency Adjustment: R1000 To ?	-	-	-	-	-
162 Trade Creditors	88,011	3,448,401	2,197,028	1,975,336	1,085,394
163 Loan Portion Of Tax	-	-	-	-	-
164 Balance Sheet LIFO Inventory Adjustment	-	-	-	-	-
165 Income Statement LIFO Inventory Adjustment	-	-	-	-	-
166 Leasehold Commitments	22,632	18,148	27,127	12,144	16,573
167 Contingent Liabilities	7,650	7,650	-	-	-
168 Extraordinary Item In Tax	-	-	-	-621	-
169 Extraordinary Item In Minority Interest	-	-	-	-	-
170 No Of Shares Traded	33,123	41,030	38,569	24,898	32,119
171 No Of Transactions	2,299	834	708	488	899
172 Value Of Transactions	179,325	169,648	100,590	59,376	85,887
173 Split Factor (3 Decimals)	1	1	1	1	1
174 Month Of Stock Split	-	-	-	-	-



Balance Sheet [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	5
Year End Month	Sep	Sep	Sep	Sep	Sep
Balance Sheet Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
001 Ordinary Share Capital	32	35	38	38	38
002 Non Distributable Reserves	408,264	748,108	1,815	80,490	80,490
003 Distributable Reserves	494,982	354,754	214,253	48,223	46,136
004 Cost Of Control	1,093,309	1,087,772	-	-	-
005 Intangible Assets	4,000	-	90	10	10
006 Ordinary Shareholders Interest	-194,031	15,125	216,016	128,741	126,654
007 Minority Interest	4,398	-	586	-	-
008 Preference Share Capital	125,765	139,534	1	13,072	13,072
009 Total Owners Interest	-63,868	154,659	216,603	141,813	139,726
010 Land And Buildings	1,475	1,293	994	1,032	969
011 Total Depreciation: Land and Buildings	1,317	1,196	603	282	410
012 Cost Other Fixed Assets	21,806	15,835	11,420	10,361	7,123
013 Total Depreciation: Other Fixed Assets	12,793	10,000	6,272	5,427	1,793
014 Total Fixed Assets	9,171	5,932	5,539	5,684	5,889
015 Long Term Loans Advanced	1,105,774	156,764	-	1,660	1,659
016 Unlisted Investments	158,274	158,720	848,797	899,574	1,179,678
017 Shares In Unconsolidated Subsidiaries	-	-	-	-	-
018 Listed Investments	17,318,556	15,629,810	12,682,541	10,632,353	9,632,014
019 Total Long Term Investments	18,582,604	15,945,294	13,531,338	11,533,587	10,813,351
020 Total Long Term Assets	18,591,775	15,951,226	13,536,877	11,539,271	10,819,240
021 Secured Long Term Borrowings	-	-	148,000	-	39,607
022 Debentures	-	-	-	-	-
023 Other Long Term Borrowings	18,437,426	15,743,747	13,388,419	11,425,459	10,701,797
024 Total Long Term Loan Capital	18,437,426	15,743,747	13,536,419	11,425,459	10,741,404
025 Net Investment in Long Term Assets	154,349	207,479	458	113,812	77,836
026 Total Inventory	-	-	-	-	-
027 Debtors	168,265	97,637	110,348	86,694	40,174
028 Short Term Loans Advances	-	-	-	-	-
029 Cash And Bank	119,134	253,590	245,752	143,667	157,029
030 Other Current Assets	-	-	-	-	-
031 Total Current Assets	287,399	351,227	356,100	230,361	197,203
032 Short Term Borrowings	-	-	-	-	-
033 Creditors	245,914	140,092	108,320	69,046	78,464
034 Bank Overdraft	-	-	-	-	-
035 Provision For Taxation	108,702	78,955	31,635	37,745	10,976
036 Provision For Distribution	151,000	185,000	-	95,569	45,873
037 Total Current Liabilities	505,616	404,047	139,955	202,360	135,313
038 Net Current Assets	-218,217	-52,820	216,145	28,001	61,890
039 Net Assets	-63,868	154,659	216,603	141,813	139,726
042 Surplus Value Over Bookvalue of Investment	-	984	-	-	-
040 Total Assets	18,879,174	16,302,453	13,892,977	11,769,632	11,016,443
041 Operating Assets	296,570	357,159	361,639	236,045	203,092

General Supplementary

<u>201 Shares In Issue Y/E Ordinary</u>	320,733	349,577	382,275	382,275	382,275
<u>202 Shares In Issue Y/E 'N'</u>	-	-	-	-	-
<u>203 Shares In Issue Y/E 'A'</u>	-	-	-	-	-
<u>204 Shares In Issue Y/E 'B'</u>	-	-	-	-	-
<u>248 Shares In Issue Y/E 'C'</u>	-	-	-	-	-
<u>251 Shares In Issue Y/E 'E'</u>	-	-	-	-	-
<u>206 Shares In Issue Weighted Average</u>	348,894	376,671	382,275	382,275	382,275
<u>207 Shares In Issue Fully Diluted</u>	386,441	424,485	413,132	389,875	382,275
<u>232 Treasury Shares (Number '000)</u>	-	-	-	-	-
<u>233 Treasury Shares (Value R'000)</u>	-	-	-	-	-
<u>249 Share Trusts and Other (Number '000)</u>	-	-	-	-	-
<u>250 Share Trusts and Other (Value R'000)</u>	-	-	-	-	-
<u>238 Preference shares issued by a subsidiary</u>	-	-	-	-	-
<u>208 Revaluation Reserve</u>	1,876	5,803	3,289	1,188	-
<u>209 Minority Revaluation Reserve</u>	-	-	-	-	-
<u>210 Minority Equity Accounted Reserve</u>	-	-	-	-	-
<u>228 Foreign Currency Translation Reserve - Cumulative</u>	4,191	11,197	-11,247	-	-
<u>211 Commitments: Land & Buildings</u>	85,912	29,732	21,723	35,618	41,641
<u>212 Commitments: Other</u>	-	-	-	-	-
<u>213 Foreign Borrowings</u>	-	-	-	38,871	118,009
<u>214 Convertible Preference Shares</u>	-	1	1	-	-
<u>215 Convertible Debentures & Loans</u>	-	-	-	-	-
<u>216 Share In Issue Latest</u>	-	-	-	-	-
<u>217 Mining Assets at Cost</u>	-	-	-	-	-
<u>218 Depreciation / Amortisation on Mine Assets</u>	-	-	-	-	-
<u>219 Medical Aid Liabilities</u>	-	-	-	-	-
<u>220 Pension Fund Liabilities</u>	-	-	-	-	-
<u>221 Long Term Loans - Interest Bearing</u>	-	-	148,000	38,871	118,009
<u>222 Long Term Loans - Interest Free</u>	18,437,426	15,743,747	13,388,419	11,386,588	10,623,395
<u>223 Short Term Loans - Interest Bearing</u>	-	-	-	-	-
<u>224 Short Term Loans - Interest Free</u>	-	-	-	-	-
<u>225 Property Revaluation Surplus - I/S</u>	-	-	2,101	1,188	-
<u>226 Profit /Loss Forex Translations - B/S</u>	-	-	-2,005	-5,326	-3,916
<u>227 Profit /Loss Forex Transactions - B/S</u>	-	-	-	-	-
<u>229 Foreign Assets</u>	118,081	113,657	129,583	-	-
<u>230 Foreign Liabilities</u>	29,558	19,359	29,377	-	-
<u>231 Provisions</u>	-	-	-	-	-
<u>236 Provisions - Long term</u>	-	-	-	-	-
<u>237 Provisions - Short term</u>	-	-	-	-	-
<u>234 Share Trust scheme</u>	-	-	-	-	-
<u>235 Capital Distributions (Cash)</u>	-	185,000	137,619	-	-
<u>239 Non Current Assets held for sale - Land & Buildings</u>	-	-	-	-	-
<u>240 Non Current Assets held for sale - Investments</u>	-	-	-	-	-
<u>241 Non Current Assets held for sale - Other</u>	-	-	-	-	-
<u>258 Total Bookvalue Land & Buildings</u>	158	97	391	750	559
<u>252 Total Bookvalue Other Fixed Assets</u>	9,013	-	-	-	-
<u>253 Bookvalue Plant & Machinery/Manufacturing Equipment</u>	-	-	-	-	-
<u>254 Bookvalue Furniture & Office Equipment</u>	1,300	-	-	-	-
<u>255 Bookvalue Vehicles</u>	-	-	-	-	-
<u>256 Bookvalue Computer Hardware & Software</u>	7,713	-	-	-	-
<u>257 Bookvalue Other fixed assets</u>	-	-	-	-	-
<u>242 Listed Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>243 Market Value of Listed Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>244 Unlisted Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>245 Directors Valuation of Unlisted Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>246 Minority dividends declared - B/S</u>	-	-	-	-	-
<u>247 BEE Share of accumulative profits - B/S</u>	-	-	-	-	-

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	5
Year End Month	Sep	Sep	Sep	Sep	Sep
Income Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
051 Turnover	961,996	706,238	537,216	370,522	129,304
052 Change In Turnover %	36	31	45	19	-
053 Cost Of Sales	-	-	-	-	-
054 Trading Profit	-3,571,395	-2,116,815	342,337	234,095	73,718
055 Interest Received	20,173	19,001	12,039	6,906	4,232
056 Income Unlisted Investment	4,279	2,613	647	1,016	1,829
057 Income Listed Investment	1,060,791	855,808	-	-	-
058 Income Unconsolidated Subsidiaries	-	-	-	-	-
059 Total Income Investment	1,085,243	877,422	12,686	7,922	6,061
060 Surplus Sale Investment	3,011,622	1,632,006	7,167	-18,509	15,168
061 Surplus Sale Non Trading Assets	-86	13	-225	-450	-56
062 Extraordinary Profits	6,045	2,725	-33,203	-8,895	-4,677
063 Total Profits Extraordinary Nature	3,017,581	1,634,744	-26,261	-27,854	10,435
064 Auditors Remuneration And Costs	4,432	3,145	2,586	3,039	657
065 Depreciation Other Fixed Assets	4,348	2,907	2,427	3,645	1,793
066 Depreciation Land And Buildings	193	349	336	426	410
067 Rental Fixed Assets	8,591	7,298	5,952	6,079	3,099
068 Directors Remuneration: Direct	635	395	75	75	140
069 Directors Remuneration: Other	20,660	32,390	8,500	11,293	1,401
070 Management And Other Services	-	-	34,544	23,949	10,958
071 Total Cost Shown	38,859	46,484	54,420	48,506	18,458
054 Trading Profit	-3,571,395	-2,116,815	342,337	234,095	73,718
059 Total Income Investment	1,085,243	877,422	12,686	7,922	6,061
063 Total Profits Extraordinary Nature	3,017,581	1,634,744	-26,261	-27,854	10,435
072 Total Income	531,429	395,351	328,762	214,163	90,214
071 Total Cost Shown	38,859	46,484	54,420	48,506	18,458
073 Profit Before Interest And Tax (EBIT)	492,570	348,867	274,342	165,657	71,756
074 Total Interest Paid	13,049	13,005	6,009	1,993	3,170
075 Profit Before Taxation	479,521	335,862	268,333	163,664	68,586
076 Taxation	166,829	121,221	89,668	76,011	13,019
077 Profit After Taxation	312,692	214,641	178,665	87,653	55,567
078 Minority Interest In Profit	571	-	586	-	-
079 Profit to Ordinary And Preference Shareholders	312,121	214,641	178,079	87,653	55,567
080 Ordinary Dividend	151,000	-	3,823	95,569	45,873
081 Preference Dividend	149	926	1,064	-	-
082 Retained Profits	160,972	213,715	173,192	-7,916	9,694
083 Earnings Before Interest, Tax, Depreciation And Amortisation (EBITDA)	497,111	352,123	277,105	169,728	73,959
General Supplementary					
301 Lease Charge: Land Building	8,591	7,298	5,952	6,079	3,099
302 Lease Charge: Other	-	-	-	-	-
303 Research & Development	-	-	-	-	-
304 EPS-Equity Accounted	81	52	49	33	16
305 EPS-Bottom Line	81	52	49	33	16
306 EPS-Headline	80	52	48	34	16
307 EPS-Fully Diluted Headline	73	47	45	34	-
308 EPS-Fully Diluted Bottomline	74	47	45	33	16



374 EPS-Continuing Operations					
359 Earnings per Linked Unit					
375 Core Headline Earnings - Total Value					
376 Core Headline Earnings Per Share					
380 Dividend per Share	47	-	1	25	-
381 Interest Distribution per Unit	-	-	-	-	-
382 Capital Distribution per Share	20	53	-	-	-
309 Effective Tax Rate	34	33	31	25	22
310 Deferred Tax: Contingent Liability	-	-	-	-	-
311 Deferred Tax: Current	12,068	24,564	-15,638	-23,741	-1,427
312 Deferred Tax: Other	-	-	-	-	-
318 Accumulated Assessed Tax Loss	-	-	-	-	-
319 Accumulated Computed Tax Loss	-	-	-	-	-
320 Prior Year Tax Adjustment	4,789	-4,578	5,790	-4,910	-
333 STC as Published	2,964	2,325	13,231	5,859	-
338 Foreign Tax	9,862	1,506	3,834	-	-
364 Foreign Tax - Normal	7,167	2,521	3,206	-	-
365 Foreign Tax - Previous year	80	-1,015	628	-	-
366 Foreign Tax - Deferred	2,615	-	-	-	-
313 Interest Capitalised	-	-	-	-	-
373 Interest Paid - Debentures	-	-	-	-	-
314 Invest Allowance Benefit	-	-	-	-	-
315 Dilution: Interest Saved	-	-	-	-	-
316 Dilution: Dividends Saved	-	-	-	-	-
317 Dilution: Equity Income Converted	-	-	-	-	-
322 Intangible Assets Written Off	-	-	-	-	-
350 Impairments of intangible assets	-	-	-	-	-
349 Reversal impairments/Intangible Assets - prev years	-	-	-	-	-
383 Goodwill Written Off	-	-	-	-	-
351 Impairments of goodwill	-	-	-	-	-
346 Reversal of impairments of Goodwill - prev years	-	-	-	-	-
323 Amortisation of goodwill	-	-	-	-	-
324 Impairment of Investments	-	-	-	-	-
348 Reversal of impairments/Investments - prev years	-	-	-	-	-
325 Impairment of Loans	-	-	-	-	-
368 Reversal of impairments/Loans - prev years	-	-	-	-	-
326 Capital Profit /Loss on Financial Assets	3,003,257	1,632,006	7,167	-18,509	15,168
360 Gains/Losses on Mark to Market Value of Financial Assets	8,365	-	-	-	-
327 Impairment of Fixed Assets	-	-	-	-	-
347 Reversal of impairm/Other Fixed assets - prev years	-	-	-	-	-
328 Capital Profit /Loss on Fixed Assets	-86	13	-225	-450	-56
329 Profit /Loss Forex Translations - I/S	-	-	-	-	-
330 Profit /Loss Forex Transactions - I/S	4,271	3,817	-2,923	-3,569	3,808
331 Profit /Loss Disposal of Subsidiaries/ Businesses	56	-	-	-	-
332 Profit /Loss Sundry Extraordinaries	1,718	-1,092	-28,275	-	-4,569
352 Extraordinary items - unconsolidated subs	-	-	-	-	-
367 Share issue expenses written off	-	-	-	-	-
377 Expense in regard to BEE transaction	-	-	-	-	-
336 Foreign Turnover	81,755	73,405	62,712	-	-
337 Foreign Profit	23,443	18,193	14,163	-	-
339 Ordinary Dividends - Ordinary Shareholders	151,000	-	3,823	-	-
340 Ordinary Dividends - Minority Shareholders	-	-	-	-	-
357 Ordinary dividends declared	151,000	-	-	-	-
358 Ordinary dividends paid	-	-	-	-	-
341 Preference Dividends - Ordinary Shareholders	149	926	1,064	-	-
342 Preference Dividends - Minority Shareholders	-	-	-	-	-
353 Minority dividends paid	-	-	-	-	-
354 Minority dividends declared - I/S	-	-	-	-	-



321 Non Cash Dividends	-	-	-	-
334 Non-Cash Dividend (Current Year)	-	-	-	-
335 Non-Cash Dividend (Previous Year)	-	-	-	-
343 Auditors - Audit Fees - current year	1,876	1,323	514	-
378 Auditors - Audit Fees - previous year	1,784	980	1,114	-
379 Auditors - Audit Expenses	-	-	-	-
344 Auditors - Other Fees	772	842	958	-
345 Staff Costs(excluding directors remuneration)	324,567	214,360	144,639	-
372 Other Staff share based payments - I/S	40,212	26,992	-	-
361 Directors share based payments - I/S	10,137	24,392	-	-
362 Directors share based payments - B/S	-	-	-	-
355 Income from Endowment policies	-	-	-	-
356 Other Income from Fixed Asset Investments	-	-	-	-
363 BEE Share of profits - I/S	-	-	-	-

Changes In Equity Statement [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	5
Year End Month	Sep	Sep	Sep	Sep	Sep
Changes In Equity Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
901 Ordinary Shareholders' Equity at Beginning of Year	1,250,035	1,307,856	-	-	-
902 Movements in Issued Capital & Share Premium	-	-	-	-	-
903 Balance at begin of year/issued capital & share premium	843,152	1,194,157	-	-	-
904 Adj to prior year/issued capital & share premium	-	-	-	-	-
905 Ordinary shares issued/issued capital & share premium	1,964	8,967	-	-	-
906 Share based payments/issued capital & share premium	-	51,384	-	-	-
907 Shares held by subsidiary company/issued capital & share premium	-	-	-	-	-
908 Share issue expenses/issued capital & share premium	-	-	-	-	-
909 Goodwill written off/issued capital & share premium	-	-	-	-	-
910 Capital distributions/issued capital & share premium	-256,514	-138,197	-	-	-
911 Treasury shares/issued capital & share premium	-	-200,167	-	-	-
913 Cancelling of shares/issued capital & share premium	-299,576	-	-	-	-
912 Staff share trust/issued capital & share premium	-	-	-	-	-
951 Share premium raised under share purchase scheme	-	-	-	-	-
939 Sundry/issued capital & share premium	-	-	-	-	-
940 Balance at end of year/issued capital & share premium	289,026	916,144	-	-	-
941 Movements in Non-Distributable Reserve	-	-	-	-	-
942 Balance at begin of year/non-distrib reserve	89,991	-7,958	-	-	-
943 Adj to prior year/non-distrib reserve	-	-	-	-	-
944 Ordinary shares issued/non-distrib reserve	-	-	-	-	-
945 Profit/(loss) on sale of investments/non-distrib reserve	-	-	-	-	-
946 Shares held by subsidiary company/non-distrib reserve	-	-	-	-	-
947 Share issue expenses/non-distrib reserve	-	-	-	-	-
948 Goodwill written off/non-distrib reserve	-	-	-	-	-
949 Capital distributions/non-distrib reserve	-	-	-	-	-



<u>950 Section 90 unbundling payment to shareholder</u>				
<u>952 Treasury shares/non-distrib reserve</u>				
<u>971 Cancelling of shares/non-distrib reserve</u>				
<u>953 Staff share trust/non-distrib reserve</u>				
<u>954 Profit/(loss) on forex translations/non-distrib reserve</u>	-7,006	22,444		
<u>955 Profit/(loss) on forex transactions/non-distrib reserve</u>				
<u>956 Tax adjustment/non-distrib reserve</u>				
<u>957 Net transfer (to)/from distributable reserve</u>				
<u>958 Realised surplus/(loss) - sale of land & build/non-distrib reserve</u>				
<u>959 Surplus/(deficit) on revaluation of land & build/non-distrib reserve</u>				
<u>960 Derivative valuation adjustment</u>				
<u>961 Capital redemption fund</u>				
<u>962 Adj arising on changes in composition of group/non-distrib reserve</u>				
<u>963 Profit/(loss) on disposal of subs/ businesses/non-distrib reserve</u>				
<u>964 Share of associated companies' reserves</u>				
<u>965 Profit on share issue of subsidiaries</u>				
<u>966 Change in accounting policy/non-distrib reserve</u>				
<u>967 Surplus/(deficit) on revaluation of investments/non-distrib reserve</u>	-3,927	2,514		
<u>968 BEE Share of accum profit/non-distrib reserve</u>				
<u>969 Share based payments/non-distrib reserve</u>	40,212			
<u>970 Net unrealised (losses)/gains on hedging instrum/non-distrib reserve</u>				
<u>999 Sundry/non-distrib reserve</u>				
<u>000 Balance at end of year/non-distrib reserve</u>	119,270	17,000		
<u>001 Movements in Distributable Reserve</u>				
<u>002 Balance at begin of year/distrib reserve</u>	316,892	121,657		
<u>003 Adj to prior year/distrib reserve</u>				
<u>004 Net profit/(loss) for the year</u>	284,035	196,454		
<u>005 Ordinary dividends</u>				
<u>006 Preference dividends</u>	-861	-1,219		
<u>007 Treasury shares/distrib reserve</u>				
<u>028 Cancelling of shares/distrib reserve</u>				
<u>008 Net transfer (to)/from non-distributable reserves</u>				
<u>009 Profit/(loss) on forex translations/distrib reserve</u>				
<u>010 Profit/(loss) on forex transactions/distrib reserve</u>				
<u>011 Realised surplus/(loss) - sale of land & build/distrib reserve</u>				
<u>012 Surplus/(deficit) on revaluation of land & build/distrib reserve</u>				
<u>013 Shares held by subsidiary company/distrib reserve</u>				
<u>014 Change in accounting policy/distrib reserve</u>				
<u>015 Adj arising on changes in composition of group/distrib reserve</u>				
<u>016 Share of associated companies' retained income</u>				
<u>017 Share issue expenses/distrib reserve</u>				
<u>018 Goodwill written off/distrib reserve</u>				
<u>019 Capital distributions/distrib reserve</u>				
<u>020 Net unrealised (losses)/gains on hedging instrum/distrib reserve</u>				



<u>021 Premium on acquisition of subsidiaries</u>				
<u>022 Profit/(loss) on disposal of subs/ businesses/distrib reserve</u>				
<u>023 Surplus/(deficit) on revaluation of investments/distrib reserve</u>				
<u>024 BEE Share of accum profit/distrib reserve</u>				
<u>025 Share based payments/distrib reserve</u>				
<u>026 Tax adjustment/distrib reserve</u>				
<u>027 Profit/(loss) on sale of investments/distrib reserve</u>				
<u>059 Sundry/distrib reserve</u>				
<u>060 Balance at end of year/distrib reserve</u>	600,066	316,892		
<u>061 Movements in Preference Share Capital & Equity Loans</u>				
<u>062 Balance at begin of year/pref share capital & equity loans</u>				
<u>063 Adj to prior year/pref share capital & equity loans</u>				
<u>064 Shares issued</u>				
<u>065 Share issue expenses/pref share capital & equity loans</u>				
<u>066 Distribution to shareholders</u>				
<u>067 Shares to be issued</u>				
<u>068 Debentures issued</u>				
<u>089 Sundry/pref share capital & equity loans</u>				
<u>090 Balance at end of year/pref share capital & equity loans</u>				
<u>091 Ordinary Shareholders' Equity at End Of Year</u>	1,008,362	1,250,036		

Sundry Items [Year: 2007 - 2003, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	5
Year End Month	Sep	Sep	Sep	Sep	Sep
Sundry Items Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
<u>101 Ordinary Shares in Issue @ Year End Split Adjusted</u>	320,733	349,577	382,275	382,275	382,275
<u>102 Nr of Ordinary Shares in Issue @ Year End</u>	320,733	349,577	382,275	382,275	382,275
<u>103 Par Or No Par Value</u>	1	1	1	1	1
<u>110 Debtors As Surety</u>	2	2	2	2	2
<u>111 Directors Value in Unlisted Investments</u>	158,274	255,324	848,797	899,574	1,179,678
<u>112 Market Value Listed Investments</u>	17,318,556	15,534,190	12,682,541	10,632,353	9,632,014
<u>113 Directors Valuation of Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>114 Arrear Cumulative Dividends</u>	-	-	-	-	-
<u>115 Months Covered By Financial Statements</u>	12	12	12	12	5
<u>116 Month Of Financial Year End</u>	9	9	9	9	9
<u>117 Audit Report Qualified</u>	2	2	2	2	2
<u>118 Inflation Adjusted Other Fixed Asset</u>	894	42	-	-	-
<u>119 Inflation Adjusted Depreciable Fixed Asset</u>	431	21	-	-	-
<u>120 No Of Subsidiaries</u>	10	10	8	9	11
<u>121 No Of Foreign Subsidiaries</u>	5	5	4	3	4
<u>123 Controlled By Another Entity</u>	2	2	2	2	3
<u>124 Provision For Increased Replacement Value</u>	2	2	2	2	2
<u>125 Preference Share Issued At Par</u>	1	1	1	1	1
<u>126 Directors Shareholding Beneficial</u>	38,378	40,415	45,767	34,899	-
<u>127 Directors Shareholding Non-beneficial</u>	-	-	-	-	32,288
<u>128 Deferred Tax Total</u>	45,916	37,862	-3,977	11,661	35,402
<u>129 Deferred Tax For Year</u>	12,068	24,564	-15,638	-23,741	-1,427
<u>130 Items Not Representing Cashflow</u>	44,839	3,256	7,513	23,030	2,998
<u>131 No Persons Employed</u>	169	155	140	138	113
<u>175 Foreign Employees</u>	-	-	25	-	-
<u>132 Inventory: Raw Material</u>	-	-	-	-	-

<u>134 Inventory: Merchandise</u>	-	-	-	-	-
<u>135 Inventory: Consumable Stores</u>	-	-	-	-	-
<u>136 Inventory: Work In Progress</u>	-	-	-	-	-
<u>137 Inventory: Uncompleted Contracts</u>	-	-	-	-	-
<u>138 Proportionate Profit from Associated Companies</u>	1,334	1,799	967	-883	300
<u>139 Total Reserve Accrued: Associated Companies</u>	1,334	-	-	-	300
<u>140 Capital Commitments</u>	3,100	-	-	-	-
<u>141 Accumulated Depreciation Land & Buildings</u>	1,317	1,196	603	282	410
<u>142 Long Term Group Loans Advanced</u>	-	-	-	-	-
<u>143 Short Term Group Loans Advanced</u>	-	-	-	-	-
<u>144 Headline Earnings per Share</u>	80	52	48	34	16
<u>145 Long Term Group Loans Received</u>	-	-	-	38,871	78,402
<u>146 Short Term Group Loans Received</u>	-	-	-	-	-
<u>147 Notes To Statements</u>	-	-	-	-	-
<u>148 Number Of Analysts</u>	8	2	7	9	2
<u>149 Average Price Per Share</u>	812	584	439	352	334
<u>150 Share Price @ Company Financial Year End</u>	871	598	512	333	298
<u>151 Inventory Valuation Method</u>	-	-	-	-	-
<u>152 Mining Assets</u>	-	-	-	-	-
<u>153 Exploration, Amortisation Expenses Written Off</u>	-	-	-	-	-
<u>154 Undeveloped Property</u>	-	-	-	-	-
<u>155 Development Property Less Development Expense</u>	-	-	-	-	-
<u>156 Debtors For Property Sold</u>	-	-	-	-	-
<u>157 Provision For Future Development</u>	-	-	-	-	-
<u>158 Currency Adjustment: R1000 To ?</u>	-	-	-	-	-
<u>162 Trade Creditors</u>	245,914	140,092	108,320	69,046	78,464
<u>163 Loan Portion Of Tax</u>	-	-	-	-	-
<u>164 Balance Sheet LIFO Inventory Adjustment</u>	-	-	-	-	-
<u>165 Income Statement LIFO Inventory Adjustment</u>	-	-	-	-	-
<u>166 Leasehold Commitments</u>	85,912	29,732	21,723	35,618	41,641
<u>167 Contingent Liabilities</u>	-	-	-	-	-
<u>168 Extraordinary Item In Tax</u>	-	-	-	-	-
<u>169 Extraordinary Item In Minority Interest</u>	-	-	-	-	-
<u>170 No Of Shares Traded</u>	122,140	113,970	57,295	71,812	38,213
<u>171 No Of Transactions</u>	7,676	7,117	4,341	4,376	1,507
<u>172 Value Of Transactions</u>	991,453	665,206	251,265	252,488	127,547
<u>173 Split Factor (3 Decimals)</u>	1	1	1	1	1
<u>174 Month Of Stock Split</u>	-	-	-	-	-



Balance Sheet [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Jun	Jun	Jun	Jun	Jun
Balance Sheet Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
001 Ordinary Share Capital	1,996	1,985	1,962	1,962	1,956
002 Non Distributable Reserves	895,763	733,103	617,578	622,408	613,493
003 Distributable Reserves	2,957,035	2,432,972	2,139,717	1,911,016	1,692,744
004 Cost Of Control	-	-	6,578	6,578	6,952
005 Intangible Assets	34,060	11,211	-	-	-
006 Ordinary Shareholders Interest	3,820,734	3,156,849	2,752,679	2,528,808	2,301,241
007 Minority Interest	2,478	2,765	1,653	1,259	799
008 Preference Share Capital	-	-	-	-	-
009 Total Owners Interest	3,823,212	3,159,614	2,754,332	2,530,067	2,302,040
010 Land And Buildings	782,450	723,172	678,777	678,429	542,992
011 Total Depreciation: Land and Buildings	24,157	22,986	64,957	59,019	55,852
012 Cost Other Fixed Assets	1,604,383	1,504,553	1,436,381	1,450,712	1,371,338
013 Total Depreciation: Other Fixed Assets	917,485	843,459	770,155	745,832	637,458
014 Total Fixed Assets	1,445,191	1,361,280	1,280,046	1,324,290	1,221,020
015 Long Term Loans Advanced	206,412	37,831	27,833	26,850	26,160
016 Unlisted Investments	437,884	645,271	582,275	525,411	604,701
017 Shares In Unconsolidated Subsidiaries	-	-	-	-	-
018 Listed Investments	-	-	-	-	-
019 Total Long Term Investments	644,296	683,102	610,108	552,261	630,861
020 Total Long Term Assets	2,089,487	2,044,382	1,890,154	1,876,551	1,851,881
021 Secured Long Term Borrowings	2,629	2,062	2,291	1,479	1,619
022 Debentures	-	-	-	-	-
023 Other Long Term Borrowings	12,842	361,928	348,114	770,027	437,808
024 Total Long Term Loan Capital	15,471	363,990	350,405	771,506	439,427
025 Net Investment in Long Term Assets	2,074,016	1,680,392	1,539,749	1,105,045	1,412,454
026 Total Inventory	2,703,336	2,499,217	2,244,129	2,207,296	2,074,364
027 Debtors	809,018	617,097	551,241	513,414	529,192
028 Short Term Loans Advances	215	-	-	-	-
029 Cash And Bank	332,426	227,578	196,316	159,390	139,304
030 Other Current Assets	-	-	52,536	33,230	31,864
031 Total Current Assets	3,844,995	3,343,892	3,044,222	2,913,330	2,774,724
032 Short Term Borrowings	329,473	432,502	674,588	89,766	421,221
033 Creditors	1,489,940	1,196,201	1,022,829	1,003,788	791,961
034 Bank Overdraft	-	-	-	294,612	603,503
035 Provision For Taxation	57,707	66,843	-	-	-
036 Provision For Distribution	218,679	169,124	132,222	100,142	68,453
037 Total Current Liabilities	2,095,799	1,864,670	1,829,639	1,488,308	1,885,138
038 Net Current Assets	1,749,196	1,479,222	1,214,583	1,425,022	889,586
039 Net Assets	3,823,212	3,159,614	2,754,332	2,530,067	2,302,040
042 Surplus Value Over Bookvalue of Investment	-185,031	15,151	21,727	21,699	21,625
040 Total Assets	5,934,482	5,388,274	4,934,376	4,789,881	4,626,605
041 Operating Assets	5,289,971	4,705,172	4,324,268	4,237,620	3,995,744

General Supplementary



<u>201 Shares In Issue Y/E Ordinary</u>	199,608	198,534	196,213	196,156	195,580
<u>202 Shares In Issue Y/E 'N'</u>	-	-	-	-	-
<u>203 Shares In Issue Y/E 'A'</u>	-	-	-	-	-
<u>204 Shares In Issue Y/E 'B'</u>	-	-	-	-	-
<u>248 Shares In Issue Y/E 'C'</u>	-	-	-	-	-
<u>251 Shares In Issue Y/E 'E'</u>	-	-	-	-	-
<u>206 Shares In Issue Weighted Average</u>	199,079	197,414	196,200	195,600	195,600
<u>207 Shares In Issue Fully Diluted</u>	213,653	198,423	-	-	-
<u>232 Treasury Shares (Number '000)</u>	152	435	-	-	-
<u>233 Treasury Shares (Value R'000)</u>	2,220	4,113	-	-	-
<u>249 Share Trusts and Other (Number '000)</u>	-	-	-	-	-
<u>250 Share Trusts and Other (Value R'000)</u>	-	-	-	-	-
<u>238 Preference shares issued by a subsidiary</u>	-	-	-	-	-
<u>208 Revaluation Reserve</u>	154,146	9,488	6,911	5,863	5,005
<u>209 Minority Revaluation Reserve</u>	-	-	-	-	-
<u>210 Minority Equity Accounted Reserve</u>	-	-	-	-	-
<u>228 Foreign Currency Translation Reserve - Cumulative</u>	-6,744	1,149	-	-	-
<u>211 Commitments: Land & Buildings</u>	153,787	118,591	112,066	127,873	118,959
<u>212 Commitments: Other</u>	-	-	-	1,479	2,321
<u>213 Foreign Borrowings</u>	-	-	-	-	-
<u>214 Convertible Preference Shares</u>	-	-	-	-	-
<u>215 Convertible Debentures & Loans</u>	-	-	-	-	-
<u>216 Share In Issue Latest</u>	-	-	-	-	-
<u>217 Mining Assets at Cost</u>	-	-	-	-	-
<u>218 Depreciation / Amortisation on Mine Assets</u>	-	-	-	-	-
<u>219 Medical Aid Liabilities</u>	12,842	33,344	21,391	16,905	15,297
<u>220 Pension Fund Liabilities</u>	-	-	-	-	-
<u>221 Long Term Loans - Interest Bearing</u>	2,629	330,646	329,014	754,601	424,130
<u>222 Long Term Loans - Interest Free</u>	12,842	33,344	21,391	16,905	15,297
<u>223 Short Term Loans - Interest Bearing</u>	329,473	432,502	674,588	89,766	421,221
<u>224 Short Term Loans - Interest Free</u>	-	-	-	-	-
<u>225 Property Revaluation Surplus - I/S</u>	-2,129	-	-	-	-
<u>226 Profit /Loss Forex Translations - B/S</u>	-	-	550	-733	710
<u>227 Profit /Loss Forex Transactions - B/S</u>	-	-	-	-	-
<u>229 Foreign Assets</u>	259,393	218,175	-	-	-
<u>230 Foreign Liabilities</u>	-	-	-	-	-
<u>231 Provisions</u>	103,539	103,010	-	-	-
<u>236 Provisions - Long term</u>	-	-	-	-	-
<u>237 Provisions - Short term</u>	103,539	103,010	-	-	-
<u>234 Share Trust scheme</u>	-	-	-	-	-
<u>235 Capital Distributions (Cash)</u>	-	-	-	-	-
<u>239 Non Current Assets held for sale - Land & Buildings</u>	-	-	-	-	-
<u>240 Non Current Assets held for sale - Investments</u>	-	-	-	-	-
<u>241 Non Current Assets held for sale - Other</u>	-	-	-	-	-
<u>258 Total Bookvalue Land & Buildings</u>	758,293	700,186	613,820	619,410	487,140
<u>252 Total Bookvalue Other Fixed Assets</u>	686,898	-	-	-	-
<u>253 Bookvalue Plant & Machinery/Manufacturing Equipment</u>	686,898	-	-	-	-
<u>254 Bookvalue Furniture & Office Equipment</u>	-	-	-	-	-
<u>255 Bookvalue Vehicles</u>	-	-	-	-	-
<u>256 Bookvalue Computer Hardware & Software</u>	-	-	-	-	-
<u>257 Bookvalue Other fixed assets</u>	-	-	-	-	-
<u>242 Listed Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>243 Market Value of Listed Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>244 Unlisted Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>245 Directors Valuation of Unlisted Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>246 Minority dividends declared - B/S</u>	-	-	-	-	-
<u>247 BEE Share of accumulative profits - B/S</u>	-	-	-	-	-

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Jun	Jun	Jun	Jun	Jun
Income Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
051 Turnover	6,231,244	5,247,586	4,677,600	5,743,808	5,188,422
052 Change In Turnover %	19	12	-19	11	6
053 Cost Of Sales	5,178,362	4,407,290	4,012,424	3,945,819	3,528,817
054 Trading Profit	1,408,895	1,025,540	919,267	788,720	721,357
055 Interest Received	41,664	44,859	26,051	32,925	38,222
056 Income Unlisted Investment	60,109	58,792	58,514	62,829	83,135
057 Income Listed Investment	-	-	-	-	-
058 Income Unconsolidated Subsidiaries	-	-	-	-	-
059 Total Income Investment	101,773	103,651	84,565	95,754	121,357
060 Surplus Sale Investment	46	40	-3,352	2,790	-
061 Surplus Sale Non Trading Assets	10,289	-8,836	1,296	3,332	13,770
062 Extraordinary Profits	-1,540	17,584	-449	-25,624	-14,816
063 Total Profits Extraordinary Nature	8,795	8,788	-2,505	-19,502	-1,046
064 Auditors Remuneration And Costs	4,975	4,509	3,782	2,460	2,238
065 Depreciation Other Fixed Assets	123,925	126,530	129,791	125,802	120,527
066 Depreciation Land And Buildings	2,712	2,336	8,500	7,077	7,178
067 Rental Fixed Assets	70,295	60,278	54,260	51,178	54,829
068 Directors Remuneration: Direct	1,654	1,238	927	759	384
069 Directors Remuneration: Other	7,825	6,682	4,735	3,840	2,798
070 Management And Other Services	6,597	6,286	6,011	5,830	5,784
071 Total Cost Shown	217,983	207,859	208,006	196,946	193,738
054 Trading Profit	1,408,895	1,025,540	919,267	788,720	721,357
059 Total Income Investment	101,773	103,651	84,565	95,754	121,357
063 Total Profits Extraordinary Nature	8,795	8,788	-2,505	-19,502	-1,046
072 Total Income	1,519,463	1,137,979	1,001,327	864,972	841,668
071 Total Cost Shown	217,983	207,859	208,006	196,946	193,738
073 Profit Before Interest And Tax (EBIT)	1,301,480	930,120	793,321	668,026	647,930
074 Total Interest Paid	79,249	120,886	128,149	183,691	226,564
075 Profit Before Taxation	1,222,231	809,234	665,172	484,335	421,366
076 Taxation	345,088	263,700	206,864	142,287	87,379
077 Profit After Taxation	877,143	545,534	458,308	342,048	333,987
078 Minority Interest In Profit	-2,979	-	394	390	315
079 Profit to Ordinary And Preference Shareholders	880,122	545,534	457,914	341,658	333,672
080 Ordinary Dividend	392,470	303,934	242,182	190,109	146,685
081 Preference Dividend	-	-	-	-	-
082 Retained Profits	487,652	241,600	215,732	151,549	186,987
083 Earnings Before Interest, Tax, Depreciation And Amortisation (EBITDA)	1,439,169	1,063,261	931,612	801,279	775,987
General Supplementary					
301 Lease Charge: Land Building	25,586	22,680	19,784	19,780	21,798
302 Lease Charge: Other	44,709	37,598	34,476	31,398	33,031
303 Research & Development	6,495	6,359	9,067	7,127	7,498
304 EPS-Equity Accounted	426	271	246	184	169
305 EPS-Bottom Line	426	271	246	184	169
306 EPS-Headline	392	272	246	183	139
307 EPS-Fully Diluted Headline	365	270	-	-	-
308 EPS-Fully Diluted Bottomline	397	269	-	-	-



374 EPS-Continuing Operations					
359 Earnings per Linked Unit					
375 Core Headline Earnings - Total Value					
376 Core Headline Earnings Per Share					
380 Dividend per Share	196	153	123	97	75
381 Interest Distribution per Unit					
382 Capital Distribution per Share					
309 Effective Tax Rate	30	34	28	26	22
310 Deferred Tax: Contingent Liability					
311 Deferred Tax: Current	20,248	-111	-13,901	-21,030	-2,581
312 Deferred Tax: Other					
318 Accumulated Assessed Tax Loss					
319 Accumulated Computed Tax Loss	7,123	7,762	10,440	10,702	25,740
320 Prior Year Tax Adjustment	-533	7,634	700	962	2,475
333 STC as Published	36,936	12,286	17,690	681	462
338 Foreign Tax	30,087	23,414			
364 Foreign Tax - Normal	30,087	23,414			
365 Foreign Tax - Previous year					
366 Foreign Tax - Deferred					
313 Interest Capitalised					
373 Interest Paid - Debentures					
314 Invest Allowance Benefit					
315 Dilution: Interest Saved					
316 Dilution: Dividends Saved					
317 Dilution: Equity Income Converted					
322 Intangible Assets Written Off	11,052	4,275			
350 Impairments of intangible assets					
349 Reversal impairments/Intangible Assets - prev years					
383 Goodwill Written Off					
351 Impairments of goodwill					
346 Reversal of impairments of Goodwill - prev years					
323 Amortisation of goodwill				374	352
324 Impairment of Investments					
348 Reversal of impairments/Investments - prev years					
325 Impairment of Loans					
368 Reversal of impairments/Loans - prev years					
326 Capital Profit /Loss on Financial Assets	46	40	-3,352	2,790	
360 Gains/Losses on Mark to Market Value of Financial Assets					
327 Impairment of Fixed Assets					
347 Reversal of impairm/Other Fixed assets - prev years					
328 Capital Profit /Loss on Fixed Assets	10,289	-8,836	1,296	3,332	13,770
329 Profit /Loss Forex Translations - I/S					
330 Profit /Loss Forex Transactions - I/S	-1,540	17,584	-999	-24,891	-66,767
331 Profit /Loss Disposal of Subsidiaries/ Businesses					4,962
332 Profit /Loss Sundry Extraordinaries					46,279
352 Extraordinary items - unconsolidated subs					
367 Share issue expenses written off					
377 Expense in regard to BEE transaction					
336 Foreign Turnover	1,500,392	1,190,056			
337 Foreign Profit					
339 Ordinary Dividends - Ordinary Shareholders	392,470	303,934			
340 Ordinary Dividends - Minority Shareholders					
357 Ordinary dividends declared	392,470	303,934			
358 Ordinary dividends paid	342,729	267,032			
341 Preference Dividends - Ordinary Shareholders					
342 Preference Dividends - Minority Shareholders					
353 Minority dividends paid		1,417			
354 Minority dividends declared - I/S					



321 Non Cash Dividends				
334 Non-Cash Dividend (Current Year)				
335 Non-Cash Dividend (Previous Year)				
343 Auditors - Audit Fees - current year	3,411	3,021	2,541	
378 Auditors - Audit Fees - previous year	170	132	28	
379 Auditors - Audit Expenses	57	74	112	
344 Auditors - Other Fees	1,337	1,282	1,101	
345 Staff Costs(excluding directors remuneration)	815,083	754,533		
372 Other Staff share based payments - I/S	6,877			
361 Directors share based payments - I/S				
362 Directors share based payments - B/S				
355 Income from Endowment policies				
356 Other Income from Fixed Asset Investments				
363 BEE Share of profits - I/S	6,877			

Changes In Equity Statement [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Jun	Jun	Jun	Jun	Jun
Changes In Equity Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
901 Ordinary Shareholders' Equity at Beginning of Year	3,313,283	2,890,066			
902 Movements in Issued Capital & Share Premium					
903 Balance at begin of year/issued capital & share premium	588,365	564,611			
904 Adj to prior year/issued capital & share premium					
905 Ordinary shares issued/issued capital & share premium					
906 Share based payments/issued capital & share premium					
907 Shares held by subsidiary company/issued capital & share premium					
908 Share issue expenses/issued capital & share premium					
909 Goodwill written off/issued capital & share premium					
910 Capital distributions/issued capital & share premium					
911 Treasury shares/issued capital & share premium					
913 Cancelling of shares/issued capital & share premium					
912 Staff share trust/issued capital & share premium	13,435	23,754			
951 Share premium raised under share purchase scheme					
939 Sundry/issued capital & share premium					
940 Balance at end of year/issued capital & share premium	601,800	588,365			
941 Movements in Non-Distributable Reserve					
942 Balance at begin of year/non-distrib reserve	189,599	57,736			
943 Adj to prior year/non-distrib reserve					
944 Ordinary shares issued/non-distrib reserve					
945 Profit/(loss) on sale of investments/non-distrib reserve					
946 Shares held by subsidiary company/non-distrib reserve					
947 Share issue expenses/non-distrib reserve					
948 Goodwill written off/non-distrib reserve					
949 Capital distributions/non-distrib reserve					



<u>950 Section 90 unbundling payment to shareholder</u>				
<u>952 Treasury shares/non-distrib reserve</u>				
<u>971 Cancelling of shares/non-distrib reserve</u>				
<u>953 Staff share trust/non-distrib reserve</u>		4,139		
<u>954 Profit/(loss) on forex translations/non-distrib reserve</u>	-7,893	5,720		
<u>955 Profit/(loss) on forex transactions/non-distrib reserve</u>				
<u>956 Tax adjustment/non-distrib reserve</u>	-40,851			
<u>957 Net transfer (to)/from distributable reserve</u>				
<u>958 Realised surplus/(loss) - sale of land & build/non-distrib reserve</u>				
<u>959 Surplus/(deficit) on revaluation of land & build/non-distrib reserve</u>				
<u>960 Derivative valuation adjustment</u>				
<u>961 Capital redemption fund</u>				
<u>962 Adj arising on changes in composition of group/non-distrib reserve</u>				
<u>963 Profit/(loss) on disposal of subs/ businesses/non-distrib reserve</u>				
<u>964 Share of associated companies' reserves</u>				
<u>965 Profit on share issue of subsidiaries</u>				
<u>966 Change in accounting policy/non-distrib reserve</u>				
<u>967 Surplus/(deficit) on revaluation of investments/non-distrib reserve</u>	142,633	2,577		
<u>968 BEE Share of accum profit/non-distrib reserve</u>				
<u>969 Share based payments/non-distrib reserve</u>	12,215	74,118		
<u>970 Net unrealised (losses)/gains on hedging instrum/non-distrib reserve</u>	256	2,433		
<u>999 Sundry/non-distrib reserve</u>				
<u>000 Balance at end of year/non-distrib reserve</u>	295,959	146,723		
<u>001 Movements in Distributable Reserve</u>				
<u>002 Balance at begin of year/distrib reserve</u>	2,535,319	2,267,719		
<u>003 Adj to prior year/distrib reserve</u>				
<u>004 Net profit/(loss) for the year</u>	847,853	534,388		
<u>005 Ordinary dividends</u>	-342,729	-266,788		
<u>006 Preference dividends</u>				
<u>007 Treasury shares/distrib reserve</u>				
<u>028 Cancelling of shares/distrib reserve</u>				
<u>008 Net transfer (to)/from non-distributable reserves</u>				
<u>009 Profit/(loss) on forex translations/distrib reserve</u>				
<u>010 Profit/(loss) on forex transactions/distrib reserve</u>				
<u>011 Realised surplus/(loss) - sale of land & build/distrib reserve</u>				
<u>012 Surplus/(deficit) on revaluation of land & build/distrib reserve</u>				
<u>013 Shares held by subsidiary company/distrib reserve</u>				
<u>014 Change in accounting policy/distrib reserve</u>				
<u>015 Adj arising on changes in composition of group/distrib reserve</u>				
<u>016 Share of associated companies' retained income</u>				
<u>017 Share issue expenses/distrib reserve</u>				
<u>018 Goodwill written off/distrib reserve</u>				
<u>019 Capital distributions/distrib reserve</u>				
<u>020 Net unrealised (losses)/gains on hedging instrum/distrib reserve</u>				



<u>021 Premium on acquisition of subsidiaries</u>				
<u>022 Profit/(loss) on disposal of subs/ businesses/distrib reserve</u>				
<u>023 Surplus/(deficit) on revaluation of investments/distrib reserve</u>				
<u>024 BEE Share of accum profit/distrib reserve</u>				
<u>025 Share based payments/distrib reserve</u>				
<u>026 Tax adjustment/distrib reserve</u>				
<u>027 Profit/(loss) on sale of investments/distrib reserve</u>				
<u>059 Sundry/distrib reserve</u>				
<u>060 Balance at end of year/distrib reserve</u>	3,040,443	2,535,319		
<u>061 Movements in Preference Share Capital & Equity Loans</u>				
<u>062 Balance at begin of year/pref share capital & equity loans</u>				
<u>063 Adj to prior year/pref share capital & equity loans</u>				
<u>064 Shares issued</u>				
<u>065 Share issue expenses/pref share capital & equity loans</u>				
<u>066 Distribution to shareholders</u>				
<u>067 Shares to be issued</u>				
<u>068 Debentures issued</u>				
<u>089 Sundry/pref share capital & equity loans</u>				
<u>090 Balance at end of year/pref share capital & equity loans</u>				
<u>091 Ordinary Shareholders' Equity at End Of Year</u>	3,938,202	3,270,407		

Sundry Items [Year: 2007 - 2003, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Jun	Jun	Jun	Jun	Jun
Sundry Items Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
<u>101 Ordinary Shares in Issue @ Year End Split Adjusted</u>	199,608	198,534	196,213	196,156	195,580
<u>102 Nr of Ordinary Shares in Issue @ Year End</u>	199,608	198,534	196,213	196,156	195,580
<u>103 Par Or No Par Value</u>	1	1	1	1	1
<u>110 Debtors As Surety</u>	2	2	2	2	2
<u>111 Directors Value in Unlisted Investments</u>	252,853	660,422	604,002	547,110	626,326
<u>112 Market Value Listed Investments</u>	-	-	-	-	-
<u>113 Directors Valuation of Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>114 Arrear Cumulative Dividends</u>	-	-	-	-	-
<u>115 Months Covered By Financial Statements</u>	12	12	12	12	12
<u>116 Month Of Financial Year End</u>	6	6	6	6	6
<u>117 Audit Report Qualified</u>	2	2	2	2	2
<u>118 Inflation Adjusted Other Fixed Asset</u>	222,211	156,984	152,162	198,059	252,674
<u>119 Inflation Adjusted Depreciable Fixed Asset</u>	40,090	30,046	29,643	35,348	41,497
<u>120 No Of Subsidiaries</u>	17	17	18	18	21
<u>121 No Of Foreign Subsidiaries</u>	6	6	7	7	8
<u>122 No Of Quoted Subsidiaries</u>	-	-	-	-	-
<u>123 Controlled By Another Entity</u>	3	3	3	3	3
<u>124 Provision For Increased Replacement Value</u>	2	2	2	2	2
<u>125 Preference Share Issued At Par</u>	-	-	-	-	-
<u>126 Directors Shareholding Beneficial</u>	1,706	1,251	582	567	150
<u>127 Directors Shareholding Non-beneficial</u>	26	26	26	36	36
<u>128 Deferred Tax Total</u>	135,271	66,777	50,795	64,696	61,589
<u>129 Deferred Tax For Year</u>	20,248	-111	-13,901	-21,030	-2,581
<u>130 Items Not Representing Cashflow</u>	134,612	140,784	145,217	132,879	127,705
<u>131 No Persons Employed</u>	4,442	4,249	4,172	4,184	4,342
<u>132 Inventory: Raw Material</u>	-	-	-	-	-



134 Inventory: Merchandise	-	-	-	-	-
135 Inventory: Consumable Stores	211,356	147,256	104,328	150,535	151,573
136 Inventory: Work In Progress	1,477,995	1,443,844	1,366,411	1,325,169	1,197,151
137 Inventory: Uncompleted Contracts	-	-	-	-	-
138 Proportionate Profit from Associated Companies	938	1,185	626	587	-4,098
139 Total Reserve Accrued: Associated Companies	-	2,031	2,205	1,579	991
140 Capital Commitments	527,032	263,530	222,650	142,681	226,086
141 Accumulated Depreciation Land & Buildings	24,157	22,986	64,957	59,019	55,852
142 Long Term Group Loans Advanced	-	-	-	-	-
143 Short Term Group Loans Advanced	-	-	-	-	-
144 Headline Earnings per Share	392	272	246	183	139
145 Long Term Group Loans Received	-	-	-	-	-
146 Short Term Group Loans Received	-	-	-	-	-
147 Notes To Statements	-	-	-	-	-
148 Number Of Analysts	7	7	2	2	9
149 Average Price Per Share	4,738	3,377	2,120	1,418	1,287
150 Share Price @ Company Financial Year End	5,288	3,600	2,470	1,514	1,170
151 Inventory Valuation Method	2	2	2	2	2
152 Mining Assets	-	-	-	-	-
153 Exploration, Amortisation Expenses Written Off	-	-	-	-	-
154 Undeveloped Property	-	-	-	-	-
155 Development Property Less Development Expense	-	-	-	-	-
156 Debtors For Property Sold	-	-	-	-	-
157 Provision For Future Development	-	-	-	-	-
158 Currency Adjustment: R1000 To ?	-	-	-	-	-
162 Trade Creditors	858,029	616,249	530,792	604,378	505,452
163 Loan Portion Of Tax	-	-	-	-	-
164 Balance Sheet LIFO Inventory Adjustment	-	-	-	-	-
165 Income Statement LIFO Inventory Adjustment	-	-	-	-	-
166 Leasehold Commitments	153,787	118,591	112,066	129,352	121,280
167 Contingent Liabilities	-	3,000	54,115	3,898	4,404
168 Extraordinary Item In Tax	5,317	-	-	-	2,700
169 Extraordinary Item In Minority Interest	-	-	-	-	-
170 No Of Shares Traded	6,575	4,692	5,090	3,533	2,784
171 No Of Transactions	1,259	1,278	1,213	1,069	981
172 Value Of Transactions	311,556	158,440	107,925	50,114	35,833
173 Split Factor (3 Decimals)	1	1	1	1	1
174 Month Of Stock Split	-	-	-	-	-



Balance Sheet [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Sep	Sep	Sep	Sep	Sep
Balance Sheet Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
001 Ordinary Share Capital	9	9	1,813	1,813	1,813
002 Non Distributable Reserves	2,960	2,289	484	484	484
003 Distributable Reserves	2,926	-2,146	6,929	7,015	6,808
004 Cost Of Control	-	-	-	-	-
005 Intangible Assets	-	-	-	-	-
006 Ordinary Shareholders Interest	5,895	152	9,226	9,312	9,105
007 Minority Interest	-	-	-	-	-
008 Preference Share Capital	-	-	-	-	-
009 Total Owners Interest	5,895	152	9,226	9,312	9,105
010 Land And Buildings	-	-	174	174	174
011 Total Depreciation: Land and Buildings	-	-	174	174	174
012 Cost Other Fixed Assets	-	-	12,442	12,443	12,452
013 Total Depreciation: Other Fixed Assets	-	-	11,435	11,188	11,037
014 Total Fixed Assets	-	-	1,007	1,255	1,415
015 Long Term Loans Advanced	-	-	56	56	99
016 Unlisted Investments	13,072	-	-	-	-
017 Shares In Unconsolidated Subsidiaries	1	2	12	12	12
018 Listed Investments	-	-	-	-	-
019 Total Long Term Investments	13,073	2	68	68	111
020 Total Long Term Assets	13,073	2	1,075	1,323	1,526
021 Secured Long Term Borrowings	-	-	1,537	3,910	-
022 Debentures	9,777	9,777	-	-	-
023 Other Long Term Borrowings	-	-	15	18	4,178
024 Total Long Term Loan Capital	9,777	9,777	1,552	3,928	4,178
025 Net Investment in Long Term Assets	3,296	-9,775	-477	-2,605	-2,652
026 Total Inventory	-	-	9,203	7,739	8,349
027 Debtors	767	138	3,949	4,211	6,393
028 Short Term Loans Advances	1,811	-	-	-	-
029 Cash And Bank	401	9,797	17	3,249	1,125
030 Other Current Assets	-	528	-	64	-
031 Total Current Assets	2,979	10,463	13,169	15,263	15,867
032 Short Term Borrowings	-	-	4	793	1,328
033 Creditors	380	536	2,895	2,553	2,782
034 Bank Overdraft	-	-	567	-	-
035 Provision For Taxation	-	-	-	-	-
036 Provision For Distribution	-	-	-	-	-
037 Total Current Liabilities	380	536	3,466	3,346	4,110
038 Net Current Assets	2,599	9,927	9,703	11,917	11,757
039 Net Assets	5,895	152	9,226	9,312	9,105
042 Surplus Value Over Bookvalue of Investment	-	-	-	-	-
040 Total Assets	16,052	10,465	14,244	16,586	17,393
041 Operating Assets	1,168	10,463	14,176	16,518	17,282

General Supplementary



<u>201 Shares In Issue Y/E Ordinary</u>	8,740	8,740	3,625	3,625	3,625
<u>202 Shares In Issue Y/E 'N'</u>	-	-	-	-	-
<u>203 Shares In Issue Y/E 'A'</u>	-	-	-	-	-
<u>204 Shares In Issue Y/E 'B'</u>	-	-	-	-	-
<u>248 Shares In Issue Y/E 'C'</u>	-	-	-	-	-
<u>206 Shares In Issue Weighted Average</u>	8,740	3,949	3,625	3,625	3,625
<u>207 Shares In Issue Fully Diluted</u>	-	-	-	-	-
<u>232 Treasury Shares (Number '000)</u>	-	-	-	-	-
<u>233 Treasury Shares (Value R'000)</u>	-	-	-	-	-
<u>249 Share Trusts and Other (Number '000)</u>	-	-	-	-	-
<u>250 Share Trusts and Other (Value R'000)</u>	-	-	-	-	-
<u>238 Preference shares issued by a subsidiary</u>	-	-	-	-	-
<u>208 Revaluation Reserve</u>	671	-	-	-	-
<u>209 Minority Revaluation Reserve</u>	-	-	-	-	-
<u>210 Minority Equity Accounted Reserve</u>	-	-	-	-	-
<u>228 Foreign Currency Translation Reserve - Cumulative</u>	-	-	-	-	-
<u>211 Commitments: Land & Buildings</u>	-	-	1,122	-	-
<u>212 Commitments: Other</u>	-	-	-	-	-
<u>213 Foreign Borrowings</u>	-	-	-	-	-
<u>214 Convertible Preference Shares</u>	-	-	-	-	-
<u>215 Convertible Debentures & Loans</u>	60	60	-	-	-
<u>216 Share In Issue Latest</u>	-	-	-	-	-
<u>217 Mining Assets at Cost</u>	-	-	-	-	-
<u>218 Depreciation / Amortisation on Mine Assets</u>	-	-	-	-	-
<u>219 Medical Aid Liabilities</u>	-	-	-	-	-
<u>220 Pension Fund Liabilities</u>	-	-	-	-	-
<u>221 Long Term Loans - Interest Bearing</u>	9,777	9,777	1,537	3,910	4,156
<u>222 Long Term Loans - Interest Free</u>	-	-	15	18	22
<u>223 Short Term Loans - Interest Bearing</u>	-	-	-	793	1,328
<u>224 Short Term Loans - Interest Free</u>	-	-	4	-	-
<u>225 Property Revaluation Surplus - I/S</u>	-	-	-	-	-
<u>226 Profit /Loss Forex Translations - B/S</u>	-	-	-	-	-
<u>227 Profit /Loss Forex Transactions - B/S</u>	-	-	-	-	-
<u>229 Foreign Assets</u>	-	-	-	-	-
<u>230 Foreign Liabilities</u>	-	-	-	-	-
<u>231 Provisions</u>	-	-	411	-	-
<u>236 Provisions - Long term</u>	-	-	-	-	-
<u>237 Provisions - Short term</u>	-	-	411	-	-
<u>234 Share Trust scheme</u>	-	-	-	-	-
<u>235 Capital Distributions (Cash)</u>	-	-	-	-	-
<u>239 Non Current Assets held for sale - Land & Buildings</u>	-	-	-	-	-
<u>240 Non Current Assets held for sale - Investments</u>	3,322	-	-	-	-
<u>241 Non Current Assets held for sale - Other</u>	-	-	-	-	-
<u>258 Total Bookvalue Land & Buildings</u>	-	-	-	-	-
<u>242 Listed Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>243 Market Value of Listed Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>244 Unlisted Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>245 Directors Valuation of Unlisted Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>246 Minority dividends declared - B/S</u>	-	-	-	-	-
<u>247 BEE Share of accumulative profits - B/S</u>	-	-	-	-	-

Income Statement [Year: 2007 - 2003, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Sep	Sep	Sep	Sep	Sep
Income Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
<u>051 Turnover</u>	-	-	16,434	18,470	20,899
<u>052 Change In Turnover %</u>	-	-	-11	-12	12
<u>053 Cost Of Sales</u>	-	-	11,781	13,024	14,929



054 Trading Profit			3,275	3,917	3,797
055 Interest Received	1,420	70	52	43	31
056 Income Unlisted Investment	-	-	-	-	-
057 Income Listed Investment	-	-	-	-	-
058 Income Unconsolidated Subsidiaries	-	-	-	-	-
059 Total Income Investment	1,420	70	52	43	31
060 Surplus Sale Investment	7,596	-	-	-	-
061 Surplus Sale Non Trading Assets	-	-839	-	51	29
062 Extraordinary Profits	-	-5,040	2	4	101
063 Total Profits Extraordinary Nature	7,596	-5,879	2	55	130
064 Auditors Remuneration And Costs	-	-	157	135	126
065 Depreciation Other Fixed Assets	-	-	248	301	323
066 Depreciation Land And Buildings	-	-	-	-	-
067 Rental Fixed Assets	-	100	1,340	1,741	1,741
068 Directors Remuneration: Direct	268	-	5	5	5
069 Directors Remuneration: Other	135	-	1,222	1,150	710
070 Management And Other Services	-	-	116	83	78
071 Total Cost Shown	403	100	3,088	3,415	2,983
054 Trading Profit	-2,579	-3,166	3,275	3,917	3,797
059 Total Income Investment	1,420	70	52	43	31
063 Total Profits Extraordinary Nature	7,596	-5,879	2	55	130
072 Total Income	6,437	-8,975	3,329	4,015	3,958
071 Total Cost Shown	403	100	3,088	3,415	2,983
073 Profit Before Interest And Tax (EBIT)	6,034	-9,075	241	600	975
074 Total Interest Paid	1,071	-	327	393	766
075 Profit Before Taxation	4,963	-9,075	-86	207	209
076 Taxation	-	-	-	-	-
077 Profit After Taxation	4,963	-9,075	-86	207	209
078 Minority Interest In Profit	-	-	-	-	-
079 Profit to Ordinary And Preference Shareholders	4,963	-9,075	-86	207	209
080 Ordinary Dividend	-	-	-	-	-
081 Preference Dividend	-	-	-	-	-
082 Retained Profits	4,963	-9,075	-86	207	209
083 Earnings Before Interest, Tax, Depreciation And Amortisation (EBITDA)	6,034	-9,075	489	901	1,298
General Supplementary					
301 Lease Charge: Land Building	-	100	1,340	1,741	1,741
302 Lease Charge: Other	-	-	-	-	-
303 Research & Development	-	-	-	-	-
304 EPS-Equity Accounted	-	-	-	-	-
305 EPS-Bottom Line	58	-228	-1	4	3
306 EPS-Headline	58	-79	-1	4	3
307 EPS-Fully Diluted Headline	-	-	-	-	-
308 EPS-Fully Diluted Bottomline	-	-	-	-	-
374 EPS-Continuing Operations	-	-	-	-	-
359 Earnings per Linked Unit	58	-228	-	-	-
375 Core Headline Earnings - Total Value	-	-	-	-	-
376 Core Headline Earnings Per Share	-	-	-	-	-
380 Dividend per Share	-	-	-	-	-
381 Interest Distribution per Unit	-	-	-	-	-
382 Capital Distribution per Share	-	-	-	-	-
309 Effective Tax Rate	-	-	-42	29	43
310 Deferred Tax: Contingent Liability	-	-	-	-	-
311 Deferred Tax: Current	-	-	-32	60	90



312 Deferred Tax: Other			-4		
318 Accumulated Assessed Tax Loss			-	-	-
319 Accumulated Computed Tax Loss	5,492	2,859	95	321	877
320 Prior Year Tax Adjustment	-	-	-	-	-
333 STC as Published	-	-	-	-	-
338 Foreign Tax	-	-	-	-	-
364 Foreign Tax - Normal	-	-	-	-	-
365 Foreign Tax - Previous year	-	-	-	-	-
366 Foreign Tax - Deferred	-	-	-	-	-
313 Interest Capitalised	-	-	-	-	-
373 Interest Paid - Debentures	-	-	-	-	-
314 Invest Allowance Benefit	-	-	-	-	-
315 Dilution: Interest Saved	-	-	-	-	-
316 Dilution: Dividends Saved	-	-	-	-	-
317 Dilution: Equity Income Converted	-	-	-	-	-
322 Intangible Assets Written Off	-	-	-	-	-
350 Impairments of intangible assets	-	-	-	-	-
349 Reversal impairments/Intangible Assets - prev years	-	-	-	-	-
383 Goodwill Written Off	-	-	-	-	-
351 Impairments of goodwill	-	-	-	-	-
346 Reversal of impairments of Goodwill - prev years	-	-	-	-	-
323 Amortisation of goodwill	-	-	-	-	-
324 Impairment of Investments	-	-	-	-	-
348 Reversal of impairments/Investments - prev years	-	-	-	-	-
325 Impairment of Loans	-	-	-	-	-
368 Reversal of impairments/Loans - prev years	-	-	-	-	-
326 Capital Profit /Loss on Financial Assets	-	-	-	-	-
360 Gains/Losses on Mark to Market Value of Financial Assets	7,596	-	-	-	-
327 Impairment of Fixed Assets	-	-839	-	-	-
347 Reversal of impairm/Other Fixed assets - prev years	-	-	-	-	-
328 Capital Profit /Loss on Fixed Assets	-	-	-	51	29
329 Profit /Loss Forex Translations - I/S	-	-	-	-	-
330 Profit /Loss Forex Transactions - I/S	-	-	2	4	101
331 Profit /Loss Disposal of Subsidiaries/ Businesses	-	-5,040	-	-	-
332 Profit /Loss Sundry Extraordinaries	-	-	-	-	-
352 Extraordinary items - unconsolidated subs	-	-	-	-	-
367 Share issue expenses written off	-	-	-	-	-
377 Expense in regard to BEE transaction	-	-	-	-	-
336 Foreign Turnover	-	-	-	-	-
337 Foreign Profit	-	-	-	-	-
339 Ordinary Dividends - Ordinary Shareholders	-	-	-	-	-
340 Ordinary Dividends - Minority Shareholders	-	-	-	-	-
357 Ordinary dividends declared	-	-	-	-	-
358 Ordinary dividends paid	-	-	-	-	-
341 Preference Dividends - Ordinary Shareholders	-	-	-	-	-
342 Preference Dividends - Minority Shareholders	-	-	-	-	-
353 Minority dividends paid	-	-	-	-	-
354 Minority dividends declared - I/S	-	-	-	-	-
321 Non Cash Dividends	-	-	-	-	-
334 Non-Cash Dividend (Current Year)	-	-	-	-	-
335 Non-Cash Dividend (Previous Year)	-	-	-	-	-
343 Auditors - Audit Fees - current year	-	-	130	-	-
378 Auditors - Audit Fees - previous year	-	-	3	-	-
379 Auditors - Audit Expenses	-	-	7	-	-
344 Auditors - Other Fees	-	-	17	-	-
345 Staff Costs(excluding directors remuneration)	403	72	-	-	-
372 Other Staff share based payments - I/S	-	-	-	-	-

361 Directors share based payments - I/S	-	-	-	-	-
362 Directors share based payments - B/S	-	-	-	-	-
355 Income from Endowment policies	-	-	-	-	-
356 Other Income from Fixed Asset Investments	-	-	-	-	-
363 BEE Share of profits - I/S	-	-	-	-	-

Changes In Equity Statement [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Sep	Sep	Sep	Sep	Sep
Changes In Equity Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
901 Ordinary Shareholders' Equity at Beginning of Year	152	9,142	-	-	-
902 Movements in Issued Capital & Share Premium	-	-	-	-	-
903 Balance at begin of year/issued capital & share premium	2,129	2,128	-	-	-
904 Adj to prior year/issued capital & share premium	-	-	-	-	-
905 Ordinary shares issued/issued capital & share premium	-	5	-	-	-
906 Share based payments/issued capital & share premium	-	-	-	-	-
907 Shares held by subsidiary company/issued capital & share premium	-	-	-	-	-
908 Share issue expenses/issued capital & share premium	-	-	-	-	-
909 Goodwill written off/issued capital & share premium	-	-	-	-	-
910 Capital distributions/issued capital & share premium	-	-	-	-	-
911 Treasury shares/issued capital & share premium	-	-	-	-	-
913 Cancelling of shares/issued capital & share premium	-	-	-	-	-
912 Staff share trust/issued capital & share premium	-	-	-	-	-
951 Share premium raised under share purchase scheme	-	-	-	-	-
939 Sundry/issued capital & share premium	-	-4	-	-	-
940 Balance at end of year/issued capital & share premium	2,129	2,129	-	-	-
941 Movements in Non-Distributable Reserve	-	-	-	-	-
942 Balance at begin of year/non-distrib reserve	169	169	-	-	-
943 Adj to prior year/non-distrib reserve	-	-	-	-	-
944 Ordinary shares issued/non-distrib reserve	-	-	-	-	-
945 Profit/(loss) on sale of investments/non-distrib reserve	-	-	-	-	-
946 Shares held by subsidiary company/non-distrib reserve	-	-	-	-	-
947 Share issue expenses/non-distrib reserve	-	-	-	-	-
948 Goodwill written off/non-distrib reserve	-	-	-	-	-
949 Capital distributions/non-distrib reserve	-	-	-	-	-
950 Section 90 unbundling payment to shareholders	-	-	-	-	-
952 Treasury shares/non-distrib reserve	-	-	-	-	-
971 Cancelling of shares/non-distrib reserve	-	-	-	-	-
953 Staff share trust/non-distrib reserve	-	-	-	-	-
954 Profit/(loss) on forex translations/non-distrib reserve	-	-	-	-	-
955 Profit/(loss) on forex transactions/non-distrib reserve	-	-	-	-	-



<u>956 Tax adjustment/non-distrib reserve</u>				
<u>957 Net transfer (to)/from distributable reserve</u>	-	-	-	
<u>958 Realised surplus/(loss) - sale of land & build/non-distrib reserve</u>	-	-	-	
<u>959 Surplus/(deficit) on revaluation of land & build/non-distrib reserve</u>	-	-	-	
<u>960 Derivative valuation adjustment</u>	-	-	-	
<u>961 Capital redemption fund</u>	-	-	-	
<u>962 Adj arising on changes in composition of group/non-distrib reserve</u>	-	-	-	
<u>963 Profit/(loss) on disposal of subs/ businesses/non-distrib reserve</u>	-	-	-	
<u>964 Share of associated companies' reserves</u>	-	-	-	
<u>965 Profit on share issue of subsidiaries</u>	-	-	-	
<u>966 Change in accounting policy/non-distrib reserve</u>	-	-	-	
<u>967 Surplus/(deficit) on revaluation of investments/non-distrib reserve</u>	671	-	-	
<u>968 BEE Share of accum profit/non-distrib reserve</u>	-	-	-	
<u>969 Share based payments/non-distrib reserve</u>	-	-	-	
<u>970 Net unrealised (losses)/gains on hedging instrum/non-distrib reserve</u>	-	-	-	
<u>999 Sundry/non-distrib reserve</u>	-	-	-	
<u>000 Balance at end of year/non-distrib reserve</u>	840	169	-	
<u>001 Movements in Distributable Reserve</u>	-	-	-	
<u>002 Balance at begin of year/distrib reserve</u>	-2,146	6,845	-	
<u>003 Adj to prior year/distrib reserve</u>	-	-	-	
<u>004 Net profit/(loss) for the year</u>	5,072	-8,991	-	
<u>005 Ordinary dividends</u>	-	-	-	
<u>006 Preference dividends</u>	-	-	-	
<u>007 Treasury shares/distrib reserve</u>	-	-	-	
<u>028 Cancelling of shares/distrib reserve</u>	-	-	-	
<u>008 Net transfer (to)/from non-distributable reserves</u>	-	-	-	
<u>009 Profit/(loss) on forex translations/distrib reserve</u>	-	-	-	
<u>010 Profit/(loss) on forex transactions/distrib reserve</u>	-	-	-	
<u>011 Realised surplus/(loss) - sale of land & build/distrib reserve</u>	-	-	-	
<u>012 Surplus/(deficit) on revaluation of land & build/distrib reserve</u>	-	-	-	
<u>013 Shares held by subsidiary company/distrib reserve</u>	-	-	-	
<u>014 Change in accounting policy/distrib reserve</u>	-	-	-	
<u>015 Adj arising on changes in composition of group/distrib reserve</u>	-	-	-	
<u>016 Share of associated companies' retained income</u>	-	-	-	
<u>017 Share issue expenses/distrib reserve</u>	-	-	-	
<u>018 Goodwill written off/distrib reserve</u>	-	-	-	
<u>019 Capital distributions/distrib reserve</u>	-	-	-	
<u>020 Net unrealised (losses)/gains on hedging instrum/distrib reserve</u>	-	-	-	
<u>021 Premium on acquisition of subsidiaries</u>	-	-	-	
<u>022 Profit/(loss) on disposal of subs/ businesses/distrib reserve</u>	-	-	-	
<u>023 Surplus/(deficit) on revaluation of investments/distrib reserve</u>	-	-	-	
<u>024 BEE Share of accum profit/distrib reserve</u>	-	-	-	
<u>025 Share based payments/distrib reserve</u>	-	-	-	
<u>026 Tax adjustment/distrib reserve</u>	-	-	-	

<u>027 Profit/(loss) on sale of investments/distrib reserve</u>					
<u>059 Sundry/distrib reserve</u>	-	-	-	-	-
<u>060 Balance at end of year/distrib reserve</u>	2,926	-2,146	-	-	-
<u>061 Movements in Preference Share Capital & Equity Loans</u>					
<u>062 Balance at begin of year/pref share capital & equity loans</u>	-	-	-	-	-
<u>063 Adj to prior year/pref share capital & equity loans</u>	-	-	-	-	-
<u>064 Shares issued</u>	-	-	-	-	-
<u>065 Share issue expenses/pref share capital & equity loans</u>	-	-	-	-	-
<u>066 Distribution to shareholders</u>	-	-	-	-	-
<u>067 Shares to be issued</u>	-	-	-	-	-
<u>068 Debentures issued</u>	-	-	-	-	-
<u>089 Sundry/pref share capital & equity loans</u>	-	-	-	-	-
<u>090 Balance at end of year/pref share capital & equity loans</u>	-	-	-	-	-
<u>091 Ordinary Shareholders' Equity at End Of Year</u>	5,895	152	-	-	-

Sundry Items [Year: 2007 - 2003, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Sep	Sep	Sep	Sep	Sep
Sundry Items Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
<u>101 Ordinary Shares in Issue @ Year End Split Adjusted</u>	8,740	8,740	3,625	3,625	3,625
<u>102 Nr of Ordinary Shares in Issue @ Year End</u>	8,740	8,740	3,625	3,625	3,625
<u>103 Par Or No Par Value</u>	1	1	1	1	1
<u>110 Debtors As Surety</u>	2	2	1	1	1
<u>111 Directors Value in Unlisted Investments</u>	13,072	-	-	-	-
<u>112 Market Value Listed Investments</u>	-	-	-	-	-
<u>113 Directors Valuation of Unconsolidated Subsidiaries</u>	1	2	12	12	12
<u>114 Arrear Cumulative Dividends</u>	-	-	-	-	-
<u>115 Months Covered By Financial Statements</u>	12	12	12	12	12
<u>116 Month Of Financial Year End</u>	9	9	9	9	9
<u>117 Audit Report Qualified</u>	2	2	2	2	2
<u>118 Inflation Adjusted Other Fixed Asset</u>	-	-	438	610	825
<u>119 Inflation Adjusted Depreciable Fixed Asset</u>	-	-	108	146	188
<u>120 No Of Subsidiaries</u>	-	-	-	-	-
<u>121 No Of Foreign Subsidiaries</u>	-	-	-	-	-
<u>122 No Of Quoted Subsidiaries</u>	-	-	-	-	-
<u>123 Controlled By Another Entity</u>	2	2	2	2	2
<u>124 Provision For Increased Replacement Value</u>	-	-	2	2	2
<u>125 Preference Share Issued At Par</u>	-	-	-	-	-
<u>126 Directors Shareholding Beneficial</u>	2,253	2,253	529	2,489	2,489
<u>127 Directors Shareholding Non-beneficial</u>	2,917	2,917	1,960	-	-
<u>128 Deferred Tax Total</u>	-	-	84	120	60
<u>129 Deferred Tax For Year</u>	-109	-84	-36	60	90
<u>130 Items Not Representing Cashflow</u>	-	5,879	248	301	323
<u>131 No Persons Employed</u>	-	-	129	129	145
<u>132 Inventory: Raw Material</u>	-	-	2,961	2,876	3,516
<u>133 Inventory: Finished Goods</u>	-	-	5,381	4,357	4,278
<u>134 Inventory: Merchandise</u>	-	-	-	-	-
<u>135 Inventory: Consumable Stores</u>	-	-	-	-	-
<u>136 Inventory: Work In Progress</u>	-	-	861	506	555
<u>137 Inventory: Uncompleted Contracts</u>	-	-	-	-	-
<u>138 Proportionate Profit from Associated Companies</u>	-	-	-	-	-
<u>139 Total Reserve Accrued: Associated Companies</u>	-	-	-	-	-

140 Capital Commitments					
141 Accumulated Depreciation Land & Buildings	-	-	174	174	174
142 Long Term Group Loans Advanced	-	-	-	-	-
143 Short Term Group Loans Advanced	-	-	-	-	-
144 Headline Earnings per Share	58	-79	-1	4	3
145 Long Term Group Loans Received	-	-	15	15	15
146 Short Term Group Loans Received	-	-	-	-	-
147 Notes To Statements	-	-	-	-	-
148 Number Of Analysts	7	8	2	8	2
149 Average Price Per Share	285	165	77	72	61
150 Share Price @ Company Financial Year End	-	209	66	70	-
151 Inventory Valuation Method	-	-	2	2	2
152 Mining Assets	-	-	-	-	-
153 Exploration, Amortisation Expenses Written Off	-	-	-	-	-
154 Undeveloped Property	-	-	-	-	-
155 Development Property Less Development Expense	-	-	-	-	-
156 Debtors For Property Sold	-	-	-	-	-
157 Provision For Future Development	-	-	-	-	-
158 Currency Adjustment: R1000 To ?	-	-	-	-	-
162 Trade Creditors	380	536	2,438	2,171	2,233
163 Loan Portion Of Tax	-	-	-	-	-
164 Balance Sheet LIFO Inventory Adjustment	-	-	-	-	-
165 Income Statement LIFO Inventory Adjustment	-	-	-	-	-
166 Leasehold Commitments	-	-	1,122	-	-
167 Contingent Liabilities	9,000	-	-	-	-
168 Extraordinary Item In Tax	-	-	-	-	-
169 Extraordinary Item In Minority Interest	-	-	-	-	-
170 No Of Shares Traded	1,098	747	66	105	114
171 No Of Transactions	145	92	31	31	24
172 Value Of Transactions	3,133	1,229	50	75	69
173 Split Factor (3 Decimals)	1	1	1	1	1
174 Month Of Stock Split	-	-	-	-	-



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Balance Sheet [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	7	7
Year End Month	Jun	Jun	Jun	Jun	Jun
Balance Sheet Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
001 Ordinary Share Capital	3,512,323	1,425,094	1,425,094	1,416,344	
002 Non Distributable Reserves	2,095,973	1,059,077	363,981	85,576	
003 Distributable Reserves	258,138	-906	-469	-173	
004 Cost Of Control	-	-	-	-	
005 Intangible Assets	-	-	-	-	
006 Ordinary Shareholders Interest	5,866,434	2,483,265	1,788,606	1,501,747	
007 Minority Interest	-	-	-	-	
008 Preference Share Capital	90,000	-	-	-	
009 Total Owners Interest	5,956,434	2,483,265	1,788,606	1,501,747	
010 Land And Buildings	7,281,441	3,057,291	2,223,026	1,866,799	
011 Total Depreciation: Land and Buildings	-	-	-	-	
012 Cost Other Fixed Assets	59,947	51,649	46,153	37,232	
013 Total Depreciation: Other Fixed Assets	26,646	16,681	9,405	3,004	
014 Total Fixed Assets	7,314,742	3,092,259	2,259,774	1,901,027	
015 Long Term Loans Advanced	-	-	-	-	
016 Unlisted Investments	-	-	-	-	
017 Shares In Unconsolidated Subsidiaries	-	-	-	-	
018 Listed Investments	-	-	-	-	
019 Total Long Term Investments	-	-	-	-	
020 Total Long Term Assets	7,314,742	3,092,259	2,259,774	1,901,027	
021 Secured Long Term Borrowings	1,197,050	458,330	364,141	310,978	
022 Debentures	-	-	-	-	
023 Other Long Term Borrowings	-	-	-	-	
024 Total Long Term Loan Capital	1,197,050	458,330	364,141	310,978	
025 Net Investment in Long Term Assets	6,117,692	2,633,929	1,895,633	1,590,049	
026 Total Inventory	-	-	-	-	
027 Debtors	35,422	11,688	31,757	4,269	
028 Short Term Loans Advances	46,496	-	-	-	
029 Cash And Bank	13,886	652	9,252	4,027	
030 Other Current Assets	-	-	-	24,104	
031 Total Current Assets	95,804	12,340	41,009	32,400	
032 Short Term Borrowings	9,238	3,316	13,624	1,867	
033 Creditors	143,865	50,531	34,257	39,121	
034 Bank Overdraft	-	-	-	-	
035 Provision For Taxation	-	-	-	-	
036 Provision For Distribution	103,959	109,157	100,155	79,714	
037 Total Current Liabilities	257,062	163,004	148,036	120,702	
038 Net Current Assets	-161,258	-150,664	-107,027	-88,302	
039 Net Assets	5,956,434	2,483,265	1,788,606	1,501,747	
042 Surplus Value Over Bookvalue of Investment	-	-	-	-	
040 Total Assets	7,410,546	3,104,599	2,300,783	1,933,427	
041 Operating Assets	7,364,050	3,104,599	2,300,783	1,933,427	

General Supplementary

<u>201 Shares In Issue Y/E Ordinary</u>	488,514	286,829	286,829	285,294
<u>202 Shares In Issue Y/E 'N'</u>	-	-	-	-
<u>203 Shares In Issue Y/E 'A'</u>	-	-	-	-
<u>204 Shares In Issue Y/E 'B'</u>	-	-	-	-
<u>248 Shares In Issue Y/E 'C'</u>	-	-	-	-
<u>251 Shares In Issue Y/E 'E'</u>	-	-	-	-
<u>206 Shares In Issue Weighted Average</u>	370,939	286,829	285,805	272,134
<u>207 Shares In Issue Fully Diluted</u>	-	-	-	-
<u>232 Treasury Shares (Number '000)</u>	-	-	-	-
<u>233 Treasury Shares (Value R'000)</u>	-	-	-	-
<u>249 Share Trusts and Other (Number '000)</u>	-	-	-	-
<u>250 Share Trusts and Other (Value R'000)</u>	-	-	-	-
<u>238 Preference shares issued by a subsidiary</u>	-	-	-	-
<u>208 Revaluation Reserve</u>	2,188,321	1,059,077	363,981	-
<u>209 Minority Revaluation Reserve</u>	-	-	-	-
<u>210 Minority Equity Accounted Reserve</u>	-	-	-	-
<u>228 Foreign Currency Translation Reserve - Cumulative</u>	-	-	-	-
<u>211 Commitments: Land & Buildings</u>	617,769	-	92,429	118,702
<u>212 Commitments: Other</u>	-	-	-	-
<u>213 Foreign Borrowings</u>	-	-	-	-
<u>214 Convertible Preference Shares</u>	-	-	-	-
<u>215 Convertible Debentures & Loans</u>	-	-	-	-
<u>216 Share In Issue Latest</u>	-	-	-	-
<u>217 Mining Assets at Cost</u>	-	-	-	-
<u>218 Depreciation / Amortisation on Mine Assets</u>	-	-	-	-
<u>219 Medical Aid Liabilities</u>	-	-	-	-
<u>220 Pension Fund Liabilities</u>	-	-	-	-
<u>221 Long Term Loans - Interest Bearing</u>	1,197,050	458,330	364,141	310,978
<u>222 Long Term Loans - Interest Free</u>	-	-	-	-
<u>223 Short Term Loans - Interest Bearing</u>	9,238	3,316	13,624	1,867
<u>224 Short Term Loans - Interest Free</u>	-	-	-	-
<u>225 Property Revaluation Surplus - I/S</u>	1,506,339	661,154	248,141	-
<u>226 Profit /Loss Forex Translations - B/S</u>	-	-	-	-
<u>227 Profit /Loss Forex Transactions - B/S</u>	-	-	-	-
<u>229 Foreign Assets</u>	-	-	-	-
<u>230 Foreign Liabilities</u>	-	-	-	-
<u>231 Provisions</u>	-	-	-	-
<u>236 Provisions - Long term</u>	-	-	-	-
<u>237 Provisions - Short term</u>	-	-	-	-
<u>234 Share Trust scheme</u>	-	-	-	-
<u>235 Capital Distributions (Cash)</u>	-	-	-	-
<u>239 Non Current Assets held for sale - Land & Buildings</u>	170,500	-	-	-
<u>240 Non Current Assets held for sale - Investments</u>	-	-	-	-
<u>241 Non Current Assets held for sale - Other</u>	-	-	-	-
<u>258 Total Bookvalue Land & Buildings</u>	7,281,441	3,057,291	2,223,026	1,866,799
<u>252 Total Bookvalue Other Fixed Assets</u>	33,301	-	-	-
<u>253 Bookvalue Plant & Machinery/Manufacturing Equipment</u>	-	-	-	-
<u>254 Bookvalue Furniture & Office Equipment</u>	33,301	-	-	-
<u>255 Bookvalue Vehicles</u>	-	-	-	-
<u>256 Bookvalue Computer Hardware & Software</u>	-	-	-	-
<u>257 Bookvalue Other fixed assets</u>	-	-	-	-
<u>242 Listed Unconsolidated Subsidiaries</u>	-	-	-	-
<u>243 Market Value of Listed Unconsolidated Subsidiaries</u>	-	-	-	-
<u>244 Unlisted Unconsolidated Subsidiaries</u>	-	-	-	-
<u>245 Directors Valuation of Unlisted Unconsolidated Subsidiaries</u>	-	-	-	-
<u>246 Minority dividends declared - B/S</u>	-	-	-	-
<u>247 BEE Share of accumulative profits - B/S</u>	-	-	-	-

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	7	7
Year End Month	Jun	Jun	Jun	Jun	Jun
Income Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
<u>051 Turnover</u>	631,000	451,950	407,088	179,669	
<u>052 Change In Turnover %</u>	40	11	32	-	
<u>053 Cost Of Sales</u>	-	-	-	-	
<u>054 Trading Profit</u>	432,608	315,603	286,010	205,360	
<u>055 Interest Received</u>	4,495	1,417	3,554	8,046	
<u>056 Income Unlisted Investment</u>	-	-	-	-	
<u>057 Income Listed Investment</u>	-	-	-	-	
<u>058 Income Unconsolidated Subsidiaries</u>	-	-	-	-	
<u>059 Total Income Investment</u>	4,495	1,417	3,554	8,046	
<u>060 Surplus Sale Investment</u>	42,444	-	-	-	
<u>061 Surplus Sale Non Trading Assets</u>	-	1,459	-21,490	-	
<u>062 Extraordinary Profits</u>	-92,348	-	-104	-	
<u>063 Total Profits Extraordinary Nature</u>	-49,904	1,459	-21,594	-	
<u>064 Auditors Remuneration And Costs</u>	561	449	455	481	
<u>065 Depreciation Other Fixed Assets</u>	9,966	7,532	6,464	3,004	
<u>066 Depreciation Land And Buildings</u>	-	-	-	-	
<u>067 Rental Fixed Assets</u>	3,677	1,965	1,603	823	
<u>068 Directors Remuneration: Direct</u>	-	-	-	-	
<u>069 Directors Remuneration: Other</u>	-	-	-	-	
<u>070 Management And Other Services</u>	21,949	28,986	22,740	10,939	
<u>071 Total Cost Shown</u>	36,153	38,932	31,262	15,247	
<u>054 Trading Profit</u>	432,608	315,603	286,010	205,360	
<u>059 Total Income Investment</u>	4,495	1,417	3,554	8,046	
<u>063 Total Profits Extraordinary Nature</u>	-49,904	1,459	-21,594	-	
<u>072 Total Income</u>	387,199	318,479	267,970	213,406	
<u>071 Total Cost Shown</u>	36,153	38,932	31,262	15,247	
<u>073 Profit Before Interest And Tax (EBIT)</u>	351,046	279,547	236,708	198,159	
<u>074 Total Interest Paid</u>	65,901	32,365	45,662	20,669	
<u>075 Profit Before Taxation</u>	285,145	247,182	191,046	177,490	
<u>076 Taxation</u>	367	-	-	-	
<u>077 Profit After Taxation</u>	284,778	247,182	191,046	177,490	
<u>078 Minority Interest In Profit</u>	-	-	-	-	
<u>079 Profit to Ordinary And Preference Shareholders</u>	284,778	247,182	191,046	177,490	
<u>080 Ordinary Dividend</u>	307,209	213,688	193,753	97,028	
<u>081 Preference Dividend</u>	2,934	-	-	-	
<u>082 Retained Profits</u>	-25,365	33,494	-2,707	80,462	
<u>083 Earnings Before Interest, Tax, Depreciation And Amortisation (EBITDA)</u>	689,376	287,079	243,172	201,163	
General Supplementary					
<u>301 Lease Charge: Land Building</u>	3,677	1,965	1,603	823	
<u>302 Lease Charge: Other</u>	-	-	-	-	
<u>303 Research & Development</u>	-	-	-	-	
<u>304 EPS-Equity Accounted</u>	-	-	-	-	
<u>305 EPS-Bottom Line</u>	363	317	165	65	
<u>306 EPS-Headline</u>	102	86	74	33	
<u>307 EPS-Fully Diluted Headline</u>	-	-	-	-	
<u>308 EPS-Fully Diluted Bottomline</u>	-	-	-	-	



<u>374 EPS-Continuing Operations</u>				
<u>359 Earnings per Linked Unit</u>				
<u>375 Core Headline Earnings - Total Value</u>				
<u>376 Core Headline Earnings Per Share</u>				
<u>380 Dividend per Share</u>			68	34
<u>381 Interest Distribution per Unit</u>	82	75		
<u>382 Capital Distribution per Share</u>				
<u>309 Effective Tax Rate</u>	1			
<u>310 Deferred Tax: Contingent Liability</u>				
<u>311 Deferred Tax: Current</u>	116,153			
<u>312 Deferred Tax: Other</u>				
<u>318 Accumulated Assessed Tax Loss</u>				
<u>319 Accumulated Computed Tax Loss</u>				
<u>320 Prior Year Tax Adjustment</u>				
<u>333 STC as Published</u>	367			
<u>338 Foreign Tax</u>				
<u>364 Foreign Tax - Normal</u>				
<u>365 Foreign Tax - Previous year</u>				
<u>366 Foreign Tax - Deferred</u>				
<u>313 Interest Capitalised</u>				
<u>373 Interest Paid - Debentures</u>				
<u>314 Invest Allowance Benefit</u>				
<u>315 Dilution: Interest Saved</u>				
<u>316 Dilution: Dividends Saved</u>				
<u>317 Dilution: Equity Income Converted</u>				
<u>322 Intangible Assets Written Off</u>				
<u>350 Impairments of intangible assets</u>				
<u>349 Reversal impairments/Intangible Assets - prev years</u>				
<u>383 Goodwill Written Off</u>				
<u>351 Impairments of goodwill</u>	328,364			
<u>346 Reversal of impairments of Goodwill - prev years</u>				
<u>323 Amortisation of goodwill</u>	328,364			
<u>324 Impairment of Investments</u>				
<u>348 Reversal of impairments/Investments - prev years</u>				
<u>325 Impairment of Loans</u>				
<u>368 Reversal of impairments/Loans - prev years</u>				
<u>326 Capital Profit /Loss on Financial Assets</u>	42,444			
<u>360 Gains/Losses on Mark to Market Value of Financial Assets</u>				
<u>327 Impairment of Fixed Assets</u>				
<u>347 Reversal of impairm/Other Fixed assets - prev years</u>				
<u>328 Capital Profit /Loss on Fixed Assets</u>		1,459	-21,490	
<u>329 Profit /Loss Forex Translations - I/S</u>				
<u>330 Profit /Loss Forex Transactions - I/S</u>				
<u>331 Profit /Loss Disposal of Subsidiaries/ Businesses</u>				
<u>332 Profit /Loss Sundry Extraordinaries</u>	-67,526			
<u>352 Extraordinary items - unconsolidated subs</u>				
<u>367 Share issue expenses written off</u>			-104	
<u>377 Expense in regard to BEE transaction</u>	-24,822			
<u>336 Foreign Turnover</u>				
<u>337 Foreign Profit</u>				
<u>339 Ordinary Dividends - Ordinary Shareholders</u>	307,209	213,688	193,753	
<u>340 Ordinary Dividends - Minority Shareholders</u>				
<u>357 Ordinary dividends declared</u>	307,209			
<u>358 Ordinary dividends paid</u>	307,209			
<u>341 Preference Dividends - Ordinary Shareholders</u>	2,934			
<u>342 Preference Dividends - Minority Shareholders</u>				
<u>353 Minority dividends paid</u>				
<u>354 Minority dividends declared - I/S</u>				



321 Non Cash Dividends				
334 Non-Cash Dividend (Current Year)				
335 Non-Cash Dividend (Previous Year)				
343 Auditors - Audit Fees - current year	528	433	439	
378 Auditors - Audit Fees - previous year				
379 Auditors - Audit Expenses	33	16	16	
344 Auditors - Other Fees				
345 Staff Costs(excluding directors remuneration)				
372 Other Staff share based payments - I/S				
361 Directors share based payments - I/S				
362 Directors share based payments - B/S				
355 Income from Endowment policies				
356 Other Income from Fixed Asset Investments	449,874			
363 BEE Share of profits - I/S				

Changes In Equity Statement [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	7	7
Year End Month	Jun	Jun	Jun	Jun	Jun
Changes In Equity Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
901 Ordinary Shareholders' Equity at Beginning of Year	2,483,265	1,788,606	-		
902 Movements in Issued Capital & Share Premium					
903 Balance at begin of year/issued capital & share premium	1,425,094	1,425,094	-		
904 Adj to prior year/issued capital & share premium					
905 Ordinary shares issued/issued capital & share premium	1,994,881				
906 Share based payments/issued capital & share premium					
907 Shares held by subsidiary company/issued capital & share premium					
908 Share issue expenses/issued capital & share premium					
909 Goodwill written off/issued capital & share premium					
910 Capital distributions/issued capital & share premium					
911 Treasury shares/issued capital & share premium					
913 Cancelling of shares/issued capital & share premium					
912 Staff share trust/issued capital & share premium					
951 Share premium raised under share purchase scheme					
939 Sundry/issued capital & share premium	92,348				
940 Balance at end of year/issued capital & share premium	3,512,323	1,425,094	-		
941 Movements in Non-Distributable Reserve					
942 Balance at begin of year/non-distrib reserve	1,059,077	363,981	-		
943 Adj to prior year/non-distrib reserve					
944 Ordinary shares issued/non-distrib reserve					
945 Profit/(loss) on sale of investments/non-distrib reserve					
946 Shares held by subsidiary company/non-distrib reserve					
947 Share issue expenses/non-distrib reserve					
948 Goodwill written off/non-distrib reserve					
949 Capital distributions/non-distrib reserve					



<u>950 Section 90 unbundling payment to shareholder</u>				
<u>952 Treasury shares/non-distrib reserve</u>				
<u>971 Cancelling of shares/non-distrib reserve</u>				
<u>953 Staff share trust/non-distrib reserve</u>				
<u>954 Profit/(loss) on forex translations/non-distrib reserve</u>				
<u>955 Profit/(loss) on forex transactions/non-distrib reserve</u>				
<u>956 Tax adjustment/non-distrib reserve</u>	-116,153			
<u>957 Net transfer (to)/from distributable reserve</u>	1,153,049	695,096		
<u>958 Realised surplus/(loss) - sale of land & build/non-distrib reserve</u>				
<u>959 Surplus/(deficit) on revaluation of land & build/non-distrib reserve</u>				
<u>960 Derivative valuation adjustment</u>				
<u>961 Capital redemption fund</u>				
<u>962 Adj arising on changes in composition of group/non-distrib reserve</u>				
<u>963 Profit/(loss) on disposal of subs/ businesses/non-distrib reserve</u>				
<u>964 Share of associated companies' reserves</u>				
<u>965 Profit on share issue of subsidiaries</u>				
<u>966 Change in accounting policy/non-distrib reserve</u>				
<u>967 Surplus/(deficit) on revaluation of investments/non-distrib reserve</u>				
<u>968 BEE Share of accum profit/non-distrib reserve</u>				
<u>969 Share based payments/non-distrib reserve</u>				
<u>970 Net unrealised (losses)/gains on hedging instrum/non-distrib reserve</u>				
<u>999 Sundry/non-distrib reserve</u>				
<u>000 Balance at end of year/non-distrib reserve</u>	2,095,973	1,059,077		
<u>001 Movements in Distributable Reserve</u>				
<u>002 Balance at begin of year/distrib reserve</u>	-906	-469		
<u>003 Adj to prior year/distrib reserve</u>				
<u>004 Net profit/(loss) for the year</u>	1,463,120	908,336		
<u>005 Ordinary dividends</u>	-307,209	-213,677		
<u>006 Preference dividends</u>	-2,934			
<u>007 Treasury shares/distrib reserve</u>				
<u>028 Cancelling of shares/distrib reserve</u>				
<u>008 Net transfer (to)/from non-distributable reserves</u>	-1,153,049	-695,096		
<u>009 Profit/(loss) on forex translations/distrib reserve</u>				
<u>010 Profit/(loss) on forex transactions/distrib reserve</u>				
<u>011 Realised surplus/(loss) - sale of land & build/distrib reserve</u>				
<u>012 Surplus/(deficit) on revaluation of land & build/distrib reserve</u>				
<u>013 Shares held by subsidiary company/distrib reserve</u>				
<u>014 Change in accounting policy/distrib reserve</u>				
<u>015 Adj arising on changes in composition of group/distrib reserve</u>				
<u>016 Share of associated companies' retained income</u>				
<u>017 Share issue expenses/distrib reserve</u>				
<u>018 Goodwill written off/distrib reserve</u>				
<u>019 Capital distributions/distrib reserve</u>				
<u>020 Net unrealised (losses)/gains on hedging instrum/distrib reserve</u>				



<u>021 Premium on acquisition of subsidiaries</u>				
<u>022 Profit/(loss) on disposal of subs/ businesses/distrib reserve</u>				
<u>023 Surplus/(deficit) on revaluation of investments/distrib reserve</u>				
<u>024 BEE Share of accum profit/distrib reserve</u>				
<u>025 Share based payments/distrib reserve</u>				
<u>026 Tax adjustment/distrib reserve</u>				
<u>027 Profit/(loss) on sale of investments/distrib reserve</u>				
<u>059 Sundry/distrib reserve</u>	-367			
<u>060 Balance at end of year/distrib reserve</u>	-1,345	-906		
<u>061 Movements in Preference Share Capital & Equity Loans</u>				
<u>062 Balance at begin of year/pref share capital & equity loans</u>				
<u>063 Adj to prior year/pref share capital & equity loans</u>				
<u>064 Shares issued</u>	90,000			
<u>065 Share issue expenses/pref share capital & equity loans</u>				
<u>066 Distribution to shareholders</u>				
<u>067 Shares to be issued</u>				
<u>068 Debentures issued</u>				
<u>089 Sundry/pref share capital & equity loans</u>				
<u>090 Balance at end of year/pref share capital & equity loans</u>	90,000			
<u>091 Ordinary Shareholders' Equity at End Of Year</u>	5,606,951	2,483,265		

Sundry Items [Year: 2007 - 2003, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	7	7
Year End Month	Jun	Jun	Jun	Jun	Jun
Sundry Items Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
<u>101 Ordinary Shares in Issue @ Year End Split Adjusted</u>	488,514	286,829	286,829	285,294	
<u>102 Nr of Ordinary Shares in Issue @ Year End</u>	488,514	286,829	286,829	285,294	
<u>103 Par Or No Par Value</u>	2	1	1	1	
<u>110 Debtors As Surety</u>	2	2	2	2	
<u>111 Directors Value in Unlisted Investments</u>	-	-	-	-	
<u>112 Market Value Listed Investments</u>	-	-	-	-	
<u>113 Directors Valuation of Unconsolidated Subsidiaries</u>	-	-	-	-	
<u>114 Arrear Cumulative Dividends</u>	-	-	-	-	
<u>115 Months Covered By Financial Statements</u>	12	12	12	7	
<u>116 Month Of Financial Year End</u>	6	6	6	6	
<u>117 Audit Report Qualified</u>	2	2	2	2	
<u>118 Inflation Adjusted Other Fixed Asset</u>	2,803	116	-	-	
<u>119 Inflation Adjusted Depreciable Fixed Asset</u>	839	21	-	-	
<u>120 No Of Subsidiaries</u>	-	-	-	-	
<u>121 No Of Foreign Subsidiaries</u>	-	-	-	-	
<u>122 No Of Quoted Subsidiaries</u>	-	-	-	-	
<u>123 Controlled By Another Entity</u>	2	3	3	3	
<u>124 Provision For Increased Replacement Value</u>	2	2	2	2	
<u>125 Preference Share Issued At Par</u>	2	-	-	-	
<u>126 Directors Shareholding Beneficial</u>	12,067	431	391	125	
<u>127 Directors Shareholding Non-beneficial</u>	415	-	-	-	
<u>128 Deferred Tax Total</u>	259,483	-	-	-	
<u>129 Deferred Tax For Year</u>	116,153	-	-	-	
<u>130 Items Not Representing Cashflow</u>	9,966	7,532	39,133	3,004	
<u>131 No Persons Employed</u>	-	-	-	-	
<u>132 Inventory: Raw Material</u>	-	-	-	-	

<u>134 Inventory: Merchandise</u>	-	-	-	-
<u>135 Inventory: Consumable Stores</u>	-	-	-	-
<u>136 Inventory: Work In Progress</u>	-	-	-	-
<u>137 Inventory: Uncompleted Contracts</u>	-	-	-	-
<u>138 Proportionate Profit from Associated Companies</u>	-	-	-	-
<u>139 Total Reserve Accrued: Associated Companies</u>	-	-	-	-
<u>140 Capital Commitments</u>	237,605	844,357	6,000	8,000
<u>141 Accumulated Depreciation Land & Buildings</u>	-	-	-	-
<u>142 Long Term Group Loans Advanced</u>	-	-	-	-
<u>143 Short Term Group Loans Advanced</u>	-	-	-	-
<u>144 Headline Earnings per Share</u>	102	86	74	33
<u>145 Long Term Group Loans Received</u>	-	-	-	-
<u>146 Short Term Group Loans Received</u>	-	-	-	-
<u>147 Notes To Statements</u>	-	-	-	-
<u>148 Number Of Analysts</u>	8	9	7	7
<u>149 Average Price Per Share</u>	1,048	885	614	519
<u>150 Share Price @ Company Financial Year End</u>	1,091	922	717	513
<u>151 Inventory Valuation Method</u>	-	-	-	-
<u>152 Mining Assets</u>	-	-	-	-
<u>153 Exploration, Amortisation Expenses Written Off</u>	-	-	-	-
<u>154 Undeveloped Property</u>	-	-	-	-
<u>155 Development Property Less Development Expense</u>	-	-	-	-
<u>156 Debtors For Property Sold</u>	-	-	-	-
<u>157 Provision For Future Development</u>	-	-	-	-
<u>158 Currency Adjustment: R1000 To ?</u>	-	-	-	-
<u>162 Trade Creditors</u>	4,076	2,531	1,130	3,281
<u>163 Loan Portion Of Tax</u>	-	-	-	-
<u>164 Balance Sheet LIFO Inventory Adjustment</u>	-	-	-	-
<u>165 Income Statement LIFO Inventory Adjustment</u>	-	-	-	-
<u>166 Leasehold Commitments</u>	617,769	-	92,429	118,702
<u>167 Contingent Liabilities</u>	8,300	-	-	-
<u>168 Extraordinary Item In Tax</u>	-	-	-	-
<u>169 Extraordinary Item In Minority Interest</u>	-	-	-	-
<u>170 No Of Shares Traded</u>	146,093	145,766	99,603	57,251
<u>171 No Of Transactions</u>	5,011	3,693	2,040	727
<u>172 Value Of Transactions</u>	1,531,603	1,289,543	611,563	297,127
<u>173 Split Factor (3 Decimals)</u>	1	1	1	1
<u>174 Month Of Stock Split</u>	-	-	-	-



McGregor BFA

Balance Sheet [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Mar	Mar	Mar	Mar	Mar
Balance Sheet Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
001 Ordinary Share Capital	2,700	2,700	2,600	2,700	2,800
002 Non Distributable Reserves	-125,700	-56,700	60,000	228,800	377,500
003 Distributable Reserves	3,504,500	2,781,900	2,367,800	2,061,000	1,786,700
004 Cost Of Control	27,000	28,600	28,600	22,300	24,600
005 Intangible Assets	3,900	-	-	-	-
006 Ordinary Shareholders Interest	3,350,600	2,699,300	2,401,800	2,270,200	2,142,400
007 Minority Interest	181,300	88,900	16,000	10,100	5,100
008 Preference Share Capital	400	400	400	400	400
009 Total Owners Interest	3,532,300	2,788,600	2,418,200	2,280,700	2,147,900
010 Land And Buildings	257,500	248,900	64,100	52,500	52,500
011 Total Depreciation: Land and Buildings	52,000	64,100	39,500	39,500	39,500
012 Cost Other Fixed Assets	1,614,100	1,389,600	1,174,000	1,070,600	990,600
013 Total Depreciation: Other Fixed Assets	1,037,500	973,600	828,600	768,000	717,600
014 Total Fixed Assets	782,100	600,800	370,000	315,600	286,000
015 Long Term Loans Advanced	967,700	700,400	586,000	445,100	444,100
016 Unlisted Investments	200,000	200,000	500,000	200,000	150,000
017 Shares In Unconsolidated Subsidiaries	-	-	-	-	-
018 Listed Investments	-	-	-	-	-
019 Total Long Term Investments	1,167,700	900,400	1,086,000	645,100	594,100
020 Total Long Term Assets	1,949,800	1,501,200	1,456,000	960,700	880,100
021 Secured Long Term Borrowings	-	542,700	300,000	-	-
022 Debentures	-	-	-	-	-
023 Other Long Term Borrowings	1,135,600	572,400	553,400	320,400	347,400
024 Total Long Term Loan Capital	1,135,600	1,115,100	853,400	320,400	347,400
025 Net Investment in Long Term Assets	814,200	386,100	602,600	640,300	532,700
026 Total Inventory	1,292,900	1,090,800	912,100	689,700	599,300
027 Debtors	2,420,900	2,297,200	1,891,300	1,779,900	1,541,900
028 Short Term Loans Advances	840,400	719,700	582,500	325,400	312,200
029 Cash And Bank	69,100	62,500	36,200	29,200	27,200
030 Other Current Assets	-	-	-	-	-
031 Total Current Assets	4,623,300	4,170,200	3,422,100	2,824,200	2,480,600
032 Short Term Borrowings	5,900	8,000	2,700	900	9,400
033 Creditors	1,255,800	1,095,200	1,061,400	870,700	649,400
034 Bank Overdraft	-	-	-	-	-
035 Provision For Taxation	234,700	327,900	326,300	163,100	129,700
036 Provision For Distribution	408,800	336,600	216,100	149,100	76,900
037 Total Current Liabilities	1,905,200	1,767,700	1,606,500	1,183,800	865,400
038 Net Current Assets	2,718,100	2,402,500	1,815,600	1,640,400	1,615,200
039 Net Assets	3,532,300	2,788,600	2,418,200	2,280,700	2,147,900
042 Surplus Value Over Bookvalue of Investment	-	-	-	-	-
040 Total Assets	6,573,100	5,671,400	4,878,100	3,784,900	3,360,700
041 Operating Assets	4,565,000	4,051,300	3,209,600	2,814,400	2,454,400

General Supplementary



<u>201 Shares In Issue Y/E Ordinary</u>	211,953	212,571	211,865	218,379	223,625
<u>202 Shares In Issue Y/E 'N'</u>	-	-	-	-	-
<u>203 Shares In Issue Y/E 'A'</u>	-	-	-	-	-
<u>204 Shares In Issue Y/E 'B'</u>	-	-	-	-	-
<u>248 Shares In Issue Y/E 'C'</u>	-	-	-	-	-
<u>251 Shares In Issue Y/E 'E'</u>	-	-	-	-	-
<u>206 Shares In Issue Weighted Average</u>	209,494	213,135	213,285	220,746	224,900
<u>207 Shares In Issue Fully Diluted</u>	217,390	219,498	225,248	229,410	228,031
<u>232 Treasury Shares (Number '000)</u>	28,546	27,927	-	-	-
<u>233 Treasury Shares (Value R'000)</u>	685,000	595,500	-	-	-
<u>249 Share Trusts and Other (Number '000)</u>	-	-	-	-	-
<u>250 Share Trusts and Other (Value R'000)</u>	-	-	-	-	-
<u>238 Preference shares issued by a subsidiary</u>	-	-	-	-	-
<u>208 Revaluation Reserve</u>	-300	-1,600	-	-	-
<u>209 Minority Revaluation Reserve</u>	-	-	-	-	-
<u>210 Minority Equity Accounted Reserve</u>	-	-	-	-	-
<u>228 Foreign Currency Translation Reserve - Cumulative</u>	-	-	-	-	-
<u>211 Commitments: Land & Buildings</u>	2,043,200	1,923,900	1,740,100	1,681,300	1,642,500
<u>212 Commitments: Other</u>	-	-	-	-	-
<u>213 Foreign Borrowings</u>	-	-	-	-	-
<u>214 Convertible Preference Shares</u>	-	-	-	-	-
<u>215 Convertible Debentures & Loans</u>	-	-	-	-	-
<u>216 Share In Issue Latest</u>	-	-	-	-	-
<u>217 Mining Assets at Cost</u>	-	-	-	-	-
<u>218 Depreciation / Amortisation on Mine Assets</u>	-	-	-	-	-
<u>219 Medical Aid Liabilities</u>	84,100	80,100	76,100	69,700	62,400
<u>220 Pension Fund Liabilities</u>	-	-	-	-	-
<u>221 Long Term Loans - Interest Bearing</u>	1,014,600	1,115,100	853,400	320,400	347,400
<u>222 Long Term Loans - Interest Free</u>	121,000	-	-	-	-
<u>223 Short Term Loans - Interest Bearing</u>	5,900	8,000	2,700	900	9,400
<u>224 Short Term Loans - Interest Free</u>	-	-	-	-	-
<u>225 Property Revaluation Surplus - I/S</u>	-	-	-	-	-
<u>226 Profit /Loss Forex Translations - B/S</u>	-	-	-	-	400
<u>227 Profit /Loss Forex Transactions - B/S</u>	-	-	-	-	-
<u>229 Foreign Assets</u>	-	-	-	-	-
<u>230 Foreign Liabilities</u>	-	-	-	-	-
<u>231 Provisions</u>	116,700	112,900	-	-	-
<u>236 Provisions - Long term</u>	-	-	-	-	-
<u>237 Provisions - Short term</u>	116,700	112,900	-	-	-
<u>234 Share Trust scheme</u>	-	-	-	-	-
<u>235 Capital Distributions (Cash)</u>	-	-	-	-	-
<u>239 Non Current Assets held for sale - Land & Buildings</u>	-	-	-	-	-
<u>240 Non Current Assets held for sale - Investments</u>	-	-	-	-	-
<u>241 Non Current Assets held for sale - Other</u>	-	-	-	-	-
<u>258 Total Bookvalue Land & Buildings</u>	205,500	184,800	24,600	13,000	13,000
<u>252 Total Bookvalue Other Fixed Assets</u>	576,600	-	-	-	-
<u>253 Bookvalue Plant & Machinery/Manufacturing Equipment</u>	-	-	-	-	-
<u>254 Bookvalue Furniture & Office Equipment</u>	576,600	-	-	-	-
<u>255 Bookvalue Vehicles</u>	-	-	-	-	-
<u>256 Bookvalue Computer Hardware & Software</u>	-	-	-	-	-
<u>257 Bookvalue Other fixed assets</u>	-	-	-	-	-
<u>242 Listed Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>243 Market Value of Listed Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>244 Unlisted Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>245 Directors Valuation of Unlisted Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>246 Minority dividends declared - B/S</u>	-	-	-	-	-
<u>247 BEE Share of accumulative profits - B/S</u>	-	-	-	-	-

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Mar	Mar	Mar	Mar	Mar
Income Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
051 Turnover	7,230,000	6,432,100	5,279,300	4,410,000	3,880,600
052 Change In Turnover %	12	22	20	14	18
053 Cost Of Sales	4,195,100	3,707,900	2,999,500	2,554,200	2,282,600
054 Trading Profit	1,687,900	1,534,700	1,270,100	1,466,261	1,264,700
055 Interest Received	873,800	644,100	488,900	208,500	127,800
056 Income Unlisted Investment	22,800	13,400	14,300	16,700	18,900
057 Income Listed Investment	-	-	-	-	-
058 Income Unconsolidated Subsidiaries	-	-	-	-	-
059 Total Income Investment	896,600	657,500	503,200	225,200	146,700
060 Surplus Sale Investment	-	-	5,700	-11,300	-
061 Surplus Sale Non Trading Assets	-100	-1,600	-3,400	-1,300	-1,900
062 Extraordinary Profits	-	-	-	-	-36,700
063 Total Profits Extraordinary Nature	-100	-1,600	2,300	-12,600	-38,600
064 Auditors Remuneration And Costs	2,900	2,100	1,900	2,100	1,300
065 Depreciation Other Fixed Assets	167,200	145,000	121,100	116,000	116,800
066 Depreciation Land And Buildings	5,400	3,900	-	-	-
067 Rental Fixed Assets	512,700	459,600	435,700	747,500	663,900
068 Directors Remuneration: Direct	1,900	1,400	1,200	1,046	900
069 Directors Remuneration: Other	5,800	11,300	10,300	8,915	7,500
070 Management And Other Services	-	-	-	-	-
071 Total Cost Shown	695,900	623,300	570,200	875,561	790,400
054 Trading Profit	1,687,900	1,534,700	1,270,100	1,466,261	1,264,700
059 Total Income Investment	896,600	657,500	503,200	225,200	146,700
063 Total Profits Extraordinary Nature	-100	-1,600	2,300	-12,600	-38,600
072 Total Income	2,584,400	2,190,600	1,775,600	1,678,861	1,372,800
071 Total Cost Shown	695,900	623,300	570,200	875,561	790,400
073 Profit Before Interest And Tax (EBIT)	1,888,500	1,567,300	1,205,400	803,300	582,400
074 Total Interest Paid	104,700	79,100	58,400	55,500	63,500
075 Profit Before Taxation	1,783,800	1,488,200	1,147,000	747,800	518,900
076 Taxation	602,800	488,400	447,300	277,000	164,100
077 Profit After Taxation	1,181,000	999,800	699,700	470,800	354,800
078 Minority Interest In Profit	72,800	22,100	10,800	6,900	5,500
079 Profit to Ordinary And Preference Shareholders	1,108,200	977,700	688,900	463,900	349,300
080 Ordinary Dividend	572,800	480,100	347,500	218,982	131,200
081 Preference Dividend	26,000	-	-	-	-
082 Retained Profits	509,400	497,600	341,400	244,918	218,100
083 Earnings Before Interest, Tax, Depreciation And Amortisation (EBITDA)	2,062,600	1,716,200	1,326,500	925,800	704,500
General Supplementary					
301 Lease Charge: Land Building	512,700	459,600	435,700	747,500	663,900
302 Lease Charge: Other	-	-	-	-	-
303 Research & Development	-	-	-	-	-
304 EPS-Equity Accounted	-	-	-	-	-
305 EPS-Bottom Line	534	463	360	234	160
306 EPS-Headline	534	463	360	237	162
307 EPS-Fully Diluted Headline	515	450	341	228	160
308 EPS-Fully Diluted Bottomline	515	450	341	225	158



374 EPS-Continuing Operations					
359 Earnings per Linked Unit					
375 Core Headline Earnings - Total Value					
376 Core Headline Earnings Per Share					
380 Dividend per Share	270	220	164	94	56
381 Interest Distribution per Unit	-	-	-	-	-
382 Capital Distribution per Share	-	-	-	-	-
309 Effective Tax Rate	33	32	32	30	29
310 Deferred Tax: Contingent Liability	-	-	-	-	-
311 Deferred Tax: Current	-34,300	-2,600	-87,100	-3,500	-15,900
312 Deferred Tax: Other	-7,000	4,000	-46,600	-10,400	-10,200
318 Accumulated Assessed Tax Loss	-	-	-	-	-
319 Accumulated Computed Tax Loss	-	-	-	-	-
320 Prior Year Tax Adjustment	6,700	-3,900	45,700	11,400	10,200
333 STC as Published	65,900	48,500	25,900	1,000	4,300
338 Foreign Tax	8,100	7,000	-	-	-
364 Foreign Tax - Normal	7,900	5,800	-	-	-
365 Foreign Tax - Previous year	100	100	-	-	-
366 Foreign Tax - Deferred	100	1,100	-	-	-
313 Interest Capitalised	-	-	-	-	-
373 Interest Paid - Debentures	-	-	-	-	-
314 Invest Allowance Benefit	-	-	-	-	-
315 Dilution: Interest Saved	-	-	-	-	-
316 Dilution: Dividends Saved	-	-	-	-	-
317 Dilution: Equity Income Converted	-	-	-	-	-
322 Intangible Assets Written Off	1,500	-	-	-	-
350 Impairments of intangible assets	-	-	-	-	-
349 Reversal impairments/Intangible Assets - prev years	-	-	-	-	-
383 Goodwill Written Off	-	-	-	-	-
351 Impairments of goodwill	-	-	-	-	-
346 Reversal of impairments of Goodwill - prev years	-	-	-	-	-
323 Amortisation of goodwill	-	-	-	6,500	5,300
324 Impairment of Investments	-	-	-	-	-
348 Reversal of impairments/Investments - prev years	-	-	-	-	-
325 Impairment of Loans	-	-	-	-	-
368 Reversal of impairments/Loans - prev years	-	-	-	-	-
326 Capital Profit /Loss on Financial Assets	-	-	5,700	-11,300	-
360 Gains/Losses on Mark to Market Value of Financial Assets	-	-	-	-	-
327 Impairment of Fixed Assets	-	-	-	-	-
347 Reversal of impairm/Other Fixed assets - prev years	-	-	-	-	-
328 Capital Profit /Loss on Fixed Assets	-100	-1,600	-3,400	-1,300	-1,900
329 Profit /Loss Forex Translations - I/S	-	-	-	-	-
330 Profit /Loss Forex Transactions - I/S	-	-	-	-	-
331 Profit /Loss Disposal of Subsidiaries/ Businesses	-	-	-	-	-
332 Profit /Loss Sundry Extraordinaries	-	-	-	-	-37,100
352 Extraordinary items - unconsolidated subs	-	-	-	-	-
367 Share issue expenses written off	-	-	-	-	-
377 Expense in regard to BEE transaction	-	-	-	-	-
336 Foreign Turnover	222,000	-	-	-	-
337 Foreign Profit	-	-	-	-	-
339 Ordinary Dividends - Ordinary Shareholders	572,800	480,100	-	-	-
340 Ordinary Dividends - Minority Shareholders	-	-	-	-	-
357 Ordinary dividends declared	572,800	480,100	-	-	-
358 Ordinary dividends paid	500,600	388,800	-	-	-
341 Preference Dividends - Ordinary Shareholders	26,000	-	-	-	-
342 Preference Dividends - Minority Shareholders	-	-	-	-	-
353 Minority dividends paid	51,600	-	-	-	-
354 Minority dividends declared - I/S	-	-	-	-	-



321 Non Cash Dividends				
334 Non-Cash Dividend (Current Year)				
335 Non-Cash Dividend (Previous Year)				
343 Auditors - Audit Fees - current year	2,800	1,800	1,500	
378 Auditors - Audit Fees - previous year				
379 Auditors - Audit Expenses				
344 Auditors - Other Fees	100	300	400	
345 Staff Costs(excluding directors remuneration)	964,500	884,800		
372 Other Staff share based payments - I/S	19,200			
361 Directors share based payments - I/S				
362 Directors share based payments - B/S				
355 Income from Endowment policies				
356 Other Income from Fixed Asset Investments				
363 BEE Share of profits - I/S				

Changes In Equity Statement [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Mar	Mar	Mar	Mar	Mar
Changes In Equity Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
901 Ordinary Shareholders' Equity at Beginning of Year	3,267,900	2,496,800	-		
902 Movements in Issued Capital & Share Premium					
903 Balance at begin of year/issued capital & share premium	-2,200	83,100	-		
904 Adj to prior year/issued capital & share premium					
905 Ordinary shares issued/issued capital & share premium					
906 Share based payments/issued capital & share premium					
907 Shares held by subsidiary company/issued capital & share premium					
908 Share issue expenses/issued capital & share premium					
909 Goodwill written off/issued capital & share premium					
910 Capital distributions/issued capital & share premium					
911 Treasury shares/issued capital & share premium	-181,000	-176,800	-		
913 Cancelling of shares/issued capital & share premium					
912 Staff share trust/issued capital & share premium					
951 Share premium raised under share purchase scheme					
939 Sundry/issued capital & share premium					
940 Balance at end of year/issued capital & share premium	-183,200	-93,700	-		
941 Movements in Non-Distributable Reserve					
942 Balance at begin of year/non-distrib reserve	376,700	269,700	-		
943 Adj to prior year/non-distrib reserve					
944 Ordinary shares issued/non-distrib reserve					
945 Profit/(loss) on sale of investments/non-distrib reserve		-3,300	-		
946 Shares held by subsidiary company/non-distrib reserve					
947 Share issue expenses/non-distrib reserve					
948 Goodwill written off/non-distrib reserve					
949 Capital distributions/non-distrib reserve					



<u>950 Section 90 unbundling payment to shareholder</u>				
<u>952 Treasury shares/non-distrib reserve</u>				
<u>971 Cancelling of shares/non-distrib reserve</u>				
<u>953 Staff share trust/non-distrib reserve</u>				
<u>954 Profit/(loss) on forex translations/non-distrib reserve</u>				
<u>955 Profit/(loss) on forex transactions/non-distrib reserve</u>				
<u>956 Tax adjustment/non-distrib reserve</u>				
<u>957 Net transfer (to)/from distributable reserve</u>	72,200	91,300		
<u>958 Realised surplus/(loss) - sale of land & build/non-distrib reserve</u>				
<u>959 Surplus/(deficit) on revaluation of land & build/non-distrib reserve</u>				
<u>960 Derivative valuation adjustment</u>				
<u>961 Capital redemption fund</u>				
<u>962 Adj arising on changes in composition of group/non-distrib reserve</u>				
<u>963 Profit/(loss) on disposal of subs/ businesses/non-distrib reserve</u>				
<u>964 Share of associated companies' reserves</u>				
<u>965 Profit on share issue of subsidiaries</u>				
<u>966 Change in accounting policy/non-distrib reserve</u>				
<u>967 Surplus/(deficit) on revaluation of investments/non-distrib reserve</u>				
<u>968 BEE Share of accum profit/non-distrib reserve</u>				
<u>969 Share based payments/non-distrib reserve</u>	19,200	19,000		
<u>970 Net unrealised (losses)/gains on hedging instrum/non-distrib reserve</u>	1,300			
<u>999 Sundry/non-distrib reserve</u>				
<u>000 Balance at end of year/non-distrib reserve</u>	469,400	376,700		
<u>001 Movements in Distributable Reserve</u>				
<u>002 Balance at begin of year/distrib reserve</u>	2,893,400	2,144,000		
<u>003 Adj to prior year/distrib reserve</u>				
<u>004 Net profit/(loss) for the year</u>	1,119,200	986,900		
<u>005 Ordinary dividends</u>	-500,600	-388,800		
<u>006 Preference dividends</u>				
<u>007 Treasury shares/distrib reserve</u>	-14,500			
<u>028 Cancelling of shares/distrib reserve</u>				
<u>008 Net transfer (to)/from non-distributable reserves</u>	-72,200	-91,300		
<u>009 Profit/(loss) on forex translations/distrib reserve</u>				
<u>010 Profit/(loss) on forex transactions/distrib reserve</u>				
<u>011 Realised surplus/(loss) - sale of land & build/distrib reserve</u>				
<u>012 Surplus/(deficit) on revaluation of land & build/distrib reserve</u>				
<u>013 Shares held by subsidiary company/distrib reserve</u>				
<u>014 Change in accounting policy/distrib reserve</u>				
<u>015 Adj arising on changes in composition of group/distrib reserve</u>				
<u>016 Share of associated companies' retained income</u>				
<u>017 Share issue expenses/distrib reserve</u>				
<u>018 Goodwill written off/distrib reserve</u>				
<u>019 Capital distributions/distrib reserve</u>				
<u>020 Net unrealised (losses)/gains on hedging instrum/distrib reserve</u>				



<u>021 Premium on acquisition of subsidiaries</u>				
<u>022 Profit/(loss) on disposal of subs/ businesses/distrib reserve</u>	112,100	189,100	-	
<u>023 Surplus/(deficit) on revaluation of investments/distrib reserve</u>				
<u>024 BEE Share of accum profit/distrib reserve</u>				
<u>025 Share based payments/distrib reserve</u>				
<u>026 Tax adjustment/distrib reserve</u>				
<u>027 Profit/(loss) on sale of investments/distrib reserve</u>				
<u>059 Sundry/distrib reserve</u>				
<u>060 Balance at end of year/distrib reserve</u>	3,537,400	2,839,900	-	
<u>061 Movements in Preference Share Capital & Equity Loans</u>				
<u>062 Balance at begin of year/pref share capital & equity loans</u>	400	400	-	
<u>063 Adj to prior year/pref share capital & equity loans</u>				
<u>064 Shares issued</u>				
<u>065 Share issue expenses/pref share capital & equity loans</u>				
<u>066 Distribution to shareholders</u>				
<u>067 Shares to be issued</u>				
<u>068 Debentures issued</u>				
<u>089 Sundry/pref share capital & equity loans</u>				
<u>090 Balance at end of year/pref share capital & equity loans</u>	400	400	-	
<u>091 Ordinary Shareholders' Equity at End Of Year</u>	3,823,600	3,122,900	-	

Sundry Items [Year: 2007 - 2003, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Mar	Mar	Mar	Mar	Mar
Sundry Items Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
<u>101 Ordinary Shares in Issue @ Year End Split Adjusted</u>	211,953	212,571	211,865	218,379	223,625
<u>102 Nr of Ordinary Shares in Issue @ Year End</u>	211,953	212,571	211,865	218,379	223,625
<u>103 Par Or No Par Value</u>	1	1	1	1	1
<u>110 Debtors As Surety</u>	2	2	2	2	2
<u>111 Directors Value in Unlisted Investments</u>	200,000	200,000	500,000	200,000	150,000
<u>112 Market Value Listed Investments</u>	-	-	-	-	-
<u>113 Directors Valuation of Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>114 Arrear Cumulative Dividends</u>	-	-	-	-	-
<u>115 Months Covered By Financial Statements</u>	12	12	12	12	12
<u>116 Month Of Financial Year End</u>	3	3	3	3	3
<u>117 Audit Report Qualified</u>	2	2	2	2	2
<u>118 Inflation Adjusted Other Fixed Asset</u>	153,949	98,865	100,132	98,303	107,052
<u>119 Inflation Adjusted Depreciable Fixed Asset</u>	44,642	34,460	35,107	37,684	45,801
<u>120 No Of Subsidiaries</u>	10	10	11	11	10
<u>121 No Of Foreign Subsidiaries</u>	3	3	3	3	3
<u>122 No Of Quoted Subsidiaries</u>	-	-	-	-	-
<u>123 Controlled By Another Entity</u>	2	2	2	2	2
<u>124 Provision For Increased Replacement Value</u>	2	2	2	2	2
<u>125 Preference Share Issued At Par</u>	1	1	1	1	1
<u>126 Directors Shareholding Beneficial</u>	1,965	1,755	-	1,031	18,920
<u>127 Directors Shareholding Non-beneficial</u>	14,554	16,874	23,200	20,467	-
<u>128 Deferred Tax Total</u>	-32,900	-58,000	16,900	150,600	167,300
<u>129 Deferred Tax For Year</u>	-41,300	1,400	-133,700	-13,900	-26,100
<u>130 Items Not Representing Cashflow</u>	470,100	150,500	124,500	128,600	118,700
<u>131 No Persons Employed</u>	15,195	14,131	13,580	13,475	13,003
<u>132 Inventory: Raw Material</u>	44,400	20,000	25,200	23,000	27,000

		70,800	886,900	666,700	572,300
<u>134 Inventory: Merchandise</u>					
<u>135 Inventory: Consumable Stores</u>	19,400	-	-	-	-
<u>136 Inventory: Work In Progress</u>		-	-	-	-
<u>137 Inventory: Uncompleted Contracts</u>		-	-	-	-
<u>138 Proportionate Profit from Associated Companies</u>		-	-	-	-
<u>139 Total Reserve Accrued: Associated Companies</u>		-	-	-	-
<u>140 Capital Commitments</u>		26,500	62,800	-	-
<u>141 Accumulated Depreciation Land & Buildings</u>	52,000	64,100	39,500	39,500	39,500
<u>142 Long Term Group Loans Advanced</u>		-	-	-	-
<u>143 Short Term Group Loans Advanced</u>		-	-	-	-
<u>144 Headline Earnings per Share</u>	534	463	360	237	162
<u>145 Long Term Group Loans Received</u>		-	-	-	-
<u>146 Short Term Group Loans Received</u>		-	-	-	-
<u>147 Notes To Statements</u>		-	-	-	-
<u>148 Number Of Analysts</u>	8	7	2	7	2
<u>149 Average Price Per Share</u>	5,386	4,719	2,843	1,718	970
<u>150 Share Price @ Company Financial Year End</u>	6,589	5,867	3,663	1,903	1,089
<u>151 Inventory Valuation Method</u>	2	2	2	2	2
<u>152 Mining Assets</u>		-	-	-	-
<u>153 Exploration, Amortisation Expenses Written Off</u>		-	-	-	-
<u>154 Undeveloped Property</u>		-	-	-	-
<u>155 Development Property Less Development Expense</u>		-	-	-	-
<u>156 Debtors For Property Sold</u>		-	-	-	-
<u>157 Provision For Future Development</u>		-	-	-	-
<u>158 Currency Adjustment: R1000 To ?</u>		-	-	-	-
<u>162 Trade Creditors</u>	828,200	711,100	617,500	769,200	560,400
<u>163 Loan Portion Of Tax</u>		-	-	-	-
<u>164 Balance Sheet LIFO Inventory Adjustment</u>		-	-	-	-
<u>165 Income Statement LIFO Inventory Adjustment</u>		-	-	-	-
<u>166 Leasehold Commitments</u>	2,043,200	1,923,900	1,740,100	1,681,300	1,642,500
<u>167 Contingent Liabilities</u>		-	-	300,000	300,000
<u>168 Extraordinary Item In Tax</u>		-	-	-	-
<u>169 Extraordinary Item In Minority Interest</u>		-	-	-	-
<u>170 No Of Shares Traded</u>	276,018	156,868	162,546	145,121	162,297
<u>171 No Of Transactions</u>	68,498	42,428	26,153	12,283	7,850
<u>172 Value Of Transactions</u>	14,865,620	7,401,841	4,621,309	2,492,928	1,573,724
<u>173 Split Factor (3 Decimals)</u>	1	1	1	1	1
<u>174 Month Of Stock Split</u>		-	-	-	-



Balance Sheet [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Jun	Jun	Jun	Jun	Jun
Balance Sheet Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
001 Ordinary Share Capital	4,531	4,531	4,860	4,825	4,771
002 Non Distributable Reserves	65,057	75,155	88,543	75,270	84,754
003 Distributable Reserves	82,126	-11,062	15,575	65,417	68,240
004 Cost Of Control	34,899	55,570	35,797	33,748	12,922
005 Intangible Assets	56,833	49,821	2,800	-	9,784
006 Ordinary Shareholders Interest	59,982	-36,767	70,381	111,764	135,059
007 Minority Interest	4,037	17,070	21,564	21,959	41,940
008 Preference Share Capital	-	-	-	-	-
009 Total Owners Interest	64,019	-19,697	91,945	133,723	176,999
010 Land And Buildings	22,667	24,842	24,045	16,036	139,024
011 Total Depreciation: Land and Buildings	4,004	2,682	1,641	927	3,382
012 Cost Other Fixed Assets	58,106	61,112	118,121	102,570	121,786
013 Total Depreciation: Other Fixed Assets	45,092	45,040	80,174	71,536	72,623
014 Total Fixed Assets	31,677	38,232	60,351	46,143	184,805
015 Long Term Loans Advanced	6,615	14,943	88	681	5,459
016 Unlisted Investments	5,465,526	5,146,269	3,348,010	50,783	60,570
017 Shares In Unconsolidated Subsidiaries	-	-	-	-	-
018 Listed Investments	-	-	-	-	-
019 Total Long Term Investments	5,472,141	5,161,212	3,348,098	51,464	66,029
020 Total Long Term Assets	5,503,818	5,199,444	3,408,449	97,607	250,834
021 Secured Long Term Borrowings	2,412	2,751	2,478	3,339	29,345
022 Debentures	-	-	-	-	-
023 Other Long Term Borrowings	5,501,751	5,281,849	3,352,943	31,453	38,631
024 Total Long Term Loan Capital	5,504,163	5,284,600	3,355,421	34,792	67,976
025 Net Investment in Long Term Assets	-345	-85,156	53,028	62,815	182,858
026 Total Inventory	-	-	-	-	12,499
027 Debtors	237,145	400,142	187,656	325,234	413,289
028 Short Term Loans Advances	55,603	79,571	417,957	380,949	352,676
029 Cash And Bank	232,995	86,059	-	-	-
030 Other Current Assets	783	-	-	-	-
031 Total Current Assets	526,526	565,772	605,613	706,183	778,464
032 Short Term Borrowings	3,126	800	744	729	21,098
033 Creditors	459,036	494,311	553,066	568,088	691,502
034 Bank Overdraft	-	-	1,614	-	19,913
035 Provision For Taxation	-	5,202	1,599	32,882	20,799
036 Provision For Distribution	-	-	9,673	33,576	31,011
037 Total Current Liabilities	462,162	500,313	566,696	635,275	784,323
038 Net Current Assets	64,364	65,459	38,917	70,908	-5,859
039 Net Assets	64,019	-19,697	91,945	133,723	176,999
042 Surplus Value Over Bookvalue of Investment	104	-	-3,302,248	-	-
040 Total Assets	6,030,344	5,765,216	4,014,062	803,790	1,029,298
041 Operating Assets	502,600	524,433	248,007	371,377	610,593

General Supplementary



<u>201 Shares In Issue Y/E Ordinary</u>	226,525	226,525	241,830	239,831	238,546
<u>202 Shares In Issue Y/E 'N'</u>	-	-	-	-	-
<u>203 Shares In Issue Y/E 'A'</u>	-	-	-	-	-
<u>204 Shares In Issue Y/E 'B'</u>	-	-	-	-	-
<u>248 Shares In Issue Y/E 'C'</u>	-	-	-	-	-
<u>251 Shares In Issue Y/E 'E'</u>	-	-	-	-	-
<u>206 Shares In Issue Weighted Average</u>	226,526	238,682	240,836	237,757	238,007
<u>207 Shares In Issue Fully Diluted</u>	226,526	255,594	242,656	240,237	238,335
<u>232 Treasury Shares (Number '000)</u>	65,603	65,603	-	-	-
<u>233 Treasury Shares (Value R'000)</u>	39,212	39,212	-	-	-
<u>249 Share Trusts and Other (Number '000)</u>	-	-	-	-	-
<u>250 Share Trusts and Other (Value R'000)</u>	-	-	-	-	-
<u>238 Preference shares issued by a subsidiary</u>	-	-	-	-	-
<u>208 Revaluation Reserve</u>	-	-	-	-	-
<u>209 Minority Revaluation Reserve</u>	-	-	-	-	-
<u>210 Minority Equity Accounted Reserve</u>	-	-	-	-	-
<u>228 Foreign Currency Translation Reserve - Cumulative</u>	12,141	10,165	-	-	-
<u>211 Commitments: Land & Buildings</u>	103,760	133,765	167,719	203,240	248,869
<u>212 Commitments: Other</u>	1,546	1,579	7,153	848	22,724
<u>213 Foreign Borrowings</u>	-	-	-	-	-
<u>214 Convertible Preference Shares</u>	-	-	-	-	-
<u>215 Convertible Debentures & Loans</u>	-	-	-	-	-
<u>216 Share In Issue Latest</u>	-	-	-	-	-
<u>217 Mining Assets at Cost</u>	-	-	-	-	-
<u>218 Depreciation / Amortisation on Mine Assets</u>	-	-	-	-	-
<u>219 Medical Aid Liabilities</u>	31,813	29,251	28,657	24,783	18,100
<u>220 Pension Fund Liabilities</u>	-	-	-	-	-
<u>221 Long Term Loans - Interest Bearing</u>	2,222	3,969	4,803	5,895	43,596
<u>222 Long Term Loans - Interest Free</u>	5,501,941	5,280,631	3,350,618	28,897	24,380
<u>223 Short Term Loans - Interest Bearing</u>	357	703	719	719	14,594
<u>224 Short Term Loans - Interest Free</u>	2,769	97	25	10	6,504
<u>225 Property Revaluation Surplus - I/S</u>	-	-	-	-	-
<u>226 Profit /Loss Forex Translations - B/S</u>	-	-	5,367	-4,665	12,923
<u>227 Profit /Loss Forex Transactions - B/S</u>	-	-	-	-	-
<u>229 Foreign Assets</u>	-	-	-	-	-
<u>230 Foreign Liabilities</u>	-	-	-	-	-
<u>231 Provisions</u>	72,881	70,878	-	-	-
<u>236 Provisions - Long term</u>	35,456	29,251	-	-	-
<u>237 Provisions - Short term</u>	37,425	41,627	-	-	-
<u>234 Share Trust scheme</u>	-	-	-	-	-
<u>235 Capital Distributions (Cash)</u>	-	-	-	-	-
<u>239 Non Current Assets held for sale - Land & Buildings</u>	8,299	1,406	-	-	-
<u>240 Non Current Assets held for sale - Investments</u>	5,461,743	-	-	-	-
<u>241 Non Current Assets held for sale - Other</u>	-	11,678	-	-	-
<u>258 Total Bookvalue Land & Buildings</u>	18,663	22,160	22,404	15,109	135,642
<u>252 Total Bookvalue Other Fixed Assets</u>	13,014	-	-	-	-
<u>253 Bookvalue Plant & Machinery/Manufacturing Equipment</u>	-	-	-	-	-
<u>254 Bookvalue Furniture & Office Equipment</u>	8,187	-	-	-	-
<u>255 Bookvalue Vehicles</u>	34	-	-	-	-
<u>256 Bookvalue Computer Hardware & Software</u>	4,793	-	-	-	-
<u>257 Bookvalue Other fixed assets</u>	-	-	-	-	-
<u>242 Listed Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>243 Market Value of Listed Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>244 Unlisted Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>245 Directors Valuation of Unlisted Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>246 Minority dividends declared - B/S</u>	-	-	-	-	-
<u>247 BEE Share of accumulative profits - B/S</u>	-	-	-	-	-

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Jun	Jun	Jun	Jun	Jun
Income Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
051 Turnover	516,548	494,541	617,476	671,150	917,021
052 Change In Turnover %	4	-20	-8	-27	15
053 Cost Of Sales	-	-	-	-	-
054 Trading Profit	64,142	66,074	103,406	150,382	187,051
055 Interest Received	39,546	37,178	41,206	46,274	43,624
056 Income Unlisted Investment	175	185	3,838	8,826	9,918
057 Income Listed Investment	-	-	-	-	-
058 Income Unconsolidated Subsidiaries	-	-	-	-	-
059 Total Income Investment	39,721	37,363	45,044	55,100	53,542
060 Surplus Sale Investment	83,924	1,250	-233	-19,961	10,399
061 Surplus Sale Non Trading Assets	282	-680	-5,732	-1,285	-3,753
062 Extraordinary Profits	-9,824	84,033	12,899	-16,877	11,839
063 Total Profits Extraordinary Nature	74,382	84,603	6,934	-38,123	18,485
064 Auditors Remuneration And Costs	6,706	7,644	3,895	4,818	5,290
065 Depreciation Other Fixed Assets	5,176	6,075	9,917	11,500	25,195
066 Depreciation Land And Buildings	1,326	1,247	743	1,314	1,678
067 Rental Fixed Assets	36,213	48,196	42,193	41,575	57,121
068 Directors Remuneration: Direct	2,349	1,546	1,175	1,326	551
069 Directors Remuneration: Other	7,949	5,384	5,531	8,227	9,601
070 Management And Other Services	-	-	-	-	-
071 Total Cost Shown	59,719	70,092	63,454	68,760	99,436
054 Trading Profit	64,142	66,074	103,406	150,382	187,051
059 Total Income Investment	39,721	37,363	45,044	55,100	53,542
063 Total Profits Extraordinary Nature	74,382	84,603	6,934	-38,123	18,485
072 Total Income	178,245	188,040	155,384	167,359	259,078
071 Total Cost Shown	59,719	70,092	63,454	68,760	99,436
073 Profit Before Interest And Tax (EBIT)	118,526	117,948	91,930	98,599	159,642
074 Total Interest Paid	8,842	8,724	8,865	8,832	12,192
075 Profit Before Taxation	109,684	109,224	83,065	89,767	147,450
076 Taxation	14,297	31,471	39,592	46,123	43,904
077 Profit After Taxation	95,387	77,753	43,473	43,644	103,546
078 Minority Interest In Profit	3,674	12,899	12,832	10,835	19,884
079 Profit to Ordinary And Preference Shareholders	91,713	64,854	30,641	32,809	83,662
080 Ordinary Dividend	-	45,305	36,275	59,957	54,866
081 Preference Dividend	-	-	-	-	-
082 Retained Profits	91,713	19,549	-5,634	-27,148	28,796
083 Earnings Before Interest, Tax, Depreciation And Amortisation (EBITDA)	135,701	141,449	125,264	122,485	183,938
General Supplementary					
301 Lease Charge: Land Building	32,806	41,262	36,102	36,556	40,552
302 Lease Charge: Other	3,407	6,934	6,091	5,019	16,569
303 Research & Development	-	-	-	-	-
304 EPS-Equity Accounted	36	-	4	15	36
305 EPS-Bottom Line	36	21	4	15	36
306 EPS-Headline	7	-12	12	32	33
307 EPS-Fully Diluted Headline	7	-11	12	32	33
308 EPS-Fully Diluted Bottomline	36	20	4	15	-



374 EPS-Continuing Operations					
359 Earnings per Linked Unit					
375 Core Headline Earnings - Total Value					
376 Core Headline Earnings Per Share					
380 Dividend per Share		20	15	25	23
381 Interest Distribution per Unit					
382 Capital Distribution per Share					
309 Effective Tax Rate	16	33	47	34	25
310 Deferred Tax: Contingent Liability					
311 Deferred Tax: Current	1,431	79	-4,776	-9,960	-4,474
312 Deferred Tax: Other					
318 Accumulated Assessed Tax Loss					
319 Accumulated Computed Tax Loss	51,500	60,900			
320 Prior Year Tax Adjustment		-585	-15	5,210	199
333 STC as Published	406	9,270	7,499	6,684	5,940
338 Foreign Tax	1,529	934			
364 Foreign Tax - Normal	1,540	966			
365 Foreign Tax - Previous year					
366 Foreign Tax - Deferred	-11	-32			
313 Interest Capitalised					
373 Interest Paid - Debentures					
314 Invest Allowance Benefit					
315 Dilution: Interest Saved					
316 Dilution: Dividends Saved					
317 Dilution: Equity Income Converted					
322 Intangible Assets Written Off	10,673	11,529	2,200	188	812
350 Impairments of intangible assets					
349 Reversal impairments/Intangible Assets - prev years					
383 Goodwill Written Off					
351 Impairments of goodwill		4,650			
346 Reversal of impairments of Goodwill - prev years					
323 Amortisation of goodwill		4,650	20,474	10,884	-3,389
324 Impairment of Investments			-873	-2,856	-3,788
348 Reversal of impairments/Investments - prev years		1,250			
325 Impairment of Loans	-589				
368 Reversal of impairments/Loans - prev years					
326 Capital Profit /Loss on Financial Assets	84,513		640	-17,105	14,187
360 Gains/Losses on Mark to Market Value of Financial Assets					
327 Impairment of Fixed Assets			-6,258	-1,354	-3,852
347 Reversal of impairm/Other Fixed assets - prev years					
328 Capital Profit /Loss on Fixed Assets	282	-680	526	69	99
329 Profit /Loss Forex Translations - I/S					
330 Profit /Loss Forex Transactions - I/S				-1,501	-1,084
331 Profit /Loss Disposal of Subsidiaries/ Businesses	-9,824	84,033	6,506	-9,478	
332 Profit /Loss Sundry Extraordinaries			1,026	-1,233	
352 Extraordinary items - unconsolidated subs					
367 Share issue expenses written off					
377 Expense in regard to BEE transaction					
336 Foreign Turnover					
337 Foreign Profit					
339 Ordinary Dividends - Ordinary Shareholders		45,305			
340 Ordinary Dividends - Minority Shareholders					
357 Ordinary dividends declared		45,305			
358 Ordinary dividends paid		58,230			
341 Preference Dividends - Ordinary Shareholders					
342 Preference Dividends - Minority Shareholders					
353 Minority dividends paid	2,587	12,927			
354 Minority dividends declared - I/S					



321 Non Cash Dividends				
334 Non-Cash Dividend (Current Year)				
335 Non-Cash Dividend (Previous Year)				
343 Auditors - Audit Fees - current year	4,512	4,602	3,529	
378 Auditors - Audit Fees - previous year	585	861	164	
379 Auditors - Audit Expenses				
344 Auditors - Other Fees	1,609	2,181	202	
345 Staff Costs(excluding directors remuneration)	316,852	319,817		
372 Other Staff share based payments - I/S				
361 Directors share based payments - I/S				
362 Directors share based payments - B/S				
355 Income from Endowment policies				
356 Other Income from Fixed Asset Investments				
363 BEE Share of profits - I/S				

Changes In Equity Statement [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Jun	Jun	Jun	Jun	Jun
Changes In Equity Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
901 Ordinary Shareholders' Equity at Beginning of Year	107,171	130,108	-		
902 Movements in Issued Capital & Share Premium					
903 Balance at begin of year/issued capital & share premium	36,102	47,969	-		
904 Adj to prior year/issued capital & share premium					
905 Ordinary shares issued/issued capital & share premium		2,067	-		
906 Share based payments/issued capital & share premium	3,537				
907 Shares held by subsidiary company/issued capital & share premium					
908 Share issue expenses/issued capital & share premium					
909 Goodwill written off/issued capital & share premium					
910 Capital distributions/issued capital & share premium					
911 Treasury shares/issued capital & share premium		-13,934			
913 Cancelling of shares/issued capital & share premium					
912 Staff share trust/issued capital & share premium					
951 Share premium raised under share purchase scheme					
939 Sundry/issued capital & share premium					
940 Balance at end of year/issued capital & share premium	39,639	36,102			
941 Movements in Non-Distributable Reserve					
942 Balance at begin of year/non-distrib reserve	39,341	48,646			
943 Adj to prior year/non-distrib reserve					
944 Ordinary shares issued/non-distrib reserve					
945 Profit/(loss) on sale of investments/non-distrib reserve					
946 Shares held by subsidiary company/non-distrib reserve					
947 Share issue expenses/non-distrib reserve					
948 Goodwill written off/non-distrib reserve					
949 Capital distributions/non-distrib reserve					



<u>950 Section 90 unbundling payment to shareholder</u>				
<u>952 Treasury shares/non-distrib reserve</u>				
<u>971 Cancelling of shares/non-distrib reserve</u>				
<u>953 Staff share trust/non-distrib reserve</u>				
<u>954 Profit/(loss) on forex translations/non-distrib reserve</u>	1,976	1,448		
<u>955 Profit/(loss) on forex transactions/non-distrib reserve</u>				
<u>956 Tax adjustment/non-distrib reserve</u>				
<u>957 Net transfer (to)/from distributable reserve</u>	-11,368	-6,510		
<u>958 Realised surplus/(loss) - sale of land & build/non-distrib reserve</u>				
<u>959 Surplus/(deficit) on revaluation of land & build/non-distrib reserve</u>				
<u>960 Derivative valuation adjustment</u>				
<u>961 Capital redemption fund</u>				
<u>962 Adj arising on changes in composition of group/non-distrib reserve</u>				
<u>963 Profit/(loss) on disposal of subs/ businesses/non-distrib reserve</u>				
<u>964 Share of associated companies' reserves</u>				
<u>965 Profit on share issue of subsidiaries</u>				
<u>966 Change in accounting policy/non-distrib reserve</u>				
<u>967 Surplus/(deficit) on revaluation of investments/non-distrib reserve</u>				
<u>968 BEE Share of accum profit/non-distrib reserve</u>				
<u>969 Share based payments/non-distrib reserve</u>				
<u>970 Net unrealised (losses)/gains on hedging instrum/non-distrib reserve</u>				
<u>999 Sundry/non-distrib reserve</u>				
<u>000 Balance at end of year/non-distrib reserve</u>	29,949	43,584		
<u>001 Movements in Distributable Reserve</u>				
<u>002 Balance at begin of year/distrib reserve</u>	31,728	33,493		
<u>003 Adj to prior year/distrib reserve</u>				
<u>004 Net profit/(loss) for the year</u>	79,721	49,955		
<u>005 Ordinary dividends</u>		-58,230		
<u>006 Preference dividends</u>				
<u>007 Treasury shares/distrib reserve</u>				
<u>028 Cancelling of shares/distrib reserve</u>				
<u>008 Net transfer (to)/from non-distributable reserves</u>	11,368	6,510		
<u>009 Profit/(loss) on forex translations/distrib reserve</u>				
<u>010 Profit/(loss) on forex transactions/distrib reserve</u>				
<u>011 Realised surplus/(loss) - sale of land & build/distrib reserve</u>				
<u>012 Surplus/(deficit) on revaluation of land & build/distrib reserve</u>				
<u>013 Shares held by subsidiary company/distrib reserve</u>				
<u>014 Change in accounting policy/distrib reserve</u>				
<u>015 Adj arising on changes in composition of group/distrib reserve</u>				
<u>016 Share of associated companies' retained income</u>				
<u>017 Share issue expenses/distrib reserve</u>				
<u>018 Goodwill written off/distrib reserve</u>				
<u>019 Capital distributions/distrib reserve</u>				
<u>020 Net unrealised (losses)/gains on hedging instrum/distrib reserve</u>				



<u>021 Premium on acquisition of subsidiaries</u>				
<u>022 Profit/(loss) on disposal of subs/ businesses/distrib reserve</u>				
<u>023 Surplus/(deficit) on revaluation of investments/distrib reserve</u>				
<u>024 BEE Share of accum profit/distrib reserve</u>				
<u>025 Share based payments/distrib reserve</u>				
<u>026 Tax adjustment/distrib reserve</u>				
<u>027 Profit/(loss) on sale of investments/distrib reserve</u>				
<u>059 Sundry/distrib reserve</u>				
<u>060 Balance at end of year/distrib reserve</u>	122,817	31,728		
<u>061 Movements in Preference Share Capital & Equity Loans</u>				
<u>062 Balance at begin of year/pref share capital & equity loans</u>				
<u>063 Adj to prior year/pref share capital & equity loans</u>				
<u>064 Shares issued</u>				
<u>065 Share issue expenses/pref share capital & equity loans</u>				
<u>066 Distribution to shareholders</u>				
<u>067 Shares to be issued</u>				
<u>068 Debentures issued</u>				
<u>089 Sundry/pref share capital & equity loans</u>				
<u>090 Balance at end of year/pref share capital & equity loans</u>				
<u>091 Ordinary Shareholders' Equity at End Of Year</u>	192,405	111,414		

Sundry Items [Year: 2007 - 2003, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Jun	Jun	Jun	Jun	Jun
Sundry Items Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
<u>101 Ordinary Shares in Issue @ Year End Split Adjusted</u>	226,525	226,525	241,830	239,831	238,546
<u>102 Nr of Ordinary Shares in Issue @ Year End</u>	226,525	226,525	241,830	239,831	238,546
<u>103 Par Or No Par Value</u>	1	1	1	1	1
<u>110 Debtors As Surety</u>	1	2	2	2	2
<u>111 Directors Value in Unlisted Investments</u>	5,465,630	5,146,269	45,762	50,783	60,570
<u>112 Market Value Listed Investments</u>	-	-	-	-	-
<u>113 Directors Valuation of Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>114 Arrear Cumulative Dividends</u>	-	-	-	-	-
<u>115 Months Covered By Financial Statements</u>	12	12	12	12	12
<u>116 Month Of Financial Year End</u>	6	6	6	6	6
<u>117 Audit Report Qualified</u>	2	2	2	2	2
<u>118 Inflation Adjusted Other Fixed Asset</u>	4,865	4,043	12,284	9,766	11,051
<u>119 Inflation Adjusted Depreciable Fixed Asset</u>	1,935	1,528	3,210	3,618	5,663
<u>120 No Of Subsidiaries</u>	24	26	29	26	51
<u>121 No Of Foreign Subsidiaries</u>	8	8	8	8	13
<u>123 Controlled By Another Entity</u>	2	2	2	2	2
<u>124 Provision For Increased Replacement Value</u>	2	2	2	2	2
<u>125 Preference Share Issued At Par</u>	-	-	-	-	-
<u>126 Directors Shareholding Beneficial</u>	24,554	25,519	19,208	19,177	34,808
<u>127 Directors Shareholding Non-beneficial</u>	-	-	-	-	-
<u>128 Deferred Tax Total</u>	-40,691	-42,790	-43,185	-24,198	-35,710
<u>129 Deferred Tax For Year</u>	1,431	79	-4,776	-9,960	-4,474
<u>130 Items Not Representing Cashflow</u>	16,915	29,286	17,791	51,006	37,432
<u>131 No Persons Employed</u>	-	-	1,336	1,453	2,028
<u>175 Foreign Employees</u>	-	-	-	-	-
<u>132 Inventory: Raw Material</u>	-	-	-	-	-

134 Inventory: Merchandise	-	-	-	-	-
135 Inventory: Consumable Stores	-	-	-	-	752
136 Inventory: Work In Progress	-	-	-	-	-
137 Inventory: Uncompleted Contracts	-	-	-	-	-
138 Proportionate Profit from Associated Companies	788	774	5,212	3,374	8,014
139 Total Reserve Accrued: Associated Companies	-	10,485	8,269	6,180	9,130
140 Capital Commitments	8,115	7,929	12,289	53,663	17,439
141 Accumulated Depreciation Land & Buildings	4,004	2,682	1,641	927	3,382
142 Long Term Group Loans Advanced	-	-	-	-	-
143 Short Term Group Loans Advanced	-	-	-	-	-
144 Headline Earnings per Share	7	-12	12	32	33
145 Long Term Group Loans Received	-	-	-	-	-
146 Short Term Group Loans Received	-	-	-	-	-
147 Notes To Statements	-	-	-	-	-
148 Number Of Analysts	2	7	7	2	8
149 Average Price Per Share	150	219	320	310	222
150 Share Price @ Company Financial Year End	136	154	251	344	197
151 Inventory Valuation Method	-	-	-	-	4
152 Mining Assets	-	-	-	-	-
153 Exploration, Amortisation Expenses Written Off	-	-	-	-	-
154 Undeveloped Property	-	-	-	-	-
155 Development Property Less Development Expense	-	-	-	-	-
156 Debtors For Property Sold	-	-	-	-	-
157 Provision For Future Development	-	-	-	-	-
158 Currency Adjustment: R1000 To ?	-	-	-	-	-
162 Trade Creditors	288,188	233,102	428,570	493,411	592,604
163 Loan Portion Of Tax	-	-	-	-	-
164 Balance Sheet LIFO Inventory Adjustment	-	-	-	-	-
165 Income Statement LIFO Inventory Adjustment	-	-	-	-	-
166 Leasehold Commitments	105,306	135,344	174,872	204,088	271,593
167 Contingent Liabilities	410	5,910	6,030	5,620	5,620
168 Extraordinary Item In Tax	-	-	-	-	-
169 Extraordinary Item In Minority Interest	-	-	-	-	-
170 No Of Shares Traded	58,262	77,524	55,271	56,031	41,144
171 No Of Transactions	4,152	5,803	5,721	4,135	3,624
172 Value Of Transactions	87,552	169,999	176,595	173,846	91,395
173 Split Factor (3 Decimals)	1	1	1	1	1
174 Month Of Stock Split	-	-	-	-	-



Balance Sheet [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Dec	Dec	Dec	Dec	Dec
Balance Sheet Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
001 Ordinary Share Capital	657	657	657	657	657
002 Non Distributable Reserves	-1,499	-	61,051	67,645	68,091
003 Distributable Reserves	63,330	7,783	90,534	15,354	12,529
004 Cost Of Control	23,717	-	-	291	581
005 Intangible Assets	35,216	36,972	38,565	-	-
006 Ordinary Shareholders Interest	3,555	-28,532	113,677	83,365	80,696
007 Minority Interest	-	8,850	10,226	6,771	5,289
008 Preference Share Capital	-	-	-	-	-
009 Total Owners Interest	3,555	-19,682	123,903	90,136	85,985
010 Land And Buildings	26,127	24,559	24,040	16,854	16,825
011 Total Depreciation: Land and Buildings	1,943	1,762	1,650	1,778	1,544
012 Cost Other Fixed Assets	62,554	54,798	50,923	48,001	45,624
013 Total Depreciation: Other Fixed Assets	43,521	42,414	40,342	40,322	37,204
014 Total Fixed Assets	43,217	35,181	32,971	22,755	23,701
015 Long Term Loans Advanced	2,710	3,753	860	6,542	8,332
016 Unlisted Investments	-	32,593	36,078	28,132	25,533
017 Shares In Unconsolidated Subsidiaries	-	-	-	-	-
018 Listed Investments	-	-	-	-	-
019 Total Long Term Investments	2,710	36,346	36,938	34,674	33,865
020 Total Long Term Assets	45,927	71,527	69,909	57,429	57,566
021 Secured Long Term Borrowings	20,000	81,647	-	-	-
022 Debentures	-	-	-	-	-
023 Other Long Term Borrowings	3,680	2,117	6,377	-	-
024 Total Long Term Loan Capital	23,680	83,764	6,377	-	-
025 Net Investment in Long Term Assets	22,247	-12,237	63,532	57,429	57,566
026 Total Inventory	32,197	32,431	18,656	48,804	48,447
027 Debtors	185,076	79,678	69,935	59,886	67,011
028 Short Term Loans Advances	139	48,247	35,843	-	-
029 Cash And Bank	19,902	42,355	97,526	86,480	75,375
030 Other Current Assets	4,291	-	-	-	-
031 Total Current Assets	241,605	202,711	221,960	195,170	190,833
032 Short Term Borrowings	70,626	81,673	41,843	-	-
033 Creditors	174,730	127,551	108,910	139,618	115,157
034 Bank Overdraft	-	56	-	-	-
035 Provision For Taxation	5,082	876	6,892	18,901	13,078
036 Provision For Distribution	9,859	-	3,944	3,944	34,179
037 Total Current Liabilities	260,297	210,156	161,589	162,463	162,414
038 Net Current Assets	-18,692	-7,445	60,371	32,707	28,419
039 Net Assets	3,555	-19,682	123,903	90,136	85,985
042 Surplus Value Over Bookvalue of Investment	-	-	-	-	-
040 Total Assets	287,532	274,238	291,869	252,599	248,399
041 Operating Assets	284,683	189,645	219,088	217,925	214,534

General Supplementary



201 Shares In Issue Y/E Ordinary	65,729	65,729	65,729	65,729	65,729
202 Shares In Issue Y/E 'N'	-	-	-	-	-
203 Shares In Issue Y/E 'A'	-	-	-	-	-
204 Shares In Issue Y/E 'B'	-	-	-	-	-
248 Shares In Issue Y/E 'C'	-	-	-	-	-
251 Shares In Issue Y/E 'E'	-	-	-	-	-
273 Shares In Issue Y/E Deferred	-	-	-	-	-
259 Shares Authorised Ordinary	-	-	-	-	-
260 Par Value Ordinary Shares (cents)	-	-	-	-	-
261 Shares Authorised 'N'	-	-	-	-	-
262 Par Value 'N' Shares (cents)	-	-	-	-	-
263 Shares Authorised 'A'	-	-	-	-	-
264 Par Value 'A' Shares (cents)	-	-	-	-	-
265 Shares Authorised 'B'	-	-	-	-	-
266 Par Value 'B' Shares (cents)	-	-	-	-	-
267 Shares Authorised 'C'	-	-	-	-	-
268 Par Value 'C' Shares (cents)	-	-	-	-	-
269 Shares Authorised 'E'	-	-	-	-	-
270 Par Value 'E' Shares (cents)	-	-	-	-	-
271 Shares Authorised Deferred	-	-	-	-	-
272 Par Value Deferred Shares (cents)	-	-	-	-	-
206 Shares In Issue Weighted Average	65,729	65,729	65,729	65,729	65,729
207 Shares In Issue Fully Diluted	-	-	-	-	-
232 Treasury Shares (Number '000)	-	-	-	-	-
233 Treasury Shares (Value R'000)	-	-	-	-	-
249 Share Trusts and Other (Number '000)	-	-	-	-	-
250 Share Trusts and Other (Value R'000)	-	-	-	-	-
238 Preference shares issued by a subsidiary	-	-	-	-	-
208 Revaluation Reserve	-	-	-	6,594	7,040
209 Minority Revaluation Reserve	-	-	-	-	-
210 Minority Equity Accounted Reserve	-	-	-	-	-
228 Foreign Currency Translation Reserve - Cumulative	-1,499	-	-	-	-
211 Commitments: Land & Buildings	1,411	1,992	1,829	5,917	7,380
212 Commitments: Other	5,430	5,039	5,311	-	-
213 Foreign Borrowings	-	-	-	-	-
214 Convertible Preference Shares	-	-	-	-	-
215 Convertible Debentures & Loans	-	-	-	-	-
216 Share In Issue Latest	-	-	-	-	-
217 Mining Assets at Cost	-	-	-	-	-
218 Depreciation / Amortisation on Mine Assets	-	-	-	-	-
219 Medical Aid Liabilities	-	-	-	-	-
220 Pension Fund Liabilities	-	-	-	-	-
221 Long Term Loans - Interest Bearing	20,000	81,647	-	-	-
222 Long Term Loans - Interest Free	3,680	2,117	6,377	-	-
223 Short Term Loans - Interest Bearing	718	9,597	84	-	-
224 Short Term Loans - Interest Free	69,908	72,076	41,759	-	-
225 Property Revaluation Surplus - I/S	-	-	-	-	-
226 Profit /Loss Forex Translations - B/S	-	-	750	-1,009	1,710
227 Profit /Loss Forex Transactions - B/S	-	-	-	-	-
229 Foreign Assets	435	61	432	-	-
230 Foreign Liabilities	-	-	-	-	-
231 Provisions	9,879	8,602	3,123	2,509	-
236 Provisions - Long term	3,680	2,117	1,733	-	-
237 Provisions - Short term	6,199	6,485	1,390	2,509	-
234 Share Trust scheme	-	-	-	-	-
235 Capital Distributions (Cash)	-	-	-	-	-
239 Non Current Assets held for sale - Land & Buildings	-	-	-	-	-
240 Non Current Assets held for sale - Investments	-	-	-	-	-
241 Non Current Assets held for sale - Other	-	-	-	-	-
258 Total Bookvalue Land & Buildings	24,184	22,797	22,390	15,076	15,281
252 Total Bookvalue Other Fixed Assets	19,033	-	-	-	-
253 Bookvalue Plant & Machinery/Manufacturing Equipment	19,033	-	-	-	-

254 Bookvalue Furniture & Office Equipment					
255 Bookvalue Vehicles					
256 Bookvalue Computer Hardware & Software	-				
257 Bookvalue Other fixed assets	-				
242 Listed Unconsolidated Subsidiaries	-	-	-	-	-
243 Market Value of Listed Unconsolidated Subsidiaries	-	-	-	-	-
244 Unlisted Unconsolidated Subsidiaries	-	-	-	-	-
245 Directors Valuation of Unlisted Unconsolidated Subsidiaries	-	-	-	-	-
246 Minority dividends declared - B/S	-	-	-	-	-
247 BEE Share of accumulative profits - B/S	-	-	-	-	-

Income Statement [Year: 2007 - 2003, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Dec	Dec	Dec	Dec	Dec
Income Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
051 Turnover	686,367	510,942	497,495	422,033	554,925
052 Change In Turnover %	34	3	18	-24	6
053 Cost Of Sales	504,598	369,904	372,883	313,298	401,949
054 Trading Profit	103,255	63,186	50,608	45,919	52,184
055 Interest Received	7,558	9,048	19,909	25,593	54,277
056 Income Unlisted Investment	-	-	-	-	-
057 Income Listed Investment	-	-	-	-	-
058 Income Unconsolidated Subsidiaries	-	-	-	-	-
059 Total Income Investment	7,558	9,048	19,909	25,593	54,277
060 Surplus Sale Investment	-1,028	-	-1,182	-	-
061 Surplus Sale Non Trading Assets	-8	-52	49	-56	3,453
062 Extraordinary Profits	-132	6,071	641	-1,711	-8,536
063 Total Profits Extraordinary Nature	-1,168	6,019	-492	-1,767	-5,083
064 Auditors Remuneration And Costs	1,615	2,404	1,650	1,061	1,275
065 Depreciation Other Fixed Assets	3,131	2,428	2,523	3,735	6,057
066 Depreciation Land And Buildings	181	112	102	262	313
067 Rental Fixed Assets	5,608	6,046	6,737	5,425	6,492
068 Directors Remuneration: Direct	109	83	144	203	136
069 Directors Remuneration: Other	1,743	1,574	1,503	1,431	2,380
070 Management And Other Services	-	374	480	784	567
071 Total Cost Shown	12,387	13,021	13,139	12,901	17,220
054 Trading Profit	103,255	63,186	50,608	45,919	52,184
059 Total Income Investment	7,558	9,048	19,909	25,593	54,277
063 Total Profits Extraordinary Nature	-1,168	6,019	-492	-1,767	-5,083
072 Total Income	109,645	78,253	70,025	69,745	101,378
071 Total Cost Shown	12,387	13,021	13,139	12,901	17,220
073 Profit Before Interest And Tax (EBIT)	97,258	65,232	56,886	56,844	84,158
074 Total Interest Paid	9,334	10,531	14,827	21,081	49,248
075 Profit Before Taxation	87,924	54,701	42,059	35,763	34,910
076 Taxation	26,813	30,668	16,334	26,062	16,648
077 Profit After Taxation	61,111	24,033	25,725	9,701	18,262
078 Minority Interest In Profit	759	4,032	3,605	4,114	3,242
079 Profit to Ordinary And Preference Shareholders	60,352	20,001	22,120	5,587	15,020
080 Ordinary Dividend	9,859	97,356	6,573	6,573	36,151
081 Preference Dividend	-	-	-	-	-

082 Retained Profits			15,547	-986	-21,131
083 Earnings Before Interest, Tax, Depreciation And Amortisation (EBITDA)	102,451	69,606	61,231	61,131	90,818
General Supplementary					
301 Lease Charge: Land Building	791	1,880	1,935	670	843
302 Lease Charge: Other	4,817	4,166	4,802	4,755	5,649
303 Research & Development	-	-	-	-	-
304 EPS-Equity Accounted	94	25	39	37	-
305 EPS-Bottom Line	94	25	39	37	28
306 EPS-Headline	95	25	41	38	30
307 EPS-Fully Diluted Headline	-	-	-	-	-
308 EPS-Fully Diluted Bottomline	-	-	-	-	-
374 EPS-Continuing Operations	-	-	-	-	-
359 Earnings per Linked Unit	-	-	-	-	-
375 Core Headline Earnings - Total Value	-	-	-	-	-
376 Core Headline Earnings Per Share	-	-	-	-	-
380 Dividend per Share	15	154	10	56	3
381 Interest Distribution per Unit	-	-	-	-	-
382 Capital Distribution per Share	-	93	-	-	-
309 Effective Tax Rate	28	63	32	3	34
310 Deferred Tax: Contingent Liability	-	-	-	-	-
311 Deferred Tax: Current	1,071	-2,456	292	-10,135	-2,237
312 Deferred Tax: Other	953	2,559	-2,412	-3,864	-2,638
318 Accumulated Assessed Tax Loss	-	-	-	-	-
319 Accumulated Computed Tax Loss	14,035	25,873	14,035	11,920	18,360
320 Prior Year Tax Adjustment	-4,192	386	-75	-302	-937
333 STC as Published	1,750	13,287	822	4,345	1,125
338 Foreign Tax	-	-	-	-	-
364 Foreign Tax - Normal	-	-	-	-	-
365 Foreign Tax - Previous year	-	-	-	-	-
366 Foreign Tax - Deferred	-	-	-	-	-
313 Interest Capitalised	-	-	-	-	-
373 Interest Paid - Debentures	-	-	-	-	-
314 Invest Allowance Benefit	-	-	-	-	-
315 Dilution: Interest Saved	-	-	-	-	-
316 Dilution: Dividends Saved	-	-	-	-	-
317 Dilution: Equity Income Converted	-	-	-	-	-
322 Intangible Assets Written Off	1,881	1,834	1,720	-	-
350 Impairments of intangible assets	-	-	1,720	-	-
349 Reversal impairments/Intangible Assets - prev years	-	-	-	-	-
383 Goodwill Written Off	-	-	-	-	-
351 Impairments of goodwill	-	-	-	-	-
346 Reversal of impairments of Goodwill - prev years	-	-	-	-	-
323 Amortisation of goodwill	-	-	-	290	290
324 Impairment of Investments	-	-	-	-	-
348 Reversal of impairments/Investments - prev years	-	-	-	-	-
325 Impairment of Loans	-	-	-	-	-
368 Reversal of impairments/Loans - prev years	-	-	-	-	-
326 Capital Profit /Loss on Financial Assets	-1,028	-	-1,182	-	-
360 Gains/Losses on Mark to Market Value of Financial Assets	-	-	-	-	-
327 Impairment of Fixed Assets	-	-	-	-	-
347 Reversal of impairm/Other Fixed assets - prev years	-	-	-	-	-
328 Capital Profit /Loss on Fixed Assets	-8	-52	49	-56	3,453
329 Profit /Loss Forex Translations - I/S	-	-	-	-	-
330 Profit /Loss Forex Transactions - I/S	-132	2,196	-204	-401	-6,241
331 Profit /Loss Disposal of Subsidiaries/ Businesses	-	3,875	95	-301	-
332 Profit /Loss Sundry Extraordinaries	-	-	-	-	-4,005
352 Extraordinary items - unconsolidated subs	-	-	-	-	-
367 Share issue expenses written off	-	-	-	-	-
377 Expense in regard to BEE transaction	-	-	-	-	-
336 Foreign Turnover	43,168	-	533	-	-

337 Foreign Profit					
339 Ordinary Dividends - Ordinary Shareholders	9,859	97,356	6,573	6,573	
340 Ordinary Dividends - Minority Shareholders	-	-	-	-	
357 Ordinary dividends declared	9,859	97,356	6,573	6,573	
358 Ordinary dividends paid	-	101,300	6,573	36,808	
341 Preference Dividends - Ordinary Shareholders	-	-	-	-	
342 Preference Dividends - Minority Shareholders	-	-	-	-	
353 Minority dividends paid	7,006	5,000	-	530	
354 Minority dividends declared - I/S	-	-	-	530	
321 Non Cash Dividends	-	-	-	-	
334 Non-Cash Dividend (Current Year)	-	-	-	-	
335 Non-Cash Dividend (Previous Year)	-	-	-	-	
343 Auditors - Audit Fees - current year	920	978	888	844	
378 Auditors - Audit Fees - previous year	-	-	-	-	
379 Auditors - Audit Expenses	60	80	72		
344 Auditors - Other Fees	635	1,346	690	217	
345 Staff Costs(excluding directors remuneration)	111,852	92,445	100,101	85,972	
372 Other Staff share based payments - I/S	-	-	-	-	
361 Directors share based payments - I/S	-	-	-	-	
362 Directors share based payments - B/S	-	-	-	-	
355 Income from Endowment policies	-	-	-	-	
356 Other Income from Fixed Asset Investments	-	-	-	-	
363 BEE Share of profits - I/S	-	-	-	-	

Changes In Equity Statement [Year: 2003 - 2007, Financials: Standardised]					
Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Dec	Dec	Dec	Dec	Dec
Changes In Equity Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
901 Ordinary Shareholders' Equity at Beginning of Year	26,166	174,015	-	-	-
902 Movements in Issued Capital & Share Premium	-	-	-	-	-
903 Balance at begin of year/issued capital & share premium	657	61,708	-	-	-
904 Adj to prior year/issued capital & share premium	-	-	-	-	-
905 Ordinary shares issued/issued capital & share premium	-	-	-	-	-
906 Share based payments/issued capital & share premium	-	-	-	-	-
907 Shares held by subsidiary company/issued capital & share premium	-	-	-	-	-
908 Share issue expenses/issued capital & share premium	-	-	-	-	-
909 Goodwill written off/issued capital & share premium	-	-	-	-	-
910 Capital distributions/issued capital & share premium	-	-61,051	-	-	-
911 Treasury shares/issued capital & share premium	-	-	-	-	-
913 Cancelling of shares/issued capital & share premium	-	-	-	-	-
912 Staff share trust/issued capital & share premium	-	-	-	-	-
951 Share premium raised under share purchase scheme	-	-	-	-	-
939 Sundry/issued capital & share premium	-	-	-	-	-
940 Balance at end of year/issued capital & share premium	657	657	-	-	-
941 Movements in Non-Distributable Reserve	-	-	-	-	-



<u>942 Balance at begin of year/non-distrib reserve</u>					
<u>943 Adj to prior year/non-distrib reserve</u>					
<u>944 Ordinary shares issued/non-distrib reserve</u>					
<u>945 Profit/(loss) on sale of investments/non-distrib reserve</u>					
<u>946 Shares held by subsidiary company/non-distrib reserve</u>					
<u>947 Share issue expenses/non-distrib reserve</u>					
<u>948 Goodwill written off/non-distrib reserve</u>					
<u>949 Capital distributions/non-distrib reserve</u>					
<u>950 Section 90 unbundling payment to shareholders</u>					
<u>952 Treasury shares/non-distrib reserve</u>					
<u>971 Cancelling of shares/non-distrib reserve</u>					
<u>953 Staff share trust/non-distrib reserve</u>					
<u>954 Profit/(loss) on forex translations/non-distrib reserve</u>	199				
<u>955 Profit/(loss) on forex transactions/non-distrib reserve</u>					
<u>956 Tax adjustment/non-distrib reserve</u>					
<u>957 Net transfer (to)/from distributable reserve</u>					
<u>958 Realised surplus/(loss) - sale of land & build/non-distrib reserve</u>					
<u>959 Surplus/(deficit) on revaluation of land & build/non-distrib reserve</u>					
<u>960 Derivative valuation adjustment</u>					
<u>961 Capital redemption fund</u>					
<u>962 Adj arising on changes in composition of group/non-distrib reserve</u>					
<u>963 Profit/(loss) on disposal of subs/ businesses/non-distrib reserve</u>					
<u>964 Share of associated companies' reserves</u>					
<u>965 Profit on share issue of subsidiaries</u>					
<u>966 Change in accounting policy/non-distrib reserve</u>					
<u>967 Surplus/(deficit) on revaluation of investments/non-distrib reserve</u>					
<u>968 BEE Share of accum profit/non-distrib reserve</u>					
<u>969 Share based payments/non-distrib reserve</u>					
<u>970 Net unrealised (losses)/gains on hedging instrum/non-distrib reserve</u>					
<u>999 Sundry/non-distrib reserve</u>					
<u>000 Balance at end of year/non-distrib reserve</u>	-1,499				
<u>001 Movements in Distributable Reserve</u>					
<u>002 Balance at begin of year/distrib reserve</u>	27,207	112,307			
<u>003 Adj to prior year/distrib reserve</u>					
<u>004 Net profit/(loss) for the year</u>	61,684	16,542			
<u>005 Ordinary dividends</u>		-101,300			
<u>006 Preference dividends</u>					
<u>007 Treasury shares/distrib reserve</u>					
<u>028 Cancelling of shares/distrib reserve</u>					
<u>008 Net transfer (to)/from non-distributable reserves</u>					
<u>009 Profit/(loss) on forex translations/distrib reserve</u>		-2,448			
<u>010 Profit/(loss) on forex transactions/distrib reserve</u>					
<u>011 Realised surplus/(loss) - sale of land & build/distrib reserve</u>					
<u>012 Surplus/(deficit) on revaluation of land & build/distrib reserve</u>					

<u>013 Shares held by subsidiary company/distrib reserve</u>					
<u>014 Change in accounting policy/distrib reserve</u>					
<u>015 Adj arising on changes in composition of group/distrib reserve</u>		408			
<u>016 Share of associated companies' retained income</u>					
<u>017 Share issue expenses/distrib reserve</u>					
<u>018 Goodwill written off/distrib reserve</u>					
<u>019 Capital distributions/distrib reserve</u>					
<u>020 Net unrealised (losses)/gains on hedging instrum/distrib reserve</u>					
<u>021 Premium on acquisition of subsidiaries</u>					
<u>022 Profit/(loss) on disposal of subs/ businesses/distrib reserve</u>					
<u>023 Surplus/(deficit) on revaluation of investments/distrib reserve</u>					
<u>024 BEE Share of accum profit/distrib reserve</u>					
<u>025 Share based payments/distrib reserve</u>					
<u>026 Tax adjustment/distrib reserve</u>					
<u>027 Profit/(loss) on sale of investments/distrib reserve</u>					
<u>059 Sundry/distrib reserve</u>					
<u>060 Balance at end of year/distrib reserve</u>	88,891	25,509			
<u>061 Movements in Preference Share Capital & Equity Loans</u>					
<u>062 Balance at begin of year/pref share capital & equity loans</u>					
<u>063 Adj to prior year/pref share capital & equity loans</u>					
<u>064 Shares issued</u>					
<u>065 Share issue expenses/pref share capital & equity loans</u>					
<u>066 Distribution to shareholders</u>					
<u>067 Shares to be issued</u>					
<u>068 Debentures issued</u>					
<u>089 Sundry/pref share capital & equity loans</u>					
<u>090 Balance at end of year/pref share capital & equity loans</u>					
<u>091 Ordinary Shareholders' Equity at End Of Year</u>	88,049	26,166			

Sundry Items [Year: 2007 - 2003, Financials: Standardised]					
Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Dec	Dec	Dec	Dec	Dec
Sundry Items Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
<u>101 Ordinary Shares in Issue @ Year End Split Adjusted</u>	65,729	65,729	65,729	65,729	65,729
<u>102 Nr of Ordinary Shares in Issue @ Year End</u>	65,729	65,729	65,729	65,729	65,729
<u>103 Par Or No Par Value</u>	1	1	1	1	1
<u>110 Debtors As Surety</u>	2	2	2	2	2
<u>111 Directors Value in Unlisted Investments</u>	-	32,593	36,078	28,132	25,533
<u>112 Market Value Listed Investments</u>	-	-	-	-	-
<u>113 Directors Valuation of Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>114 Arrear Cumulative Dividends</u>	-	-	-	-	-
<u>115 Months Covered By Financial Statements</u>	12	12	12	12	12
<u>116 Month Of Financial Year End</u>	12	12	12	12	12
<u>117 Audit Report Qualified</u>	2	2	2	2	2
<u>118 Inflation Adjusted Other Fixed Asset</u>	8,918	5,321	4,566	3,673	2,744
<u>119 Inflation Adjusted Depreciable Fixed Asset</u>	1,467	1,043	1,089	1,787	1,974
<u>120 No Of Subsidiaries</u>	15	21	26	28	30



122 No Of Quoted Subsidiaries					
123 Controlled By Another Entity	4	4	4	4	4
124 Provision For Increased Replacement Value	2	2	2	2	2
125 Preference Share Issued At Par	-	-	-	-	-
126 Directors Shareholding Beneficial	186	186	186	186	86
127 Directors Shareholding Non-beneficial	-	-	-	-	-
128 Deferred Tax Total	-15,702	-17,726	-17,829	-18,167	-4,027
129 Deferred Tax For Year	2,024	103	-2,120	-13,999	-4,875
130 Items Not Representing Cashflow	4,480	2,592	4,011	4,053	9,450
131 No Persons Employed	492	443	437	469	652
132 Inventory: Raw Material	12,978	9,459	7,466	6,057	8,002
133 Inventory: Finished Goods	11,798	6,126	6,056	7,403	8,551
134 Inventory: Merchandise	-	-	-	-	-
135 Inventory: Consumable Stores	-	-	-	-	-
136 Inventory: Work In Progress	7,421	16,846	5,134	35,344	31,894
137 Inventory: Uncompleted Contracts	-	-	-	-	-
138 Proportionate Profit from Associated Companies	1,153	3,056	3,322	3,891	-
139 Total Reserve Accrued: Associated Companies	-	-	-	-	-
140 Capital Commitments	4,685	5,073	463	1,307	365
141 Accumulated Depreciation Land & Buildings	1,943	1,762	1,650	1,778	1,544
142 Long Term Group Loans Advanced	-	-	-	-	-
143 Short Term Group Loans Advanced	-	-	-	-	-
144 Headline Earnings per Share	95	25	41	38	30
145 Long Term Group Loans Received	-	-	-	-	-
146 Short Term Group Loans Received	4,181	-	-	-	-
147 Notes To Statements	-	-	-	-	-
148 Number Of Analysts	8	7	7	7	2
149 Average Price Per Share	694	497	393	175	95
150 Share Price @ Company Financial Year End	948	350	480	208	141
151 Inventory Valuation Method	3	3	3	2	2
152 Mining Assets	-	-	-	-	-
153 Exploration, Amortisation Expenses Written Off	-	-	-	-	-
154 Undeveloped Property	-	-	-	-	-
155 Development Property Less Development Expense	-	-	-	-	-
156 Debtors For Property Sold	-	-	-	-	-
157 Provision For Future Development	-	-	-	-	-
158 Currency Adjustment: R1000 To ?	-	-	-	-	-
162 Trade Creditors	19,021	21,244	15,751	23,369	13,912
163 Loan Portion Of Tax	-	-	-	-	-
164 Balance Sheet LIFO Inventory Adjustment	-	-	-	-	-
165 Income Statement LIFO Inventory Adjustment	-	-	-	-	-
166 Leasehold Commitments	6,841	7,031	7,140	5,917	7,380
167 Contingent Liabilities	63,000	3,000	3,000	3,000	3,000
168 Extraordinary Item In Tax	-	-	-	-	-
169 Extraordinary Item In Minority Interest	-	-	-	-	-
170 No Of Shares Traded	5,638	9,147	12,052	17,605	2,480
171 No Of Transactions	555	777	911	966	148
172 Value Of Transactions	39,140	45,457	47,365	30,787	2,360
173 Split Factor (3 Decimals)	1	1	1	1	1
174 Month Of Stock Split	-	-	-	-	-





Balance Sheet [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Sep	Sep	Sep	Sep	Sep
Balance Sheet Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
001 Ordinary Share Capital	29,100	29,100	32,100	32,100	32,000
002 Non Distributable Reserves	147,100	982,700	1,881,200	2,080,500	1,984,800
003 Distributable Reserves	6,077,700	4,840,000	3,455,600	3,328,600	2,870,000
004 Cost Of Control	803,500	818,300	712,100	935,600	1,081,100
005 Intangible Assets	275,800	275,000	347,800	304,800	11,200
006 Ordinary Shareholders Interest	5,174,600	4,758,500	4,309,000	4,200,800	3,794,500
007 Minority Interest	47,500	40,700	29,400	32,800	92,700
008 Preference Share Capital	1,000	1,000	1,000	1,000	1,000
009 Total Owners Interest	5,223,100	4,800,200	4,339,400	4,234,600	3,888,200
010 Land And Buildings	1,287,800	1,240,700	1,071,600	1,442,300	1,409,600
011 Total Depreciation: Land and Buildings	318,000	303,500	380,300	563,400	553,000
012 Cost Other Fixed Assets	7,772,100	6,931,000	7,685,900	8,595,000	8,233,100
013 Total Depreciation: Other Fixed Assets	3,042,900	2,637,400	4,436,100	5,245,800	4,834,000
014 Total Fixed Assets	5,699,000	5,230,800	3,941,100	4,228,100	4,255,700
015 Long Term Loans Advanced	249,500	236,600	149,300	124,200	56,900
016 Unlisted Investments	37,400	65,900	15,800	20,400	19,700
017 Shares In Unconsolidated Subsidiaries	-	-	-	6,100	5,900
018 Listed Investments	-	-	-	-	-
019 Total Long Term Investments	286,900	302,500	165,100	150,700	82,500
020 Total Long Term Assets	5,985,900	5,533,300	4,106,200	4,378,800	4,338,200
021 Secured Long Term Borrowings	466,000	640,300	663,500	1,074,200	1,277,900
022 Debentures	-	-	-	-	-
023 Other Long Term Borrowings	639,300	1,122,300	541,900	286,300	158,900
024 Total Long Term Loan Capital	1,105,300	1,762,600	1,205,400	1,360,500	1,436,800
025 Net Investment in Long Term Assets	4,880,600	3,770,700	2,900,800	3,018,300	2,901,400
026 Total Inventory	2,361,300	2,169,200	2,049,900	2,055,900	2,051,800
027 Debtors	2,901,300	2,862,300	2,516,200	2,688,200	2,843,400
028 Short Term Loans Advances	444,800	533,900	-	-	-
029 Cash And Bank	183,400	139,400	632,700	699,500	748,500
030 Other Current Assets	-	30,400	-	-	-
031 Total Current Assets	5,890,800	5,735,200	5,198,800	5,443,600	5,643,700
032 Short Term Borrowings	416,800	61,300	32,600	32,100	37,200
033 Creditors	2,788,700	3,042,400	2,971,500	2,931,900	3,231,800
034 Bank Overdraft	1,603,500	918,900	257,100	727,800	731,300
035 Provision For Taxation	259,100	298,900	135,700	172,400	354,300
036 Provision For Distribution	480,200	384,200	363,300	363,100	302,300
037 Total Current Liabilities	5,548,300	4,705,700	3,760,200	4,227,300	4,656,900
038 Net Current Assets	342,500	1,029,500	1,438,600	1,216,300	986,800
039 Net Assets	5,223,100	4,800,200	4,339,400	4,234,600	3,888,200
042 Surplus Value Over Bookvalue of Investment	-	-	-	-	-
040 Total Assets	11,876,700	11,268,500	9,305,000	9,822,400	9,981,900
041 Operating Assets	11,145,000	10,432,100	9,139,900	9,671,700	9,899,400

General Supplementary

<u>201 Shares In Issue Y/E Ordinary</u>	583,481	581,235	641,945	641,574	640,571
<u>202 Shares In Issue Y/E 'N'</u>	-	-	-	-	-
<u>203 Shares In Issue Y/E 'A'</u>	-	-	-	-	-
<u>204 Shares In Issue Y/E 'B'</u>	-	-	-	-	-
<u>248 Shares In Issue Y/E 'C'</u>	-	-	-	-	-
<u>251 Shares In Issue Y/E 'E'</u>	-	-	-	-	-
<u>206 Shares In Issue Weighted Average</u>	582,505	579,968	638,262	640,958	640,444
<u>207 Shares In Issue Fully Diluted</u>	626,903	615,118	642,385	644,705	642,681
<u>232 Treasury Shares (Number '000)</u>	45,071	104,348	59,226	-	-
<u>233 Treasury Shares (Value R'000)</u>	625,500	1,367,000	704,600	-	-
<u>249 Share Trusts and Other (Number '000)</u>	59,277	-	-	-	-
<u>250 Share Trusts and Other (Value R'000)</u>	669,700	-	-	-	-
<u>238 Preference shares issued by a subsidiary</u>	-	-	-	-	-
<u>208 Revaluation Reserve</u>	-39,200	29,300	-	-	-
<u>209 Minority Revaluation Reserve</u>	-	-	-	-	-
<u>210 Minority Equity Accounted Reserve</u>	-	-	-	-	-
<u>228 Foreign Currency Translation Reserve - Cumulative</u>	191,600	306,500	-579,700	-	-
<u>211 Commitments: Land & Buildings</u>	380,900	367,400	342,400	450,100	427,900
<u>212 Commitments: Other</u>	51,000	47,000	158,000	62,500	86,700
<u>213 Foreign Borrowings</u>	447,700	613,400	588,100	1,048,500	1,277,000
<u>214 Convertible Preference Shares</u>	-	-	-	-	-
<u>215 Convertible Debentures & Loans</u>	-	-	-	-	-
<u>216 Share In Issue Latest</u>	-	-	-	-	-
<u>217 Mining Assets at Cost</u>	-	-	-	-	-
<u>218 Depreciation / Amortisation on Mine Assets</u>	-	-	-	-	-
<u>219 Medical Aid Liabilities</u>	384,600	340,600	-	-	-
<u>220 Pension Fund Liabilities</u>	180,500	381,300	252,300	161,900	147,800
<u>221 Long Term Loans - Interest Bearing</u>	526,500	1,021,800	953,100	1,091,500	1,289,000
<u>222 Long Term Loans - Interest Free</u>	578,800	740,800	252,300	269,000	147,800
<u>223 Short Term Loans - Interest Bearing</u>	416,800	61,300	32,600	32,100	37,200
<u>224 Short Term Loans - Interest Free</u>	-	-	-	-	-
<u>225 Property Revaluation Surplus - I/S</u>	-	-	-	-	-
<u>226 Profit /Loss Forex Translations - B/S</u>	-	-	-108,500	-41,800	-463,800
<u>227 Profit /Loss Forex Transactions - B/S</u>	-	-	-	-	-
<u>229 Foreign Assets</u>	4,096,400	4,399,200	3,363,000	-	-
<u>230 Foreign Liabilities</u>	883,700	791,000	622,800	-	-
<u>231 Provisions</u>	632,400	789,600	118,300	-	-
<u>236 Provisions - Long term</u>	565,100	721,900	-	-	-
<u>237 Provisions - Short term</u>	67,300	67,700	118,300	-	-
<u>234 Share Trust scheme</u>	-	-	-	-	-
<u>235 Capital Distributions (Cash)</u>	480,200	384,200	-	-	-
<u>239 Non Current Assets held for sale - Land & Buildings</u>	32,100	12,900	-	-	-
<u>240 Non Current Assets held for sale - Investments</u>	-	-	-	-	-
<u>241 Non Current Assets held for sale - Other</u>	-	-	-	-	-
<u>258 Total Bookvalue Land & Buildings</u>	969,800	937,200	691,300	878,900	856,600
<u>252 Total Bookvalue Other Fixed Assets</u>	4,729,200	-	-	-	-
<u>253 Bookvalue Plant & Machinery/Manufacturing Equipment</u>	4,729,200	-	-	-	-
<u>254 Bookvalue Furniture & Office Equipment</u>	-	-	-	-	-
<u>255 Bookvalue Vehicles</u>	-	-	-	-	-
<u>256 Bookvalue Computer Hardware & Software</u>	-	-	-	-	-
<u>257 Bookvalue Other fixed assets</u>	-	-	-	-	-
<u>242 Listed Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>243 Market Value of Listed Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>244 Unlisted Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>245 Directors Valuation of Unlisted Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>246 Minority dividends declared - B/S</u>	-	-	-	-	-
<u>247 BEE Share of accumulative profits - B/S</u>	-	-	-	-	-

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Sep	Sep	Sep	Sep	Sep
Income Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
051 Turnover	17,014,400	15,261,900	15,583,100	17,494,600	18,174,000
052 Change In Turnover %	11	-2	-11	-4	33
053 Cost Of Sales	12,720,500	-	-	-	-
054 Trading Profit	2,584,600	2,324,700	2,196,100	2,639,900	2,949,100
055 Interest Received	82,200	62,700	97,000	68,700	86,600
056 Income Unlisted Investment	7,000	4,800	33,800	15,600	5,700
057 Income Listed Investment	-	-	-	-	-
058 Income Unconsolidated Subsidiaries	-	-	-	-	-
059 Total Income Investment	89,200	67,500	130,800	84,300	92,300
060 Surplus Sale Investment	-83,400	88,600	-8,400	69,300	-73,500
061 Surplus Sale Non Trading Assets	14,600	71,300	443,600	-114,200	52,300
062 Extraordinary Profits	-12,900	10,400	-335,700	111,500	-623,900
063 Total Profits Extraordinary Nature	-81,700	170,300	99,500	66,600	-645,100
064 Auditors Remuneration And Costs	36,600	40,200	50,200	62,400	74,500
065 Depreciation Other Fixed Assets	610,100	562,700	623,000	683,000	685,900
066 Depreciation Land And Buildings	22,200	27,200	21,700	27,000	29,500
067 Rental Fixed Assets	105,400	99,700	102,200	100,200	124,800
068 Directors Remuneration: Direct	2,300	2,400	2,400	2,900	900
069 Directors Remuneration: Other	17,800	29,600	18,600	22,500	54,900
070 Management And Other Services	16,300	21,000	19,900	39,700	34,600
071 Total Cost Shown	810,700	782,800	838,000	937,700	1,005,100
054 Trading Profit	2,584,600	2,324,700	2,196,100	2,639,900	2,949,100
059 Total Income Investment	89,200	67,500	130,800	84,300	92,300
063 Total Profits Extraordinary Nature	-81,700	170,300	99,500	66,600	-645,100
072 Total Income	2,592,100	2,562,500	2,426,400	2,790,800	2,396,300
071 Total Cost Shown	810,700	782,800	838,000	937,700	1,005,100
073 Profit Before Interest And Tax (EBIT)	1,781,400	1,779,700	1,588,400	1,853,100	1,391,200
074 Total Interest Paid	273,000	185,400	200,600	217,700	339,500
075 Profit Before Taxation	1,508,400	1,594,300	1,387,800	1,635,400	1,051,700
076 Taxation	391,300	412,100	459,700	479,600	557,700
077 Profit After Taxation	1,117,100	1,182,200	928,100	1,155,800	494,000
078 Minority Interest In Profit	1,700	4,500	4,100	10,400	19,500
079 Profit to Ordinary And Preference Shareholders	1,115,400	1,177,700	924,000	1,145,400	474,500
080 Ordinary Dividend	-	-	537,700	536,300	446,400
081 Preference Dividend	200	200	100	100	100
082 Retained Profits	1,115,200	1,177,500	386,200	609,000	28,000
083 Earnings Before Interest, Tax, Depreciation And Amortisation (EBITDA)	2,484,700	2,543,900	2,442,000	2,654,000	2,101,400
General Supplementary					
301 Lease Charge: Land Building	97,200	88,700	90,400	88,600	110,100
302 Lease Charge: Other	8,200	11,000	11,800	11,600	14,700
303 Research & Development	28,200	26,900	25,100	26,800	6,100
304 EPS-Equity Accounted	181	-	122	-	-
305 EPS-Bottom Line	181	149	122	151	141
306 EPS-Headline	185	151	119	146	145
307 EPS-Fully Diluted Headline	175	147	118	145	145
308 EPS-Fully Diluted Bottomline	172	144	122	150	141



374 EPS-Continuing Operations	-	-	-	-	-
359 Earnings per Linked Unit	-	-	-	-	-
375 Core Headline Earnings - Total Value	-	-	-	-	-
376 Core Headline Earnings Per Share	-	-	-	-	-
380 Dividend per Share	-	-	84	84	70
381 Interest Distribution per Unit	-	-	-	-	-
382 Capital Distribution per Share	115	96	-	-	-
309 Effective Tax Rate	27	39	39	35	38
310 Deferred Tax: Contingent Liability	-	-	-	-	-
311 Deferred Tax: Current	58,100	36,500	125,300	77,300	-10,400
312 Deferred Tax: Other	-29,100	-20,100	15,100	-24,400	12,500
318 Accumulated Assessed Tax Loss	-	-	-	-	-
319 Accumulated Computed Tax Loss	37,100	49,000	39,600	89,200	161,800
320 Prior Year Tax Adjustment	1,100	126,300	18,400	7,600	8,700
333 STC as Published	2,100	45,900	64,600	58,700	48,300
338 Foreign Tax	-	-	-	-	-
364 Foreign Tax - Normal	-	-	-	-	-
365 Foreign Tax - Previous year	-	-	-	-	-
366 Foreign Tax - Deferred	-	-	-	-	-
313 Interest Capitalised	11,600	-	-	8,000	28,200
373 Interest Paid - Debentures	-	-	-	-	-
314 Invest Allowance Benefit	-	-	-	-	-
315 Dilution: Interest Saved	-	-	-	-	-
316 Dilution: Dividends Saved	-	-	-	-	-
317 Dilution: Equity Income Converted	-	-	-	-	-
322 Intangible Assets Written Off	71,000	156,100	56,600	30,400	5,400
350 Impairments of intangible assets	1,600	87,600	-	-	-
349 Reversal impairments/Intangible Assets - prev years	-	-	-	-	-
383 Goodwill Written Off	-	-	-	-	-
351 Impairments of goodwill	-	18,200	152,300	-	-
346 Reversal of impairments of Goodwill - prev years	-	-	-	-	-
323 Amortisation of goodwill	-	18,200	152,300	60,500	-10,600
324 Impairment of Investments	-	-	-	-	-
348 Reversal of impairments/Investments - prev years	-	-	-	-	-
325 Impairment of Loans	-	-	-	-	-
368 Reversal of impairments/Loans - prev years	-	-	-	-	-
326 Capital Profit /Loss on Financial Assets	-	-	-	69,300	-73,500
360 Gains/Losses on Mark to Market Value of Financial Assets	-83,400	88,600	-8,400	-	-
327 Impairment of Fixed Assets	-17,000	-6,800	-	-127,900	-26,100
347 Reversal of impairm/Other Fixed assets - prev years	11,900	2,000	5,000	-	-
328 Capital Profit /Loss on Fixed Assets	19,700	76,100	438,600	13,700	78,400
329 Profit /Loss Forex Translations - I/S	-	-	-	-	-
330 Profit /Loss Forex Transactions - I/S	-3,100	13,900	-5,000	-55,300	-65,900
331 Profit /Loss Disposal of Subsidiaries/ Businesses	16,800	700	-20,400	216,500	-
332 Profit /Loss Sundry Extraordinaries	-26,600	-4,200	-201,800	-7,900	-94,200
352 Extraordinary items - unconsolidated subs	-	-	-	-	-
367 Share issue expenses written off	-	-	-	-	-
377 Expense in regard to BEE transaction	-	-	-	-	-
336 Foreign Turnover	5,878,200	5,048,900	4,511,400	-	-
337 Foreign Profit	418,200	363,000	301,800	-	-
339 Ordinary Dividends - Ordinary Shareholders	-	-	537,700	-	-
340 Ordinary Dividends - Minority Shareholders	-	-	-	-	-
357 Ordinary dividends declared	-	-	537,700	-	-
358 Ordinary dividends paid	1,200	329,100	535,100	-	-
341 Preference Dividends - Ordinary Shareholders	200	200	100	-	-
342 Preference Dividends - Minority Shareholders	-	-	-	-	-
353 Minority dividends paid	500	1,500	-	-	-
354 Minority dividends declared - I/S	-	-	-	-	-



321 Non Cash Dividends				
334 Non-Cash Dividend (Current Year)				
335 Non-Cash Dividend (Previous Year)				
343 Auditors - Audit Fees - current year	19,300	20,000	19,100	
378 Auditors - Audit Fees - previous year				
379 Auditors - Audit Expenses	1,000	900	900	
344 Auditors - Other Fees	16,300	19,300	30,200	
345 Staff Costs(excluding directors remuneration)	3,397,400	3,120,800	3,183,600	
372 Other Staff share based payments - I/S	28,300			
361 Directors share based payments - I/S		5,400	200	
362 Directors share based payments - B/S				
355 Income from Endowment policies				
356 Other Income from Fixed Asset Investments				
363 BEE Share of profits - I/S	20,000	21,000		

Changes In Equity Statement [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Sep	Sep	Sep	Sep	Sep
Changes In Equity Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
901 Ordinary Shareholders' Equity at Beginning of Year	5,563,200	5,619,200			
902 Movements in Issued Capital & Share Premium					
903 Balance at begin of year/issued capital & share premium	818,700	1,927,600			
904 Adj to prior year/issued capital & share premium					
905 Ordinary shares issued/issued capital & share premium	25,200	29,900			
906 Share based payments/issued capital & share premium					
907 Shares held by subsidiary company/issued capital & share premium					
908 Share issue expenses/issued capital & share premium					
909 Goodwill written off/issued capital & share premium					
910 Capital distributions/issued capital & share premium	-577,400	-174,400			
911 Treasury shares/issued capital & share premium		-964,400			
913 Cancelling of shares/issued capital & share premium					
912 Staff share trust/issued capital & share premium					
951 Share premium raised under share purchase scheme					
939 Sundry/issued capital & share premium					
940 Balance at end of year/issued capital & share premium	266,500	818,700			
941 Movements in Non-Distributable Reserve					
942 Balance at begin of year/non-distrib reserve	452,900	-34,000			
943 Adj to prior year/non-distrib reserve					
944 Ordinary shares issued/non-distrib reserve					
945 Profit/(loss) on sale of investments/non-distrib reserve					
946 Shares held by subsidiary company/non-distrib reserve					
947 Share issue expenses/non-distrib reserve					
948 Goodwill written off/non-distrib reserve					
949 Capital distributions/non-distrib reserve					



<u>950 Section 90 unbundling payment to shareholder</u>				
<u>952 Treasury shares/non-distrib reserve</u>				
<u>971 Cancelling of shares/non-distrib reserve</u>				
<u>953 Staff share trust/non-distrib reserve</u>				
<u>954 Profit/(loss) on forex translations/non-distrib reserve</u>	-121,500	556,700		
<u>955 Profit/(loss) on forex transactions/non-distrib reserve</u>				
<u>956 Tax adjustment/non-distrib reserve</u>				
<u>957 Net transfer (to)/from distributable reserve</u>				
<u>958 Realised surplus/(loss) - sale of land & build/non-distrib reserve</u>				
<u>959 Surplus/(deficit) on revaluation of land & build/non-distrib reserve</u>	-7,500	-2,400		
<u>960 Derivative valuation adjustment</u>				
<u>961 Capital redemption fund</u>				
<u>962 Adj arising on changes in composition of group/non-distrib reserve</u>				
<u>963 Profit/(loss) on disposal of subs/ businesses/non-distrib reserve</u>	6,600			
<u>964 Share of associated companies' reserves</u>				
<u>965 Profit on share issue of subsidiaries</u>				
<u>966 Change in accounting policy/non-distrib reserve</u>				
<u>967 Surplus/(deficit) on revaluation of investments/non-distrib reserve</u>	-38,900			
<u>968 BEE Share of accum profit/non-distrib reserve</u>				
<u>969 Share based payments/non-distrib reserve</u>	28,300	28,500		
<u>970 Net unrealised (losses)/gains on hedging instrum/non-distrib reserve</u>	-29,600	29,500		
<u>999 Sundry/non-distrib reserve</u>	100,600			
<u>000 Balance at end of year/non-distrib reserve</u>	390,900	578,300		
<u>001 Movements in Distributable Reserve</u>				
<u>002 Balance at begin of year/distrib reserve</u>	4,291,600	3,725,600		
<u>003 Adj to prior year/distrib reserve</u>				
<u>004 Net profit/(loss) for the year</u>	1,054,200	861,800		
<u>005 Ordinary dividends</u>	-1,200	-329,100		
<u>006 Preference dividends</u>				
<u>007 Treasury shares/distrib reserve</u>				
<u>028 Cancelling of shares/distrib reserve</u>				
<u>008 Net transfer (to)/from non-distributable reserves</u>				
<u>009 Profit/(loss) on forex translations/distrib reserve</u>				
<u>010 Profit/(loss) on forex transactions/distrib reserve</u>				
<u>011 Realised surplus/(loss) - sale of land & build/distrib reserve</u>				
<u>012 Surplus/(deficit) on revaluation of land & build/distrib reserve</u>				
<u>013 Shares held by subsidiary company/distrib reserve</u>				
<u>014 Change in accounting policy/distrib reserve</u>				
<u>015 Adj arising on changes in composition of group/distrib reserve</u>				
<u>016 Share of associated companies' retained income</u>				
<u>017 Share issue expenses/distrib reserve</u>				
<u>018 Goodwill written off/distrib reserve</u>				
<u>019 Capital distributions/distrib reserve</u>				
<u>020 Net unrealised (losses)/gains on hedging instrum/distrib reserve</u>				



<u>021 Premium on acquisition of subsidiaries</u>				
<u>022 Profit/(loss) on disposal of subs/ businesses/distrib reserve</u>				
<u>023 Surplus/(deficit) on revaluation of investments/distrib reserve</u>				
<u>024 BEE Share of accum profit/distrib reserve</u>				
<u>025 Share based payments/distrib reserve</u>				
<u>026 Tax adjustment/distrib reserve</u>				
<u>027 Profit/(loss) on sale of investments/distrib reserve</u>				
<u>059 Sundry/distrib reserve</u>		-92,100		
<u>060 Balance at end of year/distrib reserve</u>	5,344,600	4,166,200		
<u>061 Movements in Preference Share Capital & Equity Loans</u>				
<u>062 Balance at begin of year/pref share capital & equity loans</u>				
<u>063 Adj to prior year/pref share capital & equity loans</u>				
<u>064 Shares issued</u>				
<u>065 Share issue expenses/pref share capital & equity loans</u>				
<u>066 Distribution to shareholders</u>				
<u>067 Shares to be issued</u>				
<u>068 Debentures issued</u>				
<u>089 Sundry/pref share capital & equity loans</u>				
<u>090 Balance at end of year/pref share capital & equity loans</u>				
<u>091 Ordinary Shareholders' Equity at End Of Year</u>	6,002,000	5,563,200		

Sundry Items [Year: 2007 - 2003, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Sep	Sep	Sep	Sep	Sep
Sundry Items Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
<u>101 Ordinary Shares in Issue @ Year End Split Adjusted</u>	583,481	581,235	641,945	641,574	640,571
<u>102 Nr of Ordinary Shares in Issue @ Year End</u>	583,481	581,235	641,945	641,574	640,571
<u>103 Par Or No Par Value</u>	1	1	1	1	1
<u>110 Debtors As Surety</u>	2	2	2	2	2
<u>111 Directors Value in Unlisted Investments</u>	37,400	65,900	15,800	20,400	19,700
<u>112 Market Value Listed Investments</u>	-	-	-	-	-
<u>113 Directors Valuation of Unconsolidated Subsidiaries</u>	-	-	-	6,100	5,900
<u>114 Arrear Cumulative Dividends</u>	-	-	-	-	-
<u>115 Months Covered By Financial Statements</u>	12	12	12	12	12
<u>116 Month Of Financial Year End</u>	9	9	9	9	9
<u>117 Audit Report Qualified</u>	2	2	2	2	2
<u>118 Inflation Adjusted Other Fixed Asset</u>	362,894	342,297	862,262	1,162,812	1,335,220
<u>119 Inflation Adjusted Depreciable Fixed Asset</u>	46,816	44,860	165,299	237,131	269,432
<u>120 No Of Subsidiaries</u>	64	66	68	65	74
<u>121 No Of Foreign Subsidiaries</u>	46	48	49	49	50
<u>122 No Of Quoted Subsidiaries</u>	2	2	2	-	-
<u>123 Controlled By Another Entity</u>	2	2	2	2	2
<u>124 Provision For Increased Replacement Value</u>	2	2	2	2	2
<u>125 Preference Share Issued At Par</u>	1	1	1	1	1
<u>126 Directors Shareholding Beneficial</u>	5,774	5,437	555	922	1,311
<u>127 Directors Shareholding Non-beneficial</u>	-	-	-	-	-
<u>128 Deferred Tax Total</u>	733,100	673,800	497,600	405,700	335,000
<u>129 Deferred Tax For Year</u>	29,000	16,400	140,400	52,900	2,100
<u>130 Items Not Representing Cashflow</u>	736,300	666,300	644,700	239,900	838,900
<u>131 No Persons Employed</u>	15,589	16,201	17,231	19,122	19,697
<u>175 Foreign Employees</u>	-	-	1,318	-	-





133 Inventory: Finished Goods		18,300	817,300	979,900	807,800
134 Inventory: Merchandise		-	-	-	-
135 Inventory: Consumable Stores	266,400	217,900	272,700	349,500	459,100
136 Inventory: Work In Progress	209,300	208,700	184,700	210,800	189,800
137 Inventory: Uncompleted Contracts		-	-	-	-
138 Proportionate Profit from Associated Companies	4,300	-	-600	-	-
139 Total Reserve Accrued: Associated Companies	14,300	14,300	-600	-	-
140 Capital Commitments	1,687,600	962,100	435,500	564,100	459,000
141 Accumulated Depreciation Land & Buildings	318,000	303,500	380,300	563,400	553,000
142 Long Term Group Loans Advanced		-	-	-	-
143 Short Term Group Loans Advanced		-	-	-	-
144 Headline Earnings per Share	185	151	119	146	145
145 Long Term Group Loans Received		-	-	-	-
146 Short Term Group Loans Received		-	-	-	-
147 Notes To Statements		-	-	-	-
148 Number Of Analysts	7	2	2	2	2
149 Average Price Per Share	2,115	1,696	1,538	1,333	1,293
150 Share Price @ Company Financial Year End	2,100	1,729	1,564	1,401	1,250
151 Inventory Valuation Method	2	2	2	2	2
152 Mining Assets		-	-	-	-
153 Exploration, Amortisation Expenses Written Off		-	-	-	-
154 Undeveloped Property		-	-	-	-
155 Development Property Less Development Expense		-	-	-	-
156 Debtors For Property Sold		-	112,100	-	-
157 Provision For Future Development		-	-	-	-
158 Currency Adjustment: R1000 To ?		-	-	-	-
162 Trade Creditors	1,195,600	1,556,000	1,726,800	1,693,300	1,742,500
163 Loan Portion Of Tax		-	-	-	-
164 Balance Sheet LIFO Inventory Adjustment		-	-	-	-
165 Income Statement LIFO Inventory Adjustment		-	-	-	-
166 Leasehold Commitments	431,900	414,400	500,400	512,600	514,600
167 Contingent Liabilities	686,700	756,900	22,900	62,500	146,300
168 Extraordinary Item In Tax		-	-	-	-8,700
169 Extraordinary Item In Minority Interest		-	-	-	-
170 No Of Shares Traded	243,566	337,248	303,726	421,267	357,392
171 No Of Transactions	35,113	46,601	46,814	39,945	34,857
172 Value Of Transactions	5,150,821	5,720,152	4,671,175	5,614,617	4,620,343
173 Split Factor (3 Decimals)	1	1	1	1	1
174 Month Of Stock Split		-	-	-	-



Balance Sheet [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Feb	Feb	Feb	Feb	Feb
Balance Sheet Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
001 Ordinary Share Capital	5,700	5,800	5,800	5,900	6,000
002 Non Distributable Reserves	-348,700	-415,000	-379,000	-184,000	-113,300
003 Distributable Reserves	702,100	607,900	1,033,900	1,029,900	919,800
004 Cost Of Control	714,300	634,900	656,400	745,100	742,100
005 Intangible Assets	190,300	110,900	-	-	-
006 Ordinary Shareholders Interest	-545,500	-547,100	4,300	106,700	70,400
007 Minority Interest	-	-	-	-	-
008 Preference Share Capital	-	-	-	-	-
009 Total Owners Interest	-545,500	-547,100	4,300	106,700	70,400
010 Land And Buildings	817,800	552,700	304,200	231,800	157,600
011 Total Depreciation: Land and Buildings	65,600	53,700	52,600	49,500	46,700
012 Cost Other Fixed Assets	3,824,100	3,108,800	2,638,900	2,802,400	2,388,600
013 Total Depreciation: Other Fixed Assets	2,051,100	1,759,800	1,480,000	1,757,000	1,511,400
014 Total Fixed Assets	2,525,200	1,848,000	1,410,500	1,227,700	988,100
015 Long Term Loans Advanced	182,800	173,600	198,600	217,200	307,100
016 Unlisted Investments	9,300	47,200	5,200	5,200	180,500
017 Shares In Unconsolidated Subsidiaries	-	-	-	-	-
018 Listed Investments	-	9,100	3,400	2,500	900
019 Total Long Term Investments	192,100	229,900	207,200	224,900	488,500
020 Total Long Term Assets	2,717,300	2,077,900	1,617,700	1,452,600	1,476,600
021 Secured Long Term Borrowings	170,200	712,100	178,600	177,600	201,500
022 Debentures	27,600	16,000	-	-	41,800
023 Other Long Term Borrowings	713,600	195,100	189,900	171,600	271,700
024 Total Long Term Loan Capital	911,400	923,200	368,500	349,200	515,000
025 Net Investment in Long Term Assets	1,805,900	1,154,700	1,249,200	1,103,400	961,600
026 Total Inventory	2,367,400	1,984,200	1,878,800	1,578,700	1,507,300
027 Debtors	943,700	750,700	634,500	628,100	495,700
028 Short Term Loans Advances	-	-	-	-	-
029 Cash And Bank	709,100	944,600	1,329,000	1,502,500	1,035,600
030 Other Current Assets	-	-	-	-	-
031 Total Current Assets	4,020,200	3,679,500	3,842,300	3,709,300	3,038,600
032 Short Term Borrowings	51,600	74,400	56,600	159,900	186,700
033 Creditors	5,605,400	4,654,100	4,282,300	3,972,000	3,265,100
034 Bank Overdraft	-	-	-	-	-
035 Provision For Taxation	225,500	236,300	393,100	274,800	212,100
036 Provision For Distribution	489,100	416,500	355,200	299,300	265,900
037 Total Current Liabilities	6,371,600	5,381,300	5,087,200	4,706,000	3,929,800
038 Net Current Assets	-2,351,400	-1,701,800	-1,244,900	-996,700	-891,200
039 Net Assets	-545,500	-547,100	4,300	106,700	70,400
042 Surplus Value Over Bookvalue of Investment	-	-	-	-	-
040 Total Assets	6,737,500	5,757,400	5,460,000	5,161,900	4,515,200
041 Operating Assets	6,545,400	5,527,500	5,252,800	4,937,000	4,026,700

General Supplementary



<u>201 Shares In Issue Y/E Ordinary</u>	455,996	460,266	463,137	471,403	483,444
<u>202 Shares In Issue Y/E 'N'</u>	-	-	-	-	-
<u>203 Shares In Issue Y/E 'A'</u>	-	-	-	-	-
<u>204 Shares In Issue Y/E 'B'</u>	-	-	-	-	-
<u>248 Shares In Issue Y/E 'C'</u>	-	-	-	-	-
<u>251 Shares In Issue Y/E 'E'</u>	-	-	-	-	-
<u>206 Shares In Issue Weighted Average</u>	456,137	461,072	468,704	470,749	486,764
<u>207 Shares In Issue Fully Diluted</u>	484,717	489,171	496,404	499,578	512,689
<u>232 Treasury Shares (Number '000)</u>	30,138	25,867	-	-	-
<u>233 Treasury Shares (Value R'000)</u>	630,200	509,900	-	-	-
<u>249 Share Trusts and Other (Number '000)</u>	-	-	-	-	-
<u>250 Share Trusts and Other (Value R'000)</u>	-	-	-	-	-
<u>238 Preference shares issued by a subsidiary</u>	-	-	-	-	-
<u>208 Revaluation Reserve</u>	-	8,200	2,500	-	-
<u>209 Minority Revaluation Reserve</u>	-	-	-	-	-
<u>210 Minority Equity Accounted Reserve</u>	-	-	-	-	-
<u>228 Foreign Currency Translation Reserve - Cumulative</u>	187,100	21,600	-	-	-
<u>211 Commitments: Land & Buildings</u>	5,688,400	5,304,200	5,781,100	4,991,400	4,766,000
<u>212 Commitments: Other</u>	-	-	-	-	-
<u>213 Foreign Borrowings</u>	-	-	-	-	-
<u>214 Convertible Preference Shares</u>	-	-	-	-	-
<u>215 Convertible Debentures & Loans</u>	27,600	37,300	29,400	36,100	41,800
<u>216 Share In Issue Latest</u>	-	-	-	-	-
<u>217 Mining Assets at Cost</u>	-	-	-	-	-
<u>218 Depreciation / Amortisation on Mine Assets</u>	-	-	-	-	-
<u>219 Medical Aid Liabilities</u>	35,000	67,000	-	-	-
<u>220 Pension Fund Liabilities</u>	94,000	127,800	189,800	145,000	125,900
<u>221 Long Term Loans - Interest Bearing</u>	197,800	728,100	178,600	204,200	259,300
<u>222 Long Term Loans - Interest Free</u>	713,600	195,100	189,900	145,000	255,700
<u>223 Short Term Loans - Interest Bearing</u>	51,600	74,400	56,600	159,900	186,700
<u>224 Short Term Loans - Interest Free</u>	-	-	-	-	-
<u>225 Property Revaluation Surplus - I/S</u>	-	-	-	1,600	-
<u>226 Profit /Loss Forex Translations - B/S</u>	-	-	-91,200	23,900	-116,900
<u>227 Profit /Loss Forex Transactions - B/S</u>	-	-	-	-	-
<u>229 Foreign Assets</u>	1,331,000	1,155,900	-	-	-
<u>230 Foreign Liabilities</u>	541,700	461,500	-	-	-
<u>231 Provisions</u>	349,500	390,600	-	-	-
<u>236 Provisions - Long term</u>	129,000	194,800	-	-	-
<u>237 Provisions - Short term</u>	220,500	195,800	-	-	-
<u>234 Share Trust scheme</u>	-	-	-	-	-
<u>235 Capital Distributions (Cash)</u>	-	-	-	-	-
<u>239 Non Current Assets held for sale - Land & Buildings</u>	-	-	-	-	-
<u>240 Non Current Assets held for sale - Investments</u>	-	-	-	-	-
<u>241 Non Current Assets held for sale - Other</u>	-	-	-	-	-
<u>258 Total Bookvalue Land & Buildings</u>	752,200	499,000	251,600	182,300	110,900
<u>252 Total Bookvalue Other Fixed Assets</u>	-	-	-	-	-
<u>253 Bookvalue Plant & Machinery/Manufacturing Equipment</u>	-	-	-	-	-
<u>254 Bookvalue Furniture & Office Equipment</u>	-	-	-	-	-
<u>255 Bookvalue Vehicles</u>	-	-	-	-	-
<u>256 Bookvalue Computer Hardware & Software</u>	-	-	-	-	-
<u>257 Bookvalue Other fixed assets</u>	-	-	-	-	-
<u>242 Listed Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>243 Market Value of Listed Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>244 Unlisted Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>245 Directors Valuation of Unlisted Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>246 Minority dividends declared - B/S</u>	-	-	-	-	-
<u>247 BEE Share of accumulative profits - B/S</u>	-	-	-	-	-

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Feb	Feb	Feb	Feb	Feb
Income Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
051 Turnover	39,337,100	35,078,400	31,885,000	29,276,100	26,194,200
052 Change In Turnover %	12	10	9	12	39
053 Cost Of Sales	32,443,200	29,060,100	26,597,500	24,420,400	21,552,300
054 Trading Profit	2,513,100	2,048,400	1,857,600	1,632,900	1,471,800
055 Interest Received	41,600	56,700	81,400	81,900	91,800
056 Income Unlisted Investment	-	-	6,100	14,200	20,100
057 Income Listed Investment	-	200	-	-	-
058 Income Unconsolidated Subsidiaries	-	-	-	-	-
059 Total Income Investment	41,600	56,900	87,500	96,100	111,900
060 Surplus Sale Investment	-55,800	-	900	-	-14,100
061 Surplus Sale Non Trading Assets	-9,400	-2,500	-2,400	-	12,400
062 Extraordinary Profits	-	-	-67,200	15,500	-120,500
063 Total Profits Extraordinary Nature	-65,200	-2,500	-68,700	15,500	-122,200
064 Auditors Remuneration And Costs	9,100	6,700	6,500	6,000	3,900
065 Depreciation Other Fixed Assets	406,700	315,800	298,900	280,300	276,100
066 Depreciation Land And Buildings	11,900	5,100	5,800	2,800	2,000
067 Rental Fixed Assets	760,600	641,000	552,800	534,100	489,000
068 Directors Remuneration: Direct	2,800	2,700	1,400	1,300	700
069 Directors Remuneration: Other	25,800	25,200	23,300	19,400	19,400
070 Management And Other Services	-	-	-	-	-
071 Total Cost Shown	1,216,900	996,500	888,700	843,900	791,100
054 Trading Profit	2,513,100	2,048,400	1,857,600	1,632,900	1,471,800
059 Total Income Investment	41,600	56,900	87,500	96,100	111,900
063 Total Profits Extraordinary Nature	-65,200	-2,500	-68,700	15,500	-122,200
072 Total Income	2,489,500	2,102,800	1,876,400	1,744,500	1,461,500
071 Total Cost Shown	1,216,900	996,500	888,700	843,900	791,100
073 Profit Before Interest And Tax (EBIT)	1,272,600	1,106,300	987,700	900,600	670,400
074 Total Interest Paid	49,300	37,600	32,900	46,600	41,400
075 Profit Before Taxation	1,223,300	1,068,700	954,800	854,000	629,000
076 Taxation	460,300	438,400	414,900	346,600	292,800
077 Profit After Taxation	763,000	630,300	539,900	507,400	336,200
078 Minority Interest In Profit	-	-	-	-	-
079 Profit to Ordinary And Preference Shareholders	763,000	630,300	539,900	507,400	336,200
080 Ordinary Dividend	1,012,900	523,700	446,900	377,100	333,600
081 Preference Dividend	-	-	-	-	-
082 Retained Profits	-249,900	106,600	93,000	130,300	2,600
083 Earnings Before Interest, Tax, Depreciation And Amortisation (EBITDA)	1,735,300	1,431,700	1,327,700	1,220,500	987,100
General Supplementary					
301 Lease Charge: Land Building	706,200	641,000	552,800	534,100	404,900
302 Lease Charge: Other	54,400	-	-	-	84,100
303 Research & Development	-	-	-	-	-
304 EPS-Equity Accounted	148	153	-	-	-
305 EPS-Bottom Line	148	153	139	110	93
306 EPS-Headline	170	153	142	117	102
307 EPS-Fully Diluted Headline	161	145	135	112	98
308 EPS-Fully Diluted Bottomline	140	144	132	104	90



374 EPS-Continuing Operations					
359 Earnings per Linked Unit					
375 Core Headline Earnings - Total Value					
376 Core Headline Earnings Per Share					
380 Dividend per Share	134	100	83	72	55
381 Interest Distribution per Unit					
382 Capital Distribution per Share					
309 Effective Tax Rate	44	35	36	36	36
310 Deferred Tax: Contingent Liability					
311 Deferred Tax: Current	71,300	46,300	-99,300	-60,600	-39,300
312 Deferred Tax: Other		-55,600			
318 Accumulated Assessed Tax Loss					
319 Accumulated Computed Tax Loss	536,900				
320 Prior Year Tax Adjustment		-44,600			
333 STC as Published	65,400	55,100	47,800	41,300	29,500
338 Foreign Tax					
364 Foreign Tax - Normal					
365 Foreign Tax - Previous year					
366 Foreign Tax - Deferred					
313 Interest Capitalised					
373 Interest Paid - Debentures					
314 Invest Allowance Benefit					
315 Dilution: Interest Saved					
316 Dilution: Dividends Saved					
317 Dilution: Equity Income Converted					
322 Intangible Assets Written Off	7,800	4,500			
350 Impairments of intangible assets					
349 Reversal impairments/Intangible Assets - prev years					
383 Goodwill Written Off					
351 Impairments of goodwill	36,300				
346 Reversal of impairments of Goodwill - prev years					
323 Amortisation of goodwill	36,300		35,300	36,800	38,600
324 Impairment of Investments	-64,000				-14,100
348 Reversal of impairments/Investments - prev years					
325 Impairment of Loans					
368 Reversal of impairments/Loans - prev years					
326 Capital Profit /Loss on Financial Assets	8,200		900		
360 Gains/Losses on Mark to Market Value of Financial Assets					
327 Impairment of Fixed Assets					
347 Reversal of impairm/Other Fixed assets - prev years					
328 Capital Profit /Loss on Fixed Assets	-9,400	-2,500	-2,400		12,400
329 Profit /Loss Forex Translations - I/S					
330 Profit /Loss Forex Transactions - I/S					
331 Profit /Loss Disposal of Subsidiaries/ Businesses			24,000		
332 Profit /Loss Sundry Extraordinaries				-8,400	-3,600
352 Extraordinary items - unconsolidated subs					
367 Share issue expenses written off					
377 Expense in regard to BEE transaction					
336 Foreign Turnover	4,269,200	3,934,800			
337 Foreign Profit	-46,400	-92,700			
339 Ordinary Dividends - Ordinary Shareholders	1,012,900	523,700			
340 Ordinary Dividends - Minority Shareholders					
357 Ordinary dividends declared	1,012,900	523,700			
358 Ordinary dividends paid	523,800	452,000			
341 Preference Dividends - Ordinary Shareholders					
342 Preference Dividends - Minority Shareholders					
353 Minority dividends paid					
354 Minority dividends declared - I/S					



321 Non Cash Dividends				
334 Non-Cash Dividend (Current Year)				
335 Non-Cash Dividend (Previous Year)				
343 Auditors - Audit Fees - current year	7,600	5,600	4,500	
378 Auditors - Audit Fees - previous year				
379 Auditors - Audit Expenses				
344 Auditors - Other Fees	1,500	1,100	2,000	
345 Staff Costs(excluding directors remuneration)	3,810,600	3,439,800		
372 Other Staff share based payments - I/S				
361 Directors share based payments - I/S				
362 Directors share based payments - B/S				
355 Income from Endowment policies				
356 Other Income from Fixed Asset Investments				
363 BEE Share of profits - I/S				

Changes In Equity Statement [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Feb	Feb	Feb	Feb	Feb
Changes In Equity Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
901 Ordinary Shareholders' Equity at Beginning of Year	838,900	698,800	-		
902 Movements in Issued Capital & Share Premium					
903 Balance at begin of year/issued capital & share premium	-477,800	-391,700	-		
904 Adj to prior year/issued capital & share premium					
905 Ordinary shares issued/issued capital & share premium					
906 Share based payments/issued capital & share premium					
907 Shares held by subsidiary company/issued capital & share premium					
908 Share issue expenses/issued capital & share premium					
909 Goodwill written off/issued capital & share premium					
910 Capital distributions/issued capital & share premium					
911 Treasury shares/issued capital & share premium	-120,300	-86,100	-		
913 Cancelling of shares/issued capital & share premium					
912 Staff share trust/issued capital & share premium					
951 Share premium raised under share purchase scheme					
939 Sundry/issued capital & share premium					
940 Balance at end of year/issued capital & share premium	-598,100	-477,800	-		
941 Movements in Non-Distributable Reserve					
942 Balance at begin of year/non-distrib reserve	68,600	62,400	-		
943 Adj to prior year/non-distrib reserve					
944 Ordinary shares issued/non-distrib reserve					
945 Profit/(loss) on sale of investments/non-distrib reserve					
946 Shares held by subsidiary company/non-distrib reserve					
947 Share issue expenses/non-distrib reserve					
948 Goodwill written off/non-distrib reserve					
949 Capital distributions/non-distrib reserve					



<u>950 Section 90 unbundling payment to shareholder</u>				
<u>952 Treasury shares/non-distrib reserve</u>				
<u>971 Cancelling of shares/non-distrib reserve</u>				
<u>953 Staff share trust/non-distrib reserve</u>				
<u>954 Profit/(loss) on forex translations/non-distrib reserve</u>	165,500	-21,900		
<u>955 Profit/(loss) on forex transactions/non-distrib reserve</u>				
<u>956 Tax adjustment/non-distrib reserve</u>				
<u>957 Net transfer (to)/from distributable reserve</u>				
<u>958 Realised surplus/(loss) - sale of land & build/non-distrib reserve</u>				
<u>959 Surplus/(deficit) on revaluation of land & build/non-distrib reserve</u>				
<u>960 Derivative valuation adjustment</u>				
<u>961 Capital redemption fund</u>				
<u>962 Adj arising on changes in composition of group/non-distrib reserve</u>				
<u>963 Profit/(loss) on disposal of subs/ businesses/non-distrib reserve</u>				
<u>964 Share of associated companies' reserves</u>				
<u>965 Profit on share issue of subsidiaries</u>				
<u>966 Change in accounting policy/non-distrib reserve</u>				
<u>967 Surplus/(deficit) on revaluation of investments/non-distrib reserve</u>	-8,200	5,700		
<u>968 BEE Share of accum profit/non-distrib reserve</u>				
<u>969 Share based payments/non-distrib reserve</u>	29,200	22,400		
<u>970 Net unrealised (losses)/gains on hedging instrum/non-distrib reserve</u>				
<u>999 Sundry/non-distrib reserve</u>				
<u>000 Balance at end of year/non-distrib reserve</u>	255,100	68,600		
<u>001 Movements in Distributable Reserve</u>				
<u>002 Balance at begin of year/distrib reserve</u>	1,248,100	1,028,100		
<u>003 Adj to prior year/distrib reserve</u>				
<u>004 Net profit/(loss) for the year</u>	675,600	703,100		
<u>005 Ordinary dividends</u>	-523,800	-452,000		
<u>006 Preference dividends</u>				
<u>007 Treasury shares/distrib reserve</u>	-57,500	-20,700		
<u>028 Cancelling of shares/distrib reserve</u>				
<u>008 Net transfer (to)/from non-distributable reserves</u>				
<u>009 Profit/(loss) on forex translations/distrib reserve</u>				
<u>010 Profit/(loss) on forex transactions/distrib reserve</u>				
<u>011 Realised surplus/(loss) - sale of land & build/distrib reserve</u>				
<u>012 Surplus/(deficit) on revaluation of land & build/distrib reserve</u>				
<u>013 Shares held by subsidiary company/distrib reserve</u>				
<u>014 Change in accounting policy/distrib reserve</u>				
<u>015 Adj arising on changes in composition of group/distrib reserve</u>				
<u>016 Share of associated companies' retained income</u>				
<u>017 Share issue expenses/distrib reserve</u>				
<u>018 Goodwill written off/distrib reserve</u>				
<u>019 Capital distributions/distrib reserve</u>				
<u>020 Net unrealised (losses)/gains on hedging instrum/distrib reserve</u>				



<u>021 Premium on acquisition of subsidiaries</u>				
<u>022 Profit/(loss) on disposal of subs/ businesses/distrib reserve</u>				
<u>023 Surplus/(deficit) on revaluation of investments/distrib reserve</u>				
<u>024 BEE Share of accum profit/distrib reserve</u>				
<u>025 Share based payments/distrib reserve</u>				
<u>026 Tax adjustment/distrib reserve</u>				
<u>027 Profit/(loss) on sale of investments/distrib reserve</u>				
<u>059 Sundry/distrib reserve</u>				
<u>060 Balance at end of year/distrib reserve</u>	1,342,400	1,258,500		
<u>061 Movements in Preference Share Capital & Equity Loans</u>				
<u>062 Balance at begin of year/pref share capital & equity loans</u>	16,000	16,000		
<u>063 Adj to prior year/pref share capital & equity loans</u>				
<u>064 Shares issued</u>				
<u>065 Share issue expenses/pref share capital & equity loans</u>				
<u>066 Distribution to shareholders</u>				
<u>067 Shares to be issued</u>				
<u>068 Debentures issued</u>				
<u>089 Sundry/pref share capital & equity loans</u>				
<u>090 Balance at end of year/pref share capital & equity loans</u>	16,000	16,000		
<u>091 Ordinary Shareholders' Equity at End Of Year</u>	999,400	849,300		

Sundry Items [Year: 2007 - 2003, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Feb	Feb	Feb	Feb	Feb
Sundry Items Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
<u>101 Ordinary Shares in Issue @ Year End Split Adjusted</u>	455,996	460,266	463,137	471,403	483,444
<u>102 Nr of Ordinary Shares in Issue @ Year End</u>	455,996	460,266	463,137	471,403	483,444
<u>103 Par Or No Par Value</u>	1	1	1	1	1
<u>110 Debtors As Surety</u>	2	2	2	2	2
<u>111 Directors Value in Unlisted Investments</u>	9,300	47,200	5,200	5,200	180,500
<u>112 Market Value Listed Investments</u>	-	9,100	3,400	2,500	900
<u>113 Directors Valuation of Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>114 Arrear Cumulative Dividends</u>	-	-	-	-	-
<u>115 Months Covered By Financial Statements</u>	12	12	12	12	12
<u>116 Month Of Financial Year End</u>	2	2	2	2	2
<u>117 Audit Report Qualified</u>	2	2	2	2	2
<u>118 Inflation Adjusted Other Fixed Asset</u>	195,122	270,878	244,226	345,768	328,587
<u>119 Inflation Adjusted Depreciable Fixed Asset</u>	44,758	63,412	62,990	92,709	103,423
<u>120 No Of Subsidiaries</u>	33	33	31	34	31
<u>121 No Of Foreign Subsidiaries</u>	8	8	9	8	8
<u>123 Controlled By Another Entity</u>	3	3	3	3	3
<u>124 Provision For Increased Replacement Value</u>	2	2	2	2	2
<u>125 Preference Share Issued At Par</u>	-	-	-	-	-
<u>126 Directors Shareholding Beneficial</u>	1,458	3,403	3,242	483	2,417
<u>127 Directors Shareholding Non-beneficial</u>	128,339	127,368	120,879	125,695	123,761
<u>128 Deferred Tax Total</u>	-151,200	-234,100	-62,900	34,700	95,300
<u>129 Deferred Tax For Year</u>	71,300	-9,300	-99,300	-60,600	-39,300
<u>130 Items Not Representing Cashflow</u>	492,000	327,700	399,700	283,100	295,800
<u>131 No Persons Employed</u>	63,200	34,484	47,700	44,700	31,000
<u>175 Foreign Employees</u>	4,400	-	-	-	-
<u>132 Inventory: Raw Material</u>	-	-	-	-	-

134 Inventory: Merchandise		71,600	1,868,700	1,572,400	1,496,800
135 Inventory: Consumable Stores	16,200	12,600	10,100	6,300	10,500
136 Inventory: Work In Progress	-	-	-	-	-
137 Inventory: Uncompleted Contracts	-	-	-	-	-
138 Proportionate Profit from Associated Companies	26,100	23,400	-	-	-
139 Total Reserve Accrued: Associated Companies	68,100	42,000	-	-	-
140 Capital Commitments	1,174,800	1,348,100	601,700	318,600	414,100
141 Accumulated Depreciation Land & Buildings	65,600	53,700	52,600	49,500	46,700
142 Long Term Group Loans Advanced	-	-	-	100	200
143 Short Term Group Loans Advanced	-	-	-	-	-
144 Headline Earnings per Share	170	153	142	117	102
145 Long Term Group Loans Received	300	300	100	-	-
146 Short Term Group Loans Received	-	-	-	-	-
147 Notes To Statements	-	-	-	-	-
148 Number Of Analysts	7	2	2	2	9
149 Average Price Per Share	3,088	2,690	1,994	1,484	1,269
150 Share Price @ Company Financial Year End	3,405	3,054	2,326	1,711	1,283
151 Inventory Valuation Method	2	2	2	2	2
152 Mining Assets	-	-	-	-	-
153 Exploration, Amortisation Expenses Written Off	-	-	-	-	-
154 Undeveloped Property	-	-	-	-	-
155 Development Property Less Development Expense	-	-	-	-	-
156 Debtors For Property Sold	-	-	-	-	-
157 Provision For Future Development	-	-	-	-	-
158 Currency Adjustment: R1000 To ?	-	-	-	-	-
162 Trade Creditors	5,384,900	4,458,300	4,108,800	3,803,200	3,265,100
163 Loan Portion Of Tax	-	-	-	-	-
164 Balance Sheet LIFO Inventory Adjustment	-	-	-	-	-
165 Income Statement LIFO Inventory Adjustment	-	-	-	-	-
166 Leasehold Commitments	5,688,400	5,304,200	5,781,100	4,991,400	4,766,000
167 Contingent Liabilities	-	-	-	-	-
168 Extraordinary Item In Tax	-	-	-	-	-
169 Extraordinary Item In Minority Interest	-	-	-	-	-
170 No Of Shares Traded	264,500	148,079	135,377	136,421	174,235
171 No Of Transactions	78,081	44,436	29,926	23,968	24,778
172 Value Of Transactions	8,168,844	3,983,358	2,700,049	2,024,108	2,210,550
173 Split Factor (3 Decimals)	1	1	1	1	1
174 Month Of Stock Split	-	-	-	-	-



Balance Sheet [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Mar	Mar	Mar	Mar	Mar
Balance Sheet Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
001 Ordinary Share Capital	8,000	8,000	8,000	8,000	8,000
002 Non Distributable Reserves	25,592,000	17,771,000	17,079,000	14,192,000	13,735,000
003 Distributable Reserves	19,792,000	17,374,000	17,119,000	13,878,000	13,280,000
004 Cost Of Control	342,000	316,000	379,000	3,238,000	3,352,000
005 Intangible Assets	71,000	36,000	7,000	8,000	9,000
006 Ordinary Shareholders Interest	44,979,000	34,801,000	33,820,000	24,832,000	23,662,000
007 Minority Interest	755,000	596,000	2,011,000	1,700,000	1,583,000
008 Preference Share Capital	-	-	-	-	-
009 Total Owners Interest	45,734,000	35,397,000	35,831,000	26,532,000	25,245,000
010 Land And Buildings	1,445,000	1,393,000	2,632,000	2,353,000	2,235,000
011 Total Depreciation: Land and Buildings	408,000	393,000	211,000	189,000	200,000
012 Cost Other Fixed Assets	3,075,000	2,727,000	3,537,000	2,994,000	2,688,000
013 Total Depreciation: Other Fixed Assets	1,407,000	1,283,000	1,976,000	1,643,000	1,446,000
014 Total Fixed Assets	2,705,000	2,444,000	3,982,000	3,515,000	3,277,000
015 Long Term Loans Advanced	204,000	360,000	746,000	701,000	1,149,000
016 Unlisted Investments	21,382,000	15,878,000	15,904,000	10,855,000	11,393,000
017 Shares In Unconsolidated Subsidiaries	-	-	-	-	-
018 Listed Investments	17,707,000	14,002,000	13,870,000	9,899,000	7,737,000
019 Total Long Term Investments	39,293,000	30,240,000	30,520,000	21,455,000	20,279,000
020 Total Long Term Assets	41,998,000	32,684,000	34,502,000	24,970,000	23,556,000
021 Secured Long Term Borrowings	161,000	168,000	160,000	172,000	114,000
022 Debentures	-	-	-	-	-
023 Other Long Term Borrowings	214,000	186,000	271,000	119,000	129,000
024 Total Long Term Loan Capital	375,000	354,000	431,000	291,000	243,000
025 Net Investment in Long Term Assets	41,623,000	32,330,000	34,071,000	24,679,000	23,313,000
026 Total Inventory	755,000	620,000	653,000	464,000	676,000
027 Debtors	1,244,000	878,000	1,440,000	1,043,000	1,094,000
028 Short Term Loans Advances	16,000	46,000	1,000	7,000	-
029 Cash And Bank	5,004,000	6,357,000	2,372,000	3,446,000	2,286,000
030 Other Current Assets	293,000	242,000	239,000	217,000	-
031 Total Current Assets	7,312,000	8,143,000	4,705,000	5,177,000	4,056,000
032 Short Term Borrowings	158,000	112,000	47,000	60,000	38,000
033 Creditors	1,489,000	1,499,000	1,731,000	1,086,000	1,109,000
034 Bank Overdraft	103,000	18,000	125,000	53,000	35,000
035 Provision For Taxation	90,000	406,000	9,000	120,000	125,000
036 Provision For Distribution	1,361,000	3,041,000	1,033,000	2,005,000	817,000
037 Total Current Liabilities	3,201,000	5,076,000	2,945,000	3,324,000	2,124,000
038 Net Current Assets	4,111,000	3,067,000	1,760,000	1,853,000	1,932,000
039 Net Assets	45,734,000	35,397,000	35,831,000	26,532,000	25,245,000
042 Surplus Value Over Bookvalue of Investment	58,807,000	38,714,000	22,779,000	22,771,000	14,448,000
040 Total Assets	49,310,000	40,827,000	39,207,000	30,147,000	27,612,000
041 Operating Assets	10,001,000	10,541,000	8,686,000	8,685,000	7,333,000

General Supplementary



<u>201 Shares In Issue Y/E Ordinary</u>	436,854	444,329	451,591	486,494	474,878
<u>202 Shares In Issue Y/E 'N'</u>	-	-	-	-	-
<u>203 Shares In Issue Y/E 'A'</u>	-	-	-	-	-
<u>204 Shares In Issue Y/E 'B'</u>	35,506	35,506	35,506	35,506	35,506
<u>248 Shares In Issue Y/E 'C'</u>	-	-	-	-	-
<u>251 Shares In Issue Y/E 'E'</u>	-	-	-	-	-
<u>206 Shares In Issue Weighted Average</u>	474,124	483,155	497,292	503,280	519,565
<u>207 Shares In Issue Fully Diluted</u>	475,796	484,507	498,853	504,384	-
<u>232 Treasury Shares (Number '000)</u>	8,554	4,473	34,903	-	-
<u>233 Treasury Shares (Value R'000)</u>	1,497,000	412,000	2,552,000	-	-
<u>249 Share Trusts and Other (Number '000)</u>	3,394	-	-	-	-
<u>250 Share Trusts and Other (Value R'000)</u>	-	-	-	-	-
<u>238 Preference shares issued by a subsidiary</u>	-	-	-	-	-
<u>208 Revaluation Reserve</u>	5,003,000	3,160,000	1,261,000	1,215,000	-
<u>209 Minority Revaluation Reserve</u>	-	-	-	-	-
<u>210 Minority Equity Accounted Reserve</u>	-	-	-	-	-
<u>228 Foreign Currency Translation Reserve - Cumulative</u>	3,881,000	-1,154,000	245,000	-	-
<u>211 Commitments: Land & Buildings</u>	122,000	105,000	167,000	113,000	131,000
<u>212 Commitments: Other</u>	-	-	-	-	-
<u>213 Foreign Borrowings</u>	-	-	-	-	-
<u>214 Convertible Preference Shares</u>	-	-	-	-	-
<u>215 Convertible Debentures & Loans</u>	-	-	-	-	-
<u>216 Share In Issue Latest</u>	-	-	-	-	-
<u>217 Mining Assets at Cost</u>	-	-	-	-	-
<u>218 Depreciation / Amortisation on Mine Assets</u>	-	-	-	-	-
<u>219 Medical Aid Liabilities</u>	129,000	116,000	160,000	119,000	103,000
<u>220 Pension Fund Liabilities</u>	85,000	69,000	71,000	-	-
<u>221 Long Term Loans - Interest Bearing</u>	161,000	169,000	161,000	172,000	140,000
<u>222 Long Term Loans - Interest Free</u>	214,000	185,000	270,000	119,000	103,000
<u>223 Short Term Loans - Interest Bearing</u>	64,000	58,000	47,000	60,000	38,000
<u>224 Short Term Loans - Interest Free</u>	94,000	54,000	-	-	-
<u>225 Property Revaluation Surplus - I/S</u>	-	-	-	-	-
<u>226 Profit /Loss Forex Translations - B/S</u>	-	-	239,000	-694,000	-2,185,000
<u>227 Profit /Loss Forex Transactions - B/S</u>	-	-	-	-	-
<u>229 Foreign Assets</u>	20,186,000	14,066,000	-	-	-
<u>230 Foreign Liabilities</u>	-	-	-	-	-
<u>231 Provisions</u>	262,000	226,000	-	-	-
<u>236 Provisions - Long term</u>	214,000	185,000	-	-	-
<u>237 Provisions - Short term</u>	48,000	41,000	-	-	-
<u>234 Share Trust scheme</u>	-	-	-	-	-
<u>235 Capital Distributions (Cash)</u>	-	-	-	-	-
<u>239 Non Current Assets held for sale - Land & Buildings</u>	123,000	-	-	-	-
<u>240 Non Current Assets held for sale - Investments</u>	-	-	-	-	-
<u>241 Non Current Assets held for sale - Other</u>	17,000	-	-	-	-
<u>258 Total Bookvalue Land & Buildings</u>	1,037,000	1,000,000	2,421,000	2,164,000	2,035,000
<u>252 Total Bookvalue Other Fixed Assets</u>	1,668,000	-	-	-	-
<u>253 Bookvalue Plant & Machinery/Manufacturing Equipment</u>	1,371,000	-	-	-	-
<u>254 Bookvalue Furniture & Office Equipment</u>	32,000	-	-	-	-
<u>255 Bookvalue Vehicles</u>	265,000	-	-	-	-
<u>256 Bookvalue Computer Hardware & Software</u>	-	-	-	-	-
<u>257 Bookvalue Other fixed assets</u>	-	-	-	-	-
<u>242 Listed Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>243 Market Value of Listed Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>244 Unlisted Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>245 Directors Valuation of Unlisted Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>246 Minority dividends declared - B/S</u>	-	-	-	-	-
<u>247 BEE Share of accumulative profits - B/S</u>	-	-	-	-	-

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Mar	Mar	Mar	Mar	Mar
Income Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
051 Turnover	7,877,000	9,802,000	9,969,000	9,384,000	8,735,000
052 Change In Turnover %	-20	-2	6	7	30
053 Cost Of Sales	-	-	7,496,000	7,272,000	6,783,000
054 Trading Profit	1,260,000	1,749,000	1,526,000	-739,000	1,237,000
055 Interest Received	334,000	341,000	273,000	334,000	372,000
056 Income Unlisted Investment	2,753,000	3,355,000	2,508,000	2,165,000	2,101,000
057 Income Listed Investment	151,000	404,000	74,000	19,000	4,000
058 Income Unconsolidated Subsidiaries	-	-	-	-	-
059 Total Income Investment	3,238,000	4,100,000	2,855,000	2,518,000	2,477,000
060 Surplus Sale Investment	114,000	3,224,000	1,801,000	1,294,000	809,000
061 Surplus Sale Non Trading Assets	-1,000	-2,000	35,000	-1,000	-25,000
062 Extraordinary Profits	67,000	-23,000	279,000	-688,000	-2,178,000
063 Total Profits Extraordinary Nature	180,000	3,199,000	2,115,000	605,000	-1,394,000
064 Auditors Remuneration And Costs	13,000	13,000	9,000	8,000	8,000
065 Depreciation Other Fixed Assets	196,000	262,000	247,000	219,000	182,000
066 Depreciation Land And Buildings	27,000	31,000	20,000	21,000	24,000
067 Rental Fixed Assets	37,000	70,000	71,000	56,000	49,000
068 Directors Remuneration: Direct	2,000	2,000	1,000	1,000	1,000
069 Directors Remuneration: Other	25,000	78,000	13,000	11,000	9,000
070 Management And Other Services	103,000	103,000	104,000	96,000	84,000
071 Total Cost Shown	403,000	559,000	465,000	412,000	357,000
054 Trading Profit	1,260,000	1,749,000	1,526,000	-739,000	1,237,000
059 Total Income Investment	3,238,000	4,100,000	2,855,000	2,518,000	2,477,000
063 Total Profits Extraordinary Nature	180,000	3,199,000	2,115,000	605,000	-1,394,000
072 Total Income	4,678,000	9,048,000	6,496,000	2,384,000	2,320,000
071 Total Cost Shown	403,000	559,000	465,000	412,000	357,000
073 Profit Before Interest And Tax (EBIT)	4,275,000	8,489,000	6,031,000	1,972,000	1,963,000
074 Total Interest Paid	30,000	29,000	54,000	39,000	45,000
075 Profit Before Taxation	4,245,000	8,460,000	5,977,000	1,933,000	1,918,000
076 Taxation	359,000	869,000	357,000	357,000	308,000
077 Profit After Taxation	3,886,000	7,591,000	5,620,000	1,576,000	1,610,000
078 Minority Interest In Profit	185,000	398,000	409,000	335,000	488,000
079 Profit to Ordinary And Preference Shareholders	3,701,000	7,193,000	5,211,000	1,241,000	1,122,000
080 Ordinary Dividend	2,102,000	3,735,000	4,771,000	2,532,000	1,277,000
081 Preference Dividend	-	-	-	-	-
082 Retained Profits	1,599,000	3,458,000	440,000	-1,291,000	-155,000
083 Earnings Before Interest, Tax, Depreciation And Amortisation (EBITDA)	4,468,000	8,790,000	6,302,000	2,399,000	2,364,000
General Supplementary					
301 Lease Charge: Land Building	20,000	45,000	41,000	28,000	26,000
302 Lease Charge: Other	17,000	25,000	30,000	28,000	23,000
303 Research & Development	-	1,000	1,000	2,000	1,000
304 EPS-Equity Accounted	1,464	1,698	1,771	723	1,683
305 EPS-Bottom Line	1,464	1,698	1,771	723	1,683
306 EPS-Headline	1,445	1,052	1,002	938	946
307 EPS-Fully Diluted Headline	1,401	1,028	999	936	-
308 EPS-Fully Diluted Bottomline	1,419	1,671	1,765	721	-



374 EPS-Continuing Operations					
359 Earnings per Linked Unit					
375 Core Headline Earnings - Total Value					
376 Core Headline Earnings Per Share					
380 Dividend per Share	434	361	314	485	248
381 Interest Distribution per Unit					
382 Capital Distribution per Share					
309 Effective Tax Rate	26	17	27	34	13
310 Deferred Tax: Contingent Liability					
311 Deferred Tax: Current	60,000	-8,000	41,000	58,000	6,000
312 Deferred Tax: Other	-17,000	-3,000	-2,000	-	-2,000
318 Accumulated Assessed Tax Loss					
319 Accumulated Computed Tax Loss	77,000			2,000	130,000
320 Prior Year Tax Adjustment	-1,000	-2,000	2,000	2,000	-8,000
333 STC as Published	21,000	27,000		10,000	6,000
338 Foreign Tax	8,000	5,000			
364 Foreign Tax - Normal	8,000	5,000			
365 Foreign Tax - Previous year					
366 Foreign Tax - Deferred					
313 Interest Capitalised					
373 Interest Paid - Debentures					
314 Invest Allowance Benefit					
315 Dilution: Interest Saved					
316 Dilution: Dividends Saved					
317 Dilution: Equity Income Converted					
322 Intangible Assets Written Off	14,000	8,000	1,000	1,000	6,000
350 Impairments of intangible assets					
349 Reversal impairments/Intangible Assets - prev years					
383 Goodwill Written Off					
351 Impairments of goodwill					
346 Reversal of impairments of Goodwill - prev years					
323 Amortisation of goodwill	-44,000		3,000	186,000	189,000
324 Impairment of Investments			-379,000		
348 Reversal of impairments/Investments - prev years		3,000			
325 Impairment of Loans					
368 Reversal of impairments/Loans - prev years					
326 Capital Profit /Loss on Financial Assets	7,000	3,162,000	2,180,000	1,294,000	809,000
360 Gains/Losses on Mark to Market Value of Financial Assets	107,000	59,000			
327 Impairment of Fixed Assets				4,000	-24,000
347 Reversal of impairm/Other Fixed assets - prev years					
328 Capital Profit /Loss on Fixed Assets	-1,000	-2,000	35,000	-5,000	-1,000
329 Profit /Loss Forex Translations - I/S					
330 Profit /Loss Forex Transactions - I/S	67,000	-23,000	26,000	6,000	7,000
331 Profit /Loss Disposal of Subsidiaries/ Businesses					
332 Profit /Loss Sundry Extraordinaries			14,000		
352 Extraordinary items - unconsolidated subs					
367 Share issue expenses written off					
377 Expense in regard to BEE transaction					
336 Foreign Turnover					
337 Foreign Profit	3,058,000	2,391,000			
339 Ordinary Dividends - Ordinary Shareholders	2,102,000	3,735,000	4,771,000		
340 Ordinary Dividends - Minority Shareholders					
357 Ordinary dividends declared	2,102,000	3,735,000	4,771,000		
358 Ordinary dividends paid	3,748,000	4,525,000	2,509,000		
341 Preference Dividends - Ordinary Shareholders					
342 Preference Dividends - Minority Shareholders					
353 Minority dividends paid	65,000	65,000			
354 Minority dividends declared - I/S					



321 Non Cash Dividends				
334 Non-Cash Dividend (Current Year)				
335 Non-Cash Dividend (Previous Year)				
343 Auditors - Audit Fees - current year	10,000	10,000	8,000	
378 Auditors - Audit Fees - previous year				
379 Auditors - Audit Expenses				
344 Auditors - Other Fees	3,000	3,000	1,000	
345 Staff Costs(excluding directors remuneration)	1,306,000	2,603,000		
372 Other Staff share based payments - I/S	20,000			
361 Directors share based payments - I/S	6,000	62,000		
362 Directors share based payments - B/S				
355 Income from Endowment policies				
356 Other Income from Fixed Asset Investments	8,000			
363 BEE Share of profits - I/S				

Changes In Equity Statement [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Mar	Mar	Mar	Mar	Mar
Changes In Equity Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
901 Ordinary Shareholders' Equity at Beginning of Year	37,494,000	34,833,000	-		
902 Movements in Issued Capital & Share Premium					
903 Balance at begin of year/issued capital & share premium	-404,000	-2,544,000			
904 Adj to prior year/issued capital & share premium					
905 Ordinary shares issued/issued capital & share premium					
906 Share based payments/issued capital & share premium		-977,000			
907 Shares held by subsidiary company/issued capital & share premium					
908 Share issue expenses/issued capital & share premium					
909 Goodwill written off/issued capital & share premium					
910 Capital distributions/issued capital & share premium					
911 Treasury shares/issued capital & share premium	-1,085,000	3,117,000			
913 Cancelling of shares/issued capital & share premium					
912 Staff share trust/issued capital & share premium					
951 Share premium raised under share purchase scheme					
939 Sundry/issued capital & share premium					
940 Balance at end of year/issued capital & share premium	-1,489,000	-404,000			
941 Movements in Non-Distributable Reserve					
942 Balance at begin of year/non-distrib reserve	18,183,000	17,769,000			
943 Adj to prior year/non-distrib reserve		-341,000			
944 Ordinary shares issued/non-distrib reserve					
945 Profit/(loss) on sale of investments/non-distrib reserve	7,000	-24,000			
946 Shares held by subsidiary company/non-distrib reserve					
947 Share issue expenses/non-distrib reserve					
948 Goodwill written off/non-distrib reserve					
949 Capital distributions/non-distrib reserve					



<u>950 Section 90 unbundling payment to shareholder</u>				
<u>952 Treasury shares/non-distrib reserve</u>				
<u>971 Cancelling of shares/non-distrib reserve</u>				
<u>953 Staff share trust/non-distrib reserve</u>				
<u>954 Profit/(loss) on forex translations/non-distrib reserve</u>	4,501,000	-1,248,000		
<u>955 Profit/(loss) on forex transactions/non-distrib reserve</u>				
<u>956 Tax adjustment/non-distrib reserve</u>				
<u>957 Net transfer (to)/from distributable reserve</u>	3,366,000	-1,851,000		
<u>958 Realised surplus/(loss) - sale of land & build/non-distrib reserve</u>				
<u>959 Surplus/(deficit) on revaluation of land & build/non-distrib reserve</u>				
<u>960 Derivative valuation adjustment</u>				
<u>961 Capital redemption fund</u>				
<u>962 Adj arising on changes in composition of group/non-distrib reserve</u>		1,078,000		
<u>963 Profit/(loss) on disposal of subs/ businesses/non-distrib reserve</u>				
<u>964 Share of associated companies' reserves</u>	-824,000	897,000		
<u>965 Profit on share issue of subsidiaries</u>				
<u>966 Change in accounting policy/non-distrib reserve</u>				
<u>967 Surplus/(deficit) on revaluation of investments/non-distrib reserve</u>	1,846,000	1,903,000		
<u>968 BEE Share of accum profit/non-distrib reserve</u>				
<u>969 Share based payments/non-distrib reserve</u>				
<u>970 Net unrealised (losses)/gains on hedging instrum/non-distrib reserve</u>				
<u>999 Sundry/non-distrib reserve</u>	10,000			
<u>000 Balance at end of year/non-distrib reserve</u>	27,089,000	18,183,000		
<u>001 Movements in Distributable Reserve</u>				
<u>002 Balance at begin of year/distrib reserve</u>	19,715,000	19,608,000		
<u>003 Adj to prior year/distrib reserve</u>				
<u>004 Net profit/(loss) for the year</u>	6,942,000	8,202,000		
<u>005 Ordinary dividends</u>	-3,748,000	-4,525,000		
<u>006 Preference dividends</u>				
<u>007 Treasury shares/distrib reserve</u>		-3,036,000		
<u>028 Cancelling of shares/distrib reserve</u>				
<u>008 Net transfer (to)/from non-distributable reserves</u>	-3,366,000	1,851,000		
<u>009 Profit/(loss) on forex translations/distrib reserve</u>	534,000	-147,000		
<u>010 Profit/(loss) on forex transactions/distrib reserve</u>				
<u>011 Realised surplus/(loss) - sale of land & build/distrib reserve</u>				
<u>012 Surplus/(deficit) on revaluation of land & build/distrib reserve</u>				
<u>013 Shares held by subsidiary company/distrib reserve</u>				
<u>014 Change in accounting policy/distrib reserve</u>				
<u>015 Adj arising on changes in composition of group/distrib reserve</u>		-1,341,000		
<u>016 Share of associated companies' retained income</u>		-897,000		
<u>017 Share issue expenses/distrib reserve</u>				
<u>018 Goodwill written off/distrib reserve</u>				
<u>019 Capital distributions/distrib reserve</u>				
<u>020 Net unrealised (losses)/gains on hedging instrum/distrib reserve</u>				

021 Premium on acquisition of subsidiaries				
022 Profit/(loss) on disposal of subs/ businesses/distrib reserve				
023 Surplus/(deficit) on revaluation of investments/distrib reserve				
024 BEE Share of accum profit/distrib reserve				
025 Share based payments/distrib reserve				
026 Tax adjustment/distrib reserve				
027 Profit/(loss) on sale of investments/distrib reserve				
059 Sundry/distrib reserve	-5,000			
060 Balance at end of year/distrib reserve	20,072,000	19,715,000		
061 Movements in Preference Share Capital & Equity Loans				
062 Balance at begin of year/pref share capital & equity loans				
063 Adj to prior year/pref share capital & equity loans				
064 Shares issued				
065 Share issue expenses/pref share capital & equity loans				
066 Distribution to shareholders				
067 Shares to be issued				
068 Debentures issued				
089 Sundry/pref share capital & equity loans				
090 Balance at end of year/pref share capital & equity loans				
091 Ordinary Shareholders' Equity at End Of Year	45,672,000	37,494,000		

Sundry Items [Year: 2007 - 2003, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Mar	Mar	Mar	Mar	Mar
Sundry Items Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
101 Ordinary Shares in Issue @ Year End Split Adjusted	472,360	479,835	487,097	522,000	510,384
102 Nr of Ordinary Shares in Issue @ Year End	472,360	479,835	487,097	522,000	510,384
103 Par Or No Par Value	1	1	1	1	1
110 Debtors As Surety	2	2	2	2	2
111 Directors Value in Unlisted Investments	62,796,000	41,333,000	30,794,000	27,317,000	22,620,000
112 Market Value Listed Investments	35,100,000	27,261,000	21,759,000	16,208,000	10,958,000
113 Directors Valuation of Unconsolidated Subsidiaries	-	-	-	-	-
114 Arrear Cumulative Dividends	-	-	-	-	-
115 Months Covered By Financial Statements	12	12	12	12	12
116 Month Of Financial Year End	3	3	3	3	3
117 Audit Report Qualified	2	2	2	2	2
118 Inflation Adjusted Other Fixed Asset	508,904	236,012	501,812	506,625	631,192
119 Inflation Adjusted Depreciable Fixed Asset	60,415	42,822	79,402	82,125	94,007
120 No Of Subsidiaries	20	21	22	22	23
121 No Of Foreign Subsidiaries	1	1	1	1	1
122 No Of Quoted Subsidiaries	1	2	2	2	2
123 Controlled By Another Entity	2	2	2	2	2
124 Provision For Increased Replacement Value	2	2	2	2	2
125 Preference Share Issued At Par	-	-	-	-	-
126 Directors Shareholding Beneficial	3,688	3,309	2,775	3,332	434
127 Directors Shareholding Non-beneficial	274	274	4	4	2,634
128 Deferred Tax Total	1,081,000	700,000	279,000	317,000	31,000
129 Deferred Tax For Year	43,000	-11,000	39,000	58,000	4,000
130 Items Not Representing Cashflow	230,000	321,000	730,000	949,000	231,000
131 No Persons Employed	10,905	10,080	22,326	20,253	19,861
132 Inventory: Raw Material	272,000	249,000	307,000	336,000	510,000



134 Inventory: Merchandise	-	-	-	-	-
135 Inventory: Consumable Stores	46,000	46,000	48,000	48,000	47,000
136 Inventory: Work In Progress	6,000	6,000	2,000	2,000	2,000
137 Inventory: Uncompleted Contracts	-	-	-	-	-
138 Proportionate Profit from Associated Companies	3,255,000	1,005,000	3,855,000	3,177,000	7,262,000
139 Total Reserve Accrued: Associated Companies	18,335,000	15,706,000	17,264,000	13,744,000	13,866,000
140 Capital Commitments	704,000	275,000	857,000	490,000	579,000
141 Accumulated Depreciation Land & Buildings	408,000	393,000	211,000	189,000	200,000
142 Long Term Group Loans Advanced	-	-	-	-	-
143 Short Term Group Loans Advanced	-	-	-	-	-
144 Headline Earnings per Share	1,445	1,052	1,002	938	946
145 Long Term Group Loans Received	-	-	-	-	-
146 Short Term Group Loans Received	-	-	-	-	-
147 Notes To Statements	-	-	-	-	-
148 Number Of Analysts	7	7	2	2	2
149 Average Price Per Share	15,014	11,509	8,300	6,436	6,527
150 Share Price @ Company Financial Year End	17,398	12,462	9,408	7,315	5,558
151 Inventory Valuation Method	2	2	2	2	2
152 Mining Assets	-	-	-	-	-
153 Exploration, Amortisation Expenses Written Off	-	-	-	-	-
154 Undeveloped Property	-	-	-	-	-
155 Development Property Less Development Expense	-	-	-	-	-
156 Debtors For Property Sold	-	-	-	-	-
157 Provision For Future Development	-	-	-	-	-
158 Currency Adjustment: R1000 To ?	-	-	-	-	-
162 Trade Creditors	1,441,000	1,458,000	1,552,000	910,000	929,000
163 Loan Portion Of Tax	-	-	-	-	-
164 Balance Sheet LIFO Inventory Adjustment	-	-	-	-	-
165 Income Statement LIFO Inventory Adjustment	-	-	-	-	-
166 Leasehold Commitments	122,000	105,000	167,000	113,000	131,000
167 Contingent Liabilities	76,000	94,000	107,000	180,000	131,000
168 Extraordinary Item In Tax	-	-	8,000	3,000	22,000
169 Extraordinary Item In Minority Interest	-	-	-	-	-
170 No Of Shares Traded	236,852	281,920	187,389	183,103	216,083
171 No Of Transactions	126,740	100,299	64,690	54,040	58,873
172 Value Of Transactions	35,561,756	32,444,834	15,553,475	11,785,098	14,104,788
173 Split Factor (3 Decimals)	1	1	1	1	1
174 Month Of Stock Split	-	-	-	-	-



Balance Sheet [Year: 2003 - 2007, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Jun	Jun	Jun	Jun	Jun
Balance Sheet Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
001 Ordinary Share Capital	11,900	11,878	11,900	11,900	11,900
002 Non Distributable Reserves	14,072,800	11,822,122	12,753,400	11,368,200	10,377,800
003 Distributable Reserves	1,515,100	1,467,486	1,497,540	493,600	428,100
004 Cost Of Control	3,300	3,300	3,767,100	3,358,700	3,370,900
005 Intangible Assets	4,100	9,600	16,400	-	-
006 Ordinary Shareholders Interest	15,592,400	13,288,586	10,479,340	8,515,000	7,446,900
007 Minority Interest	1,098,000	525,600	313,500	209,300	349,900
008 Preference Share Capital	-	-	-	-	-
009 Total Owners Interest	16,690,400	13,814,186	10,792,840	8,724,300	7,796,800
010 Land And Buildings	72,000	71,500	71,700	71,700	900
011 Total Depreciation: Land and Buildings	6,100	4,300	1,800	500	-
012 Cost Other Fixed Assets	140,100	123,000	103,700	86,400	68,100
013 Total Depreciation: Other Fixed Assets	102,200	85,400	67,000	48,400	35,100
014 Total Fixed Assets	103,800	104,800	106,600	109,200	33,900
015 Long Term Loans Advanced	122,900	88,400	47,000	13,400	195,800
016 Unlisted Investments	512,100	796,100	726,200	949,700	489,800
017 Shares In Unconsolidated Subsidiaries	-	-	-	-	-
018 Listed Investments	20,004,600	16,534,900	10,305,700	9,235,100	7,805,700
019 Total Long Term Investments	20,639,600	17,419,400	11,078,900	10,198,200	8,491,300
020 Total Long Term Assets	20,743,400	17,524,200	11,185,500	10,307,400	8,525,200
021 Secured Long Term Borrowings	382,400	317,500	68,200	69,700	1,200
022 Debentures	15,000	15,000	15,000	15,000	15,000
023 Other Long Term Borrowings	4,795,700	3,896,700	3,247,600	2,600,300	1,958,700
024 Total Long Term Loan Capital	5,193,100	4,229,200	3,330,800	2,685,000	1,974,900
025 Net Investment in Long Term Assets	15,550,300	13,295,000	7,854,700	7,622,400	6,550,300
026 Total Inventory	-	-	-	-	-
027 Debtors	526,800	522,700	575,300	281,500	238,500
028 Short Term Loans Advances	1,739,500	828,400	820,800	1,160,200	1,609,400
029 Cash And Bank	238,700	177,200	3,101,500	1,188,400	534,100
030 Other Current Assets	-	-	-	-	-
031 Total Current Assets	2,505,000	1,528,300	4,497,600	2,630,100	2,382,000
032 Short Term Borrowings	12,200	8,800	316,600	346,900	337,300
033 Creditors	286,300	214,100	512,000	396,600	255,700
034 Bank Overdraft	-	-	-	-	-
035 Provision For Taxation	108,400	31,300	109,600	164,100	97,900
036 Provision For Distribution	958,000	754,914	621,260	620,600	444,600
037 Total Current Liabilities	1,364,900	1,009,114	1,559,460	1,528,200	1,135,500
038 Net Current Assets	1,140,100	519,186	2,938,140	1,101,900	1,246,500
039 Net Assets	16,690,400	13,814,186	10,792,840	8,724,300	7,796,800
042 Surplus Value Over Bookvalue of Investment	23,160,500	15,405,200	12,620,900	8,876,900	6,723,000
040 Total Assets	23,248,400	19,052,500	15,683,100	12,937,500	10,907,200
041 Operating Assets	869,300	804,700	3,783,400	1,579,100	806,500

General Supplementary



<u>201 Shares In Issue Y/E Ordinary</u>	1,187,800	1,187,800	1,187,809	1,187,809	1,187,809
<u>202 Shares In Issue Y/E 'N'</u>	-	-	-	-	-
<u>203 Shares In Issue Y/E 'A'</u>	-	-	-	-	-
<u>204 Shares In Issue Y/E 'B'</u>	-	-	-	-	-
<u>248 Shares In Issue Y/E 'C'</u>	-	-	-	-	-
<u>251 Shares In Issue Y/E 'E'</u>	-	-	-	-	-
<u>206 Shares In Issue Weighted Average</u>	1,174,852	1,174,072	1,187,809	1,187,809	1,187,809
<u>207 Shares In Issue Fully Diluted</u>	1,174,852	1,174,072	1,187,809	-	-
<u>232 Treasury Shares (Number '000)</u>	11,500	11,200	-	-	-
<u>233 Treasury Shares (Value R'000)</u>	352,900	343,900	-	-	-
<u>249 Share Trusts and Other (Number '000)</u>	-	-	-	-	-
<u>250 Share Trusts and Other (Value R'000)</u>	-	-	-	-	-
<u>238 Preference shares issued by a subsidiary</u>	126,300	126,500	-	-	-
<u>208 Revaluation Reserve</u>	-17,200	-1,000	365,000	238,700	8,000
<u>209 Minority Revaluation Reserve</u>	-	-	-	-	-
<u>210 Minority Equity Accounted Reserve</u>	-	-	-	-	-
<u>228 Foreign Currency Translation Reserve - Cumulative</u>	-	-	-	-	-
<u>211 Commitments: Land & Buildings</u>	-	-	2,400	9,900	2,700
<u>212 Commitments: Other</u>	-	-	-	-	-
<u>213 Foreign Borrowings</u>	-	-	-	-	-
<u>214 Convertible Preference Shares</u>	-	-	-	-	-
<u>215 Convertible Debentures & Loans</u>	15,000	15,000	15,000	15,000	15,000
<u>216 Share In Issue Latest</u>	-	-	-	-	-
<u>217 Mining Assets at Cost</u>	-	-	-	-	-
<u>218 Depreciation / Amortisation on Mine Assets</u>	-	-	-	-	-
<u>219 Medical Aid Liabilities</u>	-	-	-	-	-
<u>220 Pension Fund Liabilities</u>	-	-	-	-	-
<u>221 Long Term Loans - Interest Bearing</u>	751,700	426,900	241,200	230,200	88,800
<u>222 Long Term Loans - Interest Free</u>	4,441,400	3,802,300	3,089,600	2,454,800	1,886,100
<u>223 Short Term Loans - Interest Bearing</u>	12,200	8,800	316,600	346,900	337,300
<u>224 Short Term Loans - Interest Free</u>	-	-	-	-	-
<u>225 Property Revaluation Surplus - I/S</u>	-	-	-	21,700	-
<u>226 Profit /Loss Forex Translations - B/S</u>	-	-	400	-	-186,600
<u>227 Profit /Loss Forex Transactions - B/S</u>	-	-	-	-	-
<u>229 Foreign Assets</u>	-	-	-	-	-
<u>230 Foreign Liabilities</u>	-	-	-	-	-
<u>231 Provisions</u>	22,700	21,100	-	-	-
<u>236 Provisions - Long term</u>	-	-	-	-	-
<u>237 Provisions - Short term</u>	22,700	21,100	-	-	-
<u>234 Share Trust scheme</u>	-	-	-	-	-
<u>235 Capital Distributions (Cash)</u>	-	-	-	-	-
<u>239 Non Current Assets held for sale - Land & Buildings</u>	-	-	-	-	-
<u>240 Non Current Assets held for sale - Investments</u>	-	-	-	-	-
<u>241 Non Current Assets held for sale - Other</u>	-	-	-	-	-
<u>258 Total Bookvalue Land & Buildings</u>	65,900	67,200	69,900	71,200	900
<u>252 Total Bookvalue Other Fixed Assets</u>	37,900	-	-	-	-
<u>253 Bookvalue Plant & Machinery/Manufacturing Equipment</u>	-	-	-	-	-
<u>254 Bookvalue Furniture & Office Equipment</u>	36,300	-	-	-	-
<u>255 Bookvalue Vehicles</u>	1,600	-	-	-	-
<u>256 Bookvalue Computer Hardware & Software</u>	-	-	-	-	-
<u>257 Bookvalue Other fixed assets</u>	-	-	-	-	-
<u>242 Listed Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>243 Market Value of Listed Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>244 Unlisted Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>245 Directors Valuation of Unlisted Unconsolidated Subsidiaries</u>	-	-	-	-	-
<u>246 Minority dividends declared - B/S</u>	-	-	-	-	-
<u>247 BEE Share of accumulative profits - B/S</u>	-	-	-	-	-

Bank Supplementary

231 Risk Weighted Capital Adequacy Ratio x10	-	-	-	-	-
232 Doubtful Debt - General	-	-	-	-	-
233 Doubtful Debt - Specific	-	-	-	-	-
234 Contingencies - Guarantees	-	-	-	-	-
235 Contingencies - Accepts	-	-	-	-	-
236 Contingencies - Credits	-	-	-	-	-
237 Insurance Funds	-	-	-	-	-
238 Deposits & Current Accounts	-	-	-	-	-
239 Net Advances	-	-	-	-	-
240 Remittances In Transit	-	-	-	-	-
241 Trust Activities	-	-	-	-	-
242 Investment Portfolio	-	-	-	-	-
243 Trading Portfolio	-	-	-	-	-
244 Total Banking Assets	-	-	-	-	-
245 Total Banking Liabilities	-	-	-	-	-
246 Gross Advances	-	-	-	-	-
247 Non-performing Advances: Outstanding	-	-	-	-	-
248 Non-performing Advances: Secured	-	-	-	-	-
249 Net Provision for Non-Performing Advances	-	-	-	-	-
250 Capital Adequacy: Bank Option 1	-	-	-	-	-
251 Capital Adequacy: Bank Option 2	-	-	-	-	-
252 Capital Adequacy: Non Bank	-	-	-	-	-
253 Risk Weighted Assets: Group	-	-	-	-	-
254 Liquid Investment Assets	-	-	-	-	-
255 Money Market Invested Assets	-	-	-	-	-
256 Medium to Long-Term Invested Assets @ Book value	-	-	-	-	-
257 Client Accept (Assets/Liabilities)	-	-	-	-	-
258 Local Investments	-	-	-	-	-
259 Foreign Investments	-	-	-	-	-

Insurance Supplementary

261 Adjusted & Market Value of Assets	-	-	-	-	-
262 Liabilities	-	-	-	-	-
263 Actuarial Valued Policy Liabilities	-	-	-	-	-
264 Current Liabilities	-	-	-	-	-
265 Excess Assets / Liabilities	-	-	-	-	-
266 Share Capital & Premium	-	-	-	-	-
267 Distributable Reserves	-	-	-	-	-
268 Capital Adequacy Requirements	-	-	-	-	-
269 Balance of Excess	-	-	-	-	-
271 Surplus Arising	-	-	-	-	-
272 ADD : Dividends	-	-	-	-	-
273 Surplus: Other	-	-	-	-	-
274 Total Surplus	-	-	-	-	-
275 New Share Issues	-	-	-	-	-
276 Special Bonus & Aid Fund	-	-	-	-	-
277 Net Surplus	-	-	-	-	-
278 Operating Surplus After Tax	-	-	-	-	-
279 Investment Return Free Assets	-	-	-	-	-
280 Administered Pension Fund Liabilities	-	-	-	-	-

Income Statement [Year: 2007 - 2003, Financials: Standardised]

Year	2007	2006	2005	2004	2003
Months Covered	12	12	12	12	12
Year End Month	Jun	Jun	Jun	Jun	Jun
Income Statement Standardised (000)	ZAR	ZAR	ZAR	ZAR	ZAR
051 Turnover	-	-	-	-	-
052 Change In Turnover %	-	-	-	-	-
053 Cost Of Sales	-	-	-	-	-
054 Trading Profit	270,300	118,276	116,688	160,181	36,646
055 Interest Received	151,200	209,500	120,300	176,100	286,500
056 Income Unlisted Investment	147,600	99,700	-	-	-
057 Income Listed Investment	1,245,700	1,024,300	1,045,600	719,400	604,500
058 Income Unconsolidated Subsidiaries	-	-	-	-	-

APPENDIX B

APPENDIX B

‘INTRODUCTION TO THE PROCESS OF STANDARDISATION OF PUBLISHED FINANCIAL STATEMENTS OF COMPANIES LISTED ON THE JSE- A DETAILED DESCRIPTION OF ALL LINE ITEMS WITH CROSSREFERENCES’

This is an **extract** from the above mentioned works that is published by McGregor BFA. A full report is available on www.mcgregorbfa.com.

STANDARDISED BALANCE SHEET

Item number and description (please note item number corresponds to item number in chapter)

01010001: Ordinary share capital

This item contains the total amount paid up on the issued ordinary share capital in respect of all classes of ordinary shares, net of the value of shares held as TREASURY SHARES which are shown on line 2 i.e. NONDISTRIBUTABLE RESERVES. In regard to shares with a par value this represents the net nominal amount of the shares, which are fully paid up, plus the net amount actually paid on partly paid shares. Any share premiums paid on all issued shares are shown on line 2, non-distributable reserves. In respect of no par value shares this likewise represents the net stated capital account of all issued ordinary shares. In the event of the conversion of par value shares into no par value shares, any amount of share premium in respect of the shares will be transferred from non-distributable reserves to line 1 i.e. ordinary share capital (issued). Lines 101, 102 and 103 in the sundry information section supply additional information regarding the ordinary share capital issued. No distinction is made between various classes of ordinary shares and all classes of ordinary shares are thus grouped together on these lines. Lines 201, 202, 203 and 204 in the general supplementary section, reflect the net total of Ordinary, “N”, “A” and “B” class of issued shares respectively.

01010002: Non-distributable reserves

This item contains all reserves, which are not distributable by way of dividends. Such reserves can be created in various ways. First and foremost are two statutory reserves which are not distributable in terms of the provisions of the Act, namely the Share Premium Account and the Capital Redemption Reserve Fund. Non-distributable reserves can also be created as a result of other provisions of the Act, the contents of the Company's memorandum and articles of association or in terms of directors' resolutions. Examples of such non-distributable reserves are inter alia:

- a) Pre-incorporation profits.
- b) Capital reserves arising from the consolidation of subsidiary companies.
- c) The share of the unrealised retained profits of associated companies calculated in accordance with the equity method.
- d) Unrealised appreciation in the value of assets as a result of revaluations. The revaluation revenue balance is disclosed on line 208 in the general supplementary section.
- e) Treasury shares.
- f) Reserves for foreign currency transactions/translations, which are dealt with in the standardised income statement on line 62.

01010003: Distributable reserves

According to Paragraph 4(i) of Schedule 4 to the Act a distributable reserve means any amount which has been carried to reserves and which may, in accordance with generally accepted accounting practice and legal principles, be taken to the credit of the income statement and distributed by way of dividend. All reserves in connection with foreign currency transactions or translations, which are disclosed in the income standardised statement, are included here. Distributable reserves include inter alia:

- a) Undistributed profit.
- b) General reserves.
- c) Realised surpluses arising from the revaluation of assets.
- d) Excessive depreciation provisions.
- e) Reserve for increased replacement cost of fixed assets.
- f) Excessive provision for bad debts.
- g) Provisions for possible future losses on investments.
- h) Provisions for deferred taxation.

01010004: Cost of control of subsidiaries

The excess of the aggregate amounts of the cost of the shares of the subsidiaries in the group over the net asset value of such shares at the date of acquisition can only be found in a consolidated balance sheet in view of the nature of this item. For purposes of analysing consolidated accounts the item is treated as an intangible asset and for that reason it is deducted from reserves in calculating the ordinary shareholders' interest. Although the merits of this decision may be debatable, it conforms to the practice followed by analysts in Europe and the United States of America. Total assets thus also exclude cost of control of subsidiaries.

01010005: Other intangible assets

Intangible assets are non-physical assets such as patents, licenses, copyrights, mining assets, trademarks, company listing costs, preliminary expenses and costs of issuing shares and debentures. Some form of documentary evidence, such as certificates, contracts or registration evidence, sometimes indicates ownership of intangible assets. Sometimes no documentary evidence exists as in the case of goodwill. The intrinsic value of intangible assets is seldom anywhere near its book value and often, where such values do in fact exist; no such item is reflected in the balance sheet of that company. In order to obtain some form of uniformity it has become common practice among analysts to omit intangible assets entirely from their analysis. For this reason intangible assets are deducted from reserves in calculating owners' interest, and total assets are reflected excluding intangible assets. Mining assets are disclosed on line 217 (at cost) and accumulated depreciation/amortization thereon on line 218 as part of the supplementary information. The net amount of mining assets is shown on line 152 in the sundry data information section.

01010006: Ordinary shareholders' interest

This item consists of the ordinary share capital paid, plus the distributable and non-distributable reserves, less the cost of control of subsidiaries and intangible assets. It represents the equity of the ordinary shareholders of the Company in the total assets of the Group, with the exclusion of the cost of control and the intangible assets. The ordinary shareholders' interest plays an important role in the calculation of a number of profitability ratios.

01010007: Minority interest

This line contains the interest of the outside shareholders in the subsidiaries. It consists of the paid-up ordinary share capital held by them plus their share in the

distributable and non-distributable reserves, as well as their interest in any preference shares issued by subsidiaries. Although theoretically, the outside shareholders' interest should be reduced by their share of the intangible assets of the subsidiaries, this is not done as the necessary information is not normally available in the consolidated accounts. The effect of this omission on the overall results is, however, generally very small.

01010008: Preference shares

This represents the paid-up value of shares in the Company, which carry a preferential right to the payment of a fixed annual dividend, and, usually also a preferential right to the repayment of capital in the event of the liquidation of the Company. Preference shares are issued either at par value or no par value and this is disclosed on line 125 in the sundry data information section.

01010009: Total owners' interest

This represents the total interest of the ordinary and preference shareholders in the Company, plus the outside shareholders' interest in the ordinary and preference shares of the subsidiaries. It therefore represents the combined interest of the owners of the group excluding cost of control of subsidiaries (line 4) and intangible assets (line 5).

01010010: Land and buildings (at cost or valuation)

This item shows the total cost or valuation of all land and buildings owned or leased by the companies in the Group and includes, inter alia, the following: Land on which buildings are erected.

- a) Farmland and plantations.
- b) Buildings and improvements of a fixed nature.
- c) Leasehold land and improvements thereon.
- d) Vacant land.

01010011: Total depreciation on land and buildings

This is the total accumulated depreciation written off the cost or valuation of land and buildings at the relevant Balance Sheet date. This figure is also shown on line 141 of the sundry data information section. (By deducting this figure from line 10 the book value of land and buildings at the end of the relevant period is arrived at).

01010012: Cost of other fixed assets

This item contains all other fixed assets, apart from land and buildings, as per line 10, at the original cost price or at the most recent revaluation thereof. Included therein are, inter alia, machinery and plant, vehicles, office equipment, furniture and fittings and any other assets, which are used on a long-term basis in conducting the business of the Group (No investments are included on this line). Capital work in progress is included on this line but excluded from the calculations referred to below UNLESS normal depreciation is written off this capital work in progress. (An inflation adjustment to the present book value and the current period's depreciation is disclosed on lines 118 and 119 respectively of the sundry data information section).

01010013: Total depreciation on other fixed assets

This item represents the total accumulated depreciation written off other fixed assets since the date of acquisition or the date of the last valuation. (By deducting the figure on line 13 from that on line 12 the book value of other fixed assets at the balance sheet date is obtained).

01010014: Total fixed assets at book value

This is the total of all fixed assets employed by the Company or Group at book value at the end of the financial period. The figure is obtained by adding lines 10 and 12 and subtracting the total of lines 11 and 13.

01010015: Long-term loans advanced

This line reflects the total of loans advanced in respect of which the repayment date is expected to fall after the end of the next financial period. It – on the same basis – includes all long-term loans to fellow subsidiary companies, other long-term group loans and the loan portion of taxation (if any). The total of the long-term loans to companies in the Group is shown on line 142 as part of the sundry data information section.

01010016: Unlisted investments

These are investments in regard to which no permission has been granted to deal therein on a recognised stock exchange. (Previously they were known as unquoted investments). Unlisted investments in unconsolidated subsidiaries are not included on this line, as they are dealt with separately on line 17. The investments are reflected at book value or valuation. The directors' valuation of these investments is shown on line 111. The net difference between book value and/or valuation and the

directors' valuation is automatically shown on line 42 (together with the difference vis-à-vis market value referred to on lines 17 and 18).

01010017: Investments in unconsolidated subsidiaries

The investments in subsidiary companies (listed and/or unlisted), which are not consolidated, are reflected at book value or revalued value. Line 113 in the sundry data information section shows the directors' valuation and/or the market value of these investments. The net difference is automatically included on line 42.

01010018: Listed investments

These are investments in regard to which permission has been granted to deal therein on a recognised stock/securities exchange. They were previously known as quoted investments. The investments are reflected at their book or revalued value. (Listed investments in unconsolidated subsidiaries are not included on this line, as they are included on line 17). The market value of listed investments is shown on line 112 of the sundry data information section. The net difference is automatically included on line 42.

01010019: Total long-term investments

This item contains the total investments in long-term loans advanced, listed and unlisted investments as well as investments in unconsolidated subsidiaries all reflected at their respective book values or revalued values. This amount is the total of lines 15, 16, 17 and 18.

01010020: Total long-term assets

This is the total of the fixed assets and the long-term investments, both at book value and/or revalued value. This figure represents the sum of lines 14 and 19.

01010021: Secured long-term borrowings

This line constitutes all long-term loans obtained against some form of security over certain assets of the Group. This security could be a mortgage bond over land and buildings, a notarial bond over stock on hand, or any other form of security other than by operation of law. Loans are regarded as long-term if the repayment dates of such loans do not fall within 12 months of the balance sheet date. Long-term loans obtained by way of debenture issues are not included here as debentures are treated separately on line 22. (Interest bearing and interest free long-term loans are shown on lines 221 and 222 respectively as part of the general supplementary information

section. No distinction is drawn between “Secured” and “Unsecured” long term loans on these lines). Convertible loans are included on line 215 (as part of the general supplementary information) together with the convertible debentures (if any).

01010022: Debentures

The total amount of all the various classes of debentures, such as secured and unsecured debentures, convertible debentures and redeemable debentures as well as issues at different interest rates are disclosed on line 22. Line 215 of the general supplementary information section is used to disclose the total amount of convertible debentures. (“Notes” and/or “Bonds” issued subject to similar conditions and restrictions as those applicable to debentures are treated in exactly the same manner as debentures and aggregated on line 215).

01010023: Other long-term borrowings

This represents all loans obtained, which are not repayable in less than 12 months of the balance sheet date and which carry no security other than by operation of law. This item also includes all similar long-term group loans and loans from fellow subsidiary companies. All long-term provisions are included on line 23 as interest free long-term “loans”. (All interest bearing and all interest free long-term loans are disclosed on lines 221 and 222 respectively as part of the general supplementary information section).

01010024: Total long-term loan capital

This is the total of all loan funds obtained on a long-term basis and therefore not repayable within 12 months of the balance sheet date. The figure is made up by the sum of lines 21, 22 and 23.

01010025: Net investment in long-term assets

This is the total of all fixed assets and long-term investments at book value or revalued value, less long-term loan funds. This figure is calculated by subtracting line 24 from line 20.

01010026: Total stock

This represents the total of all inventories on hand, which includes raw materials, finished goods, merchandise, consumable stores (including maintenance spares), work in progress (including standing crops) and contracts in progress. The individual

types of stock are reflected on lines 132 to 137 in the sundry data information section. (The method of valuation is shown on line 151 in the sundry data information). Please note that “merchandise” above and on line 134 in the sundry information section, includes motor vehicles held by vehicle renting firms because these vehicles are normally only held for periods of 12 months or less. The profits or losses on disposal of these vehicles are dealt with in the standardised income statement as “extraordinary items” on line 61.

01010027: Debtors

This represents the total of all outstanding debtors at the balance sheet date. Hire purchase debtors are included in the debtors figure because the Act does not provide for this item to be shown separately and consequently many companies do not differentiate between the two types of debtors. Finance charges earned on the hire purchase debtors are also invariably included in turnover, and no meaningful ratios can therefore be calculated on the return earned on the capital used for hire purchase finance. The debtors are shown net of all provisions for bad debts or unearned finance charges. Debtors for property sold are included in the amount of debtors but are also shown separately on line 156 in the sundry data information section. (Whether or not the debtors are ceded or otherwise encumbered, is shown on line 110 in the sundry data information section).

01010028: Short-term loans advanced

This represents all loans and deposits, which appear in the financial statements of the Group under current assets. These must then be accepted as investments made with the intention to convert them into cash within the ensuing twelve months from the balance sheet date. This line can include, inter alia, short-term loans to officers or employees of the Group and also loans, which were originally advanced on a long-term basis, which fall due for redemption within the next twelve months from the balance sheet date. Short-term loans and other amounts owing by associated companies, fellow subsidiaries and other group companies are included on this line. The total amount in respect of fellow subsidiaries and other group companies is also shown on line 143 in the sundry data information section.

01010029: Cash and bank

This is the total of the cash on hand and the favorable balances in bank accounts, as reflected under current assets in the financial published statements. Bank overdrafts

are not included on this line but are shown on line 34 in the standardised balance sheet.

01010030: Other current assets

Any item which clearly represents a current asset, but which cannot be logically shown in any one of lines 26 to 29 will be reflected on this line. Examples are:

Assets kept for resale, which could not logically be classified with normal stock on hand, such as livestock.

a) Amounts received which could not logically be classified with debtors, such as prepayments for capital goods, and overpayment of tax. (If the provision for taxation (line 35) is more than the overpayment, the overpayment would be deducted on line 35 (and vice versa).

b) Standing crops

01010031: Total current assets

This is the total of all current assets as reflected on lines 26 to 30.

01010032: Short-term borrowings

These are loans obtained on a short-term basis, which are repayable within the next twelve months from the balance sheet date, and it also includes the current portion of long-term loans and debentures repayable within the said 12 months. Short-term loans and other amounts due to fellow subsidiaries, other group companies and associated companies are included on this line. The total amount due to the fellow subsidiaries and other group companies is disclosed on line 146 in the sundry information data section.

01010033: Creditors

This line includes, inter-alia, trade creditors, other creditors, bills payable, hire purchase creditors, payments received in advance, retention monies on contracts, provisions for known short-term liabilities (excluding the provisions for taxation and dividends which are separately reflected on lines 35 and 36 respectively) and monies payable to employees of the Group. Trade creditors are also disclosed separately on line 162 in the sundry data information section.

01010034: Bank overdraft

This represents the total amount by which bank accounts are overdrawn. (Favorable bank balances are reflected on line 29).

01010035: Provision for taxation

This represents the total amount of normal company tax, secondary tax on companies, withholding tax and foreign income tax owing at balance sheet date as per the published financial statements. Prepaid tax is set-off against this provision if the provision is more than the prepayment and vice versa if the prepayment on line 30 (other current assets) is more than the provision.

01010036: Provision for distributions

Although the present accounting rules require that only the dividends paid in a particular year should be shown in the financial statements for that year. The standardised financial statements are prepared in terms of the “old” accounting rules i.e. dividends will be disclosed in the financial statements for the year during which these dividends were “earned”. This provision consists of all unpaid dividends at balance sheet date i.e. ordinary dividends, preference dividends and dividends payable to the minority shareholders. Any (final) dividend, declared but not yet paid at year-end, is calculated by us (refer to the note for line 80) and are reflected in the standardised income statement on lines 80 (ordinary dividend) 81 (preference dividend) and 82 (retained income for the year). Interim and special dividends actually declared and paid during the year under review are included on lines 80, 82 and 3 as per the published financial statements. In the balance sheet the amount, including dividends i.r.o. minorities are deducted on line 3 (distributable income) and shown on line 36 (provision for dividends). In the standardised income statement dividends payable to minorities are shown on lines 78 and 82 and line 36 in the standardised balance sheet if unpaid at year-end).

01010040: Total assets

This figure represents the total of all assets employed by the Company or the Group, with the exclusion of intangible assets (line 5) and cost of control of subsidiaries (line 4). This figure is arrived at by adding together lines 14, 19 and 31. Total assets play an important role in the analysis of financial results and will therefore be found in a number of important ratios.

01010041: Operating assets

This is the total of all assets with the exclusion of all investments, i.e. the total fixed assets plus the total current assets less short-term loans advanced. The figure is therefore calculated as follows: Lines 14 + 31 – 28.

01010042: Surplus or deficit of market value and/or directors' valuation over the total book value of all long-term investments

This figure represents the difference between the market value of the listed shares, the directors' valuation of the unlisted shares and the unconsolidated subsidiaries and the book value of these investments. The market value or directors' valuations are contained on lines 111, 112 and 113 in the sundry information section. The figure is automatically calculated as follows: lines 111 + 112 + 113 – 16 – 17 – 18.

BALANCE SHEET: STANDARDISED GENERAL SUPPLEMENTARY INFORMATION

01060214: Convertible preference shares

This represents the total at year-end of all the convertible preference shares issued by the Company and which are ultimately to be converted into ordinary shares or debentures of the Company.

01060215: Convertible debentures, loans, "notes" and "bonds"

This represents the total at year-end of all the convertible debentures, loans, "notes" and "bonds" issued by the Company and which are ultimately to be converted into ordinary shares of the Company.

01060218: Accumulated depreciation/amortisation of mining assets

This represents the accumulated total of depreciation/amortisation of mining assets. Refer to line 217 in the general supplementary information section.

01060221: Long-term loans: Interest bearing

This amount is the total of all interest bearing long-term loans, debentures "bonds" and "notes" as per lines 21, 22 and 23 of the standardised balance sheet. Interest bearing inter-group long-term loans are included here and is disclosed on line 145 in the sundry data information section.

01060223: Short-term loans: Interest bearing

This amount is the total of the short-term portions of all interest bearing long-term loans, debentures, “bonds” and “notes” plus all other interest bearing short-term loans. All of the foregoing are included on line 32 of the balance sheet. Inter-group interest bearing short-term loans and/or current accounts (when disclosed as interest bearing) included on lines 32 and/or 33 of the balance sheet, are included on this line (223) and is disclosed on line 146 in the sundry data information section.

STANDARDISED INCOME STATEMENT

01020051: Turnover

This figure represents the total turnover as reflected in the published financial statements of the Company or Group. It may sometimes be reflected as “Revenue” and in the case of life insurance companies the amount used is “Gross recurring premiums.” Banking companies do not disclose any form of turnover due to the nature of their business. (“Company” figures are used when the published financial statements are in respect of the Company only).

01020052: Change in turnover (percentage)

This figure represents the percentage change in turnover compared with the turnover in the previous period for the Company or Group. Where necessary, “Turnover” is annualised to do this calculation. Some companies prefer not to divulge the actual turnover of the Company or the Group. Instead thereof they reflect the percentage increase or decrease of turnover compared with the previous year as the basis. Although of much less value than the actual turnover figure, this figure can nevertheless be used in the calculation of some useful ratios.

01020053: Cost of sales

This figure represents the total cost of the turnover for the year (or period) to the Company or Group. Although not all companies divulge this figure as yet, it is so valuable in the analysis of financial results that provision is made for it in the Standardised income statements.

01020054: Trading profit

This is the profit of the Company or Group before accounting for interest and other investment income, profit and loss of an extraordinary nature and expenses shown

separately in the Standardised income statement on lines 64 to 70. Amounts written off intangible assets and or cost of control of subsidiaries (goodwill) NOT shown in the income statement are added back on line 54 and on line 82 (retained profit) to complete the double entry. All amounts so added back or written off are disclosed on lines 322 (intangible assets written off) and 323 (Goodwill written off) respectively in the general supplementary section.

01020055: Interest received

This represents the total interest received by the Company or the Group on all long-term or short-term loans advanced. This includes interest received on debentures, “notes” or “bonds” issued by the Company or the Group.

01020056: Income from listed investments

This is the income received from all the listed investments, as reflected in the published financial statements. Dividends received from listed associated companies may sometimes be found only under “Company” or in the Cash Flow Statement (either Group or Company). This amount would then also be added on this line (56), line 82 (to complete the double entry) and deducted on line 138 in the sundry data information section.

01020057: Income from unlisted investments

This is the income received from all the unlisted investments. Dividends received from unlisted associated companies may sometimes be omitted from the published group income statement and be shown only under “Company” or in the Cash Flow Statement (either Group or Company). This amount would then also be added on this line (57), line 82 (to complete the double entry) and on line 138 in the sundry data information section.

01020058: Income from unconsolidated subsidiaries

This is the income, in the form of dividend or interest, from unconsolidated subsidiaries as reflected in the published financial statements.

01020059: Total income from investments

This is the total income from all long-term and short-term loans advanced, listed and unlisted investments and unconsolidated subsidiaries. This figure is the total of lines 55 to 58.

01020060: Surplus on sale of investments

This represents the realised profit or any loss on the disposal, impairment or revaluation of loans and/or investments, a loss being reflected by a negative amount (-). In terms of Acc 133, the foregoing apply in full to the Mark to market of derivative and other financial instruments. Depending on the underlying reasons, the various amounts are also shown on the following lines in the general supplementary section:

- a) Impairment of investment (excluding loans) : Line 324.
- b) Impairment of loans : Line 325.
- c) Realised profits and all losses on the disposal or revaluation of financial assets : Line 326.

01020061: Profit on sale of non-trading assets

This is the realised profit or any loss on the impairment, disposal or scrapping of all non-trading assets (apart from loans and investments), a loss being reflected by a negative amount (-). The relative amounts are also shown on the following lines in the general supplementary information section:

- a) Impairment of fixed assets : Line 327.
- b) Realised profit and all losses on the revaluation or disposal of fixed assets : Line 328.

01020062: Extraordinary profit

This figure includes all other realised profits and all losses of an extraordinary or non-recurring nature, a loss being reflected by a negative amount (-). It is sometimes difficult to establish what must be regarded as extraordinary or non-recurring, but as paragraph 43(a) of the Act requires that such items shall be recorded separately in the financial statements the decision of the Company or Group in this regard is normally accepted. These items are also disclosed on line 332 in the general supplementary section. Items appertaining to subsidiaries are also disclosed here and on line 331 in the general supplementary section. Foreign exchange profits and losses, which appear in the income statement and/or retained earnings column in the Statement of Changes in Equity, are disclosed here and on lines 329 (transactions) in the general supplementary information section and 330 (translations) in the general supplementary information section. All profits and losses resulting from foreign exchange translations are shown on this line and are therefore taken through the standardised income statement irrespective whether the Group or Company shows this as an income statement or balance sheet item.

01020063: Total profit of an extraordinary nature

This is the total of all realised profits and/or all losses on transactions of an extraordinary or non-recurring nature, including the realisation of investments and non-trading assets as per lines 60, 61 and 62 of the standardised income statement. A loss will be reflected by a negative amount (-).

01020064: Auditors' remuneration and costs

This amount combines the total of the auditors' fee for conducting the audit, the fees for other services as well as the expenses of the auditors, as reflected in the published financial statements.

01020065: Depreciation for the period – other fixed assets

This is the depreciation written off for the financial period on other fixed assets, viz all fixed assets excluding land and buildings. This amount is annualised if necessary and then used on line 118 in the sundry data information section in calculating “an inflation adjustment for other fixed assets”, but for the calculation “of an inflation adjustment for depreciation for the period” on line 119 in the sundry data information section, the unadulterated depreciation for the financial period is used.

01020066: Depreciation for the period on land and buildings

This is the depreciation written off for the period on all land and buildings as reflected in the published financial statements.

01020067: Rental paid for leased other fixed assets

This is the total amount paid during the period by way of operating leasing charges. The amounts paid in respect of “land and buildings” and “other fixed assets” are shown on lines 301 and 302 respectively in the general supplementary information section.

01020068: Directors' remuneration as directors

This is the total of all emoluments paid to the directors of the Company in respect of services rendered as directors, i.e. the director's fees paid by the Company. (Fees paid by subsidiaries to directors of the Company are included on line 69).

01020069: Director's remuneration – other emoluments

This is the total of emoluments, allowances and benefits paid to directors of the Company by the Company and/or its subsidiaries, in respect of other services

rendered by them including gains on Company share option schemes exercised by them. Directors fees paid by subsidiaries to directors of the Company are included here (line 69).

01020070: Management and other services

This is the total of all amounts paid during the period for managerial, technical, administrative or secretarial services, other than to bona fide employees of the company.

01020071: Total cost shown

This figure represents the total of all costs, which have been shown separately on lines 64 to 70 in the standardised income statements.

01020072: Total income

This is the total income, i.e. the total of lines 54, 59 and 63.

01020073: Profit before interest and taxation

This represents the net profit for the year including realised profits and all losses of an extraordinary nature, but before deducting interest paid (line 74) on borrowed funds and before providing for taxation (line 76) for the year.

01020074: Total interest paid

This is the total of all interest paid on long-term as well a short-term borrowed funds and includes interest paid on debentures, mortgage loans and bank overdrafts.

01020075: Profit before taxation

This is the net profit for the year, including realised profits and all losses of an extraordinary nature, after interest paid, but before providing for taxation (line 76) for the period (i.e. the total of line 73 less line 74).

01020076: Taxation for the year

This is the provision for normal taxation (including Secondary Tax on Companies (STC), foreign and withholding taxes which is expected to be payable by the Group on the net taxable profit for the period. This amount does not include adjustments for normal taxation in respect of previous periods, which are shown on line 82 (to complete the double entry) and adjusted in the prior period on lines 76 and 82 (to complete the double entry). Adjustments for deferred taxation are also not included in

this amount, but are shown on lines 82 (to complete the double entry), 310 (in the general information supplementary section), 311 (in the general information supplementary section) and 312 (in the general information supplementary section) with the net adjustment for the period automatically generated on line 129 in the sundry data information section.

01020077: Profit after taxation

This is the net profit or loss for the period, including realised profits and all losses of an extraordinary nature, after providing for normal taxation (line 76) for the period. In the case of consolidated accounts this is the combined profit or loss of all the companies in the Group, before providing for the minority shareholders' interest (line 78) in this profit.

01020078: Minority interest in profit

This is the share of the period's group profit attributable to the minority shareholders in the partly owned subsidiaries. The share of ordinary and/or preference dividends paid, declared or provided in the year under review by partly owned subsidiaries are also included here. (The provisions for any unpaid dividends are included on line 36 of the standardised balance sheet).

01020079: Profit – ordinary and preference shareholders

This is the profit of the Group attributable to the members of the Group i.e. the ordinary and preference shareholders of the Company. (The minority shareholders' interest in the group profit and any dividends due to them for the period are shown on line 78).

01020080: Ordinary dividends

In terms of the current accounting conventions, only dividends paid during the year under review may be disclosed in the income statement for that year. Our standardised databank started in 1972 and dividends disclosed in the standardised income statement were consistently the total dividend paid and/or declared in respect of the year under review. This procedure is still applied in order that "apples may be compared with apples" in the standardised financial statements and the ratios calculated from this information. Furthermore quite a substantial number of analysts indicated that they are in favor of this continuation of consistency in the standardized databank. Therefore the ordinary interim and any special dividends paid, the final or special dividend declared and to be provided in favor of the various classes of

ordinary shareholders in respect of the financial period under review are calculated and shown here. The provision for dividends in respect of the year under review but payable after the year-end is calculated by us by multiplying the declared or disclosed rate with the number of shares in issue (line 201) at year-end and the amount is included on line 80 of the standardised income statement. Provisions payable after the balance sheet date are deducted on line 82 (to complete the double entry) of the standardised income statement and line 3 (distributable reserves) of the balance sheet, and added on line 36 (provision for dividends) of the balance sheet.

01020081: Preference dividends

This is the total of all preference dividends paid, declared or provided, during the financial period under review in favor of all classes of preference shares issued by the Company. Provisions calculated i.r.o. the period under review but payable after the balance sheet date, are added on line 81, deducted on lines 82 (to complete the double entry) and 3 (distributable reserves), and added on line 36 (provision for dividends). (As set out in the note for line 80).

01020082: Retained profit

The retained profit represents that portion of the profit for the year being retained in the Company or the Group, in order to strengthen the reserves and increase liquidity or provide internal finance for increased activities. This line consists of the retained profit or loss for the period as per the published financial statements. However, in the standardisation process certain adjustments to items above the line are made and hence the necessary “double entry” in respect of those items is affected on line 82. Some examples are:

- a) Deferred taxation: This amount, split between “current” and “prior” periods respectively on lines 311 and 312 of the general supplementary information section, is also automatically generated in total on line 129 in the sundry data information section.
- b) Prior period normal taxation adjustments. The net amount is adjusted in the prior period on line 76 (taxation) and on line 82 to complete the double entry. This net amount is also shown separately on line 320 (general supplementary information section) in the year under review.
- c) Profits/losses from equity accounted associated companies: Because the profit or loss has not yet materialised in the hands of the Company or the Group, the profit is deducted (loss is added) on this line (82). The amount is shown separately on line 138 in the sundry data information section. (For dividends received from associated

companies, please refer to the notes for lines 56 and 57 in the standardised income statement).

d) Goodwill/cost of control written off. This amount is disclosed on line 323 of the general supplementary information section. Sometimes movements (other than acquisitions or disposals) in goodwill/cost of control are disclosed only in a note to the published balance sheet. In those cases entries would be affected on lines 54 and 82 and the amount would be included on line 323 of the general supplementary information section.

e) Intangible assets are written off. This amount is disclosed on line 322 of the general supplementary information section. Sometimes movements (other than acquisitions or disposals) in intangible assets are disclosed only in a note to the published balance sheet.

f) In most cases entries would be affected on lines 54 and 82 and the amount would be included on line 322 of the general supplementary information section.

g) All unrealised profits (gains) on the disposal or revaluation of assets if included in the published income statement, are reversed by effecting entries on lines 54 and 82.

STANDARDISED SUNDRY DATA INFORMATION

01050128: Deferred taxation: Total

This represents the cumulative total of deferred taxation at balance sheet date. This amount is included in distributable reserves on line 3 of the standardised balance sheet.

APPENDIX C

FINANCIAL MODELS REPORT

ABSA GROUP LIMITED (ASA)

Report Date: 24 Jun 2011 02:43:59 PM



Company	2007	2006	2005	2004
ABSA (December)				
Pre-defined Standardised General Ratios				
Debt / Assets	0.93	0.93	0.93	0.94
Debt / Equity	14.07	12.99	13.78	14.43
Interest Cover	1.4	1.4	1.42	1.4
Leverage Factor	3.37	3.98	4.33	2.74
Quick Ratio	0.52	0.28	0.08	0.42
Return on Capital Employed	8.82	10.58	15.91	10.43
Return on Average External Investments %	15.18	10.55	10.24	15.29
Return on Average Equity %	27.04	20.5	24.05	33.56
Return on Average Assets %	8.8	7.24	6.87	9.33
Net Profit Margin %	#N/A	#N/A	#N/A	#N/A
Pre-defined Standardised Growth Ratios				
Total Assets	43.23	83.95	-1.98	31.7
Total Shareholders' Interest	20.24	28.34	38.65	12.47
Sustainable Growth (After Tax)	#N/A	#N/A	#N/A	#N/A
Pre-defined Standardised Cash Flow Ratios				
Cash Flow To Total Shareholders' Equity	37.55	-27.74	35.93	21.92
Cash Flow To Capital	972.38	-107.7	-386.41	-1,826.99
Reinvestment Rate	-4.66	3.94	-1.61	-2.08



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A E C I LIMITED (AFE)

Report Date: 24 Jun 2011
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Company	2007	2006	2005	2004
A E C I (December)				
Pre-defined Standardised General Ratios				
Debt / Assets	0.63	0.63	0.7	0.7
Debt / Equity	1.68	1.72	2.37	2.37
Interest Cover	5.71	9.56	7.29	4.72
Leverage Factor	1.79	2.45	2.42	2.06
Quick Ratio	0.79	0.8	0.82	0.93
Return on Capital Employed	13.35	33.46	17.37	13.44
Return on Average External Investments %	12.29	19.95	35.6	41.08
Return on Average Equity %	21.81	56.09	38.74	35.75
Return on Average Assets %	13.79	23.88	17.37	16.25
Net Profit Margin %	4.34	11.34	5.74	4.79
Pre-defined Standardised Growth Ratios				
Total Assets	4.42	24.1	-3.25	48.48
Total Shareholders' Interest	4.28	37.55	13.51	6.33
Sustainable Growth (After Tax)	#N/A	#N/A	#N/A	#N/A
Pre-defined Standardised Cash Flow Ratios				
Cash Flow To Total Shareholders' Equity	3.34	22.71	23.34	32.44
Cash Flow To Capital	335.14	4,055.00	1,518.60	-194.1
Reinvestment Rate	-2.44	11.67	10.69	15.44



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FINANCIAL MODELS REPORT

AFRIMAT LIMITED (AFT)

Report Date: 24 Jun 2011 02:43:59 PM



Company	2007	2006	2005	2004
AFRIMAT (February)				
Pre-defined Standardised General Ratios				
Debt / Assets	0.27	#N/A	#N/A	#N/A
Debt / Equity	0.36	#N/A	#N/A	#N/A
Interest Cover	22.58	#N/A	#N/A	#N/A
Leverage Factor	1.28	#N/A	#N/A	#N/A
Quick Ratio	1.9	#N/A	#N/A	#N/A
Return on Capital Employed	18.13	#N/A	#N/A	#N/A
Return on Average External Investments %	144.5	#N/A	#N/A	#N/A
Return on Average Equity %	40.31	#N/A	#N/A	#N/A
Return on Average Assets %	41.92	#N/A	#N/A	#N/A
Net Profit Margin %	16.6	#N/A	#N/A	#N/A
Pre-defined Standardised Growth Ratios				
Total Assets	#N/A	#N/A	#N/A	#N/A
Total Shareholders' Interest	#N/A	#N/A	#N/A	#N/A
Sustainable Growth (After Tax)	#N/A	#N/A	#N/A	#N/A
Pre-defined Standardised Cash Flow Ratios				
Cash Flow To Total Shareholders' Equity	16.28	#N/A	#N/A	#N/A
Cash Flow To Capital	-110.91	#N/A	#N/A	#N/A
Reinvestment Rate	18.17	#N/A	#N/A	#N/A



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AG INDUSTRIES LIMITED (AGI)

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Company	2007	2006	2005	2004
AGI (June)				
Pre-defined Standardised General Ratios				
Debt / Assets	0.68	0.66	0.6	0.58
Debt / Equity	2.14	1.94	1.52	1.39
Interest Cover	1.35	6.85	3.58	3.94
Leverage Factor	6.74	2.38	0.77	1.41
Quick Ratio	0.87	0.71	1.07	1.02
Return on Capital Employed	14.35	23.49	6.16	13.57
Return on Average External Investments %	32.02	33.61	31.16	27.24
Return on Average Equity %	-4.97	38.95	18.8	23.77
Return on Average Assets %	6.69	23.24	15.74	18.57
Net Profit Margin %	4.74	7.57	1.92	4.14
Pre-defined Standardised Growth Ratios				
Total Assets	7.98	18.72	11.96	24.37
Total Shareholders' Interest	13.46	17.39	-3.77	4.97
Sustainable Growth (After Tax)	#N/A	#N/A	#N/A	#N/A
Pre-defined Standardised Cash Flow Ratios				
Cash Flow To Total Shareholders' Equity	-1.1	8.7	8.66	22.65
Cash Flow To Capital	-4.17	28.07	86.19	-188.17
Reinvestment Rate	-1.2	7.8	6.99	21.55



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FINANCIAL MODELS REPORT

ALLIED TECHNOLOGIES LIMITED (ALT)

Report Date: 24 Jun 2011 02:43:59 PM



Company	2007	2006	2005	2004
ALTECH (February)				
Pre-defined Standardised General Ratios				
Debt / Assets	0.51	0.54	0.62	0.38
Debt / Equity	1.04	1.16	1.62	0.62
Interest Cover	109.5	108.8	131.75	77.83
Leverage Factor	1.95	2.58	2.61	1.6
Quick Ratio	1.48	1.49	1.1	2.3
Return on Capital Employed	29.8	31.69	35.53	21.47
Return on Average External Investments %	#N/A	38.03	34.39	127.72
Return on Average Equity %	33.68	32	31.23	23.97
Return on Average Assets %	25.74	22.62	23.7	21.49
Net Profit Margin %	5.84	6.56	6.29	7.6
Pre-defined Standardised Growth Ratios				
Total Assets	1.7	31.28	-34.27	11.18
Total Shareholders' Interest	2.91	12.2	-1.36	11.54
Sustainable Growth (After Tax)	#N/A	#N/A	#N/A	#N/A
Pre-defined Standardised Cash Flow Ratios				
Cash Flow To Total Shareholders' Equity	5.7	37.61	48.22	25.89
Cash Flow To Capital	28.92	-86.36	83.75	-96.55
Reinvestment Rate	-12.55	25.03	51.14	14.59



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ARGENT INDUSTRIAL LIMITED (ART)

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Company	2007	2006	2005	2004
ARGENT (March)				
Pre-defined Standardised General Ratios				
Debt / Assets	0.41	0.4	0.41	0.44
Debt / Equity	0.7	0.67	0.69	0.79
Interest Cover	8.45	9.65	11.31	6.47
Leverage Factor	1.68	1.45	1.53	1.39
Quick Ratio	0.88	1.03	1.05	1.21
Return on Capital Employed	21.09	19.45	21.2	23.26
Return on Average External Investments %	105.86	#N/A	#N/A	1,264.15
Return on Average Equity %	23.64	26.9	28.98	32.9
Return on Average Assets %	22.37	22.32	23.31	24.31
Net Profit Margin %	12.49	11.64	11.74	10.96
Pre-defined Standardised Growth Ratios				
Total Assets	28.22	43.77	46.16	32.67
Total Shareholders' Interest	24	57.54	46.6	28.05
Sustainable Growth (After Tax)	#N/A	#N/A	#N/A	#N/A
Pre-defined Standardised Cash Flow Ratios				
Cash Flow To Total Shareholders' Equity	4.54	16.14	5.95	23.08
Cash Flow To Capital	50.5	195.11	1,095.65	-355.54
Reinvestment Rate	1.34	11.3	2.02	14.91



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FINANCIAL MODELS REPORT

BARLOWORLD LIMITED (BAW)

Report Date: 24 Jun 2011 02:43:59 PM



Company	2007	2006	2005	2004
BARWORLD (September)				
Pre-defined Standardised General Ratios				
Debt / Assets	0.7	0.68	0.62	0.62
Debt / Equity	2.34	2.08	1.62	1.67
Interest Cover	4.51	5.21	7.94	6.77
Leverage Factor	2.51	2.67	1.96	2.3
Quick Ratio	0.56	0.74	0.76	0.72
Return on Capital Employed	18.3	13.54	10.97	11.77
Return on Average External Investments %	16.01	11.01	7.66	7.9
Return on Average Equity %	27.84	22.94	24.08	21.57
Return on Average Assets %	17.32	15.94	14.73	13.75
Net Profit Margin %	5.54	6.14	5.22	5.63
Pre-defined Standardised Growth Ratios				
Total Assets	-21.2	9.11	3.36	19.13
Total Shareholders' Interest	-20.49	9.47	4.1	18.49
Sustainable Growth (After Tax)	#N/A	#N/A	#N/A	#N/A
Pre-defined Standardised Cash Flow Ratios				
Cash Flow To Total Shareholders' Equity	35.53	35.63	29.68	27.16
Cash Flow To Capital	-741.7	1,346.91	767.38	-404.75
Reinvestment Rate	7.21	15.42	12.35	12.43



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BARNARD JACOBS MELLET HOLDINGS LD (BJM)

Report Date: 24 Jun 2011 02:36:17 PM



Company	2007	2006	2005	2004
BJM (March)				
Pre-defined Standardised General Ratios				
Debt / Assets	0.95	0.93	0.87	0.87
Debt / Equity	20.29	13.34	6.69	6.93
Interest Cover	68.75	48.94	2.33	1.3
Leverage Factor	59.29	15.25	5.47	-4.2
Quick Ratio	0.96	1.06	1.05	1
Return on Capital Employed	37.71	28.46	4.18	-3.91
Return on Average External Investments %	12.04	19.58	9.2	8.74
Return on Average Equity %	13.5	22.49	3.96	1.99
Return on Average Assets %	1.66	2.87	1.22	1.37
Net Profit Margin %	30.71	24.43	9.27	-7.83
Pre-defined Standardised Growth Ratios				
Total Assets	4.72	-26.2	-10.57	-16.59
Total Shareholders' Interest	6.63	-25.95	4.02	1.49
Sustainable Growth (After Tax)	#N/A	#N/A	#N/A	#N/A
Pre-defined Standardised Cash Flow Ratios				
Cash Flow To Total Shareholders' Equity	-23.37	-8.79	75.76	-34.41
Cash Flow To Capital	-15.31	-73.56	-72.77	-203.06
Reinvestment Rate	73.51	-22.78	201.18	-524.93



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FINANCIAL MODELS REPORT

CORONATION FUND MANAGERS LIMITED

(CML)

Report Date: 24 Jun 2011 02:43:59 PM



Company	2007	2006	2005	2004
CORONAT (September)				
Pre-defined Standardised General Ratios				
Debt / Assets	1	0.99	0.98	0.99
Debt / Equity	-296.6	104.41	63.14	81.99
Interest Cover	-193.5	-98.88	50.03	97.1
Leverage Factor	34.34	-16.08	54.33	61.91
Quick Ratio	0.57	0.87	2.54	1.14
Return on Capital Employed	1.7	1.34	1.29	0.76
Return on Average External Investments %	6.29	5.95	0.1	0.07
Return on Average Equity %	-5,958.50	-765.01	114.35	82.05
Return on Average Assets %	-14.35	-8.52	2.34	1.7
Net Profit Margin %	32.5	30.39	33.26	23.66
Pre-defined Standardised Growth Ratios				
Total Assets	15.57	15.6	18.9	6.31
Total Shareholders' Interest	-16.82	473.36	52.79	1.49
Sustainable Growth (After Tax)	#N/A	#N/A	#N/A	#N/A
Pre-defined Standardised Cash Flow Ratios				
Cash Flow To Total Shareholders' Equity	38.37	27.63	78.82	75.28
Cash Flow To Capital	332.55	5,401.66	396.11	-5,548.19
Reinvestment Rate	-194.38	-932.5	32.21	129.73



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THE FOSCHINI GROUP LTD (TFG)

Report Date: 24 Jun 2011 02:36:17 PM



Company	2007	2006	2005	2004
TFG (March)				
Pre-defined Standardised General Ratios				
Debt / Assets	0.46	0.51	0.5	0.4
Debt / Equity	0.86	1.03	1.02	0.66
Interest Cover	18.04	19.83	20.6	14.7
Leverage Factor	1.71	1.88	1.87	1.45
Quick Ratio	1.75	1.74	1.56	1.8
Return on Capital Employed	23.18	25.05	21.06	17.83
Return on Average External Investments %	86.71	66.2	58.14	36.35
Return on Average Equity %	37.37	38.47	29.68	21.83
Return on Average Assets %	30.85	29.74	27.78	22.84
Net Profit Margin %	16.33	15.54	13.25	10.68
Pre-defined Standardised Growth Ratios				
Total Assets	19.58	19.32	25.78	4.24
Total Shareholders' Interest	26.48	15.14	6.24	6.01
Sustainable Growth (After Tax)	#N/A	#N/A	#N/A	#N/A
Pre-defined Standardised Cash Flow Ratios				
Cash Flow To Total Shareholders' Equity	29.12	21.96	24.37	25.03
Cash Flow To Capital	-583.34	-2,279.06	1,827.47	-420.2
Reinvestment Rate	10.78	5.41	10.7	14.3



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FINANCIAL MODELS REPORT

DISTELL GROUP LIMITED (DST)

Report Date: 24 Jun 2011 02:43:59 PM



Company	2007	2006	2005	2004
DISTELL (June)				
Pre-defined Standardised General Ratios				
Debt / Assets	0.36	0.41	0.44	0.47
Debt / Equity	0.55	0.71	0.79	0.89
Interest Cover	16.31	7.62	6.21	3.74
Leverage Factor	1.44	1.41	1.39	1.19
Quick Ratio	0.54	0.45	0.44	0.47
Return on Capital Employed	22.93	15.48	14.75	10.35
Return on Average External Investments %	15.33	16.03	14.55	16.19
Return on Average Equity %	24.87	18.15	17.44	14.96
Return on Average Assets %	22.83	17.85	16.37	14.6
Net Profit Margin %	14.08	10.4	9.8	5.96
Pre-defined Standardised Growth Ratios				
Total Assets	8.94	13.49	-5.96	20.43
Total Shareholders' Interest	21.65	14.85	8.84	9.86
Sustainable Growth (After Tax)	#N/A	#N/A	#N/A	#N/A
Pre-defined Standardised Cash Flow Ratios				
Cash Flow To Total Shareholders' Equity	21.81	21.66	17.5	20.36
Cash Flow To Capital	-314.59	-253.82	-275.31	-260.99
Reinvestment Rate	11.34	10.94	7.94	9.7



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EMERGENT PROPERTIES LTD (EMG)

Report Date: 24 Jun 2011 02:36:17 PM



Company	2007	2006	2005	2004
EMERGENT (September)				
Pre-defined Standardised General Ratios				
Debt / Assets	0.63	0.99	0.35	0.44
Debt / Equity	1.72	67.85	0.54	0.78
Interest Cover	-1.46	#N/A	0.73	1.39
Leverage Factor	-8.65	195.49	-0.56	0.68
Quick Ratio	7.84	19.52	1.14	2.25
Return on Capital Employed	31.67	-91.4	-0.8	1.56
Return on Average External Investments %	21.72	200	76.47	48.04
Return on Average Equity %	-87.08	-68.16	-0.95	1.65
Return on Average Assets %	-11.78	-25.87	1.55	3.21
Net Profit Margin %	#N/A	#N/A	-0.52	1.12
Pre-defined Standardised Growth Ratios				
Total Assets	57.84	-7.88	-18.6	-0.32
Total Shareholders' Interest	3,778.29	-98.35	-0.92	2.27
Sustainable Growth (After Tax)	#N/A	#N/A	#N/A	#N/A
Pre-defined Standardised Cash Flow Ratios				
Cash Flow To Total Shareholders' Equity	-49.04	722.37	-7.65	32.65
Cash Flow To Capital	-38.11	-17.37	-100	-103.09
Reinvestment Rate	-111.24	11.06	-3.13	12.23



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FINANCIAL MODELS REPORT

EMIRA PROPERTY FUND (EMI)

Report Date: 24 Jun 2011 02:43:59 PM



Company	2007	2006	2005	2004
EMIRA (June)				
Pre-defined Standardised General Ratios				
Debt / Assets	0.2	0.2	0.22	0.22
Debt / Equity	0.24	0.25	0.29	0.29
Interest Cover	6.08	8.59	5.66	9.59
Leverage Factor	0.88	1.11	0.95	1.15
Quick Ratio	0.37	0.08	0.28	0.27
Return on Capital Employed	3.94	8.4	8.87	16.79
Return on Average External Investments %	#N/A	#N/A	#N/A	#N/A
Return on Average Equity %	7.93	11.5	12.93	40.52
Return on Average Assets %	7.63	10.29	12.2	35.14
Net Profit Margin %	45.13	54.69	46.93	98.79
Pre-defined Standardised Growth Ratios				
Total Assets	143.18	36.64	18.76	#N/A
Total Shareholders' Interest	139.86	38.84	19.1	#N/A
Sustainable Growth (After Tax)	#N/A	#N/A	#N/A	#N/A
Pre-defined Standardised Cash Flow Ratios				
Cash Flow To Total Shareholders' Equity	6.81	10.32	9.27	8.55
Cash Flow To Capital	196.42	246.08	230.05	41.59
Reinvestment Rate	1.01	1.74	-0.35	6.39



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GLENRAND M.I.B. LIMITED (GMB)

Report Date: 24 Jun 2011 02:36:17 PM



Company	2007	2006	2005	2004
GLENMIB (June)				
Pre-defined Standardised General Ratios				
Debt / Assets	0.99	1	0.98	0.83
Debt / Equity	93.2	-293.7	42.66	5.01
Interest Cover	4.99	3.82	9.59	15.48
Leverage Factor	301.04	-12,144.04	41.8	2.9
Quick Ratio	1.14	1.13	1.07	1.11
Return on Capital Employed	1.65	1.23	0.89	19.47
Return on Average External Investments %	0.75	0.88	2.65	93.79
Return on Average Equity %	94.78	-18.96	32.38	52.63
Return on Average Assets %	0.75	0.68	3.53	14.92
Net Profit Margin %	18.47	15.72	7.04	6.5
Pre-defined Standardised Growth Ratios				
Total Assets	5.76	52.72	1,945.73	-31.21
Total Shareholders' Interest	81.75	-34.36	-22.05	-16.14
Sustainable Growth (After Tax)	#N/A	#N/A	#N/A	#N/A
Pre-defined Standardised Cash Flow Ratios				
Cash Flow To Total Shareholders' Equity	11.82	-81.62	74.04	47.5
Cash Flow To Capital	-27.19	-44.19	-328.97	-96.27
Reinvestment Rate	14.22	-116.26	32.49	17.81



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FINANCIAL MODELS REPORT

HOWDEN AFRICA HOLDINGS LIMITED (HWN)

Report Date: 24 Jun 2011 02:43:59 PM



Company	2007	2006	2005	2004
HOWDEN (December)				
Pre-defined Standardised General Ratios				
Debt / Assets	0.99	1.07	0.58	0.64
Debt / Equity	79.88	-14.93	1.36	1.8
Interest Cover	10.54	5.62	3.87	2.78
Leverage Factor	69.02	-11.73	1.48	0.84
Quick Ratio	0.8	0.81	1.26	0.9
Return on Capital Employed	221.6	31.21	16.98	6.2
Return on Average External Investments %	38.7	24.69	55.6	74.68
Return on Average Equity %	-772.36	34.57	24.5	13.02
Return on Average Assets %	35.04	20.92	21.08	23.4
Net Profit Margin %	8.9	4.7	5.17	2.3
Pre-defined Standardised Growth Ratios				
Total Assets	-57.5	-50.81	44.54	4.83
Total Shareholders' Interest	261.41	-89.36	79.67	4.46
Sustainable Growth (After Tax)	#N/A	#N/A	#N/A	#N/A
Pre-defined Standardised Cash Flow Ratios				
Cash Flow To Total Shareholders' Equity	74.47	82.05	7.53	46.7
Cash Flow To Capital	-125.74	19.66	-203.17	-544.42
Reinvestment Rate	73.19	-192.76	5.17	13.71



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NAMPAK LIMITED (NPK)

Report Date: 24 Jun 2011 02:36:17 PM



Company	2007	2006	2005	2004
NAMPAK (September)				
Pre-defined Standardised General Ratios				
Debt / Assets	0.56	0.57	0.53	0.57
Debt / Equity	1.27	1.35	1.14	1.32
Interest Cover	6.82	8.68	7.42	8.21
Leverage Factor	1.73	2.32	1.93	2.05
Quick Ratio	0.64	0.76	0.84	0.8
Return on Capital Employed	17.62	17.94	16.66	20.47
Return on Average External Investments %	30.27	28.87	82.84	72.3
Return on Average Equity %	23.92	22.14	19.33	26.82
Return on Average Assets %	16.1	15.65	15.57	18.04
Net Profit Margin %	6.57	7.75	5.96	6.61
Pre-defined Standardised Growth Ratios				
Total Assets	-3.57	18.36	-0.9	5.07
Total Shareholders' Interest	6.94	9.15	-1.38	9.93
Sustainable Growth (After Tax)	#N/A	#N/A	#N/A	#N/A
Pre-defined Standardised Cash Flow Ratios				
Cash Flow To Total Shareholders' Equity	24.85	23.12	29.47	24.92
Cash Flow To Capital	363.71	189.38	-236.33	-748.34
Reinvestment Rate	14.7	7.63	8.91	6.99



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FINANCIAL MODELS REPORT

PICK N PAY STORES LIMITED (PIK)

Report Date: 24 Jun 2011 02:43:59 PM



Company	2007	2006	2005	2004
PICKNPAY (February)				
Pre-defined Standardised General Ratios				
Debt / Assets	1.08	1.1	1	0.98
Debt / Equity	-13.35	-11.52	1,268.77	47.38
Interest Cover	27.14	29.49	32.11	18.99
Leverage Factor	-10.74	-9.89	1,068.66	45.58
Quick Ratio	0.26	0.32	0.39	0.45
Return on Capital Employed	208.53	167.59	144.82	111.3
Return on Average External Investments %	19.72	26.04	40.5	26.94
Return on Average Equity %	-151.6	-233.16	1,096.58	555.51
Return on Average Assets %	21.41	19.77	19.89	18.29
Net Profit Margin %	1.94	1.8	1.69	1.73
Pre-defined Standardised Growth Ratios				
Total Assets	-2.71	0.89	-18.23	-22.12
Total Shareholders' Interest	80.72	-69.93	-22.43	4.84
Sustainable Growth (After Tax)	#N/A	#N/A	#N/A	#N/A
Pre-defined Standardised Cash Flow Ratios				
Cash Flow To Total Shareholders' Equity	315.7	245.82	141.39	148.55
Cash Flow To Capital	888.58	282.28	1,898.14	-221.94
Reinvestment Rate	47.47	31.22	37.78	44.03



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REMGRO LIMITED (REM)

Report Date: 24 Jun 2011 02:36:17 PM



Company	2007	2006	2005	2004
REMGRO2 (June)				
Pre-defined Standardised General Ratios				
Debt / Assets	0.07	0.13	0.09	0.12
Debt / Equity	0.08	0.15	0.09	0.14
Interest Cover	136.5	182.41	72.52	35.05
Leverage Factor	1.12	1.98	1.73	1.77
Quick Ratio	2.05	1.48	1.38	1.42
Return on Capital Employed	8.03	20.12	14.37	4.63
Return on Average External Investments %	9.31	13.5	10.99	12.07
Return on Average Equity %	9.14	12.33	11.24	3.75
Return on Average Assets %	9.09	13.22	11.29	4.73
Net Profit Margin %	49.33	77.44	56.37	16.79
Pre-defined Standardised Growth Ratios				
Total Assets	28.97	-1.41	35.19	5.24
Total Shareholders' Interest	29.09	-1.29	21.62	4.1
Sustainable Growth (After Tax)	#N/A	#N/A	#N/A	#N/A
Pre-defined Standardised Cash Flow Ratios				
Cash Flow To Total Shareholders' Equity	8.87	15.23	10.17	10.11
Cash Flow To Capital	259.38	-132.95	111.8	-294.27
Reinvestment Rate	2.13	9.21	12.79	21.39



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FINANCIAL MODELS REPORT

RMB HOLDINGS LIMITED (RMH)

Report Date: 24 Jun 2011 02:43:59 PM



Company	2007	2006	2005	2004
RMBH (June)				
Pre-defined Standardised General Ratios				
Debt / Assets	0.28	0.27	0.31	0.33
Debt / Equity	0.39	0.38	0.45	0.48
Interest Cover	29.78	37.58	41.41	38.34
Leverage Factor	2.21	2.13	2.72	1.86
Quick Ratio	1.84	1.51	2.88	1.72
Return on Capital Employed	8.06	7.8	12.78	8.77
Return on Average External Investments %	8.12	9.36	10.96	9.58
Return on Average Equity %	9	8.89	10.17	10.09
Return on Average Assets %	8.38	8.14	8.62	8.46
Net Profit Margin %	#N/A	#N/A	#N/A	#N/A
Pre-defined Standardised Growth Ratios				
Total Assets	21.28	27.75	23.79	16.76
Total Shareholders' Interest	20.76	-5.14	20.64	8.2
Sustainable Growth (After Tax)	#N/A	#N/A	#N/A	#N/A
Pre-defined Standardised Cash Flow Ratios				
Cash Flow To Total Shareholders' Equity	12.93	12.13	10.8	12.72
Cash Flow To Capital	307.59	69.66	-74.61	-216.02
Reinvestment Rate	40.64	-120.45	12.49	63.16



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YORK TIMBER HOLDINGS LIMITED (YRK)

Report Date: 24 Jun 2011 02:36:17 PM



Company	2007	2006	2005	2004
YORK (June)				
Pre-defined Standardised General Ratios				
Debt / Assets	#N/A	0.51	0.53	0.34
Debt / Equity	#N/A	1.02	1.12	0.5
Interest Cover	#N/A	7.49	6.12	9.3
Leverage Factor	#N/A	2.07	1.7	2.82
Quick Ratio	#N/A	1.35	0.75	2.02
Return on Capital Employed	#N/A	30.56	-12.18	6.91
Return on Average External Investments %	#N/A	22.96	42.14	13.46
Return on Average Equity %	#N/A	42.76	-18.57	3.28
Return on Average Assets %	#N/A	20.17	5.42	8.32
Net Profit Margin %	#N/A	11.94	-4.48	4.9
Pre-defined Standardised Growth Ratios				
Total Assets	#N/A	47.31	-16.94	10.31
Total Shareholders' Interest	#N/A	47.07	-29.23	15.05
Sustainable Growth (After Tax)	#N/A	#N/A	#N/A	#N/A
Pre-defined Standardised Cash Flow Ratios				
Cash Flow To Total Shareholders' Equity	#N/A	2.42	6.77	17.06
Cash Flow To Capital	#N/A	-19.97	13.04	-208.1
Reinvestment Rate	#N/A	1.46	-21.01	12.92



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APPENDIX D

FINANCIAL RATIOS REPORT

Apparel Retailers

Report Date: 05 Jul 2011 05:01:47 PM

Pre-defined Standardised General Ratios



Company	2007	2006	2005	2004
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Industry average

Debt / Assets	0.352	0.356	0.348	0.302
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Debt / Equity	0.604	0.61	0.576	0.47
---------------	-------	------	-------	------

Quick Ratio	2.206	2.224	1.992	2.024
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Return on Average Equity %	31.84	26.3	17.39	16.71
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AF & OVR (June)

Debt / Assets	0.21	0.21	0.24	0.17
---------------	------	------	------	------

Debt / Equity	0.27	0.26	0.31	0.21
---------------	------	------	------	------

Quick Ratio	3.33	3.26	2.69	2.6
-------------	------	------	------	-----

Return on Average Equity %	14.07	5.71	-9.64	4.86
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MR PRICE (March)

Debt / Assets	0.5	0.48	0.4	0.45
---------------	-----	------	-----	------

Debt / Equity	1	0.93	0.67	0.81
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Quick Ratio	0.93	1.07	0.99	0.97
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Return on Average Equity %	35.16	30.75	19.73	15.85
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REX TRUE -A- (June)

Debt / Assets	0.22	0.22	0.24	0.18
---------------	------	------	------	------

Debt / Equity	0.29	0.28	0.32	0.22
---------------	------	------	------	------

Quick Ratio	2.99	2.93	2.55	2.45
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Return on Average Equity %	14.85	7.08	8.29	5
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TFG (March)

Debt / Assets	0.46	0.51	0.5	0.4
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Debt / Equity	0.86	1.03	1.02	0.66
---------------	------	------	------	------

Quick Ratio	1.75	1.74	1.56	1.8
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Return on Average Equity %	37.37	38.47	29.68	21.83
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TRUWTHS (June)

Debt / Assets	0.37	0.36	0.36	0.31
---------------	------	------	------	------

Debt / Equity	0.6	0.55	0.56	0.45
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Quick Ratio	2.03	2.12	2.17	2.3
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Return on Average Equity %	57.75	49.51	38.91	36
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FINANCIAL RATIOS REPORT

Asset Managers

Report Date: 05 Jul 2011 05:07:45 PM

Pre-defined Standardised General Ratios



Company	2007	2006	2005	2004
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Industry average

Debt / Assets	0.7425	0.7525	0.7625	0.75
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Debt / Equity	-65.21	38.3175	42.0125	49.328
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Quick Ratio	3.2	2.2775	2.79	2.8475
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Return on Average Equity %	-1,480.51	-178.3675	-224.65	-170.2
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CORONAT (September)

Debt / Assets	1	0.99	0.98	0.99
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Debt / Equity	-296.6	104.41	63.14	81.99
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Quick Ratio	0.57	0.87	2.54	1.14
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Return on Average Equity %	-5,958.50	-765.01	114.35	82.05
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EFFICIENT (August)

Debt / Assets	#N/A	#N/A	#N/A	#N/A
---------------	------	------	------	------

Debt / Equity	#N/A	#N/A	#N/A	#N/A
---------------	------	------	------	------

Quick Ratio	#N/A	#N/A	#N/A	#N/A
-------------	------	------	------	------

Return on Average Equity %	#N/A	#N/A	#N/A	#N/A
----------------------------	------	------	------	------

LONFIN (June)

Debt / Assets	0.08	0.12	0.18	0.15
---------------	------	------	------	------

Debt / Equity	0.09	0.13	0.22	0.17
---------------	------	------	------	------

Quick Ratio	0.13	0.17	0.11	0.18
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Return on Average Equity %	-2.71	-2.73	-4.56	-2.92
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MCUBED (February)

Debt / Assets	0.96	0.97	0.99	0.99
---------------	------	------	------	------

Debt / Equity	22.37	35.61	95.28	108.39
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Quick Ratio	11.09	7.05	7.49	8.98
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Return on Average Equity %	0.82	6.17	-1,008.82	-803.37
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PERGRIN (March)

Debt / Assets	0.93	0.93	0.9	0.87
---------------	------	------	-----	------

Debt / Equity	13.3	13.12	9.41	6.76
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Quick Ratio	1.01	1.02	1.02	1.09
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Return on Average Equity %	38.35	48.1	0.44	43.5
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FINANCIAL STATEMENTS REPORT

Banks

Report Date: 05 Jul 2011 04:53:33 PM

Pre-defined Standardised General Ratios



Company	2007	2006	2005	2004
Industry average				
Debt / Assets	0.769	0.78	0.703	0.6575
Debt / Equity	9.53	9.521	8.281	8.4413
Quick Ratio	0.97	1.13	1.711	2.105
Return on Average Equity %	21.87	11.77	7.523	15.386
ABSA (December)				
Debt / Assets	0.93	0.93	0.93	0.94
Debt / Equity	14.07	12.99	13.78	14.43
Quick Ratio	0.52	0.28	0.08	0.42
Return on Average Equity %	27.04	20.5	24.05	33.56
CAPITEC (February)				
Debt / Assets	0.53	0.6	0.45	0.21
Debt / Equity	1.11	1.51	0.81	0.26
Quick Ratio	2.16	2.2	3.69	5.17
Return on Average Equity %	24.46	58.09	26.86	19.92
FIRSTRAND (June)				
Debt / Assets	0.93	0.93	0.92	0.93
Debt / Equity	14.34	13.77	11.92	13.88
Quick Ratio	0.62	0.99	0.78	0.21
Return on Average Equity %	35.44	-23.32	5.3	15.24
MERCANTIL (December)				
Debt / Assets	0.83	0.85	0.84	0.82
Debt / Equity	4.74	5.77	5.26	4.49
Quick Ratio	0.77	0.81	0.72	0.78
Return on Average Equity %	22.29	13.3	7.53	-10.11
NEDBANK1 (December)				
Debt / Assets	0.94	0.94	0.94	0.95
Debt / Equity	15.09	15.9	15.72	18.6
Quick Ratio	0.45	1.5	1.25	0.43
Return on Average Equity %	31.72	35.97	23.03	21.5
RMBH (June)				
Debt / Assets	0.28	0.27	0.31	0.33
Debt / Equity	0.39	0.38	0.45	0.48

FINANCIAL RATIOS REPORT

Building Materials & Fixtures

Report Date: 05 Jul 2011 04:56:58 PM

Pre-defined Standardised General Ratios



Company	2007	2006	2005	2004
Industry average				
Debt / Assets	0.47	0.485	0.458	0.425
Debt / Equity	1.605	1.45	1.17	0.968
Quick Ratio	1.2088	1.24	1.162	1.187
Return on Average Equity %	36.048	41.015	34.36	19.07
AFRIMAT (February)				
Debt / Assets	0.27	#N/A	#N/A	#N/A
Debt / Equity	0.36	#N/A	#N/A	#N/A
Quick Ratio	1.9	#N/A	#N/A	#N/A
Return on Average Equity %	40.31	#N/A	#N/A	#N/A
AGI (June)				
Debt / Assets	0.68	0.66	0.6	0.58
Debt / Equity	2.14	1.94	1.52	1.39
Quick Ratio	0.87	0.71	1.07	1.02
Return on Average Equity %	-4.97	38.95	18.8	23.77
BUILDMAX (February)				
Debt / Assets	0.31	0.3	0.29	0.22
Debt / Equity	0.44	0.43	0.4	0.29
Quick Ratio	1.41	1.82	1.73	1.76
Return on Average Equity %	17.83	15.07	16.11	-19.97
CERAMIC (July)				
Debt / Assets	0.25	0.25	0.32	0.28
Debt / Equity	0.34	0.34	0.47	0.39
Quick Ratio	1.43	1.61	1.26	1.08
Return on Average Equity %	22.52	23.62	29.04	26.47
DAWN (June)				
Debt / Assets	0.85	0.78	0.74	0.65
Debt / Equity	5.72	3.48	2.89	1.89
Quick Ratio	0.78	0.79	0.66	0.88
Return on Average Equity %	76.04	68.11	66	34.04
KAYDAV (December)				
Debt / Assets	0.4	#N/A	#N/A	#N/A
Debt / Equity	0.66	#N/A	#N/A	#N/A

Quick Ratio	1.84	1.51	2.88	1.72
Return on Average Equity %	9	8.89	10.17	10.09

SAAMBOU (March)

Debt / Assets	#N/A	#N/A	0.28	0.14
Debt / Equity	#N/A	#N/A	0.39	0.16
Quick Ratio	#N/A	#N/A	3.57	7.41
Return on Average Equity %	#N/A	#N/A	-1.07	7.29

STANBANK (December)

Debt / Assets	0.94	0.94	0.95	0.94
Debt / Equity	16.97	16.33	17.92	15.23
Quick Ratio	0.43	0.62	0.72	0.7
Return on Average Equity %	3.16	-31.03	-35.69	25.6



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Quick Ratio	1.23	#N/A	#N/A	#N/A
Return on Average Equity %	14.87	#N/A	#N/A	#N/A

MASNITE (December)

Debt / Assets	0.26	0.23	0.2	0.21
Debt / Equity	0.34	0.29	0.25	0.27
Quick Ratio	1.46	1.74	1.58	1.53
Return on Average Equity %	14.49	8.53	5.19	0.68

MAZOR (February)

Debt / Assets	#N/A	#N/A	#N/A	#N/A
Debt / Equity	#N/A	#N/A	#N/A	#N/A
Quick Ratio	#N/A	#N/A	#N/A	#N/A
Return on Average Equity %	#N/A	#N/A	#N/A	#N/A

PPC (September)

Debt / Assets	0.74	0.69	0.6	0.61
Debt / Equity	2.84	2.2	1.49	1.58
Quick Ratio	0.59	0.75	0.67	0.85
Return on Average Equity %	107.29	91.81	71.04	49.41

FINANCIAL RATIOS REPORT

Clothing & Accessories

Report Date: 05 Jul 2011 05:11:54 PM

Pre-defined Standardised General Ratios



Company	2007	2006	2005	2004
Industry average				
Debt / Assets	0.36	0.365	0.345	0.415
Debt / Equity	0.595	0.6	0.555	0.755
Quick Ratio	1.14	1.09	1.28	0.85
Return on Average Equity %	16.74	14.94	8.35	7.945

RICHEMONT (March)

Debt / Assets	0.28	0.29	0.25	0.33
Debt / Equity	0.4	0.41	0.33	0.49
Quick Ratio	1.22	1.14	1.42	0.52
Return on Average Equity %	30.44	24.85	14.27	8.02

SEARDEL CP (March)

Debt / Assets	0.44	0.44	0.44	0.5
Debt / Equity	0.79	0.79	0.78	1.02
Quick Ratio	1.06	1.04	1.14	1.18
Return on Average Equity %	3.03	5.03	2.43	7.87



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FINANCIAL RATIOS REPORT

Containers & Packaging

Report Date: 05 Jul 2011 05:22:35 PM

Pre-defined Standardised General Ratios



Company	2007	2006	2005	2004
Industry average				
Debt / Assets	0.503	0.48	0.48	0.503
Debt / Equity	1.135	1	0.975	1.115
Quick Ratio	0.935	0.96	1.06	0.983
Return on Average Equity %	20.83	22.62	24.27	33.49

ASTRAPAK (February)

Debt / Assets	0.52	0.55	0.59	0.64
Debt / Equity	1.09	1.24	1.42	1.79
Quick Ratio	0.83	0.83	0.86	0.98
Return on Average Equity %	21.34	31.43	26.02	32.87

BOWCALF (June)

Debt / Assets	0.29	0.32	0.36	0.36
Debt / Equity	0.42	0.47	0.56	0.57
Quick Ratio	1.3	0.88	0.78	0.86
Return on Average Equity %	20.33	24.62	33.05	50.97

NAMPAK (September)

Debt / Assets	0.56	0.57	0.53	0.57
Debt / Equity	1.27	1.35	1.14	1.32
Quick Ratio	0.64	0.76	0.84	0.8
Return on Average Equity %	23.92	22.14	19.33	26.82

TRNPACO (June)

Debt / Assets	0.64	0.48	0.44	0.44
Debt / Equity	1.76	0.94	0.78	0.78
Quick Ratio	0.97	1.37	1.76	1.29
Return on Average Equity %	17.72	12.3	18.69	23.28



FINANCIAL RATIOS REPORT

Distillers & Vintners

Report Date: 05 Jul 2011 05:10:34 PM



Pre-defined Standardised General Ratios

Company	2007	2006	2005	2004
Industry average				
Debt / Assets	0.21	0.23	0.245	0.255
Debt / Equity	0.305	0.38	0.42	0.465
Quick Ratio	0.275	0.225	0.225	0.235
Return on Average Equity %	12.4	13.62	12.74	10.8

CAPEVIN (June)

Debt / Assets	0.06	0.05	0.05	0.04
Debt / Equity	0.06	0.05	0.05	0.04
Quick Ratio	0.01	0	0.01	0
Return on Average Equity %	-0.08	9.09	8.03	6.63

DISTELL (June)

Debt / Assets	0.36	0.41	0.44	0.47
Debt / Equity	0.55	0.71	0.79	0.89
Quick Ratio	0.54	0.45	0.44	0.47
Return on Average Equity %	24.87	18.15	17.44	14.96



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FINANCIAL RATIOS REPORT

Diversified Industrials

Report Date: 05 Jul 2011 05:09:09 PM



Pre-defined Standardised General Ratios

Company	2007	2006	2005	2004
Industry average				
Debt / Assets	0.5	0.5025	0.464	0.48
Debt / Equity	1.626	1.72	1.282	1.274
Quick Ratio	0.978	0.9975	0.986	1.048
Return on Average Equity %	29.47	29.215	27.92	24.2

ARGENT (March)

Debt / Assets	0.41	0.4	0.41	0.44
Debt / Equity	0.7	0.67	0.69	0.79
Quick Ratio	0.88	1.03	1.05	1.21
Return on Average Equity %	23.64	26.9	28.98	32.9

BARWORLD (September)

Debt / Assets	0.7	0.68	0.62	0.62
Debt / Equity	2.34	2.08	1.62	1.67
Quick Ratio	0.56	0.74	0.76	0.72
Return on Average Equity %	27.84	22.94	24.08	21.57

EQSTRA (June)

Debt / Assets	#N/A	#N/A	#N/A	#N/A
Debt / Equity	#N/A	#N/A	#N/A	#N/A
Quick Ratio	#N/A	#N/A	#N/A	#N/A
Return on Average Equity %	#N/A	#N/A	#N/A	#N/A

KAP (June)

Debt / Assets	0.52	#N/A	0.44	0.48
Debt / Equity	1.09	#N/A	0.78	0.92

Quick Ratio	0.77	#N/A	1.05	1.14
Return on Average Equity %	32.79	#N/A	27.69	24.98

REMGRO2 (June)

Debt / Assets	0.07	0.13	0.09	0.12
Debt / Equity	0.08	0.15	0.09	0.14
Quick Ratio	2.05	1.48	1.38	1.42
Return on Average Equity %	9.14	12.33	11.24	3.75

BIDVEST (June)

Debt / Assets	0.8	0.8	0.76	0.74
Debt / Equity	3.92	3.98	3.23	2.85
Quick Ratio	0.63	0.74	0.69	0.75
Return on Average Equity %	53.95	54.69	47.59	37.8



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FINANCIAL RATIOS REPORT

Food Retailers & Wholesalers

Report Date: 05 Jul 2011 05:18:05 PM

Pre-defined Standardised General Ratios



Company	2007	2006	2005	2004
Industry average				
Debt / Assets	0.935	0.9375	1.0475	0.665
Debt / Equity	-6.748	-5.228	318.79	15.04
Quick Ratio	0.44	0.4675	0.57	0.505
Return on Average Equity %	-68.78	-103.9	500.49	258.7

PIKWIK (February)

Debt / Assets	1.05	1.06	1.55	0.01
Debt / Equity	-22.88	-17.56	-2.83	0.01
Quick Ratio	0.27	0.33	#N/A	0.33
Return on Average Equity %	-252.69	-303.14	745.74	144.43

PICKNPAY (February)

Debt / Assets	1.08	1.1	1	0.98
Debt / Equity	-13.35	-11.52	1,268.77	47.38
Quick Ratio	0.26	0.32	0.39	0.45
Return on Average Equity %	-151.6	-233.16	1,096.58	555.51

SHOPRIT2 (June)

Debt / Assets	0.75	0.75	0.8	0.76
Debt / Equity	3	2.93	3.92	3.12
Quick Ratio	0.42	0.39	0.49	0.49
Return on Average Equity %	40	34.66	32.33	30.47

SPAR (September)

Debt / Assets	0.86	0.84	0.84	0.91
Debt / Equity	6.24	5.24	5.3	9.63
Quick Ratio	0.81	0.83	0.83	0.75
Return on Average Equity %	89.18	86.22	127.3	304.22



FINANCIAL RATIOS REPORT

Forestry & Paper

Report Date: 07 Jul 2011 03:03:31 PM

Pre-defined Standardised General Ratios



Company	2007	2006	2005	2004
Industry average				
Debt / Assets	0.57	0.61	0.575	0.47
Debt / Equity	1.39667	1.74	1.37	0.985
Quick Ratio	0.75	0.905	0.59	1.265
Return on Average Equity %	15.3533	21.97	-9.59	2.35

MondiItd (December)

Debt / Assets	0.52	#N/A	#N/A	#N/A
Debt / Equity	1.07	#N/A	#N/A	#N/A
Quick Ratio	0.87	#N/A	#N/A	#N/A
Return on Average Equity %	19.56	#N/A	#N/A	#N/A

Mondplc (December)

Debt / Assets	0.52	#N/A	#N/A	#N/A
Debt / Equity	1.07	#N/A	#N/A	#N/A
Quick Ratio	0.87	#N/A	#N/A	#N/A
Return on Average Equity %	19.56	#N/A	#N/A	#N/A

SAPPI (September)

Debt / Assets	0.67	0.71	0.62	0.6
Debt / Equity	2.05	2.46	1.62	1.47
Quick Ratio	0.51	0.46	0.43	0.51
Return on Average Equity %	6.94	1.18	-0.61	1.42

YORK (June)

Debt / Assets	#N/A	0.51	0.53	0.34
Debt / Equity	#N/A	1.02	1.12	0.5
Quick Ratio	#N/A	1.35	0.75	2.02
Return on Average Equity %	#N/A	42.76	-18.57	3.28



FINANCIAL RATIOS REPORT
Industrial Machinery

Report Date: 05 Jul 2011 05:20:59 PM

Pre-defined Standardised General Ratios



Company	2007	2006	2005	2004
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Industry average

Debt / Assets	0.7667	0.675	0.508	0.543
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Debt / Equity	16.425	-2.4	1.045	1.238
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Quick Ratio	0.9983	0.923	1.12	1.08
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Return on Average Equity %	-70.76	25.35	31.15	22.72
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AUSTRO (August)

Debt / Assets	0.89	#N/A	#N/A	#N/A
Debt / Equity	8.49	#N/A	#N/A	#N/A
Quick Ratio	1.03	#N/A	#N/A	#N/A
Return on Average Equity %	206.64	#N/A	#N/A	#N/A

HOWDEN (December)

Debt / Assets	0.99	1.07	0.58	0.64
Debt / Equity	79.88	-14.93	1.36	1.8
Quick Ratio	0.8	0.81	1.26	0.9
Return on Average Equity %	-772.36	34.57	24.5	13.02

HUDACO (November)

Debt / Assets	0.8	0.44	0.44	0.46
Debt / Equity	4.04	0.79	0.79	0.84
Quick Ratio	1.12	1.41	1.47	1.58
Return on Average Equity %	36.27	26.05	28.77	29.73

INVICTA (March)

Debt / Assets	0.76	0.8	0.54	0.55
Debt / Equity	3.24	3.89	1.16	1.23
Quick Ratio	0.62	0.52	0.54	0.64
Return on Average Equity %	34.02	30.34	33.25	32.29

KAIROS (February)

Debt / Assets	0.5	0.39	0.47	0.52
Debt / Equity	0.99	0.64	0.87	1.08
Quick Ratio	0.84	0.95	1.21	1.2
Return on Average Equity %	7.45	10.44	38.09	15.85

UNIVERSAL (December)

Debt / Assets	0.66	#N/A	#N/A	#N/A
Debt / Equity	1.91	#N/A	#N/A	#N/A

FINANCIAL RATIOS REPORT
Investment Services

Report Date: 05 Jul 2011 05:06:34 PM

Pre-defined Standardised General Ratios



Company	2007	2006	2005	2004
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Industry average

Debt / Assets	0.664	0.70	0.74	0.74
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Debt / Equity	9.332	7.74	10.22	10.34
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Quick Ratio	2.23	1.64	2.75	0.90
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Return on Average Equity %	6.218	-0.40	-4.94	1.33
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BRAIT2 (March)

Debt / Assets	0.29	0.29	0.43	0.33
Debt / Equity	0.41	0.41	0.76	0.49
Quick Ratio	2.04	2.19	1.09	1.07
Return on Average Equity %	18.86	-2.24	18.81	15.97

CADIZ (March)

Debt / Assets	#N/A	0.94	0.39	0.45
Debt / Equity	#N/A	17.15	0.64	0.82
Quick Ratio	#N/A	0.94	0.88	0.76
Return on Average Equity %	#N/A	38.27	27.04	30.92

DECILLION (July)

Debt / Assets	0.96	0.93	0.97	0.92
Debt / Equity	22.11	12.78	31.4	11.78
Quick Ratio	#N/A	1.15	1.07	0.99
Return on Average Equity %	-76.17	-15.35	-82.17	14.67

INVLTD (March)

Debt / Assets	0.94	0.94	0.95	0.96
Debt / Equity	14.64	14.44	18.65	25.74
Quick Ratio	0.93	0.71	0.68	0.69
Return on Average Equity %	21.42	21.7	31.64	19.26

INVPLC (March)

Debt / Assets	0.94	0.94	0.95	0.96
Debt / Equity	14.64	14.44	18.65	25.74
Quick Ratio	0.93	0.71	0.68	0.69
Return on Average Equity %	21.41	21.7	31.64	33.35

JSE (December)

Debt / Assets	0.94	0.92	#N/A	#N/A
Debt / Equity	16.92	12.14	#N/A	#N/A

Quick Ratio	1.58	#N/A	#N/A	#N/A
Return on Average Equity %	63.43	#N/A	#N/A	#N/A



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Quick Ratio	1.04	1.04	#N/A	#N/A
Return on Average Equity %	30.35	24.31	#N/A	#N/A

NEW CPA (August)

Debt / Assets	0.62	0.87	0.89	#N/A
Debt / Equity	1.6	6.65	7.74	#N/A
Quick Ratio	1.61	1.12	1.08	#N/A
Return on Average Equity %	11.3	-30.76	2.41	#N/A

PSG1 (February)

Debt / Assets	0.28	0.35	0.83	0.88
Debt / Equity	0.39	0.53	4.76	7.13
Quick Ratio	1.61	0.65	2.6	1.25
Return on Average Equity %	4.86	-55.58	-60.65	4.24

PURPLE (August)

Debt / Assets	0.02	0.06	0.03	0.21
Debt / Equity	0.03	0.06	0.03	0.26
Quick Ratio	9.83	6.44	15.19	0.3
Return on Average Equity %	-2.45	-8.94	-19.11	-111.05

SASFIN2 (June)

Debt / Assets	0.7	0.72	0.77	0.82
Debt / Equity	2.29	2.62	3.26	4.67
Quick Ratio	1.12	1.32	1.28	1.18
Return on Average Equity %	19.1	18.69	29.05	32.17

BJM (March)

Debt / Assets	0.95	0.93	0.87	0.87
Debt / Equity	20.29	13.34	6.69	6.93
Quick Ratio	0.96	1.06	1.05	1
Return on Average Equity %	13.5	22.49	3.96	1.99



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FINANCIAL RATIOS REPORT

Mobile Telecommunications

Report Date: 05 Jul 2011 04:59:25 PM

Pre-defined Standardised General Ratios



Company	2007	2006	2005	2004
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Industry average

Debt / Assets	0.68	0.76	0.61	0.455
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Debt / Equity	3.29	24.19	1.555	0.875
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Quick Ratio	1.17	1.195	1.05	1.725
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Return on Average Equity %	133.28	95.8	49.18	44.15
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ALTECH (February)

Debt / Assets	0.51	0.54	0.62	0.38
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Debt / Equity	1.04	1.16	1.62	0.62
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Quick Ratio	1.48	1.49	1.1	2.3
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Return on Average Equity %	33.68	32	31.23	23.97
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BLUETEL (May)

Debt / Assets	#N/A	#N/A	#N/A	#N/A
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Debt / Equity	#N/A	#N/A	#N/A	#N/A
---------------	------	------	------	------

Quick Ratio	#N/A	#N/A	#N/A	#N/A
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Return on Average Equity %	#N/A	#N/A	#N/A	#N/A
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MTN GROUP (December)

Debt / Assets	0.85	0.98	0.6	0.53
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Debt / Equity	5.54	47.22	1.49	1.13
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Quick Ratio	0.86	0.9	1	1.15
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Return on Average Equity %	232.87	159.6	67.12	64.32
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VODACOM (March)

Debt / Assets	#N/A	#N/A	#N/A	#N/A
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Debt / Equity	#N/A	#N/A	#N/A	#N/A
---------------	------	------	------	------

Quick Ratio	#N/A	#N/A	#N/A	#N/A
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Return on Average Equity %	#N/A	#N/A	#N/A	#N/A
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FINANCIAL RATIOS REPORT

Nonlife Insurance

Report Date: 07 Jul 2011 03:09:22 PM

Pre-defined Standardised General Ratios



Company	2007	2006	2005	2004
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Industry average

Debt / Assets	0.793	0.74	0.747	0.713
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Debt / Equity	32.78	-96.9	15.35	2.94
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Quick Ratio	1.733	2.003	1.903	1.97
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Return on Average Equity %	38.31	2.173	21.34	33.55
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SANTAM (December)

Debt / Assets	0.78	0.6	0.61	0.66
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Debt / Equity	3.59	1.52	1.57	1.96
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Quick Ratio	0.75	0.94	1.01	1.65
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Return on Average Equity %	6.91	7.26	16.58	26.23
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ZURICH SA (December)

Debt / Assets	0.61	0.62	0.65	0.65
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Debt / Equity	1.55	1.61	1.82	1.85
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Quick Ratio	3.31	3.94	3.63	3.15
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Return on Average Equity %	13.24	18.22	15.05	21.78
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GLENMIB (June)

Debt / Assets	0.99	1	0.98	0.83
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Debt / Equity	93.2	-293.7	42.66	5.01
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Quick Ratio	1.14	1.13	1.07	1.11
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Return on Average Equity %	94.78	-18.96	32.38	52.63
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FINANCIAL RATIOS REPORT

Real Estate Investment & Services

Report Date: 07 Jul 2011 03:20:08 PM

Pre-defined Standardised General Ratios



Company	2007	2006	2005	2004
Industry average				
Debt / Assets	0.57	0.57	0.76	0.76
Debt / Equity	24.72	29.11	13.39	17.26
Quick Ratio	1.34	2.19	0.97	1.04
Return on Average Equity %	30.65	0.87	11.74	-21.18
ACUCAP (March)				
Debt / Assets	0.54	0.58	0.77	0.9
Debt / Equity	1.19	1.36	3.4	8.83
Quick Ratio	0.41	0.23	1.34	1.8
Return on Average Equity %	0.3	1.97	-1.05	0.4
BONATLA (December)				
Debt / Assets	1.22	0.69	3.49	1.72
Debt / Equity	-5.57	2.24	-1.4	-2.38
Quick Ratio	0.7	0.07	0.06	0.22
Return on Average Equity %	189.47	38.86	35.35	-32.04
CAPCO (December)				
Debt / Assets	#N/A	#N/A	#N/A	#N/A
Debt / Equity	#N/A	#N/A	#N/A	#N/A
Quick Ratio	#N/A	#N/A	#N/A	#N/A
Return on Average Equity %	#N/A	#N/A	#N/A	#N/A
COLLIERS (February)				
Debt / Assets	0.68	0.61	0.67	0.71
Debt / Equity	2.13	1.57	1.99	2.47
Quick Ratio	0.67	0.89	0.88	1.13
Return on Average Equity %	9.04	15.86	-19.09	-19.9
FAIRVEST2 (June)				
Debt / Assets	0.87	#N/A	0.93	0.95

FINANCIAL RATIOS REPORT

Real Estate Investment Trusts

Report Date: 05 Jul 2011 05:13:04 PM

Pre-defined Standardised General Ratios



Company	2007	2006	2005	2004
Industry average				
Debt / Assets	0.205	0.243	0.202	0.202
Debt / Equity	0.303	0.357	0.303	0.288
Quick Ratio	0.568	0.573	0.617	1.038
Return on Average Equity %	7.76	8.117	10.45	18.85
CAPITAL (December)				
Debt / Assets	0.12	0.22	0.12	0.23
Debt / Equity	0.13	0.29	0.14	0.29
Quick Ratio	0.08	0.06	0.27	0.3
Return on Average Equity %	9.58	9.67	12.37	24.25
CAPSHOP (December)				
Debt / Assets	0.49	0.46	0.49	0.44
Debt / Equity	0.95	0.86	0.95	0.79
Quick Ratio	0.61	1.01	0.32	1.93
Return on Average Equity %	5.1	-0.01	5.64	4.66
EMIRA (June)				
Debt / Assets	0.2	0.2	0.22	0.22
Debt / Equity	0.24	0.25	0.29	0.29
Quick Ratio	0.37	0.08	0.28	0.27
Return on Average Equity %	7.93	11.5	12.93	40.52
FPT (September)				
Debt / Assets	0.11	0.1	0.1	0.13
Debt / Equity	0.12	0.11	0.11	0.15
Quick Ratio	1.03	1.02	1.08	1.22
Return on Average Equity %	7.55	8.18	10.76	12.08
SA CORP (December)				
Debt / Assets	0.12	0.24	0.14	0.12

Debt / Equity	6.64	#N/A	13.8	17.36
Quick Ratio	0.52	#N/A	0.91	0.44
Return on Average Equity %	1.22	#N/A	-18.64	31.61

FORTRESS (June)

Debt / Assets	#N/A	#N/A	#N/A	#N/A
Debt / Equity	#N/A	#N/A	#N/A	#N/A
Quick Ratio	#N/A	#N/A	#N/A	#N/A
Return on Average Equity %	#N/A	#N/A	#N/A	#N/A

GROWPNT (June)

Debt / Assets	1	1	1	1
Debt / Equity	424.13	398.49	291.03	222.39
Quick Ratio	0.34	0.11	0.14	0.22
Return on Average Equity %	424.07	69.34	319.21	-366.22

HOSP A & HOS (June)

Debt / Assets	0.72	0.84	#N/A	#N/A
Debt / Equity	2.57	5.1	#N/A	#N/A
Quick Ratio	0.18	0.44	#N/A	#N/A
Return on Average Equity %	#N/A	-9.65	#N/A	#N/A

HYPROP (December)

Debt / Assets	0.38	0.4	0.51	0.57
Debt / Equity	0.62	0.68	1.02	1.32
Quick Ratio	1.9	0.32	0.35	0.49
Return on Average Equity %	2.13	2.94	3.13	3.91

INGENUITY (August)

Debt / Assets	0.09	0.04	0.22	#N/A
Debt / Equity	0.1	0.04	0.29	#N/A
Quick Ratio	4.34	8.11	2.12	#N/A
Return on Average Equity %	2.84	6.21	-40.34	#N/A

INVPROP (March)

Debt / Assets	#N/A	#N/A	#N/A	#N/A
Debt / Equity	#N/A	#N/A	#N/A	#N/A
Quick Ratio	#N/A	#N/A	#N/A	#N/A
Return on Average Equity %	#N/A	#N/A	#N/A	#N/A

MERCHANT (September)

Debt / Assets	0.15	0.19	0.24	0.23
Debt / Equity	0.17	0.24	0.32	0.29
Quick Ratio	1.2	1.01	1.16	1.63
Return on Average Equity %	1.17	2.92	1.57	3.2

NEPI (December)

Debt / Equity	0.14	0.32	0.16	0.13
Quick Ratio	0.54	0.67	0.96	0.78
Return on Average Equity %	8.24	9.52	11.48	18.16

SYCOM (March)

Debt / Assets	0.19	0.24	0.14	0.07
Debt / Equity	0.24	0.31	0.17	0.08
Quick Ratio	0.78	0.6	0.79	1.73
Return on Average Equity %	8.16	9.84	9.52	13.41



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Debt / Assets	#N/A	#N/A	#N/A	#N/A
Debt / Equity	#N/A	#N/A	#N/A	#N/A
Quick Ratio	#N/A	#N/A	#N/A	#N/A
Return on Average Equity %	#N/A	#N/A	#N/A	#N/A
OCTODEC (August)				
Debt / Assets	0.46	0.49	0.58	0.74
Debt / Equity	0.86	0.98	1.39	2.85
Quick Ratio	0.22	0.22	0.26	0.2
Return on Average Equity %	0.11	1.18	-0.1	-1.1
ORION2 (June)				
Debt / Assets	0.78	0.88	1.01	1.15
Debt / Equity	3.58	7.38	-99.58	-7.8
Quick Ratio	0.08	0.17	0.22	0.42
Return on Average Equity %	-9.91	-58.76	-17.46	23.27
PREMIUM (February)				
Debt / Assets	0.49	0.53	0.66	0.78
Debt / Equity	0.98	1.13	1.93	3.5
Quick Ratio	0.21	0.12	0.1	0.16
Return on Average Equity %	0.99	-0.33	0.08	0.44
PUTPROP (June)				
Debt / Assets	0.12	0.06	0.06	0.1
Debt / Equity	0.13	0.06	0.06	0.11
Quick Ratio	2.65	3.84	5.75	1.96
Return on Average Equity %	3.66	8.62	17.42	16.14
REBOSIS (August)				
Debt / Assets	#N/A	#N/A	#N/A	#N/A
Debt / Equity	#N/A	#N/A	#N/A	#N/A
Quick Ratio	#N/A	#N/A	#N/A	#N/A
Return on Average Equity %	#N/A	#N/A	#N/A	#N/A
REDINT (August)				
Debt / Assets	#N/A	#N/A	#N/A	#N/A
Debt / Equity	#N/A	#N/A	#N/A	#N/A
Quick Ratio	#N/A	#N/A	#N/A	#N/A
Return on Average Equity %	#N/A	#N/A	#N/A	#N/A
REDEFINE (August)				
Debt / Assets	0.5	0.59	0.64	0.83
Debt / Equity	1	1.44	1.77	4.84
Quick Ratio	0.85	0.43	0.65	2.87
Return on Average Equity %	-0.61	1.08	10.58	45.5

RESILIENT (December)

Debt / Assets	0.39	0.45	0.48	0.75
Debt / Equity	0.65	0.81	0.93	3.02
Quick Ratio	0.31	0.3	0.17	1
Return on Average Equity %	-3.58	-0.85	-3.51	-11.29

TRADEH (February)

Debt / Assets	0.59	0.48	0.41	0.57
Debt / Equity	1.47	0.92	0.7	1.34
Quick Ratio	0.86	1.12	0.89	0.76
Return on Average Equity %	-12.65	3.53	11.83	-13.24

VIVIDEND (August)

Debt / Assets	#N/A	#N/A	#N/A	#N/A
Debt / Equity	#N/A	#N/A	#N/A	#N/A
Quick Ratio	#N/A	#N/A	#N/A	#N/A
Return on Average Equity %	#N/A	#N/A	#N/A	#N/A

VUKILE (March)

Debt / Assets	0.71	0.82	0.9	#N/A
Debt / Equity	2.5	4.54	9.42	#N/A
Quick Ratio	0.91	0.27	0.28	#N/A
Return on Average Equity %	-0.05	0.03	-98.53	#N/A

EMERGENT (September)

Debt / Assets	0.63	0.99	0.35	0.44
Debt / Equity	1.72	67.85	0.54	0.78
Quick Ratio	7.84	19.52	1.14	2.25
Return on Average Equity %	-87.08	-68.16	-0.95	1.65



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FINANCIAL RATIOS REPORT

Specialty Chemicals

Report Date: 05 Jul 2011 04:55:16 PM

Pre-defined Standardised General Ratios



Company 2007 2006 2005 2004

Industry average

Debt / Assets #REF! #REF! #REF! #REF!

Debt / Equity #REF! #REF! #REF! #REF!

Quick Ratio #REF! #REF! #REF! #REF!

Return on Average Equity % #REF! #REF! #REF! #REF!

A E C I (December)

Debt / Assets	0.63	0.63	0.7	0.7
Debt / Equity	1.68	1.72	2.37	2.37
Quick Ratio	0.79	0.8	0.82	0.93
Return on Average Equity %	21.81	56.09	38.74	35.75

AFROX (December)

Debt / Assets	0.46	0.47	0.47	0.39
Debt / Equity	0.85	0.89	0.88	0.63
Quick Ratio	0.6	0.78	0.72	1.01
Return on Average Equity %	26.35	24.39	14.3	25.71

DELTA (December)

Debt / Assets	0.25	0.14	0.49	0.38
Debt / Equity	0.33	0.16	0.96	0.62
Quick Ratio	2.78	2.51	1.3	0.91
Return on Average Equity %	-4.2	-13.31	3.39	12.13

FREEWORLD (September)

Debt / Assets	#N/A	#N/A	#N/A	#N/A
Debt / Equity	#N/A	#N/A	#N/A	#N/A
Quick Ratio	#N/A	#N/A	#N/A	#N/A
Return on Average Equity %	#N/A	#N/A	#N/A	#N/A

OMNIA (March)

Debt / Assets	0.68	0.7	0.76	0.84
Debt / Equity	2.14	2.33	3.25	5.13
Quick Ratio	0.57	0.56	0.5	0.5
Return on Average Equity %	35.02	32.56	74.88	46.03

SPANJAARD (February)

Debt / Assets	0.32	0.51	0.53	0.51
Debt / Equity	0.47	1.04	1.12	1.03
Quick Ratio	1.3	1.3	1.06	1.19
Return on Average Equity %	6.1	-2.72	1.69	4.37



APPENDIX E

FINANCIAL MODELS REPORT

ABSA GROUP LIMITED (ASA)

Report Date: 03 Mar 2009 04:52:58 PM



WACC = Debt Weighing, Cost of Debt, Equity Weighing & Cost of Equity

[From: 2005, To: 2009, Financials: Standardised, Risk-free rate: R153, Market Risk Premium: 6]

WACC = (Wd*CoD) + (We*Ke)

Ticker	Company	2003	2004	2005	2006	2007
ASA	ABSA	7.7698	6.4065	4.0679	4.2549	4.9127
2003 WACC =	(0.9291 * 7.0963) + (0.0709 * 16.5956)					
2004 WACC =	(0.9246 * 5.8441) + (0.0754 * 13.3030)					
2005 WACC =	(0.9266 * 3.4415) + (0.0734 * 11.9756)					
2006 WACC =	(0.9323 * 3.8006) + (0.0677 * 10.5106)					
2007 WACC =	(0.9387 * 4.3846) + (0.0613 * 12.9988)					

CoD = Cost of Debt (After Taxation)

Ticker	Company	2003	2004	2005	2006	2007
ASA	ABSA	7.0963	5.8441	3.4415	3.8006	4.3846

Ke = Cost of Equity = Risk-free rate + Beta (Market Risk Premium)

Ticker	Company	2003	2004	2005	2006	2007
ASA	ABSA	16.5956	13.303	11.9756	10.5106	12.999
2003 Cost Of Equity =	10.1600 + (1.0726 * 6.0000)					
2004 Cost Of Equity =	9.5200 + (0.6305 * 6.0000)					
2005 Cost Of Equity =	8.1950 + (0.6301 * 6.0000)					
2006 Cost Of Equity =	7.3000 + (0.5351 * 6.0000)					
2007 Cost Of Equity =	9.3700 + (0.6048 * 6.0000)					



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FINANCIAL MODELS REPORT

A E C I LIMITED (AFE)

Report Date: 03 Mar 2009 04:53:59 PM



WACC = Debt Weighing, Cost of Debt, Equity Weighing & Cost of Equity

[From: 2005, To: 2009, Financials: Standardised, Risk-free rate: R153, Market Risk Premium: 6]

WACC = (Wd*CoD) + (We*Ke)

Ticker	Company	2003	2004	2005	2006	2007
AFE	A E C I	9.899	11.8072	9.6971	10.9579	11.733
2003 WACC =	(0.3709 * 11.3561) + (0.6291 * 9.0400)					
2004 WACC =	(0.3139 * 11.6412) + (0.6861 * 11.8832)					
2005 WACC =	(0.3317 * 6.9693) + (0.6683 * 11.0510)					
2006 WACC =	(0.2820 * 8.3780) + (0.7180 * 11.9712)					
2007 WACC =	(0.2919 * 7.8863) + (0.7081 * 13.3180)					

CoD = Cost of Debt (After Taxation)

Ticker	Company	2003	2004	2005	2006	2007
AFE	A E C I	11.3561	11.6412	6.9693	8.378	7.8863

Ke = Cost of Equity = Risk-free rate + Beta (Market Risk Premium)

Ticker	Company	2003	2004	2005	2006	2007
AFE	A E C I	9.04	11.8832	11.051	11.9712	13.318
2003 Cost Of Equity =	9.0400 + (0.0000 * 6.0000)					
2004 Cost Of Equity =	7.8200 + (0.6772 * 6.0000)					
2005 Cost Of Equity =	7.3100 + (0.6235 * 6.0000)					
2006 Cost Of Equity =	8.1600 + (0.6352 * 6.0000)					
2007 Cost Of Equity =	9.3700 + (0.6580 * 6.0000)					



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FINANCIAL MODELS REPORT

AFRIMAT LIMITED (AFT)

Report Date: 03 Mar 2009 04:54:47 PM

WACC = Debt Weighing, Cost of Debt, Equity Weighing & Cost of Equity

[From: 2005, To: 2009, Financials: Standardised, Risk-free rate: R153, Market Risk Premium: 6]

WACC = (Wd*CoD) + (We*Ke)

Ticker	Company	2003	2004	2005	2006	2007
AFT	AFRIMAT	#N/A	#N/A	#N/A	#N/A	12.4236
2003 WACC =	(#N/A * #N/A) + (#N/A * #N/A)					
2004 WACC =	(#N/A * #N/A) + (#N/A * #N/A)					
2005 WACC =	(#N/A * #N/A) + (#N/A * #N/A)					
2006 WACC =	(#N/A * #N/A) + (#N/A * #N/A)					
2007 WACC =	(0.0798 * 6.5363) + (0.9202 * 12.9342)					

CoD = Cost of Debt (After Taxation)

Ticker	Company	2003	2004	2005	2006	2007
AFT	AFRIMAT	#N/A	#N/A	#N/A	#N/A	6.5363

Ke = Cost of Equity = Risk-free rate + Beta (Market Risk Premium)

Ticker	Company	2003	2004	2005	2006	2007
AFT	AFRIMAT	#N/A	#N/A	#N/A	#N/A	12.9342
2003 Cost Of Equity =	#N/A + (0.0000 * 6.0000)					
2004 Cost Of Equity =	#N/A + (0.0000 * 6.0000)					
2005 Cost Of Equity =	#N/A + (0.0000 * 6.0000)					
2006 Cost Of Equity =	#N/A + (0.0000 * 6.0000)					
2007 Cost Of Equity =	7.9800 + (0.8257 * 6.0000)					



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FINANCIAL MODELS REPORT

AG INDUSTRIES LIMITED (AGI)

Report Date: 03 Mar 2009 04:55:52 PM

WACC = Debt Weighing, Cost of Debt, Equity Weighing & Cost of Equity

[From: 2005, To: 2009, Financials: Standardised, Risk-free rate: R153, Market Risk Premium: 6]

WACC = (Wd*CoD) + (We*Ke)

Ticker	Company	2003	2004	2005	2006	2007
AGI	AGI	13.5314	12.0882	9.7888	11.6405	16.8008
2003 WACC =	(0.1779 * 31.7637) + (0.8221 * 9.5860)					
2004 WACC =	(0.2211 * 15.6836) + (0.7789 * 11.0676)					
2005 WACC =	(0.2489 * 8.7044) + (0.7511 * 10.1482)					
2006 WACC =	(0.2703 * 11.1803) + (0.7297 * 11.8110)					
2007 WACC =	(0.2846 * 25.0021) + (0.7154 * 13.5382)					

CoD = Cost of Debt (After Taxation)

Ticker	Company	2003	2004	2005	2006	2007
AGI	AGI	31.7637	15.6836	8.7044	11.1803	25.0021

Ke = Cost of Equity = Risk-free rate + Beta (Market Risk Premium)

Ticker	Company	2003	2004	2005	2006	2007
AGI	AGI	9.586	11.0676	10.1482	11.811	13.5382
2003 Cost Of Equity =	9.0700 + (0.0860 * 6.0000)					
2004 Cost Of Equity =	9.8700 + (0.1996 * 6.0000)					
2005 Cost Of Equity =	7.5700 + (0.4297 * 6.0000)					
2006 Cost Of Equity =	8.5500 + (0.5435 * 6.0000)					
2007 Cost Of Equity =	9.0850 + (0.7422 * 6.0000)					

FINANCIAL MODELS REPORT

ALLIED TECHNOLOGIES LIMITED (ALT)

Report Date: 03 Mar 2009 04:57:39 PM



WACC = Debt Weighing, Cost of Debt, Equity Weighing & Cost of Equity

[From: 2005, To: 2009, Financials: Standardised, Risk-free rate: R153, Market Risk Premium: 6]

WACC = (Wd*CoD) + (We*Ke)

Ticker	Company	2003	2004	2005	2006	2007
ALT	ALTECH	16.5511	12.4131	9.6024	11.1853	11.8857
2003 WACC =	(0.0368 * 8.7963) + (0.9632 * 16.8474)					
2004 WACC =	(0.0331 * 8.8625) + (0.9669 * 12.5346)					
2005 WACC =	(0.0722 * 2.4680) + (0.9278 * 10.1576)					
2006 WACC =	(0.0202 * 11.1333) + (0.9798 * 11.1864)					
2007 WACC =	(0.0192 * 13.3400) + (0.9808 * 11.8572)					

CoD = Cost of Debt (After Taxation)

Ticker	Company	2003	2004	2005	2006	2007
ALT	ALTECH	8.7963	8.8625	2.468	11.1333	13.34

Ke = Cost of Equity = Risk-free rate + Beta (Market Risk Premium)

Ticker	Company	2003	2004	2005	2006	2007
ALT	ALTECH	16.8474	12.5346	10.1576	11.1864	11.8572
2003 Cost Of Equity =	10.2300 + (1.1029 * 6.0000)					
2004 Cost Of Equity =	9.3600 + (0.5291 * 6.0000)					
2005 Cost Of Equity =	7.4000 + (0.4596 * 6.0000)					
2006 Cost Of Equity =	7.2000 + (0.6644 * 6.0000)					
2007 Cost Of Equity =	7.9800 + (0.6462 * 6.0000)					



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FINANCIAL MODELS REPORT

ARGENT INDUSTRIAL LIMITED (ART)

Report Date: 03 Mar 2009 04:56:46 PM



WACC = Debt Weighing, Cost of Debt, Equity Weighing & Cost of Equity

[From: 2005, To: 2009, Financials: Standardised, Risk-free rate: R153, Market Risk Premium: 6]

WACC = (Wd*CoD) + (We*Ke)

Ticker	Company	2003	2004	2005	2006	2007
ART	ARGENT	14.3386	13.5531	9.3902	9.4471	11.1725
2003 WACC =	(0.1998 * 13.9211) + (0.8002 * 14.4428)					
2004 WACC =	(0.2002 * 17.6179) + (0.7998 * 12.5356)					
2005 WACC =	(0.1684 * 10.1487) + (0.8316 * 9.2366)					
2006 WACC =	(0.1805 * 9.1980) + (0.8195 * 9.5020)					
2007 WACC =	(0.2085 * 9.3592) + (0.7915 * 11.6502)					

CoD = Cost of Debt (After Taxation)

Ticker	Company	2003	2004	2005	2006	2007
ART	ARGENT	13.9211	17.6179	10.1487	9.198	9.3592

Ke = Cost of Equity = Risk-free rate + Beta (Market Risk Premium)

Ticker	Company	2003	2004	2005	2006	2007
ART	ARGENT	14.4428	12.5356	9.2366	9.502	11.6502
2003 Cost Of Equity =	10.1600 + (0.7138 * 6.0000)					
2004 Cost Of Equity =	9.5200 + (0.5026 * 6.0000)					
2005 Cost Of Equity =	8.1950 + (0.1736 * 6.0000)					
2006 Cost Of Equity =	7.3000 + (0.3670 * 6.0000)					
2007 Cost Of Equity =	8.1900 + (0.5767 * 6.0000)					



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FINANCIAL MODELS REPORT

BARLOWORLD LIMITED (BAW)

Report Date: 03 Mar 2009 05:58:21 PM

WACC = Debt Weighing, Cost of Debt, Equity Weighing & Cost of Equity

[From: 2005, To: 2009, Financials: Standardised, Risk-free rate: R153, Market Risk Premium: 6]

WACC = (Wd*CoD) + (We*Ke)

Ticker	Company	2003	2004	2005	2006	2007
BAW	BARWORLD	13.4065	10.2905	8.7959	9.9079	13.4777
2003 WACC =	(0.3700 * 9.4336) + (0.6300 * 15.7398)					
2004 WACC =	(0.3925 * 4.4979) + (0.6075 * 14.0330)					
2005 WACC =	(0.3960 * 4.2779) + (0.6040 * 11.7580)					
2006 WACC =	(0.4161 * 6.3403) + (0.5839 * 12.4502)					
2007 WACC =	(0.3954 * 10.5410) + (0.6046 * 15.3982)					

CoD = Cost of Debt (After Taxation)

Ticker	Company	2003	2004	2005	2006	2007
BAW	BARWORLD	9.4336	4.4979	4.2779	6.3403	10.541

Ke = Cost of Equity = Risk-free rate + Beta (Market Risk Premium)

Ticker	Company	2003	2004	2005	2006	2007
BAW	BARWORLD	15.7398	14.033	11.758	12.4502	15.3982
2003 Cost Of Equity =	9.1500 + (1.0983 * 6.0000)					
2004 Cost Of Equity =	8.8100 + (0.8705 * 6.0000)					
2005 Cost Of Equity =	7.8550 + (0.6505 * 6.0000)					
2006 Cost Of Equity =	8.6300 + (0.6367 * 6.0000)					
2007 Cost Of Equity =	8.9500 + (1.0747 * 6.0000)					



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FINANCIAL MODELS REPORT

BARNARD JACOBS MELLET HOLDINGS LD (BJM)

Report Date: 03 Mar 2009 04:58:22 PM

WACC = Debt Weighing, Cost of Debt, Equity Weighing & Cost of Equity

[From: 2005, To: 2009, Financials: Standardised, Risk-free rate: R153, Market Risk Premium: 6]

WACC = (Wd*CoD) + (We*Ke)

Ticker	Company	2003	2004	2005	2006	2007
BJM	BJM	10.4442	13.246	10.9429	5.5812	3.8082
2003 WACC =	(0.3490 * 3.0526) + (0.6510 * 14.4068)					
2004 WACC =	(0.3424 * 12.4198) + (0.6576 * 13.6762)					
2005 WACC =	(0.1543 * 14.5334) + (0.8457 * 10.2878)					
2006 WACC =	(0.4794 * 0.5045) + (0.5206 * 10.2562)					
2007 WACC =	(0.6410 * 0.1608) + (0.3590 * 10.3206)					

CoD = Cost of Debt (After Taxation)

Ticker	Company	2003	2004	2005	2006	2007
BJM	BJM	3.0526	12.4198	14.5334	0.5045	0.1608

Ke = Cost of Equity = Risk-free rate + Beta (Market Risk Premium)

Ticker	Company	2003	2004	2005	2006	2007
BJM	BJM	14.4068	13.6762	10.2878	10.2562	10.3206
2003 Cost Of Equity =	10.1600 + (0.7078 * 6.0000)					
2004 Cost Of Equity =	9.5200 + (0.6927 * 6.0000)					
2005 Cost Of Equity =	8.1950 + (0.3488 * 6.0000)					
2006 Cost Of Equity =	7.3000 + (0.4927 * 6.0000)					
2007 Cost Of Equity =	8.1900 + (0.3551 * 6.0000)					



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FINANCIAL MODELS REPORT

CORONATION FUND MANAGERS LIMITED (CML)

Report Date: 03 Mar 2009 04:59:19 PM

WACC = Debt Weighing, Cost of Debt, Equity Weighing & Cost of Equity

[From: 2005, To: 2009, Financials: Standardised, Risk-free rate: R153, Market Risk Premium: 6]

WACC = (Wd*CoD) + (We*Ke)

Ticker	Company	2003	2004	2005	2006	2007
CML	CORONAT	9.5267	11.2912	9.1025	#N/A	#N/A
2003 WACC =	(0.4823 * 5.0286) + (0.5177 * 13.7172)					
2004 WACC =	(0.2319 * 3.8454) + (0.7681 * 13.5392)					
2005 WACC =	(0.4065 * 2.8015) + (0.5935 * 13.4182)					
2006 WACC =	(#N/A * #N/A) + (#N/A * 15.0722)					
2007 WACC =	(#N/A * #N/A) + (#N/A * 12.7288)					

CoD = Cost of Debt (After Taxation)

Ticker	Company	2003	2004	2005	2006	2007
CML	CORONAT	5.0286	3.8454	2.8015	#N/A	#N/A

Ke = Cost of Equity = Risk-free rate + Beta (Market Risk Premium)

Ticker	Company	2003	2004	2005	2006	2007
CML	CORONAT	13.7172	13.5392	13.4182	15.0722	12.7288
2003 Cost Of Equity =	9.1500 + (0.7612 * 6.0000)					
2004 Cost Of Equity =	8.8100 + (0.7882 * 6.0000)					
2005 Cost Of Equity =	7.8550 + (0.9272 * 6.0000)					
2006 Cost Of Equity =	8.6300 + (1.0737 * 6.0000)					
2007 Cost Of Equity =	8.9500 + (0.6298 * 6.0000)					



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FINANCIAL MODELS REPORT

DISTELL GROUP LIMITED (DST)

Report Date: 03 Mar 2009 05:00:48 PM

WACC = Debt Weighing, Cost of Debt, Equity Weighing & Cost of Equity

[From: 2005, To: 2009, Financials: Standardised, Risk-free rate: R153, Market Risk Premium: 6]

WACC = (Wd*CoD) + (We*Ke)

Ticker	Company	2003	2004	2005	2006	2007
DST	DISTELL	14.6089	13.0712	10.4074	10.527	12.9461
2003 WACC =	(0.2681 * 21.0389) + (0.7319 * 12.2536)					
2004 WACC =	(0.2498 * 16.1639) + (0.7502 * 12.0414)					
2005 WACC =	(0.2667 * 9.1553) + (0.7333 * 10.8628)					
2006 WACC =	(0.1941 * 10.5022) + (0.8059 * 10.5330)					
2007 WACC =	(0.0793 * 16.6324) + (0.9207 * 12.6286)					

CoD = Cost of Debt (After Taxation)

Ticker	Company	2003	2004	2005	2006	2007
DST	DISTELL	21.0389	16.1639	9.1553	10.5022	16.6324

Ke = Cost of Equity = Risk-free rate + Beta (Market Risk Premium)

Ticker	Company	2003	2004	2005	2006	2007
DST	DISTELL	12.2536	12.0414	10.8628	10.533	12.6286
2003 Cost Of Equity =	9.0700 + (0.5306 * 6.0000)					
2004 Cost Of Equity =	9.8700 + (0.3619 * 6.0000)					
2005 Cost Of Equity =	7.5700 + (0.5488 * 6.0000)					
2006 Cost Of Equity =	8.5500 + (0.3305 * 6.0000)					
2007 Cost Of Equity =	9.0850 + (0.5906 * 6.0000)					



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FINANCIAL MODELS REPORT

EMERGENT PROPERTIES LTD (EMG)

Report Date: 03 Mar 2009 05:01:31 PM



WACC = Debt Weighing, Cost of Debt, Equity Weighing & Cost of Equity

[From: 2005, To: 2009, Financials: Standardised, Risk-free rate: R153, Market Risk Premium: 6]

WACC = (Wd*CoD) + (We*Ke)

Ticker	Company	2003	2004	2005	2006	2007
EMG	EMERGENT	10.2382	8.1096	10.8229	0.1414	9.1688
2003 WACC =	(0.3759 * 7.9896) + (0.6241 * 11.5926)					
2004 WACC =	(0.3356 * 5.9414) + (0.6644 * 9.2048)					
2005 WACC =	(0.1428 * 30.1044) + (0.8572 * 7.6108)					
2006 WACC =	(0.9847 * 0.0000) + (0.0153 * 9.2414)					
2007 WACC =	(0.6239 * 10.9543) + (0.3761 * 6.2068)					

CoD = Cost of Debt (After Taxation)

Ticker	Company	2003	2004	2005	2006	2007
EMG	EMERGENT	7.9896	5.9414	30.1044	0	10.9543

Ke = Cost of Equity = Risk-free rate + Beta (Market Risk Premium)

Ticker	Company	2003	2004	2005	2006	2007
EMG	EMERGENT	11.5926	9.2048	7.6108	9.2414	6.2068
2003 Cost Of Equity =	9.1500 + (0.4071 * 6.0000)					
2004 Cost Of Equity =	8.8100 + (0.0658 * 6.0000)					
2005 Cost Of Equity =	7.8550 + (-0.0407 * 6.0000)					
2006 Cost Of Equity =	8.6300 + (0.1019 * 6.0000)					
2007 Cost Of Equity =	8.9500 + (-0.4572 * 6.0000)					



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FINANCIAL MODELS REPORT

EMIRA PROPERTY FUND (EMI)

Report Date: 03 Mar 2009 05:05:13 PM



WACC = Debt Weighing, Cost of Debt, Equity Weighing & Cost of Equity

[From: 2005, To: 2009, Financials: Standardised, Risk-free rate: R153, Market Risk Premium: 6]

WACC = (Wd*CoD) + (We*Ke)

Ticker	Company	2003	2004	2005	2006	2007
EMI	EMIRA	#N/A	9.466	10.053	9.58	10.0452
2003 WACC =	(#N/A * #N/A) + (#N/A * #N/A)					
2004 WACC =	(0.1724 * 11.3259) + (0.8276 * 9.0786)					
2005 WACC =	(0.1744 * 12.0874) + (0.8256 * 9.6232)					
2006 WACC =	(0.1568 * 7.0108) + (0.8432 * 10.0578)					
2007 WACC =	(0.1706 * 5.4196) + (0.8294 * 10.9966)					

CoD = Cost of Debt (After Taxation)

Ticker	Company	2003	2004	2005	2006	2007
EMI	EMIRA	#N/A	11.3259	12.0874	7.0108	5.4196

Ke = Cost of Equity = Risk-free rate + Beta (Market Risk Premium)

Ticker	Company	2003	2004	2005	2006	2007
EMI	EMIRA	#N/A	9.0786	9.6232	10.0578	10.9966
2003 Cost Of Equity =	#N/A + (0.0000 * 6.0000)					
2004 Cost Of Equity =	9.8700 + (-0.1319 * 6.0000)					
2005 Cost Of Equity =	7.5700 + (0.3422 * 6.0000)					
2006 Cost Of Equity =	8.5500 + (0.2513 * 6.0000)					
2007 Cost Of Equity =	9.0850 + (0.3186 * 6.0000)					



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FINANCIAL MODELS REPORT

FOSCHINI LIMITED (FOS)

Report Date: 03 Mar 2009 05:06:08 PM



WACC = Debt Weighing, Cost of Debt, Equity Weighing & Cost of Equity

[From: 2005, To: 2009, Financials: Standardised, Risk-free rate: R153, Market Risk Premium: 6]

WACC = (Wd*CoD) + (We*Ke)

Ticker	Company	2003	2004	2005	2006	2007
TFG	TFG	15.4916	13.0604	9.5887	8.4722	10.7573

2003 WACC = (0.1414 * 12.6537) + (0.8586 * 15.9590)

2004 WACC = (0.1229 * 12.0224) + (0.8771 * 13.2058)

2005 WACC = (0.2605 * 4.6524) + (0.7395 * 11.3276)

2006 WACC = (0.2916 * 4.7752) + (0.7084 * 9.9940)

2007 WACC = (0.2318 * 6.8637) + (0.7682 * 11.9322)

CoD = Cost of Debt (After Taxation)

Ticker	Company	2003	2004	2005	2006	2007
TFG	TFG	12.6537	12.0224	4.6524	4.7752	6.8637

Ke = Cost of Equity = Risk-free rate + Beta (Market Risk Premium)

Ticker	Company	2003	2004	2005	2006	2007
TFG	TFG	15.959	13.2058	11.3276	9.994	11.9322

2003 Cost Of Equity = 10.1600 + (0.9665 * 6.0000)

2004 Cost Of Equity = 9.5200 + (0.6143 * 6.0000)

2005 Cost Of Equity = 8.1950 + (0.5221 * 6.0000)

2006 Cost Of Equity = 7.3000 + (0.4490 * 6.0000)

2007 Cost Of Equity = 8.1900 + (0.6237 * 6.0000)



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FINANCIAL MODELS REPORT

GLENRAND M.I.B. LIMITED (GMB)

Report Date: 03 Mar 2009 05:25:58 PM



WACC = Debt Weighing, Cost of Debt, Equity Weighing & Cost of Equity

[From: 2005, To: 2009, Financials: Standardised, Risk-free rate: R153, Market Risk Premium: 6]

WACC = (Wd*CoD) + (We*Ke)

Ticker	Company	2003	2004	2005	2006	2007
GMB	GLENMIB	15.6307	15.8205	12.4785	16.8146	13.8866

2003 WACC = (0.2695 * 15.6721) + (0.7305 * 15.6154)

2004 WACC = (0.0435 * 88.6672) + (0.9565 * 12.5076)

2005 WACC = (0.0482 * 85.5676) + (0.9518 * 8.7772)

2006 WACC = (0.0637 * 124.9220) + (0.9363 * 9.4596)

2007 WACC = (0.0167 * 289.3621) + (0.9833 * 9.2080)

CoD = Cost of Debt (After Taxation)

Ticker	Company	2003	2004	2005	2006	2007
GMB	GLENMIB	15.6721	88.6672	85.5676	124.922	289.3621

Ke = Cost of Equity = Risk-free rate + Beta (Market Risk Premium)

Ticker	Company	2003	2004	2005	2006	2007
GMB	GLENMIB	15.6154	12.5076	8.7772	9.4596	9.208

2003 Cost Of Equity = 9.0700 + (1.0909 * 6.0000)

2004 Cost Of Equity = 9.8700 + (0.4396 * 6.0000)

2005 Cost Of Equity = 7.5700 + (0.2012 * 6.0000)

2006 Cost Of Equity = 8.5500 + (0.1516 * 6.0000)

2007 Cost Of Equity = 9.0850 + (0.0205 * 6.0000)



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FINANCIAL MODELS REPORT

HOWDEN AFRICA HOLDINGS LIMITED (HWN)

Report Date: 03 Mar 2009 05:26:37 PM



WACC = Debt Weighing, Cost of Debt, Equity Weighing & Cost of Equity

[From: 2005, To: 2009, Financials: Standardised, Risk-free rate: R153, Market Risk Premium: 6]

WACC = (Wd*CoD) + (We*Ke)

Ticker	Company	2003	2004	2005	2006	2007
HWN	HOWDEN	#N/A	#N/A	19.5679	4.8741	16.2109
2003 WACC =	(#N/A * #N/A) + (#N/A * 9.0400)					
2004 WACC =	(#N/A * #N/A) + (#N/A * 11.8994)					
2005 WACC =	(0.0006 * 11985.1583) + (0.9994 * 12.3842)					
2006 WACC =	(0.9153 * 4.2473) + (0.0847 * 11.6472)					
2007 WACC =	(0.2490 * 32.2577) + (0.7510 * 10.8904)					

CoD = Cost of Debt (After Taxation)

Ticker	Company	2003	2004	2005	2006	2007
HWN	HOWDEN	#N/A	#N/A	11985.1583	4.2473	32.2577

Ke = Cost of Equity = Risk-free rate + Beta (Market Risk Premium)

Ticker	Company	2003	2004	2005	2006	2007
HWN	HOWDEN	9.04	11.8994	12.3842	11.6472	10.8904
2003 Cost Of Equity =	9.0400 + (0.0000 * 6.0000)					
2004 Cost Of Equity =	7.8200 + (0.6799 * 6.0000)					
2005 Cost Of Equity =	7.3100 + (0.8457 * 6.0000)					
2006 Cost Of Equity =	8.1600 + (0.5812 * 6.0000)					
2007 Cost Of Equity =	9.3700 + (0.2534 * 6.0000)					



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FINANCIAL MODELS REPORT

NAMPAK LIMITED (NPK)

Report Date: 03 Mar 2009 05:27:24 PM



WACC = Debt Weighing, Cost of Debt, Equity Weighing & Cost of Equity

[From: 2005, To: 2009, Financials: Standardised, Risk-free rate: R153, Market Risk Premium: 6]

WACC = (Wd*CoD) + (We*Ke)

Ticker	Company	2003	2004	2005	2006	2007
NPK	NAMPAK	15.7238	12.37	10.035	11.4662	14.1262
2003 WACC =	(0.2135 * 15.8461) + (0.7865 * 15.6906)					
2004 WACC =	(0.1712 * 12.6326) + (0.8288 * 12.3158)					
2005 WACC =	(0.1551 * 12.4548) + (0.8449 * 9.5908)					
2006 WACC =	(0.1562 * 10.4417) + (0.8438 * 11.6558)					
2007 WACC =	(0.1311 * 21.1848) + (0.8689 * 13.0612)					

CoD = Cost of Debt (After Taxation)

Ticker	Company	2003	2004	2005	2006	2007
NPK	NAMPAK	15.8461	12.6326	12.4548	10.4417	21.1848

Ke = Cost of Equity = Risk-free rate + Beta (Market Risk Premium)

Ticker	Company	2003	2004	2005	2006	2007
NPK	NAMPAK	15.6906	12.3158	9.5908	11.6558	13.0612
2003 Cost Of Equity =	9.1500 + (1.0901 * 6.0000)					
2004 Cost Of Equity =	8.8100 + (0.5843 * 6.0000)					
2005 Cost Of Equity =	7.8550 + (0.2893 * 6.0000)					
2006 Cost Of Equity =	8.6300 + (0.5043 * 6.0000)					
2007 Cost Of Equity =	8.9500 + (0.6852 * 6.0000)					



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FINANCIAL MODELS REPORT

PICK N PAY STORES LIMITED (PIK)

Report Date: 03 Mar 2009 05:29:10 PM



WACC = Debt Weighing, Cost of Debt, Equity Weighing & Cost of Equity

[From: 2005, To: 2009, Financials: Standardised, Risk-free rate: R153, Market Risk Premium: 6]

WACC = (Wd*CoD) + (We*Ke)

Ticker	Company	2003	2004	2005	2006	2007
PIK	PICKNPAY	12.5947	10.9809	8.9845	4.1756	10.5154
2003 WACC =	(0.3544 * 5.9594) + (0.6456 * 16.2372)					
2004 WACC =	(0.2994 * 8.2296) + (0.7006 * 12.1566)					
2005 WACC =	(0.2625 * 8.9943) + (0.7375 * 8.9810)					
2006 WACC =	(0.8015 * 3.0267) + (0.1985 * 8.8146)					
2007 WACC =	(0.4099 * 11.0895) + (0.5901 * 10.1166)					

CoD = Cost of Debt (After Taxation)

Ticker	Company	2003	2004	2005	2006	2007
PIK	PICKNPAY	5.9594	8.2296	8.9943	3.0267	11.0895

Ke = Cost of Equity = Risk-free rate + Beta (Market Risk Premium)

Ticker	Company	2003	2004	2005	2006	2007
PIK	PICKNPAY	16.2372	12.1566	8.981	8.8146	10.1166
2003 Cost Of Equity =	10.2300 + (1.0012 * 6.0000)					
2004 Cost Of Equity =	9.3600 + (0.4661 * 6.0000)					
2005 Cost Of Equity =	7.4000 + (0.2635 * 6.0000)					
2006 Cost Of Equity =	7.2000 + (0.2691 * 6.0000)					
2007 Cost Of Equity =	7.9800 + (0.3561 * 6.0000)					



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FINANCIAL MODELS REPORT

REMGRO LIMITED (REM)

Report Date: 03 Mar 2009 05:28:21 PM



WACC = Debt Weighing, Cost of Debt, Equity Weighing & Cost of Equity

[From: 2005, To: 2009, Financials: Standardised, Risk-free rate: R153, Market Risk Premium: 6]

WACC = (Wd*CoD) + (We*Ke)

Ticker	Company	2003	2004	2005	2006	2007
REM	REMGRO2	13.391	12.1187	11.351	9.6898	11.403
2003 WACC =	(0.0065 * 21.9185) + (0.9935 * 13.3352)					
2004 WACC =	(0.0082 * 11.0444) + (0.9918 * 12.1276)					
2005 WACC =	(0.0060 * 19.0038) + (0.9940 * 11.3048)					
2006 WACC =	(0.0064 * 10.6291) + (0.9936 * 9.6838)					
2007 WACC =	(0.0049 * 9.8133) + (0.9951 * 11.4108)					

CoD = Cost of Debt (After Taxation)

Ticker	Company	2003	2004	2005	2006	2007
REM	REMGRO2	21.9185	11.0444	19.0038	10.6291	9.8133

Ke = Cost of Equity = Risk-free rate + Beta (Market Risk Premium)

Ticker	Company	2003	2004	2005	2006	2007
REM	REMGRO2	13.3352	12.1276	11.3048	9.6838	11.4108
2003 Cost Of Equity =	10.1600 + (0.5292 * 6.0000)					
2004 Cost Of Equity =	9.5200 + (0.4346 * 6.0000)					
2005 Cost Of Equity =	8.1950 + (0.5183 * 6.0000)					
2006 Cost Of Equity =	7.3000 + (0.3973 * 6.0000)					
2007 Cost Of Equity =	8.1900 + (0.5368 * 6.0000)					



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FINANCIAL MODELS REPORT

RMB HOLDINGS LIMITED (RMH)

Report Date: 03 Mar 2009 05:30:04 PM



WACC = Debt Weighing, Cost of Debt, Equity Weighing & Cost of Equity

[From: 2005, To: 2009, Financials: Standardised, Risk-free rate: R153, Market Risk Premium: 6]

WACC = (Wd*CoD) + (We*Ke)

Ticker	Company	2003	2004	2005	2006	2007
RMH	RMBH	15.4538	14.0601	10.5292	12.1239	12.4671
2003 WACC =	(0.0379 * 10.5887) + (0.9621 * 15.6454)					
2004 WACC =	(0.0464 * 3.5364) + (0.9536 * 14.5722)					
2005 WACC =	(0.0376 * 4.4022) + (0.9624 * 10.7686)					
2006 WACC =	(0.0317 * 7.9739) + (0.9683 * 12.2598)					
2007 WACC =	(0.0467 * 7.2360) + (0.9533 * 12.7234)					

CoD = Cost of Debt (After Taxation)

Ticker	Company	2003	2004	2005	2006	2007
RMH	RMBH	10.5887	3.5364	4.4022	7.9739	7.236

Ke = Cost of Equity = Risk-free rate + Beta (Market Risk Premium)

Ticker	Company	2003	2004	2005	2006	2007
RMH	RMBH	15.6454	14.5722	10.7686	12.2598	12.7234
2003 Cost Of Equity =	9.0700 + (1.0959 * 6.0000)					
2004 Cost Of Equity =	9.8700 + (0.7837 * 6.0000)					
2005 Cost Of Equity =	7.5700 + (0.5331 * 6.0000)					
2006 Cost Of Equity =	8.5500 + (0.6183 * 6.0000)					
2007 Cost Of Equity =	9.0850 + (0.6064 * 6.0000)					



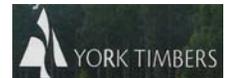
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FINANCIAL MODELS REPORT

THE YORK TIMBER ORGANISATION LD (YRK)

Report Date: 03 Mar 2009 05:30:40 PM



WACC = Debt Weighing, Cost of Debt, Equity Weighing & Cost of Equity

[From: 2005, To: 2009, Financials: Standardised, Risk-free rate: R153, Market Risk Premium: 6]

WACC = (Wd*CoD) + (We*Ke)

Ticker	Company	2003	2004	2005	2006	2007
YRK	YORK	9.2531	7.3831	2.814	7.0233	#N/A
2003 WACC =	(0.1165 * 10.8691) + (0.8835 * 9.0400)					
2004 WACC =	(0.0893 * 7.8836) + (0.9107 * 7.3340)					
2005 WACC =	(0.2073 * 5.1054) + (0.7927 * 2.2148)					
2006 WACC =	(0.2834 * 8.7234) + (0.7166 * 6.3510)					
2007 WACC =	(#N/A * #N/A) + (#N/A * 10.5700)					

CoD = Cost of Debt (After Taxation)

Ticker	Company	2003	2004	2005	2006	2007
YRK	YORK	10.8691	7.8836	5.1054	8.7234	#N/A

Ke = Cost of Equity = Risk-free rate + Beta (Market Risk Premium)

Ticker	Company	2003	2004	2005	2006	2007
YRK	YORK	9.04	7.334	2.2148	6.351	10.57
2003 Cost Of Equity =	9.0400 + (0.0000 * 6.0000)					
2004 Cost Of Equity =	7.8200 + (-0.0810 * 6.0000)					
2005 Cost Of Equity =	7.3100 + (-0.8492 * 6.0000)					
2006 Cost Of Equity =	8.1600 + (-0.3015 * 6.0000)					
2007 Cost Of Equity =	9.3700 + (0.2000 * 6.0000)					



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