

## **Howden Africa Holdings Limited**

### **Mission Statement**

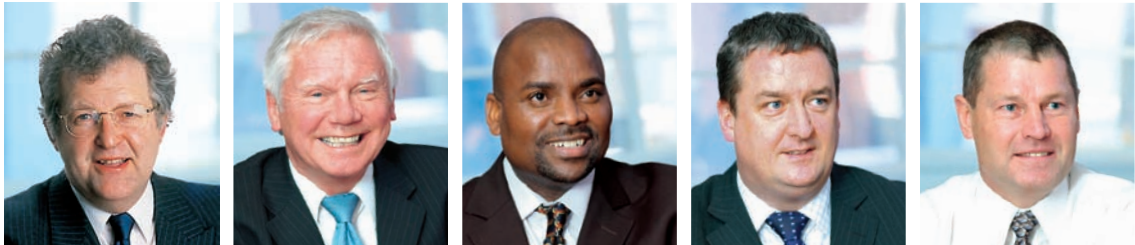
Howden Africa is a market driven, customer orientated company. The main business activities of the Group are the design, manufacture and marketing of specialised air and gas handling solutions to a wide range of industries.

The Group's principal products and services can be split into two main areas.

#### **■ Fans and Heat Exchangers   ■ Environmental Control**

Major industries supplied include power generation, petrochemical, mining, construction, refrigeration, water treatment and general industry. Howden Africa has a commitment to environmental awareness. In pursuit of this policy all product designs and manufacturing are scrutinised for environmental friendliness.

Design and drawing activities are computerised and manufacturing is concentrated on the production of key components. Manufacturing facilities are located in Booyens (Johannesburg) and Struandale (Port Elizabeth).



**From left to right:**

MG Foster, RJ Cleland, AB Mashiatsidi, J Brown, S Meyer

## Non-Executive and Executive Directors

### **MG Foster (52)**

**Non-Executive Director and Chairman (British)**

Michael Foster graduated as an engineer from Cambridge. He qualified as a barrister and practised law for a number of years. He joined GKN plc as a lawyer, moved into treasury and corporate finance before taking responsibility for significant global engineering businesses in Trafalgar House and later Kvaerner. He joined the board of RMC Group plc in 2000 and served as executive director. He was appointed Commercial Director of Charter plc in January 2005, after having served at Charter plc as a non-executive director since December 2001. He joined the board of Howden Africa Holdings Limited on 1 March 2005 and became Chairman of the board on 10 June 2005.

### **RJ Cleland (58)**

**Non-Executive Director (British)**

Bob Cleland was appointed Chief Executive of Howden in 1999. He was previously Group Operations Director on the board of Triplex Lloyd plc and prior to that was an Executive of British Steel Stainless, now AvestaPolarit. He was appointed Non-Executive Director of the Howden Africa Holdings Limited board on 2 March 2000.

### **AB Mashiatsidi (45)**

**Independent Non-Executive Director**

Arthur Mashiatsidi is Chief Executive of Decorum Capital Partners (Proprietary) Limited, a company that manages the New Africa Mining Fund. He serves as non-executive director on the boards of various companies and institutions including: Thebe Investment Corporation (Proprietary) Limited, Thebe Risk Solution (Proprietary) Limited, Financial Markets Advisory Board, University of Cape Town (Graduate School of Business Advisory Board).

## Non-Executive and Executive Directors (continued)

### J Brown (46)

#### Non-Executive Director (British)

James Brown, after qualifying as a chartered accountant, joined British Aerospace. In 1989 he joined the Howden Group. He has served as finance director in a number of operating companies in the Howden Group in the UK. In 2003 he was appointed as Group Financial Director of Howden Group Limited. He was appointed Non-Executive Director of the Howden Africa Holdings Limited board on 1 March 2005.

### S Meyer (51)

#### Chief Operating Officer (acting) and Group Financial Director

Shane Meyer joined the Group in 1977. In 1991, he was promoted to Group Financial Director of Howden Group South Africa Limited. He was appointed Financial Director of Howden Africa Holdings Limited upon its incorporation.

#### Secretary

Michael John Millard Lake

#### Registered Office

1a Booyens Road, Booyens  
Johannesburg  
2091

#### Registered Auditors

PricewaterhouseCoopers Inc  
Chartered Accountants (SA)  
Registered Accountants and Auditors  
Johannesburg

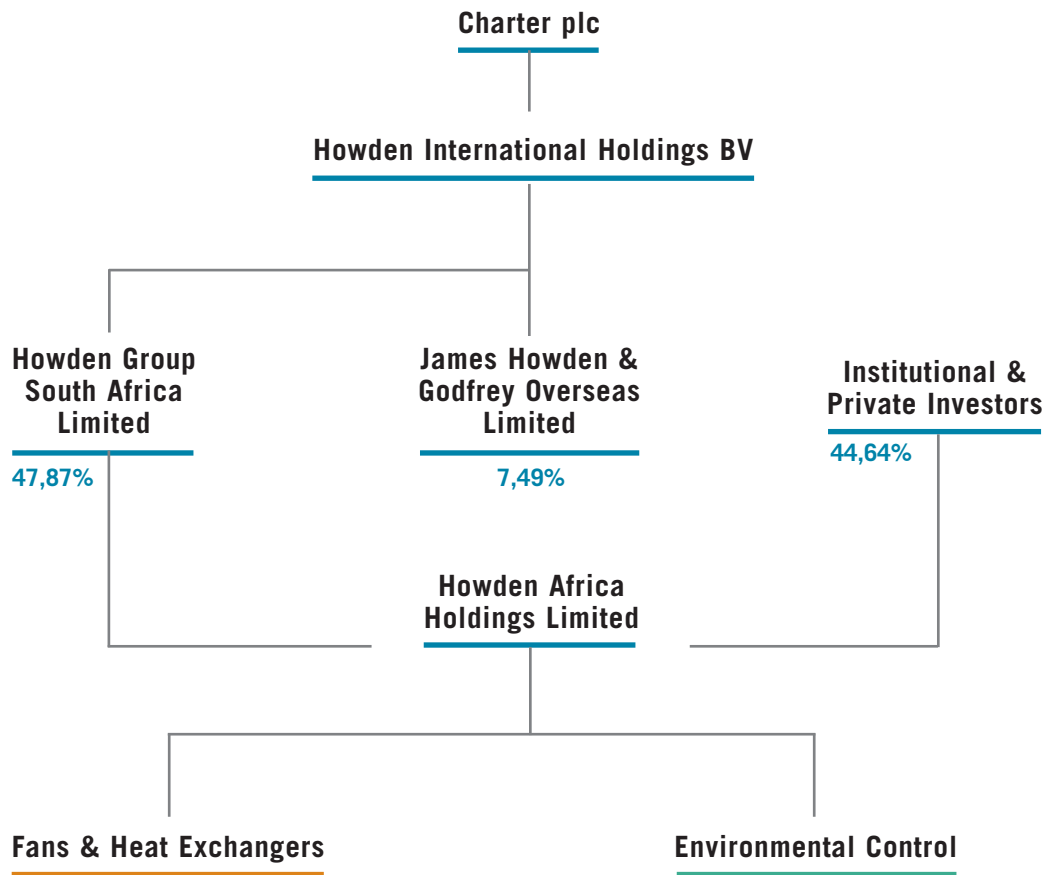
#### Registrars

Computershare Investor Services 2004  
(Pty) Limited  
70 Marshall Street  
Johannesburg  
2001

Share Code: HWN

ISIN Code: ZAE 000010583

## Group Structure



### Synopsis

Boiler fans, heat exchangers, site services, HVAC fans, standard and industrial fans and blowers, main surface fans, auxiliary mine fans, centrifugal blowers and dust extraction on coal mines

### Synopsis

Gas cleaning plant, combustion engineering, furnaces, incinerators, process compressors, refrigeration equipment, water chillers, positive displacement blowers, waste water treatment and control and instrumentation.

## Five Year Group Financial Summary

for the years ended 31 December

<b>SUMMARISED INCOME STATEMENTS</b>	<b>2005</b>	2004	2003*	2002*	2001*
	<b>R'000</b>	R'000	R'000	R'000	R'000
Sales	<b>497 495</b>	422 033	554 925	522 598	376 466
Operating profit	<b>35 893</b>	32 693	34 124	23 872	6 962
Net financial income	<b>5 082</b>	4 512	5 029	734	(965)
Foreign exchange (losses)/gains	<b>(204)</b>	(401)	(6 243)	(7 196)	6 677
Exceptional item – loan written down	–	–	–	(112)	(4 303)
Goodwill amortisation and on acquisition	–	–	–	(979)	–
Loss on sale of portion of associate	<b>(1 182)</b>	–	–	–	–
Share of results of associate	<b>3 322</b>	3 997	–	(1 397)	(3 225)
Profit before tax	<b>42 911</b>	40 801	32 910	14 922	5 146
Income tax expenses	<b>13 753</b>	12 335	11 138	10 286	9 520
Profit after tax	<b>29 158</b>	28 466	21 772	4 636	(4 374)
Outside shareholders' interest	<b>3 605</b>	4 114	3 242	2 393	787
Net profit for the year	<b>25 553</b>	24 352	18 530	2 243	(5 161)
Earnings per share: (cents)	<b>38,88</b>	37,05	28,19	3,41	(7,85)
Dividends per share:					
– interim dividend paid (cents)	<b>4,00</b>	4,00	3,00	0,00	0,00
– special dividend paid (cents)	<b>0,00</b>	47,00	0,00	0,00	0,00
– final dividend paid or declared (cents)	<b>6,00</b>	5,00	0,00	0,00	0,00
Number of shares ('000)					
In issue	<b>65 729</b>	65 729	65 729	65 729	65 729
Weighted average	<b>65 729</b>	65 729	65 729	65 729	65 729

<b>SUMMARISED BALANCE SHEETS</b>	<b>2005</b>	2004	2003*	2002*	2001*
	<b>R'000</b>	R'000	R'000	R'000	R'000
<b>ASSETS</b>					
<b>Non-current assets</b>	<b>137 106</b>	134 761	62 174	35 957	43 840
<b>Current assets</b>	<b>221 960</b>	178 489	190 833	209 353	161 484
Inventories	<b>18 656</b>	14 778	48 447	54 663	57 090
Receivables and prepayments	<b>105 778</b>	77 231	67 011	123 133	100 016
Cash and cash equivalents	<b>97 526</b>	86 480	75 375	31 557	4 378
<b>Total assets</b>	<b>359 066</b>	313 250	253 007	245 310	205 324
<b>EQUITIES</b>					
<b>Capital and reserves</b>					
Shareholders' funds	<b>174 015</b>	153 276	119 483	101 215	95 669
Minority interest	<b>10 226</b>	6 771	5 289	6 556	4 227
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>	<b>17 180</b>	12 611	–	3 164	5 152
<b>Current liabilities</b>	<b>157 645</b>	140 592	128 235	134 375	100 276
<b>Total equities and liabilities</b>	<b>359 066</b>	313 250	253 007	245 310	205 324

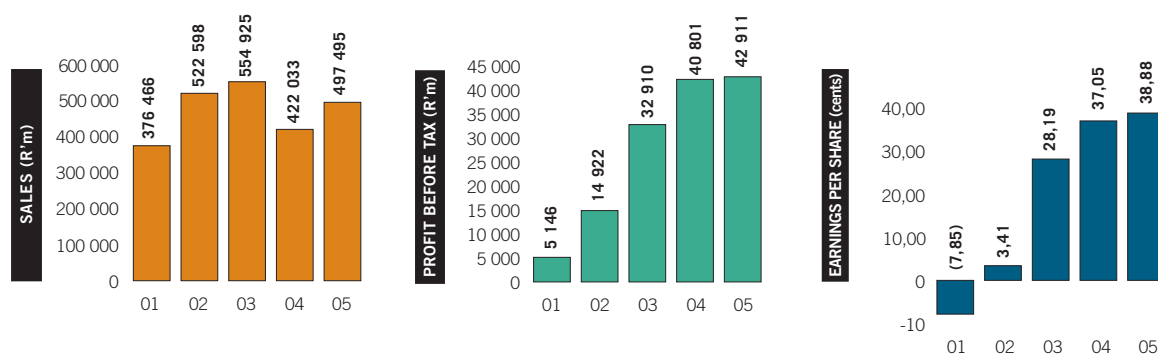
\*SA GAAP

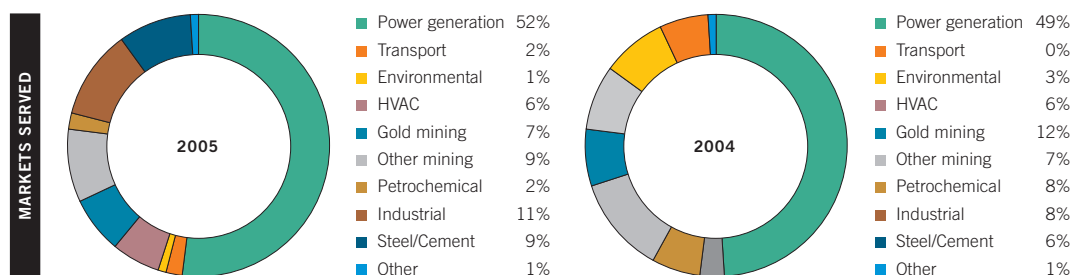
## Other Group Salient Features

for the year ended 31 December

	2005	2004	2003*	2002*	2001*
Net asset value per share (cents)	<b>264,75</b>	233,19	181,78	153,99	145,55
Depreciation (R'000)	<b>2 625</b>	2 081	6 370	6 557	5 244
Amortisation (R'000)	<b>1 720</b>	1 700	–	–	–
Capital expenditure (R'000)	<b>5 878</b>	3 424	5 192	6 984	4 590
Acquisition of new businesses (R'000)	–	–	–	–	9 426
Capital commitments (R'000)					
Authorised and contracted	<b>463</b>	1 288	78	811	556
Authorised not contracted	–	19	287	–	626
Operating profit to sales %	<b>7,21</b>	7,75	6,15	4,57	1,85
Number of employees	<b>437</b>	469	652	738	629
Closing share price (cents)	<b>490</b>	220	145	82	69
Total number of shares traded	<b>11 209 071</b>	17 545 631	2 469 931	5 828 525	2 291 033
Average price for the year (cents)	<b>399</b>	176	100	75	84
Total value of shares traded at average price (R)	<b>44 724 193</b>	30 880 311	2 469 931	4 371 394	1 924 468
Volume of shares traded to total weighted average number of shares %	<b>17,05</b>	26,69	3,76	8,87	3,49

\*SA GAAP





## Value Added Statement

for the year ended 31 December 2005

	2005 R'000	2004 R'000
Sales	497 495	422 033
Other income not included in sales:		
Income from investments	19 909	25 593
Income from associate company net after taxation	3 322	3 997
Less: Paid to suppliers for materials and services	(358 451)	(297 637)
<b>Total value added</b>	<b>162 275</b>	<b>153 986</b>
<b>Distributed as follows:</b>		
To employees as salaries and wages and other benefits	100 101	85 972
To lenders as interest	14 827	21 081
To depreciation and amortisation	4 345	3 781
To shareholders as dividends	6 573	36 808
To government as taxation	13 753	12 335
<b>Total value added distributed</b>	<b>139 599</b>	<b>159 977</b>
Portion of value added reinvested/(paid) to sustain and expand the business	22 676	(5 991)
<b>Total value added distributed and reinvested</b>	<b>162 275</b>	<b>153 986</b>



## **Chairman's Statement**

I am pleased to report that the 2005 financial year has witnessed a continuation of solid performance by the Group, with the fan and heat exchanger division in particular producing good results. Actions taken over the past three years to more fully focus the business on its core air and gas handling capabilities have reinforced the Group's position as a key supplier of capital equipment into the local market.



### General review

In the year ended 31 December 2005 revenue increased to R497,5 million compared to R422,0 million in 2004. Operating profit at R35,9 million (2004: R32,7 million) has been reported after recognising some R5 million costs associated with an aborted contract to the Middle East, loss on sale of a portion of the associate company, Pump Brands, and closure costs associated with the last remaining offshore subsidiary, Howden 3Ts International Limited.

Strong growth in gross domestic fixed investment has given rise to improved opportunities in those markets in which the Group operates. Government plans to spend R400 billion to upgrade public energy and transport infrastructure, together with promising capital expenditure programmes in the private sector, provide good prospects for the Group.

Order intake during the year in the fan and heat exchanger division has been higher than in previous years resulting in a stronger order book, and the Group faces the coming year with confidence.

The environmental control division recorded an order intake slightly ahead of last year driven essentially by gas cleaning projects in the energy market. The scaling down of the offshore incineration business will allow more focus on exploiting gas cleaning opportunities in the local market as a whole.

The review of operations covers the divisions more specifically.

### Structural changes to Group activities

The previously announced sale of the Group's 42% shareholding in Pump Brands to the empowered Contralesa Investment Holdings (Pty) Limited, has not been concluded. Approval from the Competitions Board authorities was received towards the end of November at which time all conditions precedent had been met.

However, the acquirer has not settled the purchase consideration and therefore the transaction will not be effected. The board still regards the Pump activity as non-core and will seek to divest, when an appropriate opportunity arises.

A decision was also taken during the year to close the offices of Howden 3Ts International



## Chairman's Statement (continued)

in Chepstow, Wales and Dubai. Costs associated with this closure amounted to R3 million.

Flat conditions in the local gold mining market have resulted in further organisational changes, leading to the closure of the Howden Process Compressors company as an entity and the absorption of key resources into remaining business units. The Mine Refrigeration and Engineering business was sold off as part of this process for a nominal consideration. It is anticipated that fortunes will change in the mine cooling market over the coming years and the Group will remain well placed to respond to opportunities as they arise.

### **Black economic empowerment**

The board continues to support BEE initiatives proposed by key organisations within the country including those put forward by the DTI, Eskom and the Mining

Charter. A BEE plan, formalising progress made over the past and setting targets and actions over the short term, will drive the process forward covering all areas where executive management can influence the outcome. These include requirements associated with management development and recruitment, employment equity, skills development, preferential procurement, enterprise development and social investment.

In July 2005 the economic empowerment rating agency, Empowerdex, was commissioned to rate the Group's empowerment credentials and the final report determined that Howden qualified as a satisfactory broad based BEE contributor.

The board continues to review the options for increasing the participation by BEE investors in the Group's activities.



### HIV/AIDS

The Group has continued with the roll out of the HIV/AIDS awareness campaign, extending it into phase two which encourages employees to take part in the company sponsored voluntary counselling and testing initiative. Participation from employees has exceeded expectation and confidentiality continues to be respected with the expert assistance from our selected facilitator. The programme continues to meet the corporate objective of raising awareness and there is every reason to be proud of progress to date.

### Board of Directors

There has been no change to the composition of the board since the Annual General Meeting held on 9 June 2005.

### Dividends

Consideration has been given to the declaration of a final dividend based on the results for the year, which includes a cover of not less than three times, of six cents per share. This would be a total dividend of 10 cents for the year which is in line with that paid in the previous year, excluding the special dividend.

**MG FOSTER**  
Non-executive Chairman



## **Review of Operations**

A strong commodity price cycle and forecasts that gross domestic fixed investment should grow strongly over the next five years suggests a favourable period for the Group over the medium term.



### Fans and Heat Exchangers

Order intake for fans and heat exchangers totalled R317 million, which represents 61% of the total order intake, compared to R241 million the previous year.

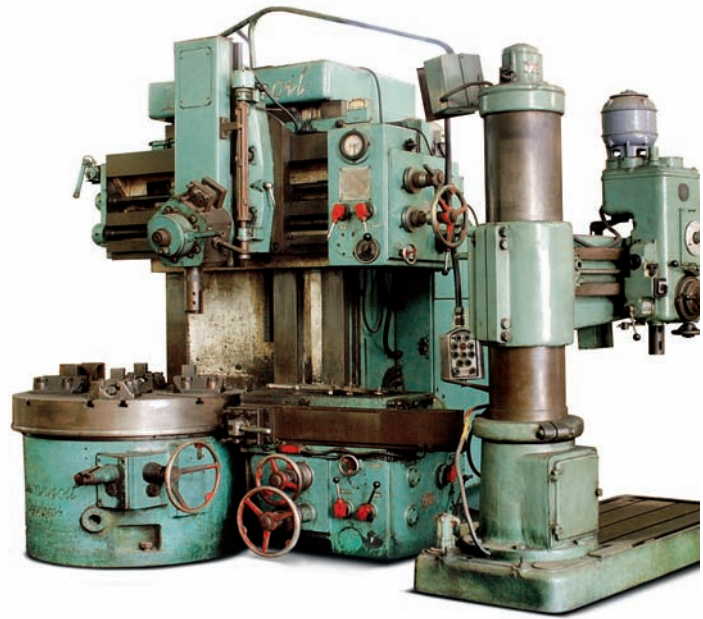
A strong opening order book, good first quarter order intake levels, and a higher number of available industrial prospects gave indication early in the year that the standard fan business could achieve an above average performance. Success in converting the bids to the Mozal and Hillside aluminium sites valued at a combined R9,3 million was reported in May, serving to reinforce this view. A number of larger value contracts were converted through the year in a highly competitive environment resulting in a further improvement in earnings compared to 2004. Progress continues to be made in developing niche market areas and efforts in this regard are expected to generate positive returns in 2006.

A low opening order book gave rise to initial concerns regarding the achievement of budgeted operating profit levels in the mining focused fan business. At the half-year mark results lower than expectation

were reported but a solid performance in the second half of the year resulted in full year earnings being reported ahead of expectations. The business achieved a high ratio of success in tender conversion through the year despite tough trading conditions, a feature being the number of new equipment orders booked which more than doubled the achievement in 2004. A strong closing order book and reasonable prospects should result in this business building on successes achieved in 2005.

High activity levels were evident in Howden Power throughout the year with the renewal of maintenance contracts within Eskom, the tendering of large value element prospects, increased site work and the return to service (RTS) programme at Camden and Grootvlei power stations. Work continues on the third boiler at Camden in readiness for a return to service and finalisation of the full scope and contract at Grootvlei is expected early in 2006.

The division continues to build on the platform established in prior years and remains well placed to meet challenges and opportunities that may be forthcoming with



## Review of Operations (continued)

the strong GDFI growth forecast over the next three years.

### Environmental Control

The environmental control division recorded an orders received position of R205 million, representing 39% of the total order intake, compared to R196 million in the previous year.

The loss of the mine cooling bid to AngloAshanti in April and the decision to write off R5 million of costs associated with the Cobit project into Libya, prompted decisions to expedite the consolidation of the Group's environmental control businesses. The mine refrigeration business has been absorbed into existing business units and Howden 3Ts International has been closed. This reorganisation will have no adverse impact on the ability to respond to local requests for the respective technologies as sufficient resources have been retained to positively respond where required. On the

trading side, positive volume variances in the gas cleaning unit and improved margins on furnace and combustion work assisted in offsetting the aforementioned losses.

Good progress has been made on the fabric filter retrofit programme at Camden Power Station and this project should result in steady work levels over 2006. The receipt of an order valued at R24 million for the supply of fabric filter bags to Majuba Power Station was a highlight in terms of positioning the business in the aftermarket sector. Alternate technologies continue to be investigated in order to expand the division's existing range of gas cleaning and gas treatment technologies.

Poor results reported by Howden Process Compressors and Howden 3Ts International business units detract from an otherwise respectable result from the division as a whole. The year-end order book, however, is still lower than expectation and all efforts are being directed in converting available



prospects into orders. Given the restructuring reported during the year the division has assumed a lower risk profile and this should present opportunity to improve on results achieved over the last two years.

### **Pumps**

As per the merger agreement completed in 2003 each party to the merger agreed to dispose of 8% of their holding in Pump Brands (Pty) Limited to a Share Ownership Trust. This disposal materialised during 2005 and has resulted in a loss of R1,2 million.

The previously announced transaction indicating a sale of the remaining 42% of Pump Brands (Pty) Limited has not been concluded. The necessary approval has been obtained from the Competitions Board with regards to the disposal by the Group of its 42% shareholding to Contralesa Investment Holdings (Pty) Limited, but the acquirer has not settled the purchase consideration and therefore the transaction will not be effected.

The board still regards the Pump activity as non-core and will seek to divest, when an appropriate opportunity arises.

### **Outlook**

A strong commodity price cycle and forecasts that gross domestic fixed investment should grow strongly over the next five years suggests a favourable period for the Group over the medium term. This enthusiasm is tempered somewhat by the strong Rand and the negative impact this has on the export earning streams in the mining and heavy industrial sectors. Concern has also been expressed regarding the extent to which the local manufacturing community will be included in large infrastructural investment programmes announced recently by Government and the private sector. Against this background the board confirms a favourable outlook over the coming year but remains guarded until such time as the aforementioned programmes begin to take shape.



## Corporate Governance

The board and management of Howden Africa Holdings Limited are committed to the principles of openness, integrity and accountability as advocated in the King II Code on Corporate Governance.

The board of directors endorse the Code of Corporate Practices and Conduct contained in the King Report on Corporate Governance for South Africa 2002 (King II Report), and believe that in all material respects the Company complied with the principles contained in such Code throughout the year under review. The Company complies with all the material requirements concerning

corporate governance contained in the Listing Requirements of the JSE Limited.

The primary objective of any system of corporate governance is to ensure that directors and managers, to whom the running of large corporations has been entrusted by the shareholders, carry out their responsibilities faithfully and effectively, placing the interests of the corporation ahead of their own. This process is facilitated through the establishment of appropriate reporting and control structures within the organisation.



### **Directorate and executive management**

The board of Howden Africa Holdings Limited consists mainly of non-executive directors.

The roles of chairman and chief operating officer vest in different persons. There are presently four non-executive directors and one executive director, none of whom have contracts exceeding two years. New appointments to the board are submitted to the board as a whole for approval prior to appointment.

The board meets at least quarterly and retains full and executive control over the Group. The board monitors management, ensuring that material matters are subject to board approval. The executive management attends board meetings by invitation.

All directors have unlimited access to the advice and services of the company secretary, who is responsible to the board for ensuring that the board procedures are followed.

All directors are entitled to seek independent professional advice at the Group's expense, concerning the affairs of the Group, after obtaining the approval of the chairman.

The board is ultimately responsible for ensuring that the business is a going concern, and to this end effectively controls the Group and its management and is involved in all decisions that are material for this purpose. The board functions in terms of a Board Charter which requires that there is an appropriate balance of power and authority on the board.

New appointments are recommended to the board by the Remuneration Committee. All directors are in terms of the Articles of Association subject to retirement by rotation and re-elected by shareholders. The number of directors subject to re-election must be at least one third of the board. The appointments of new directors are subject to confirmation by shareholders at the next annual general meeting following their appointment.

## Corporate Governance (continued)

### Attendance at meetings

There were four meetings held during the year.

Director	Date appointed	Resigned	Attendance
JS Feek	17 April 2002	10 June 2005	2/2
RJ Cleland	2 March 2000		4/4
AB Mashiatshidi	31 July 2003		4/4
S Meyer	3 May 1996		4/4
R Mokate	1 November 1996	1 August 2005	2/2
M G Foster	3 March 2005		4/4
J Brown	3 March 2005		4/4

### Audit Committee

The Audit Committee consists of three non-executive directors with the company secretary as secretary. This committee is chaired by Mr A Mashiatshidi, an independent non-executive director.

The Committee has formal terms of reference approved by the board. Its main task is to ensure the maintenance of and, where necessary, the review of the effectiveness of internal financial controls in the Group, along with the maintenance of adequate accounting records and disclosure. It also oversees the financial reporting process and is concerned with the review of important accounting issues, pending litigation, specific disclosure in the financial statements and a review of the major audit

recommendations in compliance with the Code of Corporate Practice and Conduct and with the Group's code of ethics. The committee monitors any non-audit services undertaken by the independent auditors in terms of a formal policy which has been adopted in this regard.

Both the internal and external auditors have unrestricted access to this committee. The committee meets twice a year and these meetings are attended by external and internal auditors and appropriate members of executive management including those involved in risk management, control and finance. The committee reviews the effectiveness of internal control in the Company with reference to the findings of both the internal and external auditors.

### Audit Committee meetings attendance

There were two meetings held during the year.

Director	Date appointed	Resigned	Attendance
RJ Cleland	2 March 2000		2/2
AB Mashiatshidi (Chairman)	31 July 2003		2/2
R Mokate	1 November 1996	1 August 2005	1/1
J Brown	1 December 2005		1/1

### Remuneration Committee

The Remuneration Committee consists of the chairman and one other non-executive director. It is authorised by the board to review remuneration packages of all directors and senior managers.

The committee has formal terms of reference approved by the board. The remuneration philosophy of the Group is to ensure that employees are rewarded for their contribution to the Group's industry, market and country benchmarks.

The committee is responsible for the assessment and approval of broad remuneration strategy for the Group. The financial statements accompanying this report make full disclosure of the total of executive and non-executive directors' earnings and other benefits in accordance with the requirements of the Companies Act, 1973, the King Report and the Johannesburg Stock Exchange.

### Remuneration Committee meetings attendance

There was one meeting held during the year.

Director	Date appointed	Resigned	Attendance
RJ Cleland (Chairman)	2 March 2000		1/1
JS Feek	17 April 2002	10 June 2005	
MG Foster	1 December 2005		1/1



## Corporate Governance (continued)

### Internal control systems

To meet its responsibility with respect to providing reliable financial information, the Group maintains financial and operational systems of internal control. These controls are designed to provide reasonable assurance that transactions are concluded in accordance with management's authority, that the assets are adequately protected against material loss of unauthorised acquisition, use or disposition, and that transactions are properly authorised and recorded. These controls are designed to manage rather than eliminate risks, and risk management controls are reported on separately.

The system includes a documented organisational structure and division of responsibility, established policies and procedures, including a code of ethics to foster a strong ethical climate, which is communicated throughout the Group, and careful selection, training and development of people.

Internal audit monitors the operation of the internal control system and reports findings and recommendations to management and the board of directors. Corrective actions are taken to address control deficiencies and other opportunities for improving the system as they are identified. The Group's assessment of the effective controls over the financial reporting and safeguarding of assets was considered to meet all the necessary criteria for the year ended 31 December 2005.



### **Risk management**

Responsibility for managing the company's risk lies ultimately with the board of directors. However, the executive committee and management at operating levels assist the board in discharging its responsibilities in this regard by identifying, monitoring and managing risk on an ongoing basis and within the authority conferred upon them by the board. The identification and mitigation of risk is a key responsibility of management throughout the Group and of the executive committee.

This committee is responsible for reviewing the Group's risk philosophy, strategy and policies, and ensuring compliance with such policies; reviewing the adequacy and overall effectiveness of the Group's risk management function; ensuring the implementation of an ongoing process for risk identification, mitigation and management; ensuring the establishment of a comprehensive system of controls; pursuing measures for increasing risk awareness throughout the Group; reviewing all key risk areas.

The risk areas that are identified are summarised in a risk control framework which is reviewed on a quarterly basis. The risks relate to compliance risks, operational risks and financial risks. The risks are evaluated for impact, probability and priority, with an action plan. The quarterly risk assessment plan is submitted to the board.

These processes have been in place throughout the year under review and up to the date of approval of the annual financial statements.

The risk framework, action plans and controls are implemented throughout the Group, which includes all joint venture companies and associates. All policies applicable to the Group subsidiaries include the joint venture and associate companies.

### **Executive Committee**

The executive director and certain non-executive directors together with two senior directors of the subsidiary companies and the company secretary meet on a monthly basis to review the operational performance, capital programmes and other relevant issues. In addition, consideration is given to

## Corporate Governance (continued)

major investment and capital expenditure proposals as well as issues of strategic importance to the Group, for recommendation to the board. Furthermore, the daily involvement of the executive director with operational executives ensures the interactive nature of the overall management reporting structure.

### **Ethical standards**

Howden Africa Holdings Limited has adopted a code of ethics policy. This incorporates the Group's operating, financial and behavioural policies in a set of integrated values, including the ethical standards required of employees of the Group in their interaction with one another and with all stakeholders. Detailed policies and procedures are in place across the Group covering the regulation and reporting of transactions in securities of Group companies by directors and officers. The code is distributed to all employees of the company, and its subsidiaries.

The directors regularly review this code to ensure it reflects best practice in corporate governance.

### **Environment, health and safety**

The Group strives to conform to environmental, health and safety laws in its operations and also seeks to add value to the quality of life of its employees through preventative health programmes. Although the Group's major activities do not pose a major threat to the environment, the Group's risk management activities continue to focus on compliance with key features of existing environmental, health and safety legislation and international standards.

## Social Responsibility

Howden Africa's social commitment encompasses its employees and the community of which it is part. This relationship is reflected in its unequivocal commitment to the guiding framework towards the wellbeing of both its employees and the community. We remain focused on technical education, skills development and transfer. Our community development efforts will be invested in areas where we derive much of our business. Our aim is to create mutually beneficial ties in the communities where we operate.

### Health, safety and environment

The Group's social responsibility portfolio has broadened to include a focus on employee health and safety issues. All our factory processes and site operations are performed strictly within local health and safety and environmental legislation.

### **HIV/AIDS**

Howden adopted an overarching strategic plan and policy to address and manage the

potential impact of HIV/AIDS on business activities following an external impact assessment. Guidelines have been provided in terms of management of the whole workplace with regard to health and safety in an HIV/AIDS environment. Our staff has access to testing and wellness and disease programmes using outsourced independent service providers. Voluntary counselling and testing has been provided for all employees. We will seek in 2006 to collaborate efforts by our customers in their supply chain HIV/AIDS management initiatives. The challenge of combating the effects of the pandemic on the Group and its employees is an ongoing process. The HIV/AIDS awareness campaign continues to be rolled-out to staff at all levels.

### Skills development

The Executive Management has assumed responsibility in matters pertaining to the environment, health and safety, HIV/AIDS management, knowledge transfer and skills development closely aligned to national

## Social Responsibility (continued)

priorities and in the interest of achieving sustainable development.

Apprentice training and skills development entered its third consecutive year with the 2004 candidates eligible for trade test in the first half of 2007. Six new high potential learners with disadvantaged backgrounds were identified and employed during 2005.

### **Mentorship**

In order to develop and maintain our core skills, flow of Howden know-how and information across the divisions, Executive Management has implemented a coaching and mentoring programme. It is hoped that the programme will also induce a deliberate attitude of self development among the younger generation employees. We strive to strengthen our human capital and provide the training and support necessary to ensure their continued growth and development. Howden prides itself in its engineering resources.

### **Sponsorship**

The Group once again contributed to the education of employees' children. Tertiary education sponsorships were awarded to two students wishing to pursue careers in engineering, and support was again provided for 118 high school and primary school children.

Apart from the above, the Group continued to contribute to selected homes for abused and abandoned children, homes for HIV infected and affected babies and for the onward education of a cerebral palsy affected child. Various sporting codes, including the Howden Hawks FC were also supported. Howden Africa also recommitted to the Business Trust, an initiative of a number of South African companies working in partnership with government that focuses on job creation and capacity building programmes. A Howden team participated in the annual business trust run.

The Group remains committed to promoting human diversity in its operations and encourages a shared learning experience and implementation of fair employment practices that comply with employment equity legislation and the Occupational Health and Safety Act. This principle underpins the Group's policy of respect for people and their diversity.



## Contents

<b>26</b>	Directors' Responsibility
<b>27</b>	Certificate of the Company Secretary
<b>27</b>	Report of the Independent Auditors
<b>28</b>	Directors' Report
<b>30</b>	Balance Sheets
<b>31</b>	Income Statements
<b>32</b>	Statement of Changes in Equity
<b>33</b>	Cash Flow Statements
<b>34</b>	Notes to the Financial Statements
<b>74</b>	Interest in Subsidiary Companies

## Directors' Responsibility

The directors are responsible for the integrity of the financial statements and related information included in this annual report.

For the board to discharge its responsibilities management has developed and continues to maintain a system of internal financial control. The board has ultimate responsibility for this system of internal control and reviews the effectiveness of its operations, primarily through the Group Audit Committee and other risk-monitoring committees and functions.

The internal financial controls include risk-based systems of accounting and administrative controls designed to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are executed and recorded in accordance with generally accepted business practices and the Group's written policies and procedures. These controls are implemented by trained, skilled staff with clearly defined lines of accountability and appropriate segregation of duties. The controls are monitored by management and include comprehensive budgeting and reporting systems operating within strict deadlines and an appropriate control framework.

The external auditors are responsible for reporting on the financial statements.

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and incorporate responsible disclosures in line with the accounting philosophy of the Group. The financial statements are based on appropriate accounting policies consistently applied and supported by reasonable judgements and estimates. The directors believe that the Group will be a going concern in the year ahead. For this reason they continue to adopt the going concern basis in preparing the Group annual financial statements.

These financial statements, which appear on pages 28 to 75, have been approved by the board of Directors and are signed on its behalf by:



**J BROWN**

Director



**S MEYER**

Chief Operating Officer, Acting and Group Financial Director

7 March 2006

## Certificate of the Company Secretary

In my opinion as company secretary, I hereby confirm, in terms of section 268 (d) of the Companies Act, 1973, as amended, that for the year ended 31 December 2005, the Company has lodged, with the Registrar of Companies, all such returns as are required of a public company in terms of this Act and that all such returns are true, correct and up to date.



**MJM LAKE**  
Company Secretary

7 March 2006

## Report of the Independent Auditors

To the members of Howden Africa Holdings Limited for the year ended 31 December 2005

We have audited the annual financial statements and Group annual financial statements for the year ended 31 December 2005 set out on pages 28 to 75. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

### SCOPE

We conducted our audit in accordance with International Standards on Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures included in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation.

We believe that our audit provides a reasonable basis for our opinion.

### AUDIT OPINION

In our opinion, these financial statements fairly present, in all material respects, the financial position of the Company and the Group at 31 December 2005, and the results of their operations and cash flows for the year then ended in conformity with International Financial Reporting Standards and in the manner required by the South African Companies Act, 1973.



**PRICEWATERHOUSECOOPERS** 

Chartered Accountants (SA)  
Registered Accountants and Auditors

Johannesburg  
7 March 2006

## Directors' Report

The directors have pleasure in submitting the annual report of the Company for the year ended 31 December 2005.

<b>GROUP RESULTS</b>	<b>2005</b>	2004
	<b>R'000</b>	R'000
Sales	<b>497 495</b>	422 033
Orders received	<b>521 417</b>	437 033
Profit before taxation	<b>42 911</b>	40 801
Assets	<b>359 066</b>	313 250
Liabilities	<b>174 825</b>	153 203
Depreciation	<b>2 625</b>	2 081
Capital expenditure	<b>5 878</b>	3 424

The detailed segmental report is shown under Notes to the Financial Statements, Note 6 on pages 55-57.

A general improvement in business levels was experienced over the year generating orders 19% ahead of the achievement last year. An exception to this was the flat conditions in the gold mining sector where the lack of prospects associated with the cooling of deep level mines resulted in resources having to be trimmed in order to minimise losses.

Order intake in the fan and airheater division improved 31% over 2004 reflecting improvement in the capital expenditure sector of the economy. The environmental control division reported an intake similar to levels reported in 2004, the relative lack of industrial gas cleaning contracts impacting negatively in this regard.

Operating results achieved over the second half of the year represent a healthy improvement over the first half of 2005, despite the inclusion of costs associated with the rationalisation of the Howden Compressor business and closure of Howden 3Ts International. This reflects positively on Group results overall.

### FINANCIAL RESULTS

Group sales from continuing operations at R497,5 million represents an improvement of 17,9% compared to 2004. A number of large value contracts were completed during the year in the key petrochemical and power markets.

Profit before taxation of R42,9 million (2004: R40,8 million) is reported. Improved results in the fans and heat exchanger division made good the shortfall reported by the environmental control division as a result of cancelled costs associated with a contract to the Middle East and fewer large value contracts. Net financial income of R5,1 million compares with R4,5 million reported last year, reflecting favourably on management efforts to generate positive cash flows. Share of associate company at R3,3 million was lower than the R4,0 million reported last year.

An income tax charge of R13,8 million (2004: R12,3 million) has been accrued, resulting in an effective tax rate of 32,1% of profit before tax against 30,2% as reported last year.

The comparisons below refer to the corresponding twelve-month period to December 2004:

- Order intake amounted to R521 million compared to R437 million;
- Sales of R497 million compared to R422 million;
- Operating profit of R35,9 million compared to R32,7 million;
- Earnings per share of 38,9 cents compared to 37,1 cents; and
- At 31 December 2005 the Group had a net positive cash position of R97,5 million compared to R86,5 million.

## OTHER MATTERS

### Share capital

Details of the Company's share capital, its holding company and its shareholders are given in note 15 to the financial statements.

### Directorate

Mr. Michael Foster and Mr James Brown were appointed as non-executive directors on 3 March 2005. Mr John Feek resigned as Chairman and executive director of the Company on 10 June 2005 and was replaced by Mr Foster as non-executive Chairman. Dr Renosi Mokate resigned as a non-executive director effective 1 August 2005.

In terms of the Company's Articles of Association, Messrs Robert Cleland and Arthur Mashiatshidi retire from office by rotation at the annual general meeting and, being eligible, offer themselves for re-election.

The names of the directors, secretary and auditors are listed on page 2 and 3.

### Directors' interests

At 31 December 2005, the aggregate direct beneficial interest of the directors in the issued ordinary shares of the Company was 185 960 shares (December 2004: 185 960).

At 31 December 2005, the directors' interest and that of their families did not in aggregate exceed 1% of the issued share capital of the Company.

At the date of this report there had been no changes to the above shareholdings.

### Subsidiary companies

A list of the Company's subsidiaries and its interests therein is given on page 74-75 of the report.

### Management by third parties

No business of the Company or its subsidiaries was managed by a third party or company during the financial year, with the exception that the Company provides managerial services to its subsidiaries.

## DIVIDEND

An interim dividend of 4 cents was paid out on 26 September 2005 (2004: 4 cents).

Notice is hereby given that the board has declared a final dividend of 6 cents per share payable to shareholders for the year ended 31 December 2005. The last date to trade *cum* dividend is Friday, 24 March 2006. Shares start trading ex dividend on Monday, 27 March 2006. The record date is Friday, 31 March 2006. Payment will be Monday 3, April 2006. No share certificates are to be dematerialised or rematerialised between Monday, 27 March 2006 and Friday, 31 March 2006 both days inclusive.

## BASIS OF PREPARATION

These financial statements on pages 28 to 75 set out fully the financial position, results of operations and cash flows of the Group for the financial year ended 31 December 2005

## AUDITORS

The auditors, PricewaterhouseCoopers Inc, have indicated their willingness to be reappointed at the forthcoming Annual General Meeting.

*For and on behalf of the board*



### S MEYER

Chief Operating Officer, (Acting) and  
Group Financial Director

7 March 2006

# Balance Sheets

as at 31 December 2005

	Notes	CONSOLIDATED		COMPANY	
		2005 R'000	2004 R'000	2005 R'000	2004 R'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	7	32 971	30 716	53	67
Intangible assets	8	38 565	39 831	38 057	39 711
Subsidiaries	9			38 310	50 933
Investment in associate	10	31 711	37 164	31 711	37 164
Deferred income tax assets	18	33 276	26 490	2 214	2 506
Retentions due		583	560	–	–
		<b>137 106</b>	134 761	<b>110 345</b>	130 381
<b>Current assets</b>					
Inventories	11	18 656	14 778	–	–
Trade and other receivables	13	105 770	77 231	107	33
Derivative financial instruments	14	8	–	–	–
Amounts owing by holding company and subsidiaries				1 119	1 777
Cash and cash equivalents	36	97 526	86 480	12 097	2 502
		<b>221 960</b>	178 489	<b>13 323</b>	4 312
<b>Total assets</b>		<b>359 066</b>	313 250	<b>123 668</b>	134 693
<b>EQUITY</b>					
<b>Capital and reserves attributable to Company's equity holders</b>					
Ordinary share capital	15	61 708	61 708	61 708	61 708
Retained earnings		112 307	91 568	56 787	58 327
		<b>174 015</b>	153 276	<b>118 495</b>	120 035
Minority interest	17	10 226	6 771	–	–
<b>Total equity</b>		<b>184 241</b>	160 047	<b>118 495</b>	120 035
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Deferred Income tax liabilities	18	15 447	10 805	–	–
Provisions for other liabilities and charges	20	1 733	1 806	–	–
		<b>17 180</b>	12 611	–	–
<b>Current liabilities</b>					
Trade and other payables	19	149 279	120 988	3 012	2 054
Provisions for other liabilities and charges	20	1 390	703	–	–
Derivative financial instruments	14	84	–	–	–
Current income tax liabilities		6 892	18 901	1 057	2 698
Amounts owing to holding company and subsidiaries				1 104	1 803
Borrowings	36	–	–	–	8 103
		<b>157 645</b>	140 592	<b>5 173</b>	14 658
<b>Total liabilities</b>		<b>174 825</b>	153 203	<b>5 173</b>	14 658
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>359 066</b>	313 250	<b>123 668</b>	134 693

## Income Statements

for the year ended 31 December 2005

	Notes	CONSOLIDATED		COMPANY	
		2005 R'000	2004 R'000	2005 R'000	2004 R'000
<b>Sales</b>	21	<b>497 495</b>	422 033	–	–
Cost of sales		<b>372 883</b>	313 298	–	–
Gross profit		<b>124 612</b>	108 735		
Other operating income		<b>3 830</b>	1 389	<b>9 284</b>	34 219
Distribution costs		<b>(26 043)</b>	(25 646)	–	(58)
Administrative expenses		<b>(66 601)</b>	(51 484)	<b>(4 743)</b>	(2 778)
Profit/(loss) on disposal of business	25/33	<b>95</b>	(301)	–	–
<b>Operating profit from operations</b>	22/23	<b>35 893</b>	32 693	<b>4 541</b>	31 383
Foreign exchange losses	24	<b>(204)</b>	(401)	–	–
Share of results of associate		<b>3 322</b>	3 997	<b>3 322</b>	3 997
Loss on disposal of portion of associate		<b>(1 182)</b>	–	<b>(1 182)</b>	–
Finance income – net	26	<b>5 082</b>	4 512	<b>515</b>	1 022
<b>Profit before income tax</b>		<b>42 911</b>	40 801	<b>7 196</b>	36 402
Income tax expenses	27	<b>13 753</b>	12 335	<b>3 022</b>	2 553
<b>Net profit for the year</b>		<b>29 158</b>	28 466	<b>4 174</b>	33 849
Attributable to:					
Equity holders of the Company		<b>25 553</b>	24 352	<b>4 174</b>	33 849
Minority interest	17	<b>3 605</b>	4 114	–	–
		<b>29 158</b>	28 466	<b>4 174</b>	33 849
		<b>Cents</b>	Cents		
Earnings per ordinary share attributable to equity holders of the Company during the year	29	<b>38,88</b>	37,05		
Dividends per ordinary share	28	<b>10,00</b>	56,00		

## Statement of Changes in Equity

for the year ended 31 December 2005

	Attributable to equity holders of the Company			Minority interest	Total
	Share capital and share premium	Revaluation and other reserves	Retained earnings		
	R'000	R'000	R'000	R'000	R'000
<b>CONSOLIDATED</b>					
Balance at 1 January 2004	61 708	7 040	50 735	5 289	124 772
IFRS transitional adjustments		(7 040)	54 695		47 655
Currency translation differences			(1 009)		(1 009)
Net profit			24 352	4 114	28 466
Minority interest acquired			–	(2 102)	(2 102)
Movements on reserves of subsidiaries			(397)		(397)
Dividends paid			(36 808)	(530)	(37 338)
<b>Balance at 31 December 2004</b>	<b>61 708</b>	<b>–</b>	<b>91 568</b>	<b>6 771</b>	<b>160 047</b>
Balance at 1 January 2005	61 708	–	91 568	6 771	160 047
Currency translation differences			750		750
Net profit			25 553	3 605	29 158
Minority interest acquired			150	(150)	–
Movements on reserves of associate company			859		859
Dividends paid			(6 573)		(6 573)
<b>Balance at 31 December 2005</b>	<b>61 708</b>	<b>–</b>	<b>112 307</b>	<b>10 226</b>	<b>184 241</b>
<b>COMPANY</b>					
Balance at 1 January 2004	61 708	–	18 828		80 536
IFRS transitional adjustments			43 750		43 750
Net profit			33 849		33 849
Currency adjustment on conversion of associate company			(1 292)		(1 292)
Dividends			(36 808)		(36 808)
<b>Balance at 31 December 2004</b>	<b>61 708</b>	<b>–</b>	<b>58 327</b>		<b>120 035</b>
Balance at 1 January 2005	61 708	–	58 327		120 035
Net profit			4 174		4 174
Movement on reserves of associate company			859		859
Dividends			(6 573)		(6 573)
<b>Balance at 31 December 2005</b>	<b>61 708</b>	<b>–</b>	<b>56 787</b>		<b>118 495</b>

## Cash Flow Statements

for the year ended 31 December 2005

	Notes	CONSOLIDATED		COMPANY	
		2005 R'000	2004 R'000	2005 R'000	2004 R'000
<b>Cash flow from operating activities</b>					
Cash receipts from customers		486 476	423 332		
Cash paid to suppliers and employees		(450 078)	(357 017)		
Cash generated from operations	30	36 398	66 315	5 974	8 319
Interest paid		(14 827)	(21 081)	(528)	(712)
Dividends paid	31	(6 573)	(36 808)	(6 573)	(36 808)
Income tax paid	32	(27 910)	(20 070)	(4 371)	(4 901)
<b>Net cash outflow from operating activities</b>		<b>(12 912)</b>	<b>(11 644)</b>	<b>(5 498)</b>	<b>(34 102)</b>
<b>Cash flow from investing activities</b>					
Disposal of portion of associate company	34	4 085	–	4 085	–
Movement of loans to associate company	10	4 367	1 790	4 367	1 790
Loan repayments of subsidiaries				12 623	–
Acquisition of minority share of Howden Power (Pty) Limited		–	(2 821)	–	–
Disposal of Engart Inc	33	–	1 618	–	–
Disposal of business	25	133	–	–	–
Interest received		19 909	25 593	1 043	1 734
Dividends received		–	–	1 078	25 848
Exchange differences on conversion of foreign subsidiaries		749	318	–	–
Replacement of property, plant and equipment		(5 878)	(3 424)	–	–
Proceeds from sale of property, plant and equipment	35	593	205	–	–
<b>Net cash inflow from investing activities</b>		<b>23 958</b>	<b>23 279</b>	<b>23 196</b>	<b>29 372</b>
<b>Cash flow from financing activities</b>					
Dividends paid to minorities		–	(530)	–	–
Increase in long-term loans to subsidiaries		–	–	–	(1 151)
<b>Net cash outflow from financing activities</b>		<b>–</b>	<b>(530)</b>	<b>–</b>	<b>(1 151)</b>
Net increase/(decrease) in cash and cash equivalents		11 046	11 105	17 698	(5 881)
Cash and cash equivalents at beginning of period		86 480	75 375	(5 601)	280
<b>Cash and cash equivalents at end of period</b>	36	<b>97 526</b>	<b>86 480</b>	<b>12 097</b>	<b>(5 601)</b>

# Notes to the Financial Statements

for the year ended 31 December 2005

## 1. GENERAL INFORMATION

Howden Africa Holdings Limited and its subsidiaries design, manufacture and market specialised air and gas handling solutions to a wide range of industries. The Group has manufacturing plants in Johannesburg and Port Elizabeth and sells its products mainly in South Africa, with a limited amount of exports to the rest of the world. The major industries it supplies are power generation, petrochemical, mining, agriculture, construction, refrigeration, water treatment, transportation and general industry.

The Company is a public company listed on the Johannesburg Securities Exchange and was incorporated in South Africa. The address and registered office is 1a Booyens Road, Booyens, Johannesburg, 2091. Its share code is: HWN and ISIN Code: ZAE 0000105836.

## 2. ACCOUNTING POLICIES

### 2.1 Basis of preparation

These consolidated financial statements of Howden Africa Holdings Limited have been prepared in accordance with International Financial Reporting Standards and are covered by IFRS 1, First-time Adoption of IFRS, because they are part of the Group's first IFRS financial statements for the year ended 31 December 2005. They have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements.

Principal accounting policies set out below have been consistently applied to all the years presented except for those relating to the classification and measurement of financial instruments. The Group has made use of the exemption available under IFRS 1 to only apply IAS 32 and IAS 39 from 1 January 2005. The policies applied to financial instruments for 2004 and 2005 are disclosed separately below.

The consolidated financial statements were prepared in accordance with South African Generally Accepted Accounting Principles (GAAP) until 31 December 2004. GAAP differs from IFRS in some areas. In preparing Howden Africa Holdings Limited's 2005 consolidated financial statements, management has amended certain accounting, valuation and consolidation methods applied in the GAAP financial statements to comply with IFRS. The comparative figures in respect of 2004 were restated to reflect these adjustments.

Reconciliations and descriptions of the effect of the transition from GAAP to IFRS on the Group's equity and its net income and cash flows are provided in note 5 – Transition to IFRS.

The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of land and buildings, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS and in accordance with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. (Refer to note 4.)

#### ***Interpretations and amendments to published standards effective in 2005***

The following amendments and interpretations to standards are mandatory for the Group's accounting periods beginning on or after 1 September 2004:

- IFRIC 2, Members' Shares in Co-operative Entities and Similar Instruments (effective from 1 January 2005);
- SIC 12 (Amendment), Consolidation – Special Purpose Entities (effective from 1 January 2005);
- and

## 2. ACCOUNTING POLICIES (continued)

### 2.1 Basis of preparation (continued)

- IAS 39 (Amendment), Transition and Initial Recognition of Financial Assets and Financial Liabilities (effective from 1 January 2005).

Management assessed the relevance of these amendments and interpretations with respect to the Group's operations and concluded that they are not relevant to the Group.

#### **Standards, interpretations and amendments to published standards that are not yet effective**

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted, as follows:

- *IAS 19 (Amendment), Employee Benefits* (effective from 1 January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment will only impact the format and extent of disclosures presented in the accounts. The Group will apply this amendment from annual periods beginning 1 January 2006.
- *IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions* (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. This amendment is not relevant to the Group's operations, as the Group does not have any intragroup transactions that would qualify as a hedged item in the consolidated financial statements as of 31 December 2005 and 2004.
- *IAS 39 (Amendment), The Fair Value Option* (effective from 1 January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Group will apply this amendment from annual periods beginning 1 January 2006.
- *IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts* (effective from 1 January 2006). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value and subsequently measured at the higher of: (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management considered this amendment to IAS 39 and concluded that it is not relevant to the Group.
- *IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources* (effective from 1 January 2006). These amendments are not relevant to the Group's operations as the Group is not a first-time adopter of IFRS and does not carry out exploration for and evaluation of mineral resources.
- *IFRS 6, Exploration for an Evaluation of Mineral Resources* (effective from 1 January 2006). IFRS 6 is not relevant to the Group's operations.

## Notes to the Financial Statements (continued)

for the year ended 31 December 2005

### 2. ACCOUNTING POLICIES (continued)

#### 2.1 Basis of preparation (continued)

- *IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosure* (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.
- *IFRIC 4, Determining whether an Arrangement contains a Lease* (effective from 1 January 2006). IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of IFRIC 4 on the Group's operations.
- *IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* (effective from 1 January 2006). IFRIC 5 is not relevant to the Group's operations.
- *IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment* (effective from 1 December 2005). IFRIC 6 is not relevant to the Group's operations.

#### 2.2 Basis of consolidation

##### **Subsidiaries**

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies of the entity. A shareholding of more than one half of the voting rights will normally be the basis of such control. 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 purchase 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 acquisition, plus the costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired, including all separately identifiable intangible assets, 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 income statement (see note 2.7).

## 2. ACCOUNTING POLICIES (continued)

### 2.2 Basis of consolidation (continued)

#### **Associates**

Associates are entities over which the Group has significant influence but not control, normally on the basis of a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recorded at cost.

The Group's share of its associates' post-acquisition profits or losses, net of interest and tax, is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

The Group applies a policy of treating transactions with minority interests 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 income statement. 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.

Intercompany balances and transactions, and any unrealised gains arising from intercompany transactions are eliminated in preparing the consolidated financial statements.

Where necessary, accounting policies for subsidiaries and associates have been changed to ensure consistency with the policies adopted by the Group. Separate disclosure is made of minority interests.

A listing of the Group's principal subsidiaries is set out at the end of the notes to the annual financial statements. The financial effect of the acquisition and disposal of subsidiaries is shown in note 33 to the annual financial statements.

### 2.3 Segment reporting

The Group's primary reporting format is business segments and its secondary format is geographical segments. A business segment is a group of assets and operations engaged in providing products that are subject to risks and returns that are different from other business segments. A geographical segment is engaged in providing products within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

### 2.4 Foreign currencies

Items included in the financial statements for each of the Group's entities are measured using the currency of the primary economic environment in which that entity operates ("the functional currency"). The consolidated financial statements are presented in Rands, the functional currency and presentation currency of Howden Africa Holdings Limited.

Foreign currency transactions are translated into the functional currency of Group entities using the exchange rate at the date of the transaction. Foreign exchange gains and losses arising from the settlement of transactions and from the translation at year-end exchange rates of monetary assets and liabilities are recognised in the income statement. The results and net assets of all Group companies that have non-Rand functional currency are included in the consolidated financial statements as follows:

- (i) Assets and liabilities are translated at the exchange rate at the balance sheet date;
- (ii) Income and expenses are translated at average exchange rates for the relevant period; and
- (iii) All resulting exchange differences arising are recognised as a separate component of equity.

# Notes to the Financial Statements (continued)

for the year ended 31 December 2005

## 2. ACCOUNTING POLICIES (continued)

### 2.4 Foreign currencies (continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences arising are recognised in the income statement as part of the gain or loss on sale.

### 2.5 Financial instruments

IAS 32, Financial Instruments: Disclosure and Presentation, and IAS 39, Financial Instruments: Recognition and Measurement, have been adopted with effect from 1 January 2005. The comparative information for 2004 has been prepared in accordance with the Group's IFRS accounting policies for financial instruments applicable up to 31 December 2004. Both policies are set out below.

#### *IFRS accounting policies applicable from 1 January 2005*

Derivative financial instruments, principally forward foreign exchange contracts and foreign currency swaps, are used as hedges in the financing and financial risk management of the Group and are initially measured at fair value on the date a derivative contract is entered into and subsequently re-measured at their fair value.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities (fair value hedge); (2) hedges of highly probable forecast transactions (cash flow hedge); or (3) hedges of net investments in foreign operations.

For fair value hedges, any gain or loss from re-measuring the hedging instrument at fair value is recognised in the consolidated income statement together with any gain or loss on the hedged term attributable to the hedged risk.

For cash flow hedges and net investment hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in shareholders' equity, with any ineffective portion recognised in the income statement. When hedged cash flows result in the recognition of a non-financial asset or liability, the associated gains or losses previously recognised in shareholders' equity are included in the initial measurement of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in shareholders' equity are transferred to the income statement in the same period in which the hedged cash flows affect the income statement. For net investment hedges gains and losses accumulated in shareholders' equity are included in the income statement when the foreign operation is disposed of.

Any gains or losses arising from changes in fair value of derivative financial instruments not designated as hedges are recognised in the income statement.

Borrowings are measured at amortised cost. Where borrowings are used to hedge the Group's interest in the net assets of foreign operations, the portion of the gain or loss on the borrowings that are determined to be an effective hedge is recognised in shareholders' equity. Gains and losses accumulated in shareholders' equity are included in the income statement when the foreign operation is disposed of.

Trade and other receivables are measured at amortised cost less any provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is recognised in the income statement. Trade and other receivables are discounted when the time value of money is considered material.

## 2. ACCOUNTING POLICIES (continued)

### 2.5 Financial instruments (continued)

#### *IFRS accounting policies applicable up to 31 December 2004*

Forward foreign exchange contracts which hedge forecast transactions were not recognised until the transaction they hedge was itself recognised.

Where foreign currency borrowings were used to hedge the Group's interest in the net assets of foreign operations, the portion of the gain or loss on the borrowings that were determined to be an effective hedge was recognised in shareholders' equity.

### 2.6 Property, plant and equipment

The Group's policy is to carry property, plant and equipment at historical cost less accumulated depreciation. Land and buildings comprise mainly of factories and offices. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

In accordance with the benchmark treatment under IFRS, borrowing costs associated with expenditure on property, plant and equipment are not capitalised.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method spreading the difference between cost and residual value over the estimated useful life as follows:

Buildings	50 years
Plant, machinery and equipment	2 to 20 years
Patterns and dies	3 years
Vehicles	4 to 5 years
IT equipment	3 to 5 years
Office furniture and equipment	3 to 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its recoverable amount (see Impairment of assets note 2.8).

### 2.7 Intangible assets

#### *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 subsidiary or associate acquired.

Goodwill is included in intangible assets in relation to subsidiaries and in investments in associates in relation to associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains or 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.

## Notes to the Financial Statements (continued)

for the year ended 31 December 2005

### 2. ACCOUNTING POLICIES (continued)

#### 2.7 Intangible assets (continued)

##### *Trademarks and licences*

Trademarks and licences are recognised at historical cost. They have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost of trademarks and licences over their estimated useful lives. The useful life of the trademarks is considered to be 25 years in the case of this Group. These trademarks are reviewed annually for impairment.

##### *Research and development*

Research expenditure is charged to income in the year in which it is incurred.

Internal development expenditure is charged to income in the year in which it is incurred, unless it meets the recognition criteria of IAS 38, Intangible Assets, in which case such costs are capitalised and amortised over the estimated useful life of the asset created, usually between three and ten years.

##### *Computer software*

Acquired computer software licences are capitalised on the basis of the costs incurred and amortised over the estimated useful life of the licence, usually between three and five years.

Internal expenditure associated with developing or maintaining computer software programmes is charged to income in the year in which it is incurred, except such costs that are directly associated with the production of identifiable and unique software products controlled by the Group that are likely to generate benefits exceeding costs beyond one year, in which case such costs are capitalised and amortised over the estimated useful life of the software product, usually less than three years.

#### 2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Impairment losses are recognised as an expense immediately and are written off in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed that carrying amount that would have been determined had no impairment loss been recognised for the asset or cash generating unit in prior years. A reversal of an impairment loss is recognised as income immediately.

#### 2.9 Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined using the first-in first-out (FIFO) basis or the average cost basis. Cost includes expenditure which is incurred in the normal course of business in bringing the product to its present location and condition. Net realisable value is the estimated selling price less all costs to be incurred. Where necessary, provision is made for obsolete, slow moving and defective inventory.

## 2. ACCOUNTING POLICIES (continued)

### 2.10 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

### 2.11 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

### 2.12 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown as equity as a deduction from the proceeds, net of tax.

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income tax), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

### 2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any differences between proceeds (net of transaction costs) and the redemption value is recognised in the income statement 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 balance sheet date.

### 2.14 Construction contracts

The Group complies with IAS 11 for construction contracts for the year ended 31 December 2005. Construction contracts relate to the construction of an asset.

The contract revenue comprises the initial agreed contract price plus any confirmed variations. Costs are those that are directly related to the contract. Where the outcome of the contract can be reliably estimated, revenue and costs are taken to the profit and loss account based on the percentage of completion method. The methods to measure the percentage complete are:

## Notes to the Financial Statements (continued)

for the year ended 31 December 2005

### 2. ACCOUNTING POLICIES (continued)

#### 2.14 Construction contracts (continued)

- Measuring the proportion of costs incurred for work performed to the total expected costs
- Surveys of the work performed
- The physical proportion of the contract completed.

The profit attributable to the stage of completion will represent the difference between the revenue and costs attributable to the stage of completion.

Where the outcome of the contract cannot be reliably estimated, revenue is taken to the profit and loss account based on the costs incurred that are deemed to be recoverable.

Where any contract review shows an expected loss on a contract, then this loss is recognised in the profit and loss account immediately.

During the period until the percentage of completion calculation is completed, all contract costs are accumulated in contract work in progress. The costs of the contract attributable to the stage of contract completion are transferred to cost of sales.

Where the costs incurred plus recognised profits is greater than the sum of the recognised losses and progress billings, then this amount is shown in debtors as amounts due from customers for contract work.

Where the sum of recognised losses and progress billings is greater, then this amount is shown in creditors as amounts due to customers for contract work.

The disclosure of contracts in progress are included under notes to the financial statements (note 12).

#### 2.15 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Currently enacted tax rates are used to determine deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred taxation is not provided on temporary differences arising on subsidiaries and associates where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future or where the remittance would not give rise to incremental tax liabilities or are otherwise not taxable.

#### 2.16 Employee benefits

##### *Pension obligations*

The Group accounts for pensions and similar post-retirement benefits (principally healthcare) under IAS 19, Employee Benefits.

The Group operates various pension schemes. The schemes are funded through payments to trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The benefits paid to all employees qualify as a post-employment defined benefit plan. 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.

## 2. ACCOUNTING POLICIES (continued)

### 2.16 Employee benefits (continued)

In respect of defined benefit pension plans, where the amount of pension benefit that an employee will receive on retirement is defined by the plan, the liability recorded in the balance sheet is the present value of the defined obligation at that date less the fair value of the plan assets, together with an adjustment for any unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

To the extent that cumulative actuarial gains and losses arising subsequent to 1 January 2004 exceed 10% of the higher of plan assets or liabilities as at the end of the previous year, this excess is normally amortised in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the accumulated actuarial gains and losses are not recognised.

Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period, in which case the past service costs are amortised on a straight line basis over the vesting period.

For defined benefit schemes, the actuarial cost charged to profit from operations consists of current service cost, interest cost, expected return on plan assets, past service cost and the impact of any settlements or curtailments, as well as actuarial gains or losses to the extent they are recognised.

For defined contribution plans, where the Group pays fixed contribution into a separate entity and has no legal or constructive obligations to pay further contributions if the fund has insufficient assets to pay all employees the benefits relating to service in the current and prior periods, the contributions are recognised as an 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.

For other defined benefit post-retirement obligations, principally post-retirement medical arrangements, a similar accounting methodology to that for defined benefit pension plans is used.

Where the actuarial valuation of the scheme demonstrates that the scheme is in surplus, the recognised asset is limited to that for which the Group is entitled to in accordance with the Pension Fund Second Amendment Act.

#### **Termination benefits**

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

#### **Performance bonus plans**

The Group recognises a liability and an expense for performance bonuses, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

#### **Long service awards**

The Group recognises a liability and an expense for long service, based on a formula that takes into account the length of service of all employees. The long service is paid at various stages of employment service and it is a contractual obligation. These obligations are valued annually by independent qualified actuaries and provided for under provisions.

## Notes to the Financial Statements (continued)

for the year ended 31 December 2005

### 2. ACCOUNTING POLICIES (continued)

#### 2.17 Share based payments

The Group operates both equity-settled and cash-settled share based compensation plans.

The fair value of the employee services received in exchange for the participation in the plan is recognised as an expense in the income statement.

In the case of equity-settled plans the fair value of the employee service is based on the fair value of the equity instruments granted. This expense is spread over the vesting period of the instrument. The corresponding entry is credited to equity.

Cash-settled plans are measured on a similar basis except that the fair value of the liability is re-measured at each reporting date, with changes recognised in the income statement. For cash-settled plans the corresponding entry is included as a liability.

There are no share based compensation plans in place at this time.

#### 2.18 Provisions

Provisions for warranty and product liability are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are not recognised for future operating losses. If the effect of discounting is material, provisions are determined by discounting the expected value of future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### 2.19 Revenue recognition

Revenue comprises the invoiced value of goods and services and the value of work executed during the year in respect of long-term contracts. Revenue, which is recorded net of value-added tax, rebates and discounts, and after eliminating intra-group sales, is recognised as follows:

##### *Sales of goods and services*

The majority of the Group's revenues relate to the sale of goods and services which are recognised when a group entity has fulfilled its contractual obligations to a customer and has obtained the right to receive consideration. This is usually on despatch but is dependent upon the contractual terms that have been agreed with a customer.

##### *Construction contracts long-term*

Revenue is recognised by a group entity in accordance with the stage of completion of its contractual obligations to the customer. The stage of completion is usually based on the proportion of costs incurred compared to the total expected costs to complete the contract, where this also represents a right to receive consideration, and provided the outcome of the contract can be assessed with reasonable certainty.

Losses on contracts are recognised in the period in which the loss first becomes foreseeable.

Contract losses are determined to be the amount by which estimated direct and indirect costs of the contract exceed the estimated total revenues that will be generated by the contract.

#### 2.20 Leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements which transfer to the Group substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in property, plant and equipment and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element charged to income so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting period. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

## 2. ACCOUNTING POLICIES (continued)

### 2.21 Dividends

Dividend distributions to the Company's shareholders are recognised as a liability in the period in which the dividends are approved by the Company's shareholders.

## 3. FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risk: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk, cash flow risk and fair value interest rate risk. The Group's overall risk management programme 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 of Directors. 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, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

#### **Market risk**

##### *Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the UK pound. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Entities in the Group use forward contracts, to manage their foreign exchange risk arising from future commercial transactions, recognised assets and liabilities. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Group manages the position by using external forward currency contracts.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

##### *Price risk*

The Group is not exposed to commodity price risk.

#### **Credit risk**

Potential concentrations of credit risk consist principally of cash investments and trade debtors. The Group only deposits cash surpluses with major banks of high quality and with financial institutions located in South Africa and the United Kingdom. Trade debtors consist of a large number of customers, spread across diverse industries and geographical areas. Credit evaluation is performed on the financial condition of the customers before granting credit. The ongoing creditworthiness of the debtors is assessed from time to time.

The Group has policies that limit the amount of credit exposure to any financial institution.

#### **Liquidity risk**

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

# Notes to the Financial Statements (continued)

for the year ended 31 December 2005

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Financial risk factors (continued)

#### *Cash flow and fair value interest rate risk*

The Group's income and operating cash flows are affected by changes in market interest rates. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

At the year end the carrying amounts of cash and bank balances, receivables, trade creditors and short-term borrowings approximate their fair value due to the short-term maturities of these assets and liabilities.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### *Long service awards*

The Group has a policy which allows for awards to be made to employees who have been with the Group for a certain period of time. A liability is accrued based on the actuarial value of all benefits expected to be paid in future based on service accrued to the valuation date and awards projected to retirement date. In determining the liability, due allowance has been made for future awards increases. A valuation of these long service awards is performed annually by an independent actuary.

#### *Revenue recognition*

The Group uses the percentage-of-completion method in accounting for its sales and services. Use of the percentage-of-completion method requires the Group to estimate the services performed to date as a proportion of the total services to be performed.

Losses on contracts are recognised in the period in which the loss first becomes foreseeable. Contract losses are determined to be the amount by which estimated direct and indirect costs of the contract exceed the estimated total revenues that will be generated by the contract.

#### *Warranties*

The Group provides in full for claims by customers in respect of defects in goods supplied or work performed when such claims are ascertainable. In addition, certain long-term contract provisions are made for warranties calculated on an appropriate percentage of the contract prices.

## 5. TRANSITION TO IFRS

### 5.1 Basis of transition to IFRS

#### *5.1.1 Application of IFRS 1*

The Group's financial statements for the year ended 31 December 2005 will be the first annual financial statements that comply with IFRS. These financial statements have been prepared as described in note 2.1. The Group has applied IFRS 1 in preparing these consolidated financial statements.

Howden Africa Holdings Limited's transition date is 1 January 2004. The Group prepared its opening IFRS balance sheet at that date. The reporting date of these financial statements is 31 December 2005. The Group's IFRS adoption date is 1 January 2005.

In preparing these consolidated financial statements in accordance with IFRS 1, the Group has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS.

#### *5.1.2 Exemptions from full retrospective application elected by the Group*

Howden Africa Holdings Limited has applied all the mandatory exceptions and the following optional exemptions from full retrospective application.

## 5. TRANSITION TO IFRS (continued)

### 5.1 Basis of transition to IFRS (continued)

#### 5.1.2 Exemptions from full retrospective application elected by the Group (continued)

##### *Business combinations exemption (IFRS 3)*

Business combinations prior to the transition date, being 1 January 2004, have not been restated onto an IFRS basis.

##### *Fair value as deemed cost exemption*

The Group has elected to measure certain items of property, plant and equipment at fair value as at 1 January 2004. This value will now become the deemed cost. The application of this exemption is detailed in note 5.2.1(a).

##### *Employee benefits exemption*

All cumulative actuarial gains and losses have been recognised in equity at the transition date.

##### *Cumulative translation differences exemption*

The cumulative translation difference arising on the translation of foreign currency denominated entities has been set at zero at the transition date. The gain or loss on a subsequent disposal of any such entity shall exclude translation differences that arose before the date of transition to IFRS and shall include later translation differences.

##### *Compound financial instruments exemption*

The Group has not issued any compound instruments and this exemption is not applicable.

##### *Assets and liabilities of subsidiaries, associates and joint venture exemption*

This exemption is not applicable as the use of the exemption is made at the level of the subsidiary, associate or joint venture that adopts IFRS later than the parent company.

##### *Exemption from restatement of comparatives for IAS 32 and IAS 39*

The Group elected to apply this exemption. It applies previous GAAP rules to derivatives, financial assets and financial liabilities and to the hedging relationship for the 2004 comparative information. The adjustment required for differences between GAAP and IAS 32 and IAS 39 are determined and recognised at 1 January 2005.

##### *Designation of financial assets and financial liabilities exemption*

The Group reclassified various securities as available-for-sale investments and as financial assets at fair value through profit and loss. The Group does not have any adjustment.

##### *Share-based payment transaction exemption*

The Group has elected to apply the share-based payment exemption. There were no share-based payments and therefore no adjustments necessary.

##### *Insurance contract exemption*

The Group does not issue insurance contracts; this exemption is not applicable.

##### *Decommissioning liabilities included in the cost of property, plant and equipment exemption*

The Group does not recognise a provision in respect of environmental liabilities relating to contamination caused to land from the installation of assets and from its production processes.

The exemption provided in IFRS 1 from the full retrospective application of IFRIC 1 has therefore not been applied to determine the adjustment required to PPE in respect of the obligation to decommission existing production facilities.

##### *Fair value measurement of financial assets or liabilities at initial recognition*

The Group has not applied the exemption offered by the revision of IAS 39 on the initial recognition of the financial instruments measured at fair value through profit and loss where there is no active market. This exemption is therefore not applicable.

## Notes to the Financial Statements (continued)

for the year ended 31 December 2005

### 5. TRANSITION TO IFRS (continued)

#### 5.1 Basis of transition to IFRS (continued)

##### 5.1.2 Exemptions from full retrospective application elected by the Group (continued)

###### *Derecognition of financial assets and liabilities exemption*

Financial assets and liabilities derecognised before 1 January 2004 are not re-recognised under IFRS. The application of the exemption from restating comparatives for IAS 32 and IAS 39 means that the Group recognised from 1 January 2005 any financial assets and financial liabilities derecognised since 1 January 2004 that do not meet the IAS 39 derecognition criteria. Management chose to apply the IAS 39 derecognition criteria to an earlier date.

###### *Hedge accounting exemption*

The Group does not apply hedge accounting and therefore this exemption is not applicable.

###### *Estimates exemption*

Estimates under IFRS at 1 January 2004 should be consistent with estimates made for the same date under previous GAAP, unless there is evidence that those estimates were in error.

###### *Assets held for sale and discontinued operations exemption*

Management applies IFRS 5 prospectively from 1 January 2005. Any assets held for sale or discontinued operations are recognised in accordance with IFRS 5 only from 1 January 2005. Howden Africa Holdings Limited did not have any assets that met the held-for-sale criteria during the period presented. No adjustment was required.

#### 5.2 Reconciliation between IFRS and GAAP

The following reconciliations provide a quantification of the effect of the transition to IFRS. The first reconciliation provides an overview of the impact on equity of the transition at 1 January 2004 and 31 December 2004.

The following four reconciliations provide details of the impact of the transition on:

- equity at 1 January 2004 (note 5.2.1);
- equity at 31 December 2004 (note 5.2.2); and
- net income 31 December 2004 (note 5.2.3).

##### 5.2.1 Reconciliation of equity at 1 January 2004

	Notes	GAAP R'000	Effect of transition to IFRS R'000	IFRS R'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	a	23 701	6 274	29 975
Intangible assets	c	581	40 905	41 486
Investment in associate	b	33 865	2 384	36 249
Deferred income tax assets	d	4 027	(1 908)	2 119
		62 174	47 655	109 829
<b>Current assets</b>				
Inventories		48 447	–	48 447
Trade and other receivables		67 011	–	67 011
Cash and cash equivalents		75 375	–	75 375
		190 833	–	190 833
<b>Total assets</b>		253 007	47 655	300 662

## 5. TRANSITION TO IFRS (continued)

## 5.2 Reconciliation between IFRS and GAAP (continued)

## 5.2.1 Reconciliation of equity at 1 January 2004 (continued)

	Notes	GAAP R'000	transition to IFRS R'000	Effect of IFRS R'000
<b>EQUITY</b>				
<b>Capital and reserves attributable to Company's equity holders</b>				
Ordinary share capital		61 708	–	61 708
Reserves	e	57 775	47 655	105 430
		119 483	47 655	167 138
Minority interest		5 289	–	5 289
<b>Total equity</b>		124 772	47 655	172 427
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables		113 658	–	113 658
Provisions for other liabilities and charges		1 499	–	1 499
Derivative financial instruments		–	–	–
Current income tax liabilities		13 078	–	13 078
		128 235	–	128 235
<b>Total liabilities</b>		128 235	–	128 235
<b>Total equity and liabilities</b>		253 007	47 655	300 662

**EXPLANATION OF THE EFFECT OF THE TRANSITION TO IFRS**

The following explains the material adjustments to the balance sheet and income statement:

(a) Property, plant and equipment	R'000
(i) Revaluation of buildings	6 394
(ii) Computer software transferred to intangible assets	(120)
<b>Total impact – increase in PPE</b>	6 274
(i) Management has applied the fair value as deemed cost exemption in respect of all land and buildings. The valuation of the property performed as at 1 January 2004 assessed the fair value of the properties as R18 342 000 for a carrying amount under GAAP of R11 948 000.	
(ii) Capitalised software included within tangible fixed assets under GAAP is transferred to intangible assets under IFRS.	
<b>(b) Investment in associate</b>	
Negative goodwill reversed	2 384

## Notes to the Financial Statements (continued)

for the year ended 31 December 2005

### 5. TRANSITION TO IFRS (continued)

#### 5.2 Reconciliation between IFRS and GAAP (continued)

##### 5.2.1 Reconciliation of equity at 1 January 2004

	R'000
<b>(c) Intangible assets</b>	
(i) Reinstatement of trademarks at fair value	41 366
(ii) Goodwill impaired	(581)
(iii) Computer software transferred from property, plant and equipment	120
<b>Total impact – increase in intangible assets</b>	<u>40 905</u>
(i) Management had written off trademarks valued in 1996 at R41 366 000 against share premium. These trademarks are still in use and have an economic value. A valuation was performed on the trademarks to ascertain whether the value calculated in 1996 was fair based on actual turnover over the last 10 years. It was established that the valuation was fair. A valuation was performed on the trademarks still in use to ascertain if there was any impairment. The valuation was higher than the present value and therefore the amount was reinstated with no impairment. This amount is to be amortised over its useful life estimated at 25 years.	
(ii) Based on an impairment calculation performed the goodwill raised under GAAP for purchase of MRE business, was considered to have a Nil value at 1 January 2004, and therefore written down.	
(iii) Capitalised software included within tangible fixed assets under GAAP is transferred to intangible assets under IFRS.	
<b>(d) Deferred income tax assets</b>	
(i) Recognising deferred tax on revaluation of property	(1 879)
(ii) Providing for capital gains taxation due to change in valuation on property	(29)
<b>Total impact – decrease on deferred income tax asset</b>	<u>(1 908)</u>
(i) Management has applied the fair value as deemed cost exemption in respect of all land and buildings. The valuation of the property performed as at 1 January 2004 assessed the fair value of the properties as R18 342 000 for a carrying amount under GAAP of R11 948 000. The deferred tax consequence relating to this valuation has been accounted for.	
(ii) Capital gains tax needs to be provided for in consequence of the increase in valuation when compared to the value of the property at 1 October 2001. This is in respect of certain properties at Booyens.	
<b>(e) Retained earnings</b>	
All the above adjustments were recorded against the opening retained earnings at 1 January 2004. The total impact is an increase in retained earnings of R45 271 000.	
<b>Total impact – increase in retained income</b>	<u>47 655</u>

## 5. TRANSITION TO IFRS (continued)

## 5.2 Reconciliation between IFRS and GAAP (continued)

## 5.2.2 Reconciliation of equity at 31 December 2004

	Notes	GAAP R'000	Effect of transition to IFRS R'000	IFRS R'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	a	22 755	7 961	30 716
Intangible assets	b	291	39 540	39 831
Investment in associate	d	34 674	2 490	37 164
Deferred income tax assets	c	28 972	(2 482)	26 490
Retentions due		–	560	560
		86 692	48 069	134 761
<b>Current assets</b>				
Inventories	f	48 804	(34 026)	14 778
Trade and other receivables	f	59 886	17 345	77 231
Cash and cash equivalents		86 480	–	86 480
		195 170	(16 681)	178 489
<b>Total assets</b>		281 862	31 388	313 250
<b>EQUITY</b>				
<b>Capital and reserves attributable to Company's equity holders</b>				
<b>Ordinary share capital</b>				
Reserves	e	61 708	–	61 708
		44 059	47 509	91 568
		105 767	47 509	153 276
Minority interest		6 771	–	6 771
<b>Total equity</b>		112 538	47 509	160 047
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Deferred income tax liabilities		10 805	–	10 805
<b>Current liabilities</b>				
Trade and other payables	f	137 109	(16 121)	120 988
Provisions for other liabilities and charges		2 509	–	2 509
Current income tax liabilities		18 901	–	18 901
		158 519	(16 121)	142 398
<b>Total liabilities</b>		169 324	(16 121)	153 203
<b>Total equity and liabilities</b>		281 862	31 388	313 250

## Notes to the Financial Statements (continued)

for the year ended 31 December 2005

### 5. TRANSITION TO IFRS (continued)

#### 5.2 Reconciliation between IFRS and GAAP (continued)

##### 5.2.2 Reconciliation of equity at 31 December 2004 (continued)

#### EXPLANATION OF THE EFFECT OF THE TRANSITION TO IFRS

The following explains the material adjustments to the balance sheet and income statement:

<b>(a) Property, plant and equipment</b>	<b>R'000</b>
(i) Revaluation of buildings	6 394
(ii) Computer software transferred to intangible assets	(120)
(iii) Impairment of land	(229)
(iv) Lives of assets changed and rate of depreciation altered	1 916
<b>Total impact – increase in PPE</b>	<b>7 961</b>
<p>(i) Management has applied the fair value as deemed cost exemption in respect of all land and buildings. The valuation of the property performed as at 1 January 2004 assessed the fair value of the properties as R18 342 000 for a carrying amount under GAAP of R11 948 000.</p>	
<p>(ii) Capitalised software included within tangible fixed assets under GAAP is transferred to intangible assets under IFRS.</p>	
<p>(iii) Management has applied the fair value as deemed cost exemption in respect of all land and buildings. The valuation of the land performed as at 1 January 2004 assessed the fair value of the land as R2 957 000 for a carrying amount under GAAP of R3 186 000. The impairment was written off to profit and loss.</p>	
<p>(iv) PPE was reviewed in accordance with policy and the useful lives and residual value were altered, the result being that the depreciation charged to the income statement was amended.</p>	
<b>(b) Intangible assets</b>	
(i) Reinstatement of trademarks at fair value	41 366
(i) Amortisation	(1 655)
(ii) Goodwill impaired	(291)
(iii) Computer software transferred from property, plant and equipment	120
<b>Total impact – increase in intangible assets</b>	<b>39 540</b>
<p>(i) Management had written off trademarks valued in 1996 at R41 366 000 against share premium. These trademarks are still in use and have an economic value. A valuation was performed on the trademarks to ascertain whether the value calculated in 1996 was fair based on actual turnover over the last 10 years. It was established that the valuation was fair. A valuation was performed on the trademarks still in use to ascertain if there was any impairment. The valuation was higher than the present value and therefore the amount was reinstated with no impairment. This amount is to be amortised over its useful life estimated at 25 years.</p>	
<p>(ii) Goodwill raised under GAAP for purchase of MRE business, considered to have a Nil value at 1 January 2004, and therefore written down.</p>	
<p>(iii) Capitalised software included within tangible fixed assets under GAAP is transferred to intangible assets under IFRS.</p>	

**5. TRANSITION TO IFRS (continued)****5.2 Reconciliation between IFRS and GAAP (continued)****5.2.2 Reconciliation of equity at 31 December 2004 (continued)**

<b>(c) Deferred income tax assets</b>	<b>R'000</b>
(i) Recognising deferred tax on revaluation of property	(1 879)
(ii) Providing for capital gains taxation due to change in valuation on property	(29)
(iii) Timing differences due to change in depreciation rates	(574)
<b>Total impact – decrease on deferred income tax asset</b>	<b>(2 482)</b>
(i) Management has applied the fair value as deemed cost exemption in respect of all land and buildings. The valuation of the property performed as at 1 January 2004 assessed the fair value of the properties as R18 342 000 for a carrying amount under GAAP of R11 948 000. The deferred tax consequence relating to this valuation has been accounted for.	
(ii) Capital gains tax needs to be provided for in consequence of the increase in valuation when compared to the value of the property at 1 October 2001. This is in respect of certain properties at Booysens.	
(iii) Timing differences due to changes in depreciation rates.	
<b>(d) Investment in associate</b>	
(i) Negative goodwill released	2 384
(ii) Adjustment in depreciation lives and timing differences for tax	106
<b>Total impact – decrease on deferred income tax asset</b>	<b>2 490</b>
(i) Negative goodwill cannot be held and must be taken into account through the income statement.	
(ii) Depreciation rates changed due to changes in useful lives on assets.	
<b>(e) Retained earnings</b>	
All the above adjustments were recorded against the opening retained earnings at 1 January 2004. The total impact is an increase in retained earnings of R47 509 000.	
<b>Total impact – increase in retained income</b>	<b>47 509</b>
<b>(f) Construction contracts reclassification</b>	
Retentions due transferred to non-current	560
Inventories	(34 026)
Trade and other receivables	17 345
Trade and other payables	16 121
<b>Total impact – reclassification</b>	<b>–</b>

## Notes to the Financial Statements (continued)

for the year ended 31 December 2005

### 5. TRANSITION TO IFRS (continued)

#### 5.2 Reconciliation between IFRS and GAAP (continued)

##### 5.2.3 Reconciliation of net income for the year ended 31 December 2004

	Notes	GAAP R'000	Effect of transition to IFRS R'000	IFRS R'000
<b>Sales</b>		422 033	–	422 033
Cost of sales		313 298	–	313 298
<b>Gross profit</b>		108 735	–	108 735
Other operating income		1 389	–	1 389
Distribution costs		(25 646)	–	(25 646)
Administrative expenses	a	(51 516)	32	(51 484)
Other operating expenses	b	(290)	290	–
Loss on sale of division of subsidiary		(301)	–	(301)
<b>Operating profit from operations</b>		32 371	322	32 693
Foreign exchange losses		(401)	–	(401)
Share of results of associate before taxation	c	5 410	(1 413)	3 997
Finance income – net		4 512	–	4 512
<b>Profit before tax</b>		41 892	(1 091)	40 801
Income tax expenses	d	13 280	(945)	12 335
<b>Net profit for the year</b>		28 612	(146)	28 466

#### EXPLANATION OF THE EFFECT OF THE TRANSITION TO IFRS

The following explains the material adjustments to the income statement:

(a) Administration expenses	R'000
(i) Depreciation on property, plant and equipment adjusted for changes in useful lives	1 916
(ii) Impairment on property	(229)
(iii) Amortisation of trade marks over useful lives of 25 years	(1 655)
<b>Total impact – decrease in administration expenses</b>	<b>32</b>

- (i) Previously property, plant and equipment was measured at cost less accumulated depreciation and impaired losses. Under IFRS, equipment is still stated at cost (deemed cost) less accumulated depreciation and impaired losses. Residual values and useful lives for all plant and equipment has been reassessed. These assets are depreciated over their remaining lives.

The accounting policy for owner-occupied property has been changed from the revaluation method to the cost method. The deemed cost is to be depreciated over the remaining useful life of the property.

- (ii) Management has applied the fair value as deemed cost exemption in respect of all land and buildings. The valuation of the land performed as at 1 January 2004 assessed the fair value of the land as R2 957 000 for a carrying amount under GAAP of R3 186 000. The impairment was written off to profit and loss.

- (iii) Amortisation adjustment due to the reinstatement of trademarks previously written off against share premium. These trademarks were reinstated at 1 January 2004 at a value of R41 366 000, and will be amortised over their remaining useful lives of 25 years.

**5. TRANSITION TO IFRS (continued)****5.2 Reconciliation between IFRS and GAAP (continued)****5.2.3 Reconciliation of net income for the year ended 31 December 2004**

<b>(b) Other operating expense</b>	<b>R'000</b>
(i) Reversal of goodwill amortisation in 2004 financial year	290
<b>Total impact – decrease in operating expenses</b>	<b>290</b>
(i) Amortisation of goodwill on MRE acquisition in 2000. Valuation carried out at January 2004. Established that goodwill had no value and that it was impaired.	
<b>(c) Share of results of associate</b>	
(i) Depreciation on property, plant and equipment adjusted for changes in useful lives	152
(ii) Timing differences due to change in lives of assets on associates assets	(46)
(iii) Taxation on associate company	(1 519)
<b>Total impact – increase in share of results of associate</b>	<b>(1 413)</b>
(i) In the associate company residual values and useful lives for all plant and equipment has been reassessed. These assets are depreciated over their remaining lives.	
(ii) In the associate company depreciation on property, plant and equipment has changed due to a change in useful lives and this has resulted in timing differences between the book and tax values.	
<b>(d) Income tax expense</b>	
(i) Timing differences due to change in lives of assets	574
(ii) Taxation on associate company	(1 519)
<b>Total impact – decrease on deferred income tax asset</b>	<b>(945)</b>
(i) Depreciation on property, plant and equipment has changed due to a change in useful lives and this has resulted in timing differences between the book and tax values.	

**6. SEGMENT INFORMATION****Primary reporting format – business segments**

At 31 December 2005, the Group is organised on a world-wide basis into two main business segments:

- (1) Fans and Heat exchangers
- (2) Environmental control

The Group's operations mainly comprise specialised engineering products for air and gas solutions. These two segments are the most definable ones available and there are no other means of making separate defined segments.

for the year ended 31 December 2005

	Sales R'000	Operating profit R'000	Assets R'000	Liabilities R'000	Inter segmental sales R'000	Inter segmental purchases R'000
Fans and Heat exchangers	310 223	38 800	222 283	125 474	37 507	13 257
Environmental Control	187 272	1 556	72 733	46 052	21 505	45 737
Group services		(4 463)	64 050	3 299	–	18
	<b>497 495</b>	<b>35 893</b>	<b>359 066</b>	<b>174 825</b>	<b>59 012</b>	<b>59 012</b>

## Notes to the Financial Statements (continued)

for the year ended 31 December 2005

### 6. SEGMENT INFORMATION (continued)

	Amortisation	Capital expenditure	Depreciation
	R'000	R'000	R'000
Fans and Heat exchangers	52	3 251	1 678
Environmental Control	14	337	461
Group services	1 654	2 290	486
	<b>1 720</b>	<b>5 878</b>	<b>2 625</b>

For the year ended 31 December 2004

	Sales	Operating profit	Assets	Liabilities	Inter segmental sales	Inter segmental purchases
	R'000	R'000	R'000	R'000	R'000	R'000
Fans and Heat exchangers	240 518	27 796	214 847	101 131	39 533	9 512
Environmental Control	181 515	2 913	71 220	42 590	3 470	33 479
Group services		1 984	27 183	9 482	–	12
	<b>422 033</b>	<b>32 693</b>	<b>313 250</b>	<b>153 203</b>	<b>43 003</b>	<b>43 003</b>

	Amortisation	Capital expenditure	Depreciation
	R'000	R'000	R'000
Fans and Heat exchangers	35	2 230	1 471
Environmental Control	10	225	330
Group services	1 655	969	280
	<b>1 700</b>	<b>3 424</b>	<b>2 081</b>

	December 2005	December 2004
	R'000	R'000
Segment results (operating profit)	<b>35 893</b>	32 693
Finance revenue/(costs)	<b>5 082</b>	4 512
Foreign exchange gains	<b>(204)</b>	(401)
Loss on disposal of portion of associate	<b>(1 182)</b>	–
Share of results of associate	<b>3 322</b>	3 997
Profit before taxation	<b>42 911</b>	40 801
Taxation	<b>(13 753)</b>	(12 335)
Profit after taxation	<b>29 158</b>	28 466
Outside shareholders' interest	<b>(3 605)</b>	(4 114)
Net profit for the year	<b>25 553</b>	24 352

#### Secondary reporting format – geographical segments

Although the Group's two business segments are managed on a world-wide basis, they operate in four main geographical areas:

South Africa is the home country of the parent company, and the areas of operation are: fans and heat exchangers and environmental control.

**6. SEGMENT INFORMATION (continued)**

	Sales R'000		Total assets R'000	
	2005	2004	2005	2004
South Africa	496 962	419 212	358 634	312 562
United Kingdom	–	247	348	617
North America	–	2 341	–	–
Australia	533	233	84	71
	497 495	422 033	359 066	313 250

	Capital expenditure R'000	
	2005	2004
South Africa	5 878	3 424
United Kingdom	–	–
North America	–	–
Australia	–	–
	5 878	3 424

	Freehold land and buildings purchased R'000	Plant, equipment and vehicles purchased R'000	Total R'000
--	--	--	----------------

**7. PROPERTY, PLANT AND EQUIPMENT****December 2005 – Consolidated**

<b>Cost at 31 December 2004</b>	23 019	47 362	70 381
Additions	1 021	4 403	5 424
Disposals	–	(842)	(842)
<b>Cost at 31 December 2005</b>	24 040	50 923	74 963

**Depreciation**

Depreciation at 31 December 2004	1 548	38 117	39 665
Charge for the year	102	2 523	2 625
Depreciation on disposals	–	(298)	(298)

**Depreciation at 31 December 2005**

	1 650	40 342	41 992
--	-------	--------	--------

**Net book value at 31 December 2005**

	22 390	10 581	32 971
--	--------	--------	--------

**December 2004 – Consolidated**

<b>Cost at 31 December 2003</b>	23 219	45 624	68 843
Exchange differences	–	(120)	(120)
Additions	202	3 177	3 379
Transfer to intangible assets	–	(639)	(639)
Impairment of land	(229)	–	(229)
Disposals	(173)	(611)	(784)
Disposal of subsidiary	–	(69)	(69)
<b>Cost at 31 December 2004</b>	23 019	47 362	70 381

## Notes to the Financial Statements (continued)

for the year ended 31 December 2005

	Freehold land and buildings purchased R'000	Plant, equipment and vehicles purchased R'000	Total R'000
<b>7. PROPERTY, PLANT AND EQUIPMENT (continued)</b>			
<b>Depreciation</b>			
Depreciation at 31 December 2003	1 544	37 204	38 748
Exchange differences		(93)	(93)
Charge for the year	32	2 049	2 081
Transfer to intangible assets	–	(519)	(519)
Business acquisitions	–		
Depreciation on disposals	(28)	(495)	(523)
Disposal of subsidiary		(29)	(29)
<b>Depreciation at 31 December 2004</b>	<b>1 548</b>	<b>38 117</b>	<b>39 665</b>
<b>Net book value at 31 December 2004</b>	<b>21 471</b>	<b>9 245</b>	<b>30 716</b>
<b>December 2005 – Company</b>			
<b>Cost at 31 December 2004</b>	–	731	731
Additions	–	–	–
<b>Cost at 31 December 2005</b>	–	731	731
<b>Depreciation</b>			
Depreciation at 31 December 2004	–	664	664
Charge for the year	–	14	14
<b>Depreciation at 31 December 2005</b>	–	678	678
<b>Net book value at 31 December 2005</b>	–	53	53
<b>December 2004 – Company</b>			
<b>Cost at 31 December 2003</b>	–	731	731
Additions	–	–	–
<b>Cost at 31 December 2004</b>	–	731	731
<b>Depreciation</b>			
Depreciation at 31 December 2003	–	648	648
Charge for the year	–	16	16
<b>Depreciation at 31 December 2004</b>	–	664	664
<b>Net book value at 31 December 2004</b>	–	67	67

Details in respect of immovable property are set out in a register which may be inspected at the Company's registered office during normal business hours.

	Trademarks R'000	Other R'000	Total R'000
<b>8. INTANGIBLE ASSETS</b>			
<b>Consolidation</b>			
<b>At 1 January 2004</b>			
Cost	41 366	639	42 005
Accumulated amortisation	–	(519)	(519)
<b>Net book amount</b>	<b>41 366</b>	<b>120</b>	<b>41 486</b>
<b>Year ended 31 December 2004</b>			
Opening net book amount	41 366	120	41 486
Additions	–	45	45
Amortisation charge (note 22)	(1 655)	(45)	(1 700)
<b>Closing net book amount</b>	<b>39 711</b>	<b>120</b>	<b>39 831</b>
<b>AT 1 JANUARY 2005</b>			
Cost	41 366	684	42 050
Accumulated amortisation	(1 655)	(564)	(2 219)
<b>Net book amount</b>	<b>39 711</b>	<b>120</b>	<b>39 831</b>
<b>YEAR ENDED 31 DECEMBER 2005</b>			
Opening net book amount	39 711	120	39 831
Additions	–	454	454
Amortisation charge (note 22)	(1 654)	(66)	(1 720)
<b>Closing net book amount</b>	<b>38 057</b>	<b>508</b>	<b>38 565</b>
<b>At 31 December 2005</b>			
Cost	41 366	1 138	42 504
Accumulated amortisation	(3 309)	(630)	(3 939)
<b>Net book amount</b>	<b>38 057</b>	<b>508</b>	<b>38 565</b>

Other intangibles include capitalised software costs.

The trademarks are based on the Howden, Safanco and Donkin names which were valued in 1996 by independent valuers. This value was originally written off against Share Premium. The value was tested against the valuation used and future economic benefits. It was found to be fairly valued and it was tested for impairment. This asset is to be amortised over its economic useful life which is 25 years, based on the life of the assets to which it serves.

## Notes to the Financial Statements (continued)

for the year ended 31 December 2005

	CONSOLIDATED		COMPANY	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
<b>9. SUBSIDIARIES</b>				
Shares at cost less provisions and amounts written off			<b>32 906</b>	32 906
Loans to subsidiaries			<b>33 539</b>	49 212
			<b>66 445</b>	82 118
Less: Loans from subsidiaries			<b>28 135</b>	31 185
			<b>38 310</b>	50 933
Loans to/from subsidiaries are unsecured and not subject to any fixed terms of repayment. Except as detailed hereunder, no interest is charged at present but these arrangements are subject to revision from time to time.				
Included in loans to subsidiaries is a long-term loan to a subsidiary which bears interest at the current prime bank overdraft rate.			<b>4 500</b>	4 500
<b>10. INVESTMENT IN ASSOCIATE</b>				
<b>Unlisted</b>				
Opening carrying amount	<b>37 164</b>	36 249	<b>37 164</b>	36 249
Loans granted to associate	<b>277</b>	738	<b>277</b>	738
	<b>37 441</b>	36 987	<b>37 441</b>	36 987
Post-acquisition results of the company	<b>3 322</b>	3 997	<b>3 322</b>	3 997
	<b>40 763</b>	40 984	<b>40 763</b>	40 984
Repayment of loans	<b>(4 644)</b>	(2 527)	<b>(4 644)</b>	(2 527)
Movement on reserves of associate company	<b>2 948</b>		<b>2 948</b>	
Exchange adjustment on opening carrying amount for foreign reserves	<b>(2 089)</b>	(1 293)	<b>(2 089)</b>	(1 293)
Disposal of portion of associate	<b>(5 267)</b>	–	<b>(5 267)</b>	–
Closing carrying amount	<b>31 711</b>	37 164	<b>31 711</b>	37 164
Directors' valuation	<b>31 711</b>	37 164	<b>31 711</b>	37 164
The associate is the unlisted Pump Brands (Proprietary) Limited which became an associate company on 31 December 2003.				
The summarised financial information of the associate company, which is unlisted, is as follows:				
<b>Income statement</b>				
Sales			<b>249 691</b>	218 140
Operating profit			<b>13 499</b>	12 674
Net profit after taxation			<b>8 722</b>	7 185
<b>Balance sheet</b>				
Assets			<b>124 217</b>	99 798
Liabilities			<b>51 704</b>	39 364
Equity			<b>72 513</b>	60 434
% held			<b>42</b>	50

	CONSOLIDATED		COMPANY	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
<b>11. INVENTORIES</b>				
The amounts attributable to the different categories are as follows:				
– Raw materials, components and consumables	7 466	6 057	–	–
– Work in progress	5 134	1 318	–	–
– Finished goods	6 056	7 403	–	–
	<b>18 656</b>	14 778	–	–
<b>12. CONSTRUCTION CONTRACTS</b>				
Contract revenue recognised in the year	352 694	269 310	–	–
Contract costs recognised in the year	(272 999)	(212 838)	–	–
Expected losses recognised in the year	–	(855)	–	–
Recognised profits less recognised losses in the year	79 695	55 617	–	–
For contracts in progress at the year end:				
Contract costs incurred and recognised profits less losses to date	49 451	56 929	–	–
Less: Progress billings for work performed	(55 375)	(55 256)	–	–
Net amount due (to)/from customers for contract work	(5 924)	1 673	–	–
Amounts due from customers for contract work (This amount is included within Trade & other receivables; note 13).	35 835	17 794	–	–
Amounts due to customers for contract work (This amount is included within Trade & other payables; note 19).	(41 759)	(16 121)	–	–
Net amounts due (to)/from customers for contract work	(5 924)	1 673	–	–
Advances received on contracts for work not yet performed	(3 666)	(13 359)	–	–
Retentions outstanding on progress billings made	583	560	–	–
<b>13. TRADE AND OTHER RECEIVABLES</b>				
Trade receivables	67 414	56 856	–	–
Less: provision for impairment of receivables	(636)	(1 097)	–	–
Trade receivables – net	66 778	55 759	–	–
Amounts due from customers for contract work	35 835	17 794	–	–
Prepayments and other receivables	3 157	3 678	107	33
	<b>105 770</b>	77 231	<b>107</b>	33
<b>14. DERIVATIVE FINANCIAL INSTRUMENTS</b>				
<b>Assets</b>				
Forward foreign exchange contracts – held for trading	8	–	–	–
<b>Liabilities</b>				
Forward foreign exchange contracts – held for trading	84	–	–	–

## Notes to the Financial Statements (continued)

for the year ended 31 December 2005

	CONSOLIDATED		COMPANY	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
<b>15. ORDINARY SHARE CAPITAL</b>				
<i>Authorised</i>				
150 000 000 ordinary shares of 1 cent each	<b>1 500</b>	1 500	<b>1 500</b>	1 500
<i>Issued</i>				
65 729 109 ordinary shares of 1 cent each	<b>657</b>	657	<b>657</b>	657
Share premium				
Opening balance and closing balances	<b>61 051</b>	61 051	<b>61 051</b>	61 051
	<b>61 708</b>	61 708	<b>61 708</b>	61 708

### Share capital

3 130 448 ordinary shares were reserved for the Company's employee share incentive scheme. In the first allotment 1 301 500 shares were issued at R4,50 per share, in the second allotment 304 250 shares were issued at R4,00 per share and in the third allotment 1 504 400 shares were issued at R0,90 per share to the Howden Africa Holdings Limited Employees Share Trust for employees who accepted and exercised their options with deferred delivery. These shares were listed on 17 April 1997, 2 July 1998 and 7 September 2000 respectively. All the options had been exercised on 30 November 2004. There are no options available on the share incentive scheme, and it has been closed.

### Holding company

The holding company of Howden Africa Holdings Limited is Howden Group South Africa Limited, incorporated in South Africa and its ultimate holding company is Charter plc. incorporated in England and Wales.

<b>Shareholders' analysis as at 31 December</b>	2005	2004	2005	2004
<b>HOLDINGS</b>	<b>Number of shareholders</b>	Number of shareholders	<b>Number of shares</b>	Number of shares
1 – 1 000 shares	<b>308</b>	299	<b>88 755</b>	86 658
1 001 – 10 000 shares	<b>189</b>	237	<b>815 352</b>	1 066 926
10 001 – 100 000 shares	<b>87</b>	87	<b>3 176 201</b>	2 944 083
100 001 – 1 000 000 shares	<b>33</b>	18	<b>11 404 295</b>	6 050 180
Over – 1 000 001 shares	<b>9</b>	10	<b>50 244 506</b>	55 581 262
	<b>626</b>	651	<b>65 729 109</b>	65 729 109
<b>CATEGORY OF ORDINARY SHAREHOLDERS</b>				
Holding companies	<b>2</b>	2	<b>36 390 403</b>	36 390 403
Individuals	<b>535</b>	571	<b>5 699 526</b>	4 447 880
Banks, nominees and trust companies	<b>37</b>	35	<b>1 734 812</b>	1 675 626
Insurance companies	<b>2</b>	2	<b>5 651 217</b>	9 569 745
Pension funds and investment companies	<b>7</b>	7	<b>1 854 603</b>	3 466 250
Endowment and mutual funds	<b>28</b>	11	<b>13 311 321</b>	8 495 445
Other corporations and close corporations	<b>12</b>	18	<b>1 036 687</b>	1 244 860
Other limited and private companies	<b>3</b>	5	<b>50 540</b>	438 900
	<b>626</b>	651	<b>65 729 109</b>	65 729 109

HOLDINGS	2005	2004	2005	2004
	Number of shares	Number of shares	%	%
<b>15. ORDINARY SHARE CAPITAL (continued)</b>				
<b>Major shareholders beneficially interested in 5% or more of the company's listed securities</b>				
Howden Group South Africa Limited	31 466 641	31 466 641	47,87	47,87
Old Mutual Group	–	5 161 921	–	7,85
James Howden & Godfrey Overseas Limited	4 923 762	4 923 762	7,49	7,49
RMB Asset Management – Momentum	5 699 117	4 407 824	8,67	6,71
Rand Merchant Bank	5 966 283	–	9,08	–
<b>Shareholder spread in terms of Section 8.63(e)</b>				
Howden Group South Africa Limited	31 466 641	31 466 641	47,87	47,87
James Howden & Godfrey Overseas Limited	4 923 762	4 923 762	7,49	7,49
Shane Meyer (Director)	185 960	185 960	0,28	0,28
<b>Public and non-public shareholders</b>				
<b>Non-public shareholders</b>	36 576 363	36 576 363	55,64	55,64
Directors and associates of the Company holdings	185 960	185 960	0,28	0,28
Strategic Holdings (more than 10%) and Holding Company	36 390 403	36 390 403	55,36	55,36
<b>Public shareholders</b>	29 152 746	29 152 746	44,36	44,36
	65 729 109	65 729 109	100,00	100,00

	CONSOLIDATED		COMPANY	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
<b>16. COMMITMENTS</b>				
<b>LEASES</b>				
Operating leases				
Land and buildings				
Payments due in 1 year	741	157		
Payments due later than 1 year and not later than 5 years	1 088	471		
	1 829	628		
Other operating leases				
Payments due in 1 year	2 786	2 680	144	43
Payments due later than 1 year and not later than 5 years	2 525	2 687	153	61
	5 311	5 367	297	104

Note:

- (i) On the land and buildings, there is an option at the end of the lease period to renew the lease for a future negotiated period.
- (ii) On the other operating leases which consist mainly of motor vehicles, the assets are to be returned to the lessor.

The lease payments that were expensed in the income statement for the year are disclosed in Note 22.

## Notes to the Financial Statements (continued)

for the year ended 31 December 2005

	CONSOLIDATED		COMPANY	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
<b>17. MINORITY INTEREST</b>				
Balance at beginning of year	6 771	5 289		
Acquisition	(150)	(2 102)		
Share of net profits of subsidiaries	3 605	4 114		
Dividend paid by subsidiary	–	(530)		
Balance at the end of the year	10 226	6 771		
<b>18. DEFERRED TAX</b>				
Balance at beginning of year	(15 685)	(2 119)	(2 506)	1 923
Exchange adjustment	(24)	(1)	–	–
Charge for the year – Current year	292	(9 561)	(26)	(291)
Charge for the year – Prior year	(2 412)	(3 864)	318	(4 138)
Revaluation – change in equity	–	(140)	–	–
	(17 829)	(15 685)	(2 214)	(2 506)
The balance comprises:				
Provisions	(11 705)	(9 876)	(450)	(423)
Working capital allowances	(3 306)	(4 781)	(1 764)	(2 083)
Revaluation	4 513	2 824	–	–
Assessed loss	(7 331)	(3 852)	–	–
	(17 829)	(15 685)	(2 214)	(2 506)
Deferred income tax assets	(33 276)	(26 490)	(2 214)	(2 506)
Deferred income tax liabilities – non-current	5 572	3 021	–	–
– current	9 875	7 784	–	–
	(17 829)	(15 685)	(2 214)	(2 506)
<b>19. TRADE AND OTHER PAYABLES</b>				
Trade payables	15 751	23 369	–	–
Amounts due to customers for contract work	41 759	16 121	–	–
Other payables	91 769	81 498	3 012	2 054
	149 279	120 988	3 012	2 054
<b>20. PROVISIONS FOR OTHER LIABILITIES AND CHARGES</b>				
<b>Warranty</b>				
At beginning of year	2 509	1 499	–	–
Additional provision	2 370	1 852	–	–
Unused amounts	(1 756)	(842)	–	–
Charged to income statement	614	1 010	–	–
At end of year	3 123	2 509	–	–
Provisions are made on long-term contracts for warranties calculated on an appropriate percentage of the contract price.				
Disclosure:				
Non-current liabilities	1 733	1 806	–	–
Current liabilities	1 390	703	–	–
Total provisions	3 123	2 509	–	–

	CONSOLIDATED		COMPANY	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
<b>21. SALES</b>				
Sales, which excludes value-added tax and sales between Group companies, represents the invoiced value of goods and services supplied and the value of long-term contract work.				
Revenue from continuing operations				
– Sale of goods	144 801	152 723	–	–
– Contract revenue	352 694	269 310	–	–
	<b>497 495</b>	422 033	–	–
<b>22. OPERATING PROFIT IS STATED AFTER CHARGING</b>				
Amortisation of intangible assets (note 8)				
Trademarks (included in other operating expenses)	1 720	1 700	1 654	1 655
Auditors' remuneration				
– Audit fees	888	827	150	150
– Audit related regulatory reporting	155	–	155	–
– Secretarial and other services	535	217	394	80
– Expenses	72	17	20	15
	<b>1 650</b>	1 061	<b>719</b>	245
Note: Secretarial and other services relate to costs associated with restructuring of the Group.				
Depreciation				
– Buildings	102	32	–	–
– Plant, equipment and vehicles	2 523	2 049	14	16
	<b>2 625</b>	2 081	<b>14</b>	16
Directors' emoluments (refer note 42)				
Executive directors			1 503	1 431
Non-executive directors			144	203
			<b>1 647</b>	1 634
Foreign exchange losses/(profits)	–	–	–	42
Provision for warranties	614	1 010		
Remuneration other than to employees for technical services	480	784		
Rentals under operating leases				
– Land and buildings	1 935	670		
– Equipment and vehicles	4 802	4 755	127	90
	<b>6 737</b>	5 425	<b>127</b>	90
Staff costs	100 101	85 972	3 402	2 287

## Notes to the Financial Statements (continued)

for the year ended 31 December 2005

	CONSOLIDATED		COMPANY	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
<b>23. OPERATING PROFIT IS STATED AFTER CREDITING</b>				
Income from subsidiaries				
– Dividends			1 078	25 848
– Management fees			3 589	4 473
– Royalties			7 819	6 195
			<b>12 486</b>	36 516
Profit on disposals of plant, equipment and vehicles	49	(56)	–	–
<b>24. FOREIGN EXCHANGE LOSSES</b>				
Exchange losses on foreign currency denominated inter-company loans	(204)	(401)	–	–
<b>25. DISPOSAL OF BUSINESS</b>				
Mining Refrigeration Equipment, a division of Howden Process Compressors (Pty) Limited, was disposed of during the year, as it did not fit the Group's profile.				
Property, plant and equipment	5	–		
Current assets – inventory	33	–		
Total assets	38	–		
Total liabilities	–	–		
<b>Net assets</b>	<b>38</b>	–		
Proceeds from sale of operations	133	–		
Profit on disposal	95	–		
<b>Net cash inflow on sale</b>	<b>133</b>	–		
<b>26. FINANCE INCOME – NET</b>				
Net interest paid				
– Bank overdrafts	(14 827)	(21 081)	(521)	(712)
– Other	–	–	(7)	–
	(14 827)	(21 081)	(528)	(712)
Interest received				
– Bank balances	18 977	24 042	218	142
– Short-term borrowings (subsidiaries)	–	–	473	855
– Associate company	–	–	344	737
– Other	932	1 551	8	–
	<b>5 082</b>	4 512	<b>515</b>	1 022

	CONSOLIDATED		COMPANY	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
<b>27. INCOME TAX EXPENSE</b>				
South African normal tax				
Current tax				
– current year	15 126	21 717	1 981	2 947
– prior year	(75)	(302)	(73)	(310)
Deferred tax				
– current year	292	(9 561)	(26)	(291)
– prior year	(2 934)	(3 864)	318	(4 138)
– rate change	522	–	–	–
Secondary tax on companies				
– current year	822	4 345	822	4 345
	<b>13 753</b>	<b>12 335</b>	<b>3 022</b>	<b>2 553</b>
<b>Reconciliation of rate of taxation</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
South African normal tax rate	29,0	30,0	29,0	30,0
Adjusted for:				
Disallowable expenditure	5,8	2,8	15,9	1,4
Exempt income	(4,9)	(3,7)	(17,7)	(23,3)
Investment and other allowances	–	(2,8)	–	–
Assessed losses carried forward	1,7	4,1	–	–
Alternative rate of tax on foreign income	–	(0,2)	–	–
Deferred tax not provided for	4,2	(0,1)	–	(11,7)
Change in tax rate	1,2	–	–	–
Secondary tax on companies	1,9	10,7	11,4	11,4
Prior year adjustments	(6,8)	(10,6)	3,4	(0,8)
Net increase/(reduction)	3,1	0,2	13,0	(23,0)
Effective rate	32,1	30,2	42,0	7,0
Gross calculated tax losses of R14 034 629 (2004: R11 920 303) of certain subsidiaries at the end of the financial year are available for utilisation against future taxable income of those companies. This is dependent on sufficient taxable income being earned in future by the subsidiaries concerned.				
<b>28. ORDINARY DIVIDENDS</b>				
Interim of 4 cents paid (2004 – 4 cents)	2 629	2 629	2 629	2 629
Final dividend of 6 cents paid (2004 – 5 cents)	3 944	3 286	3 944	3 286
Special dividend of 0 cents paid (2004 – 47 cents)	–	30 893	–	30 893
	<b>6 573</b>	<b>36 808</b>	<b>6 573</b>	<b>36 808</b>

## Notes to the Financial Statements (continued)

for the year ended 31 December 2005

	CONSOLIDATED		COMPANY	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
<b>29. EARNINGS PER ORDINARY SHARE</b>				
The calculation of earnings per share is based on the consolidated net profit attributable to ordinary shareholders of R25 563 000 (2004 – R24 352 000) and 65 729 109 (2004 – 65 729 109) ordinary shares in issue during the year.				
<b>Number of shares in issue</b>	<b>65 729</b>	65 729		
	<b>Cents</b>	Cents		
Earnings per ordinary share	<b>38,88</b>	37,05		
Headline earnings per ordinary share attributable to equity holders of the Company during the year	<b>40,46</b>	37,94		
<b>Headline earnings reconciliation</b>				
Net profit for the year	<b>25 553</b>	24 352		
(Profit)/loss on sale of a division of a subsidiary	<b>(95)</b>	301		
(Profit)/loss on sale of property, plant and equipment	<b>(49)</b>	56		
Impairment of assets	<b>–</b>	229		
Loss on disposal of portion of associate	<b>1 182</b>	–		
	<b>26 591</b>	24 938		
<b>30. CASH GENERATED BY OPERATIONS</b>				
Net profit before tax	<b>42 911</b>	40 801	<b>7 196</b>	36 402
Adjustments for:				
Depreciation	<b>2 625</b>	2 081	<b>14</b>	16
Amortisation of intangible assets	<b>1 720</b>	1 700	<b>1 654</b>	1 655
Dividends received			<b>(1 078)</b>	(25 848)
Impairment of property	<b>–</b>	229	<b>–</b>	–
Share of results before tax of associate company	<b>(3 322)</b>	(3 997)	<b>(3 322)</b>	(3 997)
(Profit)/loss on disposal of business	<b>(95)</b>	301	<b>–</b>	–
Loss on disposal of portion of associate	<b>1 182</b>	–	<b>1 182</b>	–
(Profit)/loss on disposal of fixed assets	<b>(49)</b>	56	<b>–</b>	–
Financial (revenue)/cost	<b>(5 082)</b>	(4 512)	<b>(515)</b>	(1 022)
Operating profit before working capital changes	<b>39 890</b>	36 659	<b>5 131</b>	7 206
Working capital changes	<b>(3 492)</b>	29 656	<b>843</b>	1 113
(Increase)/decrease in inventories	<b>(3 911)</b>	(2 753)		
Decrease/(increase) in accounts receivable	<b>(28 570)</b>	5 508	<b>(74)</b>	6 288
Decrease/(increase) in amounts owing by holding company and subsidiaries			<b>658</b>	1 279
Increase/(decrease) in accounts payable	<b>28 989</b>	26 901	<b>958</b>	(2 245)
(Decrease)/increase in amounts owing to subsidiaries			<b>(699)</b>	(4 209)
	<b>36 398</b>	66 315	<b>5 974</b>	8 319

	CONSOLIDATED		COMPANY	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
<b>31. RECONCILIATION OF DIVIDENDS PAID DURING THE YEAR</b>				
Dividends provided at the beginning of the year	–	–	–	–
Ordinary dividends recommended	(6 573)	(36 808)	(6 573)	(36 808)
Dividends provided at the end of the year	–	–	–	–
	<b>(6 573)</b>	<b>(36 808)</b>	<b>(6 573)</b>	<b>(36 808)</b>
<b>32. RECONCILIATION OF TAX PAID DURING THE YEAR</b>				
Amount owing at beginning of year	(18 901)	(13 078)	(2 698)	(617)
Exchange adjustment	(4)	8	–	–
Charge in income statement	(13 753)	(12 335)	(3 022)	(2 553)
Adjustment for deferred taxation	(2 144)	(13 566)	292	(4 429)
Amount owing at end of year	6 892	18 901	1 057	2 698
	<b>(27 910)</b>	<b>(20 070)</b>	<b>(4 371)</b>	<b>(4 901)</b>
<b>33. DISPOSAL OF ENGART INC.</b>				
During the year the Group disposed of the company Engart Inc. The fair value of acquisition was as follows:				
Property, plant and equipment disposed	–	(39)		
Inventory disposed	–	(2 395)		
Receivables and prepayments disposed	–	(1 617)		
Intercompany accounts	–	–		
Trade and other payables disposed	–	2 440		
Cash disposed	–	(665)		
Net asset value	–	(2 276)		
Less: Reserves disposed	–	(322)		
Total value of investment in subsidiary	–	(2 598)		
Less: Investment in subsidiary	–	14		
Cash received on sale	–	2 283		
Loss on sale of subsidiary	–	(301)		
Proceeds on disposal	–	2 283		
Cash released	–	(665)		
<b>Net cash inflow</b>	–	1 618	–	–

## Notes to the Financial Statements (continued)

for the year ended 31 December 2005

	CONSOLIDATED		COMPANY	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
<b>34. DISPOSAL OF PORTION OF INVESTMENT IN ASSOCIATE</b>				
During the year the Group disposed of a portion of its investment in the associated company Pump Brands (Pty) Limited				
Net asset value of investment	5 267	–	5 267	
Net asset value	5 267	–	5 267	
Sale price	(4 085)	–	(4 085)	
Net loss on disposal of investment	1 182	–	1 182	–
Sale price	4 085	–	4 085	
Transfer to debtors	–		–	
Net cash inflow	4 085	–	4 085	–
<b>35. PROCEEDS ON SALE OF PROPERTY, PLANT AND EQUIPMENT</b>				
Book value	544	261	–	–
(Loss)/profit on sale	49	(56)	–	–
Proceeds	593	205	–	–
<b>36. CASH AND CASH EQUIVALENTS</b>				
Cash and cash equivalents included in the cash flow statement comprises the following balance sheet amounts:				
Bank and cash balances	97 526	86 480	12 097	2 502
Bank overdraft	–	–	–	(8 103)
	97 526	86 480	12 097	(5 601)
<b>37. CAPITAL EXPENDITURE</b>				
Authorised and contracted	–	1 288		
Authorised not contracted	463	19		
<b>38. GUARANTEES</b>				
The Company has guaranteed facilities granted to subsidiary companies amounting to R57 700 000 (2004 – R57 700 000). This risk is controlled by reviewing the bank balances on a daily basis.				
The Company has given a limited guarantee amounting to R3 000 000 (2004 – R3 000 000) to a raw material supplier of a subsidiary company. This risk is managed by controlling purchases from supplier.				
The Company's bankers have furnished performance and shipping guarantees on behalf of subsidiaries amounting to R28 946 000 (2004 – R21 934 000).				
No losses are expected to arise out of the above arrangements.				
<b>39. LITIGATION</b>				
There are no legal matters which in the opinion of the Group and in consultation with legal counsell would have any material effect on the Group's consolidated financial position, results of operations or cash flow.				

#### 40. RETIREMENT FUNDS AND POST RETIREMENT BENEFITS

##### Defined benefit fund

The Company operates a post retirement pension scheme that covers all employees employed before 1 January 2001. The pension fund is a final salary defined benefit plan and is fully funded. The assets of the fund are held in an independent trustee administered fund, which is administered in terms of the Pension Fund Second Amendment Act 39 of 2001. The fund is valued every three years using the projected unit credit method. The latest full actuarial valuation was performed on 31 December 2005.

##### Defined contribution fund

The Company operates a defined contribution pension fund for all employees who joined after 1 January 2001.

Employees who are not members of either of the Group's pension funds are covered by the relevant industry fund or through foreign territory statutory funds.

All the funds are managed independently of the Group.

The actuarial gains and losses are recognised as they arise.

	GROUP	
	2005 R'000	2004 R'000
<b>Balance at end of the year</b>	–	–
Present value of funded obligations	113 616	92 053
Fair value of assets	(136 928)	(119 217)
	(23 312)	(27 164)
Unrecognised actuarial gains and losses	(3 852)	29 394
Surplus not recognised	27 164	(2 230)
Liability at balance sheet date	–	–
No assets are recognised in respect of the surplus as the apportionment of the surplus still needs to be calculated and approved by the Registrar of Pension Funds in terms of the Pension Fund Second Amendment Act, 39 of 2001.		
<b>Movement in the liability recognised in the balance sheet</b>		
Opening balance as previously stated	(27 164)	3 556
Surplus/(deficit) not recognised	27 164	(3 556)
Balance at the beginning of the year	–	–
<b>Movement during the year</b>		
Contributions paid	(2 982)	(3 000)
Other expenses included in staff costs	2 982	3 000
Current service costs	2 457	2 521
Interest costs	7 275	8 885
Expected return on plan assets	(8 928)	(9 733)
Movement in surplus not recognised	2 178	1 327
Balance at end of the year	–	–
The principal actuarial assumptions used for accounting purposes were:		
Discount rate	8,00%	8,50%
Pension increases	2,85%	2,55%
Return on assets	8,00%	9,25%
Salary increases	6,00%	5,25%

## Notes to the Financial Statements (continued)

for the year ended 31 December 2005

### 41. RELATED PARTY TRANSACTION

All transactions with related parties took place at arms' length and on market related terms.

For details of subsidiary companies and the Group's interest therein refer to page 74.

Refer to page 2 for details of the directors and note 42 to the financial statements for details of emoluments paid to directors.

Refer to note 38 to the financial statements for details of guarantees provided on behalf of the subsidiary companies.

	2005 R'000	2004 R'000
(a) Key management compensation		
Salaries and other short-term employee benefits	8 084	6 771
(b) Sales of goods and services		
Howden Power (Pty) Limited	31 633	37 132
James Howden Holdings Limited	10 680	4 231
Howden Donkin (Pty) Limited	3 660	1 029
Howden Process Compressors (Pty) Limited	558	248
Bateman Howden SA (Pty) Limited	12 481	363
	<b>59 012</b>	43 003
(c) Purchase of goods and services		
Howden Power (Pty) Limited	593	819
James Howden Holdings Limited	13 709	7 627
Howden Donkin (Pty) Limited	2 223	894
Engart Inc	–	783
Howden Process Compressors (Pty) Limited	10	147
Bateman Howden SA (Pty) Limited	4 531	32 733
Howden Projects (Pty) Limited	37 946	–
	<b>59 012</b>	43 003
(d) Amounts paid by subsidiaries to the Company in respect of:		
(1) Royalties		
Howden Power (Pty) Limited	4 553	3 038
James Howden Holdings Limited	1 491	1 657
Howden Donkin (Pty) Limited	1 775	1 500
	<b>7 819</b>	6 195
(2) Management fees		
Howden Power (Pty) Limited	1 204	1 223
James Howden Holdings Limited	1 708	1 450
Howden Donkin (Pty) Limited	336	300
Howden Process Compressors (Pty) Limited	341	600
Bateman Howden SA (Pty) Limited	–	900
	<b>3 589</b>	4 473
(3) Dividends received		
Howden Process Compressors (Pty) Limited	–	318
James Howden Holdings Limited	–	25 000
Howden Safanco (Pty) Limited	66	
Davidson Africa (Pty) Limited	638	
Howden Airheaters (Pty) Limited	24	
Howden Compressors SA (Pty) Limited	95	
Howden Weir (Pty) Limited	69	530
Howden Donkin (Pty) Limited	186	
	<b>1 078</b>	25 848

**42. DIRECTORS' EMOLUMENTS**

	Fees for services as a director	Basic salary	Bonuses or performance related payments	Sums paid by way of expense allowance	Any other material benefit received	Contribution to pension scheme	Commission gain or profit-sharing arrangement	Total
<b>2005</b>								
<b>Executive Directors</b>								
S Meyer		984	360	–	64	95	–	1 503
<b>Non-executive Directors</b>								
AB Mashiatshidi	83							83
R Mokate	31							31
JS Feek	30							30
	144	984	360	–	64	95	–	1 647

	Fees for services as a director	Basic salary	Bonuses or performance related payments	Sums paid by way of expense allowance	Any other material benefit received	Contribution to pension scheme	Commission gain or profit-sharing arrangement	Total
<b>2004</b>								
<b>Executive Directors</b>								
S Meyer		913	350	3	79	86	–	1 431
<b>Non-executive Directors</b>								
AB Mashiatshidi	71							71
R Mokate	71							71
JS Feek	61							61
	203	913	350	3	79	86	–	1 634

**Share options**

There were no share options available.

**Service contract**

S Meyer has a single service contract with Howden Africa Holdings Limited which is currently in place. It does not contain a fixed term and can be terminated by the Company on six months' notice or by S Meyer on six months' notice.

S Meyer is eligible to participate in the Company's annual bonus scheme. The award of the bonus is discretionary and is dependent entirely upon the directors' performance and the profit performance of the Company and is payable in April based on the previous years' performance.

The contract outlines the components of remuneration to be paid to S Meyer and includes the necessity that he becomes a member of the Company's pension and medical aid schemes on the normal terms and conditions from time to time applicable to an employee of the Company.

Remuneration is reviewed on an annual basis by the Remuneration Committee.

## Interest in Subsidiary Companies

for the year ended 31 December 2005

	Issued ordinary share capital Dec 2005 R	Proportion held %	Details of holding company's interest			
			Shares at cost or valuation less amounts written off		Indebtedness	
			Dec 2005	Dec 2004	Dec 2005	Dec 2004
			R'000	R'000	R'000	R'000
<b>SUBSIDIARIES OF HOWDEN</b>						
<b>AFRICA HOLDINGS LIMITED</b>						
<b>Incorporated in South Africa</b>						
James Howden Holdings Limited	1 406 488	100,00	10 708	10 708	4 924	13 577
Davidson Africa (Pty) Limited	4 000	100,00	1 555	1 555	(4)	3 567
Howden Attack (Pty) Limited	400 000	100,00	1	1	–	–
Bateman Howden South Africa (Pty) Limited	1 000	49,99*	2 745	2 745	–	–
Howden Process Compressors (Pty) Limited	1 000	100,00	491	491	2 101	2 051
Howden Weir (Pty) Limited	100	50,00*	–	–	–	6
Howden Safanco (Pty) Limited	4 000	100,00	4	4	(4)	(70)
Hamton Properties (Pty) Limited	1 000	100,00	148	148	–	–
Howden Airpreheaters (Pty) Limited	30 000	100,00	–	–	(30)	(54)
Howden Compressors South Africa (Pty) Limited	30 000	100,00	–	–	(35)	(130)
Gertrude Holdings Limited	200	100,00	6 287	6 287	(8 543)	(5 665)
Howden Holdings (Pty) Limited	100	100,00	10 967	10 967	(5 065)	(3 912)
Howden Machinery and Materials (Pty) Limited	108	100,00	–	–	–	–
<b>Incorporated in Scotland</b>						
Donkin Fans Limited	23	100,00	–	–	–	–
			<b>32 906</b>	<b>32 906</b>	<b>(6 656)</b>	<b>9 370</b>
<b>SUBSIDIARIES OF JAMES</b>						
<b>HOWDEN HOLDINGS LIMITED</b>						
<b>Incorporated in South Africa</b>						
Engart Africa (Pty) Limited	2	100,00	–	–	63	63
Howden Projects (Pty) Limited	200	100,00	1	1	19	11
Howden Power (Pty) Limited	15 000	100,00	15	15	171	554
<b>Incorporated in Australia</b>						
3T's Australia Pty Limited	650	90,00	–	–	–	–
<b>Incorporated in Scotland</b>						
Howden 3Ts International Limited	23	100,00	–	–	–	–
			<b>16</b>	<b>16</b>	<b>253</b>	<b>628</b>

	Issued ordinary share capital Dec 2005 R	Proportion held %	Details of holding company's interest			
			Shares at cost or valuation less amounts written off		Indebtedness	
			Dec 2005 R'000	Dec 2004 R'000	Dec 2005 R'000	Dec 2004 R'000
<b>SUBSIDIARIES OF GERTRUDE HOLDINGS LIMITED</b>						
<b>Incorporated in South Africa</b>						
Brumerose Properties (Pty) Limited	200	100,00	31	31	(425)	(565)
<b>SUBSIDIARIES OF HOWDEN HOLDINGS (PTY) LIMITED</b>						
<b>Incorporated in South Africa</b>						
Howden Donkin (Pty) Limited	10 000	100,00	8 295	8 295	16 490	16 615
Ventline Manufacturing (Pty) Limited	50 000	100,00	50	50	–	–
Luft Industries (Pty) Limited	300	100,00	–	–	–	–
Rumilross Properties (Pty) Limited	300	100,00	501	501	–	(3 271)
Donkin Manufacturing Company (Pty) Limited	16 380	100,00	4 000	4 000	(4 256)	(4 776)
Howden Pumpmaker (Pty) Limited	100	100,00	–	–	–	–
			<b>12 846</b>	12 846	<b>12 234</b>	8 568
Total Indebtedness					<b>5 406</b>	18 001
Reconciliation of total indebtedness						
Loans to subsidiaries (note 9)					<b>33 539</b>	49 212
Loans from subsidiaries (note 9)					<b>(28 135)</b>	(31 185)
Amounts owing by holding company and subsidiaries (Balance Sheet)					<b>1 119</b>	1 777
Less : Amounts owing to holding company (included in R(1 104) (2004 – R(1 803))					<b>(13)</b>	–
Amounts owing to subsidiaries (Balance sheet)					<b>(1 104)</b>	(1 803)
					<b>5 406</b>	18 001

\* Howden Africa Holdings Limited has management control in respect of these companies.

# Notice of Annual General Meeting

for the year ended 31 December 2005

## **HOWDEN AFRICA HOLDINGS LIMITED**

(Incorporated in the Republic of South Africa)

Registration number 1996/002982/06) ('the Company')

JSE Code: HWN; ISIN Code: ZAE 000010583

Notice is hereby given that the annual general meeting of the shareholders of the Company will be held at the Registered Office, 1a Booyens Road, Booyens, Johannesburg at 12h00 on Thursday, 15 June 2006 for the following purposes:

1. To receive and consider the annual financial statements for the year ended 31 December 2005;
2. To re-elect Messrs RJ Cleland and AB Mashiatsidi who retire by rotation from the board of directors, in terms of the Company's Articles of Association; (Please see note 1)
3. To approve the remuneration of directors;
4. To appoint Messrs PricewaterhouseCoopers Inc. as auditors of the Company;
5. To place no more than 5% of the unissued share capital of the Company under the control of the directors in terms of Section 221 of the Companies Act 1973 as amended ("the Act"), and to renew the authority of the directors to allot and issue no more than 5% of the unissued shares of the Company on such terms and conditions as they may deem fit, subject to the provisions of the Act, and the requirements of the JSE Limited ("JSE");

### **6. SPECIAL RESOLUTION NUMBER 1:**

#### **General approval to permit the Company to acquire shares of the Company**

"Resolved that, by way of general approval, Howden Africa Holdings Limited ("the Company") is authorised in terms of the Articles of Association of the Company to acquire Howden Africa shares in terms of sections 85 to 89 of the Act and of the Listings Requirements of the JSE from time to time, which Listings Requirements currently provide *inter alia* that:

- any such acquisition of Howden Africa shares shall be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the Company and the counter party (reported trades are prohibited);
- this general authority shall only be valid until the Company's next annual general meeting; provided that it shall not extend beyond fifteen months from the date of passing of this special resolution number 1;
- at any point in time the Company may only appoint one agent to effect any repurchase/s on its behalf;
- the Company may only undertake a repurchase of Howden Africa shares if, after such repurchase, it still complies with paragraphs 3.37 to 3.41 of the JSE Listings Requirements concerning shareholder spread requirements;
- the Company may not repurchase Howden Africa shares during a prohibited period as defined in paragraph 3.67 of the JSE Listings Requirements;
- an announcement will be published as soon as the Company has acquired Howden Africa shares constituting, on a cumulative basis, 3% of the number of Howden Africa shares in issue at the time the authority is granted and for each subsequent 3% purchased thereafter, containing full details of such acquisition;
- acquisitions in the aggregate in any one financial year by the Company may not exceed 20% of the number of Howden Africa shares in issue at the commencement of such financial year;
- in determining the price at which Howden Africa shares are acquired by the Company in terms of this general authority, the maximum premium at which such shares may be purchased will be

10% of the weighted average of the market value of Howden Africa shares for the five business days immediately preceding the date of the relevant transactions.”

The reason for the special resolution is to grant to the Company and to obtain a general approval in terms of the Act for the acquisition by the Company of Howden Africa shares. This general approval shall be valid until the earlier of the next annual general meeting or its variation or revocation by special resolution by any subsequent general meeting; provided that the general authority shall not extend beyond fifteen months from the date of passing of special resolution number 1.

It is the intention of the Company to act under the general authority referred to in special resolution number 1 if prevailing circumstances (including market conditions) warrant it.

The Howden Africa board having considered the impact which a purchase of 20% of the Howden Africa shares (being the maximum number of Howden Africa shares which may be purchased in terms of special resolution number 1) would have on the Company and the Howden Africa Group, is of the opinion that:

- the Company and the Howden Africa Group will be able in the ordinary course of business to pay its debts for a period of twelve months after the date of this annual report;
- the assets of the Company and the Howden Africa Group will be in excess of the liabilities of the Company and the Howden Africa Group for a period of twelve months after the date of this annual report;
- the working capital, ordinary capital and reserves of the Company and the Howden Africa Group will be adequate, for a period of twelve months after the date of this annual report.

Section 11.26 (b) of the JSE Listings Requirements requires the following disclosure, part of which is included in the annual report of which this notice forms part:

- directors and management (pages 2-3);
- major shareholders of the Company (page 63);
- material changes in the financial or trading position of the Company and its subsidiaries since the date of the Company's financial year-end and the date of this notice;
- directors' interest in Howden Africa shares (page 29);
- share capital of the Company (pages 62-63);
- directors' responsibility statement – the directors, whose names appear on pages 2 to 3 of this annual report of which this notice forms part, collectively and individually accept full responsibility for or information pertaining to special resolution number 1 and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such fact have been made and that special resolution number 1 contains all such information (page 26);
- litigation statement (page 70).

# Notice of Annual General Meeting (continued)

for the year ended 31 December 2005

## Note 1

Directors who are retiring by rotation and seeking re-election:

### **R J CLELAND (58)**

#### ***Non-Executive Director (British)***

Bob Cleland was appointed Chief Executive of Howden in 1999. He was previously Group Operations Director on the Board of Triplex Lloyd plc and prior to that was an Executive of British Steel Stainless, now AvestaPolarit. He was appointed Non-Executive Director of the Howden Africa Holdings Limited board on 2 March 2000.

### **A B MASHIATSHIDI (45)**

#### ***Independent Non-Executive Director***

Arthur Mashiatsidi is Chief Executive of Decorum Capital Partners (Pty) Limited, a company that manages the New Africa Mining Fund. He serves as non-executive director on the boards of various companies and institutions including: Thebe Investment Corporation (Pty) Limited, Thebe Risk Solution (Pty) Limited, Financial Markets Advisory Board, University of Cape Town (Graduate School of Business Advisory Board).

## VOTING AND PROXIES

All shareholders will be entitled to attend, speak and vote at the annual general meeting.

Each shareholder is entitled to appoint one or more proxies (who need not be shareholders of the Company), to attend and speak and vote in place of that shareholder at the annual general meeting.

A form of proxy is attached for any shareholder who is unable to attend the annual general meeting, but wishes to be represented thereat. It must be completed and lodged with or sent to the Company Transfer Secretaries, Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street, Johannesburg, 2001, Republic of South Africa (P O Box 61051, Marshalltown, 2107), to be received by them not later than 12h00 on Tuesday, 13 June 2006. Any shareholder who completes and lodges the form of proxy will nevertheless be entitled to attend and vote in person should such shareholder afterwards decide to do so.

- If you **have not** yet dematerialised your shares in the Company and therefore hold a share certificate, you must complete the attached form of proxy in accordance with the instructions therein and lodge it with the transfer secretaries of the Company namely, Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 Republic of South Africa (PO Box 61051, Marshalltown, 2107) to be received by not later than 12:00 on Tuesday, 13 June 2006;
- If you **have** already dematerialised your shares in the Company, but the shares are in your own name, you must complete the attached form of proxy in accordance with the instructions therein and lodge it with the transfer secretaries of the Company namely, Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 Republic of South Africa (PO Box 61051, Johannesburg, 2107) to be received by not later than 12:00 on Tuesday, 13 June 2006; or
- If you **have** already dematerialised your shares in the Company through a CSDP or broker, but the shares are not your own name, you should notify your duly appointed Central Securities Depository Participant ("CSDP") or broker, as the case may be, in the manner stipulated in the agreement governing your relationship with your CSDP or broker of your instructions as regards voting your shares at the general meeting.

*By order of the board*



**MICHAEL JOHN MILLARD LAKE**

Company Secretary

16 April 2006

# FORM OF PROXY

## HOWDEN AFRICA HOLDINGS LIMITED

(Incorporated in the Republic of South Africa) (Registration number 1996/002982/06)

JSE Code: HWN; ISIN Code: ZAE 000010583

("the Company")

FORM OF PROXY: ELEVENTH ANNUAL GENERAL MEETING OF THE COMPANY TO BE HELD AT 12h00 ON 15 JUNE 2006 AT  
1a BOOYSENS ROAD, BOOYSENS, JOHANNESBURG

for use by shareholders who:

- hold shares in certificated form; or
- have dematerialised their shares (ie, have replaced the paper share certificates representing the shares with electronic records of ownership under the JSE's electronic settlement system (STRATE Limited) and are recorded in the sub-register in "own name" dematerialised form) (ie, shareholders who have specifically instructed their Central Securities Depository Participant ("CSDP") to hold their shares in their own name).

If you are unable to attend the tenth annual general meeting of the members convened for 12h00 on Thursday, 15 June 2006 and wish to be represented thereat, you must complete and return this form of proxy as soon as possible, but in any event to be received by not later than 12h00 on Tuesday, 13 June 2006, to Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 Republic of South Africa, PO Box 61051, Marshalltown, 2107.

Shareholders who have dematerialised their shares and are not registered as own name dematerialised shareholders and who wish to attend the annual general meeting, must instruct their CSDP or broker to provide them with the relevant letter of representation to enable them to attend such meetings, or, alternatively, should they wish to vote but not to attend the annual general meeting they must provide their CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker in the manner and cut-off time stipulated therein.

**Such shareholders must not complete this form of proxy.**

I/We

(Name in block letters)

of

being a member(s) of the Company

and being the holder(s) of  ordinary shares in the Company,  
do hereby appoint:

- |    |    |                    |
|----|----|--------------------|
| 1. | of | or failing him/her |
| 2. | of | or failing him/her |
| 3. | of | or failing him/her |

the Chairman of the annual general meeting, as my/our proxy to act for me/us at the annual general meeting of the Company to be held on **Thursday, 15 June 2006 at 12h00** and at any adjournment thereof, at the Company's Registered Office, 1a BooySENS Road, BooySENS, Johannesburg and to vote for me/us on my/our behalf in respect of the undermentioned resolutions in accordance with the following instructions:

	Number of ordinary shares		
	For	Against	Abstain
1. Annual Financial Statements			
2. Re-election of R J Cleland			
3. Re-election of A B Mashiatshidi			
4. Remuneration of directors			
5. Appointment of auditors			
6. Placing of unissued shares under control of directors			
7. Special Resolution Number 1 General approval to permit Company to acquire shares of the Company			

Signed at \_\_\_\_\_ on \_\_\_\_\_ 2006

Signature \_\_\_\_\_ Assisted by me \_\_\_\_\_

(where applicable)

Each shareholder is entitled to appoint one or more proxies (who need not be shareholders of the Company) to attend, speak and, on a poll, vote in place of that shareholder at the annual general meeting.

PLEASE READ THE NOTES ON THE REVERSE HEREOF

The form of proxy must only be used by certificated shareholders or shareholders who hold dematerialised shares in their "own name". Other shareholders are reminded that the onus is on them to communicate with their CSDP or broker.

Instructions on signing and lodging the annual general meeting proxy form:

1. A deletion of any printed matter and the completion of any blank spaces need not be signed or initialled. Any alteration must be signed, not initialled.
2. The Chairman shall be entitled to decline to accept the authority of the signatory:
  - (a) under a power of attorney; or
  - (b) on behalf of a company,if the power of attorney or authority has not been deposited at the office of the Company's transfer secretaries, Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street, Johannesburg, 2001, Republic of South Africa, (PO Box 61051, Marshalltown, 2107), by not later than 12h00 on Tuesday, 13 June 2006.
3. The signatory may insert the name(s) of any person(s) whom the signatory wishes to appoint as his/her proxy in the blank spaces provided for that purpose.
4. When there are joint holders of shares and if more than one of such joint holders be present or represented, the person whose name stands first in the register in respect of such shares of his/her proxy, as the case may be, shall alone be entitled to vote in respect thereof.
5. The completion and lodging of this form of proxy will not preclude the signatory from attending the meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof should such signatory wish to do so.
6. Forms of proxy may be deposited at the office of the Company's transfer secretaries, Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street, Johannesburg 2001, Republic of South Africa (PO Box 61051, Marshalltown, 2107), by not later than 12h00 on Tuesday, 13 June 2006.
7. If the signatory does not indicate in the appropriate place on the face hereof how he/she wishes to vote in respect of a particular resolution, his/her proxy shall be entitled to vote as he/she deems fit in respect of that resolution.
8. The Chairman of the annual general meeting may reject any proxy form which is completed other than in accordance with these instructions, provided that he may accept such proxy forms where he is satisfied as to the manner in which a member wishes to vote.