



Howden Africa Holdings Limited  
Annual Report 2008

Howden Africa Holdings Limited Annual Report 2008

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## 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).



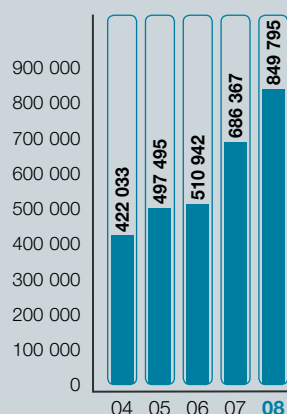


# Other Group salient features

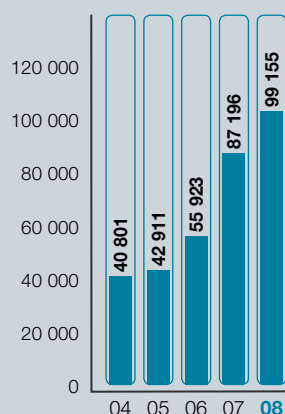
for the year ended 31 December

	<b>2008</b> <b>R'000</b>	2007 R'000	2006 R'000	2005 R'000	2004 R'000
Net asset value per share (cents)	<b>99,97</b>	133,96	39,81	264,75	233,19
Depreciation	<b>3 511</b>	3 312	2 540	2 625	2 081
Amortisation	<b>2 167</b>	1 881	1 834	1 720	1 700
Capital expenditure	<b>18 879</b>	11 311	5 120	5 878	3 424
Capital commitments					
– Authorised and contracted	<b>2 842</b>	4 685	286	463	1 288
– Authorised not contracted	<b>—</b>	—	4 787	—	19
Operating profit to revenue	<b>11,28%</b>	12,96%	10,21%	7,21%	7,75%
Number of employees	<b>520</b>	492	443	437	469
Closing share price (cents)	<b>1 035</b>	1 000	400	490	220
Total number of shares traded	<b>4 767 207</b>	5 582 799	9 146 620	11 209 071	17 545 631
Average price for the year (cents)	<b>981</b>	692	471	399	176
Total value of shares traded at average price (R)	<b>46 759 690</b>	38 632 969	43 080 580	44 724 193	30 880 311
Volume of shares traded to total weighted average number of shares (%)	<b>7,25%</b>	8,49%	13,92%	17,05%	26,69%

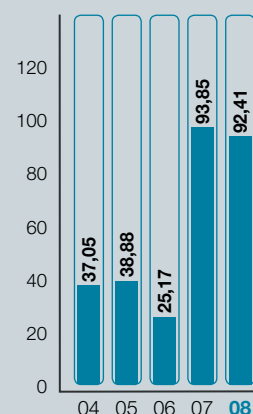
Revenue (R'000)



Profit before tax (R'000)



Earnings per share (cents)



# Directorate



| 1 | **RJ CLELAND**  
*Non-executive director and  
Chairman (British)*



| 2 | **S MEYER**  
*Group Financial Director*



| 6 | **J BROWN**  
*Non-executive director (British)*



| 3 | **M MALEBYE**  
*Independent non-executive director*



| 5 | **T BÄRWALD**  
*Chief Executive Officer (German)*



| 4 | **AB MASHIATSHIDI**  
*Independent non-executive director*

## 1. RJ CLELAND | 61 |

*Non-executive director and Chairman (British)*

Bob Cleland was appointed Chief Executive of Howden Global 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 part of Outokumpu. He was appointed a non-executive director of Howden Africa Holdings Limited board on 2 March 2000.

## 2. S MEYER | 54 |

*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.

## 3. M MALEBYE | 37 |

*Independent non-executive director*

Morongwe Malebye provides consulting services in mining. She is a qualified engineer. She has graduated with an M.Sc Industrial Engineering and B.Sc Mechanical Engineering degrees, and in addition has completed an MBA. She has worked at Eskom, Sasol, Spoornet, Armscor and Babcock Africa. She serves on the board of African Oxygen Limited (Afrox) and is a mentor for the Allan Gray Foundation.

## 4. AB MASHIATSHIDI | 49 |

*Independent non-executive director*

Arthur Mashiatsidi is an independent businessman; his primary activities consist of managing his portfolio of private investments; he serves as an independent director on the board of TCS (Tosaco Commercial Services) and as non-executive director of other companies where he has significant economic interest. He serves on the Admissions Committee of the AltX of the JSE Limited (JSE).

## 5. T BÄRWALD | 46 |

*Chief Executive Officer (German)*

Thomas Bärwald originally relocated from Germany to join Howden Africa in 1990. He was promoted to Operations Director of Howden Power, a division of James Howden Holdings Limited in September 1997. In 1998 he relocated to Australia and was appointed Executive Director of Howden Australia in 1999 and Managing Director of Howden Australia (China) in 2007 to lead a change management assignment for a period of 18 months ending December 2008.

## 6. J BROWN | 49 |

*Non-executive director (British)*

James Brown, after qualifying as a chartered accountant, joined British Aerospace. In 1989 he joined 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. Since 2008 he has been responsible for the development of Howden business activities in South America.

# Five year Group financial summary

for the year ended 31 December

<b>SUMMARISED INCOME STATEMENTS</b>	<b>2008 R'000</b>	2007 R'000	2006 R'000	2005 R'000	2004 R'000
Revenue	<b>849 795</b>	686 367	510 942	497 495	422 033
Operating profit	<b>95 833</b>	88 979	52 154	35 893	32 693
Net finance income/(costs)	<b>3 322</b>	(1 908)	713	4 878	4 111
Loss on disposal of associate	<b>—</b>	(1 028)	—	(1 182)	—
Share of profit of associate	<b>—</b>	1 153	3 056	3 322	3 997
<b>Profit before income tax</b>	<b>99 155</b>	87 196	55 923	42 911	40 801
Income tax expense	<b>(38 414)</b>	(24 753)	(35 349)	(13 753)	(12 335)
<b>Profit for the year</b>	<b>60 741</b>	62 443	20 574	29 158	28 466
Minority shareholders' interest	<b>—</b>	759	4 032	3 605	4 114
<b>Profit for the year</b>	<b>60 741</b>	61 684	16 542	25 553	24 352
Earnings per share (cents)	<b>92,41</b>	93,85	25,17	38,88	37,05
<b>Dividends per share:</b>					
– dividend paid (cents)	<b>15,0</b>	0,0	0,0	4,0	4,0
– special dividend paid (cents)	<b>100,0</b>	0,0	241,0	0,0	47,0
– interim dividend paid (cents)	<b>10,0</b>	0,0	6,0	6,0	5,0
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>2008 R'000</b>	2007 R'000	2006 R'000	2005 R'000	2004 R'000
<b>ASSETS</b>					
<b>Non-current assets</b>	<b>192 850</b>	125 904	138 133	137 106	134 761
<b>Current assets</b>	<b>308 023</b>	241 605	202 711	221 960	178 489
Inventories	<b>44 816</b>	32 197	32 431	18 656	14 778
Trade and other receivables	<b>210 839</b>	189 506	127 925	105 778	77 231
Cash and cash equivalents	<b>52 368</b>	19 902	42 355	97 526	86 480
<b>Total assets</b>	<b>500 873</b>	367 509	340 844	359 066	313 250
<b>EQUITY</b>					
<b>Capital and reserves</b>					
Shareholders' funds	<b>65 706</b>	88 049	26 166	174 015	153 276
Minority interest	<b>—</b>	—	8 850	10 226	6 771
<b>LIABILITIES</b>					
Non-current liabilities	<b>136 542</b>	29 022	95 672	17 180	12 611
Current liabilities	<b>298 625</b>	250 438	210 156	157 645	140 592
<b>Total equity and liabilities</b>	<b>500 873</b>	367 509	340 844	359 066	313 250

# Value added statement

for the year ended 31 December 2008

	<b>2008</b>	2007
	<b>R'000</b>	R'000
<b>Revenue</b>	<b>849 795</b>	686 367
Finance income	<b>13 310</b>	7 426
Income from associate company net after tax	—	1 153
Less: Paid to suppliers for materials and services	<b>(508 208)</b>	(459 680)
<b>Total value added</b>	<b>354 897</b>	235 266
<b>Distributed as follows:</b>		
To employees as salaries, wages and other benefits	<b>181 701</b>	111 852
To lenders finance costs	<b>9 988</b>	11 228
To depreciation and amortisation	<b>5 678</b>	5 193
To shareholders as dividends	<b>82 160</b>	—
To government as tax expense	<b>38 414</b>	24 753
To (proceeds from)/repayments of borrowings	<b>(31 143)</b>	68 710
<b>Total value added distributed</b>	<b>286 798</b>	221 736
Portion of value added reinvested to sustain and expand the business	<b>68 099</b>	13 530
<b>Total value added distributed and reinvested</b>	<b>354 897</b>	235 266

# Group at a glance



## Fans and Heat Exchangers

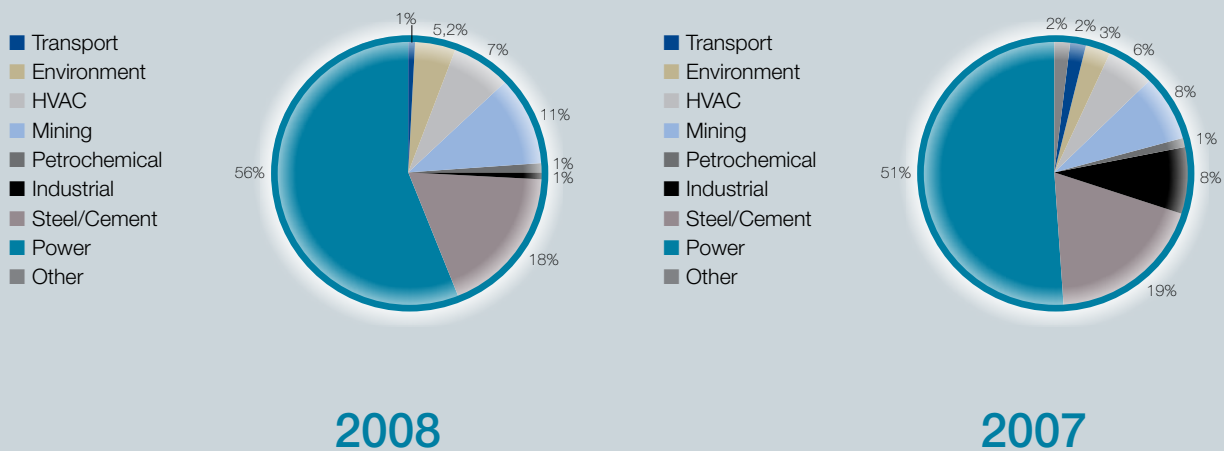
**PRODUCTS** BOILER FANS, HEAT EXCHANGERS, SITE SERVICES, HVAC FANS, STANDARD AND INDUSTRIAL FANS AND BLOWERS, MAIN SURFACE FANS, AUXILIARY MINE FANS, CENTRIFUGAL BLOWERS AND DUST EXTRACTION ON COAL MINES.



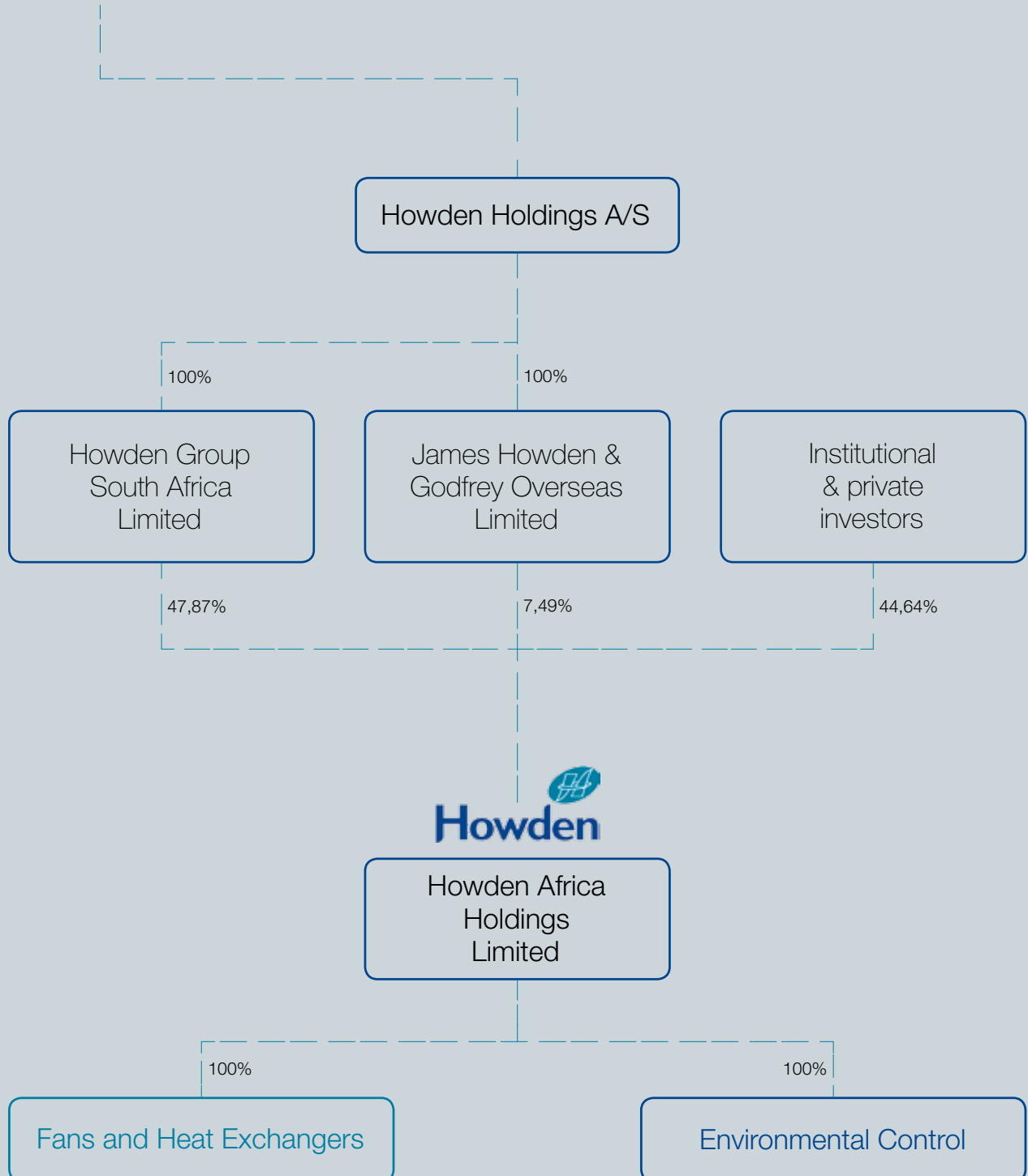
## Environmental Control

**PRODUCTS** GAS CLEANING PLANT, COMBUSTION ENGINEERING, FURNACES, INCINERATORS, PROCESS COMPRESSORS, REFRIGERATION EQUIPMENT, WATER CHILLERS, POSITIVE DISPLACEMENT BLOWERS, WASTE WATER TREATMENT AND CONTROL AND INSTRUMENTATION.

Percentage of market served by industry



Charter International plc



# Chairman's statement



**RJ CLELAND**  
*Non-Executive Chairman*

I am pleased to report another satisfactory set of results for the year ended 31 December 2008, with increases in both revenue and order intake volumes resulting in improved operating profit and a record order book at year-end.

## **GENERAL REVIEW**

In 2008 revenue of R849,8 million is reported compared to R686,4 million in 2007, an increase of 23,8%, and operating profit increased by 7,7% to R95,8 million (2007: R89,0 million). The increase in revenue in both divisions, improved margins in the Environmental Control division, offset by increased costs to support business growth, have resulted in an improved operating profit. Profit margins are slightly reduced due to increased environmental control revenue volumes and infrastructure costs, but remain at healthy levels.

A key milestone has been reached with the Group reporting order intake levels above one billion Rand for the first time since listing. A number of large-value orders were converted through the year connected to Eskom's new build programme and a significant order for environmental control systems was received from ArcelorMittal. These orders result in a record year-end order book at a time when much uncertainty prevails in industry nationwide. The delivery of this order book is spread over the next few years but gives encouragement moving into 2009.

Order intake during the year in the Fan and Heat Exchangers division at R849,3 million is 52,5% higher than last year with good contributions from all three fan business units. Growth in the power market has been particularly strong, supported by good contributions from infrastructure projects connected to the 2010 FIFA World Cup.

The Environmental Control division recorded order intake levels 87,6% above last year at R407,0 million. The consolidation of businesses in this division continues to reflect positively on Group results and efforts to continue building on the range of environmental control technologies places the business in a strong position to respond to local needs.

The review of operations covers the divisions more specifically.

## **STRUCTURAL CHANGES TO GROUP ACTIVITIES**

No significant changes to Group structures have been made over the last year.

## **BLACK ECONOMIC EMPOWERMENT**

Strategies to improve our BEE status covering management control, employment equity, skills development, procurement, enterprise development and socio-economic development have been agreed and appropriate action plans put in place



to improve our standing in line with the DTI's generic scorecard. It is pleasing to report that the Group has been independently verified and is deemed to be a generic enterprise in terms of the Codes of Good Practice released by the DTI in February 2007.

### **HEALTH AND SAFETY**

The importance of health and safety continues to be emphasised by ensuring that performance and progress on improvement actions are considered as a formal agenda item at meetings of senior management and at board meetings. Health and safety resources have been strengthened at Group level to assist with additional training and make further progress towards OHSAS 18001 accreditation. In this regard it is pleasing to report that the Johannesburg and Port Elizabeth sites have received accreditation. Raising the profile of health and safety throughout the Group is in line with Howden Global's policy to achieve a safety culture where managers and employees believe a lost time accident rate of zero is realistic.

### **ENVIRONMENTAL COMPLIANCE**

The Group is committed to the needs of customers in an environmentally sound and sustainable manner, through continual improvement in our environmental performance in all activities. Howden technology and know-how helps the power generation, oil and gas, mining and other industries it supplies to operate in a more environmentally friendly manner. Progress has been made through the year towards ISO 14001 accreditation, the objective being to achieve these standards in all business units.

### **BOARD OF DIRECTORS**

In August 2008 it was announced that Mr Thomas Bärwald would be appointed to the board as Chief Executive Officer when he formally takes on the position in January 2009. I am pleased to confirm that this appointment has been made.

### **DIVIDENDS**

In line with our previous intention to commit to regular dividend payments, it is pleasing to announce the declaration of a dividend of 15 cents per share payable to shareholders for the year ended 31 December 2008.

### **MANAGEMENT**

In conclusion, I thank management and staff for the contribution made through the year in generating an excellent set of results.

A handwritten signature in black ink, appearing to read 'RJ Cleland', with a long horizontal stroke extending to the right.

**RJ CLELAND**

*Non-Executive Chairman*

12 May 2009

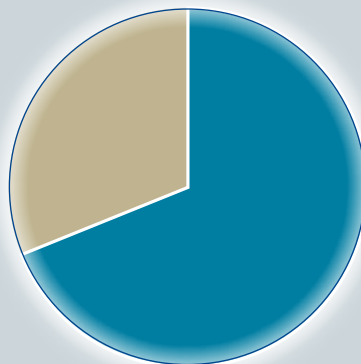
# Fans and Heat Exchangers



Creating healthy work places



- The fan business focused on the mining market started the year with a strong opening order book and this, together with normal repeat business, resulted in further improvements to last year
- The standard fan business enjoyed another year of improved results supported by activities associated with the 2010 FIFA World Cup infrastructure build programme
- It is satisfying to report orders totalling R176 million for the supply of product to Medupi Power Station over the next few years



Contribution to Group revenue  
69%

# Review of operations

## Fans and Heat Exchangers

Order intake for fans and heat exchangers totalled R849 million, which represents 67,6% of the total compared to R557 million (72,0%) in the previous year.

The standard fan business enjoyed another year of improved results supported by growth in export markets and activities associated with the 2010 FIFA World Cup infrastructure build programme. Improved business activity in the industrial sector was achieved compared to last year despite evidence of a slowdown towards the end of the year. Tender activity overall remains robust and the business is well placed to maintain operating results at levels which have been built over recent years.

The fan business focused on the mining market started the year with a strong opening order book and this, together with normal repeat business, resulted in further improvements in results compared to last year. This business unit also markets cooling tower fans and successfully converted a large value order for supply to Medupi Power Station over the life of the build programme at this site. A satisfactory closing order

book, repeat business, and success in converting select new build opportunities should result in performance levels being maintained through the year.

The return to service (RTS) project in Eskom covering the Camden, Komati and Grootvlei power stations continues to support high levels of business activity in Howden Power. Manning levels have increased accordingly and the business continues to provide every assistance in supporting Eskom's capacity expansion programme. A higher cost structure has been necessitated in maintaining this support and it is therefore satisfying to report orders totaling R176 million for the supply of product to Medupi Power Station over the next few years. Work associated with the RTS programme is coming to an end but the business is budgeting to replace this reduction in business with new build activities and additional aftermarket work moving forward.

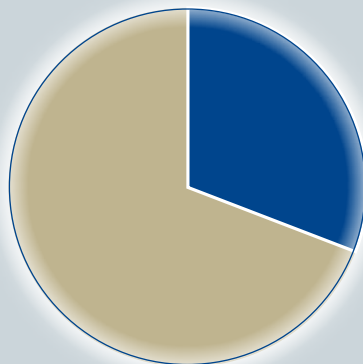
Strong order book levels and existing prospects support the view that another good year of earnings should be forthcoming in the Fans and Heat Exchangers division in 2009.



# Environmental Control



- A focus on dust extraction technologies has been broadened to cover gas treatment as well
- The division received an order to the value of R140 million for a melt-shop de-dusting system at ArcelorMittal
- A licence agreement has been signed with GEA Niro, a Denmark-based company, for the supply of its dry FGD technology into southern African markets



Contribution to Group revenue  
31%

# Review of operations

## Environmental Control

The Environmental Control division recorded orders of R407 million, representing 32,4% of the total, compared to R217 million (28,0%) in the previous year.

The division continues to look for opportunity to expand its portfolio of environmental control technologies and in this regard successfully concluded an order to the value of R140 million for a melt-shop de-dusting system at ArcelorMittal. This contract was won in partnership with BSE, a German-based company, which is an international leader in modelling melt-shop environments and designing systems for the ventilation and cleaning of gases produced during melting and charging. A focus on dust extraction technologies has broadened to cover gas treatment as well, leading to the signing of a licence agreement with GEA Niro, a Denmark-based company, for the supply of its dry FGD technology into southern African markets.

An order was processed in the year to retrofit the remaining two boilers at Camden Power Station with fabric filters in order to improve stack emissions. This contract has largely been seen through to completion, resulting in the successful retrofit of all precipitators to fabric filters at the Camden site and increasing the installed base of this technology to five power stations,

both Eskom and municipal. We are extremely proud of these installations and the improvements they have brought to the immediate environments in which they operate.

Changes in market conditions resulting from the global financial crisis have resulted in many customers reviewing their larger value capital expenditure programmes and this could raise challenges for the division in maintaining the order book at existing levels.

### OUTLOOK

It is pleasing to report that a fair measure of success has been achieved in generating a positive outcome connected to Eskom's new build programme.

Sales for 2009 will be underpinned by the order book which as at 1 January 2009 included orders worth R450 million for delivery in 2009. The order book continued to grow in the first quarter. Management remains vigilant to any softening of demand. The Group has worked extensively to ensure that its growth in recent years has been built on flexible supply chains and relatively low levels of fixed cost. With the visibility of a strong order book, the Group will be able to respond proactively to any slowdown in order intake.





Investing in our future leaders



Howden Africa's approach to sustainability is grounded in the belief that our stakeholders gave us our licence to operate, therefore the way we do business as a responsible corporate company must be in their best interests. Accordingly, sustainability is an integral part of our business at the economic, social and environmental level and spans our employees, suppliers, communities, business partners, media and the government at every level.

## **OUR PEOPLE**

In addition to complying with national labour legislation, we have several initiatives under way to develop our people and ensure their well-being in a fair and non-discriminatory workplace.

## **DEVELOPING INDIVIDUAL POTENTIAL**

Two representatives from Howden Africa attended the inaugural programme of the Howden Academy, hosted by Howden Global in Scotland in July 2008. The academy provides three weeks of intensive induction training and testing for engineers new to the Howden Group. Candidates also benefit from the professional and social networks formed across 16 countries that make up the global Group. Another three Howden Africa representatives attended the November programme.

The Group's apprenticeship training programme is aligned with the objectives of national skills development legislation. Since the inception of this programme in January 2004 young people have benefited by obtaining recognised qualifications. In addition, Howden contributes to the education of staff members' children through sponsorships for tertiary education – particularly for those entering careers in engineering – and at secondary and primary levels.

## **WELLNESS**

Howden provides an ongoing HIV/Aids awareness programme for staff as part of our commitment to preventing the spread of infection among our workforce. We marked World Aids Day by opening a memorial garden at our Johannesburg site to honour those infected and affected by this disease.

The Howden Wellness Day in November gave staff the opportunity to identify and monitor health issues relating to obesity, hypertension, heart disease and blood sugar. Voluntary and confidential counselling and testing were offered for HIV/Aids and other conditions.

# Sustainable development

## CORPORATE SOCIAL INVESTMENT

Howden's formal corporate social investment (CSI) programme is closely aligned with our business objectives. The aim of the programme is to contribute to an improved and equitable social environment by providing support and opportunities in the communities where we operate.

We concentrate on projects that have been identified as sustainable, address a social need and ultimately offer a means to help communities help themselves through empowerment or developing lasting skills that can lead to a better quality of life. We also look for projects that give our own people the opportunity to participate on a personal level.

Our current flagship project is based in Port Elizabeth. Working with Howden subsidiary Donkin Fans, we are sponsoring the Viva English project at Mount Pleasant School which aims to improve pupils' skills in this language as the gateway to opportunity in the 21st Century.

Howden has a long-standing relationship with a number of established organisations, including Cotlands, St Mary's Orphanage, and Girls & Boys Town, all based in Johannesburg. We also provide ongoing financial assistance, focused on academic improvement, to a designated beneficiary at United Cerebral Palsy. We also support community sports teams near customer sites by donating kits for team members. During the year, some R50 000 was allocated to *ad hoc* requests from different non-government organisations.

Howden maintains its membership of the Business Trust, a partnership between private sector and government aimed at creating jobs and building capacity. In support of this initiative, Howden staff members participated in the annual Business Trust corporate relay, run from Qunu in the Eastern Cape to Soweto.



## OVERVIEW

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 Report on Corporate Governance. The board endorse the Code of Corporate Practices and Conduct contained in the King Report on Corporate Governance for South Africa 2002 (King II report), and believes 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 requirements concerning corporate governance in the Listings Requirements of the JSE Limited, South Africa.

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 is balanced between executive and non-executive directors. The roles of Chairman and Chief Operating Officer vest in different persons. There are presently four non-executive directors and two executive directors, none of whom has 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 attend 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 to retire 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.

## ATTENDANCE AT MEETINGS

There were four meetings held during the year.

Director	Date appointed	Attendance
RJ Cleland	2 March 2000	4/4
AB Mashiatshidi	31 July 2003	4/4
S Meyer	3 May 1996	4/4
M Malebye	7 November 2007	4/4
J Brown	1 March 2005	3/4

## AUDIT COMMITTEE

The Audit Committee consists of two independent non-executive directors with the company secretary as secretary.

The 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 Audit Committee reports that it is satisfied that the appointment of the external auditors is such that the auditor appointed is independent of the Company. 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 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	Attendance
AB Mashiatshidi (Chairman)	31 July 2003	2/2
M Malebye	7 November 2007	2/2

## 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 according 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 JSE requirements.

## REMUNERATION COMMITTEE MEETINGS ATTENDANCE

There was one meeting held during the year.

Director	Date appointed	Attendance
RJ Cleland	02 March 2000	1/1
J Brown	1 January 2007	1/1

## 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.

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, audit committee 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 2008. The internal audit examine and evaluate the adequacy and effectiveness of the organisation's system of internal control and quality performance in carrying out assigned responsibilities.

## ETHICAL STANDARDS

Howden Africa Holdings Limited has adopted a code of conduct 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 and whistle blowing procedures are in place to encourage the reporting

of unethical behaviour. The directors are of the opinion that ethical standards are being met and supported by the code.

## THE 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 preventive 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.

## BUSINESS CONTINUITY PLAN

The Group has a business continuity plan in place to enable Howden Africa to manage risks and prevent incidents and disasters. It also give guidance in reporting to such incidents. The plan is divided into two sections; Proactive Risk Management and Post Incident Plan.

This plan is managed by the Business Continuity Management Committee and the Crisis Management Committee. The Business Continuity Management Committee is responsible for proactive risk management, disaster prevention and minor incidents. The Crisis Management Committee is there to assist in major incidents or disasters.

## HUMAN RESOURCES

### *Employment equity, Skills Development and Empowerment*

The Company is committed to empowering all its employees, particularly those from previously disadvantaged backgrounds. The Employment Equity Act and Skills Development Act provide a useful framework for formalising our approach. Recruitment and development strategies are aligned to this objective and advancement is achieved by training, rewarding and managing our talent effectively. Programmes such as our mentorship and engineers in training initiatives ensure that we grow internal talent pipelines as well as contribute to the broader national agenda on skills development. We are proud of our Apprenticeship programme which continues to add qualified artisans into our workforce as well as into the broad labour market.

## 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 and prudent 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.

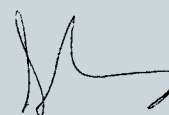
These financial statements, which appear on pages 28 to 71, have been approved by the board of directors and are signed on its behalf by:



**J BROWN**

*Non-Executive Director*

12 May 2009



**S MEYER**

*Group Financial Director*

## Certificate of the company secretary

In my opinion as company secretary, I hereby confirm, in terms of section 268 (d) of the Company's Act, 1973, as amended, that for the year ended 31 December 2008, the Company has lodged, with the Registrar of Companies, all such returns as required of a public company in terms of this Act and that all such returns are true, correct and up to date.



**MM LUTHULI**

*Company Secretary*

12 May 2009

## INTRODUCTION

The Audit Committee has pleasure in submitting this report, as required by sections 269A and 270A of the Companies Act, which was promulgated in the course of the year, as part of the measures contained in the Corporate Laws Amendment Act 2006.

## FUNCTIONS OF THE AUDIT COMMITTEE

The functions of the Audit Committee include:

Review of the year-end financial statements, culminating with a recommendation to the board;

Review of the external audit report, after audit of the year-end financial statements;

Review of the internal audit and risk management reports, with, when relevant, recommendations being made to the board;

In the course of its review the committee:

- takes appropriate steps to ensure that financial statements are prepared in accordance with International Financial Reporting Standards (IFRS);
- considers and, when appropriate, makes recommendations on internal financial controls;
- verifies the independence of the external auditor and of any nominee for appointment as external auditor;
- authorises the audit fees in respect of the year-end audits;
- specifies guidelines and authorises contract conditions for the award of non-audit services to the external auditors;
- evaluates the effectiveness of risk management, controls and the governance processes;
- deals with concerns or complaints relating to the following:
  - accounting policies;
  - internal audit;
  - the audit or content of annual financial statements; and
  - internal financial controls.

## MEMBERS OF THE AUDIT COMMITTEE

The membership of the Audit Committee consists of two independent non-executive directors, AB Mashiatsidi (chairman) and M Malebye.

The members of the Audit Committee have at all times acted in an independent manner.

## FREQUENCY OF MEETINGS

The Audit Committee met twice in the financial year under review. Provision is made for additional meetings to be held, when and if necessary.

## PERSONS “IN ATTENDANCE” AND “BY INVITATION”

The external auditors, in their capacity as auditors to the Company, attended and reported to all meetings of the Audit Committee. Executive directors and relevant senior managers attended meetings on a “by invitation” basis.

## INDEPENDENCE OF AUDIT

During the year under review the Audit Committee reviewed a report by the external auditor and, after conducting its own review, confirmed the independence of the auditor.

## EXPERTISE AND EXPERIENCE OF FINANCIAL DIRECTOR

As required by the JSE Listings Requirements 3.84(h), the Audit Committee has satisfied itself that the financial director has appropriate expertise and experience.

# Report of the independent auditors

We have audited the annual financial statements of Howden Africa Holdings Limited, which comprise the balance sheet as at 31 December 2008, the income statement, the statement of changes in equity, the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 28 to 71.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

## AUDITORS' RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

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

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

## OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2008, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.



**PRICEWATERHOUSECOOPERS INC.**

*Director: G Hauptfleisch*

Registered Auditor

12 May 2009



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# Directors' report

The directors have pleasure in submitting the annual report of the Group for the year ended 31 December 2008.

<b>Group results</b>	<b>2008 R'000</b>	<b>2007 R'000</b>
Revenue	<b>849 795</b>	686 367
Orders received	<b>1 256 240</b>	773 700
Profit before income tax	<b>99 155</b>	87 196
Assets	<b>500 873</b>	367 509
Liabilities	<b>435 167</b>	279 460
Depreciation	<b>3 511</b>	3 312
Capital expenditure	<b>18 879</b>	11 311

The detailed segmental report is shown under notes to the financial statements, note 5 on pages 46 and 47.

A number of large-value orders received through the year resulted in record order intake levels and a closing order book of R718,9 million (2007: R309,6 million). The Fans and Heat Exchangers division recorded another impressive improvement in results, order intake levels increasing by 52,5% over 2007 driven mainly by the power and mining market sectors. The Environmental Control division recorded an improvement in order levels 87,6% above last year, supported by a good performance in the first half of the year.

Operating results achieved through the year benefited mainly from higher revenue volumes in the Fans and Heat Exchangers division, with good contributions from the mining and power markets.

During the year a special dividend of 100,0 cents per share was declared payable to all shareholders registered on the books of the Company on 30 July 2008. Together with STC the payment amounted to R72,3 million, financed from internal resources.

## FINANCIAL RESULTS

In 2008 revenue of R849,8 million is reported compared to R686,4 million in 2007, an increase of 23,8%, a strong opening order book and increased activity in field service work contributing to the improvement. The Environmental Control division continued to build on the higher base of business reported last year.

Profit before taxation of R99,2 million (2007: R87,2 million) is reported, higher revenue volumes and further improvement in results in the Environmental Control division largely accounting for the difference. Net finance income of R3,3 million compares to costs of R1,9 million reported last year, a favourable outcome reflecting strong operating cash flow generation by Group companies.

A taxation charge of R38,4 million (2007: R24,8 million) has been accrued, equivalent to 38,7% (2007: 28,4%) of profit before tax. The higher charge this year includes an STC amount of R8,2 million paid in respect of dividends of R82,2 million. Excluding this charge the rate calculates to 30,5%.

The comparisons below refer to the corresponding 12-month period to December 2007:

- Order intake amounted to R1 256 million compared to R774 million
- Operating profit of R95,8 million compared to R89,0 million
- Earnings per share of 92,4 cents compared to 93,9 cents
- At 31 December 2008 the Group's cash less borrowings resulted in the net cash position of R17,6 million compared to a net borrowings of R0,7 million last year.

## **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 Thomas Bärwald was appointed to the board as Chief Executive Officer on 1 January 2009.

In terms of the Company's articles of association, Messrs James Brown and Shane Meyer 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 pages 2 and 3 of the report.

### **Directors' interests**

At 31 December 2008, the aggregate direct beneficial interest of the directors in the issued ordinary shares of the Company was 185 960 shares (December 2007: 185 960) held by S Meyer and were acquired at the time of listing of the Company and through purchase on JSE listing.

At 31 December 2008, 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, other than those mentioned in subsequent events below.

### **Subsidiary companies**

A list of the Company's subsidiaries and its interests therein is given on pages 70 and 71 of the report.

### **Management by third parties**

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

## **SUBSEQUENT EVENTS**

There are no reportable subsequent events other than the appointment of Mr Thomas Bärwald as Chief Executive Officer.

Thomas Bärwald acquired 900 shares at an issue price of R5,10 when the Company listed in May 1996. This increased by another 9 shares in February 1997, connected to an award of capitalisation shares to shareholders declared at the time.

## **DIVIDEND**

The directors have resolved to declare a dividend of 15 cents per share payable to shareholders for the year ended 31 December 2008. The last date to trade cum dividend was Friday, 27 March 2009. Shares started trading ex dividend on Monday, 30 March 2009. The record date was Friday, 3 April 2009. Payment was made on Monday, 6 April 2009. No share certificates are to be dematerialised or rematerialised between Monday, 30 March 2009 and Friday, 3 April 2009, both days inclusive.

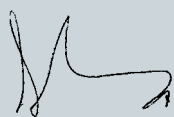
## **BASIS OF PREPARATION**

These financial statements on pages 28 to 71 set out fully the financial position, results of operations and cash flows of the Group for the financial year ended 31 December 2008.

## **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**

*Group Financial Director*

12 May 2009

# Balance sheets

as at 31 December 2008

	Notes	CONSOLIDATED		COMPANY	
		2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	6	56 393	43 217	11	24
Intangible assets	7	58 214	58 933	33 092	34 747
Investment in subsidiaries	8	—	—	89 310	89 310
Deferred income tax assets	19	27 908	21 044	212	209
Amounts due from customers for contract work	11	24 875	—	—	—
Trade and other receivables	12	8 489	2 710	—	—
Cash and cash equivalents	34	16 971	—	—	—
		<b>192 850</b>	125 904	<b>122 625</b>	124 290
<b>Current assets</b>					
Inventories	10	44 816	32 197	—	—
Trade and other receivables	12	169 750	114 507	—	12
Amounts due from customers for contract work	11	41 089	74 860	—	—
Derivative financial instruments	14	—	139	—	—
Amounts owing by Group companies		—	—	344 407	401 204
Cash and cash equivalents	34	52 368	19 902	2 540	552
		<b>308 023</b>	241 605	<b>346 947</b>	401 768
<b>TOTAL ASSETS</b>		<b>500 873</b>	367 509	<b>469 572</b>	526 058
<b>EQUITY</b>					
Capital and reserves attributable to equity holders of the Company	15	657	657	657	657
Retained earnings		65 049	87 392	241 708	304 960
		<b>65 706</b>	88 049	<b>242 365</b>	305 617
Minority interest in equity	17	—	—	—	—
<b>Total equity</b>		<b>65 706</b>	88 049	<b>242 365</b>	305 617
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Borrowings	18	50 000	20 000	—	—
Deferred income tax liabilities	19	5 118	5 342	—	—
Amounts due to customers for contract work	11	74 550	—	—	—
Provisions	21	6 874	3 680	—	—
		<b>136 542</b>	29 022	—	—
<b>Current liabilities</b>					
Trade and other payables	20	165 961	99 498	3 385	2 559
Amounts due to customers for contract work	11	100 339	138 941	—	—
Current income tax liabilities		21 479	5 082	4 622	3 065
Borrowings	18	1 759	616	—	—
Derivative financial instruments	14	—	102	—	—
Provisions	21	9 087	6 199	—	—
Amounts owing to Group companies		—	—	219 200	214 817
		<b>298 625</b>	250 438	<b>227 207</b>	220 441
<b>Total liabilities</b>		<b>435 167</b>	279 460	<b>227 207</b>	220 441
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>500 873</b>	367 509	<b>469 572</b>	526 058

# Income statements

for the year ended 31 December 2008

	Notes	CONSOLIDATED		COMPANY	
		2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>REVENUE</b>	22	<b>849 795</b>	686 367	—	—
Cost of sales		<b>(657 230)</b>	(524 652)	—	—
Gross profit		<b>192 565</b>	161 715	—	—
Distribution costs		<b>(28 355)</b>	(23 471)	—	—
Administrative expenses		<b>(68 377)</b>	(51 878)	<b>(6 978)</b>	(6 691)
Other income		—	2 613	<b>27 751</b>	16 308
<b>Operating profit</b>	23/24	<b>95 833</b>	88 979	<b>20 773</b>	9 617
Finance income	25	<b>13 310</b>	7 426	<b>12 745</b>	16 351
Finance costs	25	<b>(9 988)</b>	(9 334)	<b>(3)</b>	(4)
Loss on disposal of associate		—	(1 028)	—	(1 028)
Share of profit of associate		—	1 153	—	1 153
<b>Profit before income tax</b>		<b>99 155</b>	87 196	<b>33 515</b>	26 089
Income tax expense	26	<b>(38 414)</b>	(24 753)	<b>(14 607)</b>	(7 274)
<b>Profit for the year</b>		<b>60 741</b>	62 443	<b>18 908</b>	18 815
Attributable to:					
Equity holders of the company		<b>60 741</b>	61 684	<b>18 908</b>	18 815
Minority interest	17	—	759	—	—
		<b>60 741</b>	62 443	<b>18 908</b>	18 815
		<b>Cents</b>	Cents		
Earnings per share attributable to the equity holders of the Company during the year.					
– basic and diluted	28	<b>92,41</b>	93,85		

# Statement of changes in equity

for the year ended 31 December 2008

	Notes	Attributable to equity holders of the Company				Total R'000
		Share capital R'000	Retained earnings R'000	Foreign currency translation reserve R'000	Minority interest R'000	
<b>CONSOLIDATED</b>						
Balance at 1 January 2007		657	27 207	(1 698)	8 850	35 016
Movement for the year		—	—	199	—	199
Profit for the year		—	61 684	—	759	62 443
Minority interest acquired		—	—	—	(2 603)	(2 603)
Dividends paid		—	—	—	(7 006)	(7 006)
<b>Balance at 31 December 2007</b>		<b>657</b>	<b>88 891</b>	<b>(1 499)</b>	<b>—</b>	<b>88 049</b>
Balance at 1 January 2008		657	88 891	(1 499)	—	88 049
Movement for the year		—	—	(924)	—	(924)
Profit for the year		—	60 741	—	—	60 741
Dividends paid	27	—	(82 160)	—	—	(82 160)
<b>Balance at 31 December 2008</b>		<b>657</b>	<b>67 472</b>	<b>(2 423)</b>	<b>—</b>	<b>65 706</b>
<b>COMPANY</b>						
Balance at 1 January 2007		657	286 145	—	—	286 802
Profit for the year		—	18 815	—	—	18 815
<b>Balance at 31 December 2007</b>		<b>657</b>	<b>304 960</b>	<b>—</b>	<b>—</b>	<b>305 617</b>
Balance at 1 January 2008		657	304 960	—	—	305 617
Profit for the year		—	18 908	—	—	18 908
Dividend paid	27	—	(82 160)	—	—	(82 160)
<b>Balance at 31 December 2008</b>		<b>657</b>	<b>241 708</b>	<b>—</b>	<b>—</b>	<b>242 365</b>

# Cash flow statements

for the year ended 31 December 2008

	Notes	CONSOLIDATED		COMPANY	
		2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>Cash flow from operating activities</b>					
Cash generated from operations	29	144 904	80 556	84 459	(43 286)
Interest paid	25	(9 988)	(11 228)	(3)	(4)
Income tax paid	31	(29 105)	(18 523)	(13 053)	(5 984)
<b>Net cash generated from/(used in) operating activities</b>		<b>105 811</b>	<b>50 805</b>	<b>71 403</b>	<b>(49 274)</b>
<b>Cash flow from investing activities</b>					
Acquisition of minority interest of subsidiary		—	(26 320)	—	—
Interest received	25	13 310	7 426	12 745	16 351
Proceeds on disposal of associate company	32	—	32 718	—	32 718
Purchases of property, plant and equipment and intangible assets		(18 879)	(11 311)	—	—
Proceeds from disposal of property, plant and equipment and intangible assets	33	212	—	—	—
<b>Net cash (used in)/generated from investing activities</b>		<b>(5 357)</b>	<b>2 513</b>	<b>12 745</b>	<b>49 069</b>
<b>Cash flow from financing activities</b>					
Proceeds from/(repayments of) borrowings		31 143	(68 709)	—	—
Dividends paid	30	(82 160)	—	(82 160)	—
Dividends paid to minority interests		—	(7 006)	—	—
<b>Net cash used in financing activities</b>		<b>(51 017)</b>	<b>(75 715)</b>	<b>(82 160)</b>	<b>—</b>
Net increase/(decrease) in cash and cash equivalents		49 437	(22 397)	1 988	(205)
Cash and cash equivalents at beginning of year		19 902	42 299	552	757
<b>Cash and cash equivalents at end of year</b>	34	<b>69 339</b>	<b>19 902</b>	<b>2 540</b>	<b>552</b>

# Notes to the financial statements

for the year ended 31 December 2008

## 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 certain quantity of exports to the rest of the world on certain products. 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 JSE Limited and was incorporated in South Africa. The address and registered office is 1a Booysens Road, Booysens, Johannesburg 2091. Its share code is: HWN and ISIN code: ZAE 000010583.

These Group consolidated financial statements were authorised for issue by the board of directors on 12 May 2009.

## 2. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

These consolidated financial statements of Howden Africa Holdings Limited have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements are prepared under the historical cost convention as modified by the financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

#### **Standards, amendments and interpretations effective in 2008:**

IFRIC 14, IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective from 1 January 2008). IFRIC 14 provides general guidance on how to assess the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected when there is a statutory or contractual minimum funding requirement. This interpretation has not had any impact on the Group's accounts.

#### **Standards and amendments early adopted by the Group**

No standards or amendments have been early adopted by the Group.

#### **Standards, amendments and interpretations effective in 2008 but not relevant**

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but are not relevant to the Group's operations:

- IFRIC 11, IFRS 2 – *Group and treasury share transactions*
- IFRIC 12, *Service concession arrangements*
- IFRIC 13, *Customer loyalty programmes*

#### **Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group**

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods on or after 1 January 2009 or later periods, but the Group has not early adopted them:

- IFRS 8, *Operating Segments* (effective from 1 January 2009). IFRS 8 requires an entity to adopt the "management approach" to reporting on the financial performance of its operating segments. The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. The disclosure should enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.
- IAS 23 (revised), *Borrowing Costs* (effective from 1 January 2009). The main change from the previous version of IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale.
- IAS 1 (revised), *Presentation of Financial Statements* (effective from 1 January 2009). The changes made to IAS 1 are to require information in financial statements to be aggregated on the basis of shared characteristics and to introduce a statement of comprehensive income. This will enable readers to analyse changes in a company's equity resulting from transactions with owners in their capacity as owners separately from "non-owner" changes. The revisions include changes in the titles of some of the financial statements to reflect their function more clearly. The new titles are not mandatory for use in financial statements.

## 2. ACCOUNTING POLICIES (continued)

### 2.1 Basis of preparation (continued)

- IAS 27 (revised), *Consolidated and Separate Financial Statements* (effective from 1 July 2009). IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains or losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss.
- IFRS 3 (revised), *Business Combinations* (effective 1 July 2009). The new standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently re-measured at fair value through income. Goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the minority interest. All transaction costs will be expensed.
- IFRS 2 (amendment), *Share-Based Payment: Vesting Conditions and Cancellations* (effective 1 January 2009). The amendment deals with two matters. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.
- IAS 32 and IAS 1 (amendment), *IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of financial statements – Puttable Financial Instruments and Obligations Arising on Liquidation* (effective 1 January 2009). The amendments require entities to classify the following types of financial instruments as equity, provided they have particular features and meet specific conditions: a) puttable financial instruments (for example, some shares issued by co-operative entities); b) instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a *pro rata* share of the net assets of the entity only on liquidation (for example, some partnership interests and some shares issued by limited life entities). Additional disclosures are required about the instruments affected by the amendments.
- IFRS 1 and IAS 27 (amendment), *IFRS 1 First-Time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (effective 1 January 2009). The amendment allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removed the definition of the cost method from IAS 27 and replaced it with a requirement to present dividends as income in the separate financial statements of the investor.
- IAS 39 (amendment), *Financial Instruments: Recognition and Measurement Exposures Qualifying for Hedge Accounting* (effective 1 July 2009). The amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges.
- IFRIC 15, *Agreements for the Construction of Real Estate* (effective 1 January 2009). IFRIC 15 addresses diversity in accounting for real estate sales. IFRIC 15 clarifies how to determine whether an agreement is within the scope of IAS 11 – *Construction contracts* or IAS 18 – *Revenue* and when revenue from construction should be recognised. The guidance replaces example 9 in the appendix to IAS 18.
- IFRIC 16, *Hedges of a Net Investment in a Foreign Operation* (effective 1 October 2008). IFRIC 16 provides guidance on identifying the foreign currency risks that qualify as a hedged risk (in the hedge of a net investment in a foreign operation). It secondly provides guidance on where, within a group, hedging instruments that are hedges of a net investment in a foreign operation can be held to qualify for hedge accounting. Thirdly, it provides guidance on how an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item.
- IFRIC 17, *Distributions of Non-cash Assets to Owners* (effective 1 July 2009). IFRIC 17 applies to the accounting for distributions of non-cash assets (commonly referred to as dividends *in specie*) to the owners of the entity. The interpretation clarifies that: a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; and an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss.
- IFRIC 18, *Transfers of assets from customers* (effective 1 July 2009). IFRIC 18 clarifies the accounting treatment for transfers of property, plant and equipment received from customers. This interpretation applies to agreements with customers in which the entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use the item of property, plant and equipment either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods and services, or to do both.

## 2. ACCOUNTING POLICIES (continued)

### 2.1 Basis of preparation (continued)

#### *Improvements of IFRS's*

The international improvements to IFRS is a collection of amendments to IFRS's. These amendments are the result of conclusions the Board reached on proposals made in its annual improvements project.

Unless otherwise specified the amendments are effective for annual periods beginning on or after 1 January 2009, although entities are permitted to adopt them earlier.

#### *The following standards have been affected by the project:*

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IAS 1 Presentation of Financial Statements
- IAS 16 Property, Plant and Equipment
- IAS 19 Employee Benefits
- IAS 20 Accounting for Government Grants and Disclosure of Government Assistance
- IAS 23 Borrowing Costs
- IAS 27 Consolidated and Separate Financial Statements
- IAS 28 Investments in Associates
- IAS 31 Interests in Joint Ventures
- IAS 29 Financial Reporting in Hyperinflationary Economies
- IAS 36 Impairment of Assets
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IAS 40 Investment Property
- IAS 41 Agriculture

Management is currently considering the effect of the changes.

### 2.2 Basis of consolidation

#### (a) *Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Consolidation ceases from the date that control is lost.

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 exchange, plus the costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at acquisition date, irrespective of the extent of any minority interest. 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).

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

#### (b) *Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying 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 recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss. See note 2.8 for the impairment of non-financial assets including goodwill.

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 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.

## 2. ACCOUNTING POLICIES (continued)

### 2.2 Basis of consolidation (continued)

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains or losses arising in investments in associates are recognised in the income statement.

#### (c) *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 or losses for the Group that are recorded in the income statement. Purchases from minority interests results in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary.

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 17 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 currency translation

#### (a) *Functional and presentation currency*

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 Rand, which is the functional and presentation currency of Howden Africa Holdings Limited.

#### (b) *Transactions and balances*

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 or losses arising from the settlement of transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement under finance income and costs.

#### (c) *Group companies*

The results and financial position of all Group companies that have non-Rand functional currency are translated in the consolidated financial statements as follows:

- (i) Assets and liabilities are translated at the exchange rate at the report date; and
- (ii) Income and expenses are translated at average exchange rates for the relevant period.

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 are recognised in the income statement as part of the gain or loss on sale.

### 2.5 Derivative financial instruments and hedging activities

Derivative financial instruments, principally forward foreign exchange contracts, 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, changes in their fair value of derivatives that are designated and qualify as hedges, are recognised in the income statement together with any changes in the fair value of the hedged item attributable to the hedged risk.

## 2. ACCOUNTING POLICIES (continued)

### 2.5 Derivative financial instruments and hedging activities (continued)

For cash flow hedges and net investment hedges, the effective portion of changes in the fair value of derivatives that are designated and qualify as hedges are 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 or 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.

### 2.6 Property, plant and equipment

Property, plant and equipment are recorded at historical cost less accumulated depreciation and impairments. 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 10 years
Patterns and dies	3 years
Motor vehicles	4 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 report 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 non-financial assets below).

Profit or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

### 2.7 Intangible assets

#### (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate acquired at the date of acquisition.

Goodwill on acquisitions of subsidiaries is included in "intangible assets". Goodwill on acquisitions of associates is included in "investments in associates" and is tested for impairment as part of the overall balance. Separately recognised 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 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.

#### (ii) Trademarks and licences

Trademarks and licenses are recognised at cost. They have a finite useful life and are carried at cost less accumulated amortisation and impairments. 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 and licences are reviewed annually for impairment.

## 2. ACCOUNTING POLICIES (continued)

### 2.7 Intangible assets (continued)

#### (iii) Research and development

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

#### (iv) Computer software

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

Internal expenditure associated with developing or maintaining computer software programmes is charged to the income statement 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. Impairment losses are recognised as an expense immediately and are written off in the income statement.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash generating units).

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. Goodwill impairments are not reversed.

### 2.9 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

#### (a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

#### (b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determined payments that are not quoted in an active market. They are included in the non-current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables are carried at amortised cost using the effective interest method.

#### Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss category are presented in the income statement within other (losses) gains – net in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

## 2. ACCOUNTING POLICIES (continued)

### 2.10 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.

Long-term contracts in progress are valued at cost, comprising direct expenditure and attributable overheads, together with a proportion of the estimated total profit earned on the work completed to date, less progress payments received and receivable. Provision is made for all losses expected to arise on completion of the contracts.

### 2.11 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 (more than three months overdue) 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 carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

### 2.12 Cash and cash equivalents

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.

### 2.13 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.

### 2.14 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.

### 2.15 Construction contracts

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 income statement account based on the percentage of completion method. The percentage of completion is determined by measuring the proportion of costs incurred for work performed to the total expected costs.

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 income statement account based on the costs incurred that are deemed to be recoverable.

## **2. ACCOUNTING POLICIES (continued)**

### **2.15 Construction contracts (continued)**

Where any contract review shows an expected loss on a contract, then this loss is recognised in the income statement 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 11).

### **2.16 Current and deferred income tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the report date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 financial statements. 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 and substantially enacted tax rates are used to determine deferred income tax.

Deferred income 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.

### **2.17 Employee benefits**

#### *(a) Pension obligations*

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. 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. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

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.

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.

## 2. ACCOUNTING POLICIES (continued)

### 2.17 Employee benefits (continued)

#### (b) 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 report date are discounted to present value.

#### (c) 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.

#### (d) 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.

### 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. The increase in the provision due to passage of time is recognised as interest expense.

### 2.19 Trade payables

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

### 2.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale 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:

#### (a) Sales of goods and services

Revenue relates to the sale of goods and revenue which are recognised when the Group entity has fulfilled its contractual obligations to a customer and has obtained the right to receive consideration. This is usually on dispatch but is dependent upon the contractual terms that have been agreed with the customer.

#### (b) Long-term contracts

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. ACCOUNTING POLICIES (continued)**

### **2.21 Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating 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.

### **2.22 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.

### **2.23 Secondary Tax on Companies (STC)**

South African resident companies are subject to a dual corporate tax system, one part of the tax being levied on taxable income and the other, a secondary tax (STC), on distributed income. A company incurs STC charges on the declaration or deemed declaration of dividends (as defined under tax law) to its shareholders. STC is not a withholding tax on shareholders, but a tax on companies.

The STC tax consequences of dividends is recognised as a taxation charge in the income statement in the same period that the related dividend is accrued as a liability. The STC liability is reduced by dividends received during the dividend cycle. Where dividends received exceed the dividends declared within a cycle, there is no liability to pay STC. The potential tax benefits related to excess dividends received is carried forward to the next dividend cycle as an STC credit. Deferred tax assets recognised on unutilised STC credits to the extent that it is probable that the Group will declare future dividends to utilise such STC credits.

### 3. FINANCIAL RISK MANAGEMENT

#### 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 (Charter 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 foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

#### (a) 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.

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

The Group's income and operating cash flow are affected by changes in market interest rate. 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 value due to the short-term maturities of these assets and liabilities.

The fair value of financial instruments not traded in an active market is determined by using valuation techniques. The fair value of forward exchange contract is determined by using quoted forward exchange rates at report date.

We have considered the interest rate sensitivity analysis and determined that the Group's exposure to changes in interest rates is not significant due to the current cash borrowing position at year-end.

##### *Price risk*

The Group is exposed to commodity price risk on steel. This risk is mitigated by escalation clauses that are built into major contracts for steel price variances.

#### (b) 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 one financial institution.

#### (c) 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.

#### Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

#### **4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of the financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It requires management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are mainly the following:

##### **Estimated impairment of goodwill**

Goodwill is assessed for impairment at each reporting date. The recoverable amount of the relevant cash generating units is determined based on value-in-use calculations. These calculations use cash flow projections per budgets and strategic plan forecasts. These plans are revisited every year and are compiled after considering market conditions and the strategic positioning of the business units within the markets in which they operate.

##### **Revenue recognition**

The Group uses the percentage-of-completion method in accounting for its 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 granted by the contract.

##### **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.

##### **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 price.

##### **Impairment of trade receivables**

A provision for impairment is established when there is evidence of significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments.

##### **Estimation of useful lives of property, plant and equipment and intangible assets**

The assets' residual values and useful lives are reviewed annually and adjusted if appropriate, taking into account technology developments and maintenance programmes. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

##### **Fair value of retirement benefits**

The fair value calculation is based on the most recent relevant economic data available. The key estimates and assumptions relating to these areas are disclosed in the relevant note to the financial statements.

##### **Deferred tax assets**

The recoverability of deferred tax assets is based on the future profitability of the relevant entity and the ability to generate future taxable income.

All estimates and underlying assumptions are based on historical experience and various other factors that management believes are reasonable under the circumstances. The results of these estimates form the basis of judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any affected future periods.

# Notes to the financial statements continued

for the year ended 31 December 2008

## 5. SEGMENT INFORMATION

Primary reporting format – business segments

At 31 December 2008, the Group is organised on a world-wide basis into two main 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.

For the year ended 31 December 2008	Revenue R'000	Operating profit R'000	Assets R'000	Liabilities R'000	Inter- segmental sales R'000
Fans and Heat Exchangers	<b>587 662</b>	<b>84 204</b>	<b>302 423</b>	<b>228 297</b>	<b>59 339</b>
Environmental Control	<b>262 133</b>	<b>16 836</b>	<b>91 673</b>	<b>124 469</b>	<b>18 559</b>
Other	—	<b>(5 207)</b>	<b>106 777</b>	<b>82 401</b>	—
	<b>849 795</b>	<b>95 833</b>	<b>500 873</b>	<b>435 167</b>	<b>77 898</b>

	Capital expenditure R'000	Depreciation R'000	Amortisation R'000
Fans and Heat Exchangers	<b>7 865</b>	<b>2 299</b>	<b>213</b>
Environmental Control	<b>769</b>	<b>229</b>	<b>104</b>
Other	<b>10 245</b>	<b>983</b>	<b>1 850</b>
	<b>18 879</b>	<b>3 511</b>	<b>2 167</b>

For the year ended 31 December 2007	Revenue R'000	Operating profit R'000	Assets R'000	Liabilities R'000	Inter- segmental sales R'000
Fans and Heat Exchangers	458 031	77 434	223 381	183 174	57 307
Environmental Control	228 336	8 564	59 818	52 788	31 467
Other	—	2 981	84 310	43 498	—
	686 367	88 979	367 509	279 460	88 774

	Capital expenditure R'000	Depreciation R'000	Amortisation R'000
Fans and Heat Exchangers	8 311	2 400	203
Environmental Control	176	184	23
Other	2 824	728	1 655
	11 311	3 312	1 881

	<b>2008</b>	2007
	<b>R'000</b>	R'000
<b>5. SEGMENT INFORMATION (continued)</b>		
Segment results (operating profit)	<b>95 833</b>	88 979
Finance income/(costs)	<b>3 322</b>	(1 908)
Loss on disposal of associate	—	(1 028)
Share of results of associate	—	1 153
Profit before income tax	<b>99 155</b>	87 196
Income tax expense	<b>(38 414)</b>	(24 753)
Profit for the year	<b>60 741</b>	62 443
Minority interest	—	(759)
Profit for the year attributable to equity holders of the Company	<b>60 741</b>	61 684
Items after operating profit are Group related.		

#### Secondary reporting format – Geographical segments

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

South Africa is the home country of the parent company, and the areas of operation are:

- Fans and Heat Exchangers
- Environmental Control.

Sales by location of customer	Revenue R'000		Total assets R'000	
	<b>2008</b>	2007	<b>2008</b>	2007
South Africa	<b>743 332</b>	643 199	<b>500 448</b>	367 074
United Kingdom and Europe	<b>33 639</b>	9 390	<b>425</b>	435
North America	<b>6 078</b>	3 216	—	—
Rest of Africa	<b>58 548</b>	26 823	—	—
Middle East	<b>8 198</b>	3 739	—	—
	<b>849 795</b>	686 367	<b>500 873</b>	367 509

	Capital expenditure R'000	
	<b>2008</b>	2007
South Africa	<b>18 879</b>	11 311
Other	—	—
	<b>18 879</b>	11 311

Notes to the financial statements *continued*  
for the year ended 31 December 2008

	Freehold land and buildings R'000	Plant, equipment and vehicles R'000	Total R'000
<b>6. PROPERTY, PLANT AND EQUIPMENT</b>			
<b>CONSOLIDATED</b>			
At 1 January 2007			
Cost	24 559	54 798	79 357
Accumulated depreciation	(1 762)	(42 414)	(44 176)
Net book amount	22 797	12 384	35 181
Year ended 31 December 2007			
Opening net book amount	22 797	12 384	35 181
Additions	1 568	9 618	11 186
Disposals	—	(8)	(8)
Transfer to intangible assets	—	170	170
Depreciation	(181)	(3 131)	(3 312)
<b>Closing net book amount</b>	<b>24 184</b>	<b>19 033</b>	<b>43 217</b>
At 31 December 2007			
Cost	26 127	62 554	88 681
Accumulated depreciation	(1 943)	(43 521)	(45 464)
Net book amount	24 184	19 033	43 217
<b>Year ended 31 December 2008</b>			
Opening net book amount	<b>24 184</b>	<b>19 033</b>	<b>43 217</b>
Additions	<b>5 478</b>	<b>11 953</b>	<b>17 431</b>
Disposals	—	<b>(744)</b>	<b>(744)</b>
Depreciation	<b>(281)</b>	<b>(3 230)</b>	<b>(3 511)</b>
<b>Closing net book amount</b>	<b>29 381</b>	<b>27 012</b>	<b>56 393</b>
<b>At 31 December 2008</b>			
Cost	<b>31 605</b>	<b>67 141</b>	<b>98 746</b>
Accumulated depreciation	<b>(2 224)</b>	<b>(40 129)</b>	<b>(42 353)</b>
<b>Net book amount</b>	<b>29 381</b>	<b>27 012</b>	<b>56 393</b>

	Freehold land and buildings R'000	Plant, equipment and vehicles R'000	Total R'000
<b>6. PROPERTY, PLANT AND EQUIPMENT (continued)</b>			
<b>COMPANY</b>			
At 1 January 2007			
Cost	—	81	81
Accumulated depreciation	—	(45)	(45)
Net book amount	—	36	36
Year ended 31 December 2007			
Opening net book amount	—	36	36
Disposals	—	(4)	(4)
Depreciation	—	(8)	(8)
Closing net book amount	—	24	24
At 31 December 2007			
Cost	—	74	74
Accumulated depreciation	—	(50)	(50)
Net book amount	—	24	24
<b>Year ended 31 December 2008</b>			
Opening net book amount	—	<b>24</b>	<b>24</b>
Depreciation	—	<b>(13)</b>	<b>(13)</b>
<b>Closing net book amount</b>	—	<b>11</b>	<b>11</b>
<b>At 31 December 2008</b>			
Cost	—	<b>74</b>	<b>74</b>
Accumulated depreciation	—	<b>(63)</b>	<b>(63)</b>
<b>Net book amount</b>	—	<b>11</b>	<b>11</b>

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.

Certain assets have been encumbered (refer note 18).

# Notes to the financial statements continued

for the year ended 31 December 2008

	Goodwill R'000	Trademarks R'000	Other R'000	Total R'000
<b>7. INTANGIBLE ASSET</b>				
<b>Consolidation</b>				
At 1 January 2007				
Cost	—	41 366	1 381	42 747
Accumulated amortisation	—	(4 964)	(811)	(5 775)
<b>Net book amount</b>	<b>—</b>	<b>36 402</b>	<b>570</b>	<b>36 972</b>
Year ended 31 December 2007				
Opening net book amount	—	36 402	570	36 972
Additions	23 717	—	125	23 842
Amortisation charge (note 23)	—	(1 655)	(226)	(1 881)
<b>Closing net book amount</b>	<b>23 717</b>	<b>34 747</b>	<b>469</b>	<b>58 933</b>
At 1 January 2008				
Cost	<b>23 717</b>	<b>41 366</b>	<b>1 506</b>	<b>66 589</b>
Accumulated amortisation	<b>—</b>	<b>(6 619)</b>	<b>(1 037)</b>	<b>(7 656)</b>
<b>Net book amount</b>	<b>23 717</b>	<b>34 747</b>	<b>469</b>	<b>58 933</b>
<b>Year ended 31 December 2008</b>				
Opening net book amount	<b>23 717</b>	<b>34 747</b>	<b>469</b>	<b>58 933</b>
Additions	<b>—</b>	<b>—</b>	<b>1 448</b>	<b>1 448</b>
Amortisation charge (note 23)	<b>—</b>	<b>(1 655)</b>	<b>(512)</b>	<b>(2 167)</b>
<b>Closing net book amount</b>	<b>23 717</b>	<b>33 092</b>	<b>1 405</b>	<b>58 214</b>
<b>At 31 December 2008</b>				
Cost	<b>23 717</b>	<b>41 366</b>	<b>2 799</b>	<b>67 882</b>
Accumulated amortisation	<b>—</b>	<b>(8 274)</b>	<b>(1 394)</b>	<b>(9 668)</b>
<b>Net book amount</b>	<b>23 717</b>	<b>33 092</b>	<b>1 405</b>	<b>58 214</b>

Other intangibles include capitalised software costs.

The trademarks are based on the Howden, Safanco and Donkin names. No impairment test was performed as there are no indicators of 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 attaches.

Goodwill arose on purchase of the minority interest as disclosed under note 17. This value represents the excess of the purchase price over the net asset value.

The goodwill was allocated to the environmental control business. These calculations use pre-tax cash flows projections based on financial budgets approved by management covering a six-year period. Cash flows beyond the six-year period are extrapolated using the estimated growth rate of 5% per year. The post-tax discount rate used was 17,8% based on a cost of equity 12,7%, cost of debt 1,1% and a small cap rate of 4%.

### Company

Company intangible assets comprise all trademarks detailed in the consolidated trademarks listed above. The company does not have any other intangible assets. All trademarks listed in the consolidated trademarks listing are held by the company.

	CONSOLIDATED		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>8. INVESTMENT IN SUBSIDIARIES</b>				
Shares at cost less amounts written off	–	–	89 310	89 310

	CONSOLIDATED		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>9. INVESTMENT IN ASSOCIATE</b>				
<b>Unlisted</b>				
Opening carrying amount	–	32 593	–	32 593
Post acquisition results of the company	–	1 153	–	1 153
	–	33 746	–	33 746
Loss on disposal of associate	–	(1 028)	–	(1 028)
Proceeds on disposal of associate	–	(32 718)	–	(32 718)
Closing carrying amount	–	–	–	–
Directors' valuation	–	–	–	–

The associate was the unlisted Pump Brands (Proprietary) Limited which became an associate company from 31 December 2003. This associate company was sold to Franklin Electric Company Inc. The effective date was 18 May 2007 when all suspensive conditions were met and payment based on net asset value as at 31 December 2006 was received on 21 May 2007.

The summarised financial information of the associate company, which is unlisted is:  
As the investment had been sold, results to the effective date were included.

	May 2007
<b>Income statement</b>	
Sales	76 659
Operating profit	3 503
Net profit after tax	2 746

	CONSOLIDATED		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>10. INVENTORIES</b>				
The amounts attributable to the different categories are as follows:				
– Raw materials, components and consumables	22 085	12 978	–	–
– Work in progress	12 451	7 421	–	–
– Finished goods	10 280	11 798	–	–
	44 816	32 197	–	–

# Notes to the financial statements continued

for the year ended 31 December 2008

	CONSOLIDATED		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>11. CONSTRUCTION CONTRACTS</b>				
Contract revenue recognised in the year	626 185	582 559	—	—
Contract costs recognised in the year	(555 170)	(454 512)	—	—
Recognised profits less recognised losses in the year	71 015	128 047	—	—
For contracts in progress at the year-end:				
Contract costs incurred and recognised profits (less losses) to date	158 903	100 715	—	—
Less: progress billings for work performed	(267 828)	(164 796)	—	—
<b>Net amount due to customers for contract work</b>	<b>(108 925)</b>	<b>(64 081)</b>	<b>—</b>	<b>—</b>
Amounts due from customers for contract work (non-current)	24 875	—	—	—
Amounts due from customers for contract work (current)	41 089	74 860	—	—
Amounts due to customers for contract work (non-current)	(74 550)	—	—	—
Amounts due to customers for contract work (current)	(100 339)	(138 941)	—	—
<b>Net amounts due to customers for contract work</b>	<b>(108 925)</b>	<b>(64 081)</b>	<b>—</b>	<b>—</b>
Advances received on contracts for work not yet performed	(124 600)	(73 214)	—	—
Retentions outstanding on progress billings made	8 489	2 710	—	—
<b>12. TRADE AND OTHER RECEIVABLES</b>				
Trade receivables	169 154	113 880	—	—
Less: impairment of receivables	(2 237)	(954)	—	—
Trade receivables – net	166 917	112 926	—	—
Prepayments and other receivables	11 322	4 291	—	12
	178 239	117 217	—	12
Less: Non-current portion – trade receivable	(8 489)	(2 710)	—	—
Current portion	169 750	114 507	—	12

All non-current assets are due within five years from balance sheet date.

	CONSOLIDATED		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>12. TRADE AND OTHER RECEIVABLES (continued)</b>				
The fair values of trade and other receivables are as follows:				
Trade receivables	<b>166 917</b>	112 926	—	—
Prepayments and other receivables	<b>11 322</b>	4 291	—	12
	<b>178 239</b>	117 217	—	12
Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2008, trade receivables of R77 777 000 (2007: R34 919 000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:				
Up to 3 months	<b>59 892</b>	28 510	—	—
Up to 6 months	<b>7 113</b>	2 546	—	—
Above 6 months	<b>10 772</b>	3 863	—	—
	<b>77 777</b>	34 919	—	—
As at 31 December 2008, trade receivables of R53 000 (2007: R59 000) were impaired and provided for. The amount of the provision is R2 237 000 as at 31 December 2008 (2007: R954 000). The individually impaired receivables mainly relate to wholesalers, which are in unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:				
Up to 6 months	<b>3</b>	5	—	—
Over 6 months	<b>50</b>	54	—	—
	<b>53</b>	59	—	—
The carrying amount of the Group's trade receivables and other receivables are all denominated in the local currency. Movements on the Group provision for impairment of trade receivables are as follows:				
At 1 January	<b>954</b>	499	—	—
Provision for receivables impairment	<b>1 382</b>	745	—	—
Unused amounts reversed	<b>(93)</b>	(280)	—	—
Impairment losses reversed during the year	<b>(6)</b>	(10)	—	—
At 31 December	<b>2 237</b>	954	—	—
The creation and release of provision for impaired receivables has been included in administrative costs in the income statement. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash. Based on past experience, the Group believes that no impairment allowance is necessary in respect of trade receivables past due, as the amount relates to customers that have a good track record with the Group. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does hold collateral as security. No debtors terms have been renegotiated during the year.				

# Notes to the financial statements continued

for the year ended 31 December 2008

## 13. FINANCIAL ASSETS AND LIABILITIES

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

	Loans and receivables R'000	Derivatives R'000	Total R'000
<b>Consolidated</b>			
<b>31 December 2008</b>			
<b>Assets as per balance sheet</b>			
Trade receivables	166 917	—	166 917
Cash and cash equivalents	69 339	—	69 339
<b>Total</b>	<b>236 256</b>	<b>—</b>	<b>236 256</b>
<b>31 December 2008</b>			
<b>Liabilities as per balance sheet</b>			
Borrowings	—	51 759	51 759
<b>Total</b>	<b>—</b>	<b>51 759</b>	<b>51 759</b>
<b>31 December 2007</b>			
<b>Assets as per balance sheet</b>			
Derivative financial instruments	—	139	139
Trade receivables	112 926	—	112 926
Cash and cash equivalents	19 902	—	19 902
<b>Total</b>	<b>132 828</b>	<b>139</b>	<b>132 967</b>
<b>31 December 2007</b>			
<b>Liabilities as per balance sheet</b>			
Borrowings	—	20 616	20 616
Derivative financial instruments	102	—	102
<b>Total</b>	<b>102</b>	<b>20 616</b>	<b>20 718</b>
<b>Credit quality of financial assets</b>			
		<b>2008</b>	2007
<b>Trade receivables</b>			
Internal credit rating			
Group 1 (Good payment history)		51 652	76 659
Group 2 (Good credit risk)		61 613	11 712
Group 3 (Medium credit risk)		31 804	10 255
Group 4 (Longer-term business relation)		5 359	2 204
Group 5 (Slow payment history)		7 679	7 981
Group 6 (Occasional default)		7 318	1 796
Group 7 (Frequent default)		127	158
Group 8 (Severe broken terms of payment)		63	75
Group 9 (Continuous monitoring)		1 302	2 086
<b>Total</b>		<b>166 917</b>	112 926
Where available, reference was made to third party ratings in supporting the above classifications.			
<b>Cash at bank and short-term bank deposits</b>			
AAA		69 339	19 902
<b>Total</b>		<b>69 339</b>	19 902

	CONSOLIDATED		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>14. DERIVATIVE FINANCIAL INSTRUMENTS</b>				
<b>Assets</b>				
Forward foreign exchange contracts – held-for-trading	–	139	–	–
<b>Liabilities</b>				
Forward foreign exchange contracts – held-for-trading	–	102	–	–
All the balances are current				
<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
<b>Holding company</b>				
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 International plc. incorporated in England and Wales.				
<b>Shareholders' analysis at 31 December 2008</b>				
	<b>2008 Number of shareholders</b>	2007 Number of shareholders	<b>2008 Number of shares</b>	2007 Number of shares
<b>Holdings</b>				
1 – 1 000 shares	<b>316</b>	309	<b>105 999</b>	103 542
1 001 – 10 000 shares	<b>194</b>	195	<b>799 003</b>	838 432
10 001 – 100 000 shares	<b>99</b>	102	<b>3 183 092</b>	3 540 134
100 001 – 1 000 000 shares	<b>28</b>	30	<b>10 266 532</b>	10 767 485
Over – 1 000 001 shares	<b>8</b>	8	<b>51 374 483</b>	50 479 516
	<b>645</b>	644	<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>507</b>	523	<b>4 162 358</b>	4 718 167
Banks, nominees and trust companies	<b>41</b>	32	<b>2 514 385</b>	2 277 648
Insurance companies	<b>14</b>	12	<b>4 933 325</b>	4 586 561
Pension funds and investment companies	<b>9</b>	11	<b>551 651</b>	1 029 515
Endowment and mutual funds	<b>39</b>	36	<b>14 008 887</b>	15 774 195
Other corporations and close corporations	<b>23</b>	16	<b>192 707</b>	311 678
Other limited and private companies	<b>10</b>	12	<b>2 975 393</b>	640 942
	<b>645</b>	644	<b>65 729 109</b>	65 729 109

# Notes to the financial statements continued

for the year ended 31 December 2008

	CONSOLIDATED		COMPANY	
	2008 Number of shares	2007 Number of shares	2008 %	2007 %
<b>15. ORDINARY SHARE CAPITAL (continued)</b>				
<b>CATEGORY OF ORDINARY SHAREHOLDERS (continued)</b>				
<b>Major shareholders beneficially interested in 3% or more of the Company's listed securities</b>				
Howden Group South Africa Limited	31 466 641	31 466 641	47,87	47,87
Momentum Life Assurers Limited	4 494 299	5 357 819	6,84	8,15
James Howden & Godfrey Overseas Limited	4 923 762	4 923 762	7,49	7,49
RMB Small/Midcap Fund	2 897 150	4 366 797	4,41	6,64
Golden Hind Fund	2 311 832	2 256 313	3,52	3,43
Fraters Asset Management	2 046 911	2 048 611	3,11	3,12
<b>Shareholder spread in terms of Section 8.63(e) of the JSE Limited listing requirements</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
Thomas Bärwald (Director)	909	—	—	—
<b>Public and non-public shareholders</b>				
<i>Non-public shareholders</i>	36 577 272	36 576 363	55,65	55,64
Directors and associates of the Company holdings	186 869	185 960	0,28	0,28
Strategic holdings (more than 10%) and holding company	36 390 403	36 390 403	55,36	55,36
<i>Public shareholders</i>	29 151 837	29 152 746	44,36	44,36
	65 729 109	65 729 109	100,00	100,00
<b>16. COMMITMENTS</b>				
<b>Leases</b>				
Operating leases				
Land and buildings				
Payments due in 1 year	1 036	824	—	—
Payments due later than 1 year and not later than 5 years	636	587	—	—
	1 672	1 411	—	—
<b>Other operating leases</b>				
Payments due in 1 year	3 332	2 783	171	85
Payments due later than 1 year and not later than 5 years	2 976	2 647	405	161
	6 308	5 430	576	246

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 23.

	CONSOLIDATED		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>17. MINORITY INTEREST</b>				
Balance at beginning of year	—	8 850	—	—
Acquisition	—	(2 603)	—	—
Share of net profits of subsidiaries	—	759	—	—
Dividend paid by subsidiary	—	(7 006)	—	—
Balance at the end of the year	—	—	—	—
On 6 July 2007 the Group acquired the remaining 50,01% of the shares in Howden FFP (Pty) Limited. As the company was previously controlled by the Group as a subsidiary, the accounting policy applied is to account for this transaction under the modified parent model, which is the Group accounting policy. The difference between purchase price paid of R26 320 000 and net asset value of R2 603 000 was raised as goodwill of R23 717 000.				
<b>18. BORROWINGS</b>				
<b>Non-current</b>				
Bank borrowings	50 000	20 000	—	—
<b>Current</b>				
Bank borrowings	1 759	616	—	—
Total borrowings	51 759	20 616	—	—

All borrowings are denominated in South African Rands.

#### Bank borrowings

Bank borrowings are a term loan which consists of two parts as follows:

- (1) An amortising loan of R50 000 000 which is repayable over seven years in 28 equal instalments. The interest rate is calculated at 1,5% above the Johannesburg Inter Bank Agreed Rate (JIBAR) and is compounded quarterly in arrears. The final instalment is payable in June 2013. This facility is unutilised and there are no commitment costs.
- (2) A bullet loan of R50 000 000 which is repayable in one lump sum in 2013. The interest rate is calculated at 1,75% above the Johannesburg Inter Bank Agreed Rate (JIBAR) and is compounded quarterly in arrears. This facility is utilised.

This loan is secured by notarial general surety bonds over all moveable assets of James Howden Holdings Limited, Howden Africa (Pty) Limited, Howden Donkin (Pty) Limited and Engart Africa (Pty) Limited as well as surety mortgage bonds over the property of Gertrude Holdings Limited, Donkin Manufacturing Company (Pty) Limited and Brumerose Properties (Pty) Limited for a total value of R81 051 000 (refer note 6).

There is an omnibus suretyship and cession of rights entered into between Standard Bank and James Howden Holdings Limited, Engart Africa (Pty) Limited, Howden Power (Pty) Limited, Howden Holdings (Pty) Limited, Howden Donkin (Pty) Limited, Gertrude Holdings Limited, Donkin Manufacturing Company (Pty) Limited, Brumerose Properties (Pty) Limited and Howden Process Compressors (Pty) Limited whereby each surety unconditionally and irrevocably binds themselves to the bank as surety for and co-principal debtor for each other for the due performance for the secured obligations. The secured obligations being any amounts arising as owing in connection with the facilities as relates to the loan.

# Notes to the financial statements continued

for the year ended 31 December 2008

	CONSOLIDATED		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>18. BORROWINGS (continued)</b>				
The exposure of the Group borrowings to interest rate changes and contractual re-pricing dates at the balance sheet date are as follows:				
Due within 1 year (and for every subsequent year until settlement)	1 759	616	—	—
Due after 5 years	50 000	20 000	—	—
	<b>51 759</b>	<b>20 616</b>	<b>—</b>	<b>—</b>

In terms of this Standard Bank loan agreement entered into with the wholly owned subsidiary Howden Africa (Pty) Limited, the Company, being the borrower, is required to maintain a ratio and distribution regime for the period of the agreement as follows:

- (a) An interest cover of 2,5 or better
- (b) A tangible asset/debt ratio of 0,85 or better
- (c) A debt service cover ratio of 1,15 up to 31 December 2008, and 1,4 or better thereafter until repayment of loan by 2013
- (d) A debt equity ratio at the end of each calendar year shall not exceed the percentages as indicated in respect of such calendar year in the table below:

Year	Debt : equity ratio
2006	82%
2007	80%
2008	75%
2009	70%
2010 to 2013	60%

There were no defaults or breaches during the year. The directors of the company have unlimited borrowing powers in terms of the articles of association.

	CONSOLIDATED		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>19. DEFERRED TAX</b>				
Balance at beginning of year	(15 702)	(17 726)	(209)	(668)
Charge for the year – Current year	(8 117)	1 071	(15)	459
Charge for the year – Prior year	1 029	953	12	—
	<b>(22 790)</b>	<b>(15 702)</b>	<b>(212)</b>	<b>(209)</b>
The balance comprises:				
Provisions	(20 384)	(15 505)	(212)	(209)
Working capital allowances	(2 390)	(3 713)	—	—
Revaluation	—	4 513	—	—
Assessed loss	(16)	(997)	—	—
	<b>(22 790)</b>	<b>(15 702)</b>	<b>(212)</b>	<b>(209)</b>
Deferred income tax assets	(45 687)	(27 114)	(212)	(209)
Deferred income tax liabilities	22 897	11 412	—	—
	<b>(22 790)</b>	<b>(15 702)</b>	<b>(212)</b>	<b>(209)</b>

Deferred tax assets have been recognised in respect of all assessed losses within the Group, except for losses of R5 712 000 in Howden FFP (Pty) Limited which are not recoverable against future taxable income, as the operations of the company will be rationalised within the Group. In 2007 losses of R2 979 000 in Howden Process Compressors (Pty) Limited were also not recognised for the same reason.

	CONSOLIDATED		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>20. TRADE AND OTHER PAYABLES</b>				
Trade payables	58 250	19 021	—	—
Accruals	68 576	48 257	1 257	927
Amounts owing to other Howden Group companies	4 926	4 181	—	828
Social security and other taxes	7 475	7 300	2 128	167
Other payables	26 734	20 739	—	637
	<b>165 961</b>	<b>99 498</b>	<b>3 385</b>	<b>2 559</b>
<b>21. PROVISIONS AND OTHER LIABILITIES AND CHARGES</b>				
<b>Warranty</b>				
At beginning of year	9 879	8 602	—	—
Additional provision	13 991	8 152	—	—
Unused amounts reversed	(7 909)	(6 875)	—	—
Charged to income statement	6 082	1 277	—	—
At end of year	15 961	9 879	—	—
Provisions are made on long-term contracts for warranties calculated on an appropriate percentage of the contract value				
Disclosure:				
Non-current liabilities	6 874	3 680	—	—
Current liabilities	9 087	6 199	—	—
Total provisions	15 961	9 879	—	—
<b>22. REVENUE</b>				
Revenue 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	223 610	103 808	—	—
– Contract revenue	626 185	582 559	—	—
	<b>849 795</b>	<b>686 367</b>	<b>—</b>	<b>—</b>

Notes to the financial statements *continued*  
for the year ended 31 December 2008

	CONSOLIDATED		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>23. OPERATING PROFIT IS STATED AFTER CHARGING</b>				
Amortisation of intangible assets (note 7)				
Trademarks (included in other operating expenses)	<b>2 167</b>	1 881	<b>1 655</b>	1 655
Auditors' remuneration				
– Audit fees	<b>1 169</b>	920	<b>200</b>	172
– Audit related regulatory reporting	<b>222</b>	228	<b>100</b>	228
– Secretarial and other services	<b>333</b>	407	<b>278</b>	266
– Expenses	<b>67</b>	60	<b>18</b>	20
	<b>1 791</b>	1 615	<b>596</b>	686
Depreciation				
– Buildings	<b>281</b>	181	–	–
– Plant, equipment and vehicles	<b>3 230</b>	3 131	<b>13</b>	8
	<b>3 511</b>	3 312	<b>13</b>	8
Provisions and warranties	<b>6 082</b>	1 277	–	–
Loss on disposal of plant, equipment and vehicles	<b>532</b>	8	–	4
Rental under operating leases				
– Land and buildings	<b>903</b>	791	–	–
– Equipment and vehicles	<b>5 237</b>	4 817	<b>195</b>	180
	<b>6 140</b>	5 608	<b>195</b>	180
Employee benefits (including directors' emoluments – note 41)				
Salaries and wages	<b>171 650</b>	99 879	<b>3 471</b>	2 869
Social security costs	<b>3 063</b>	6 005	<b>53</b>	170
Pension costs – defined contribution scheme	<b>4 108</b>	2 977	<b>27</b>	24
Pension costs – defined benefit scheme	<b>2 880</b>	2 991	<b>191</b>	198
	<b>181 701</b>	111 852	<b>3 742</b>	3 261
Number of employees	<b>520</b>	492	<b>5</b>	5
Distribution costs	<b>28 355</b>	23 471	–	–
Raw materials, consumables and other manufacturing costs	<b>523 683</b>	450 977	–	–
Other	–	–	<b>777</b>	897
Total cost of sales, administration and distribution costs	<b>753 962</b>	600 001	<b>6 978</b>	6 691
<b>24. OPERATING PROFIT IS STATED AFTER CREDITING</b>				
Income from subsidiaries				
– Dividends	–	–	<b>7 000</b>	–
– Management fees	–	–	<b>6 624</b>	4 644
– Royalties	–	–	<b>14 126</b>	11 578
	–	–	<b>27 750</b>	16 222

	CONSOLIDATED		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>25. FINANCE INCOME/(COSTS)</b>				
Interest paid				
– Long-term borrowings (term loan with bank)	(6 947)	(6 003)	–	–
– Bank overdrafts	(2 989)	(3 728)	(1)	(4)
– Other	(52)	397	(2)	–
	<b>(9 988)</b>	<b>(9 334)</b>	<b>(3)</b>	<b>(4)</b>
Interest received	<b>13 310</b>	7 426	<b>12 745</b>	16 351
– Foreign exchange profits/(losses)	<b>2 552</b>	(132)	–	–
– Bank balances	<b>8 938</b>	6 994	<b>220</b>	638
– Short-term borrowings (subsidiaries)	–	–	<b>5 411</b>	2 489
– Long-term borrowings (subsidiaries)	–	–	<b>4 366</b>	9 256
– Preference shares	–	–	<b>2 645</b>	3 968
– Other	<b>1 820</b>	564	<b>103</b>	–
	<b>3 322</b>	<b>(1 908)</b>	<b>12 742</b>	<b>16 347</b>
<b>26. INCOME TAX EXPENSE</b>				
South African normal tax				
Current tax				
– current year	<b>37 394</b>	25 171	<b>6 502</b>	6 815
– prior year	<b>(108)</b>	(4 192)	<b>(108)</b>	–
Deferred tax				
– current year	<b>(8 117)</b>	1 071	<b>(15)</b>	459
– prior year	<b>1 029</b>	953	<b>12</b>	–
Secondary tax on companies				
– current year	<b>8 216</b>	1 750	<b>8 216</b>	–
	<b>38 414</b>	<b>24 753</b>	<b>14 607</b>	<b>7 274</b>
<b>Reconciliation of rate of taxation</b>	%	%	%	%
South African normal tax rate	<b>28,0</b>	29,0	<b>28,0</b>	29,0
Adjusted for:				
Disallowable expenditure	<b>5,2</b>	2,6	<b>1,5</b>	4,6
Foreign tax	–	0,5	–	–
Exempt income	<b>(4,4)</b>	(2,0)	<b>(10,1)</b>	(5,7)
Deferred tax not provided for	<b>1,6</b>	–	–	–
Secondary tax on companies	<b>8,3</b>	2,0	<b>24,5</b>	–
Prior year adjustments	–	(3,7)	<b>(0,3)</b>	–
Net increase/(reduction)	<b>10,7</b>	(0,6)	<b>15,6</b>	(1,1)
Effective rate	<b>38,7</b>	28,4	<b>43,6</b>	27,9
Gross calculated tax losses of R5 782 000 (2007: R3 676 000) of certain subsidiaries at the end of the financial year are not available for utilisation against future taxable income of those companies, as there is uncertainty of sufficient taxable income being earned in future by the subsidiaries concerned.				
<b>27. ORDINARY DIVIDENDS</b>				
Dividend of 15 cents paid (2007: 0 cents)	<b>9 859</b>	–	<b>9 859</b>	–
Special dividend of R1 paid (2007: 0 cents)	<b>65 729</b>	–	<b>65 729</b>	–
Interim of 10 cents paid (2007: 0 cents)	<b>6 572</b>	–	<b>6 572</b>	–
	<b>82 160</b>	–	<b>82 160</b>	–

# Notes to the financial statements continued

for the year ended 31 December 2008

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
<b>28. EARNINGS PER ORDINARY SHARE</b>				
The calculation of earnings per share is based on the consolidated net profit attributable to ordinary shareholders of 60 741 000 (2007: 61 684 000) and 65 729 109 (2007: 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>92,41</b>	93,85	—	—
Headline earnings per share	<b>93,22</b>	95,42	—	—
There is no dilution effect on earnings				
	<b>R'000</b>	R'000	<b>R'000</b>	R'000
<b>Headline earnings reconciliation</b>				
Net profit for the year	<b>60 741</b>	61 684		
Loss/(profit) on sale of property, plant and equipment	<b>532</b>	8		
Loss on disposal of associate	<b>—</b>	1 028		
	<b>61 273</b>	62 720		
<b>29. CASH GENERATED FROM OPERATIONS</b>				
Profit before income tax	<b>99 155</b>	87 196	<b>33 515</b>	26 089
Adjustments for:				
Depreciation	<b>3 502</b>	3 312	<b>13</b>	8
Depreciation – reclassification	<b>9</b>	(170)	<b>—</b>	—
Exchange difference relating to foreign subsidiaries	<b>(924)</b>	199	<b>—</b>	—
Amortisation of intangible assets	<b>2 167</b>	1 881	<b>1 655</b>	1 655
Share of results after tax of associate	<b>—</b>	(1 153)	<b>—</b>	(1 153)
Loss on disposal of associate	<b>—</b>	1 028	<b>—</b>	1 028
Loss on disposal of property, plant and equipment	<b>532</b>	8	<b>—</b>	4
Financial (income)/cost	<b>(3 322)</b>	1 908	<b>(12 742)</b>	(16 347)
	<b>101 119</b>	94 209	<b>22 441</b>	11 284
Working capital changes	<b>43 785</b>	(13 653)	<b>62 018</b>	(54 570)
(Increase)/decrease in inventories	<b>(12 619)</b>	234	<b>—</b>	—
(Increase)/decrease in accounts receivable	<b>(51 987)</b>	(60 538)	<b>12</b>	199
Decrease in amounts owing by Group companies	<b>—</b>	—	<b>56 797</b>	39 178
Increase/(decrease) in accounts payable	<b>102 309</b>	45 374	<b>826</b>	(2 441)
Increase in provisions	<b>6 082</b>	1 277	<b>—</b>	—
Increase/(decrease) in amounts owing to Group companies	<b>—</b>	—	<b>4 383</b>	(91 506)
	<b>144 904</b>	80 556	<b>84 459</b>	(43 286)

	CONSOLIDATED		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>30. RECONCILIATION OF DIVIDENDS PAID DURING THE YEAR</b>				
Ordinary dividends paid	16 431	—	16 431	—
Special dividends paid	65 729	—	65 729	—
	<b>82 160</b>	—	<b>82 160</b>	—
<b>31. RECONCILIATION OF INCOME TAX PAID DURING THE YEAR</b>				
Amount owing at beginning of year	(5 082)	(876)	(3 065)	(2 234)
Charge in income statement	(38 414)	(24 753)	(14 607)	(7 274)
Adjustment for deferred taxation	(7 088)	2 024	(3)	459
Amount owing at end of year	21 479	5 082	4 622	3 065
	<b>(29 105)</b>	<b>(18 523)</b>	<b>(13 053)</b>	<b>(5 984)</b>
<b>32. DISPOSAL OF INVESTMENT IN ASSOCIATE</b>				
During the year 2007 the Group disposed of its 42% investment in the associated company – Pump Brands (Pty) Limited.				
Net asset value of investment	—	33 746	—	33 746
Net asset value	—	33 746	—	33 746
Sale price	—	(32 718)	—	(32 718)
Net loss on disposal of investment	—	1 028	—	1 028
Net cash inflow	—	32 718	—	32 718
<b>33. PROCEEDS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS</b>				
Book value	744	8	—	—
Loss on disposal	(532)	(8)	—	—
Proceeds	212	—	—	—

	CONSOLIDATED		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>34. CASH AND CASH EQUIVALENTS</b>				
Cash and cash equivalents included in the cash flow statement comprised the following balance sheet amounts:				
Bank and cash balances – non-current	16 971	—	—	—
Bank and cash balances – current	52 368	19 902	2 540	552
	<b>69 339</b>	19 902	<b>2 540</b>	552
The non-current cash balance is restricted as it is held as collateral for a guarantee on contracts				
<b>35. CAPITAL EXPENDITURE</b>				
Authorised and contracted	2 842	4 685	—	—

**36. GUARANTEES**

The Company has guaranteed facilities granted to subsidiary companies amounting to R107 000 000 (2007: R60 000 000). The Company has given a limited guarantee amounting to R3 000 000 (2007: R3 000 000) to a raw material supplier of a subsidiary company.

The Company's bankers have furnished performance and shipping guarantees on behalf of subsidiaries amounting to R48 738 000 (2007: R36 140 000).

No losses are expected to arise out of the above arrangements.

**37. RETIREMENT FUNDS**

**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 2008.

**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.

	<b>GROUP</b>	
	<b>2008</b>	2007
	<b>R'000</b>	R'000
<b>37. RETIREMENT FUNDS (continued)</b>		
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.		
Present value of funded obligations	<b>(169 921)</b>	(151 145)
Fair value of assets	<b>176 405</b>	189 103
Surplus not recognised	<b>6 484</b>	37 958
The movement in the defined benefit over the year is as follows:		
At January	<b>(151 145)</b>	(122 488)
Current service costs	<b>(4 471)</b>	(3 047)
Interest costs	<b>(12 323)</b>	(9 981)
Contribution to participants	<b>(1 887)</b>	(1 796)
Benefit paid	<b>10 413</b>	7 781
Actuarial gains/(losses) on plan liabilities	<b>(10 508)</b>	(21 614)
	<b>(169 921)</b>	(151 145)
The movement in the fair value of planned assets		
At January	<b>189 103</b>	168 930
Expected return on assets	<b>17 053</b>	15 263
Employer contribution	<b>2 384</b>	2 926
Contribution by participants	<b>1 887</b>	1 796
Benefit paid	<b>(10 413)</b>	(7 781)
Actuarial (losses)/gains on plan assets	<b>(23 609)</b>	7 969
	<b>176 405</b>	189 103
The amounts recognised in the income statement		
Current service costs	<b>(4 471)</b>	(3 047)
Interest costs	<b>(12 323)</b>	(9 981)
Expected return on assets	<b>17 053</b>	15 262
	<b>259</b>	2 234
The principal actuarial assumptions used for accounting purposes were:		
Discount rate	<b>7,25%</b>	8,25%
Pension increases	<b>2,55%</b>	3,30%
Return on assets	<b>7,25%</b>	9,07%
Salary increases	<b>5,50%</b>	6,75%

	2006 R'000	2005 R'000	2004 R'000
<b>37. RETIREMENT FUNDS (continued)</b>			
The following are the results of the fund over the previous three years.			
Balance at end of the year			
Present value of funded obligations	(122 488)	(113 616)	(92 053)
Fair value of assets	168 931	136 928	119 217
Surplus not recognised	46 443	23 312	27 164
		<b>2008 R'000</b>	2007 R'000
<b>Fair value of plan assets split into major asset classes</b>			
Equities		<b>103 991</b>	119 078
Government Bonds		<b>12 791</b>	12 348
Property		—	1 796
Insurance contract		<b>37 686</b>	35 400
Other		<b>21 937</b>	20 481
		<b>176 405</b>	189 103

**38. LITIGATION**

There are no legal matters which in the opinion of the Group and in consultation with legal counsel would have any material consolidated effect on the Group's financial position, results of operations or cash flow.

	<b>GROUP</b>	
	<b>2008</b>	2007
	<b>R'000</b>	R'000
<b>39. RELATED-PARTY TRANSACTION</b>		
For details of subsidiary companies and the Group's interest therein refer to pages 70 and 71.		
Refer to pages 2 and 3 for details of the directors and note 40 to the financial statements for details of emoluments paid to directors.		
Refer to note 36 to the financial statements for details of guarantees provided on behalf of the subsidiary companies.		
Refer to note 20 for amounts owing to other Howden Group companies.		
(a) Key management compensation		
Basic salaries	<b>6 556</b>	6 373
Bonus or performance-related payments	<b>1 958</b>	1 413
Any other material benefit received	<b>1 886</b>	589
Contribution to pension scheme	<b>669</b>	548
	<b>11 069</b>	8 923
(b) Sales of goods and services		
James Howden Holdings Limited	<b>22 591</b>	23 784
Howden Donkin (Pty) Limited	<b>4 532</b>	4 951
Howden FFP (Pty) Limited	<b>445</b>	9 261
Howden Africa (Pty) Limited – Power Division	<b>50 330</b>	50 778
	<b>77 898</b>	88 774
(c) Purchase of goods and services		
James Howden Holdings Limited	<b>22 938</b>	16 377
Howden Donkin (Pty) Limited	<b>1 470</b>	818
Howden FFP (Pty) Limited	<b>1 274</b>	9 200
Howden Projects (Pty) Limited	<b>48 960</b>	58 855
Howden Africa (Pty) Limited – Power Division	<b>3 256</b>	3 524
	<b>77 898</b>	88 774
(d) Amounts paid by subsidiaries to the Company in respect of:		
(1) Royalties		
James Howden Holdings Limited	<b>4 761</b>	3 025
Howden Donkin (Pty) Limited	<b>2 457</b>	2 025
Howden Africa (Pty) Limited – Power Division	<b>6 909</b>	6 528
	<b>14 127</b>	11 578
(2) Management fees		
James Howden Holdings Limited	<b>3 408</b>	2 016
Howden Donkin (Pty) Limited	<b>900</b>	804
Howden Africa (Pty) Limited – Power Division	<b>2 316</b>	1 824
	<b>6 624</b>	4 644
(3) Dividends		
Howden Africa (Pty) Limited	<b>7 000</b>	–
	<b>7 000</b>	–
(e) Royalties paid to Howden Holdings Limited – UK		
In respect of technical licence fees	<b>1 908</b>	1 440

**40. DIRECTORS' EMOLUMENTS**

	Fees for services as a director R'000	Basic salary R'000	Bonuses or performance-related payments R'000	Any other material benefit received R'000	Contribution to pension scheme R'000	Total R'000
<b>for the year ended 31 December 2008</b>						
<b>Executive directors</b>						
S Meyer	—	1 226	463	82	121	1 892
<b>Non-executive directors</b>						
AB Mashiatsidi	62	—	—	—	—	62
M Malebye	57	—	—	—	—	57
	<b>119</b>	<b>1 226</b>	<b>463</b>	<b>82</b>	<b>121</b>	<b>2 011</b>
<b>for the year ended 31 December 2007</b>						
<b>Executive directors</b>						
S Meyer	—	1 139	424	70	110	1 743
<b>Non-executive directors</b>						
AB Mashiatsidi	83	—	—	—	—	83
M Malebye	26	—	—	—	—	26
	<b>109</b>	<b>1 139</b>	<b>424</b>	<b>70</b>	<b>110</b>	<b>1 852</b>

All directors' emoluments are paid by the Company Howden Africa Holdings Limited.

**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 year's 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.

#### 41. COMPARATIVES

	Restated 2007 R'000	Adjustment R'000	As reported 2007 R'000
<b>Consolidated</b>			
a) Deferred tax			
The comparative figures for deferred tax have been restated retrospectively to show the net deferred tax asset or liability per underlying entity.			
<i>The effect on the 2007 year is as follows:</i>			
Deferred income tax assets	21 044	(6 070)	27 114
Deferred income tax liabilities	(5 342)	6 070	(11 412)
	15 702	—	15 702
b) Cost of sales			
Cost of sales have been restated retrospectively by re-allocating direct overheads from administrative expenses to cost of sales.			
<i>The effect on the 2007 year is as follows:</i>			
Cost of sales	524 652	20 054	504 598
Administration expenses	51 878	(20 054)	71 932
	576 530	—	576 530
<b>Company</b>			
c) Reclassification of intercompany loans			
Intercompany loans previously shown as non-current have been reclassified as current as there are no terms of repayment.			
<i>The effect on the 2007 year is as follows:</i>			
Investment in subsidiaries	89 310	(186 323)	275 633
Trade receivables and prepayments	400 266	400 254	12
Trade and other payables	(216 490)	(213 931)	(2 559)
	273 086	—	273 086

# Interest in subsidiary companies

for the year ended 31 December 2008

	Issued ordinary share capital	Proportion held  %	Details of holding company's interest			
			Shares at cost or valuation less amounts written off		Indebtedness	
			Dec 2008 R	Dec 2008 R'000	Dec 2007 R'000	Dec 2008 R'000
<b>SUBSIDIARIES OF HOWDEN AFRICA HOLDINGS LIMITED Incorporated in South Africa</b>						
Howden Africa (Pty) Limited (preference share)	1	100,00	29 310	29 310	—	—
Howden Africa (Pty) Limited	1 010	100,00	60 000	60 000	300 051 <sup>1</sup>	357 210 <sup>1</sup>
<b>Incorporated in Scotland</b>						
Donkin Fans Limited	23	100,00				
			<b>89 310</b>	89 310	<b>300 051</b>	357 210
<b>SUBSIDIARIES OF HOWDEN AFRICA (PTY) LIMITED Incorporated in South Africa</b>						
James Howden Holdings Limited	1 406 488	100,00	15 298	15 298	39 279	40 237
Howden FFP (Pty) Limited	1 000	100,00	—	46 965	(44)	—
Howden Process Compressors (Pty) Limited	1 000	100,00	388	388	—	—
Gertrude Holdings Limited	200	100,00	20 735	20 735	287	7
Howden Holdings (Pty) Limited	100	100,00	32 244	32 244	—	—
			<b>68 665</b>	115 630	<b>39 522</b>	40 244
<b>SUBSIDIARIES OF JAMES HOWDEN HOLDINGS LIMITED Incorporated in South Africa</b>						
Engart Africa (Pty) Limited	2	100,00	—	—	400	—
Howden Projects (Pty) Limited	200	100,00	1	1	(190)	—
Howden Power (Pty) Limited	15 000	100,00	15	15	(211 067)	(211 067)
<b>Incorporated in Scotland</b>						
Howden 3Ts International Limited	23	100,00	—	—	—	—
			<b>16</b>	16	<b>(210 857)</b>	(211 067)

	Issued ordinary share capital	Proportion held  %	Details of holding company's interest			
			Shares at cost or valuation less amounts written off		Indebtedness	
			Dec 2008 R	Dec 2007 R'000	Dec 2008 R'000	Dec 2007 R'000
<b>SUBSIDIARIES OF GERTRUDE HOLDINGS LIMITED</b>						
<b>Incorporated in South Africa</b>						
Brumerose Properties (Pty) Limited	200	100,00	31	31	(23)	—
<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	—	—
Donkin Manufacturing Company (Pty) Limited	16 380	100,00	4 000	4 000	—	—
			12 295	12 295	—	—
Total indebtedness					128 693	186 387
Reconciliation of total indebtedness						
Amounts owing by Group companies					344 407	400 254
Amounts owing to Group companies					(215 714)	(213 931)
Amounts owing by holding company and its subsidiaries					—	950
Amounts owing to holding company and its subsidiaries					(3 486)	(886)
					125 207	186 387

<sup>1</sup>Howden Africa Holdings Limited has subordinated this loan in favour of Standard Bank SA Limited, until such time as Howden Africa (Pty) Limited has repaid its loan to Standard Bank SA Limited. Refer note 18.

Normal capital loans to/from subsidiaries are unsecured and not subject to any fixed terms of repayment. No interest is charged on capital loans to/from subsidiaries 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.

# Notice of the annual general meeting

for the year ended 31 December 2008



## 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 shareholders of the Company will be held at the registered office, 1a Booysens Road, Booysens, Johannesburg at 12:00 on Thursday, 11 June 2009 for the following purposes:

1. To receive and consider the annual financial statements for the year ended 31 December 2008;
2. To elect Mr T Bärwald who was appointed subsequent to the last annual general meeting and retires according to the Company's articles of association; (Please see note 1)
3. To re-elect Mr J Brown and Mr S Meyer who retire by rotation from the board of directors, in terms of the Company's articles of association; (Please see note 2)
4. To approve the remuneration of directors;
5. To appoint Messrs PricewaterhouseCoopers Inc. as auditors of the Company;
6. 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);

### 7. 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 12 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 12 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 12 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 (pages 2 and 3);
- major shareholders of the Company (page 56);
- there have been no 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 55 and 56);
- directors' responsibility statement – the directors, whose names appear on pages 2 and 3 of this annual report of which this notice forms part, collectively and individually accept full responsibility for all 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 24);
- litigation statement (page 66).

The Company will not enter the market to proceed with any repurchase of shares in terms of special resolution number 1 as part of a repurchase of its ordinary shares, until its sponsor has confirmed in writing to the JSE the adequacy of the Company's working capital pursuant to the Listings Requirements of the JSE.

# Notice of the annual general meeting continued

for the year ended 31 December 2008

## Note 1

Confirmation of appointment of director who was appointed since the last annual general meeting.

### **T BÄRWALD (46)**

#### **Chief executive officer (German)**

Thomas Bärwald originally relocated from Germany to join Howden Africa in 1990. He was promoted to Operations Director of Howden Power, a division of James Howden Holdings Limited in September 1997. In 1998 he relocated to Australia and was appointed Executive Director of Howden Australia in 1999 and Managing Director of Howden Australia in 2002. He was appointed Managing Director of Howden Hua (China) in 2007 to lead a change management assignment for a period of 18 months ending December 2008.

## Note 2

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

### **J BROWN (49)**

#### **Non-executive director (British)**

James Brown, after qualifying as a chartered accountant, joined British Aerospace. In 1989 he joined 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 finance director of Howden Global. He was appointed non-executive director of the Howden Africa Holdings Limited board on 1 March 2005.

### **S MEYER (54)**

#### **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.

## 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 (Pty) Limited, 70 Marshall Street, Johannesburg, 2001, Republic of South Africa (PO Box 61051, Marshalltown, 2107), to be received by them not later than 12:00 on Tuesday, 9 June 2009. 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 (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, 9 June 2009;
- 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 (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, 9 June 2009; or
- If you have already dematerialised your shares in the Company through a CSDP or broker, but the shares are not in 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

**MDU M LUTHULI**

Company secretary

12 May 2009

**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

**FORM OF PROXY: FOURTEENTH ANNUAL GENERAL MEETING OF THE COMPANY TO BE HELD AT 12:00 ON  
11 JUNE 2009 AT 1a BOOYSENS ROAD, BOOYSENS, JOHANNESBURG**

for use by shareholders who:

- hold shares in certificated form; or:
- have dematerialised their shares (i.e., 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) (i.e., 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 fourteenth annual general meeting of the members convened for 12:00 on Thursday, 11 June 2009 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 12:00 on Tuesday, 9 June 2009, to Computershare Investor Services (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 fourteenth annual general meeting of the Company to be held on Thursday, 11 June 2009 at 12:00 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.	Election of T Bärwald			
3.	Re-election of S Meyer and J Brown			
4.	Remuneration of directors			
5.	Appointment of auditors			
6.	Placing unissued shares under the control of the directors			
7.	Special resolution number 1 General approval to permit Company to acquire shares of the Company			

Signed at \_\_\_\_\_ on \_\_\_\_\_ 2009

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 other 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 (Pty) Limited, 70 Marshall Street, Johannesburg, 2001, Republic of South Africa, (PO Box 61051, Marshalltown, 2107), by not later than 12:00 on Tuesday, 9 June 2009.
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 must be deposited at the office of the Company’s transfer secretaries, Computershare Investor Services (Pty) Limited, 70 Marshall Street, Johannesburg, 2001, Republic of South Africa, (PO Box 61051, Marshalltown, 2107), by not later than 12:00 on Tuesday, 9 June 2009.
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.



**Howden**  
[www.howden.com](http://www.howden.com)