

**PETZETAKIS AFRICA (PROPRIETARY)  
LIMITED AND ITS SUBSIDIARIES  
(REGISTRATION NUMBER 2000/020895/07)  
GROUP ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2009**

Moore Stephens MWM Inc.  
Chartered Accountants (S.A.)  
Registered Auditors  
Issued 19 February 2010

# PETZETAKIS AFRICA (PROPRIETARY) LIMITED AND ITS SUBSIDIARIES

Group Annual Financial Statements for the year ended 31 December 2009

## GENERAL

<b>COUNTRY OF INCORPORATION AND DOMICILE</b>	South Africa
<b>NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES</b>	The company's major activities are the manufacturing and distribution of plastic pipe systems, fittings and flexible hoses to the civil engineering, building, mining, industrial and agricultural markets.
<b>DIRECTORS</b>	George Petzetakis Edwin Hewitt Cindy Dixon
<b>REGISTERED OFFICE</b>	7 West Street Houghton Johannesburg South Africa 2198
<b>BUSINESS ADDRESS</b>	1 Piet Pretorius Street Rosslyn Tshwane South Africa 0200
<b>POSTAL ADDRESS</b>	PO Box 911-1726 Rosslyn Tshwane South Africa 0200
<b>HOLDING COMPANY</b>	AG Petzetakis International Holdings Limited incorporated in Cyprus
<b>ULTIMATE HOLDING COMPANY</b>	Aristovoulos G. Petzetakis S.A. incorporated in Greece
<b>AUDITORS</b>	Moore Stephens MWM Inc. Chartered Accountants (S.A.) Registered Auditors
<b>COMPANY REGISTRATION NUMBER</b>	2000/020895/07
<b>PUBLIC OFFICER</b>	Edwin Hewitt

# PETZETAKIS AFRICA (PROPRIETARY) LIMITED AND ITS SUBSIDIARIES

Group Annual Financial Statements for the year ended 31 December 2009

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The reports and statements set out below comprise the group annual financial statements presented to the shareholder:

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## **REPORT OF THE INDEPENDENT AUDITORS**

### **To the shareholder of Petzetakis Africa (Proprietary) Limited**

We have audited the group annual financial statements of Petzetakis Africa (Proprietary) Limited and its subsidiaries, which comprise the directors' report, the consolidated statement of financial position as at 31 December 2009, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 5 to 39.

### **Director's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

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

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

### **Opinion**

In our opinion, the group annual financial statements present fairly, in all material respects, the financial position of the group as at 31 December 2009, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

### **Emphasis of matter**

Without qualifying our opinion, we draw attention to the directors' report and notes 9 and 25 to the group annual financial statements which indicates that the group incurred a net loss of R 57 864 million for the year ended 31 December 2009 and, as at that date, the group had an accumulated loss of R 80 503 million. The directors' report also indicates that these conditions, along with other matters, indicate the existence of a material uncertainty which may cast significant doubt on the group's ability to continue as a going concern.



**Moore Stephens MWM Inc**  
Registered Auditors  
HCS Lopes  
Houghton

**19 February 2010**

*Moore Stephens MWM Inc*  
Registered Auditors  
Reg No. 1979/002154/21

*An independent member firm of Moore Stephens International Limited – members in principal cities throughout the world.*

Directors  
O A Barbeau  
F M Bruce-Brand  
D C Irish  
HCS Lopes  
A S Moosa  
A E D Rees-Bevan

**DIRECTORS' RESPONSIBILITIES AND APPROVAL**

The directors are required by the Companies Act of South Africa, to maintain adequate accounting records and are responsible for the content and integrity of the group annual financial statements and related financial information included in this report. It is their responsibility to ensure that the group annual financial statements fairly present the state of affairs of the group as at the end of the reporting period and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the group annual financial statements.

The group annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the group and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk.

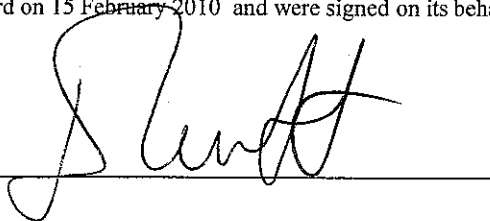
These controls are monitored throughout the group and all employees are required to maintain the highest ethical standards in ensuring the group's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the group is on identifying, assessing, managing and monitoring all known forms of risk across the group. While operating risk cannot be fully eliminated, the group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

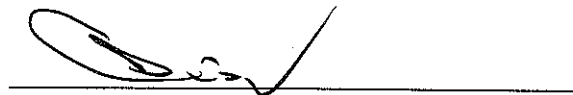
The directors have reviewed the group's cash flow forecast for the 12 months to 31 December 2010, and in the light of this review and the current financial position, they are satisfied that the group has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the group annual financial statements. The group financial statements have been reviewed by the group's external auditors and their report is presented on page 3.

The group annual financial statements set out on pages 5 to 38, which have been prepared on the going concern basis, were approved by the board on 15 February 2010 and were signed on its behalf by:



**Edwin Hewitt**



**Cindy Dixon**

**Pretoria**

**15 February 2010**

## **DIRECTORS' REPORT**

The directors submit their report for the year ended 31 December 2009.

### **1. REVIEW OF ACTIVITIES**

#### **Main business and operations**

The group's major activities are the manufacturing and distribution of plastic pipe systems, fittings and flexible hoses to the civil engineering, building, mining, industrial and agricultural markets.

The operating results and state of affairs of the group are fully set out in the attached group annual financial statements and do not in our opinion require any further comment.

The operations (including assets and liabilities) of Sekunjalo Piping Systems (Pty) Ltd were absorbed from 1st of April 2009. The operations were dormant since that date.

The operations of Sekunjalo Utilities (Pty) Ltd and Sektel Communications (Pty) Ltd were dormant during the period under audit.

### **2. FINANCIAL RESULTS**

The net loss of the group at 31 December 2009 is (R57 864) million (2008: (R46 883 million)), after taxation of R3 767 million (2008: - R1 964 million).

### **3. GOING CONCERN**

We draw attention to the fact that at 31 December 2009, the group incurred a net loss after tax of (R57 864 million) and had an accumulated loss of (R80 503 million).

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

The ability of the group to continue as a going concern is dependent on a number of factors.

The most significant of these factors are :

- The directors' ability to continue procuring funding for the ongoing operations, including the roll-forward of the group's current funding.
- The directors' ability to convert the group's operations into profits.
- The directors' ability to procure funding for the competition commission penalty.
  
- The above is expected to be met by funding that will be received during the 1st quarter of 2010 from A.G Petzetakis Limited. The group has embarked on a global re-capitalization process. The 1st bond re-purchase is in progress and is expected to be completed shortly. The complete re-financing process is expected to be concluded by the end of March 2010. The provisional amount allocated to the South African operation is EUR20 million.

### **4. POST BALANCE SHEET EVENTS**

The directors are not aware of any material matter or circumstance arising since 31 December 2009.

### **5. AUTHORISED AND ISSUED SHARE CAPITAL**

There were no changes to the authorised or issued share capital of the company during the year.

### **6. NON-CURRENT ASSETS**

There were no major changes in the nature of the non-current assets of the group during the period under review.

### **7. DIVIDENDS**

No dividends were declared or paid to shareholders during the year.

# PETZETAKIS AFRICA (PROPRIETARY) LIMITED AND ITS SUBSIDIARIES

Group Annual Financial Statements for the year ended 31 December 2009

## 8. DIRECTORS

The directors of the company during the period and to the date of this report are as follows:

Name	Nationality	Appointment	Resignation
George Petzetakis	Greek	20/11/2002	-
Edwin Hewitt	South African	03/08/2009	-
Cindy Dixon	South African	03/08/2009	-
P Kerr-Fox	South African	01/08/2006	23/09/2009
M Harding	South African	01/08/2001	23/09/2009
D Razis	Greek	15/12/2008	18/08/2009

## 9. HOLDING COMPANY

The company's holding company is AG Petzetakis International Holdings Limited incorporated in Cyprus.

## 10. ULTIMATE HOLDING COMPANY

The company's ultimate holding company is Aristovoulos G. Petzetakis S.A. incorporated in Greece.

## 11. SUBSIDIARY COMPANIES

<u>Shares held by Petzetakis Africa (Proprietary) Limited</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Sekunjalo Piping Systems (Proprietary) Limited	100%	100%
Petzetakis Africa (Namibia) (Proprietary) Limited	100%	100%
Sektel Communications (Proprietary) Limited	100%	55%
Sekunjalo Utilities (Proprietary) Limited	100%	100%
Sekunjalo Outsourcing (Proprietary) Limited - dormant	100%	100%

During the period under audit Sekunjalo Piping Systems (Pty) Ltd, Sekunjalo Utilities (Pty) Ltd and Sektel Communications were dormant.

## 11. SECRETARY

The company had no secretary during the year.

## 12. AUDITORS

Moore Stephens MWM Inc. will continue in office in accordance with section 270(2) of the Companies Act.

## 13. PENALTY OBLIGATION

The South African Competition Commission and Petzetakis Africa (Proprietary) Limited are still in negotiations. Petzetakis Africa (Pty) Ltd has received a pre-hearing notice from the Tribunal as well as a suggested timetable for proceedings which indicate that the matter will be heard in August 2010. It is currently anticipated that a 5,3% penalty will be levied, calculated on 2007 turnover. At this rate a penalty of R27,273,894 is expected.

# PETZETAKIS AFRICA (PROPRIETARY) LIMITED AND ITS SUBSIDIARIES

Group Annual Financial Statements for the year ended 31 December 2009

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note(s)	Group		Company	
		31 Dec '09 R '000	31 Dec '08 R '000	31 Dec '09 R '000	31 Dec '08 R '000
<b>ASSETS</b>					
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	2	174,877	163,531	174,830	162,951
Investment in subsidiaries	3	-	-	3,085	19,074
Intangible assets	4	-	-	-	-
Financial assets	5	-	45	-	45
Deferred tax	6	-	7,986	-	7,191
		<b>174,877</b>	<b>171,562</b>	<b>177,915</b>	<b>189,261</b>
<b>CURRENT ASSETS</b>					
Inventories	7	53,273	93,952	52,631	83,494
Current tax receivable		1,149	430	812	430
Trade and other receivables	8	68,500	112,640	65,940	114,806
Cash and cash equivalents	9	5,101	15,425	4,512	3,572
		<b>128,023</b>	<b>222,447</b>	<b>123,895</b>	<b>202,302</b>
<b>TOTAL ASSETS</b>		<b>302,900</b>	<b>394,009</b>	<b>301,810</b>	<b>391,563</b>
<b>EQUITY AND LIABILITIES</b>					
<b>EQUITY</b>					
Share capital	10	*	*	*	*
Share premium	10	52,600	52,600	52,600	52,600
Reserves	11	114,107	91,658	114,107	91,658
Accumulated loss		-80,503	-22,639	-91,990	-47,825
Non-controlling interest		-	153	-	-
		<b>86,204</b>	<b>121,772</b>	<b>74,717</b>	<b>96,433</b>
<b>LIABILITIES</b>					
<b>NON-CURRENT LIABILITIES</b>					
Finance lease obligation	12	17,743	21,148	17,743	20,363
Other financial liabilities	13	7,501	-	7,501	-
Deferred tax	6	12,095	23,208	12,118	23,208
		<b>37,339</b>	<b>44,356</b>	<b>37,362</b>	<b>43,571</b>
<b>CURRENT LIABILITIES</b>					
Current tax payable		1,690	2,846	1,690	-
Finance lease obligation	12	10,522	10,502	10,522	9,384
Loan from shareholder	14	4,913	1,025	4,913	1,025
Other financial liabilities	13	1,585	17,746	1,585	17,746
Trade and other payables	15	101,956	131,781	112,330	159,423
Provisions	16	27,274	30,602	27,274	30,602
Bank overdraft	9	31,417	33,379	31,417	33,379
		<b>179,357</b>	<b>227,881</b>	<b>189,730</b>	<b>251,559</b>
<b>TOTAL LIABILITIES</b>		<b>216,695</b>	<b>272,237</b>	<b>227,093</b>	<b>295,130</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>302,900</b>	<b>394,009</b>	<b>301,810</b>	<b>391,563</b>

\* - Less than R1 000

# PETZETAKIS AFRICA (PROPRIETARY) LIMITED AND ITS SUBSIDIARIES

Group Annual Financial Statements for the year ended 31 December 2009

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note(s)	Group		Company	
		31 Dec '09 R '000	31 Dec '08 R '000	31 Dec '09 R '000	31 Dec '08 R '000
Revenue	17	602,361	858,769	559,172	763,532
Cost of sales		(496,911)	(715,749)	(469,969)	(677,784)
<b>Gross profit</b>		<b>105,450</b>	<b>143,020</b>	<b>89,203</b>	<b>85,748</b>
Other income	17.1	5,137	5,114	3,248	2,376
Penalty obligation		-	(27,274)	-	(27,274)
Operating expenses	30	(159,855)	(156,817)	(164,145)	(112,680)
	18	(49,269)	(35,957)	(71,694)	(51,830)
Investment revenue	19	86	252	33,300	4,088
Finance costs	20	(12,447)	(13,142)	(13,074)	(13,081)
<b>(Loss)/profit before taxation</b>		<b>(61,630)</b>	<b>(48,847)</b>	<b>(51,468)</b>	<b>(60,823)</b>
Taxation	21.1	3,767	1,964	7,303	8,134
<b>Loss for the year</b>		<b>(57,864)</b>	<b>(46,883)</b>	<b>(44,165)</b>	<b>(52,689)</b>
<b>Other comprehensive income</b>					
Reversal of surplus on revaluation previously recognised (net of deferred tax)		-	(18,493)	-	(18,493)
Revaluation of land and buildings (net of deferred tax)		23,025	-	23,025	-
Reversal of surplus on revaluation previously recognised (net of deferred tax)		(576)	-	(576)	-
Other comprehensive income/(loss) for the year, net of tax		<b>22,449</b>	<b>(18,493)</b>	<b>22,449</b>	<b>(18,493)</b>
<b>Total comprehensive loss for the year</b>		<b>(35,415)</b>	<b>(65,376)</b>	<b>(21,716)</b>	<b>(71,182)</b>
<b>Attributable to:</b>					
Equity holders of the parent		(57,864)	(48,836)		
Non-controlling interest		-	1,953		
		<b>(57,864)</b>	<b>(46,883)</b>		

# PETZETAKIS AFRICA (PROPRIETARY) LIMITED AND ITS SUBSIDIARIES

Group Annual Financial Statements for the year ended 31 December 2009

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<u>GROUP</u>	Share capital	Share premium	Total share capital	Revaluation reserve	Accumulated loss	Total attributable to equity holders of the group / company	Non- Controlling interest	Total equity
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
<b>Balance at 01 January 2008</b>	*	52,600	52,600	110,151	36,197	198,948	2,794	201,742
Changes in equity						-		-
Loss for the year		-	-	-	(48,836)	(48,836)	1,953	(46,883)
Other comprehensive loss		-	-	(18,493)	-	(18,493)	-	(18,493)
Purchase of non-controlling interest		-	-	-	-	-	(4,594)	(4,594)
Dividends		-	-	-	(10,000)	(10,000)	-	(10,000)
<b>Total changes</b>		-	-	(18,493)	(58,836)	(77,329)	(2,641)	(79,970)
<b>Balance at 31 December 2008</b>	*	52,600	52,600	91,658	(22,639)	121,619	153	121,772
Loss for the year		-	-	-	(57,864)	(57,864)	-	(57,864)
Purchase of non-controlling interest		-	-	-	-	-	(153)	(153)
Other comprehensive income		-	-	22,449	-	22,449	-	22,449
<b>Total changes</b>		-	-	22,449	(57,864)	(35,415)	(153)	(35,568)
<b>Balance at 31 December 2009</b>	*	52,600	52,600	114,107	(80,503)	86,204	-	86,204

# PETZETAKIS AFRICA (PROPRIETARY) LIMITED AND ITS SUBSIDIARIES

Group Annual Financial Statements for the year ended 31 December 2009

<i>COMPANY</i>	Share capital	Share premium	Total share capital	Revaluation reserve	Accumulated loss	Total equity
	<i>R'000</i>	<i>R'000</i>	<i>R'000</i>	<i>R'000</i>	<i>R'000</i>	<i>R'000</i>
<i>Company</i>						
<b>Balance at 01 January 2008</b>	*	52,600	52,600	110,151	14,863	177,614
Changes in equity						-
Loss for the year	-	-	-	-	(52,688)	(52,688)
Other comprehensive loss	-	-	-	(18,493)	-	(18,493)
Dividends	-	-	-	-	(10,000)	(10,000)
<b>Total changes</b>	-	-	-	(18,493)	(62,688)	(81,181)
<b>Balance at 31 December 2008</b>	*	52,600	52,600	91,658	(47,825)	96,433
Loss for the year	-	-	-	-	(44,165)	(44,165)
Other comprehensive income				22,449		22,449
<b>Total changes</b>	-	-	-	22,449	(44,165)	(21,716)
<b>Balance at 31 December 2009</b>	*	52,600	52,600	114,107	(91,990)	74,717

# PETZETAKIS AFRICA (PROPRIETARY) LIMITED AND ITS SUBSIDIARIES

Group Annual Financial Statements for the year ended 31 December 2009

## CONSOLIDATED CASH FLOW STATEMENT

	Note(s)	Group		Company	
		31 Dec '09 R '000	31 Dec '08 R '000	31 Dec '09 R '000	31 Dec '08 R '000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash generated from (used in) operations	22	25,350	26,867	54,939	22,255
Interest received		(86)	252	(579)	4,088
Finance costs		(12,447)	(13,142)	(13,074)	(13,081)
Dividend received		-	-	(32,721)	-
Tax (paid) /refunded	21.2	(4,813)	157	1,190	(7,622)
<b>Net cash from operating activities</b>		<b>8,004</b>	<b>14,134</b>	<b>9,755</b>	<b>5,640</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of property, plant and equipment	2	(7,703)	(17,549)	(7,685)	(14,480)
Sale / (purchase) of financial assets		45	10	45	226
Disposal of property, plant and equipment		1,207	-	1,172	-
Investment in subsidiaries		(153)	(10,500)	-	(10,500)
<b>Net cash from investing activities</b>		<b>(6,604)</b>	<b>(28,039)</b>	<b>(6,468)</b>	<b>(24,754)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Financial liabilities advanced/(repaid)		(8,660)	7,100	(8,660)	7,100
Repayment of shareholders loan		3,888	(11,536)	3,888	(11,536)
Finance lease payments		(4,990)	7,508	4,388	6,048
Dividends paid		-	(10,000)	-	(10,000)
<b>Net cash from financing activities</b>	-	<b>(9,762)</b>	<b>(6,928)</b>	<b>(384)</b>	<b>(8,388)</b>
<b>Total cash movement for the year</b>	-	<b>(8,362)</b>	<b>(20,833)</b>	<b>2,902</b>	<b>(27,502)</b>
Cash at the beginning of the year		(17,954)	2,879	(29,807)	(2,305)
<b>Total cash at end of the year</b>	-	<b>(26,315)</b>	<b>(17,954)</b>	<b>(26,905)</b>	<b>(29,807)</b>
<b>Cash and cash equivalents</b>					
Assets		5,101	15,425	4,512	3,572
Liabilities		(31,417)	(33,379)	(31,417)	(33,379)
<b>Total</b>		<b>(26,315)</b>	<b>(17,954)</b>	<b>(26,905)</b>	<b>(29,807)</b>

## **ACCOUNTING POLICIES**

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### **1.1 PRESENTATION OF FINANCIAL STATEMENTS**

The group annual financial statements for the year ended 31 December 2009 have been prepared in accordance with International Financial Reporting Standards, and the Companies Act of South Africa. The group annual financial statements have been prepared on the historical cost basis as modified by the revaluation of land and buildings, plant and machinery, available-for-sale financial assets/liabilities and asset/liabilities held at fair value and incorporate the principal accounting policies set out below.

### **1.2 BASIS OF CONSOLIDATION**

The consolidated financial statements incorporate the financial statements of all subsidiaries and all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

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

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition related costs are recognised in the statement of comprehensive income as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

#### **Transactions and minority interests**

The group applies a policy of treating transactions with non-controlling shareholders as transactions with parties external to the group. Disposals to minority interests result in gains and losses for the group that are recorded in the statement of comprehensive income. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which Petzetakis Africa (Proprietary) Limited had control.

Non-controlling interests represent the interests held in Sekunjalo Piping Systems (Proprietary) Limited up to the date of disposal as well as in Sektel Communications (Proprietary) Limited, not held by the Group.

These accounting policies are consistent with the previous year.

### **1.3 SIGNIFICANT JUDGEMENTS**

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

#### **Trade Receivables and/or Loans And Receivables**

The group assesses its trade receivables and/or loans and receivables for impairment at each statement of financial position date. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

# PETZETAKIS AFRICA (PROPRIETARY) LIMITED AND ITS SUBSIDIARIES

Group Annual Financial Statements for the year ended 31 December 2009

## Available-for-sale financial assets

The group follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

## Allowance for slow moving, damaged and obsolete stock

An allowance is created to write down stock to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items.

## Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the statement of financial position date. The quoted market price used for financial assets held by the group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at each statement of financial position date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the statement of financial position date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

## Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The group reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including i.e. production estimates and supply demand, together with economic factors such as inflation and movements in the prime interest rate.

## Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosures of these estimates of provisions are included in note 16.

## Expected manner of realisation for deferred tax

Deferred tax is provided for on the fair value adjustments of investment properties based on the expected manner of recovery, i.e. sale or use. This manner of recovery affects the rate used to determine the deferred tax liability. Refer note 6 – Deferred tax.

## Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

# PETZETAKIS AFRICA (PROPRIETARY) LIMITED AND ITS SUBSIDIARIES

Group Annual Financial Statements for the year ended 31 December 2009

## Taxation (Continued)

The group recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the group to realise the net deferred tax assets recorded at the statement of financial position date could be impacted.

## 1.4 PROPERTY, PLANT AND EQUIPMENT

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits associated with the item will flow to the company; and
- the cost of the item can be measured reliably.

Land and buildings and plant and machinery is carried at revalued amounts, being the fair value on the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment done. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially to those that would be determined using fair values at the end of the reporting period. Any revaluation increase arising on the revaluation of such land and buildings and plant and machinery is recognised in the comprehensive income, except to the extent it reverses a revaluation decrease for the same asset previously recognised in profit and loss, in which case the increase is reduced to profit or loss to the extent of the decrease previously expensed.

Land is not depreciated while buildings are written off to their residual values on a straight-line basis over their estimated useful lives.

Plant, equipment and motor vehicles are depreciated to their residual values on a straight-line basis over their estimated useful lives.

Depreciation on revalued land and buildings and plant and machinery is recognised in profit or loss.

Item	Average useful life
Land	indefinite
Buildings	50 years
Plant and machinery	2 to 30 years
Furniture and fixtures	3 - 10 years
IT Equipment	3 - 5 years
Motor Vehicles	3 - 5 years

The residual value and the useful life of each asset are reviewed at each financial year-end.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

## 1.5 INTANGIBLE ASSET

### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in 'intangible assets'. Goodwill on acquisitions of associates is included in 'investments in associates'. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Petzetakis Africa (Pty) Ltd and its subsidiaries allocate goodwill to each business segment in each country in which it operates.

# PETZETAKIS AFRICA (PROPRIETARY) LIMITED AND ITS SUBSIDIARIES

Group Annual Financial Statements for the year ended 31 December 2009

## 1.6 INVESTMENTS IN SUBSIDIARIES

### Group annual financial statements

The group annual financial statements include those of the holding company and its subsidiaries. The results of the subsidiaries are included from the effective date of acquisition.

On acquisition the group recognises the subsidiary's identifiable assets, liabilities and contingent liabilities at fair value, except for assets classified as held-for-sale, which are recognised at fair value less costs to sell.

### Company annual financial statements

In the company's separate annual financial statements, investments in subsidiaries are carried at cost less any accumulated impairment.

The cost of an investment in a subsidiary is the aggregate of:

- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the company; plus
- any costs directly attributable to the purchase of the subsidiary. Costs are now allocated to the statement of comprehensive income.

## 1.7 FINANCIAL INSTRUMENTS

### Initial recognition

The group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. Financial assets and financial liabilities are recognised on the group's statement of financial position when the group becomes party to the contractual provisions of the instrument.

### Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the group establishes fair value by using valuation techniques and/or entity specific inputs.

### Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Trade receivables are classified as "loans and receivables". Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or significant delinquency in payments are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

### Loans and payables

Loans and payables are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. They are included in current liabilities, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current liabilities. Loans and payables are classified as 'other payables' in the statement of financial position.

### Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

### Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the group's accounting policy for borrowing costs.

# PETZETAKIS AFRICA (PROPRIETARY) LIMITED AND ITS SUBSIDIARIES

Group Annual Financial Statements for the year ended 31 December 2009

## Other loans and receivables

Other financial assets classified as loans and receivables are initially recognised at fair value plus transaction costs, and are subsequently carried at amortised cost less any accumulated impairment.

These financial assets are not quoted in an active market.

## Available for sale financial assets

These financial assets are non derivatives that are either designated in this category or not classified elsewhere.

These assets are measured initially and subsequently at fair value. Gains and losses arising from changes in fair value are recognised directly in equity until the asset is disposed of or is determined to be impaired.

The company assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through comprehensive income. Impairment losses recognised in comprehensive income for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the statement of comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income as part of other income when the group's right to receive payments is established.

Equity investments for which a fair value is not determinable are held at cost. Impairments on such investments are not reversed.

## 1.8 TAXATION

### Current tax assets and liabilities

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

Current tax liabilities (assets) for the current and prior years are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the statement of changes in financial position date.

### Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the statement of financial position date.

### Tax expenses

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the year, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different year, directly in equity, or
- a business combination.

Current tax and deferred taxes are charged or credited directly to comprehensive income or equity if the tax relates to items that are credited or charged, in the same or a different year.

# PETZETAKIS AFRICA (PROPRIETARY) LIMITED AND ITS SUBSIDIARIES

Group Annual Financial Statements for the year ended 31 December 2009

## 1.9 LEASES

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

### Finance leases – lessee

Finance leases are recognised as assets and liabilities in the balance sheet at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

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

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

## 1.10 INVENTORIES

Inventories are measured at the lower of cost and net realisable value on the weighted average basis.

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

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

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

## 1.11 IMPAIRMENT OF ASSETS

The group assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the group estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

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

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

## 1.12 SHARE CAPITAL, RESERVES AND EQUITY

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

If the group reacquires its own equity instruments, the consideration paid, including any directly attributable incremental costs (net of income taxes) on those instruments are deducted from equity until the shares are cancelled or reissued. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the group's own equity instruments. Consideration paid or received shall be recognised directly in equity.

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

Retained earnings include all current and prior period retained profits. Dividend distributions payable to equity shareholders are included in 'other liabilities' when the dividends have been approved in a general meeting prior to the reporting date.

# PETZETAKIS AFRICA (PROPRIETARY) LIMITED AND ITS SUBSIDIARIES

Group Annual Financial Statements for the year ended 31 December 2009

## 1.13 PROVISIONS AND CONTINGENCIES

Provisions are recognised when:

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

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation, taking into account risks and uncertainties surrounding the obligation.

Provisions are not recognised for future operating losses.

## 1.14 REVENUE

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns.

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the statement of financial position date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the group;
- the stage of completion of the transaction at the statement of financial position date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Dividend income is recognised when the right to receive payment is established.

Interest is recognised on a time basis, in profit or loss, using the effective interest rate method.

## 1.15 COST OF SALES

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

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

Contract costs comprise:

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

## 1.16 BORROWING COSTS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily takes a substantial period of time to get ready for its intended use or sale are added to the cost of the asset, until the asset is completed for its intended use or sale.

# PETZETAKIS AFRICA (PROPRIETARY) LIMITED AND ITS SUBSIDIARIES

Group Annual Financial Statements for the year ended 31 December 2009

## 1.17 EMPLOYEE BENEFITS

The company operates a pension and provident scheme. The schemes are generally funded through payments to trustee-administered funds.

The Group operates defined contribution plans. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity.

The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

## 1.18 TRANSLATION OF FOREIGN CURRENCY

A foreign currency transaction is recorded, on initial recognition in Rands, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At each statement of financial position date:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous annual financial statements are recognised in profit or loss in the period in which they arise.

Cash flows arising from transactions in a foreign currency are recorded in Rands by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

## 1.19 SEGMENT REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns which are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

The reportable segments of the group are PVC, HDPE, FLEX , Fittings and buy-outs.

# PETZETAKIS AFRICA (PROPRIETARY) LIMITED AND ITS SUBSIDIARIES

Group Annual Financial Statements for the year ended 31 December 2009

## NOTES TO THE FINANCIAL STATEMENTS

### 2. PROPERTY, PLANT AND EQUIPMENT

Group	2009			2008		
	R'000	R'000	R'000	R'000	R'000	R'000
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land	25,400	-	25,400	9,364	-	9,364
Buildings	34,820	(348)	34,472	26,792	(2,892)	23,900
Plant and machinery	157,198	(46,703)	110,495	245,537	(121,236)	124,301
Furniture and fixtures	2,276	(1,156)	1,120	4,119	(2,563)	1,556
Motor vehicles	3,315	(2,049)	1,267	3,558	(2,031)	1,527
IT equipment	4,956	(2,834)	2,122	16,434	(13,551)	2,883
<b>Total</b>	<b>227,966</b>	<b>(53,089)</b>	<b>174,877</b>	<b>305,804</b>	<b>(142,273)</b>	<b>163,531</b>

Company	2009			2008		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land	25,400	-	25,400	9,364	-	9,364
Buildings	34,820	(348)	34,472	26,792	(2,892)	23,900
Plant and machinery	157,156	(46,696)	110,460	245,321	(121,191)	124,130
Furniture and fixtures	2,268	(1,149)	1,119	3,515	(2,075)	1,440
Motor vehicles	3,315	(2,049)	1,267	3,015	(1,768)	1,247
IT equipment	4,936	(2,825)	2,111	15,949	(13,079)	2,870
<b>Total</b>	<b>227,896</b>	<b>(53,066)</b>	<b>174,830</b>	<b>303,956</b>	<b>(141,005)</b>	<b>162,951</b>

#### Reconciliation of property, plant and equipment - Group - 2009

	Opening Balance	Additions	Disposals	Revaluations	Transfers	Depreciation	Total
Land	9,364	-	-	16,036	-	-	25,400
Buildings	23,900	70	-	10,737	310	(545)	34,472
Plant and machinery	124,301	5,672	(415)	(1,378)	476	(18,161)	110,495
Furniture and fixtures	1,556	32	(14)	-	(8)	(445)	1,120
Motor vehicles	1,527	1,044	(88)	-	(732)	(485)	1,267
IT equipment	2,883	885	(38)	-	(46)	(1,561)	2,122
	<b>163,531</b>	<b>7,703</b>	<b>(556)</b>	<b>25,395</b>	<b>-</b>	<b>(21,198)</b>	<b>174,877</b>

#### Reconciliation of property, plant and equipment - Group - 2008

	Opening Balance	Additions	Disposals	Revaluations	Depreciation	Total
Land	9,364	-	-	-	-	9,364
Buildings	24,153	141	-	-	(394)	23,900
Plant and machinery	159,972	29,753	(18,416)	(25,684)	(21,324)	124,301
Furniture and fixtures	1,589	407	(3)	-	(437)	1,556
Motor vehicles	1,856	116	(39)	-	(406)	1,527
IT equipment	1,877	2,012	(35)	-	(971)	2,883
	<b>198,811</b>	<b>32,429</b>	<b>(18,493)</b>	<b>(25,684)</b>	<b>(23,532)</b>	<b>163,531</b>

# PETZETAKIS AFRICA (PROPRIETARY) LIMITED AND ITS SUBSIDIARIES

Group Annual Financial Statements for the year ended 31 December 2009

## 2. PROPERTY, PLANT AND EQUIPMENT (Continued)

### Reconciliation of property, plant and equipment - Company – 2009

	Opening Balance	Additions	Disposals	Revaluations	Depreciation	Transfers	Total
Land	9,364	-	-	16,036	-		25,400
Buildings	23,900	70	-	10,737	(545)	310	34,162
Plant and machinery	124,130	5,670	(415)	(857)	(18,157)	(310)	110,371
Furniture and fixtures	1,440	31	(13)	-	(472)		986
Motor vehicles	1,247	1,044	(88)	-	(485)		1,718
IT equipment	2,870	870	(20)	-	(1,526)		2,194
	<b>162,951</b>	<b>7,685</b>	<b>(537)</b>	<b>25,916</b>	<b>(21,185)</b>	<b>-</b>	<b>174,830</b>

### Reconciliation of property, plant and equipment - Company – 2008

	Opening Balance	Additions	Disposals	Revaluations	Depreciation	Total
Land	9,364	-	-	-	-	9,364
Buildings	24,153	141	-	-	(394)	23,900
Plant and machinery	159,820	28,866	(17,548)	(25,684)	(21,324)	124,130
Furniture and fixtures	1,426	401	(3)	-	(384)	1,440
Motor vehicles	1,467	192	(39)	-	(373)	1,247
IT equipment	1,858	2,018	(35)	-	(971)	2,870
	<b>198,088</b>	<b>31,618</b>	<b>(17,625)</b>	<b>(25,684)</b>	<b>(23,446)</b>	<b>162,951</b>

Plant and machinery is carried at a revalued amount, which is the fair value at the date of revaluation less any subsequent accumulated depreciation. The valuation of plant and equipment was carried out in February 2009 by the independent valuator Keir & Associates on the basis of depreciated replacement value based on the assets held at 31 December 2008. The valuator is not connected with the company. The valuation conforms to International Valuation Standards.

If the land and buildings were measured using the cost model, the carrying amounts would be as follows:

	31-Dec-09	31-Dec-08
	R'000	R'000
Cost	23,335	23 335
Accumulated depreciation	(3,417)	(2,949)
	<u>19,918</u>	<u>20 386</u>

Certain property, plant and equipment are encumbered as stated in note 12. The carrying value of the assets subject to finance leases is R974 474.30 (2008: R1 122 362.79).

Land and buildings comprise:

- Erf 100 unit 10 of the Rosslyn Ext 1 Township, Pretoria, Gauteng, with factory and administrative buildings thereon.
- Erf 100 unit 3 of the Rosslyn Ext 1 Township, Pretoria, Gauteng, with factory buildings thereon.
- Erf 46 portion 3 of the Rosslyn Township, Pretoria, Gauteng, with factory and administrative buildings thereon.

Land and buildings is carried at revalued amounts. The land and buildings are revalued every three years by an independent valuer. The company's land and buildings were revalued during the current financial year. The effective date of the revaluation was 30 June 2009. The revaluation was performed by and independent valuer, Mr. Robin Hector Roper, B.Com. FRICS MIV (SA), of the Property Partnership.

The valuation was performed using the income capitalisation method. The value of the land and buildings were determined by capitalising the market rental in the area, assumptions were based on current market conditions.

# PETZETAKIS AFRICA (PROPRIETARY) LIMITED AND ITS SUBSIDIARIES

Group Annual Financial Statements for the year ended 31 December 2009

## 3. INVESTMENT IN SUBSIDIARIES

	Group		Company	
	2009	2008	2009	2008
	R '000	R '000	R '000	R '000
Investment in Sektel Communications (Pty) Ltd	-	-	-	199
Investment in Petzetakis Africa (Namibia) (Pty) Ltd	-	-	3,085	3,085
Investment in Sekunjalo Piping Systems (Pty) Ltd	-	-	-	15,788
	-	-	3,085	19,074

The carrying amount of the investment in subsidiaries is a reasonable approximation of the fair value thereof.

## 4. INTANGIBLE ASSETS

	2009			2008		
	R'000	R'000	R'000	R'000	R'000	R'000
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Goodwill on acquisition of minority interest	-	-	-	5,906	(5,906)	-
Goodwill	-	-	-	515	(515)	-
	-	-	-	6,421	(6,421)	-

Goodwill originated on the acquisition of the subsidiary company – Sekunjalo Piping Systems (Proprietary) Limited.

A further acquisition of the remaining minority interest in Sekunjalo Piping Systems (Proprietary) Limited was made with effect from 1 September 2008 for R 10 500 000 resulting in the additional Goodwill.

Management decided to impair the goodwill in 2008 as Petzetakis Africa (Proprietary) Limited acquired the business operations of Sekunjalo Piping Systems (Proprietary) Limited with effect from 1 April 2009.

	Group		Company	
	2009	2008	2009	2008
	R '000	R '000	R '000	R '000

## 5. FINANCIAL ASSETS

### Loans and receivables

Thabo Piping Systems (Pty) Ltd	-	45	-	45
--------------------------------	---	----	---	----

The loan is unsecured, carries interest at the prime overdraft rate and is repayable within the next 5 years. The carrying amount and fair value equal the disclosed value of these loans.

Beginning of the year	45	55	45	55
Impairment of loan	(50)	(9)	(50)	(9)
Interest	5	-	5	-
End of the year	-	45	-	45

# PETZETAKIS AFRICA (PROPRIETARY) LIMITED AND ITS SUBSIDIARIES

Group Annual Financial Statements for the year ended 31 December 2009

	Group		Company	
	2009	2008	2009	2008
	R '000	R '000	R '000	R '000
<b>6. DEFERRED TAX LIABILITY</b>				
Balance brought forward	(15,222)	(29,571)	(16,017)	(32,333)
Originating and reversing temporary differences	6,705	13,021	7,422	12,929
Total deferred tax correction	(3,578)	-	(3,523)	-
Changes in tax rates	-	1,020	-	1,115
Prior year over provision	-	308	-	2,272
<b>End of the year</b>	<b>(12,095)</b>	<b>(15,222)</b>	<b>(12,118)</b>	<b>(16,017)</b>
<b>Deferred tax comprises:</b>				
Property, plant and equipment	(29,589)	(29,296)	(29,612)	(29,336)
Provision for doubtful debts	704	947	704	318
Prepayments	(39)	(85)	(39)	(85)
Assessable loss	-	12,395	-	12,395
Revaluation reserves	15,975	-	15,975	-
Provisions	853	817	853	691
<b>End of the year</b>	<b>(12,095)</b>	<b>(15,222)</b>	<b>(12,118)</b>	<b>(16,017)</b>
Non-current asset	-	7,986	-	7,191
Non-current liability	(12,095)	(23,208)	(12,118)	(23,208)
<b>7. INVENTORIES</b>				
Raw materials, components	9,592	12,635	9,592	12,635
Finished goods	49,269	78,430	48,548	63,839
Production supplies	3,487	3,983	3,487	3,983
Scrap	3,985	3,776	3,985	3,776
Work in progress	165	1,110	165	1,110
Provision for obsolete inventory	(13,225)	(5,982)	(13,146)	(1,849)
	<b>53,273</b>	<b>93,952</b>	<b>52,631</b>	<b>83,494</b>
<b>8. TRADE RECEIVABLES</b>				
Trade receivables	70,880	110,780	68,990	66,920
Less: Provision for impairment of receivables				
- Provision : Bad debt	(3,353)	(5,082)	(3,353)	(1,847)
- Provision : Settlement discount	(533)	(641)	(521)	(313)
- Provision : Credit notes	(698)	(1,866)	(698)	(470)
<b>Trade receivables – net</b>	<b>66,296</b>	<b>103,191</b>	<b>64,419</b>	<b>64,290</b>
Receivables from related companies	-	-	-	46,339
Prepayments	853	381	830	360
Deposits	478	392	465	283
VAT	650	726	-	-
Other receivables	223	7950	227	3,534
	<b>68,500</b>	<b>112,640</b>	<b>65,940</b>	<b>114,806</b>

The carrying value of trade receivables approximates the fair value thereof.

# PETZETAKIS AFRICA (PROPRIETARY) LIMITED AND ITS SUBSIDIARIES

Group Annual Financial Statements for the year ended 31 December 2009

## 8. TRADE RECEIVABLES (Continued)

All Petzetakis Africa (Proprietary) Limited's debtors were ceded to Nedbank Limited. Refer Note 9.

Trade and other receivables past due but not impaired :

Trade and other receivables which are less than 3 months past due are not considered to be impaired.

At 31 December 2009 R47 866 349.83 (2008: R 101 638 769.74) were past due but not impaired.

The aging of amounts past due but not impaired is as follow :

	Group		Company	
	2009	2008	2009	2008
	R '000	R '000	R '000	R '000
1 month past due	28,844	37,899	28,406	23,782
3 - 6 months past due	19,023	63,740	16,622	46,458
Over 6 months past due	-	-	-	-

Trade and other receivables impaired :

As at 31 December 2009, trade and other receivables of R4 050 559 (2008: R 1 933 363) were impaired and provided for.

The ageing of these debtors are as follow :

3 to 6 months	3,446	1,067	3,445	613
Over 6 months	605	866	605	2,017

### Credit quality of trade and other receivables

Historic level of customer default is minimal and as a result credit quality of period end trade receivables which are not past due is considered to be high.

The average credit period on trade receivables is 30 days and no interest is charged on overdue accounts. Credit limits are established by using the discretion of the CGIC, Insurance Company or from Credit inform.

## 9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

Cash on hand	56	81	52	50
Bank balances	5,045	15,344	4,460	3,522
Bank overdraft	(31,417)	(33,379)	(31,417)	(33,379)
	<b>(26,316)</b>	<b>(17,954)</b>	<b>(26,905)</b>	<b>(29,807)</b>
Current assets	5,101	15,425	4,512	3,572
Current liabilities	(31,417)	(33,379)	(31,417)	(33,379)

### GENERAL BANKING FACILITIES

The group has the following banking facilities:

Multi Option Facilities of ZAR48,000,000 – Nedbank Limited. This facility expires and will be settled on the 31st of March 2010.

Performance guarantee of ZAR 260,000 by Standard Bank of South Africa Limited;

Fleet management card of ZAR 150,000 by Standard Bank of South Africa Limited; and

Credit card of ZAR 150,000 by Standard Bank of South Africa Limited;

The facilities with Standard Bank Limited have been secured by :

Pledge over call deposit account 301590- Standard Bank of South Africa Limited;

# PETZETAKIS AFRICA (PROPRIETARY) LIMITED AND ITS SUBSIDIARIES

Group Annual Financial Statements for the year ended 31 December 2009

The facilities with Nedbank Limited is secured as follow :

- A General Notarial Bond of ZAR 8 000 000 over the moveable assets of Petzetakis Africa (Pty) Ltd
- A negative pledge in favour of Nedbank Limited;
- A special notarial special covering bond of ZAR 2 400 000 held over the two Nokia Extruders
- A deed of cession over deposit account 7469543767 for an amount of up to R148,200 in favour of Nedbank Limited;
- Deed of suretyship including cession of loan given by Petzetakis Africa (Namibia) (Proprietary) Limited
- Deed of suretyship including cession of loan given by Sekunjalo Piping Systems (Proprietary) Limited
- A deed of cession on Nedbank's standard terms and conditions given by A.G. Petzetakis International Holdings Limited loan account
  - The loan has been subordinated in favour of Nedbank Limited
- Cession of all Petzetakis Africa (Proprietary) Limited Debtors
- Cession of Petzetakis CGIC policy number SDC 146980/D1 Nedbank Limited - Nedbank Limited;
- Cession of CGIC policy number SDC 148726/D1 - Nedbank Limited
- Covering mortgage bond of ZAR 20 000 000 registered over portion 3 and 10
- Asset finance Facilities - Nedbank Limited
- Letters of guarentee - Nedbank Limited
- Letters of credit - Nedbank Limited
- Forward exchange contract at 10% risk - Nedbank Limited
- Portion 10 of Erf 100 Rosslyn Township Ext 1; Portion 3 of Erf 100 Rosslyn Township Ext 1;
- Nedfleet Facilities
- Term Loan Facilities - Nedbank Limited
- Premium Finance Facilities - Nedbank Limited
- Derivative Product Facilities - Nedbank Limited
- Lombard's Guarentee Facility

## 10. SHARE CAPITAL

	Group		Company	
	2009	2008	2009	2008
Authorised	'R000	'R000	'R000	'R000
- 1 000 ordinary shares of R1 each	1,000	1,000	1,000	1,000
<b>Issued</b>				
- 101 ordinary shares of R1 each	*	*	*	*
- Share premium	52,600	52,600	52,600	52,600
	<b>52,600</b>	<b>52,600</b>	<b>52,600</b>	<b>52,600</b>

\* - Less than R1 000

## 11. REVALUATION RESERVE

Revaluation of plant and machinery	81,715	82,291	81,715	82,291
Revaluation of land and building	32,028	9,003	32,028	9,003
Revaluation of office equipment	364	364	364	364
	<b>114,107</b>	<b>91,658</b>	<b>114,107</b>	<b>91,658</b>

# PETZETAKIS AFRICA (PROPRIETARY) LIMITED AND ITS SUBSIDIARIES

Group Annual Financial Statements for the year ended 31 December 2009

	Group		Company	
	2009 R '000	2008 R '000	2009 R '000	2008 R '000
<b>12. FINANCE LEASE OBLIGATION</b>				
<b>Minimum lease payments due</b>				
- within one year	10,522	10,502	10,522	9,384
- not later than five years	17,743	21,148	17,743	20,363
	<b>28,265</b>	<b>31,650</b>	<b>28,265</b>	<b>29,747</b>

It is group policy to lease certain motor vehicles and office equipment under finance leases. The average lease term was 5 years and the average effective borrowing rate is 11.5% (2008: 15%). Interest rates are linked to prime at the contract date.

The group's obligations under finance leases are secured by the lessor's charge over the leased assets (Refer Note 2).

## 13. OTHER FINANCIAL LIABILITIES

Ronnie Dennison Agencies (Proprietary) Limited - 7,100 - 7,100  
The loan is unsecured, carries interest at prime rates and is repayable within the next 12 months.

Investec Private Bank 9,086 10,646 9,086 10,646

The loan bears interest at a rate of prime +1% and is repayable over a period of 60 months which commenced September 2009. The loan is secured by a first covering mortgage bond registered over Portion 3 of Erf 46 Rosslyn and Portion 3 and 10 of Erf 100 Rosslyn Extension 1, for R15 000 000 in favour of Investec Bank Limited.

	9,086	17,746	9,086	17,746
Non-Current Liabilities	7,501	-	7,501	-
Current liabilities	1,585	17,746	1,585	17,746
	<b>9,086</b>	<b>17,746</b>	<b>9,086</b>	<b>17,746</b>

## 14. LOAN FROM SHAREHOLDER

AG Petzetakis International Holdings Limited (4,913) (1,025) (4,913) (1,025)

The loan is unsecured, bears no interest and there are no fixed terms for the repayment thereof. The fair value of the loan is equal to the carrying value thereof. The loan is subordinated in favour of Nedbank Limited.

## 15. TRADE AND OTHER PAYABLES

Trade payables	87,363	121,651	52,635	151,677
VAT	766	1,785	766	1,217
Leave pay accrual	1,850	1,991	1,828	1,686
Sundry accruals & Other payables	11,977	6,354	57,101	4,843
	<b>101,956</b>	<b>131,781</b>	<b>112,330</b>	<b>159,423</b>

The carrying amount is a reasonable approximation of the fair value of the trade and other payables

# PETZETAKIS AFRICA (PROPRIETARY) LIMITED AND ITS SUBSIDIARIES

Group Annual Financial Statements for the year ended 31 December 2009

	Group		Company	
	31 Dec '09	31 Dec '08	31 Dec '09	31 Dec '08
	R '000	R '000	R '000	R '000
<b>16. PROVISIONS</b>				
Provision for penalty	27,274	27,274	27,274	27,274
Sundry provisions	-	3,328	-	3,328
	<b>27,274</b>	<b>30,602</b>	<b>27,274</b>	<b>30,602</b>

The South African Competition Commission and Petzetakis Africa (Proprietary) Limited are still in negotiations. Petzetakis Africa (Pty) Ltd has received a pre-hearing notice from the Tribunal as well as a suggested timetable for proceedings which indicate that the matter will be heard in August 2010. It is currently anticipated that a 5,3% penalty will be levied, calculated on 2007 turnover. At this rate a penalty of R27,273,894 is expected.

## 17. REVENUE

Revenue comprises turnover, which excludes value-added tax and represents the invoiced value of goods supplied and services rendered.

### 17.1 OTHER INCOME

Other income for the period is stated after accounting for the following:

Bad debts recovered	2,460	2,027	1,392	10
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## 18. OPERATING PROFIT/LOSS

Operating profit/(loss) for the period is stated after accounting for the following:

### Operating lease charges

Premises - Contractual amounts	2,518	3,593	2,002	1,425
Equipment - Contractual amounts	1,133	1,810	872	777
	<b>3,651</b>	<b>5,403</b>	<b>2,874</b>	<b>2,202</b>
(Loss) on sale of property, plant and equipment	22	(2,203)	22	(311)
Foreign exchange gain	(145)	-	(145)	-
(Loss) profit on exchange differences	-	(16)	-	3
Depreciation on property, plant and equipment	21,198	23,803	21,185	17,814
Employee costs	97,732	106,679	94,283	73,649
Research and development	150	48	150	22
Travel and entertainment	951	278	951	278
Management fees paid to Holding Company	11,873	9,242	6,618	9,242
Legal and professional expenses	1,757	1,635	1,304	1,635
Retrenchments	6,566	-	2,471	-
Expenses incurred due to PVC Line 2 explosion	-	1,771	-	1 771
Contributions to pension and provident funds	5,203	3,413	5,132	3,370
Loss incurred on disposal of PVC Line 2	-	1,892	-	1 892

## 19. INVESTMENT REVENUE

### Interest revenue

Banks	86	252	87	153
Intercompany - Branches	-	-	492	3,935
Dividend in specie	-	-	32,721	-
	<b>86</b>	<b>252</b>	<b>33,300</b>	<b>4,088</b>

## 20. FINANCE COSTS

Finance leases and trade payables	5,704	3,924	6,338	3,869
Banks	6,743	9,218	6,736	9,212
	<b>12,447</b>	<b>13,142</b>	<b>13,074</b>	<b>13,081</b>

# PETZETAKIS AFRICA (PROPRIETARY) LIMITED AND ITS SUBSIDIARIES

Group Annual Financial Statements for the year ended 31 December 2009

	Group		Company	
	31 Dec '09	31 Dec '08	31 Dec '09	31 Dec '08
	R'000	R'000	R'000	R'000
<b>21.1 TAXATION</b>				
<b>Major components of the tax expense;</b>				
Secondary tax on companies	-	(991)	-	(991)
Deferred tax	6,705	7,118	7,422	9,125
Normal tax	(2,938)	(4,206)	-	-
Prior period correction	-	43	(119)	-
	<b>3,767</b>	<b>1,964</b>	<b>7,303</b>	<b>8,134</b>

## 21.2 TAX PAID

Balance at beginning of the year	2,416	295	(430)	(942)
Current tax for the year recognised in income statement	2,938	1,964	119	8,134
Balance at end of the year	(541)	(2,416)	(879)	430
	<b>4,813</b>	<b>(157)</b>	<b>(1,190)</b>	<b>7,622</b>

## 22. CASH GENERATED FROM (USED IN) OPERATIONS

(Loss)/profit before taxation		(61,629)	(48,847)	(51,468)	(60,823)
<b>Adjustments for:</b>					
Depreciation and amortisation	2	21,198	23,532	21,185	23,446
Profit on sale of assets		(22)	2,361	(22)	2,361
Interest received		86	(252)	579	(4,088)
Finance costs	20	12,447	13,142	13,074	13,081
Fines and penalties	16	-	27,274	-	27,274
(Profit)/loss in foreign exchange		-	16	-	16
Impairment of investment		-	-	15,989	-
Dividend received				32,721	-
Provisions		(3,328)	-	(3,328)	-
Inventories		40,679	22,395	30,863	16,597
Trade and other receivables		44,790	897	50,083	(12,569)
Trade and other payables		(28,871)	(13,651)	(54,738)	16,960
		<b>25,350</b>	<b>26,867</b>	<b>54,939</b>	<b>22,255</b>

## 23. DIRECTORS EMOLUMENTS

Executive directors					
Services rendered while carrying on office of directors of the company		5,242	2,701	5,242	2,701

# PETZETAKIS AFRICA (PROPRIETARY) LIMITED AND ITS SUBSIDIARIES

Group Annual Financial Statements for the year ended 31 December 2009

## 24. FINANCIAL INSTRUMENTS

### Financial liabilities by category

R'000

The accounting policies for financial instruments have been applied to the line items below:

	Financial liabilities at amortised cost
<b>2009 - Group</b>	
Loan from shareholder	4,913
Trade and other payables	101,956
Bank overdraft	31,417

### 2009 - Company

Loan from shareholder	4,913
Trade and other payables	112,330
Bank overdraft	31,417

### Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

	Financial liabilities at amortised cost
<b>2008 – Group</b>	
Loan from shareholder	1,025
Trade and other payables	131,781
Bank overdraft	33,379

### 2008 – Company

Loan from shareholder	1,025
Trade and other payables	159,423
Bank overdraft	33,379

### Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

	Loans and receivables	Available for sale	Total
	R'000	R'000	R'000
<b>2009 – Group</b>			
Trade and other receivables	68,500	-	68,500
Cash and cash equivalents	5,101	-	5,101

	Loans and receivables	Available for sale	Total
	R'000	R'000	R'000

### 2009 – Company

Trade and other receivables	65,940	-	65,940
Cash and cash equivalents	4,512	-	4,512

# PETZETAKIS AFRICA (PROPRIETARY) LIMITED AND ITS SUBSIDIARIES

Group Annual Financial Statements for the year ended 31 December 2009

## 24. FINANCIAL INSTRUMENTS (CONTINUE)

### Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

	Loans and receivables	Available for sale	Total
	R'000	R'000	R'000
<b>2008 – Group</b>			
Other financial assets	-	45	45
Trade and other receivables	112,640	-	112,640
Cash and cash equivalents	15,425	-	15,425
<b>2008 – Company</b>			
Other financial assets	-	45	45
Trade and other receivables	114,806	-	114,806
Cash and cash equivalents	3,572	-	3,572

## 25. RISK MANAGEMENT

The group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. Risk management is carried out by a central treasury department (group treasury) under policies approved by the board. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the group's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

### Gearing ratio

The group's risk management committee reviews the capital structure on a quarterly basis. As part of this review, the committee considers the cost of capital and the risk associated with each class of capital. The group has a target gearing ratio of 20-25% determined as the proportion of net debt to equity.

The gearing ratio at the year end was as follows:

	Group		Company	
	2009	2008	2009	2008
	'000	'000	'000	'000
Debt (i)	(37,350)	(50,421)	(37,350)	(48,518)
Cash and cash equivalents	(26,315)	(17,954)	(26,905)	(29,807)
Net debt	(63,666)	(68,375)	(64,255)	(78,325)
Equity (ii)	(86,204)	(121,772)	(74,717)	(96,433)
Net debt to equity ratio	74%	56%	86%	81%

i) Debt is defined as long- and short-term borrowings

ii) Equity includes all capital and reserves of the Entity

# PETZETAKIS AFRICA (PROPRIETARY) LIMITED AND ITS SUBSIDIARIES

Group Annual Financial Statements for the year ended 31 December 2009

## 25. RISK MANAGEMENT (CONTINUE)

### Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2008.

The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The capital structure of the group consists of equity attributable to equity holders of the group which comprises issued share capital and premium and accumulated profits as disclosed in the Statement of Changes in Equity, interest bearing borrowings and cash and cash equivalents.

The group's capital management objectives is to meet its liquidity requirements, repay borrowings as they fall due to ensure there is sufficient capital available for the funding requirements of the group (including capital expenditure) and maximizes shareholders' returns and reduce costs of capital.

The group's capital management policy is to hold sufficient capital as management believes is necessary to ensure that obligations can always be met on a timely basis and to maintain a positive net assets and net current asset position on the balance sheet.

### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, group treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The group's risk to liquidity is a result of the funds available to cover future commitments. The group manages liquidity risk through a review of future commitments and credit facilities as is appropriate.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Table of period over which the assets and liabilities will mature :

<u>Asset/Liability</u>	<u>Note</u>	<u>Total</u>	<u>30 days</u>	<u>60 days</u>	<u>90 days</u>	<u>More than 90 days</u>
Inventories	2	53,273	49,010	4,263	-	-
Trade and other receivables	3	68,500	40,597	27,903	-	-
Net tax payable	4	(541)		(541)		
- Current tax receivable		1,149				
- Current tax payable		(1,690)				
Loan from shareholder	1	(4,913)	-	-	-	(4,913)
Finance lease obligation	5	(10,522)	(877)	(1,754)	(2,630)	(7,891)
Financial liabilities	6	(1,585)	(132)	(264)	(396)	(1,188)
Trade and other payables	7	(101,956)	(56,198)	(24,924)	(20,834)	-
Provision	8	(27,274)				(27,274)
Bank overdraft	9	(31,417)				(31,417)
Negative liquidity	10	51,334				

### Notes

#### 1. Loan from shareholder

AG Petzetakis International Holdings Limited - The loan is unsecured, bears interest and there are no fixed terms for the repayment thereof. The fair value of the loan is equal to the carrying value thereof. The loan is subordinated in favour of Nedbank Limited.

#### 2. Inventories

Inventory turnover is 36 days.

# PETZETAKIS AFRICA (PROPRIETARY) LIMITED AND ITS SUBSIDIARIES

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## 3. Trade and other receivables

Trade and other receivables were calculated on the basis of amounts received in January 2010. The balance is receivable in February 2010.

## 4. Net tax payable

Tax are payable to the South African Revenue Services 28 February 2010.

## 5. Finance lease obligation

It is expected that the finance leases will be paid evenly over the next 12 months.

## 6. Financial liabilities

The loan bears interest at a rate of prime +1% and is repayable over a period of 60 months which commenced September 2009. The loan is secured by a first covering mortgage bond registered over Portion 3 of Erf 46 Rosslyn and Portion 3 and 10 of Erf 100 Rosslyn Extension 1, for R 15 000 000 in favour of Investec Bank Limited.

## 7. Trade and other payables

Trade and other payables were paid during January and February 2010. The balance are payable in March 2010.

## 8. Provisions

The South African Competition Commission and Petzetakis Africa (Proprietary) Limited are still in negotiations. Petzetakis Africa (Pty) Ltd has received a pre-hearing notice from the Tribunal as well as a suggested timetable for proceedings which indicate that the matter will be heard in August 2010. It is currently anticipated that a 5,3% penalty will be levied, calculated on 2007 turnover. At this rate a penalty of R27,273,894 is expected.

## 9. Bank overdraft

These are the facilities received from the bank. The total debtors balance are ceded to the bank as security for the bank overdraft.

## 10. Negative liquidity

The negative liquidity will be addressed by funding that will be received during the 1st quarter of 2010 from A.G Petzetakis Limited. The group has embarked on a global re-capitalization process. The 1st bond re-purchase is in progress and will be completed shortly as per the website. This complete process is expected to be concluded by the end of March 2010. The provisional amount allocated to the South African operation is ZAR R20 million.

## Interest rate risk

The company's interest rate risk arise from long- and short-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk.

The company analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the company calculates the impact on profit and loss of a defined interest rate shift.

## Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices.

Management's objectives for managing market risk are to minimise the company's exposure.

## Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, trade debtors and other relevant financial instruments. The company only deposits cash with major banks with high quality credit standing.

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis. Risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

## Foreign exchange risk

The group does not hedge foreign exchange fluctuations.

## Price risk

The group is not exposed to equity securities price risk. The group is exposed to commodity price risk.

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## 26. RELATED PARTIES

The Company's immediate holding company is A.G. Petzetakis International Holdings Limited incorporated in Cyprus. The Company and its subsidiaries purchase goods from and sell goods to each other in the ordinary course of business.

During the period, the company entered into the following transactions.

		Sales to related parties R'000	Management fees R'000	Purchases from related parties R'000	Amounts owed by related parties R'000	Amounts owed to related parties R'000
Sekunjalo Piping Systems (Pty) Ltd	2009	(23,779)	(1,022)	-	-	-
	2008	(254,444)	(1,779)	-	26,879	-
Petzetakis Africa (Namibia) (Pty) Ltd	2009	(12,949)	(156)	-	-	(11,783)
	2008	(14,791)	(6,689)	-	-	(5,827)
Sektel Communications (Pty) Ltd	2009	-	-	-	-	-
	2008	(18,744)	(1,423)	-	12,494	-
AG Petzetakis International Holdings Limited	2009	-	-	-	1,900	-
	2008	-	-	-	-	(1,025)
AG Petzetakis SA	2009	-	11,873	-	-	(6,812)
	2008	-	9,242	-	-	-
Sekunjalo Utilities (Pty) Ltd	2009	-	-	-	-	-
	2008	(14,357)	(3,487)	-	6,966	-

## 27. EARNINGS (LOSS) PER SHARE

Basic earnings per share is calculated by dividing the profit/(loss) attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

	Group		Company	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
Profit (loss) attributable to equity holders of the company	(57,864)	(46,883)	(44,165)	(52,689)
Weighted average number of ordinary shares in issue	101	101	101	101
Basic earnings (loss) per share (ZAR cents per share)	(573)	(464)	(437)	(522)

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## 28. SEGMENT REPORT

	2009 - Group				
	PVC	HDPE	FLEX	OTHER	TOTAL
	R'000	R'000	R'000	R'000	R'000
Revenue	183,276	200,234	136,835	82,017	602,361
Operating Profit (Loss)	(24,189)	(19,148)	(4,727)	(1,205)	(49,269)
Profit before Tax	(27,960)	(24,399)	(6,823)	(2,448)	(61,630)
Net profit (Loss)	(26,252)	(22,908)	(6,406)	(2,298)	(57,864)
Depreciation	9,427	7,692	3,776	302	21,198
<b>Total Assets</b>	<b>123,450</b>	<b>109,988</b>	<b>55,376</b>	<b>14,087</b>	<b>302,900</b>
<b>Total Liabilities</b>	<b>65,932</b>	<b>72,033</b>	<b>49,225</b>	<b>29,505</b>	<b>216,695</b>

	2008 - Group				
Revenue	283,976	324,585	147,828	102,380	858,769
Operating Profit (Loss)	(26,654)	727	(929)	(9,101)	(35,957)
Profit before Tax	(33,787)	(5,209)	(2,525)	(7,326)	(48,847)
Net profit (Loss)	(42,386)	(6,535)	(3,167)	5,205	(46,883)
Depreciation	13,943	6,402	2,263	924	23,532
<b>Total Assets</b>	<b>144,614</b>	<b>142,886</b>	<b>70,515</b>	<b>28,804</b>	<b>386,819</b>
<b>Total Liabilities</b>	<b>83,767</b>	<b>95,746</b>	<b>43,606</b>	<b>49,119</b>	<b>272,238</b>

## 29. COMMITMENTS

	Group		Company	
	2009	2008	2009	2008
	R'000	R'000	R'000	R'000
<b>Operating leases – as lessee (expense)</b>				
Minimum lease payments due				
- within one year	2,438	3 036	1,741	2 023
- in second to fifth year inclusive	1,704	5 077	893	1 815
- later than five years	-	-	-	-

Operating lease payments represent rentals payable by the group for certain of its office properties and office equipment. No contingent rent is payable.

### Finance leases - as lessee

Minimum lease payments due				
- within one year	2,438	3,201	1,741	2,359
- in second to fifth year inclusive	1,704	4,142	893	2,633
- later than five years	-	-	-	-

# PETZETAKIS AFRICA (PROPRIETARY) LIMITED AND ITS SUBSIDIARIES

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## 30. OPERATING EXPENSES

An analysis of group's expenses is as follows:

	Group	
	2009	2008
Wages	93,176	103,262
Utilities	9,875	8,643
Depreciation	21,198	23,802
Sundry expenses	154,306	226,477
Material costs	376,853	536,297
Marketing/promotion costs	1,359	1,359
	<u>656,766</u>	<u>899,840</u>

The above amounts have been allocated as follows:

### Cost of sales

Wages	55,080	60,890
Utilities	9,875	8,643
Depreciation	19,095	22,148
Sundry expenses	36,009	87,771
Material costs	376,853	536,297
	<u>496,911</u>	<u>715,749</u>

### Distribution expenses

Wages	25,546	29,471
Depreciation	291	316
Sundry expenses	49,924	65,748
Marketing/promotion costs	1,359	1,359
	<u>77,120</u>	<u>96,895</u>

### Administration expenses

Wages	12,550	12,900
Depreciation	1,812	1,338
Sundry expenses	68,373	72,958
	<u>82,735</u>	<u>87,196</u>

## 31. EVENTS DURING THE REPORTING PERIOD

The directors of Petzetakis Africa (Proprietary) Limited ('Petzetakis Africa') decided to close down the business operations of its subsidiary Sekunjalo Piping Systems (Proprietary) Limited ('Sekunjalo') on the 31<sup>st</sup> of March 2009.

The business operations of Sekunjalo Piping Systems (Pty) Ltd ('Sekunjalo') was absorbed by Petzetakis Africa (Pty) Ltd. Petzetakis Africa (Pty) Ltd has taken over the assets and liabilities of Sekunjalo with effect 1<sup>st</sup> of April 2009.

The results of Sekunjalo's operations will not be disclosed as a discontinued operation in the group financial statements in accordance with IFRS 5 – Non-current assets held for sale and discontinued operations. The closure of Sekunjalo's operations does not meet the definition requirements of a discontinued operation in accordance with IFRS 5 – Non-current assets held for sale and discontinued operations.

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The carrying amount of Sekunjalo's assets will be recovered principally through continuing use and its liabilities will be settled in the normal course of business.

	2009	2008
- Non current assets	-	1,220
- Current assets	-	75,032
- Non current liabilities	-	(229)
- Current liabilities	-	(45,928)

The financial effect of the closure of Sekunjalo Piping Systems (Pty) Ltd on the group financial statements cannot be estimated reliably. The directors consider the effect to be immaterial as Sekunjalo's operations will be absorbed by Petzetakis Africa (Pty) Ltd.

## 32. PRIOR PERIOD CORRECTION

The deferred tax asset on the revaluation of property, plant and equipment was not separately disclosed in the group annual financial statements for the period 31 December 2008.

Additional information has come to our attention after the group annual financial statements for the period ending 31 December 2008 had been authorised and issued. The impact of the additional information is that the revaluation reserve was understated and the deferred tax overstated in the group annual financial statements for the period ending 31 December 2008.

The comparative figures for 2008 have been restated to correct the error. There is no effect on the group financial statements for the period ending 31 December 2009.

The effect of these restatements on the group financial statements have been summarised below.

	Group 2008 R'000	Company 2008 R'000
<b>STATEMENT OF FINANCIAL POSITION</b>		
NON-CURRENT ASSETS		
Deferred tax	7,192	7,192
EQUITY		
Revaluation Reserve	7,192	7,192

# PETZETAKIS AFRICA (PROPRIETARY) LIMITED AND ITS SUBSIDIARIES

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## 33. STANDARDS AND INTERPRETATIONS AFFECTING DISCLOSURE IN THE CURRENT PERIOD (AND PRIOR PERIODS)

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported in

### Standards affecting presentation and disclosure

IAS 1 (as revised in 2007) *Presentation of Financial Statements*

IAS 1(2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial

*Improving Disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures)*

The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The Group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the

### *Standards and Interpretations adopted with no effect on financial statements*

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (adopted in advance of effective date of 1 January 2010)

Disclosures in the Group's financial statements will be modified (when required) to reflect the International Accounting Standards Boards' clarification (as part of *Improvements to IFRSs (2009)*) that the disclosure requirements in Standards other

Amendments to IAS 7 *Statement of Cash Flows* (adopted in advance of effective date of 1 January 2010)

The amendments (part of *Improvements to IFRSs (2009)*) specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows.

### **IFRS 3 (as revised in 2008) *Business Combinations***

IFRS 3(2008) has been adopted in the current year in advance of its effective date (business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 July 2009).

In accordance with the relevant transitional provisions, IFRS 3(2008) will be applied prospectively to business combinations for which the acquisition date is on or after 1 January 2009. The provisions of IFRS 3(as revised in 2008) *Business Combinations* include:

- to allow a choice on a transaction-by-transaction basis for the measurement of non-controlling interests (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of the fair value of the identifiable net assets of the acquiree.
- to change the recognition and subsequent accounting requirements for contingent consideration. Under the previous version of the Standard, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were recognised against goodwill. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against goodwill only to the extent that they arise from better information about the fair value at the acquisition date, and they occur within the 'measurement period' (a maximum of 12 months from the acquisition date). All other subsequent adjustments are recognised in profit or loss;
- where the business combination in effect settles a pre-existing relationship between the Group and the acquiree, to require the recognition of a settlement gain or loss; and
- to require that acquisition-related costs be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

### **IAS 27 (as revised in 2008) *Consolidated and Separate Financial Statements***

IAS 27(2008) has been adopted in advance of its effective date (annual periods beginning on or after 1 July 2009). The revisions to IAS 27 principally affect the accounting for transactions or events that result in a change in the Group's interests in its subsidiaries.

# PETZETAKIS AFRICA (PROPRIETARY) LIMITED AND ITS SUBSIDIARIES

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## 33. STANDARDS AND INTERPRETATIONS AFFECTING DISCLOSURE IN THE CURRENT PERIOD (AND PRIOR PERIODS) (CONTINUED)

IAS 27(2008) has been adopted for periods beginning on or after 1 January 2009 and has been applied retrospectively (subject to specified exceptions) in accordance with the relevant transitional provisions. The revised Standard has affected the Group's accounting policies regarding changes in ownership interests in its subsidiaries that do not result in a change in control. In prior years, in the absence of specific requirements in IFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the carrying amount of the share of net assets disposed of was recognised in profit or loss. Under IAS 27(2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires that the Group derecognise all assets, liabilities and non-controlling interests at their carrying amount. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost, with the gain or loss arising recognised in profit or loss.

### **IAS 28 (as revised in 2008) Investments in Associates**

IAS 28(2008) has been adopted in advance of its effective date (annual periods beginning on or after 1 July 2009). The principle adopted under IAS 27(2008) (see above) that a loss of control is recognised as a disposal and re-acquisition of any retained interest at fair value is extended by consequential amendment to IAS 28; therefore, when significant influence is lost, the investor measures any investment retained in the former associate at fair value, with any consequential gain or loss recognised in profit or loss.

IAS 28(2008) has been adopted for periods beginning on or after 1 January 2009 and has been applied prospectively in accordance with the relevant transitional provisions.

### **IFRIC 13 Customer Loyalty Programmes**

IFRIC 13 requires that such transactions be accounted for as 'multiple element revenue transactions' and that the consideration received in the initial sale transaction be allocated between the sale of goods and the discount entitlements earned by the customer in that sale transaction.

### **Amendments to IAS 38 Intangible Assets**

As part of *Improvements to IFRSs (2008)*, IAS 38 has been amended to state that an entity is permitted to recognise a prepayment asset for advertising or promotional expenditure only up to the point at which the entity has the right to access the goods purchased or up to the point of receipt of services.

### **Amendments to IAS 40 Investment Property**

As part of *Improvements to IFRSs (2008)*, IAS 40 has been amended to include within its scope investment property in the course of construction. Therefore, following the adoption of the amendments and in line with the Group's general accounting policy, investment property under construction will be measured at fair value (where that fair value is reliably determinable), with changes in fair value recognised in profit or loss.

### **Amendments to IAS 20 Accounting for Government Grants and Disclosure of Government Assistance**

As part of *Improvements to IFRSs (2008)*, IAS 20 has been amended to require that the benefit of a government loan at a below-market rate of interest be treated as a government grant. This accounting treatment was not permitted prior to these amendments.

### **Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures regarding reclassifications of financial assets**

The amendments to IAS 39 permit an entity to reclassify non-derivative financial assets out of the 'fair value through profit or loss' (FVTPL) and 'available-for-sale' (AFS) categories in very limited circumstances. Such reclassifications are permitted from 1 July 2008. Reclassifications of financial assets made in periods beginning on or after 1 November 2008 take effect only from the date when the reclassification is made.

**33. STANDARDS AND INTERPRETATIONS AFFECTING DISCLOSURE IN THE CURRENT PERIOD (AND PRIOR PERIODS)  
(CONTINUED)**

In addition to the changes affecting disclosures in the financial statements described above, the Improvements have led to a number of changes in the detail of the Group's accounting policies – some of which are changes in terminology only, and some of which are substantive but have had no material effect on amounts reported. The majority of these amendments are effective from 1 January 2009.

IFRS 8 disclosure has not resulted in a redesignation of the Group's reportable segments.

***Standards and Interpretations in issue not yet adopted***

As part of *Improvements to IFRSs (2009)* issued in April 2009, the International Accounting Standards Board amended the requirements of IAS 17 *Leases* regarding the classification of leases of land. Prior to amendment, IAS 17 generally required leases of land with an indefinite useful life to be classified as operating leases. This was inconsistent with the general principles of the Standard, and the relevant guidance has been removed due to concerns that it could lead to accounting that did not reflect the substance of arrangements. Following the amendments, leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of IAS 17. These amendments are effective for annual periods beginning on or after 1 January 2010, and they are to be applied retrospectively to unexpired leases at 1 January 2010 if the necessary information was available at the inception of the lease. Otherwise, the revised Standard will be applied based on the facts and circumstances existing on 1 January 2010 (i.e. the date of adoption of the amendments) and the Group will recognise assets and liabilities related to land leases newly classified as finance leases at their fair values on that date; any difference between those fair values will be recognised in retained earnings.

The directors anticipate that these amendments to IAS 17 will be adopted in the Group's financial statements for the annual period beginning 1 January 2010. It is unlikely that the changes will affect the classification of some of the Group's leases of land. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed. In particular, the directors will be considering the extent to which information is available for retrospective application.

In June 2009, the IASB issued amendments to IFRS 2 *Share-based Payment*. These amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.

The directors anticipate that these amendments will be adopted in the Group's financial statements for the period beginning 1 January 2010. The directors have not yet had an opportunity to consider the potential impact of the adoption of these amendments.