

# Annual Report 2004



Maintaining growth through our  
global diversified industrial businesses



**Steinhoff**   
International Holdings Ltd



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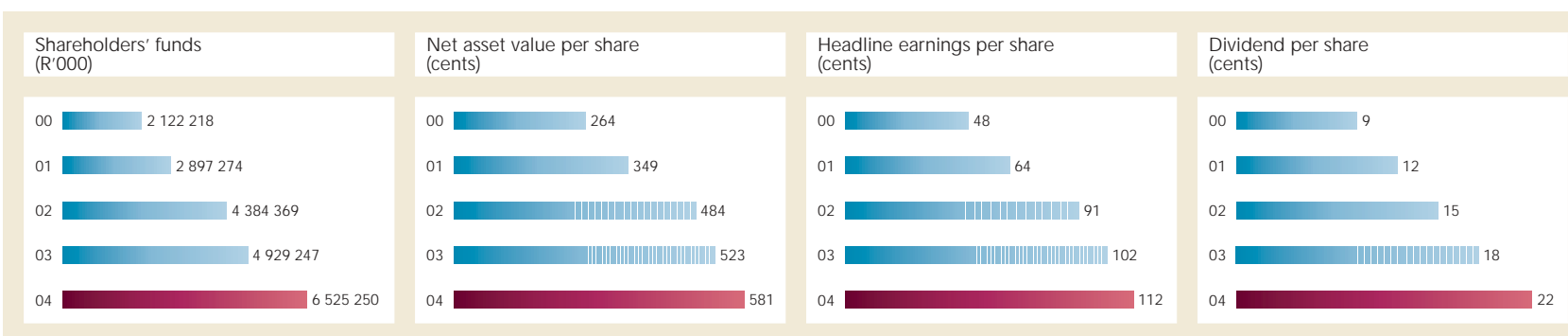
# Financial highlights

for the year ended 30 June 2004



	2004 R'000	2003 R'000	2002 R'000	2001 R'000	2000 R'000
<b>Revenue</b>	<b>10 572 130</b>	9 948 595	8 207 936	5 773 532	4 594 086
Operating income before finance costs	1 153 538	998 210	732 728	643 332	456 631
Net finance costs	80 147	121 177	79 299	46 648	51 125
Income before taxation	1 073 391	877 033	653 429	596 684	405 506
Taxation	150 381	97 950	52 609	27 130	16 091
Net income after taxation	923 010	779 083	600 820	569 554	389 415
Share of associate companies' retained income	117 853	91 056	55 964	38 111	13 276
Loss/(income) attributable to outside shareholders	(4 012)	2 881	1 809	1 819	732
Earnings attributable to shareholders	1 036 851	873 020	658 593	609 484	403 423
Total assets	13 545 317	9 484 299	8 636 901	5 719 588	4 953 049
Shareholders' funds	6 525 250	4 929 247	4 384 369	2 897 274	2 122 218
Gearing ratio (net) (%)	–	15	24	9	30
Earnings per share (cents)	97	91	76	74	51
Headline earnings per share (cents)	112	102	91	64	48
Dividend per share (cents)	22	18	15	12	9
Net asset value per share (cents)	581	523	484	349	264

Note: The 2003 figures have been restated to comply with the directive issued by the JSE Securities Exchange South Africa regarding the consolidation of share incentive trusts.





# Raw materials

An integrated supply chain allows significant control over raw material production, on-time deliveries and distribution.

1



Timber

Our South African division owns and manages timber in the Southern Cape region where the group has invested in a technologically advanced sawmill in George. All timber used by the South African operation is FSC certified in compliance with environmental requirements. Timber remains a strategic raw material for the group.

2



Wood products

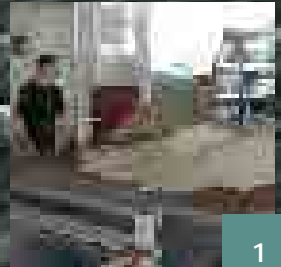
PG Bison produces chipboard and various components and upgraded board. Although chipboard is only one of the components used in the production of household goods, the synergies between Steinhoff's existing operations and PG Bison will result not only in economic or commercial advantages but in a more efficient use of a relatively scarce raw material.

3



Foam

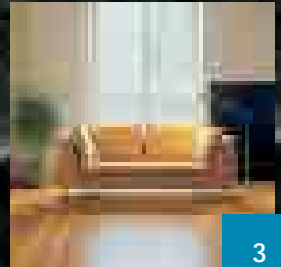
Foam and textiles are produced by the raw materials division used in our products and sold to third parties both locally and internationally in western Europe and Australia. One of the companies in the division is Vitafoam. With seven production plants in southern Africa, it produces flexible polyurethane foam used in furniture, bedding and packaging, as well as a range of consumable products.



1



2



3

# Manufacturing

Our diverse product range of successful trade and consumer brands and products, supplemented by imported products, remains a strategic advantage.

1

2

3



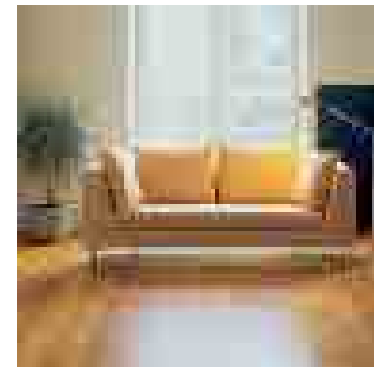
Leather

The production of household goods comprises the manufacturing and production of various components in assembling and presenting the final product. Leather furniture has remained a focus for consumers worldwide although innovative fabric such as novalife has gained market share. Hides are cut technologically to optimise use of leather.



Bedding

Our mattress production has been expanded by the acquisition of Sprung Slumber in the UK and recently by Hukla Mattresses in Germany, as well as the opening of a foam plant in Mozambique and the investment in Zimbabwe. Locally the division's brands include Sealy, Edblo, Slumberland and Ther-A-Pedic. Internationally the Relyon brand remains the upmarket bedding supplier in Europe, and with acquisitions of Sprung Slumber and Hukla, Steinhoff now has an extended market share growing geographic reach and diversification throughout Europe.



Lifestyle goods

“Beauty is in the eye of the beholder” – sometimes household goods fall into this description. The motivation for the purchase by any consumer of household goods items varies from necessity to luxury. In the selection of household goods fashion plays an important role.



1

2

3

# Logistics, warehousing and distribution

Manufacturing is driven by demand, and through our group companies and brands, we produce a significant supply of the South African and European furniture market.

1

2

3



Logistics

In a competitive environment the effective, efficient and reliable distribution of products remains critical. Not only are the manufactured goods transported from factory to retailer and/or to consumers but each raw material utilised in the entire supply chain. Following exercising the pre-emptive right on the shares owned by Murray and Roberts Holdings Ltd in Unitrans Ltd, on approval of the regulatory requirements, the group will utilise the wealth of experience of Unitrans in enhancing its logistics function.



Warehousing

Technology plays an important role in the effective management of the supply chain. Centralised and high-tech distribution centres are all located centrally to manage logistical needs better. It gives greater control over stock levels, providing a more sufficient service and reduced delivery times to our customers.



Furniture

Over the past six years, we have extended our product range to enhance the services to our customers and we have established strategic relationships with selected and valued customers and buying groups. Through these relationships, and with time, we have grown as market leaders in our chosen markets. These are expanding rapidly, adding to our global footprint and long-term strategy of increasing our market share in Europe, Australia and Africa.

## Executive directorate



## Non-executive directorate and secretary



# Executive directorate

## **Bruno Ewald Steinhoff (66)\***

Bruno, founder of the group, currently serves as executive chairman, with specific responsibility for strategic development.

After studying industrial business, Bruno started his furniture trade and distribution business in June 1964 in Westerstede, Germany. In 1971, he expanded into manufacturing with the first upholstery factory in Remels. During the 1980s and 1990s, Bruno acquired interests in central and eastern Europe and also ventured into South Africa in a joint venture with Claas Daun involving Gommagomma Holdings.

He has 40 years of experience in the furniture trade business and more than 30 years' manufacturing experience. Bruno also serves on the regional board of Commerzbank for Northern Germany.

## **Markus Johannes Jooste (43)#•**

BAcc, CA(SA)  
In 2000, Markus was appointed group managing director of Steinhoff International and chairman of Steinhoff Africa.

In 1988, Markus joined Gommagomma Holdings as financial director and became involved in merging the southern African operation with the extensive interests of Bruno Steinhoff.

Markus was appointed as executive director and took responsibility for the European operations of Steinhoff International and also for directing the group's international marketing and financial disciplines.

Currently, Markus serves as chief executive officer and is also on the boards of the following listed companies: Unitrans (member of the remuneration committee), and PSG Group Limited (member of the remuneration committee). He is a non-executive director of The Racing Association.

## **Johannes Henoeh Neethling van der Merwe (45)**

BAcc, BCompt (Hons), CA(SA)  
Jan has been chief financial officer since 7 November 2003.

Jan previously led the Steinhoff International Group Services team. He has wide experience in most of the operational aspects of the group's business.

A qualified chartered accountant, Jan entered the industry as a buyer for Gommagomma Holdings (now Steinhoff Africa) in 1989. Since then, he has held several positions, including managing director of Steinhoff Furniture, Cape Town. He was appointed managing director of Steinhoff Africa Group Services in 1999 and International Group Services in 2001.

## **Fredrik Johannes Nel (45)**

BCompt (Hons), CA(SA)  
Frikkie was appointed financial director of Steinhoff International in 1998 and also acted as company secretary for the group. He has the overall responsibility as the company's financial director.

After serving as an accountant with a private company, he joined Gommagomma (now Steinhoff Africa) as financial manager in 1989, becoming financial director in 1990.

He qualified as a chartered accountant in 1993.

## **Daniël Maree van der Merwe (46)**

BComm, LLB  
Danie was elected to the Steinhoff International Holdings board in 1999 and is group managing director for Steinhoff Africa.

Danie was admitted as an attorney of the High Court of South Africa in 1986. He practised as an attorney, gaining experience in the commercial and labour law field and, in 1990, joined the Roadway Transport group. He was instrumental in developing the strategic direction and growth of this group. In early 1998, following the merger of Roadway with Steinhoff Africa, Danie joined Steinhoff.

Danie currently serves on the boards of Unitrans (also as member of the audit committee), and holds several appointments within the Steinhoff group, with specific responsibility for the southern African operations.

## **Rodney Howard Walker (47)-**

Rod heads up the group's operations in the Pacific Rim and was appointed to the board on 1 March 2004.

He was appointed managing director of Freedom Group Ltd, listed at the time, in June 2000 and led the management buyout and delisting of Freedom Group at the end of 2003. Freedom is a major retailer of furniture and housewares in Australia and New Zealand. He started out as a sales representative in the publishing industry and held various management positions in the food and beverage industry in the USA and Australia. He acted as a director of operations, development and logistics

for Pizza Hut Australia Ltd before joining Freedom Group as director of logistics and human resources in 1994. Rod held various positions in Freedom Group before being appointed as managing director.

Following to the supply and alliance agreement concluded with Steinhoff in 2001, Rod was also appointed to the board of Steinhoff Pacific.

## **Karel Johan Grové (55)**

Jo is the chief executive officer of Unitrans Limited and joined Steinhoff as a non-executive director in September 2000.

He has more than 34 years of experience in the accounting and banking industries. Prior to joining Unitrans in 1998, he established and acted as managing director of Medical Leasing Services (Pty) Limited (in 1976) and Imperial Bank Limited (in 1995). He started his career as cost and works accountant with Shaft Sinkers (Pty) Limited in 1969.

Jo completed the advanced management programme with the University of Oxford in 1983.

On approval and implementation of the acquisition of the shares in Unitrans from Murray & Roberts Holdings Ltd, Jo's capacity will change to executive.

- ~ Australian
- \* German
- # Member of audit and risk management committee
- Member of human resources and remuneration committee
- Ω Member of group risk advisory committee
- Member of nominations committee

# Non-executive directorate and secretary



**Deenadayalen Konar (50)#øΩ•**  
BComm, HDipAcc, MAS, CertTaxLaw,  
DComm, CA(SA)

Len joined Steinhoff on listing and is an independent consultant and professional director. Prior positions include executive director of internal audit portfolio and head of investments at the Independent Development Trust, and professor and head of the department of accountancy at the University of Durban-Westville.

Len is a member of several business and professional associations, including the National Horseracing Authority, director of the Jockey Club of SA, King Committee on Corporate Governance and The Institute of Directors.

Other board appointments include Old Mutual South Africa, Sappi Limited, Kumba Limited and the South African Reserve Bank.

Len chairs the audit and risk and nomination committees and has been appointed senior director.

**Dirk Emil Ackerman (69)#øΩ**  
Dirk is a director of companies and the chairman of the human resources and remuneration committee, a position he has held since joining the group on listing in September 1998. He has more than 40 years of management experience.

He joined Chubb and Sons Lock & Safe group in 1961 and acted in various positions, which culminated in being appointed managing director of Chubb Holdings Limited in 1981. He became chairman and chief executive in 1986 and, since retirement in June 1994, acted as non-executive chairman until 1996. Dirk completed several management courses with the University of Cape Town Graduate School of Business and Henley Management College in the United Kingdom.

In October 1993, Dirk received the order for meritorious service – silver from the state for public and private sector service.

**Claas Edmund Daun (61)\***  
BAcc, CA  
Claas joined Steinhoff Germany as director in 1992 and has acted as a non-executive director of Steinhoff since listing in 1998. Claas has extensive experience of management and investments worldwide and is a corporate investor in several industries.

He is currently a member of the boards of Kolosus Holdings Limited, CAP AG, Feltex Limited, Courthiel Holdings (Pty) Limited, Daun et Cie AG and BCM Holdings (Pty) Limited, Glodina Holdings Limited, Stöhr AG and Mech Baumwoll-Spinnerei & Weberei AG, and holds several other directorships. He is also a member of the board and one of the vice-presidents of The Southern African German Chamber of Commerce and Industry.

Claas is also honorary consul of South Africa in Lower Saxony, Germany.

Claas holds a masters degree in business commerce from the University of Cologne and qualified as chartered accountant in 1975.

**Johannes Nicolaas Stephanus du Plessis (55)#øΩ**  
BComm, LLB, SC  
Johann was appointed to our board as non-executive during 2002. He is a trial lawyer and member of the Cape Bar. He was admitted as counsel during 1974 and took silk in 1989. He has been exposed during the course of his career to a wide range of commercial matters. He has occasionally acted as judge in the High Court.

**Johannes Fredericus Mouton (58)#øΩ**  
BComm (Hons), CA(SA), AEP  
Jannie has been independent non-executive director since 2002. He is founder and chairman of PSG Group Limited, chairman of Capitec Bank Holdings Limited and other companies in the PSG Group, including PSG Capital Limited.

Jannie started his career with Federale Volksbeleggings Limited as financial manager and after a period as financial director with Kanhym Limited, established Senekal Mouton & Kitshoff Inc, a stockbroking company and member of the JSE. He served as member of several JSE committees and was instrumental in various corporate transactions. He has 30 years of experience in financial management and investment banking.

Other board positions include Remgro Limited.

**Franklin Abraham Sonn (65)#øΩ•**  
BA, HDipEd (Hons), FIAC  
Franklin joined as independent non-executive director in 2002. Appointed first ambassador of democratic South Africa to the United States of America (1995 – 1998).

He returned to South Africa in 1999 and is the recipient of eleven honorary doctorates in law, education, humanities and philosophy from various institutions in South Africa, Europe and North America.

Appointed Chancellor of the University of the Free State in 2002. He serves as the deputy president of the Chamber of Commerce and Industry in South Africa and as chairman, trustee and patron to numerous civil organisations.

Current board positions include amongst others, African Star Ventures (Pty) Limited as executive chairman, Airports Company South Africa Limited, Absa Group, Absa Bank Limited and Absa Personal Bank Limited, Capespan Group Holdings Limited, Sappi Limited, Macsteel Holdings (Pty) Limited, New Africa Capital, Pioneer Food Group Limited.

**Norbert Walter Steinhoff (56)\***  
Diplom Volkswirt (rer pol)  
Norbert currently acts as non-executive director although he completed a term as executive director since listing.

Norbert joined Bruno Steinhoff GmbH in October 1975 and has held various marketing, sales and management positions.

Norbert studied economics at the University of Mannheim with practical training in Paris and London. He completed his bachelor's degree and obtained the certificate of diploma Volkswirt (rer pol) in 1974. He also completed a specialised trainee programme on marketing and product management with the American group, Eli Lilly, in Bad Homburg.

**Company secretary**  
**Stephanus Johannes Grobler (45)**  
BComm (Hons), LLB  
In December 1999, Stéhan was appointed company secretary of Steinhoff International and joined the group in a more formal relationship on 1 July 2000.

Stéhan was admitted as an attorney of the High Court in 1989. He is also admitted as a notary public, conveyancer and to appear in the High Court.

## Joint report by chairman and chief executive officer



In 1964 Steinhoff started as a distributor of furniture in Germany. Today, 40 years later, Steinhoff International operates in 25 countries, has an extensive product range, and generated R10 572 130 (€1 287 008) in revenue this year.



## Dear shareholder

This has been an exceptional year. Not only has the company continued to deliver on its objectives of profitable top-line growth and increased returns on invested capital, but has done so while driving an organisational expansion process. The group also had to cope with markets disrupted by currency fluctuations and volatile raw material prices. The challenges have been immense but the response of everyone in the group has been most heartening.

## Building the business

The past year's performance also reflects the strength of our range of quality brands that offer opportunities for growth. We continue to hold the view that in a competitive industry like ours, the lowest cost-producer with good quality products will ultimately be the most successful. Experience has shown that in an open world economy in which there is little or no protection against competition, local businesses need constantly to benchmark themselves against international competitors

This year's performance also reflects the strength of our range of quality brands that will continue to offer opportunities for growth.

to remain competitive domestically. We do this continuously throughout the group.

The appreciation in the value of the rand and euro has had some negative impacts which would be imprudent to ignore. However, it has helped make South African exporters like our South African division extremely competitive and has provided opportunities for companies like Steinhoff. We referred last year to this opportunity and we are pleased to report that revenues arising from exports from South Africa have been maintained at approximately R947 million (2003: R962 million) over last year, reflecting stability in volume terms.

Approximately 83% of our revenue is now sourced in currencies other than South African rand.

## South African economy

The South African economy has proved remarkably resilient this year, especially against the background of the other major economies. Undoubtedly, this is related to the sound macroeconomic management of the past few years. The improving economic fundamentals are also reflected in the ongoing reduction on the government deficit, now well below the budgeted level of 2,5% of GDP.

At the same time, the rapid appreciation of the rand and euro during the year has, as indicated, made our manufacturing sector more competitive internationally and stimulated investment in increased capacity.



Bruno Steinhoff starts his own business as a distributor of furniture from Eastern Europe to Western Europe.

The fall of communist rule in Eastern Europe directs the group from a marketing and distribution company to a producer and distributor of furniture.

Daun & Cie acquires a controlling interest in SA-based Victoria Lewis and Gommagomma Holdings (Pty) Limited.

# Joint report by chairman and chief executive officer (continued)

## Performance

### Revenue and earnings

The group's headline earnings for the year grew to R1 192 million (2003: R985 million) on revenues, which in rand terms, increased by 6% to R10 572 million (2003: R9 949 million). The average exchange rate used for converting euro income and expenditure to rand was R8,2145:€1 compared to R9,415:€1 in respect of the year ended 30 June 2003, representing a strengthening in the rand conversion rate of 13%.

The group generated 83% of its revenues in currencies other than South African rand, principally euro, pound sterling, US dollar and Australian dollar (AUD). The revenue growth achieved in euro terms amounted to 22% from €1 057 million to €1 287 million. Organic growth was supplemented by acquisitions implemented during the year which are dealt with separately under "corporate activity".

Headline earnings per share increased by 10% to 112 cents (2003: 102 cents), with basic earnings per share increasing by 7% to 97 cents (2003: 91 cents). The weighted average number of shares in issue increased by 11% during the year to 1 067,5 million (2003: 961,0 million), principally as a result of the 145,3 million new shares issued in November 2003 following the international equity placement.

### Balance sheet

Shareholders' funds grew to R6 525 million (2003: R4 929 million) and the return on average shareholders' funds was stable at 21% (2003: 21%) during the year. The net asset value per share improved further by 11% from 523 cents to 581 cents per share, despite an increase in the number of issued shares at 30 June 2004 to 1 123,0 million (2003: 942,5 million). The group's cash flow from operations reached a high of R1 539 million (2003: R898 million),

demonstrating the extent of the group's sound working capital management. Cash generation is after a net decrease in working capital of R97 million (2003: increase of R355 million), created mainly by increased suppliers' credit resulting from the inclusion of the PG Bison acquisition and the increased Australian investment. Favourable suppliers' terms of trading benefited the group through enhanced critical mass and the addition of the import, sourcing and distribution business acquired in Australia. Shareholders should note the seasonal nature of the business, with June being the low ebb of the business cycle in Europe, immediately preceding the summer holidays.

### Sourcing and margins

The group's strategy of low-cost sourcing in terms of own manufactured and third-party manufactured products, is continuing to deliver the desired results. This was



particularly the case in relation to market share gains attributable to the diversity of the product offering to Steinhoff's customers and the relative strength of the euro against the US dollar (in which most of the third-party products are sourced) and the Polish zloty in respect of the group's extensive manufacturing facilities in Poland. The major portion of the European sales is realised in euros which continued to benefit margins.

The average operating margin of the group increased to 12,5% (2003: 11,2%) for the year. The group continues to benefit from enhanced efficiencies throughout the supply chain as well as the critical mass achieved as a result of acquisitions in the United Kingdom, Australia and Germany.

## Corporate activity

The group concluded the following significant transactions during the period under review:

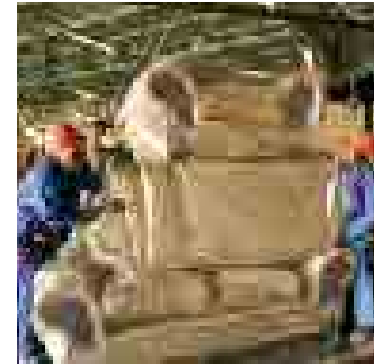
### International share placement

145 292 871 shares were placed in the international market in November 2003 following an international equity placement which raised €122,6 million (R970,0 million).

This placing increased Steinhoff's non-resident shareholder base, and substantially increased the level of liquidity in Steinhoff shares. The net proceeds of this issue were employed entirely outside South Africa to fund corporate activity in the United Kingdom and Australia, as well as the distribution centre at Leinefelde, Germany and the balance for general corporate purposes.

### Steinhoff Pacific

The investment by a European subsidiary of an effective AUD115 million in the import, sourcing and distribution and manufacturing (Steinhoff Pacific) interests of the formerly-



The group continues to benefit from enhanced efficiencies throughout the supply chain.

2000

The acquisition of the Klose Collection in Germany gives Steinhoff access to three high-tech factories and access to Hungary, through Klose Hungary.

Steinhoff expands its footprint in Poland through the acquisition of five Polish upholstery factories, including Prudnik.

2001

Steinhoff expands its presence in the UK, through the acquisition of Relyon Group plc.

Steinhoff Pacific is formed, incorporating case goods manufacturer Marshall Furniture, and the Freedom Group's manufacturing facilities in Australia and New Zealand.

Acquisition of Dieterknoll and Egofurn brands and formation of La-Z-Boy joint venture for Europe.

2003

Steinhoff Europe expands its range through a 74% interest in Puris Bad GmbH.

Steinhoff attains critical mass in the United Kingdom's bedding market through the acquisition of Sprung Slumber.

145 292 871 shares were placed in the international market in November 2003 following an international equity placement which raised €122,6 million (R970,0 million), and the South African division successfully issued and listed a R1 billion bond in the local bond market.

# Joint report by chairman and chief executive officer (continued)

listed Freedom Group Limited. This investment increased Steinhoff's wholesale and distribution business. It is expected that significant synergies will be realised from increased buying power through the combination of this sourcing business with Steinhoff's existing sourcing activities in the Far East.

## United Kingdom

The acquisition by Relyon Group of the Sprung Slumber division of Airsprung plc during October 2003. This acquisition, which complements Relyon's existing activities in the United Kingdom resulting in increased market coverage, contributed significantly to the United Kingdom operations' return to acceptable levels of profitability in the last six months of the year under review.

## Corporate bond in South Africa

The group launched a medium-term corporate bond issue of R1 billion in South Africa, the proceeds of which were used to refinance existing short-term facilities, as well as certain capital expenditure and the cash element of the PG Bison acquisition referred to below.

## PG Bison

The acquisition by the group of the remaining 65,01% of the issued shares in PG Bison Holdings (Pty) Limited on the basis of an immediate cash sale applicable to mainly former corporate shareholders and an earn-out applicable to shareholders comprising management and certain trusts which held shares on behalf of other employees.

## Syndicated loan programme

Steinhoff Europe AG (Austria) concluded a new syndicated loan programme (SLP) for €300 million. The new SLP replaced the previous syndicated loan of €175 million. This SLP was concluded at a substantially improved margin, with a term of four years from 4 June 2004.

## Unitrans Limited

The exercise by Steinhoff of its pre-emptive right in respect of 34 216 680 ordinary shares in Unitrans, constituting approximately 38% of Unitrans' existing issued shares, was announced on 3 September 2004. Shareholders are advised that the company has resolved to acquire, for its own account, the full 38% interest in Unitrans (the acquisition). The maximum purchase consideration, which is in the process of final determination, will not exceed 2 700 cents per Unitrans share (after the deduction of the declared and paid dividend), subject to certain adjustments relating to Unitrans' audited financial statements for the year ended 30 June 2004. Based on a maximum price of 2 700 cents per Unitrans share payable by Steinhoff, the maximum aggregate purchase consideration for the acquisition will amount to R923,9 million. Such consideration will be funded by Steinhoff from a combination of internal resources and borrowing facilities.

Based on the maximum purchase consideration as set out above, the acquisition and 100% acceptance of the minority offer will have a positive effect on

Steinhoff's earnings and net asset value per share, but not material as defined by the Listing Requirements of the JSE Securities Exchange South Africa (JSE).

The implementation of the acquisition and the minority offer is subject to the relevant regulatory approvals being obtained, including the issue of a clearance certificate by the South African competition authorities and the approval of the documentation relating to the acquisition and the minority offer by the JSE and the SRP. In the event of the clearance certificate not being issued by 28 February 2005, the purchase consideration payable in respect of the acquisition and the minority offer will accrue interest at a rate of 70% of the prime bank overdraft rate from 1 March 2005 to the date of payment.

A circular incorporating full details of the acquisition and the minority offer will be sent to Unitrans shareholders in due course.

Steinhoff records its support of the black economic empowerment (BEE) transaction recently entered into by Unitrans. It is noted that the BEE transaction is now unconditional and resulted in Unitrans issuing 11 400 000 new shares to a special purpose vehicle (SPV) controlled by Mvelaphanda Capital (Pty) Limited, Arch Equity (Pty) Ltd and the Unitrans Limited Employee Benefit Trust. The SPV holds 13,02% of Unitrans' current issued share capital.

## Hukla

During September 2004 and following the liquidation of Hukla Möbelwerke GmbH, the

German division entered into agreements for the acquisition of the assets of Hukla Möbelwerke group from the liquidator. Hukla is a well-known brand in Germany in the upholstery, recliner and mattress market.

#### **Dividend**

The company declared a dividend of 22 cents per share (2003: 18 cents per share) in respect of the year ended 30 June 2004, payable on 8 November 2004. The dividend equates to a dividend cover of 4,4 times.

#### **Management incentive scheme**

Following the approval at the annual general meeting held on 1 December 2003, the company implemented a new incentive scheme, subject to certain performance criteria being met. The total number of rights of 35 254 251 were allocated to 157 participants. As announced on SENS on 4 May 2004, 18 903 653 rights have been granted. A further 16 350 598 rights have been ratified on 2 October 2004 by the human resources and remuneration committee.

The company had these rights actuarially valued independently and each right at the granting date carried a weighted average value of R1,53 per right. On the assumption that the group will adopt accounting standard IFRS 2: share based compensation, in the next financial year, the total charge to the income statement over the next seven years will, based on certain actuarial assumptions, amount to approximately R54 million. This will have the effect of

reducing earnings per share by not more than 1,2 cents per share in any one financial year.

#### **Corporate governance**

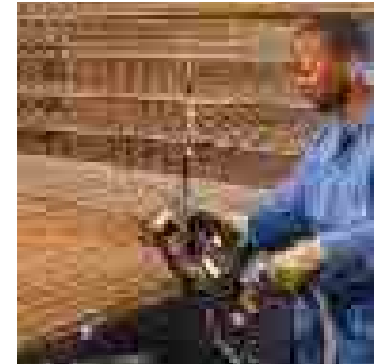
We have reviewed King II on Corporate Governance for South Africa and its recommendations. Steinhoff already meets the requirements but we also view this as an opportunity to assess and strengthen our governance position. Reference is made elsewhere in this report where governance issues are dealt with more formally. However, we would like to add that we view corporate governance not merely as a list of requirements that must be adhered to in the letter, but also as a code that must be followed in the spirit.

#### **Doing what's right**

While our operating strategies focus on profitability, our philosophy has never strayed from a commitment to doing what's right. We have implemented plans and programmes to improve our production methods, strengthen our safety performance and reduce our environmental footprint. This is discussed in greater detail in our sustainable development report later in this annual report.

#### **Leadership throughout our company**

Steinhoff has worked hard to be the leader in our industry – in terms of shareholder return, responsible stewardship and community involvement. We set high standards for our company, employees and suppliers and encourage each group to rise to the challenge of being a best practices company.



While our operating strategies focus on profitability, our philosophy has never strayed from a commitment to doing what's right. We have implemented plans and programmes to improve our production methods, strengthen our safety performance and reduce our environmental footprint.

# Joint report by chairman and chief executive officer (continued)

## Management and staff

The responsibilities of the board of directors are becoming increasingly important.

The Steinhoff board has never neglected its obligation to challenge and confront management and we value the contribution of all non-executive directors at Steinhoff.

We also welcomed Rod Walker to our board during the year, as an executive responsible for Steinhoff's operations in the Pacific Rim.

## Long-term value creation

The goal of Steinhoff's business is towards value creation. To underscore this, we would like to reiterate the guiding principles of Steinhoff.

- We will offer our customers innovative, world-class products and services. Operations that do not measure up to our long-term objectives and required rate of return will be restructured or discontinued.
- We will offer competitive products and services that are easy to access and that meet the customer's needs.
- Our leaders will think and act professionally. Achieving results and the ability to stimulate employee development are key aspects.
- We attach a premium to competence, initiative and drive. We want employees who develop, are stimulated in their work and who take responsibility.
- Creating sustained value for our shareholders is the basis of our business.

- There is always an opportunity to raise the bar, to do something better than anyone has done it before. Our commitment to this idea is evident in the year's achievements.

In 2004, our company:

- posted strong financial results in a challenging business environment
- launched exciting new products and significantly improved customer satisfaction
- outperformed its peers and gained market share in most of its major businesses.

We are fulfilling our vision for a fully-integrated, multi-product company and that vision has not changed. We are more convinced than ever that clients of all our businesses want a partner that offers unmatched convenience and expertise, high service quality, innovation and a variety of products delivered as a single relationship. We also remain convinced that such a company, when managed with focus, discipline and intensity, will produce strong growth and consistent, quality returns for its owners.

Finally, it is gratifying to note that across all our markets we received numerous awards and distinctions in 2004 from customers, business partners and trade organisations. We are proud of everyone's commitment and contribution to this recognition and want to thank all our employees for their hard work during the demanding times of the past year.

Our governance structure enables us to manage all the major aspects of the company's business effectively through an integrated process that includes financial, strategic and risk planning.

## Outlook

The European and Pacific Rim operations are continuing to grow through leveraging their core strengths and competencies. The real benefits of combining the existing European sourcing activities with those of the newly-acquired Australian sourcing businesses will be further developed.

In the German region, our principal market in the European Union, the group continues to gain market share on the back of its strategic relationships, financial strength, wide product offering, logistical capabilities and corporate failures of many of the group's competitors. Additionally, the level of growth achieved in certain segments of the market, eg mail order and mass discounters, augurs well for the future.

The group has significantly enhanced its production capacity in eastern Europe to cater for increased exports to other countries in the European Union, pointing to excellent prospects to serve new markets in countries where the group presently has limited or no presence at all.

The addition of complementary products and brands to the group's offering (eg Puris Bad in



Germany – bathroom furniture- and Sprung Slumber-beds- in the UK) has shown its value and is continuing to grow the group's market coverage. The group also recently acquired the exclusive rights to manufacture and distribute children's furniture under the "Janosch" name (which is a popular animation character on German television). In addition, the group acquired worldwide naming rights to manufacture and distribute children's furniture under the "Lego" brand. The expanded product range, flexibility and reliability of supply are increasingly contributing to the group establishing itself a supplier of choice to many of its retail customers.

The acquisition of PG Bison, a quality asset with good cash generation capabilities, should result in improved recovery rates in the group's utilisation of raw timber resources. The group's new saw-mill in George will be fully operational during the 2005 financial year.

Management expects to achieve growth in headline earnings from the continuing operations for the financial year ahead.

## Appreciation

We have set ambitious goals and are doing all we can to attain them. The only way to cultivate confidence and trust among investors is to systematically deliver on our stated aspirations and openly communicate performance, as well as acute challenges. We will meet the challenges brought by economic instability and

currency volatilities through co-ordinated, continuous and long-term commitment.

We thank our employees for the enthusiasm with which they embraced and lived our vision and strategies during the year, for their dedication in striving for our goals and for their spirit and devotion in our process of branding Steinhoff as the employer of choice. We know we are also envied for the quality of our staff.

Thank you to our shareholders, analysts and brokers for your investment, research and services. Likewise, to our sales brokers and advisers for your contribution to our achievements this year and to the media for their constructive reporting on our business.

We express our gratitude to our colleagues on Steinhoff's board and executive committee for their diligence and attentiveness throughout the year, not only in growing the business of Steinhoff and its shareholder value, but also in growing exemplary corporate governance. We are indebted to you for your hard work and support.

As always, we welcome your thoughts and suggestions.

BE Steinhoff  
*Chairman*

MJ Jooste  
*Chief executive officer*



The real benefits of combining the existing European sourcing activities with those of the newly-acquired Australian sourcing businesses will show in the years to come.

The acquisition of PG Bison, should result in improved recovery rates, in the group's utilisation of raw timber resources in South Africa.

# Finance report



**Table 1**

30 June	2004	2003	2002	2001	2000
Revenue (R'000)	10 572 130	9 948 595	8 207 936	5 773 532	4 594 086
Net asset value (cents)	581	523	484	349	264
Headline earnings (R'000)	1 191 738	984 842	785 021	528 584	406 125
Headline earnings per share (cents)	112	102	91	64	48
Dividend per share (cents)	22	18	15	12	9



The group's financial results for the year ended 30 June 2004 reflected revenue from ongoing operations of R10,6 billion, compared with revenue in the previous year of R9,9 billion, an increase of 7,1%. Headline earnings for the year under review increased by 21% to R1 191 million (2003: R985 million). The salient features of our five-year review are shown in table 1.

The group has rewarded its shareholders for the last five years with a return on equity consistently in excess of 20%. Since listing, our compound growth in headline earnings over a five-year period amounts to 27,6%.

The group achieved real growth in revenue despite the continued challenging and volatile trading conditions globally. Operating margin improved further to 12,5% (2003: 11,2%). The improved margin was achieved not only as a result of the relative strength of the euro against the US dollar and depreciation of the Polish zloty against the euro, but also, critical mass achieved from acquisitions in the UK, Australia and Germany and improved sourcing of third-party products.

## Segmental analysis

Revenue and earnings from ongoing operations (in rand and euro) per region is shown in table 2.

The average exchange rate used to translate foreign currency income and expenditure into South African rand was R8,2145 = €1 (2003: R9,415 = €1), representing a strengthening in

**Table 2**  
**Geographical analysis in rand**

Year ended 30 June 2004

Rand '000	Revenue	%	Earnings**	%	Net assets	%
Southern Africa	2 772 290	26	362 863	26	1 529 619	23
European Community	6 719 641	64	982 113	69	4 381 961	68
Pacific Rim	1 080 199	10	73 980	5	613 670	9
<b>Total</b>	<b>10 572 130</b>	<b>100</b>	<b>1 418 956</b>	<b>100</b>	<b>6 525 250</b>	<b>100</b>
Year ended 30 June 2003*						
Rand '000	Revenue	%	Earnings**	%	Net assets	%
Southern Africa	2 668 211	27	236 245	20	1 276 730	26
European Community	6 778 857	68	947 915	79	3 590 835	73
Pacific Rim	501 527	5	19 809	1	61 682	1
<b>Total</b>	<b>9 948 595</b>	<b>100</b>	<b>1 203 969</b>	<b>100</b>	<b>4 929 247</b>	<b>100</b>

## Geographical analysis in euro

Year ended 30 June 2004

Euro '000	Revenue 30 June 2004	Revenue* 30 June 2003	% change
Southern Africa	337 487	283 400	19
European Community	818 022	720 006	14
Pacific Rim	131 499	53 269	147
<b>Total</b>	<b>1 287 008</b>	<b>1 056 675</b>	<b>22</b>
Year ended 30 June 2004			
Euro '000	Earnings** 30 June 2004	Earnings** 30 June 2003*	% change
Southern Africa	44 173	25 094	76
European Community	119 559	100 680	19
Pacific Rim	9 006	2 104	328
<b>Total</b>	<b>172 738</b>	<b>127 878</b>	<b>35</b>

An amount of R947 million (2003: R962 million) of Africa's revenue comprised exports to the European Community and the USA amounting to approximately 34% (2003: 36%) of its activities. The group's revenue exposure to the local South African market amounted to 17% (2004: 17%).

\* Prior-year figures have been restated to reflect the consolidation of the share trusts.

\*\* Earnings before interest, taxation, discontinued operations, goodwill amortisation and impairment write-offs including share of associate companies' income and excluding minority interests.

# Finance report (continued)

**Table 3**  
**Segmental analysis in rand**

Year ended 30 June 2004

Rand '000	Revenue	%	Earnings**	%	Net assets	%
Manufacturing	7 334 650	69	922 236	65	4 371 921	67
Wholesale & distribution	3 237 480	31	496 720	35	2 153 329	33
<b>Total</b>	<b>10 572 130</b>	<b>100</b>	<b>1 418 956</b>	<b>100</b>	<b>6 525 250</b>	<b>100</b>

Year ended 30 June 2003\*

Rand '000	Revenue	%	Earnings**	%	Net assets	%
Manufacturing	7 260 028	73	845 820	70	3 504 396	71
Wholesale & distribution	2 688 567	27	358 149	30	1 424 851	29
<b>Total</b>	<b>9 948 595</b>	<b>100</b>	<b>1 203 969</b>	<b>100</b>	<b>4 929 247</b>	<b>100</b>

## Segmental analysis in euro

Year ended 30 June 2004

Euro '000	Revenue 30 June 2004	Revenue* 30 June 2003	% change
Manufacturing	892 890	771 113	16
Wholesale & distribution	394 118	285 562	38
<b>Total</b>	<b>1 287 008</b>	<b>1 056 675</b>	<b>22</b>

Year ended 30 June 2004

Euro '000	Earnings** 30 June 2004	Earnings** 30 June 2003*	% change
Manufacturing	112 269	89 838	25
Wholesale & distribution	60 469	38 040	59
<b>Total</b>	<b>172 738</b>	<b>127 878</b>	<b>35</b>

An amount of R947 million (2003: R962 million) of Africa's revenue comprised exports to the European Community and the USA amounting to approximately 34% (2003: 36%) of its activities. The Group's revenue exposure to the local South African market amounted to 17% (2004: 17%).

\* Prior year figures have been restated to reflect the consolidation of the share trusts.

\*\* Earnings before interest, taxation, discontinued operations, goodwill amortisation and impairment write-offs including share of associate companies' income and excluding minority interests.

the rand of 13%. Exports to the USA and western Europe represent R947 million (2003: R962 million) of southern Africa's total revenue of R2 772,3 million (2003: R2 668,2 million). It is the stated objective of the group to grow current levels of exports (currently at a level of 34%), despite the stronger rand. It has the production capacity available to achieve economies of scale and grow critical mass. The group's revenue exposure to the local South African market amounted to 17% (2003: 17%).

Including exports from South Africa, the group generated 83% (2003: 83%) of its total revenues in foreign currencies during the year. The revenue growth achieved in euro terms amounted to 22% from €1 057 to €1 287 million.

### Revenue and earnings from ongoing operations (in rand and euro) per operating activity is shown in table 3:

Contributions from the group's main activity as an integrated global lifestyle supplier are focused on manufacturing and wholesale and distribution, split as follows (table 3):

Wholesale and distribution activities have mainly related to non-South African revenue, thus the contribution from this activity comprises 37% of non-South African revenue. The stated objective remains a 50:50 split between owned manufactured products and wholesale and distribution.



## Group accounting policies

The annual financial statements have been prepared in accordance with the group's published accounting policies which comply with South African statements of generally accepted accounting practice, and are consistent with those of the previous accounting period, other than the first-time consolidation of the share trusts.

## Currency

The principal currencies in which Steinhoff and its subsidiaries conduct business are the euro, US dollar, pound sterling, zloty, forint, rand and Australian dollar.

In southern Africa, local sales are denominated in rands and exports are denominated in US dollars, pounds and euro. Most expenses incurred are denominated in rands, with the exception of certain raw materials, which are sourced in US dollars or euro. The depreciation (appreciation) of the rand tends to increase (decrease) the rand value of exports from South Africa and has a corresponding effect on gross margins of export sales. However, Steinhoff Africa's customers in the United Kingdom, Europe and the United States are fully aware of the effect of the rand exchange rate and normally require that a portion of any increased rand realisations as a result of rand depreciation be offset by reduced sterling, euro or US dollar prices for our South African products. Conversely, we negotiate for higher sterling,

euro or US dollar prices for our South African products during periods of rand appreciation.

The group generally borrows in currencies of the countries in which it invests, thus securing a natural currency hedge. As a result, finance costs are related to the location of our investments, and not the corporate domicile.

## Financing costs

Net financing costs reduced during the period, mainly due to the decrease in both offshore borrowings and in the lower average conversion rate of R8,2145 = €1 (2003: R9,415 = €1) at which our offshore financing costs were converted to South African rands.

Net finance charges decreased to R80,1 million (2003: R121,1 million) mainly as a result of continued sound working capital management as well as by the utilisation of low interest rate funding in Europe to finance the group's offshore capital expenditure and the improved conversion rate as mentioned above. Interest cover amounts to 14,4 times (2003: 8,2 times) and there was no net interest-bearing debt to equity ratio (2003: 15%), well within the group's self-imposed borrowing limitation of 50%.

The group continued to fund suppliers and third-party producers to secure preference of supply and obtain favourable settlement discounts which, in turn, contributed to improvement in margins.

Refinancing by Steinhoff Europe with 26 participating banks had successfully rolled its loan syndicated facility from €175 million to €300 million. We expect cost efficiencies arising from the syndicated loan facility to continue.

## Taxation

Taxation expense increased to R150 million (2003: R98 million) and is in line with expectations. The effective tax rate increased to 14% (2003: 11,2%) and it is anticipated that the average tax rate will range between 12% and 15% for the foreseeable future.

The effective rate is disproportionate due to the fact that certain subsidiaries made losses which will be carried forward for tax purposes, while other subsidiaries made taxable profits in countries where tax rates are statutorily equal to or lower than the South African tax rate. Certain foreign operations in the group continue to enjoy beneficial tax status in their countries of operations. In addition, some of the new countries that joined the European Union on 1 May 2004, announced reduction in statutory tax rates.

Management takes a very prudent approach to recognising deferred tax assets for tax losses.

## Headline earnings per share

Headline earnings per share increased 10% to 112 cents (2003: 102 cents) while basic earnings per share increased 7% to 97 cents (2003: 91 cents). The weighted average

# Finance report (continued)

number of shares increased by 11% during the year to 1 067,46 million (2003: 961,03 million), principally as a result of the 145,3 million new shares issued in November 2003 following to the international equity placement.

Diluted headline earnings per share of 109 cents in 2004 were substantially higher than the earnings of 99 cents in 2003. Diluted earnings per share were 95 cents for 2004, reflecting an improvement of 8% on the 88 cents earned in 2003.

The following main exceptional items were recorded during the period under review and adjusted for in the calculation of headline earnings:

Management has adopted a prudent approach, which resulted in impairment of property, plant and equipment across the group of R59 million (2003: R38 million), in addition to the amortisation of goodwill amounting to R39 million (2003: R31 million).

Closure costs increased to R70 million (2003: R37 million), as the level of group rationalisation is reaching completion.

## Dividend policy

The directors have approved a cash dividend payable on 8 November 2004 to those shareholders recorded in the books of the company at the close of business on Friday,

5 November 2004. A dividend of 22 cents per share (2003: 18 cents) for the year ended 30 June 2004 was declared. The current dividend policy of the group is to have a payout ratio of not less than 20% of earnings attributable to shareholders, and to declare dividends annually, with no interim dividend.

## Balance sheet

Despite the strengthening rand against the euro at year end (2004: R7,56 = €1; 2003: R8,61 = €1), ordinary shareholders' funds at the reporting date were R6,5 billion, representing a R1 596 million increase from the R4,9 billion in 2003. Full details of the increase are set out in the statement of changes in equity included elsewhere in this report.

At 30 June 2004, Steinhoff had cash assets, net of interest-bearing debt of R34 million (2003: net debt of R746 million), resulting in an ungeared position.

The independent balance sheets of Steinhoff Europe and Steinhoff Africa are now appropriately structured and well capitalised, following the group's international equity placement in November 2003, the rollover and increase in the European syndicated loan facility and the R1 billion corporate bond issued in South Africa in December 2003.

A strong balance sheet is maintained to meet working capital requirements and to provide

funding for the group's future investments. Steinhoff continues to maintain a low gearing ratio and has substantial debt capacity. The gearing position of the group places it in a strong position to pursue acquisitive opportunities. Part of the group's cash resources at 30 June 2004 was used to discharge the cash element of the PG Bison purchase consideration. A further portion is earmarked to fund the Unitrans acquisition.

Return on average shareholders' funds was stable at 21% (2003: 21%) during the year. The net asset value per share further improved by 11% from 523 cents per share to 581 cents per share, despite an increase in the number of issued shares to 1 123 million (2003: 942,5 million).

## Funding and borrowings

Steinhoff maintains debt levels we consider prudent based on our cash flow, interest cover and debt to capital ratios after tax. We use debt financing to lower our overall cost of capital, which increases our overall return on shareholders' equity.

The group depends on its bank overdrafts, working capital lines of credit and trade finance facilities to operate.

These facilities generally consist of either a fixed term or fixed period and overdraft facilities which are repayable on demand. The term facilities contain covenants which include



financial covenants such as minimum liquidity, maximum leverage and interest cover ratios. If these covenants are breached and a waiver is not obtained for such violation, this may, among other things, mean that the facility may be repayable on demand. There were no breaches of these covenants by the group or its subsidiaries during the financial year.

It is our intention to continue improving the structure of, and the terms and conditions relating to, our borrowings. We are continuously exploring and evaluating alternative financing opportunities open to all our operations. We consider issuing medium or long-term bonds or commercial paper, which could contribute to an enhanced capital structure and lower after-tax cost of funding.

Steinhoff has no restrictions on its borrowing powers in terms of its memorandum and articles of association.

## Cash flow

The group's cash flow from operations continues to be strong and reached a high of R1 539 million (2003: R898 million), demonstrating the extent of sound working capital management. Cash generation is after a net decrease in working capital of R97 million (2003: increase of R355 million), created mainly by increased supplier credit resulting from the inclusion of the PG Bison acquisition and the Australian investment.

Favourable suppliers' terms of trading benefited the group through enhanced critical mass and the addition of the import, sourcing and distribution business acquired in Pacific Rim. The increase in short-term cash and cash equivalents should be viewed against the seasonal nature of the business, with June being the low ebb of the business cycle in Europe, immediately preceding the summer holidays.

## Capital expenditure

During the year, the group invested R547,4 million (2003: R585 million) in property, plant and equipment and plantations funded by internally-generated cash and bank credits. The group's distribution business in Germany has been repositioned with the acquired distribution facility in Leinefelde, which already resulted in increased sales and margins. During the year under review, our South African division commissioned the new modern sawmill in George. The capital expenditure incurred was in excess of R100 million.

## Share buyback

At the annual general meeting of members held on 1 December 2003, a special resolution granting authority to Steinhoff or Steinhoff subsidiaries to buy back up to 20% of the issued shares of Steinhoff International Holdings Limited in any one fiscal year, was approved.

The share trust acquired 6 million shares in the open market during the year, which together with its existing holdings were reclassified as treasury shares and netted off against the issued share capital.

## Corporate activity

We have detailed all the significant transactions effected during the year in the chairman and chief executive officer's report.

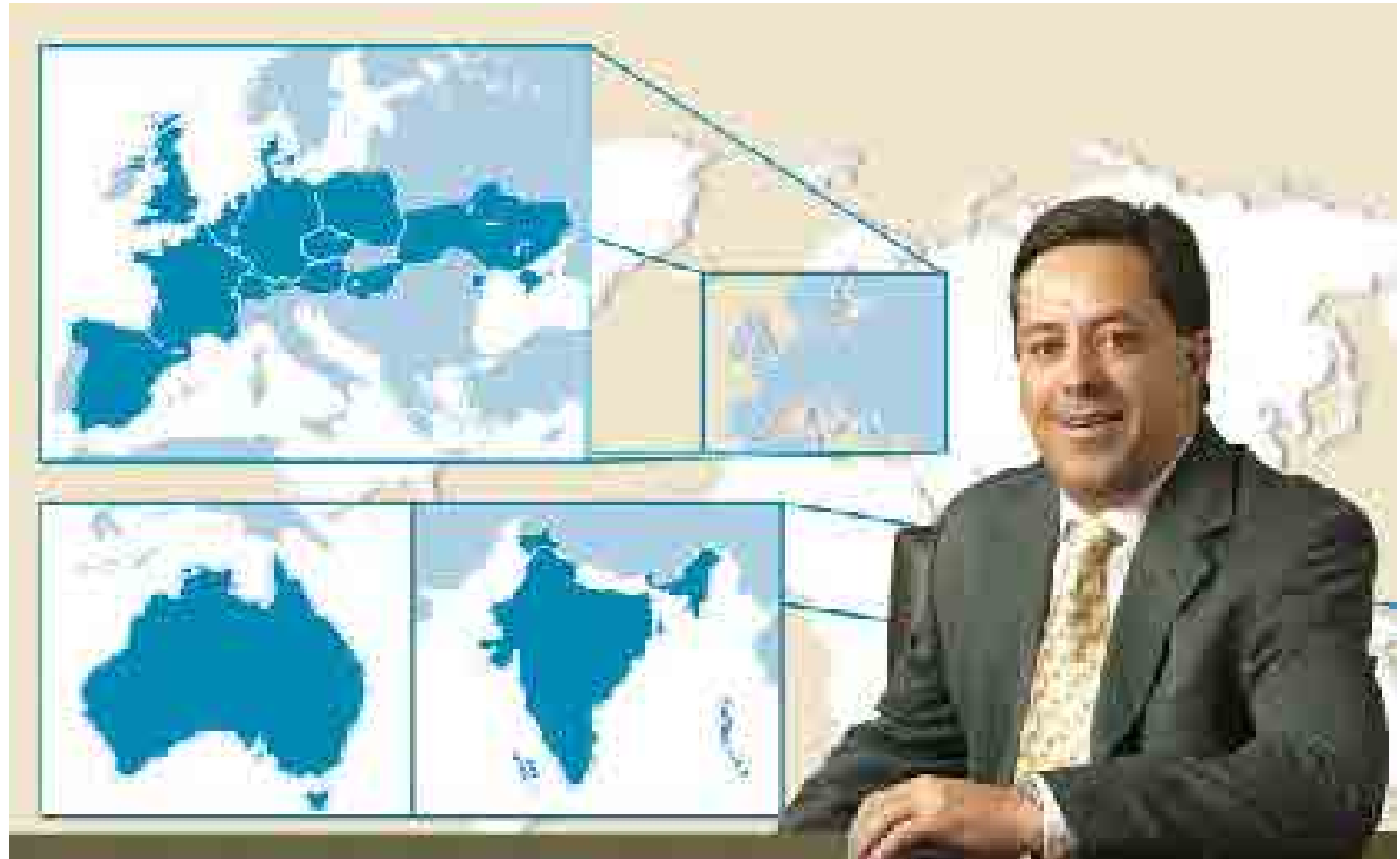
## Post-retirement benefits

The group's retirement benefit funds comprise a number of defined contribution funds throughout the world. The group has no liability to these funds other than the monthly payment of contributions. Current and future liabilities in respect of post-retirement medical benefits are recognised, as calculated by independent actuaries. In most countries where we operate, the different divisions contribute to government-instituted social or retirement plans.

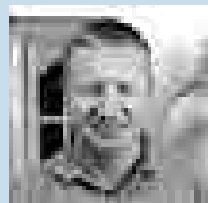
## Future

It is our intention to continue improving the structure of, and the terms and conditions relating to, our borrowings. We are continuously exploring and evaluating alternative financing opportunities open to all our operations. We consider issuing medium- or long-term bonds or commercial paper, which could contribute to an enhanced capital structure and lower after-tax cost of funding.

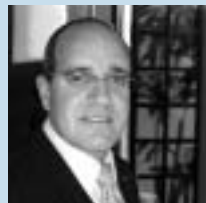
# Operational review: Europe and Pacific Rim



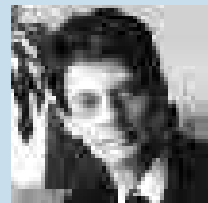
Ian Topping



Paul van den Bosch



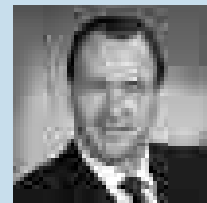
Frank Eberle



Gabor Wilhelm



Andreas Bogdanski



Rod Walker



Siegmund Schmidt



**Managing director**

Markus Jooste (43), CA(SA)

**Group financial officer**

Jan van der Merwe (45), CA(SA)

**Financial director**

Siegmar Schmidt (45) (Accountant General)

**Divisional management**

**German region**

Frank Eberle (41) (MD), BBus Admin

Gerrit Venter (31) (FD), CA(SA)

Thomas Schmidt (41) (Marketing)

Thomas Möller (43) (Case Goods)

Michael Miebach (40) (Upholstery)

Uwe Schmidt (43) (Logistics)

**Hungary**

Gabor Wilhelm (50) (MD), BSc Eng,  
HDip Design Management

**Eastern Europe (Poland and Ukraine)**

Andreas Bogdanski (42) (MD),  
Econ (cum laude)

**United Kingdom**

(Incl manufacturing in The Netherlands)

Ian Topping (44) (MD), MA (Eng Sci, Eco),  
MBA

David Shaw (52) (FD)

**The Netherlands, Belgium and France**

Paul van den Bosch (42) (MD), BEcon

Theo Prinsen (61) (FD)

Danni van den Bosch (40)

(New Development)

Bernd Niessen (39) (Logistics and HR), Eng

Frans Herman (48) (Purchasing)

**Pacific Rim**

Rod Walker (46) (MD)

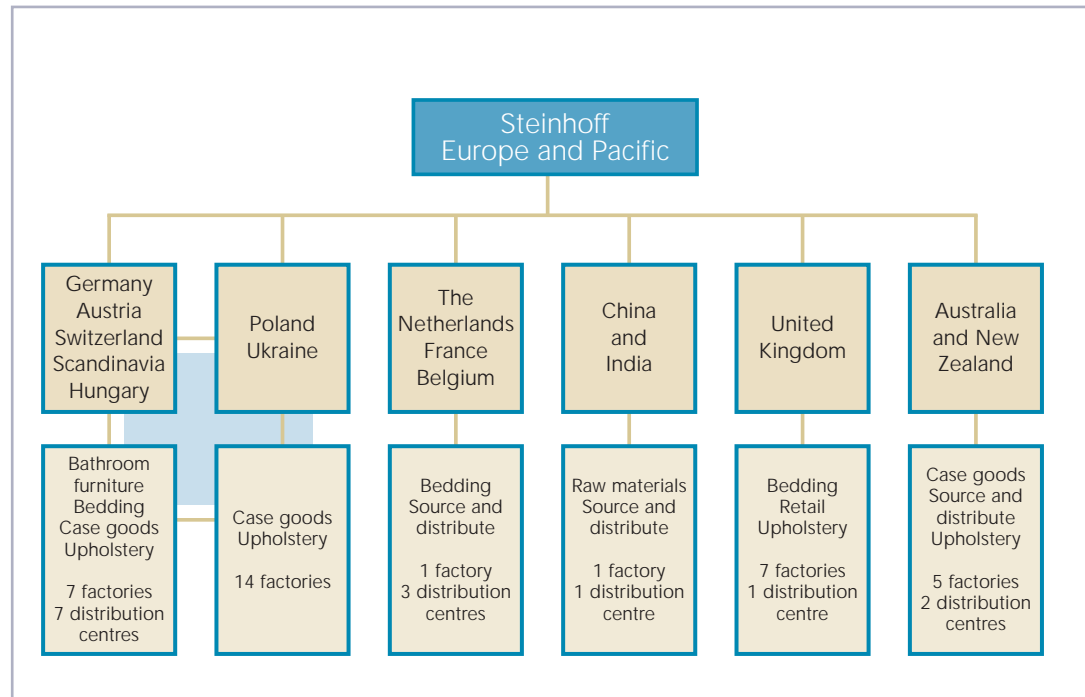
Michael Gordon (38) (FD), BAcc, CA(SA),  
CA(Aus)

Geoff McIntosh (50) (Merchandise and  
Supply Director)

Tim Schaafsma (31) (Director, Secretary and  
Counsel) LLB, Grad Dip Leg, FCIS, Solicitor

Leo Watling (40) (Retail Director)

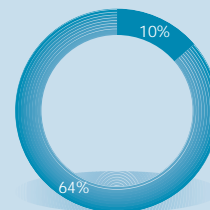
Gary Horwitz (40) (Property and Special  
Projects Director)



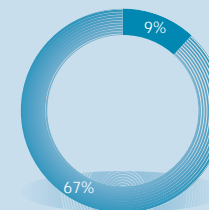
**Contribution**

- European Community
- Pacific Rim

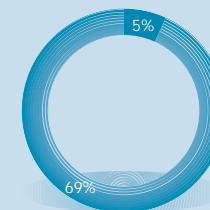
Revenue



Net assets



Earnings



# Steinhoff Europe at a glance

Country	Activities	Factories	Sourcing & Distribution	Locations
<i>United Kingdom</i>	Beds, Distribution	7	1	Okehampton (Devon), Wellington (Somerset) Tewkesbury (Gloucestershire)
<i>The Netherlands</i>	Beds, Distribution	1	2	Boxmeer Hapert Rotterdam
<i>Germany</i>	Upholstery, Beds, Case goods, Distribution	7	4	Eastern Germany Hochsauerlandkreis (Central Germany) Niedersachsen, Northwest Germany Genegenbach, Southwest Germany
<i>Poland</i>	Upholstery, Case goods	14		Dolnoslaskie, Lubuskie, Pomorskie Kujawsko-Pomorskie, Mazowieckie, Zachodnio-Pomorskie



Country	Activities	Factories	Sourcing & Distribution	Locations
<i>Hungary &amp; Ukraine</i>	Upholstery, Distribution	4	3	Budapest, Southwest Hungary, Zala Province Western Ukraine, Zakarpatska Province
<i>France</i>	Distribution		1	Champs sur Marne, Paris
<i>Australia &amp; New Zealand</i>	Case goods Upholstery, Imports Wholesaling Distribution	5	2	Adelaide, Auckland, Sydney, Victor Harbour
<i>India &amp; China</i>	Sourcing Raw material	1	1	Shenzhen, China Calcutta, India

# Operational review: Europe and Pacific Rim (continued)

## Strategic objectives and advantages

The division's strategic objective is to strengthen its position as one of the leading manufacturers and distributors of quality household goods and furniture in the European Union and eastern Europe. To achieve this, we intend to:

- increase our wholesale and distribution business to expand our product offering and enhance the utilisation of capacities
- continue to increase our productivity and operating efficiencies to reduce cost of sales
- increase our market share of furniture and household goods sold in the region
- maintain and continue to invest in a low operating cost environment in central and eastern Europe
- increase the intragroup supply of raw materials and components.

The division has several strategic advantages:

- a diverse product range, including successful brands and products at various price points
- strategic relationships with selected and valued retail customers and buying groups
- our centralised warehousing and distribution facilities, which are strategically located, allowing us to centrally plan and manage our distribution and logistic needs. It also gives the division greater control over stock levels,

providing more efficient services to customers and reduced delivery times

- our market leadership in each of our chosen markets
- a competitive cost advantage by virtue of the location of our manufacturing facilities and sourcing of our products in low-cost countries and distribution of products into developed countries
- experienced and proven management teams.

Steinhoff Europe consists of a network of trading, manufacturing and distribution operations as set out in the operating structure and comprises a wide range of brands and trade names as indicated. The trading companies are situated throughout Europe, the United Kingdom as well as China from where products are sourced, whereas the manufacturing companies are mainly situated in the eastern regions of Germany, Poland, Hungary, Ukraine, the UK and The Netherlands.

## Market

Against the background of the world economy, trading conditions in the market which this division serves remain tough. As a result of the strengthening of the euro and difficult local conditions, business failures are expected to continue, providing our group with further opportunities for acquiring market share.

The entry of Poland and Hungary to the European Union during 2004 provided further opportunities. The Polish zloty will remain floating against the euro until 2007, albeit within a target range. The entry of an additional 80 million citizens to Euroland has created an additional market for household goods. If the experience in Germany on unification is anything to consider, then it is expected that the cost structure and status quo will remain as these emerging markets should not change materially in the near future.

## Revenue

Revenue from our operations for the year was €949,5 million, increasing 22,8% from €773,3 million. In rand terms, revenue was R7 799,8 million over the period, increasing 7% from R7 280,4 million. The real growth was principally as a result of increased sales volumes in the German region pursuant to market share gains, the growth in the mail order market and the relative weakness of the Polish zloty against the euro which resulted in the pricing of the products produced in Poland becoming more competitive.

## Germany, Austria, Switzerland and Scandinavia

We are one of the leading suppliers and distributors of furniture in Germany, Austria, Switzerland and Scandinavia. Approximately 50% of our revenues (in euro terms) in the

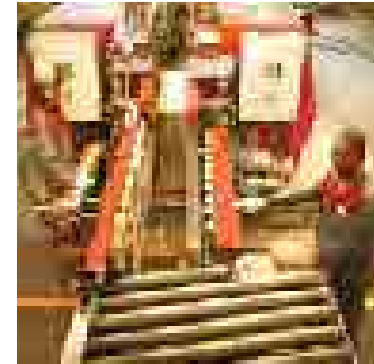
financial year ended 30 June 2004 was derived from sales in these countries. Our primary customers in the region are large mail order companies, discount mass market retailers and members of independent buying groups. Products we currently sell in this region principally include case goods and upholstered furniture.

Germany has the largest furniture market in Europe, estimated by Market Direkt to be approximately €32,0 billion at retail level for the 2002 calendar year, and has the highest spending per capita on furniture of any country in the world. The German market is highly fragmented with no manufacturer having more than a 5% market share, and we believe our market share to be between 3% and 5% at the manufacturing level. Our existing retail partners in Germany are benefiting from the associated consolidation trend which often prevails in such a fragmented market. We are able to benefit from their market share gains. Although we estimate that the overall furniture retail market in Germany decreased by over 15% during the 2001 calendar year and by 11% during the 2002 calendar year, our sales in Germany, Austria, Switzerland and Scandinavia increased by 19% in euro terms during the financial year ended 30 June 2003 and 20% during the financial year ended 30 June 2004.

Given the tough market conditions, Hukla Möbelwerke GmbH, a manufacturer of upholstery, recliners and mattresses went insolvent. Our German division recently entered into agreements to purchase these assets and brand names. Hukla is a well-known brand in Germany and will provide opportunities to extend our product ranges in these markets.

We sell furniture in Germany through our various trading companies. One of these companies specialises in case goods sourced from third parties and the others concentrate on sales of our own products sourced principally from Poland. We distribute products to this region either directly from our central and eastern European factories or via our central distribution centres in Germany, including our fully-automated distribution warehousing facility in Westerstede (with a capacity of 63 200 square metres) and the distribution centre in Leinefelde. The majority of our sales in Germany, Austria, Switzerland and Scandinavia consists of sales of products produced in our Polish factories.

During the year under review, this division opened a representative office in China to provide sufficient infrastructure in China for the sourcing of products. We are currently investigating further opportunities in China. We successfully launched the “novalife” fabric to our markets, which was accepted



Steinhoff Europe consists of a network of trading, manufacturing and distribution operations and comprises a wide range of brands and trade names. Trading companies are situated throughout Europe, the United Kingdom as well as China from where products are sourced. The manufacturing companies are mainly situated in the eastern regions of Germany, in Poland, Hungary, Ukraine, the UK and The Netherlands.

## Operational review: Europe and Pacific Rim (continued)



Growth was principally as a result of increased sales volumes in the German region pursuant to market share gains, the growth in the mail order market and the relative weakness of the Polish zloty against the euro.

favourably. It is worth mentioning that we received an innovation award from FIRA UK for this product.

Due to the high costs of production in Germany, in the financial year ended 30 June 2003, we closed two German factories, relocating their production operations to our facilities in central and eastern Europe. In the financial year ended 30 June 2004, we closed a further German factory whose production capacity we expect to be absorbed by our factories in central and eastern Europe. We currently have seven production facilities in Germany, one of which operates mainly as an assembly plant. In addition, we recently extended our product range to include children's furniture under the Janosch and Lego brands, in line with our strategy of expanding our product base.

### Central and eastern Europe

Our central and eastern European operations consist of our own manufacturing facilities in Poland, Hungary and Ukraine. We also source goods from independent suppliers in this region.

We own 14 factories in Poland which manufacture a variety of case goods and upholstered furniture, primarily for export to Germany, Austria, Switzerland, Scandinavia and the United Kingdom. The majority of Steinhoff Europe's revenue is generated from products produced in Poland.

Our six case goods facilities in Poland produce a wide range of bedroom furniture, wall units, wardrobes and laminated wood products for export into Germany, Austria and Switzerland, in both flat-pack and fully-assembled form, which we sell at both mass market and upmarket price points. Three factories are dedicated to the production of products sold under our Klose brand.

Of our eight upholstered furniture plants in Poland, two currently produce upholstered furniture for German mail order customers and one is focused on the UK market which we have identified as a significant growth opportunity for our Polish and Hungarian operations. The remaining facilities produce goods for Germany, Austria, Switzerland, Scandinavia and the local Polish market.

We operate two manufacturing facilities in Hungary. One is a mid to upmarket leather upholstered furniture producer that sells approximately 30% of its products within Hungary and exports the remaining 70% to Germany, Austria, Switzerland, the Benelux countries and the United Kingdom. Our other Hungarian facility is a chair factory specialising in leather dining room chairs, most of which are exported and sold in Germany, Austria and Switzerland. Products are distributed and sold into the local market through our retail operations, Quattro Mobili and Andante. We have undertaken our own retail operations in Hungary due to the



absence of existing independent retail distribution channels for our products there.

We have two production facilities in Ukraine which started production in 2001. These facilities produce upholstered furniture predominantly for the local Ukrainian market as well as for export to Russia. However, the facilities also produce components for our Hungarian leather upholstered furniture plant. As our Ukrainian operations develop, we intend to export more of their products into western Europe. Production costs in Ukraine are the lowest among our European operations and we are seeking to expand our manufacturing operations in Ukraine to further benefit from these cost savings. To help achieve this goal, we recently increased our interest in an associated Ukrainian company, making it a subsidiary.

We have been sourcing high-quality timber from Russia since the early 1990s. We continue to investigate the possibility of relocating certain of our timber operations in Poland to Russia in line with our drive to improve efficiency and reduce transportation costs.

## **The Netherlands, Belgium and France**

In The Netherlands, we have held a 50% interest in Van den Bosch Beheer BV, a joint venture with the Van Den Bosch family, since 1991. The group sells a wide range of

household goods to retailers in The Netherlands, Belgium, Luxembourg and Germany. The joint venture does not conduct manufacturing operations.

We sell, among other brands, Habufa brand products, comprising a range of rattan, antique reproduction and upholstered furniture. We introduced a new lifestyle “Shop in Shop” concept in our European market under the Henders & Hazel trading name. The products are presented as a modular concept with a combination of living rooms and specialist displays designed as part of a “furniture fashion” concept. These products are sourced from a wide range of producers globally, including our own group companies in central and eastern Europe and southern Africa as well as independent third-party suppliers.

Our acquisition of UK bedding producer Relyon in October 2001 included Norma, a leading upmarket bedding manufacturer in The Netherlands. We believe synergies exist in the bedding market between Norma and the recent acquisition of Hukla mattresses. We have also commenced construction of a new distribution centre in Holland to efficiently accommodate planned increased activities there.

Although we currently have an insignificant presence in France, we view the French furniture market as an opportunity for growth,



The European division has several strategic advantages which include a diverse product range, strategic relationships and centralised warehousing and distribution facilities.

## Operational review: Europe and Pacific Rim (continued)



We view our partnership with Freedom group as an excellent growth opportunity for Steinhoff Pacific in the region and seek to expand the range of manufacturing and distribution activities we conduct in partnership with Freedom group.

and we seek in the medium term to expand into this market. The acquisition of the Hukla assets will assist in this regard. We recently concluded informal supply arrangements with a leading French retailer for the supply of products manufactured at our facilities in Poland where the retailer has recently established a purchasing office.

### United Kingdom

In October 2001, we acquired Relyon Plc, a major UK upmarket bedding brand manufacturer. Relyon has four UK manufacturing facilities which produce Relyon-brand bedding and non-branded bedding. Relyon's manufacturing facility in The Netherlands designs and manufactures bedding products under the Norma brand, one of the leading brands of bedding products in The Netherlands.

The acquisition of Relyon added a new dimension to Steinhoff Europe's manufacturing activities in terms of geographic reach and diversification. We believe that Relyon's product ranges and markets are complementary to our existing product offerings and areas of operation.

Pritex, a division of Relyon in the United Kingdom, is a foam-converting facility supplying the furniture, automotive, aviation and other industries.

We also operate a trading company in the United Kingdom, Steinhoff UK Furniture, which sells products we manufacture at our Polish and South African operations via a distribution centre in Tewkesbury.

In October 2003, we acquired the bedding manufacturer, Sprung Slumber, from Airsprung Furniture Group plc, for a cash consideration of £5,4 million. Sprung Slumber trades in the middle part of the UK beds market and its products, which are complementary to Relyon's products, are sold under the Sprung Slumber and Enchanted House brands.

We expect to continue to seek opportunities to expand our presence in the UK bedding and furniture market both through organic growth and by acquisition.

### Pacific Rim

With effect from 1 October 2001, we formed a joint venture, Steinhoff Pacific, which acquired the manufacturing operations of Australian retailer Freedom Group Limited and combined them with our own Australian operations. We own a 74,9% interest and Freedom group owns a 25,1% interest in Steinhoff Pacific. We have concluded a comprehensive supply and strategic alliance agreement with Freedom group, the second-largest retailer of furniture and household goods in Australia. Steinhoff Pacific's



operations include Freedom group's manufacturing facilities in Sydney and Auckland, as well as Marshall Furniture, one of the largest case goods manufacturers in Australia, which we acquired prior to the formation of the venture, and our pre-existing sofa manufacturing facilities in Adelaide. We have merged the Marshall operations with Nexus, a solid case goods manufacturer located in Victor Harbour.

In December 2003, the privatisation of Freedom group was sanctioned and implemented. Our division supported management in the buyout and increased our total investment in imports, sourcing and distribution in the Pacific Rim with AU\$117,5 million.

Freedom has increased the operations in New Zealand through the acquisition of the Levene stores during the year.

We view our partnership with Freedom group as an excellent growth opportunity for Steinhoff Pacific in the region and seek to expand the range of manufacturing and distribution activities we conduct in partnership with Freedom group. We seek to increase substantially the supply of Steinhoff Pacific furniture sold to Freedom group over the next several years, and to expand our product ranges in respect of sofas, lounge suites, metal and timber case goods. We also

intend to investigate opportunities to expand into bedding, motion furniture and leather products.

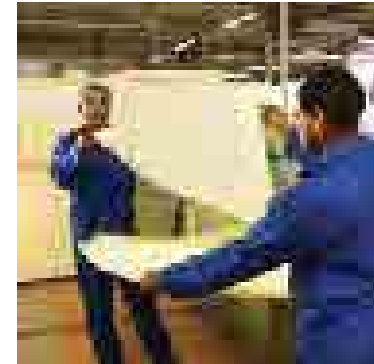
We believe synergies will be derived from sourcing products from China collectively.

### India

In India, we are partners in a joint venture with Allam Tannery which manufactures cut and sewn upholstered furniture covers at competitive margins. We believe the availability of inexpensive raw materials and skilled labour makes this region attractive for this type of venture. The relatively small production from this venture is exported to our factories in eastern Europe for use in our upholstered products sold into the German market. We also currently supply a small amount of cut and sewn covers into the Australian market. As part of this joint venture, we are establishing an upholstered furniture plant in Calcutta which will produce upholstered furniture to be sold to the Indian market.

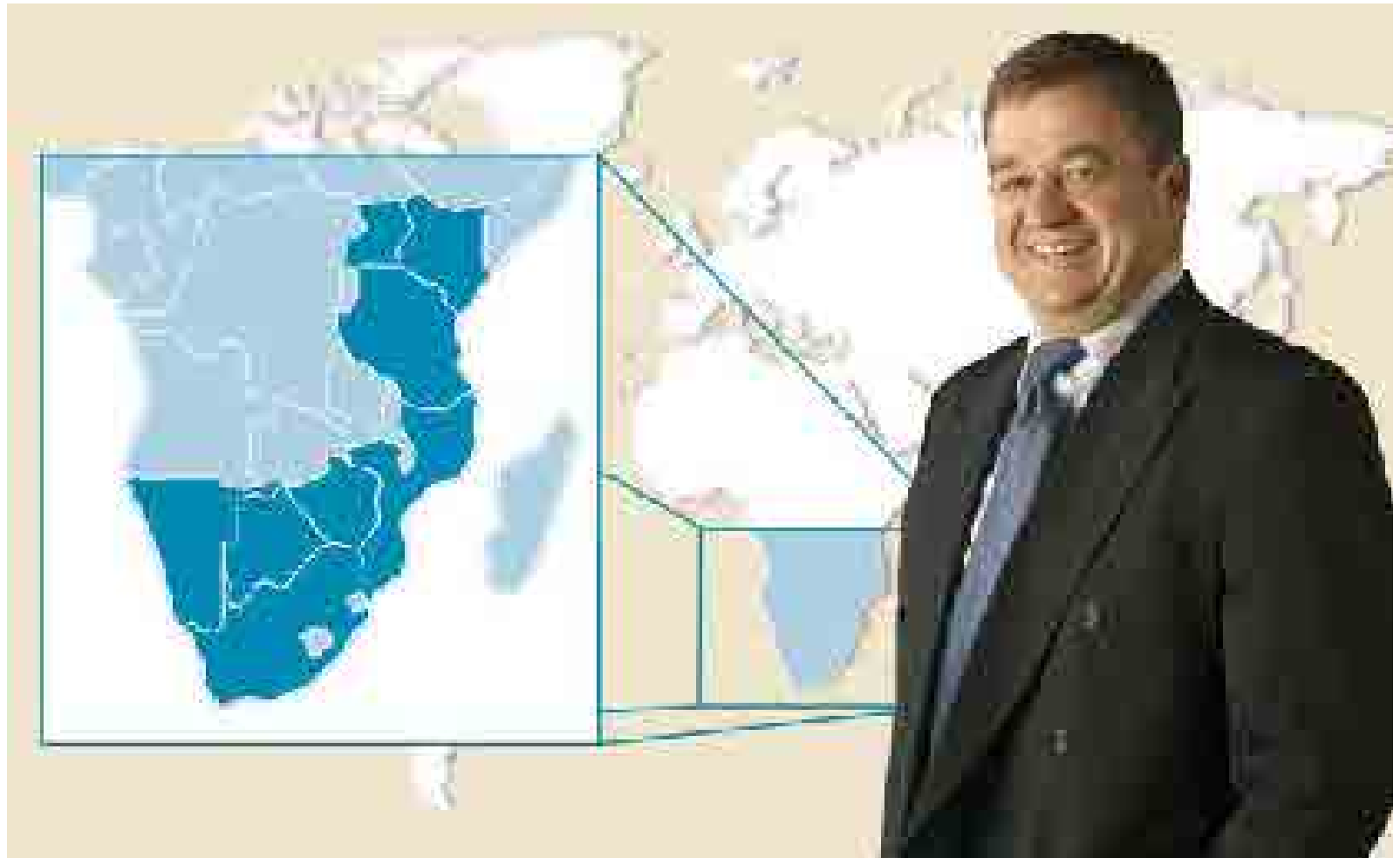
### China

Our German division initiated the opening of a representative office in Shenzhen, China in order to source products efficiently. This office also draws on the sourcing experience of Habufa and Freedom. Although the current presence is limited it increases the ability to investigate investment opportunities in China.



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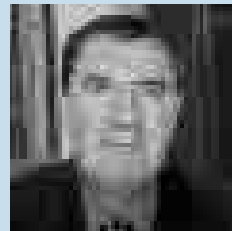
# Operational review: Africa



Chris van Niekerk



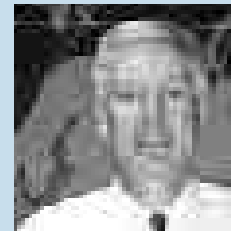
Peter Griffiths



Richard Copley



Jan van der Merwe



Hein Odendaal



**Managing director**

Danie van der Merwe (46), BComm LLB

**Divisional management:**

**Group services**

Hein Odendaal (47) (MD), CA(SA)

Stephan Nieuwoudt (37) (Human Resources), BComm (Hons)

Iwan Schelbert (42) (Treasury Services), BAcc

Poen Hoffman (60) (Legal Services), BA LLB

**Internal control**

Jan Opperman (46) CA(SA)

**Local furniture**

Peter Griffiths (43) (MD), CA(SA)

Greg Boule (48) (FD), CA(SA) Dip Tax

Derrick Matthew (56) (Sales)

Chris Dirks (37) (Marketing), BComm (Hons)

**Bedding**

Mike Lawrence (55) (MD), Dip Prod Man

**Case goods and office furniture**

Martin Herr (55) (MD – Foil division), ACII

Dip Marketing

Campbell Peter (54) (MD – Solid division),

Dip Marketing

Larry Webster (53) (Nat Sales: Foil division)

**Upholstery**

Tony Ash (51) (Div. MD)

John Loydell (56) (Div. MD)

**Imports for Africa**

Brian Fraser (58) (MD)

**African Operations**

Frans Human (49) (MD), BA

**PG Bison and timber division**

Chris van Niekerk (57) (MD), BA(HED)

**PG Bison**

Andrew Gilbert (54) (Capacity Creation/Retail Strategy), BAcc MBA

André Norval (46) (FD), CA(SA) MBL

Philip Roux (35) (Logistics), BComm MBA

Ian Scott (47) (Sales/Commercial), BComm

Gavin van der Merwe (44)

(Sales/Marketing), BA HdipCS MBL

Jörg Weeber (57) (Manufacturing and

Procurement), Dipl Eng (Ger)

Stuart Wood (58) (Business Development), BSc MBL

**Timber division**

André Norval (46), CA(SA) MBL

Gary Chaplin (34) (MD Sawmilling), CA(SA)

Jed Krige (48) (FD Sawmilling), CA(SA)

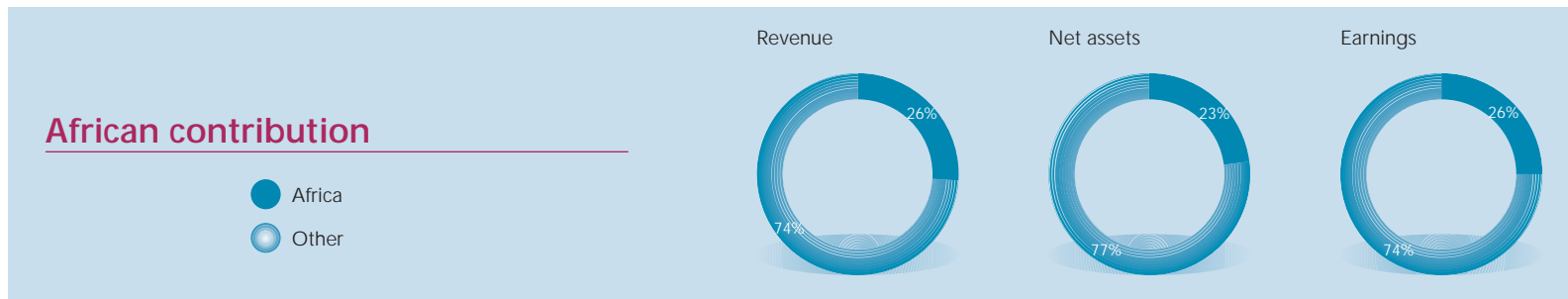
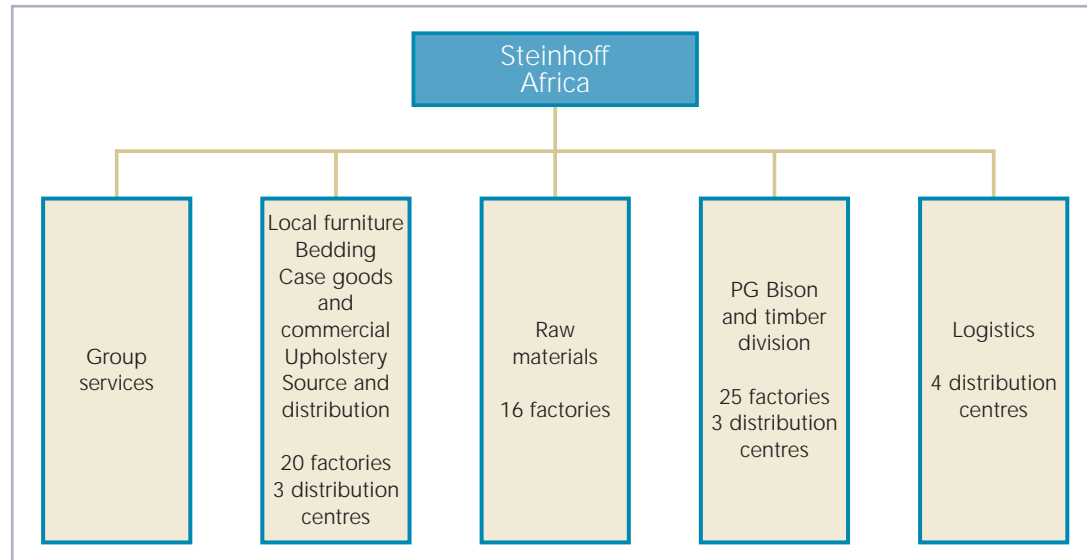
**Logistics**

Jan van der Merwe (60) (MD), BAdmin BA (Hons)





**Raw materials**

Richard Copley (56) (MD), LTI

Dip Bus Management PMD



# Steinhoff Africa at a glance

Country	Activities	Factories	Sourcing & Distribution	Locations
South Africa & Zimbabwe	Bedding	5	2	Gauteng, KwaZulu-Natal, Western Cape Harare (Zimbabwe)
				
South Africa & Zimbabwe	Upholstery	6		Gauteng, KwaZulu-Natal, North-West Western Cape, Harare, Bulawayo
				
South Africa & Zimbabwe	Case goods Foil	6	1	Gauteng, North-West Harare
				
South Africa & Zimbabwe	Case goods solid	3		Western Cape Harare
				



Country	Activities	Factories	Sourcing & Distribution	Locations
South Africa	Logistics		4	Gauteng, KwaZulu-Natal Western Cape, North-West
South Africa, Namibia, Mozambique, Angola, Botswana	Raw materials	14		Eastern Cape, Free State, KwaZulu-Natal, Mpumalanga, Gauteng, Botswana, Namibia, Western Cape
South Africa	Timber Sawmilling Chipboard Distribution	25		Gauteng, Mpumalanga KwaZulu-Natal, Western Cape
Central Africa			3	Kenya Uganda Tanzania
Associates: Loungefoam Unitrans	Freight and logistics 1 198 trucks 2 531 trailers	Motor dealership 62 dealerships 72 franchises	Passenger division 430 buses and coaches 84 mini buses	Raw materials 2 plants

# Operational review: Africa (continued)

## Strategic objectives and advantages

This division's strategic objective is to strengthen its position as the leading manufacturer of household goods in southern and central Africa and to grow through exports and supply of related raw materials and components in southern Africa and to Europe.

To achieve this, the division intends to:

- continue to improve our productivity and operating efficiencies to reduce cost of sales
- continue to invest in neighbouring countries to broaden the division's market;
- increase the intra-group supply of raw materials and components
- expand the export business while extending the local product offering by way of import of products and accessories
- to create opportunities for black economic empowerment, not only of our own employees but for groups with merit.

Factors and strategic advantages which had an effect on our performance and which will continue to play a role include:

- the strategic relationships with selected and valued retail customers and wholesalers
- integrated supply chain allowing significant control over raw material production, on-time deliveries and distribution
- synergies between our timber and sawmilling division and PG Bison group

with further investments to ensure qualitative optimal use of natural resources available in southern Africa

- our market leadership in our chosen markets
- our diverse product range, including successful trade and consumer brands and products, supplemented by imported products
- our warehousing and distribution needs are serviced by Roadway Logistics, the joint venture with Unitrans, a leading South African distribution and logistics provider, in which we also own a strategic stake
- our experienced and proven management teams.

## Market

The division experienced tough trading conditions both in the local market and as a result of the strengthening of the rand in the export markets. However, given the recent interest rate cuts and indications that the government's inflation targets are being met, the division shares the conservative but optimistic views held in respect of the sales of household goods.

As a result of the strength of the rand, imported products have become a threat and the relative pricing of imported electrical and audiovisual equipment has impacted on buying patterns. The division is actively investigating other markets in Africa and the

Middle East to ensure full utilisation of our production capacities. Our raw material division has started foam production in Mozambique and expects to conduct a similar venture into Angola drawing on the experience of our existing operations in Namibia. During the year the group discontinued the production activities in Garankuwa of the Gommagomma division and made its first investments in Zimbabwe to increase production capacity and extend our markets.

The division continuously investigates opportunities in furthering black economic empowerment and has supported Mvelaphanda Capital, Arch Equity and an empowerment trust for employees of Unitrans in subscribing for shares in Unitrans Ltd.

## Revenue

In the year ended 30 June 2004, revenues increased by 4% from R2 668,2 million in the previous year to R2 772,3 million, despite tough trading conditions and the impact of the strengthening rand on the exports of products. Substantial value was added from our investments in Unitrans and PG Bison.

## Furniture

Our furniture business in southern Africa has five primary divisions: upholstered furniture, bedding, non-solid case goods, solid case goods, commercial furniture, and the imports of furniture and accessories to complement the ranges. We produce many of the major

brands at price points ranging from the upper to the lower ends of the market. We produce for both the local and export market and intend to increase the proportion of our products sold for export in the medium to longer term. To the extent we grow our export business, we expect the proportionate contribution of the upholstered furniture division to increase as we believe upholstered furniture offers the best opportunities for high-margin export growth.

Six of Steinhoff Africa's production facilities manufacture upholstered furniture, producing a wide variety of both static and motion lounge furniture in fabric and leather. In the financial year ended 30 June 2004, approximately 20% of our southern African upholstered furniture production, as determined by revenue, was exported. Our Grafton Everest facility in Durban is the largest upholstered furniture factory in southern Africa in terms of production volume. Our Alpine brand furniture, manufactured at our Cape Town facility, is quality leather static and motion furniture of which a significant portion is exported to the United Kingdom.

In the bedding division, we produce a wide range of base sets and mattresses under exclusive licences including Sealy, Slumberland, Ther-A-Pedic and Edblo. We also produce high volumes of low-cost base sets and mattresses under the Softex brand.

Our raw materials companies supply many of the components used in our bedding manufacturing operations. We believe there is significant growth potential in the bedding market in southern Africa, and in the medium term, we are seeking to expand our bedding production operations to other countries in southern Africa, including Mozambique and Angola. The investment in Zimbabwe added to this strategy.

We have four factories manufacturing bedding and foam components in Namibia, Botswana and Zimbabwe, which produce foam and inner spring mattresses for their respective local markets as well as for export to Angola.

We produce solid timber case goods out of two factories in the western and southern Cape regions, including tables, chairs, diningroom suites and bedroom suites. In the financial year ended 30 June 2004, approximately 40% of these products were exported into the United Kingdom and the United States. The remaining production is sold at the upper end of the southern African market. All our exported furniture from these facilities is produced and sold in flat-pack form.

We also produce a wide variety of non-solid case goods made of particleboard covered with foil or veneer. We own six foil case goods manufacturing facilities. These goods are sold into the local market or exported into other African countries in flatpack form.



The African division is actively investigating our markets in Africa and the Middle East to ensure utilisation of our production capacities.

We continuously investigate opportunities in furthering black economic empowerment and has supported Mvelaphanda Capital, Arch Equity and an empowerment trust for employees of Unitrans in subscribing for shares in Unitrans Ltd.

## Operational review: Africa (continued)



We will continue to improve our productivity and operating efficiencies, invest in neighbouring countries, increase the intra-group supply of raw materials, expand the export business and create opportunities for black economic empowerment.

We operate a facility in Johannesburg which produces office furniture for the local market. We also export some of this production to Australia and the United Kingdom, and intend to increase this export production over time.

### Exports

Our southern African non-furniture export business is operated by our wholly-owned subsidiary, Steinhoff Timber Group (Pty) Limited (formerly Megacor). This subsidiary has two divisions, doors and household goods, and exports its products mainly into the United Kingdom and US markets.

In 2001, we established Steincraft, a factory in Durban, which produces solid timber chairs, garden furniture and patio furniture for the worldwide export market. Most of Steincraft's products are exported, primarily to the United Kingdom and the rest of Europe. Steincraft is our only facility which utilises the indigenous hardwoods grown in South Africa.

We currently have two door manufacturing operations which own four manufacturing plants. Moxwood operates three factories and produces quality solid pine wood doors and related products for the export market, and Doorwise, which currently has one dedicated factory producing hollow core doors for the local market and a limited number of fire doors (hollow core filled doors) which are exported primarily to the United States and also to the United Kingdom.

Our House of York operation produces a wide variety of household products and shelving under the House of York brand for both the local and export markets, including, for example, wooden kitchenware and bathroom furniture as well as storage units and fireplace surrounds. Its products are manufactured using smaller pieces of timber recovered from our own sawmilling operations and those of others, helping to maximise our recovery and usage of wood from our sawmills.

### Raw materials

Our raw materials division produces foam and textiles for use in our products and for sale to third parties locally and in western Europe and Australia. This division comprises Vitafoam and various textile operations. We also own a minority interest in Loungefoam, a producer of foam products for use in furniture and bedding. We believe that sourcing and producing our own raw materials allows us to secure a cost-effective and reliable source of inputs for our manufacturing operations and can also lead to synergies in intra-group sourcing.

Vitafoam produces flexible polyurethane foam for use in the furniture, bedding and packaging industries as well as a range of consumable products, such as economy foam mattresses. It has ten production plants located in South Africa, Namibia, Botswana and Mozambique. It also produces fibre puff products utilised in furniture production and



for pillows. Vitafoam sells its products into the southern African market. Approximately half of its output is utilised by other group companies and the balance by third parties.

We operate three textile businesses, Jatex, Loungeweave and Mattex.

Jatex manufactures flat woven fabrics for upholstered furniture, curtain and napery applications at its Rosslyn (Gauteng) factory, as well as printed stitchbond and spunbond fabrics used as mattress ticking.

Loungeweave produces woven jacquard and damask mattress ticking in its factory at Isithebe (KwaZulu-Natal). Its operations also include a yarn-dyeing facility at Isithebe to support the weaving unit. Its production currently supplies our own factories as well as other southern African manufacturers.

Mattex is a Cape Town-based jacquard-weaving factory producing a wide range of damask mattress ticking, vertical blind fabrics, narrow woven tape and napery products. Mattex has recently invested in state-of-the-art modern equipment to supply quality jacquards into Europe, both to our own European operations and to third parties.

## Timber division

We conduct three distinct types of activities through our timber and sawmilling operations. We own and manage forests, own

and operate sawmills and manufacture timber-related products for export as well as sale into the local market.

We currently own and manage 7 000 hectares of forest, the majority of which is located in the southern Cape. We source the rest of our timber requirements locally from third parties. We intend to secure an increasing proportion of our timber through long-term supply arrangements or through our own production.

We intend to invest further in forestry assets in the coming year to ensure the efficient management of the forests and a reliable supply of FSC-certified timber for use in the furniture industry.

Our timber and sawmilling division sources and produces timber which we use for our products and also sell for export, and produces timber-related products, such as pallets, treated poles and cable drums, to improve the recovery of timber which is unsuitable for use in our furniture manufacturing operations.

We have four operating sawmills, the most recent of which is a technologically-advanced sawmill, which commenced operations.

During the year, this new sawmill at George was constructed. At a cost of approximately R115 million, this new addition to the group's



Our raw materials division produces foam and textiles for use in our products and for sale to third parties locally, in western Europe and Australia.

## Operational review: Africa (continued)



PG Bison has established a footprint in central Africa and the United Kingdom to wholesale and distribute its products. These include, raw particle board, upgraded particle board, high pressure laminate (Decorative Laminate), raw MDF and upgraded MDF.

manufacturing base will be the most modern sawmill in southern Africa, once fully operational.

The higher-quality timber is provided to our furniture and door factories. Lower-quality wood is used to make furniture frames and bedding bases. Portions of logs we cannot use in our manufacturing operations are made into other wood products such as transmission poles, the majority of which are exported, and pallets and cable drums sold in the local market.

The experience that the PG Bison management team is already contributing to the timber division is expected to enhance the opportunities in this division even further.

### PG Bison

In December 2003, we entered into agreements with the remaining shareholders in PG Bison Holdings (Pty) Ltd with a view to acquiring the remaining shares. This transaction was approved by the competition authorities in June 2004. PG Bison group produces chipboard and various upgraded products and components from its facilities in Stellenbosch, Boksburg, Piet Retief, Pietermaritzburg and Alrode. This group also distributes its products through its interests in Timber Cities and Penny Pincher outlets. PG Bison has established a footprint in central Africa and the United Kingdom to wholesale and distribute its products. PG Bison is the largest producer of chipboard in southern Africa.

During June the PG Bison Board authorised an expansion and upgrading of their Piet Retief particleboard plant, at a cost of R100 million. The project is envisaged to be completed by June 2005, and will add significantly to the total particleboard capacity in South Africa. PG Bison's major product range consist of:

#### Raw Particle board

Raw particle board consists of pine wood particles. Eucalyptus or wood waste, bonded under heat and pressure with a synthetic resin.

#### Upgraded Particle board

Raw particleboard can be upgraded by the application of various natural and synthetic decorative surfaces, such as wood veneer, synthetic resin treated decorative papers, paints and lacquers.

#### Raw MDF

Raw MDF consists of refined wood fibres from pine or eucalyptus to form a homogeneous, stable panel, which exhibits many of the characteristics of natural wood and can be machined into a variety of shapes and profiles.

#### Upgraded MDF

The raw MDF can be upgraded by the application of various natural and synthetic decorative papers and is particularly suitable for high quality lacquering.



### High pressure Laminate (Decorative Laminate)

Decorative laminate is a highly durable, decorative surfacing material, used in conjunction with particle board and MDF in the kitchen, office, commercial furniture and shop fitting industries. PG Bison has a substantial market share in decorative laminates within South Africa.

### Logistics

Our logistics division develops strategic logistics and distribution networks which we use to support the efficient and reliable distribution of our products in southern Africa. We intend to create a single distribution channel for our own and other manufacturers' household products in the region, from the factory to the end consumer. We have invested in logistics primarily through acquiring strategic stakes in companies which conduct distribution activities and which serve our logistical needs as well as those of other customers. We believe our investments in logistics will enable us to source cost-effective, efficient and reliable distribution channels for our products.

Our logistics division is comprised of our interests in Roadway Logistics and Unitrans.

Roadway Logistics is a 50-50 joint venture between Unitrans and Steinhoff which deals with the distribution of all furniture in South Africa and provides similar services to other clients in South Africa. It also provides

warehousing services to a retail customer in Gauteng.

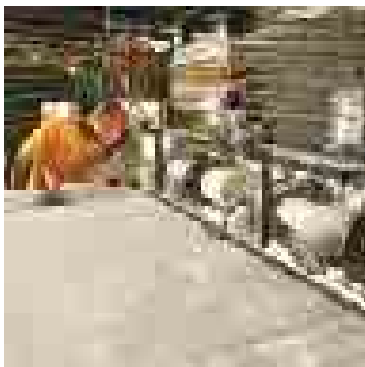
We hold a 26,1% strategic interest and have after exercising our pre-emptive rights, acquired an additional 38% stake in Unitrans. Unitrans is a JSE-listed, diversified distribution and logistics group providing services ranging from freight distribution and passenger transport, warehousing, distribution and logistics services, express delivery and courier services to vehicle retailing, leasing, fleet management, financing and insurance.

We chose Unitrans as our primary strategic partner for distribution in southern Africa based on its strong reputation and management team and its footprint in sub-Saharan Africa. We believe Unitrans also has the ability to grow with our operations worldwide.



We chose Unitrans as our primary strategic partner for distribution in southern Africa based on its strong reputation, management team and its footprint in sub-Saharan Africa.

# Group services



To achieve operating efficiencies and provide centralised management of activities, we provide certain services to our operating entities on a centralised basis from our South African headquarters.

To achieve operating efficiencies and provide centralised management of activities, we provide certain services to our operating entities on a centralised basis from our South African headquarters. Certain group services are also provided to our operating entities by Steinhoff Europe or Steinhoff Africa, as the case may be.

## Financial management

Our financial management department implements and oversees procedures that must be followed in preparing financial reports and tax assessments. They also ensure that adequate risk control measures are in place. This includes proper insurance cover for directors' liability, product liability, business interruption, credit default debts, and the group's assets.

## Human resources

Human resources is generally managed through regional human resources divisions. The group's head of human resources receives reports from each division, which, in turn, receive reports from each operating unit.

We currently have succession planning procedures in place for management and senior level employees. These contingency plans include, when required, outside recruitment, selection and assessment procedures and proper training for successor

employees. In accordance with South African legislation, human resources also implements and oversees training programmes to ensure that historically disadvantaged employees receive specific training and development.

## Information technology

Information technology decisions and day-to-day management within the group are managed at regional division levels and overseen centrally by Group Services IT management. Although implementation, roll-out, and subsequent maintenance and support are conducted at regional division level, Group Services IT management conducts regular on-site visits at regional levels and evaluates system performance and future development plans.

Given the disparate operational requirements and the variety in infrastructure between the different regions where we operate, we have made the decision not to implement a single platform or application solution. We have instead implemented a worldwide standard whereby all our divisions must comply with certain guidelines when implementing new software, hardware or other technologies.

## Legal

We currently have seven licensed legal counsel. They are all actively involved



in internal legal issues such as drafting agreements, and the oversight of the group's statutory and legal reporting requirements. Matters which are country specific are outsourced to accredited practitioners.

## Strategic development

Our strategic development is driven by our management at regional division level who develop proposals for possible joint ventures, mergers and acquisitions, special projects and potential growth areas and expansion of current divisions.

## Tax

We have formed an inhouse tax department in ensuring compliance worldwide.

## Technical support

Group services provides technical support in connection with factory layouts, plant and equipment procurement as well as rendering advice on production processes to enhance efficiencies.

## Treasury services

Our treasury services department organises adequate funding to enable us to explore or realise strategic opportunities and developments. Based on feasibility reports and the decisions on a particular opportunity, we decide whether and what type of funding to procure.

The team includes:

Avon Boooyse (32) (Legal and Company Secretarial Services), BComm, BProc  
Yvette Boshoff (30) (Tax Services), BComm, CTA  
Hans-Ulrich Bussas (48) (Legal Services), BLaw  
Ray Cox (61) (Technical Services), Dip Management  
Theo de Klerk (34) (Corporate Services), BComm (Hons), CTA Hdip Tax  
Piet Ferreira (48) (Corporate Services), CA(SA)  
Johan Geldenhuys (47) (Human Resources), BA (Hons), MBA (HR)  
Poen Hoffman (60) (Legal Services), BA, LLB  
Ben la Grange (30) (Tax Services), BComm, CA(SA)  
Enrico Liebenberg (47) (IT Services), BComm  
Mariza Nel (31) (Corporate Advisory), BComm, ACMA (UK)  
Shaun Pelser (33) (Legal Services), BLC, LLB  
Albert Rapp (54) (Special Projects), CA(SA)  
Iwan Schelbert (42) (Financial Services), BAcc



Ray Cox



Piet Ferreira



Johan Geldenhuys



Enrico Liebenberg

# Corporate governance

The Steinhoff Group and its directors are fully committed to the principles of effective corporate governance and application of the highest ethical standards in the conduct of its business. The group endorses the principles of openness, integrity and accountability advocated by the code of corporate practices and conduct set out in the King Report on Corporate Governance SA 2002 (King II). Efforts made in the group over a number of years conform with current international trends towards improving transparency in reporting and accountability. In all dealings, we strive to ensure that the interests of stakeholders are foremost in our decisions and that they are fully informed of the process.

The key principles underpinning the governance of the group are set out in this statement. An effective system of control aimed at managing business risks is an integral component of the group's governance practices, details of which are provided in the internal control section below. The group believes that a corporate culture of compliance with applicable laws, regulations, internal policies and procedures is a core component of good corporate governance. As such, compliance is one of the most important risk areas covered by Steinhoff's system of internal control.

## Ethics

We have adopted a code of ethics, committing ourselves to the highest ethical

standards of conduct. The code of ethics has been approved by the directors and a formal ethics programme has been rolled out throughout the group. This code, *inter alia*, addresses conflicts of interest.

The group operates on the basis of decentralised management across numerous countries. All employees are required to maintain the highest level of ethical standards in ensuring that the group's business practices are conducted in a manner that, in all circumstances, is above reproach.

Steinhoff continues to expand its performance-driven culture of appropriate disclosure and transparency in which individual executives and employees assume responsibility for the actions of the business. The integrity of new appointees in selection and promotion processes is continuously assessed. The code spells out our commitment towards shareholders and stakeholders, as well as policies and guidelines regarding the personal conduct of management officials and other employees.

## Board of directors

The board of directors is appointed by the shareholders and is responsible to the shareholders for setting the direction of Steinhoff through the establishment of strategic objectives and key policies.

The board consists of 14 directors, of whom eight were non-executive directors. The board

considers Claas Daun, Dirk Ackerman, Johann du Plessis, Jannie Mouton and Drs Len Konar and Franklin Sonn as independent, non-executive directors, as described in King II. The non-executive directors, drawing on their skills and business acumen, ensure impartial and objective viewpoints in decision-making processes and standards of conduct. The mix of geographic, technical, entrepreneurial, financial and business skills of the directors is considered to be balanced and enhance the effectiveness of the board.

The roles of the chairman and the chief executive officer are separated. Bruno Steinhoff is the executive chairman of the group and Markus Jooste is the chief executive officer. In addition, the board has appointed Len Konar as senior director for purposes of communication with shareholders.

The chairman is responsible for leading the board and for ensuring that the board adopts effective and efficient procedures to conduct its business in an orderly manner.

The primary responsibilities of the board include regular review of strategic direction of investment decisions and performance against approved plans, budgets and best practice standards, determination of policy and processes to ensure the integrity of the group's risk management and internal controls, communications policy and director



evaluation. These responsibilities are set out in the approved board charter.

Steinhoff's directors have a wide range of business-related expertise, as well as significant experience in financial, commercial and furniture industry activities. Directors are appointed on the basis of skill, acumen, experience and level of contribution to and impact on the activities of the group. All directors are presumed to have the requisite knowledge and experience to properly execute their duties, and all are expected to participate actively in the proceedings and recorded votes at board meetings. Presentations are made to the board by management on the activities of business operations, and board members are presumed to have sufficient understanding and experience to respond in a manner that asserts the best interests of the company and its shareholders. Training and briefings are available to all directors on appointment and subsequently, as necessary, taking into account existing qualifications and experience.

It is required that directors dedicate sufficient time to be able to monitor, evaluate and provide effective commentary to the board and management on the financial and operational information supplied to the board. To supplement materials and information supplied by management, the board will periodically undertake visits to

operations and projects. All directors have access to management, including the company secretary, and to such information as is needed to carry out their duties and responsibilities fully and effectively. Directors are encouraged to stay fully abreast of the group's business through independent site visits and meetings with senior management.

The board retains full and effective control over the group and decisions on material matters are reserved by the board, materiality being defined in delegated authorities regarding matters such as capital expenditure, goods and services procurement, property transactions, borrowings and investments.

The board meets at least four times annually, and more frequently, if circumstances or decisions require. At all board meetings, directors declare their interests in contracts where applicable. Meetings are conducted in accordance with a formal agenda, ensuring that all substantive matters are properly addressed. Standing subcommittees of the board have been appointed, details of which are set out below, while *ad hoc* subcommittees are created as and when necessary.

Except where overriding shareholder matters take precedence, non-executive directors are expected to contribute an independent view on matters considered by the board, and to assert significant influence in deliberations of all matters taken up at board meetings, with

the ultimate aim of promoting the best interests of the company.

The entire board is involved in the process of selection and appointment of directors, on recommendations of the nomination committee. Directors are appointed on the basis of skill, acumen, experience and level of contribution to and impact on the activities of the group. Non-executive directors contribute an unfettered and independent view on matters considered by the board and enjoy significant influence in deliberations at meetings. They formally meet in committee on a regular basis to evaluate management performance. All directors have the requisite knowledge and experience required to properly execute their duties, and all participate actively in the proceedings at board meetings. Terms of office of non-executive directors are subject to three-year rotation provisions, while executive directors are appointed for terms of office not exceeding five years, subject to the company's general conditions of service.

To adequately fulfil their responsibilities, directors have unrestricted access to timeous financial information, all company information, records, documents and property. Directors are provided with guidelines regarding their duties and responsibilities as directors and a formal orientation programme has been established to familiarise incoming directors with information about the group's business,

## Corporate governance (continued)

competitive posture and strategic plans and objectives.

Structured management succession planning, for purposes of identifying, developing and advancement of future leaders in the group, is an important element in the management process.

Subject to specific fundamental, strategic and formal matters reserved for its decision, the board may delegate certain responsibilities to a number of standing committees, which

operate within defined terms of reference laid down by the board, as referred to below.

The board has the following committees to assist it with its duties:

- Executive committee
- Audit and risk management committee
- Human resources and remuneration committee
- Nomination committee
- Group business risk advisory committee

### Executive committee

This committee is chaired by the chief executive officer and its membership includes five executive directors of the company. It meets formally on a monthly basis with senior executive management, designated corporate staff managers, divisional directors, and informally on a weekly basis.

The committee and its members are individually mandated, empowered and held accountable for implementing the strategies and key policies determined by the board; managing and monitoring the business and affairs of the organisation in accordance with approved business plans and budgets; prioritising the allocation of capital and other resources and establishing best management and operating practices.

The committee is responsible for assisting and advising the chief executive in implementing the strategies and policies determined by the board, managing the business and affairs of the company, prioritising the allocation of capital, technical and human resources and establishing best management practices. The committee is also responsible for monitoring the performance of the company, and for assisting the chief executive and financial officers in preparing the annual budget for review and approval by the board of directors. The committee is further responsible for reviewing and monitoring Steinhoff's systems of internal control.

### Meeting dates

Director	8 September 2003	1 December 2003	1 March 2004	31 May 2004
BE Steinhoff	√	√	√	√
MJ Jooste	√	√	√	√
DE Ackerman	√	√	√	√
CE Daun	-	√	√	√
JNS du Plessis	√	√	√	√
KJ Grové	√	√	√	√
D Konar	√	√	√	√
JF Mouton	√	√	√	√
FJ Nel	√	√	√	√
FA Sonn	√	√	√	√
NW Steinhoff	√	√	√	√
DM van der Merwe	√	√	√	√
JHN van der Merwe <i>Appointed 6/11/2003</i>	-	√	√	√
RH Walker <i>Appointed 1/3/2004</i>	-	-	√	√



## Audit and risk committee

The audit and risk committee (the audit committee) comprises four members, three of whom are independent, non-executive directors, under the chairmanship of independent, non-executive director Len Konar. The committee operates within defined terms of reference and authority granted to it by the board. All members attended the meetings held during the year.

It meets formally at least four times per annum to consider financial reporting issues and to advise the board on a range of matters, including corporate governance practices, effectiveness of internal control policies and procedures, assessing the management of risks facing the business and discussing the findings and recommendations of the external and internal auditors. The committee is also responsible for ensuring compliance with laws and other regulatory requirements and internal and external audit management. The external auditors attend formal committee meetings and also have unrestricted informal access to the chairman of the audit committee. Certain major group companies also have local audit committees which operate in a similar fashion, and which report any material issues to the audit committee.

The primary role of the audit committee is to ensure the integrity of financial reporting and the audit process, and that a sound risk management and internal control system is maintained. In pursuing these objectives, the

audit committee oversees relations with the external auditors and reviews the effectiveness of the internal audit function. In fulfilling its responsibility of monitoring the integrity of financial reports to shareholders, the audit committee reviews accounting principles, policies and practices adopted in the preparation of financial information in South Africa, the United Kingdom, Europe and Australia.

The chief financial officer provides confirmation, on a half-yearly basis, that financial and accounting control frameworks operate satisfactorily. The audit committee considers summaries of the significant risk and control issues arising from these reports. The audit committee also receives regular internal and external audit reports on the results of audits.

The audit committee approves the external auditors' terms of engagement, fees, scope of work, the process for the annual audit, the applicable levels of materiality and the process of preparing interim results and the announcement. Based on written reports submitted, the audit committee reviews, with the external auditors, the findings of their work, and confirms that all significant matters have been satisfactorily resolved. The committee ensures that there is appropriate independence relating to services provided by the external auditors.

The audit committee also satisfies itself that professional and regulatory requirements for

audit partner rotation and employment of former employees of the external auditors are observed.

The committee is satisfied that the independence of the external auditors is not compromised by the present scale of non-audit fees paid to them.

The audit committee's assessment of the external auditors' performance and independence underpins its recommendation to the board to propose to shareholders the re-appointment of the auditors or appointment of new auditors for the following year.

The chairman of the audit committee will be available at the annual general meeting to respond to matters about the work of the committee.

## Human resources and remuneration committee

The human resources and remuneration committee (the remcom) comprises four independent non-executive members: Dirk Ackerman, Johann du Plessis, Len Konar and Franklin Sonn as well as the group chief executive Markus Jooste. The committee is chaired by independent non-executive director, Dirk Ackerman. The committee operates within defined terms of reference and authority granted to it by the board and meets at least twice a year (with *ad hoc* meetings convened as and when required). Taking cognisance of country-specific market

## Corporate governance (continued)

related issues, its main responsibility is to review and approve the remuneration and employment terms and conditions of executive directors and senior group executives, as well as consider new appointments to the group and subsidiary boards. Executives invited to attend these meetings may not take part in any decisions regarding their own remuneration. All members attend both meetings held during the year.

The committee is also responsible for the group's remuneration policies, covering annual incentive bonus schemes and the allocation of share rights in terms of the group's share incentive schemes.

The remcom has a clearly defined mandate from the board aimed at:

- Ensuring that the company's chairman, executive and non-executive directors and senior executives are appropriately rewarded for their individual contributions to the company's overall performance.
- Ensuring that the company's remuneration strategies, packages and schemes, are related to performance, are suitably competitive and give due regard to the interests of the shareholders and the financial and commercial health of the company.
- Ensuring maintenance of appropriate human resources strategies, policies and practices.

- Reviewing executive succession and development plans and approving to the board candidates for senior positions in the company.
- In discharging its responsibilities, the committee consults widely within the company and group and draws extensively on worldwide external surveys and independent advice and information.

The committee considers and submits recommendations to the Steinhoff board concerning the fees to be paid to each non-executive director. The remuneration of the non-executive directors is set by the chief executive after consultation with the company's advisors and executive directors. Any changes to the fees will be approved by the board and submitted to the shareholders in a general meeting for approval prior to implementation and payment. The level of fees will *inter alia* be determined according to the remuneration paid by comparable companies.

As well as complying with provisions of the code as disclosed in the company's annual financial statements, the board has applied the principles of good governance relating to directors' remuneration as described below.

In determining the remuneration of the executive directors, the remuneration

committee aims to provide the appropriate packages required to attract, retain and motivate executive directors while giving due consideration to remuneration levels, both within and outside the group. To meet these objectives, the committee takes regular advice from external remuneration surveys.

The company's primary executive remuneration objective is to reward the executive directors to ensure that their interests are as far as possible commensurate with the interests of the shareholders.

- Remuneration for the executive directors consists of a basic salary, a performance-related bonus, retirement contributions, medical scheme membership and share incentive schemes. Details of the remuneration of the directors and information on share rights are set out on page 80, 81 and 82 of the financial statements.

*Basic salary and benefits* – salaries for the executives are reviewed annually in September. Salaries are adjusted based on market-related activities, the group's performance and the individual's performance.

*Annual bonus* – the committee uses an annual performance bonus as an incentive to executives to achieve pre-determined financial targets based on earnings growth and cash flow. The committee sets the financial targets of the executives and these targets are reviewed on a regular basis.



*Share incentive schemes* – the company has share incentive schemes for senior executives which have been approved by shareholders at the annual general meeting on 1 December 2003. The committee grants rights which reflect the executive directors' remuneration. Rights granted are subject to time limits and clearly measurable performance criteria.

*Service contracts* – it is the committee's objective for all future executive directors' service contracts to provide notice periods of less than one year.

The chairman of remcom will be available at the annual general meeting to answer any queries about the committee's work.

### **Nomination committee**

The committee comprises Len Konar and Franklin Sonn, who, in consultation with the executive chairman and group chief executive, make recommendations to the board regarding the appointment of new executive and non-executive directors and on the composition of the board generally. It operates within defined terms of reference and authority granted to it by the board.

### **Group risk advisory committee**

The committee consists of independent non-executive directors of the board. At least one meeting is held annually. All members attended the meetings held during the year.

This committee assists the board in reviewing the risk management process and significant risks facing the group. The committee sets the group's risk strategy in liaison with the executive directors and senior management, making use of generally recognised risk management and internal control frameworks. The committee monitors, and reports on, key performance indicators and key risks, including operational, physical, financial, human resources, technology, continuity, credit, market and compliance risks.

Management is accountable to the board for designing, implementing, monitoring and integrating the process of risk management into the day-to-day activities.

The board views risk management in a positive light, as it may identify business opportunities.

A follow-up strategic risk assessment that was carried out at group level in 2003/2004 was rolled out to the major operating entities during the year. Risk mitigation strategies have been identified for all key risks, both at a group and at operating entity level. The output of the risk assessment process has provided the basis for the internal audit coverage plan for the current year.

This committee maintains a close relationship and reports to the audit committee periodically.

The group risk advisory committee chairman will be available at the annual general meeting to respond to queries about the work of the committee.

### **Management reporting**

Management reporting disciplines include the preparation of annual budgets by operating entities. Monthly results and the financial status of operating entities are reported against approved budgets. Profit projections and cash flow forecasts are reviewed regularly, while working capital and borrowing levels are monitored on an ongoing basis.

### **Financial control and reporting**

The directors are responsible for ensuring that group companies maintain adequate records, and for reporting on the financial position of the group and the results of the activities with reasonable accuracy and reliability. Financial reporting procedures are applied in the group at all levels to meet this responsibility. Holding company executives meet regularly with management of operating companies on a formal basis and are effectively involved in the major decision-making processes of all group companies. Financial and other information is constantly reviewed and any action necessary is taken immediately.

Improvements to the quality of reported information have been effected by means of the replacement or upgrading of a number of major information systems of group companies. The benefits have become visible

# Corporate governance (continued)

during the financial year when these new systems were bedded down.

These financial statements are prepared in accordance with South African statements of generally accepted accounting practice and the consistent use of appropriate accounting policies (unless an accounting policy requires revision or adoption to new accounting standards in which case proper disclosure is made), supported by reasonable and prudent judgement and estimates, to properly disclose the financial status.

## Internal control, risk management and internal audit

The directors endorse the guidance for directors published in the King II report concerning the operation of a sound system of internal control.

The board is responsible for the group's system of internal control and risk management and for reviewing its effectiveness. To discharge that responsibility, the board confirms that during the period it has established the procedures necessary to implement the recommendations, including clear operating procedures, lines of responsibility and delegated authority.

The executive committee, as mandated by the board, has established a groupwide

system of internal control to manage significant group risks. This system supports the board in discharging its responsibility for ensuring that the wide range of risks, associated with the company's diverse operations, is effectively managed in support of the creation and preservation of shareholder wealth. The board's policy on risk management encompasses all significant business risks to the company, including financial, operational and compliance risk, which could undermine the achievement of business objectives. This system of risk management is designed so that the different business units are able to tailor and adapt their risk management processes to suit their specific circumstances. Risk assessment and reporting criteria are designed to provide the board with a consistent, company-wide perspective of the key risks.

The system of internal control, which is embedded in all key operations, provides reasonable rather than absolute assurance that the company's business objectives will be achieved within the risk tolerance levels defined by the board. Regular management reporting, which provides a balanced assessment of key risks and controls, is an important component of board assurance. The chief financial officer provides confirmation, on a quarterly basis, that financial and accounting control frameworks have operated satisfactorily. The board also receives assurance from the audit committee,

which derives its information, in part, from regular internal and external audit reports on risk and internal control throughout the company. The company's internal audit function had a formal collaboration process in place with the external auditors to ensure efficient coverage of internal controls and to eliminate duplication of effort. Steinhoff's internal audit function is responsible for providing independent assurance to the executive committee and the board on the effectiveness of the risk management process throughout the company.

The board of directors has overall responsibility for ensuring that the group maintains a system of internal control to provide them with reasonable assurance regarding the reliability of the financial information used within the business and for publication, and that assets are safeguarded.

The key features of the internal control system that operated throughout the year covered by the financial statements are described under the following headings:

- **Control environment**

The board has put in place a documented organisational structure with clearly-defined and understood lines of responsibility and delegation of authority from the board to operating units. There are established policies and procedures, including the code of ethics, to foster a strong ethical climate.



- **Identification and evaluation of business risks and control objectives**

The board has the primary responsibility for identifying the major business risks facing the group and for developing appropriate policies to manage those risks. The risk management approach is used to focus the attention of directors and management on the group's most significant areas of risk and to determine key control objectives.

- **Information systems**

The group operates a comprehensive annual planning and budgeting system with an annual budget approved by the board. There is a financial reporting system which compares results with plan and the previous year on a monthly basis, to identify any significant deviation from approved plans. Reports include a monthly cash flow statement projected for 12 months, which is used in determining that the group has adequate funding for its future needs.

- **Risk management**

The board identifies and monitors risk through the planning process, the close involvement of the executive directors in the group's operations and the periodic monitoring of key issues to ensure that the significant risks faced by the group are being identified, evaluated and appropriately managed, having regard to the balance of risk, cost and opportunity.

- **Main control procedures**

The board has adopted a schedule of matters which are required to be brought to it for decision, thus ensuring that it maintains full and effective control over appropriate strategic, financial, organisational and compliance issues. The board has identified a number of key areas which are subject to regular reporting to the board which include treasury, legal and other matters. Financial controls and procedures are in place, including procedures for seeking and obtaining approval for major transactions and organisational changes as well as organisational controls involving the segregation of incompatible duties and controls relating to the security of assets.

- **Monitoring**

The board has delegated to executive management implementation of the system of risk management and internal financial control. The operation of the system is monitored and a programme of reviews focusing on key aspects of the business has been carried out.

The board conducts a review of the operation and effectiveness of this system of internal financial control annually. The board considers that there have been no weaknesses in this system that have led to any material losses or contingencies during the last year or the period from the balance sheet date to the date of this report.

The directors accept responsibility for maintaining appropriate internal control systems to ensure that company assets are safeguarded and managed, and losses arising from fraud or other illegal acts are minimised. Control systems are continually monitored and improved in accordance with generally accepted best practices.

The internal audit department is a function established at corporate level, reporting to the audit committee, to assist executive management and the audit committee in the effective discharge of their respective responsibilities, by means of independent financial, internal control and operational systems reviews. The internal audit function has been internalised with dedicated group personnel charged with the responsibility of undertaking internal audits at Steinhoff Africa. In other parts of the group, the internal audit function has been outsourced to independent professional service providers.

## **Stakeholder communication**

The board considers that balanced and understandable communication of the group's activities to stakeholders is essential and strives to clearly present any matters material to a proper appreciation of the group's position. The interests and concern of stakeholders are addressed wherever possible by communicating information, as it becomes known, regardless of the potentially positive or negative impact.

# Corporate governance (continued)

The directors seek to build on a mutual understanding of objectives shared between the company and its institutional shareholders through a regular series of meetings and presentations. The board welcomes the attendance of private shareholders at the annual general meeting and the opportunity to address any questions which they may have. The chairmen of the audit and risk management, human resources and remuneration and nomination committees attended last year's annual general meeting and intend to be present at the forthcoming meeting. At last year's annual general meeting, all resolutions were passed on a show of hands. After the vote, the level of proxies lodged on each resolution was announced at the meeting.

The group adopts a proactive stance in disseminating appropriate operational information to stakeholders through print and electronic news releases and the statutory publishing of the group's financial performance.

## Fraud and illegal acts

The group does not engage in or accept or condone the engaging in of any illegal acts in the conduct of its business. The directors' policy is to actively pursue and encourage prosecution of perpetrators of fraudulent or other illegal activities should they become aware of any such acts. The group has implemented a "fraud line" to facilitate the

report of any fraud or illegal acts which is managed and administered by KPMG.

## Empowerment, employment equity and development

Steinhoff places particularly high value on the abilities and contributions made by employees in the development and achievements of its businesses.

The group believes that the effective training and development of its people represents a key factor in the present and future success of the company. The human resource policies of the company are directed by a broad framework of corporate values and are driven by the need to ensure effective utilisation and investment in human resources. The diversity of cultures existing in the company is recognised as an asset in itself. Within this context, merit and competence are the two key criteria for advancement in the company. Steinhoff is committed to continually seek to redress historical imbalances so that all employees can compete on equal terms, and it believes that specific occupational training, as well as concern for building general skills such as literacy, numeracy and financial management, are primary means for improving the competitive capabilities of long-term employees. The company applies policies that do not discriminate on grounds of race, age, disability, sex or religion and which provide good opportunities for disadvantaged

sections of the community. The company actively participates in initiatives directed at the economic empowerment of previously disadvantaged persons in the South African community and expects that extensive benefits will accrue from this process in the short and longer terms.

The group recognises the rights of employees to freedom of association and representation within the context of corporate economic viability arising from its responsibility to its shareholders. The group affirms that employees have the right to choose whether or not they wish to participate in organised labour structures and has provided assistance to employees to set up employee forums.

The group is open to new partnerships that will increase shareholder value as well as plough back skills and resources into the South African community.

## Insider trading

No employee may deal, directly or indirectly, in Steinhoff shares or warrants on the basis of unpublished, price-sensitive information regarding the business or affairs of the group. No director may trade in Steinhoff shares or warrants during embargo periods determined by the board. These include the periods between the end of the interim and annual reporting periods and the announcement of financial and operating results for such reporting periods.



## Interest in contracts

During the year under review, none of the directors had a significant interest in any material contract or arrangement entered into by the company or its subsidiaries.

## Ethical responsibilities and the environment

A group ethical trading policy covering safety, quality, legal, environmental and social matters has been adopted, setting out required standards for suppliers of goods and services. It is the group's global policy to work with its suppliers to achieve the aims of this policy.

In relation to the environment, the group aims at all times to comply with all relevant legal obligations and regulations concerning the environment and to adopt an all-encompassing approach to environmental protection measures with the object of achieving continuous improvements.

The group strives to keep waste materials to a minimum and to reduce, recycle, and where necessary, dispose of waste by the safest and most responsible means available to reduce environmental impact.

It is the group's aim wherever possible to obtain goods from suppliers that operate established environmental policies based on relevant legal requirements for the countries in which they operate and to have particular regard to sustainable operations and

sustainable products. The company will try to use renewable resources wherever feasible and work with its suppliers to conserve natural resources where renewable options are not available.

## Managed healthcare

Access to healthcare is provided to all employees either through the provision of medical insurance schemes or primary healthcare clinics.

The group continues to take a proactive stance against life-threatening epidemics such as HIV/Aids. These diseases are being actively managed, largely on a preventative basis, to negate their impact on the business and the employees themselves.

## Company secretary

All directors have access to the advice and services of the company secretary and are entitled and authorised to seek independent and professional advice about affairs of the group at the group's expense. The company secretary is responsible for the duties set out in Section 268G of the Companies Act.

The certificate required to be signed in terms of subsection (d) of the act appears on page 65.

## Going concern

The directors report that, after making enquiries, they have a reasonable expectation that the group has adequate resources to

continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going-concern basis in preparing the financial statements.

# Sustainable development report

Steinhoff supports the concept of triple bottom-line reporting found in the King report of 2002 (King II), which embraces economical, social, environmental and ethical considerations of companies' activities. This reporting concept is in line with greater transparency and accountability as is entrenched in King II.

## Ethics

All stakeholders and more specifically directors and employees are required to observe the principles of the Steinhoff code of ethics to ensure that business practices are conducted in a manner which is beyond reproach.

## Organisational effectiveness

### Human capital

The organisation's human capital focus supports Steinhoff's strategy of being an innovative and responsive organisation by addressing the development of human capital, employment equity and process capacity. The function's objectives are based on a dual focus:

- attract, retain and develop the best people we can who are passionate about personal and corporate growth and thrive on challenge and change
- build employment equity by aligning the demographics of our staff with that of our ultimate customers.

Attention to human capital development and involvement has been incorporated into all the group's operations. The human resources function in its role as business partner has focused on supporting Steinhoff's strategy and divisional business plan objectives. Our vision is to be a world-class supplier of household goods and related materials, a

low-cost producer and employing motivated and highly competent individuals and teams. These are backed up through:

- specific training and development interventions
- effective employee relations
- professional recruitment and selection processes
- market-related remuneration and ongoing upliftment of administrative policies and procedures with specific cost reductions as end result
- internal promotions
- ongoing assessment of employee and managers' competencies with emphasis on the achievement of certain key performance areas
- open communication channels between employees and management
- benchmarking programmes to identify strong and weak points in the group's strategy, structures, systems, staff and management style and other related business processes. One of the systems stemming from this is a comprehensive performance management system with a self-funded incentive to recognise achievements
- building strong and credible relationships with employee representative bodies

- employee assistance programmes which give employees access to confidential counselling services for work and non-work related matters.

Progress continues to be made with the review and revision of group policies and procedures to enhance organisational effectiveness.

Management development is ongoing and a focus on succession candidates is entrenched. The aim behind the succession planning process has been the retention and promotion of high-performing employees.

As at 30 June 2004, the group had approximately 24 600 full-time employees and less than 2 000 part-time seasonal employees worldwide. The table below indicates the number of the group's employees, excluding non-executive directors, in each region in which we operate on the dates indicated.

Of the total number of employees worldwide, approximately 70% were male and 30% female. Of the total of 13 100 employees employed in southern Africa, 93% are black and 7% white.

30 June	2004	2003	2002	2001
Southern Africa	13 100	10 600	11 700	11 100
Central and eastern Europe <sup>1</sup>	8 000	7 500	8 350	8 500
Western Europe <sup>2</sup>	1 200	1 750	2 000	1 330
Pacific Rim and India	4 300	550	500	310
<b>Total</b>	<b>26 600</b>	<b>20 400</b>	<b>22 550</b>	<b>21 240</b>

<sup>1</sup> Central and Eastern Europe includes Hungary, Poland and Ukraine

<sup>2</sup> Western Europe includes Belgium, Germany, The Netherlands, France and United Kingdom



### Employment equity

The group is committed to providing equal opportunities for its employees and to the transformation of the group in line with the demographics of the regions in which the company conducts its business activities. Progress in this key area is monitored at board level.

During the financial year, the following needs-driven development initiatives have focused on the empowerment of employees in line with identified competency deficiencies and employment equity targets:

- university bursaries have been allocated to wood science and financial course students
- identified employees are participating in production management, chartered accountancy, marketing and furniture-related learnerships within the group.

In South Africa, the focus for previously disadvantaged individuals is to bridge skills gaps through interventions like the Building Block Skills Programme which is the entry level to the leadership and business skills development programme at our Corporate University. This enables employees to be promoted from within, addressing the group's succession planning and employment equity objectives. This training programme provides accredited management development programmes and we have extended similar programmes to regions outside South Africa, more particularly central and eastern Europe.

Progress has been made towards the attainment of employment equity. However, further work is required to extend diversity across executive management levels. Efforts

are being focused on a more integrated approach to address both the quantitative legal requirements as well as qualitative contextual issues.

### Black economic empowerment

- The group has been active in the support and development of small and medium enterprises within our industry. Our support to these enterprises through FIETA (Furniture Industry Education and Training Authority) funding will become a highlight in our indirect black economic empowerment drive.
- The group has actively engaged in empowerment programmes *inter alia* by assisting the BEE consortium comprising Mvelaphanda Capital (Proprietary) Limited, Arch Equity (Proprietary) Limited and an employee trust in subscribing for shares in Unitrans Limited; participation in the At Work Manufacturing (Proprietary) Limited facility and Emergent Offices Solutions (Proprietary) Limited as well as the extensive equity participation of employees in the PG Bison Group.

### Health and safety

Sustainable improvements have been made in the management of health and safety across the group. A comprehensive occupational health and safety system called 'Value Safe' has been rolled out in Freedom's retail and Steinhoff Pacific's manufacturing operations.

In addition to maintaining high safety standards in our operating facilities, we have company-level medical clinics at our operations and medical benefits offered to our employees in South Africa.

We have also made good progress in consolidating Steinhoff Africa's occupational healthcare benefits which will lead to big savings, better control and a more professional service to our employees. Research is being finalised to introduce structures required to accommodate primary healthcare within our clinic facilities.

Health and safety issues are monitored and audited regularly to ensure that health and safety legislation and industry safety standards are met throughout the group. Safety awareness is enhanced through annual inspections and environmental and risk control investigations conducted by the internal auditors.

### HIV/Aids

Steinhoff recognises the seriousness of the HIV/Aids epidemic, its impact on the workplace and on the social and economic life of employees. The group is committed to addressing HIV/Aids in a positive, supportive and non-discriminatory manner and the required interventions in Africa have been actioned.

A project team has been established at senior executive level to lead comprehensive group-wide strategies with a particular focus on the following areas:

- HIV/Aids in the workplace
- costs of appropriate medical care
- impact on traditional family structures
- changing demographic profiles.

The project team continues with the development of comprehensive and group-wide internal policies, strategies and procedures and corporate social responsibility strategies to address the impact of HIV/Aids on its employees and the business.

# Sustainable development report (continued)

Current activities include an evaluation of existing “best practice” management of HIV/Aids within the group. This will be considered further for implementation within the group.

## Worker participation

There are a variety of participative structures across the group to deal with issues which affect employees directly and indirectly. These include collective bargaining mechanisms, structures to drive productivity improvements, safety committees, employment equity committees and other participative forums. These structures have been set up with trade unions and other employee representatives to achieve good employer/employee relations through the effective sharing of relevant information, consultation and the identification and resolution of conflict.

## Social responsibility

The group’s corporate social responsibility policy is based on the desire to contribute to the upliftment and improvement in the quality of life of the communities within which the group operates.

Highlights include:

- two of the UK-based business units, Relyon and Pritex, are sponsoring each one of their engineers to support a teacher and students in each of the two secondary schools in Wellington to take part in a national competition. The aim of the competition is to design and build an electric car to race in a six-hour marathon. The winner will be the team that travels the furthest. The aim of the project, which is being co-ordinated by Bath University, is to attract students to technology, science and engineering.
- Freedom Australia has, for over five years, been supporting the Childrens’ Cancer Institute of Australia (CCIA) which is a non-government supported charity, whose aim is

to find a cure for childhood cancer through medical research. Guests Furniture supports the Salvation Army in Australia by providing a service of collecting customers’ excess furniture so that it can go to those in need.

- Our operations in Hungary play an important role in the local cultural life with art exhibitions and by sponsoring the Andante – MKB International Jazz Festival.
- Operations in Poland have become involved in community-based projects and feedback claims that the credibility of the group as an employer of choice has grown tremendously. Steinpol (Rzepin) won the Poland National Furniture Industry Soccer Cup.
- The company has enjoyed the fourth consecutive Steinhoff horseracing event in South Africa and plans to launch its next initiative in caring for Aids orphans in South Africa, at the Gommagomma Summer Cup which will take place on Saturday, 27 November 2004 at the Turffontein Race Course, Johannesburg.
- The company enjoys honorary membership of the Tikkun Foundation, an organisation with the objective to uplift historically disadvantaged groups in South Africa.
- Steinhoff has operating units countrywide in South Africa which have made significant contributions to surrounding communities. Projects supported are selected through consultation between management and employees at the various sites.
- In addition to various business unit community-based activities, our South African division has adopted 100 Aids orphans. The main objective of this project is to ensure that surviving orphans obtain the required support to assist them in becoming part of the future of South Africa. Support services include, nutrition, healthcare, scholastic education and psycho-social care.

## Environment

Steinhoff has a record of meeting accepted environmental standards. The group aims to maintain this reputation and will continue to invest in systems, practices and facilities to elevate standards in line with society’s environmental expectations. Every effort is made to ensure that facilities, products and packaging are as environmentally friendly as possible and comply with all municipal, regional and national requirements.

Steinhoff manufactures a diverse range of furniture in more than 100 factories located at sites throughout the world. Each plant is purpose designed around the product range that is manufactured. Therefore, the waste, energy and effluent management facilities and systems differ from plant to plant. Significant investments have been made in these projects to manage the environmentally-safe disposal of waste.

## Forestry Stewardship Council (FSC)

Our timber and sawmilling division maintains its FSC accreditation and sources all timber from accredited forests. This international accreditation assures consumers and customers that the plantations are well managed on a sustainable basis with minimum or no adverse effects on the environment. This division strives to ensure that synergies are applied in full use and recovery of natural sources utilised in the production of our products.

## ISO certification

Several of the business units have achieved ISO certification including the following in the table below.

The operations in Hungary have implemented a customer-orientated quality management system ISO 9000:2000.



Relyon group and Norma hold ISO 9001 certification while Pritex qualifies for QS, which is the stricter certification required by the automobile industry.

Of specific note is the ISO 9001:2000 certification in the Klose division which contributes to world-class HR practices.

Moxwood is one of the earliest companies in the world to convert to the 2000 version of ISO 9001; this was achieved early 2001. Moxwood further holds ISO 14001 certification for two of its factories, being factory 1 and factory 2. The team is in the

process of implementing OHSAS 18001 which addresses all occupational health and safety issues.

Mattex and Loungeweave both hold ISO 9002 certification.

PG Bison's facilities received, among others, gold and diamond ratings for compliance with the provisions of the Occupational Health and Safety Act.

Freedom has one factory, Melrose Park, which holds ISO 9001 certification.

Die Klose Kollektion GmbH	DIN ISO 9001:1994
Klose Pomorska FM Sp.zo.o.	DIN ISO 9001:2000
Klose Goscicinska FM Sp.zo.o.	DIN ISO 9001:2000
Klose Czerska FM Sp.zo.o.	DIN ISO 9001:2000
Vista/Polstermöbel GmbH	DIN ISO 9001:2000
Schönbrunner Polstermöbel GmbH	DIN ISO 9001:2000
Moxwood	DIN ISO 9001:2000
Moxwood (Factory 1 and 2)	DIN ISO 14001:1996
Mattex	DIN ISO 9002:2000
Loungeweave	DIN ISO 9002:2002
Freedom (Melrose Park)	DIN ISO 9001:2000

## Other

Steinhoff is involved with farming and forestry activities. Where there are contractual arrangements with individual farmers, responsible farming practices on agri-chemicals and pesticide residues as well as crop rotation, are promoted.

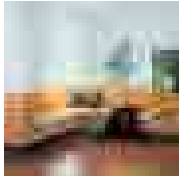
We received an innovation award from FIRA UK during this year for the "Nova Lofe" fabric which our German division developed and launched in the market.



All stakeholders and more specifically directors and employees are required to observe the principles of the Steinhoff code of ethics to ensure that business practices are conducted in a manner which is beyond reproach.

# Report of the independent auditors

for the year ended 30 June 2004



TO THE MEMBERS OF STEINHOFF INTERNATIONAL HOLDINGS LIMITED

## Introduction

We have audited the group annual financial statements of Steinhoff International Holdings Limited, set out on pages 62 to 117 for the year ended 30 June 2004. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.



## Scope

We conducted our audit in accordance with statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.



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

## Audit opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of the group at 30 June 2004 and the results of its operations and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act in South Africa.

13 September 2004

# Directors' report

for the year ended 30 June 2004

The directors have pleasure in presenting the annual financial statements of the group for the year ended 30 June 2004.

## NATURE OF BUSINESS

Steinhoff is a holding company invested predominantly in the household goods and related industries. Steinhoff is a globally integrated lifestyle supplier that manufactures, warehouses and distributes household goods and also provides financial and management services to group companies.

## DIVIDENDS

The directors have resolved to declare a dividend of 22 cents per share (2003: 18 cents per share), payable on 8 November 2004 to those shareholders recorded in the books of the company at the close of business on 5 November 2004.

## SUBSIDIARY COMPANIES

	Issued share capital	Effective shareholding (%)
The company's principal subsidiaries are:		
Steinhoff Africa Holdings (Proprietary) Limited and its subsidiaries	R35 700	100
Steinhoff Möbel Holdings Alpha GmbH and its subsidiaries	€35 790	100

The attributable interest of the company in the aggregate net income after taxation of its subsidiaries for the year ended 30 June 2004 is:

	2004 R'000	2003 R'000
Aggregate amount of net income after taxation	804 708	798 043

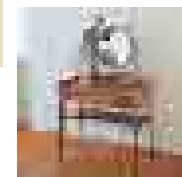
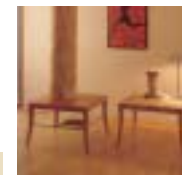
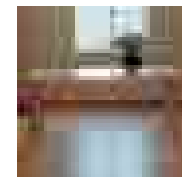
## INSURANCE RISK MANAGEMENT

The group has continued to use a risk management policy, which incorporates elements of self-insurance. This is backed by an active risk appraisal and review programme and the extent of external insurance cover is at all times sufficient to ensure that the level of risk retained by the group is not significant.

## PROPERTY, PLANT AND EQUIPMENT

During the year the group invested R400 million (2003: R585 million) in property, plant and equipment. This capital expenditure was funded by internally generated cash and bank credits.

Further information relating to the investment in property, plant and equipment of the group is presented in note 8 to the annual financial statements.



# Directors' report (continued)

for the year ended 30 June 2004



## SHARE CAPITAL

The company's authorised share capital of R7 500 000, divided into 1 500 000 000 ordinary shares of 0,5 cents each, remained unchanged during the year.

The following share transactions occurred during the year:

Date	Number of shares	Consideration
13 October 2003	3 303 200	Issued to employees
10 November 2003	24 352 724	Capitalisation dividend
11 November 2003	126 341 627	Cash
13 November 2003	18 951 244	Cash
30 June 2004	5 100 000	Issued to employees
Various	2 612 799	Net treasury shares sold



At year-end the group's share trusts held 10 232 590 shares which have been disclosed as treasury shares and netted off against issued share capital.



## CONTRACTS

No contracts in which directors and officers of the company had an interest and that significantly affected the affairs or business of the company or any of its subsidiaries were entered into during the year.

## POST-BALANCE SHEET EVENTS

Subsequent to year-end Steinhoff Africa Holdings (Proprietary) Limited exercised its pre-emptive right to acquire 38% of the issued share capital of Unitrans Limited.

## DIRECTORATE

The directors in office at the financial year-end and date of this report, were as follows:

Executive	Date of appointment	Non-Executive
Bruno Ewald Steinhoff (German)		Dirk Emil Ackerman
Markus Johannes Jooste		Claus Edmund Daun (German)
Fredrik Johannes Nel		Johannes Nicolaas Stephanus du Plessis
Daniel Maree van der Merwe		Karel Johan Grové
Johannes Henoch Neethling van der Merwe	7 November 2003	Dr Deenadayalen Konar
Rodney Howard Walker (Australian)	1 March 2004	Johannes Fredericus Mouton
		Dr Franklin Abraham Sonn
		Norbert Walter Steinhoff (German)

## DIRECTORS' SHAREHOLDING

At 30 June 2004 the present directors of the company held direct and indirect interests in 189 836 242 (2003: 150 852 451) or 16,8% (2003: 16,0%) of the company's issued ordinary shares.

## CORPORATE GOVERNANCE

The group complies in all material respects with the JSE Securities Exchange South Africa (JSE) Listing Requirements and the Code of Corporate Practice and Conduct published in the King II Report on Corporate Governance.

### SHARE OPTION SCHEME

The directors are authorised to issue, allot or grant options to a maximum of 10% (2003: 10%) of the issued share capital of the company from time to time in terms of employee share option schemes. Details of the participation of the directors in the share option scheme are set out in Note 1.2 of the financial statements.

### SECRETARY

Mr SJ Grobler acts as secretary to the company.

Business address	Postal address
28 6th Street Wynberg 2090	PO Box 1955 Bramley 2018

### APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

It is the directors' responsibility to ensure that the annual financial statements fairly present the state of affairs of the group. The external auditors are responsible for independently auditing and reporting on the financial statements.

The directors are also responsible for the systems of internal control. These are designed to provide reasonable, but not absolute assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of assets, and to prevent and detect material misstatement and loss. The systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The financial statements set out in this report have been prepared by management on the basis of appropriate accounting policies which have been consistently applied and which are supported by prudent judgements and estimates. The financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice.

The directors have reasonable expectation that the group has adequate resources to continue in operation for the foreseeable future, and the annual financial statements have therefore been prepared on a going concern basis.

The annual financial statements for the year ended 30 June 2004, which appear on pages 62 to 117 were approved by the board and signed on its behalf on 13 September 2004.

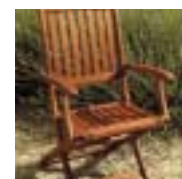
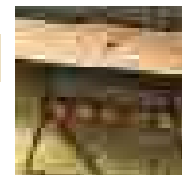
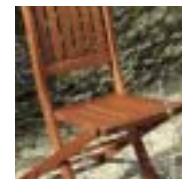
Bruno Ewald Steinhoff  
*Executive chairman*

Markus Johannes Jooste  
*Chief executive officer*

### SECRETARY CERTIFICATION

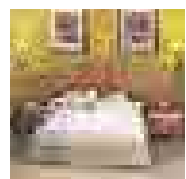
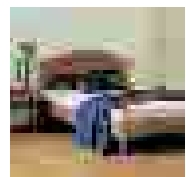
I certify, in accordance with Section 268 G(d) of the South African Companies Act, 1973, as amended ("the Act") that the company has lodged with the Registrar of Companies all such returns as are required for a public company in terms of the Act and that all such returns are true, correct and up to date.

Stephanus Johannes Grobler  
*Company secretary*



# Income statement

for the year ended 30 June 2004



	Notes	2004 R'000	2003* R'000
Revenue		10 572 130	9 948 595
Cost of sales		6 199 578	6 086 660
Gross profit		4 372 552	3 861 935
Sundry income		224 172	176 867
Distribution costs		632 994	614 127
Foreign exchange losses		211 559	177 195
Salaries and wages		859 079	798 914
Operating expenses		1 575 115	1 337 331
Goodwill amortisation and other impairment write-offs		98 096	75 663
Discontinued operations	35	69 652	37 362
Operating income	1	1 150 229	998 210
Finance costs	2	268 694	197 397
Income from investments	3	191 856	76 220
Income before taxation		1 073 391	877 033
Taxation	4	150 381	97 950
Net income after taxation		923 010	779 083
Share of associate companies' retained income		117 853	91 056
(Income)/loss attributable to minority interest		(4 012)	2 881
Earnings attributable to ordinary shareholders		1 036 851	873 020
Basic earnings per share (cents)	5	97	91
Fully diluted earnings per share (cents)	5	95	88
Headline earnings per share (cents)	5	112	102
Fully diluted headline earnings per share (cents)	5	109	99
Dividend per share (cents)	6	22	18
Dividend cover (times)		4	5

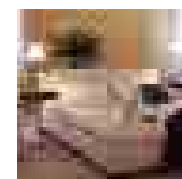
\* Restated

# Balance sheet

as at 30 June 2004

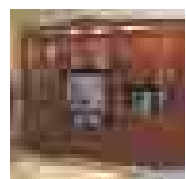
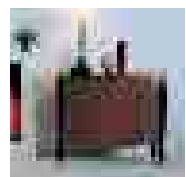
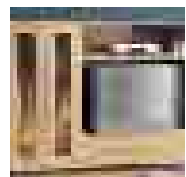
	Notes	2004 R'000	2003* R'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets and goodwill	7	504 492	326 949
Property, plant and equipment	8	2 620 826	2 197 040
Plantations	9	166 564	5 193
Interest in associate companies	10	618 642	794 118
Interest in joint venture companies	11	–	–
Investments and loans	12	752 374	378 062
Deferred taxation assets	13	103 924	33 750
		<b>4 766 822</b>	<b>3 735 112</b>
<b>Current assets</b>			
Foreign currency assets	14	6 894	150 989
Inventories	15	1 348 515	893 754
Accounts receivable	16	3 387 137	2 352 460
Short-term loans	17	262 196	370 066
Taxation receivable		15 511	10 879
VAT receivable		101 860	116 883
Funds on call and deposit		1 532 418	198 597
Bank balances and cash		2 123 964	1 655 559
		<b>8 778 495</b>	<b>5 749 187</b>
<b>Total assets</b>		<b>13 545 317</b>	<b>9 484 299</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital and premium	18	3 161 878	2 240 944
Reserves	19	3 363 372	2 688 303
Ordinary shareholders' equity		<b>6 525 250</b>	<b>4 929 247</b>
<b>Minority interest</b>	20	<b>35 241</b>	<b>14 782</b>
<b>Non-current liabilities</b>			
Long-term liabilities	21	3 268 799	1 646 779
Deferred taxation liabilities	13	118 512	44 360
		<b>3 387 311</b>	<b>1 691 139</b>
<b>Current liabilities</b>			
Accounts payable	22	2 757 878	1 572 275
Foreign currency liabilities	14	6 834	4 614
Short-term liabilities	23	591 793	693 441
Taxation payable		121 766	31 905
VAT payable		23 920	9 421
Shareholders for dividend		84 647	192
Bank overdrafts		10 677	537 283
		<b>3 597 515</b>	<b>2 849 131</b>
<b>Total equity and liabilities</b>		<b>13 545 317</b>	<b>9 484 299</b>
Net asset value per share (cents)	5	<b>581</b>	<b>523</b>
As previously stated			522
Consolidation of employee share incentive trusts (note 34)			1

\* Restated



# Statement of changes in equity

for the year ended 30 June 2004



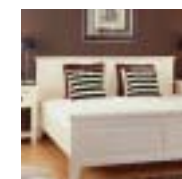
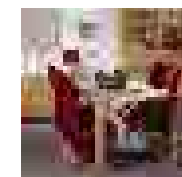
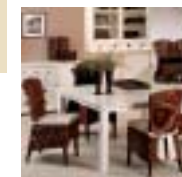
	Share capital and premium R'000	Non- distributable reserves R'000	Distributable reserves R'000	Total R'000
<b>Balance at 30 June 2002 as previously stated</b>	2 155 425	577 445	1 651 499	4 384 369
Consolidation of employee share incentive trusts (note 34)	(10 055)	–	(257)	(10 312)
<b>Balance at 30 June 2002 restated</b>	2 145 370	577 445	1 651 242	4 374 057
Earnings attributable to ordinary shareholders	–	–	873 020	873 020
As previously stated	–	–	873 043	873 043
Consolidation of employee share incentive trusts (note 34)	–	–	(23)	(23)
Dividends	–	–	(16 955)	(16 955)
Issue of share capital (note 18)	95 574	–	–	95 574
As previously stated	98 178	–	–	98 178
Consolidation of employee share incentive trusts (note 34)	(2 604)	–	–	(2 604)
Decrease in foreign currency translation reserve	–	(378 696)	–	(378 696)
Acquisition of the remainder of shares of an associate company	–	(1 248)	–	(1 248)
Share of associate companies' retained earnings transferred to non-distributable reserves	–	66 320	(66 320)	–
Reserves released to income	–	(12 033)	(4 472)	(16 505)
<b>Balance at 30 June 2003</b>	2 240 944	251 788	2 436 515	4 929 247
Earnings attributable to ordinary shareholders	–	–	1 036 851	1 036 851
Dividends	–	–	(34 141)	(34 141)
Issue of share capital (note 18)	920 934	–	–	920 934
Decrease in foreign currency translation reserve	–	(329 837)	–	(329 837)
Restatement of available-for-sale financial assets to fair value	–	(14)	–	(14)
Share of associate companies' retained earnings transferred to non-distributable reserves	–	15 720	(15 720)	–
Share of associate companies' retained earnings transferred from distributable reserves	–	(23 292)	23 292	–
Investment reserves released to income	–	(1 125)	–	(1 125)
Increase in investment reserve	–	3 335	–	3 335
<b>Balance at 30 June 2004</b>	3 161 878	(83 425)	3 446 797	6 525 250

# Cash flow statement

for the year ended 30 June 2004

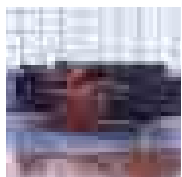
	Notes	2004 R'000	2003* R'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	27	1 539 365	898 243
Dividends received		21 869	17 230
Interest received		188 547	76 220
Interest paid		(268 694)	(197 397)
Dividends paid		(34 333)	(16 763)
Taxation paid	28	(117 480)	(85 749)
Net cash inflow from operating activities		1 329 274	691 784
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment		(400 482)	(585 237)
Proceeds from sale of property, plant and equipment		40 540	133 899
Acquisition of plantations		(146 942)	-
Net cash flow on acquisition of subsidiary companies	29	(549 533)	(17 822)
Net cash flow on disposal of subsidiary companies	30	5 250	(8 175)
Increase in investments and loans and short-term loans		(349 916)	(300 787)
Net decrease/(increase) in interest in associate companies		33 764	(34 060)
Increase in investment reserve		3 335	-
Net cash outflow from investing activities		(1 363 984)	(812 182)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds on issue of share capital	31	995 623	129 383
Treasury shares purchased		(74 694)	(37 674)
Decrease in bank overdrafts		(526 606)	(36 834)
Net increase in long-term liabilities		1 553 644	821 025
Net (decrease)/increase in short-term liabilities		(259 737)	117 810
Net cash inflow from financing activities		1 688 230	993 710
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
		1 653 520	873 312
Cash and cash equivalents at beginning of year		2 000 531	979 429
Effects of exchange rate changes on cash and cash equivalents		2 391	147 790
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	32	<b>3 656 442</b>	<b>2 000 531</b>

\* Restated



# Segmental information

for the year ended 30 June 2004



## BUSINESS AND GEOGRAPHICAL SEGMENTS

The segment information set out below is based on the requirements of the South African Statement of Generally Accepted Accounting Practice AC115 – Segment reporting.

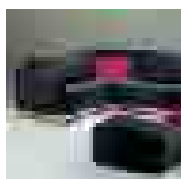
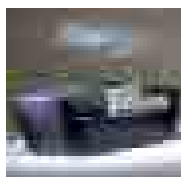
### Business segments

For management purposes, the group is currently organised into two operating divisions – Manufacturing and Wholesale & Distribution. These divisions are the basis on which the group reports its primary segment information.

Principal activities are as follows:

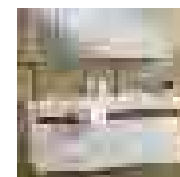
- Manufacturing – manufacturing of household goods
- Wholesale & Distribution – warehousing, wholesaling and distribution of household goods.

Segment information about these businesses is presented below.



	Manufacturing R'000	Wholesale & Distribution R'000	Total R'000
<b>Year ended 30 June 2004</b>			
Revenue	7 334 650	3 237 480	10 572 130
Income before interest, taxation, discontinued operations, goodwill amortisation and impairment write-offs, including share of associate companies' income and excluding minority interests	922 236	496 720	1 418 956
Net assets	4 371 921	2 153 329	6 525 250
<b>Year ended 30 June 2003</b>			
Revenue	7 260 028	2 688 567	9 948 595
Income before interest, taxation, discontinued operations, goodwill amortisation and impairment write-offs, including share of associate companies' income and excluding minority interests	845 820	358 149	1 203 969
Net assets	3 504 396	1 424 851	4 929 247

	Southern Africa R'000	European community R'000	Pacific Rim R'000	Total R'000
<b>Geographical segments</b>				
The group's operations are located in southern Africa, European community and the Pacific Rim.				
<b>Year ended 30 June 2004</b>				
Revenue	2 772 290	6 719 641	1 080 199	10 572 130
Income before interest, taxation, discontinued operations, goodwill amortisation and impairment write-offs, including share of associate companies' income and excluding minority interests	362 863	982 113	73 980	1 418 956
Net assets	1 529 619	4 381 961	613 670	6 525 250
<b>Year ended 30 June 2003</b>				
Revenue	2 668 211	6 778 857	501 527	9 948 595
Income before interest, taxation, discontinued operations, goodwill amortisation and impairment write-offs, including share of associate companies' income and excluding minority interests	236 245	947 915	19 809	1 203 969
Net assets	1 276 730	3 590 835	61 682	4 929 247



Income before interest, taxation, discontinued operations, goodwill amortisation and impairment write-offs including share of associate companies' income and excluding minority interests is reconciled to operating income as follows:

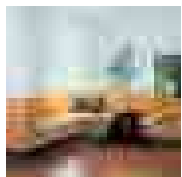
	2004 R'000	2003 R'000
Income before interest, taxation, discontinued operations, goodwill amortisation and impairment write-offs including share of associate companies' income and excluding minority interests	1 418 956	1 203 969
Profit/(loss) on disposal of property, plant and equipment	6 514	(4 977)
Profit on disposal of businesses	234	2 207
Headline adjustment to associate income	6 114	3 973
Less: Share of associate companies' income	(117 853)	(91 056)
Less: Profit/(loss) attributable to minority interest	4 012	(2 881)
Less: Goodwill amortisation and other impairment write-offs	(98 096)	(75 663)
Less: Discontinued operations	(69 652)	(37 362)
Operating income per income statement	1 150 229	998 210

#### Capital expenditure and depreciation per segment

Due to the structure and nature of activities of the group, capital expenditure and depreciation are managed on a group basis, which facilitates efficient and effective utilisation of group assets.

# Principal accounting policies

for the year ended 30 June 2004



The group annual financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice, the going concern principle and on the historical cost basis except for certain financial instruments and plantations which are carried at either fair value or amortised cost as appropriate and incorporate the following principal accounting policies, which have been consistently applied in all material respects, except for the consolidation of the share incentive trusts in accordance with the directive issued by the JSE Securities Exchange South Africa. The impact of the adoption of this directive is reflected in note 34.

## PRESENTATION OF FINANCIAL STATEMENTS

These financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice and are presented in South African rands.

The financial statements for the year cover the twelve-month period ended 30 June 2004.

Unless otherwise stated, all amounts in the annual financial statements are shown rounded off to the nearest R1 000.

## CONSOLIDATION

The consolidated annual financial statements of Steinhoff International Holdings Limited incorporate the annual financial statements of the company and enterprises controlled by the company, which include subsidiaries, associated companies, special purposes entities and joint ventures. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the group.

Control is achieved where the company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

Where the group's interest in subsidiary undertakings is less than 100%, the share attributable to outside shareholders is reflected in minority interests.

On acquisition, the assets and liabilities of a subsidiary are measured at their fair value at the date of acquisition.

The operating results of subsidiaries acquired or disposed of during the reporting period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions, unrealised gains and losses and balances between group enterprises are eliminated on consolidation.

Premiums arising on the acquisitions of subsidiaries and any excess of net assets of a subsidiary over the cost of acquisition are treated in terms of the group's accounting policy for goodwill.

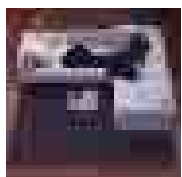
## INTERESTS IN ASSOCIATES

An associate is an enterprise over which the group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee. Significant influence is normally evidenced when Steinhoff owns 20% or more of the company's voting rights.

The results of associates are incorporated in these financial statements using the equity method of accounting based on their most recent audited financial statements. If the most recent available audited financial statements are for an accounting period that ended more than six months prior to the group's year-end, the most recent available management accounting results have been brought to account. The group's interest in the post-acquisition reserves of associated companies is treated as non-distributable in the group's annual financial statements. The carrying amount of such interests is reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

Where a group enterprise transacts with an associate of the group, unrealised profits and losses are eliminated to the extent of the group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

Premiums arising on the acquisitions of interests in associates and any excess of net assets of an associate over the cost of acquisition are treated in terms of the group's accounting policy for goodwill.



## INTERESTS IN JOINT VENTURES

A joint venture is defined as a contractual arrangement whereby two or more entities undertake an economic activity, which is subject to joint control. Joint control implies that neither of the contracting parties is in a position to unilaterally control the assets of the venture. Joint ventures are accounted for by means of the proportionate consolidation method whereby the attributable share of each of the assets, liabilities, income and expenses of the jointly controlled entity is combined on a line-by-line basis with similar items in the group's annual financial statements. The consolidated cash flow statement includes the group's share of the cash flows of the jointly controlled entity. A proportionate share of intercompany items is eliminated.

Any difference between the cost of acquisition and the group's share of the net identifiable assets, fairly valued, is recognised and treated according to the group's accounting policy for goodwill.

## PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at historical cost to the group, less accumulated depreciation.

Property, plant and equipment under construction are stated at cost.

The gross carrying amount of property, plant and equipment is initially measured using the historical cost basis of accounting. Subsequent expenditure relating to an item of property, plant and equipment is capitalised to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the item concerned, will flow to the enterprise. All other subsequent expenditures are recognised as expenses in the period in which they are incurred.

Depreciation is generally provided on the reducing balance basis at rates that will reduce the book values to estimated residual values over the expected useful lives of the assets. The method and rates used are determined by conditions in the relevant industry. Depreciation rates are:

Buildings	2%
Plant and machinery	10%
Motor vehicles	20%
Office equipment and furniture	10%
Computer equipment and software	25%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Land is not depreciated. Lease improvements on capitalised lease premises are written off over the term of the lease.

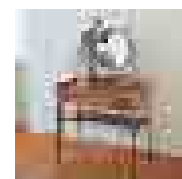
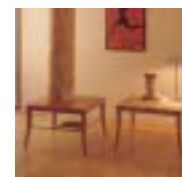
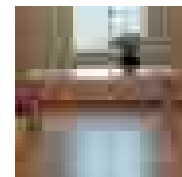
## AGRICULTURE

The group's plantations are classified as biological assets. These assets are measured on initial recognition and at each balance sheet date at its fair value less estimated closure point-of-sale costs. Gains and losses arising from changes in the fair value of the plantations, are recorded in net profit or loss for the period in which it arises.

## IMPAIRMENT OF ASSETS

The carrying amounts of assets stated in the balance sheet, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated as the higher of the net selling price and its value in use. An impairment loss is recognised in the income statement whenever the carrying amount exceeds the recoverable amount.

In assessing value in use, the expected future cash flows are discounted to their present value that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.



# Principal accounting policies (continued)

for the year ended 30 June 2004



A previously recognised impairment loss is only reversed if there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined (net of depreciation and amortisation) had no impairment loss been recognised in previous years.

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in the recoverable amount relates clearly to the reversal of the effect of that event.



## PATENTS AND TRADEMARKS

The initial cost of acquiring a patent or trademark is capitalised and amortised on a straight-line basis over its estimated useful life, which ordinarily does not exceed twenty years. The cost of renewing patents and trademarks is charged to the income statement.

Intangible assets are not re-valued. The carrying amount of each intangible asset is reviewed annually and adjusted for impairment where considered necessary.



## GOODWILL

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or joint venture company at the date of acquisition. Goodwill is capitalised and amortised on a straight-line basis over its useful economic life, a period generally not exceeding twenty years. The estimated life is determined by the underlying business acquired. The carrying amount of goodwill is reviewed annually for indications of impairments or changes in estimated future benefits. A write-down is made if the carrying amount exceeds the recoverable amount.

Goodwill arising on the acquisition of an associate is not recognised separately on the face of the balance sheet but is included within the carrying amount of the associate.

Goodwill arising on the acquisition of subsidiaries and joint venture companies is presented separately in the balance sheet.

Negative goodwill represents the excess of the group's interest in the fair value of the identifiable assets and liabilities acquired over the cost of acquisition. Negative goodwill that relates to anticipated future losses or expenditure is recognised as income when these losses or expenditure are incurred. Negative goodwill that relates to identifiable non-monetary assets acquired is recognised as income on a straight-line basis over the useful economic life of the non-monetary assets, a period generally not exceeding five years.

On disposal of a subsidiary, associate or joint venture company, the attributable amount of unamortised goodwill or negative goodwill is included in the determination of the profit or loss on disposal.

## LEASED ASSETS

### The group as lessor

Rental income from operating leases is recognised when the income is due. The group is not party to any finance leases as lessor.

### The group as lessee

Assets held under finance leases are capitalised at their fair value at the date of acquisition. The corresponding liability to the lessor, net of finance charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Capitalised leased assets are depreciated using the reducing balance basis at rates which will reduce the book values to estimated residual values over the expected useful lives of these assets or, where shorter, the term of the relevant lease.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease agreements.

## INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost of work-in-progress and finished goods comprises direct materials, direct labour costs and where appropriate, those manufacturing overheads that have been incurred in bringing the inventories to their present location and condition. Cost is determined on the first-in first-out basis. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Where necessary, provision is made for obsolete, slow moving and defective inventories.

## CASH AND CASH EQUIVALENTS

Cash and cash equivalents are defined as cash and bank and near-cash financial instruments. Bank overdrafts are only included where the group has a legal right of set-off due to cash management arrangements. Refer to policies on financial instruments below.

## TREASURY SHARES

Shares purchased by wholly-owned group companies in their holding company and by the employee share trusts are classified as treasury shares and held at cost.

For presentation purposes treasury shares are netted off against the group's share capital in the consolidated balance sheet and the premium attached to them is netted off against the share premium account.

Dividends received on treasury shares are eliminated on consolidation.

## TAXATION

The charge for taxation is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using the tax rates that have been enacted or substantively enacted by the balance sheet date.

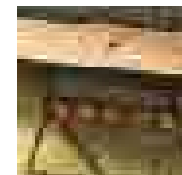
Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding basis used in the computation of taxable income. In general, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities that affects neither the tax profit nor the accounting profit at the time of the transaction. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is charged or credited in the income statement except when it relates to items credited or charged directly in equity, in which case deferred tax is also dealt with in equity.

## FOREIGN CURRENCIES

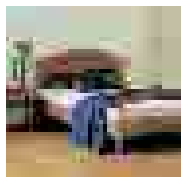
Transactions in currencies other than the reporting currency are initially recorded at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on foreign exchange currencies are dealt with in the income statement.

In order to manage its exposure to foreign exchange risks, the group enters into currency forward contracts. Unrealised gains and losses arising on fair valuing currency forward contracts for identified exposures are charged to income and the resultant foreign exchange asset or liability recognised in the balance sheet.



# Principal accounting policies (continued)

for the year ended 30 June 2004



All foreign subsidiaries of the company are classified as foreign entities. On consolidation, the assets and liabilities of these entities are translated at exchange rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and are recognised as income or as expenses in the period in which the entity is disposed of.

## DISCONTINUED OPERATIONS

A discontinued operation is a significant distinguishable component of the group's business that is abandoned or terminated pursuant to a single formal plan, and which represents a separate major line of business or geographical area of operations.

The profit or loss on sale or abandonment of a discontinued operation is determined from the formalised discontinuance date.

## REVENUE RECOGNITION

### Sale of goods

Revenue from sale of goods is recognised when substantially all the risks and rewards of ownership have been transferred to the buyer and the enterprise does not retain continuing managerial control of the goods to a degree usually associated with ownership, when the amount of revenue and costs incurred or to be incurred in respect of the sale transactions can be measured reliably, and when the collectability of the consideration in respect of the sale is reasonably assured.

### Interest

Interest revenue is recognised on a time-proportion basis by reference to the principal outstanding and at the interest rate applicable.

### Rental income

Rental income is recognised when the right to receive rentals is assured.

### Dividend income

Dividend income from investments is recognised when the right to receive payment has been established.

## BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale) are capitalised as part of the cost of those assets. The capitalisation rate applied is the weighted average of the net borrowing costs applicable to the net borrowings of the company. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from borrowing costs capitalised.

All other borrowing costs are expensed in the period in which they are incurred.

## EXCEPTIONAL ITEMS

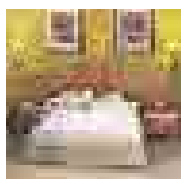
All items of income and expense are taken into account in arriving at income before taxation. Where items of income and expense are of such size, nature or incidence that their disclosure is relevant to explain the performance of the group or company, they are separately disclosed and appropriate explanations are provided.

## RETIREMENT BENEFIT COSTS

The group makes provision for post-retirement benefits to eligible employees and pensioners, the cost of which is assessed in accordance with actuarial principles and recognised on a systematic basis over employees' remaining years of service.

Payments to defined contribution plans are charged as an expense as they fall due. Payments made to State-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan.

For defined benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial updates being carried out at each balance sheet date and formal valuations performed every three years.



Actuarial gains and losses which exceed ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

The amount recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Current and future liabilities in respect of post-retirement medical benefits are recognised, as calculated by independent actuaries.

#### DIVIDEND RE-INVESTMENTS

Ordinary shares issued as a capitalisation dividend award are capitalised by applying to a shareholder's shareholding, on the dividend payment date, the ratio that a cash dividend bears to the issue price of the shares to be issued.

#### DIVIDEND COVER

Dividend cover is the number of times the dividend declared is covered by basic earnings per share.

#### RESEARCH AND DEVELOPMENT COSTS

Research costs are recognised as an expense in the period in which they are incurred.

Expenditure on development is charged to income in the year in which it is incurred except where a clearly defined project is undertaken and it is reasonably anticipated that development costs will be recovered through future commercial activity. Such development costs are capitalised as an intangible asset and amortised on a straight-line basis over the life of the project from the date of commencement of commercial operation.

#### PROVISIONS

Provisions are recognised when the group has a present constructive or legal obligation as a result of a past event and it is probable that it will result in an outflow of economic benefits that can be reasonably estimated.

An onerous contract is a contract under which the unavoidable costs of meeting the obligation exceeds the economic benefit expected to be received under it. When a contract becomes onerous, the present obligation under a contract is recognised and measured as a provision.

If the effect is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the group's balance sheet when the group has become a party to contractual provisions of the instrument. All financial instruments are recorded at cost, including transactions costs, at initial recognition date. Subsequent to initial recognition these instruments are measured as set out below.

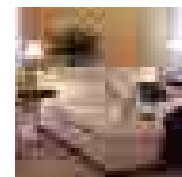
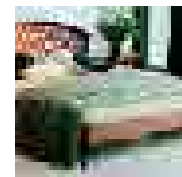
##### Financial assets

The group's principal financial assets are investments and loans, accounts receivable, short-term loans, funds on call and deposit and bank and cash balances:

##### *Investments and loans and short-term loans*

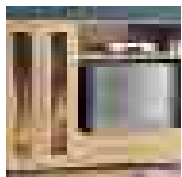
The following categories of investments are measured at amortised cost using the effective interest rate method if they have a fixed maturity, or at cost if there is no fixed maturity:

- loans and receivables originated by the group and not held for trading;
- held to maturity investments; and
- an investment in a financial asset that does not have a quoted market price in an active market and whose fair value cannot be reliably measured.

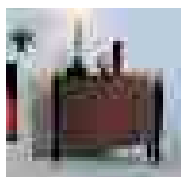


# Principal accounting policies (continued)

for the year ended 30 June 2004



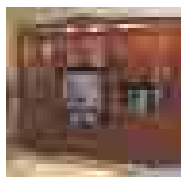
Investments in securities are recognised on a trade-date basis and are initially measured at cost, including transaction costs. At subsequent reporting dates, debt securities that the group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.



Investments other than held-to-maturity debt securities are classified as available-for-sale investments and trading investments and are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in net profit or loss for the period.

For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.



## *Accounts receivable*

Trade and other receivables originated by the group are stated at their cost less a provision for impairment. An estimate of doubtful debts is made based on a review of all outstanding amounts at balance sheet date. Bad debts are written off during the period in which they are identified. Due to the short-term nature of the group's receivables, amortised cost approximates its fair value.

## *Funds on call and deposit and bank and cash balances*

Cash on hand is measured at its face value.

Deposits held on call, and investments in money market instruments are classified as loans originated by the group and carried at amortised cost. Due to the short-term nature of these, the amortised cost approximates its fair value.

## **Financial liabilities**

The group's principal financial liabilities are interest-bearing debt, accounts payable and bank borrowings:

### *Interest-bearing debt*

Interest-bearing debt, including finance lease obligations, is recognised at amortised cost, namely original debt less principal payments and amortisations. The accounting policy for finance lease obligations is dealt with under leases set out above.

### *Bank overdraft*

Bank borrowings, consisting of interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance costs, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

### *Accounts payable*

Trade and other payables are stated at amortised cost. Due to the short-term nature of the group's trade and other payables, the cost approximates its fair value.

## **Equity instruments**

Equity instruments are recorded at the proceeds received, net of direct issue costs.

## **Derivative financial instruments**

The group uses derivative financial instruments (primarily foreign currency forward contracts) to manage its risk associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. Such derivatives are initially recorded at cost, if any, and are re-measured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments are recognised in the income statement as they arise.

Derivatives embedded in other financial instruments or non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

#### **De-recognition**

Financial assets (or a portion thereof) are de-recognised when the group realises the rights to the benefits specified in the contract, the rights expire or the group surrenders or otherwise loses control of the contractual rights that comprise the financial asset. On de-recognition, the difference between the carrying amount of the financial asset and proceeds receivable and any prior adjustment to reflect fair value that had been reported in equity are included in the income statement.

Financial liabilities (or a portion thereof) are de-recognised when the obligation specified in the contract is discharged, cancelled or expires. On de-recognition, the difference between the carrying amount of the financial liability, including related unamortised costs, and amount paid for it are included in the income statement.

#### **Fair value methods and assumptions**

The fair value of financial instruments traded in an organised financial market are measured at the applicable quoted prices, adjusted for any transaction costs necessary to realise the assets or settle the liabilities.

The fair value of financial instruments not traded in an organised financial market, is determined using a variety of methods and assumptions that are based on market conditions and risk existing at balance sheet date, including independent appraisals and discounted cash flow methods. The fair value determined is adjusted for any transaction costs necessary to realise the assets or settle the liabilities.

The carrying amounts of financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values due to the short-term trading cycle of these items.

#### **Offset**

Where a legally enforceable right of offset exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously, or to settle on a net basis, all related financial effects are offset.

#### **SEGMENTAL REPORTING**

The group is structured into the following main operating segments:

- Manufacturing
- Wholesale & Distribution

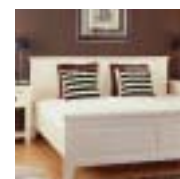
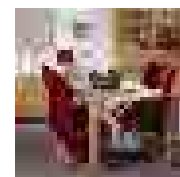
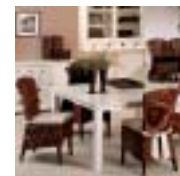
Primary segmental reporting is based on the type of business and correlates with the activities of the main operating divisions.

Secondary segmental reporting is based on the geographical location of the business.

#### **CONTINGENCIES AND COMMITMENTS**

Transactions are classified as contingencies where the group's obligation depends on uncertain future events.

Items are classified as commitments where the group commits itself to future transactions or if the items will result in the acquisition of assets.



# Notes to the annual financial statements

for the year ended 30 June 2004

	2004 R'000	2003 R'000
<b>1. OPERATING INCOME</b>		
Operating income is stated after taking account of the following items		
<b>1.1 Auditors' remuneration</b>		
• Audit fees	19 304	21 900
• Other fees	2 930	3 467
• Expenses	109	91
• (Over)/under provision in prior year	(104)	1 103
	<b>22 239</b>	<b>26 561</b>

## 1.2 Directors' emoluments

Executive directors – remuneration	Basic salaries €'000	Basic salaries AUD'000	Basic salaries R'000	Total basic salaries R'000	Company contributions and expense allowances R'000	Total R'000
<b>2004</b>						
BE Steinhoff	725	–	–	5 956	–	5 956
MJ Jooste	660	–	–	5 421	324	5 745
FJ Nel	35	–	764	1 051	108	1 159
DM van der Merwe	–	–	2 229	2 229	271	2 500
JHN van der Merwe	320	–	–	2 628	124	2 752
RH Walker	–	285	53	1 402	26	1 428
	<b>1 740</b>	<b>285</b>	<b>3 046</b>	<b>18 687</b>	<b>853</b>	<b>19 540</b>

	Basic salaries €'000	Basic salaries R'000	Total basic salaries R'000	Bonuses R'000	Company contributions and expense allowances R'000	Total R'000
<b>2003</b>						
BE Steinhoff	550	–	5 178	–	–	5 178
NW Steinhoff	205	–	1 930	–	94	2 024
MJ Jooste	–	1 350	1 350	1 500	200	3 050
DM van der Merwe	–	909	909	1 500	172	2 581
FJ Nel	–	372	372	1 000	78	1 450
	<b>755</b>	<b>2 631</b>	<b>9 739</b>	<b>4 000</b>	<b>544</b>	<b>14 283</b>

1. OPERATING INCOME (continued)  
 1.2 Directors' emoluments (continued)

Executive directors – share rights					Offers awarded in December 2003 for 2004	Total
Offer date	Initial offer September 1998	Subsequent offers July 2000 to June 2001	Subsequent offers July 2001 to June 2002			
BE Steinhoff	–	289 600	43 200	–		332 800
MJ Jooste	40 000	289 600	43 200	4 586 758		4 959 558
FJ Nel	40 000	216 000	38 400	752 725		1 047 125
DM van der Merwe	57 000	289 600	43 200	1 902 588		2 292 388
JHN van der Merwe	40 000	216 000	38 400	2 195 091		2 489 491
	177 000	1 300 800	206 400	9 437 162		11 121 362

All initial offers were at nominal value. Subsequent offers were at 540 cents and at 528 cents per share respectively.

The deferred delivery date is three years from the offer date maturing at 20% per annum.

A new incentive scheme was approved at the annual general meeting on 1 December 2003. Details regarding the grant of rights to directors were published on SENS on 4 May 2004.

Non-executive directors – remuneration	Fees as directors	
	2004 R'000	2003 R'000
DE Ackerman	220	140
CE Daun*	120	80
JNS du Plessis*	190	75
KJ Grove*	120	80
D Konar	240	145
JF Mouton*	170	75
FA Sonn	160	75
NW Steinhoff	1 824	–
	3 044	670

\* Paid to various companies as management fees

# Notes to the annual financial statements (continued)

for the year ended 30 June 2004

1. OPERATING INCOME (continued)  
1.2 Directors' emoluments (continued)

Non-executive directors – share rights	Initial offer September 1998	Subsequent offers		Offers awarded in December 2003 for 2004	Total
		July 2000 to June 2001	July 2001 to June 2002		
DE Ackerman	40 000	289 600	43 200	–	372 800
CE Daun	–	289 600	43 200	–	332 800
KJ Grove	–	283 200	43 200	–	326 400
D Konar	40 000	289 600	43 200	–	372 800
NW Steinhoff	400 000	233 200	43 200	–	676 400
	480 000	1 385 200	216 000	–	2 081 200

All initial offers were at nominal value. Subsequent offers were at 540 cents and at 528 cents per share respectively.

The deferred delivery date is three years from the offer date maturing at 20% per annum.

	2004 R'000	2003 R'000
<b>Remuneration</b>		
Paid by:		
• Company	1 220	670
• Subsidiary companies	21 364	14 283
	22 584	14 953
<b>1.3 Fees paid for services</b>		
• Administrative	22 413	17 277
• Managerial	5 553	5 456
• Technical, consultancy and "know-how"	11 399	4 819
• Secretarial	1 395	1 039
	40 760	28 591
<b>1.4 Net foreign exchange losses/(gains)</b>		
• Net gains on foreign currency assets/liabilities	(16 464)	(183 636)
• Foreign exchange losses excluding effect of foreign currency asset/liability	228 023	360 831
	211 559	177 195

	2004 R'000	2003 R'000
<b>1. OPERATING INCOME (continued)</b>		
<b>1.5 Depreciation</b>		
• Buildings	63 351	49 264
• Plant and machinery	75 230	75 489
• Motor vehicles	9 764	11 400
• Capitalised leased assets	25	28
• Leasehold improvements	714	771
• Office and computer equipment, furniture and other assets	65 218	54 906
	<b>214 302</b>	<b>191 858</b>
<b>1.6 Impairment</b>		
• Property, plant and equipment	59 328	37 977
• Trademarks	–	5 954
• Other	176	303
	<b>59 504</b>	<b>44 234</b>
<b>1.7 Amortisation of goodwill</b>	<b>38 592</b>	<b>31 429</b>
<b>1.8 Operating lease charges</b>		
• Property	204 970	64 573
• Plant, equipment, vehicles and other	61 373	42 963
	<b>266 343</b>	<b>107 536</b>
<b>1.9 Pension fund surplus asset charge to income</b>	<b>1 617</b>	<b>2 359</b>
<b>1.10 Research and development costs</b>	<b>13 096</b>	<b>10 366</b>
<b>1.11 Profit/(loss) on disposal of property, plant and equipment</b>		
• Land and buildings	2 877	58
• Plant and machinery	(39)	(2 877)
• Motor vehicles	991	(395)
• Leasehold improvements	(47)	(3)
• Leased premises	–	1 967
• Office and computer equipment, furniture and other assets	2 732	(3 727)
	<b>6 514</b>	<b>(4 977)</b>
<b>1.12 Fair value (gains)/losses</b>		
• Fair value adjustment on accounts payable	(14)	179
• Fair value adjustment on accounts receivable	106	–
• Embedded derivative adjustment	(8 188)	–
• Pension fund surplus asset	2 930	–
• Other	15	–
	<b>(5 151)</b>	<b>179</b>
<b>1.13 Profit on disposal of subsidiaries or businesses</b>	<b>234</b>	<b>2 207</b>

# Notes to the annual financial statements (continued)

for the year ended 30 June 2004

	2004 R'000	2003 R'000
<b>1. OPERATING INCOME (continued)</b>		
<b>1.14 Post-retirement benefit expenses</b>		
• Pension fund contributions (defined benefit plans)	1 705	4 672
• Provident fund contributions (defined contribution plans)	30 629	27 161
• Contributions to State-managed pension funds	121 172	132 356
• Post-retirement medical aid contributions (paid to ill-health employees)	46	–
	<b>153 552</b>	<b>164 189</b>
<b>1.15 Gain on fair value of plantations</b>	<b>14 429</b>	<b>515</b>
<b>2. FINANCE COSTS</b>		
Interest paid		
• Loans	110 038	40 773
• Bank overdrafts	155 667	153 506
• Lease liabilities	31	38
• Other	2 958	3 080
	<b>268 694</b>	<b>197 397</b>
<b>3. INCOME FROM INVESTMENTS</b>		
Dividends received: Unlisted investments	3 309	4 474
Interest received: Bank balances and loans receivable	176 141	64 275
Interest received: Associate companies and joint ventures	12 406	7 471
	<b>191 856</b>	<b>76 220</b>
<b>4. TAXATION</b>		
<b>4.1 Taxation charge</b>		
Current year:		
• South African normal taxation	18 281	3 710
• South African deferred taxation	(5 272)	(705)
• Foreign normal taxation	109 119	69 878
• Foreign deferred taxation	43 228	25 777
	<b>165 356</b>	<b>98 660</b>
Adjustment to prior year's taxation:		
• South African normal taxation	(492)	1 143
• South African deferred taxation	1 250	(1 902)
• Foreign deferred taxation	(16 380)	–
	<b>(15 622)</b>	<b>(759)</b>

	2004 R'000	2003 R'000
<b>4. TAXATION (continued)</b>		
Secondary tax on companies:		
• Current year	526	49
• Prior year	121	–
	<b>647</b>	<b>49</b>
	<b>150 381</b>	<b>97 950</b>
<b>4.2 Reconciliation of rate of taxation</b>	<b>Percentage</b>	<b>Percentage</b>
Standard rate of taxation	30,0	30,0
Utilisation of tax losses in subsidiary companies, favourable tax dispensations granted to foreign subsidiaries, lower statutory tax rates of foreign subsidiaries and permanent differences between taxable and accounting profits	(16,0)	(18,8)
Effective rate of taxation	<b>14,0</b>	<b>11,2</b>
<b>4.3 Tax losses</b>	<b>R'000</b>	<b>R'000</b>
The estimated tax losses available for set-off against future taxable income are as follows:	<b>334 338</b>	<b>289 275</b>
<b>5. EARNINGS PER SHARE</b>		
<b>5.1 Basic earnings per share</b>		
Basic earnings per share is calculated by dividing the net earnings attributable to shareholders by the weighted average number of shares in issue during the year.		
<b>Number of shares</b>	<b>'000</b>	<b>'000</b>
Weighted average number of ordinary shares as previously stated		939 969
Consolidation of employee share incentive trusts		(3 124)
Capitalisation dividend		24 185
Weighted average number of ordinary shares	<b>1 067 461</b>	<b>961 030</b>
<b>Earnings</b>	<b>R'000</b>	<b>R'000</b>
Earnings attributable to ordinary shareholders as previously stated		873 043
Consolidation of employee share incentive trusts		(23)
Earnings attributable to ordinary shareholders	<b>1 036 852</b>	<b>873 020</b>
Basic earnings per share (cents)	<b>97</b>	<b>91</b>
As previously stated		93
Restatement as above		(2)

# Notes to the annual financial statements (continued)

for the year ended 30 June 2004

	2004 '000	2003 '000
<b>5. EARNINGS PER SHARE (continued)</b>		
<b>5.2 Diluted earnings per share</b>		
Fully diluted earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the diluted weighted average number of ordinary shares in issue during the year. The calculation does not recognise any funds to be received from the exercise of allocated rights or any projected growth in attributable earnings arising from such additional funds, which could compensate for any dilution in earnings per share.		
<b>Number of shares</b>		
Weighted average number of ordinary shares as previously stated		939 969
Consolidation of employee share incentive trusts		(3 124)
Capitalisation dividend		24 185
Weighted average number of ordinary shares	<b>1 067 461</b>	961 030
Effect of dilutive potential ordinary shares	<b>24 175</b>	30 486
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>1 091 636</b>	991 516
<b>Earnings</b>	<b>R'000</b>	<b>R'000</b>
Earnings attributable to ordinary shareholders as previously stated		873 043
Consolidation of employee share incentive trusts		(23)
Earnings attributable to ordinary shareholders	<b>1 036 852</b>	873 020
Fully diluted earnings per share (cents)	<b>95</b>	88
As previously stated		90
Restatement as above		(2)
Dilution percentage (%)	<b>2</b>	3

	2004	2003
<b>5. EARNINGS PER SHARE (continued)</b>		
<b>5.3 Headline earnings per share</b>		
Headline earnings per share is calculated by dividing the headline earnings by the weighted average number of ordinary shares in issue during the year.		
<b>Number of shares</b>	'000	'000
Weighted average number of ordinary shares as previously stated		939 969
Consolidation of employee share incentive trusts		(3 124)
Capitalisation dividend		24 185
Weighted average number of ordinary shares	<b>1 067 461</b>	961 030
<b>Earnings</b>	R'000	R'000
Headline earnings are reconciled to earnings attributable to shareholders as follows:		
Earnings attributable to ordinary shareholders as previously stated		873 043
Consolidation of employee share incentive trusts		(23)
Earnings attributable to ordinary shareholders	<b>1 036 851</b>	873 020
Adjusted for:		
• Discontinued operations – South African manufacturing plants	12 289	18 090
• Discontinued operations – German manufacturing plants	57 363	19 272
• Goodwill amortisation and impairment write-offs	98 096	75 663
• (Profit)/loss on disposal of property, plant and equipment	(6 514)	4 977
• Profit on disposal of subsidiaries and businesses	(234)	(12 000)
• Loss on disposal of businesses	–	9 793
• Goodwill amortisation included in associate company income	3 494	4 590
• Negative goodwill amortisation included in associate company income	(8 900)	(8 670)
• (Profit)/loss on disposal of property, plant and equipment included in associate company income	(707)	107
Headline earnings	<b>1 191 738</b>	984 842
Headline earnings per share (cents)	<b>112</b>	102
As previously stated		105
Restated as above		(3)

# Notes to the annual financial statements (continued)

for the year ended 30 June 2004

	2004	2003
<b>5. EARNINGS PER SHARE (continued)</b>		
<b>5.4 Diluted headline earnings per share</b>		
Fully diluted headline earnings per share is calculated by dividing the headline earnings by the diluted weighted average number of shares in issue during the year.		
<b>Number of shares</b>	'000	'000
Weighted average number of ordinary shares as previously stated		939 969
Consolidation of employee share incentive trusts		(3 124)
Capitalisation dividend		24 185
Weighted average number of ordinary shares	<b>1 067 461</b>	961 030
Effect of dilutive potential ordinary shares	<b>24 175</b>	30 486
Weighted average number of ordinary shares for the purpose of diluted headline earnings per share	<b>1 091 636</b>	991 516
<b>Earnings</b>	R'000	R'000
Headline earnings attributable to ordinary shareholders as previously stated		984 865
Consolidation of employee share incentive trusts		(23)
Headline earnings attributable to ordinary shareholders	<b>1 191 738</b>	984 842
Fully diluted headline earnings per share (cents)	<b>109</b>	99
As previously stated		101
Restatement as above		(2)
Dilution percentage (%)	<b>3</b>	3
<b>5.5 Net asset value per share</b>		
Net asset value per share is calculated by dividing the net asset value by the issued share capital at year-end.		
<b>Number of shares</b>	'000	'000
Issued share capital at year-end	<b>1 122 966</b>	942 472
<b>Net asset value</b>	R'000	R'000
Net asset value	<b>6 525 250</b>	4 929 247
Net asset value per share (cents)	<b>581</b>	523
<b>6. DIVIDENDS PER SHARE</b>		
The directors have resolved to declare a dividend of 22 cents per share (2003: 18 cents per share), payable on 8 November 2004 to those shareholders recorded in the books of the company at the close of business on 5 November 2004.		

	2004 R'000	2003 R'000
<b>7. INTANGIBLE ASSETS AND GOODWILL</b>		
<b>7.1 Goodwill</b>		
Cost:		
At beginning of year	399 884	470 089
Arising at acquisition of subsidiary	113 287	22 391
Eliminated on disposal of subsidiary	(1 896)	–
Exchange differences	(51 495)	(92 596)
At end of year	459 780	399 884
Amortisation:		
At beginning of year	(72 935)	(54 725)
Exchange differences	10 539	13 219
Current year	(38 592)	(31 429)
At end of year	(100 988)	(72 935)
Total goodwill	358 792	326 949
<b>7.2 Trademarks</b>		
Cost:		
At beginning of year	8 954	3 000
Acquired on acquisition of subsidiary	147 380	5 954
At end of year	156 334	8 954
Amortisation and impairment:		
At beginning of year	(8 954)	(3 000)
Acquired on acquisition of subsidiary	(1 680)	–
Impairment	–	(5 954)
At end of year	(10 634)	(8 954)
Total trademarks	145 700	–
Total intangible assets and goodwill	504 492	326 949

# Notes to the annual financial statements (continued)

for the year ended 30 June 2004

## 8. PROPERTY, PLANT AND EQUIPMENT

	Opening balance R'000	Additions R'000	Disposals R'000	Subsidiaries acquired (disposed) R'000	Reclassi- fication R'000	Exchange differences R'000	Impairment R'000	Intergroup purchases (disposals) R'000	Closing balance R'000
<b>Cost</b>									
Land and buildings	1 690 096	134 569	(7 662)	344 407	10 209	(231 051)	–	(1)	1 940 567
Plant and machinery	966 823	91 587	(42 279)	443 172	4 791	(64 596)	(12 210)	1 175	1 388 463
Motor vehicles	78 538	9 094	(14 158)	22 500	2 333	(5 596)	–	(28)	92 683
Capitalised leased assets	345	–	–	39 752	–	–	–	–	40 097
Leasehold improvements	16 743	2 529	(1 829)	4 500	–	–	–	(44)	21 899
Office and computer equipment, furniture and other assets	509 052	162 702	(77 660)	298 766	(17 240)	(71 490)	(31 970)	(7 084)	765 076
	<b>3 261 597</b>	<b>400 481</b>	<b>(143 588)</b>	<b>1 153 097</b>	<b>93</b>	<b>(372 733)</b>	<b>(44 180)</b>	<b>(5 982)</b>	<b>4 248 785</b>

	Opening balance R'000	Current year depreciation R'000	Disposals R'000	Subsidiaries (acquired) disposed R'000	Reclassi- fication R'000	Exchange differences R'000	Impairment R'000	Intergroup (purchases) disposals R'000	Closing balance R'000
<b>Accumulated depreciation</b>									
Land and buildings	(240 204)	(63 351)	591	(73 143)	1 741	40 828	–	2	(333 536)
Plant and machinery	(474 939)	(75 230)	34 501	(258 162)	7 055	43 020	5 440	5 470	(712 845)
Motor vehicles	(37 442)	(9 764)	9 230	(18 258)	–	3 370	–	40	(52 824)
Capitalised leased assets	(96)	(25)	–	(37 058)	–	–	–	–	(37 179)
Leasehold improvements	(3 793)	(714)	1 782	(2 343)	–	–	–	3	(5 065)
Office and computer equipment, furniture and other assets	(308 083)	(65 218)	63 457	(195 962)	(8 889)	48 306	(20 588)	467	(486 510)
	<b>(1 064 557)</b>	<b>(214 302)</b>	<b>109 561</b>	<b>(584 926)</b>	<b>(93)</b>	<b>135 524</b>	<b>(15 148)</b>	<b>5 982</b>	<b>(1 627 959)</b>

	2004 R'000	2003 R'000
<b>8. PROPERTY, PLANT AND EQUIPMENT (continued)</b>		
<b>Net book value</b>		
Land and buildings	1 607 031	1 449 892
Plant and machinery	675 618	491 884
Motor vehicles	39 859	41 096
Capitalised leased assets	2 918	249
Leasehold improvements	16 834	12 950
Office and computer equipment, furniture and other assets	278 566	200 969
	<b>2 620 826</b>	<b>2 197 040</b>

Details of land and buildings are available for inspection at the registered office of the company.

Assets with a book value of R554 708 000 (2003: R575 078 000) are encumbered as set out in note 21.

Property, plant and equipment, with the exception of motor vehicles and land, are insured at approximate cost of replacement. Motor vehicles are insured at market value.

Certain categories of assets were reclassified to bring the classification in line with the current year's disclosure.

## 9. PLANTATIONS

Reconciliation of carrying amounts of plantations:

Carrying amount at beginning of year	5 193	4 678
Increases due to purchases	146 942	–
Fair value adjustment to plantations	14 429	515
Carrying amount at end of year	<b>166 564</b>	<b>5 193</b>

The group owns and manages wood plantations for the use in manufacturing of timber products. The plantations are valued at fair value less estimated point-of-sale costs. The Faustman formula was applied by an independent valuer in determining the fair value of the plantations. The principle assumptions used in this formula include the surveying of physical hectares planted, age analysis and using the industry mean annual increment for growth.

# Notes to the annual financial statements (continued)

for the year ended 30 June 2004

	2004 R'000	2003 R'000
<b>10. INTEREST IN ASSOCIATE COMPANIES</b>		
Shares at cost less amounts written-off		
• Unitrans Limited	430 756	430 756
• PG Bison Holdings (Proprietary) Limited	–	134 140
• Loungefoam Industries (Proprietary) Limited	9 576	–
	<b>440 332</b>	<b>564 896</b>
Attributable share of post-acquisition retained earnings		
• At beginning of year	166 605	99 472
• Exchange differences	–	(446)
• Current year share of income	117 853	91 056
• Dividends received	(64 125)	(17 230)
• Associates converted to subsidiaries	(61 300)	(6 247)
At end of year	<b>159 033</b>	<b>166 605</b>
Loans due by associate companies	<b>19 277</b>	<b>62 617</b>
	<b>618 642</b>	<b>794 118</b>

During the year the group acquired the remainder of the issued shares (2003: 34,9%) of PG Bison Holdings (Proprietary) Limited, which resulted in this entity becoming a subsidiary.

During the year the group acquired additional shares of Loungefoam Industries (Proprietary) Limited, which resulted in it holding 47,5% (2003: 33,3%) interest in the company at year-end.

	Percentage holding		Carrying value	
	2004 %	2003 %	2004 R'000	2003 R'000
<b>10. INTEREST IN ASSOCIATE COMPANIES (continued)</b>				
Listed:				
• Unitrans Limited	25,8	26,1	583 782	538 287
– Shares			430 756	430 756
– Post-acquisition earnings			153 026	107 471
– Loans			–	60
Unlisted:				
• PG Bison Holdings (Proprietary) Limited	–	34,9	–	217 238
• Loungefoam Industries (Proprietary) Limited	47,5	33,3	34 860	38 593
			618 642	794 118
13 100 394 of the 19 956 784 shares that Steinhoff Africa Holdings (Proprietary) Limited held in Unitrans Limited as at year end, have been pledged as security for the long-term licence fee liability (see note 21).				
Market value of listed investment including directors' valuation of loan			558 780	426 138
Directors' valuation of unlisted investments			34 860	255 831
			593 640	681 969

The directors are of the opinion that the diminution in the value of the listed investment is not of a permanent nature and have therefore not provided for any impairment of the carrying value of their interest.

**Nature of businesses:**

Unitrans Limited: Transportation and freight services

PG Bison Holdings (Proprietary) Limited: Manufactures particleboard

Loungefoam Industries (Proprietary) Limited: Manufactures foam products.



	2004 R'000	2003 R'000
<b>11. INTEREST IN JOINT VENTURE COMPANIES (continued)</b>		
The consolidated proportionate share of the financial information of the joint ventures are as follows:		
<b>Assets and liabilities</b>		
• Property, plant and equipment	99 618	116 414
• Investments and loans	8 536	1 183
• Goodwill	–	11 338
• Current assets	154 801	226 394
• Current liabilities	(83 811)	(181 518)
• Long-term liabilities	(48 021)	(52 363)
• Deferred taxation	1 816	–
<b>Revenues and expenditure</b>		
• Revenue	621 326	656 129
• Expenses	(562 092)	(600 119)
• Net profit before taxation	59 234	56 010
<b>12. INVESTMENTS AND LOANS</b>		
Unlisted investments	64 650	60 110
Listed investments	635	26
Loans receivable	687 089	317 926
	752 374	378 062
Directors' valuation of unlisted investments	64 650	60 110
Market valuation of listed investments	635	26
Details of unlisted and listed investments are available at the registered office of the company for inspection.		
Unlisted and listed investments are classified as available-for-sale financial assets.		
The loans receivable consist of various loans with repayment terms varying between 13 and 72 months and bear interest at market related interest rates.		
No provision has been made against these loans as the amounts are considered recoverable.		

# Notes to the annual financial statements (continued)

for the year ended 30 June 2004

	2004 R'000	2003 R'000
<b>13. DEFERRED TAXATION ASSETS/(LIABILITIES)</b>		
<b>13.1 Deferred taxation movement</b>		
<i>Assets</i>		
Balance at beginning of year	33 750	5 727
Exchange differences on consolidation of foreign subsidiaries	(2 512)	-
Deferred tax of subsidiaries acquired	45 232	11 858
Current year charge	27 454	16 165
	<b>103 924</b>	<b>33 750</b>
<i>Liabilities</i>		
Balance at beginning of year	(44 360)	(7 223)
Deferred tax of subsidiary acquired	(30 854)	-
Exchange differences on consolidation of foreign subsidiaries	6 982	2 198
Current year charge	(50 280)	(39 335)
	<b>(118 512)</b>	<b>(44 360)</b>
<b>13.2 Deferred taxation balances</b>		
<i>Assets</i>		
Provision for taxation on temporary differences resulting from:		
• Property, plant and equipment	(11 247)	(15 513)
• Prepayments	(1 039)	(363)
• Provisions	28 518	2 138
• Assessed losses	90 724	-
• Other	(3 032)	47 488
Total deferred tax assets	<b>103 924</b>	<b>33 750</b>
<i>Liabilities</i>		
Provision for taxation on temporary differences resulting from:		
• Property, plant and equipment	(75 481)	(19 670)
• Capitalised leases	-	60
• Prepayments	(69 808)	(423)
• Provisions	18 347	(21 829)
• Assessed losses	6 230	-
• Other	2 200	(2 498)
Total deferred tax liabilities	<b>(118 512)</b>	<b>(44 360)</b>

#### 14. FOREIGN CURRENCY ASSETS/(LIABILITIES)

The group utilises currency derivatives to eliminate or reduce the exposure of its foreign currency denominated assets and liabilities, and to hedge future transactions and cash flows. The group is party to foreign currency forward contracts in the management of its exchange rate exposures. The instruments purchased are primarily denominated in the currencies of the group's principal markets. As a matter of policy, the group does not enter into derivative contracts for speculative purposes.

	2004 '000	2003 '000
<b>14.1 Net currency forward contracts to sell/(buy) foreign currency:</b>		
Euros	EUR (10 877)	EUR (3 928)
US dollars	US\$ 94 348	US\$ 106 802
UK pounds	GBP (10)	GBP 282
Japanese yen	-	YEN (7 617)
Swedish kroner	SEK (215)	-
Swiss francs	CHF (20)	-

These currency forward contracts were fair-valued at year-end. The fair values are based on market values of equivalent instruments at the balance sheet date.

	R'000	R'000
<b>14.2 Fair valuing currency forward contracts resulted in foreign currency assets as follows:</b>		
<i>Assets</i>		
Euros	-	4
US dollars	-	150 985
Swedish kroner	14	-
Swiss francs	4	-
	<b>18</b>	<b>150 989</b>
<b>14.3 Derivative assets – cross currency derivative</b>	<b>6 876</b>	-
Total foreign currency and derivative assets	<b>6 894</b>	<b>150 989</b>
<b>14.4 Fair valuing currency forward contracts resulted in foreign currency liabilities as follows:</b>		
<i>Liabilities</i>		
Euros	(4 110)	(2 449)
US dollars	(2 718)	(2 132)
UK pounds	(6)	(8)
Japanese yen	-	(25)
Total foreign currency liabilities	<b>(6 834)</b>	<b>(4 614)</b>
Net foreign currency and derivative assets	<b>60</b>	<b>146 375</b>

# Notes to the annual financial statements (continued)

for the year ended 30 June 2004

	2004 R'000	2003 R'000
<b>14. FOREIGN CURRENCY ASSETS/(LIABILITIES) (continued)</b>		
<b>14.5 Net foreign currency assets/(liabilities) movement:</b>		
Opening balance	146 375	87 085
Net increase in derivative asset	6 876	–
Arising on acquisition of subsidiary	(3 738)	–
Settlement at maturity	(131 133)	–
Foreign exchange gain	16 464	183 636
Exchange difference taken to foreign currency translation reserve	(34 784)	(124 346)
	60	146 375
<b>15. INVENTORIES</b>		
<b>15.1 Inventories at cost less provisions:</b>		
• Raw materials	383 910	405 817
• Work-in-progress	124 647	128 365
• Consumables and spares	41 509	12 444
• Packing materials	5 699	6 078
• Finished goods	792 750	341 050
	1 348 515	893 754
<b>15.2 Inventories carried at net realisable value</b>	29 583	2 852
<b>16. ACCOUNTS RECEIVABLE</b>		
Gross trade receivables	3 070 854	2 126 464
Less: provision for bad debts, credit notes and discounts	(169 784)	(151 115)
Net trade receivables	2 901 070	1 975 349
Other amounts due	486 067	377 111
	3 387 137	2 352 460
<b>17. SHORT-TERM LOANS</b>		
These loans are made to various entities, including suppliers. The loans are interest free and repayable on demand.		
<b>18. SHARE CAPITAL AND PREMIUM</b>		
<b>18.1 Authorised</b>		
1 500 000 000 (2003: 1 500 000 000) ordinary shares of 0,5 cents each	7 500	7 500
<b>18.2 Issued</b>		
1 122 966 175 (2003: 942 471 935) ordinary shares of 0,5 cents each	5 616	4 713
Share premium	3 156 262	2 236 231
Total issued share capital and premium	3 161 878	2 240 944



# Notes to the annual financial statements (continued)

for the year ended 30 June 2004

	2004 R'000	2003 R'000
<b>19. RESERVES</b>		
<b>19.1 Non-distributable reserves</b>		
Retained income of associate companies	160 376	167 948
Investment reserve	5 848	3 638
Restatement of available-for-sale financial assets to fair value	(14)	–
Foreign currency translation reserve	(249 635)	80 202
	<b>(83 425)</b>	<b>251 788</b>
<b>19.2 Distributable reserves</b>		
Retained income	3 446 797	2 436 515
	<b>3 363 372</b>	<b>2 688 303</b>
<p>The investment reserve relates to incentives received which are released to income only on entitlement.</p> <p>The accumulated distributable reserves, if declared as a cash dividend, would be subject to secondary tax on companies. In the normal course of business, it is not expected that such a distribution from past distributable reserves will arise.</p>		
<b>20. MINORITY INTEREST</b>		
Equity interest:		
Balance at beginning of year	14 782	28 073
Exchange differences	(1 943)	(1 271)
Movement per income statement	4 012	(2 881)
Arising on acquisition of subsidiaries	18 489	(9 139)
Eliminated on disposal of subsidiary	(99)	–
Balance at end of year	<b>35 241</b>	<b>14 782</b>
<b>21. LONG-TERM LIABILITIES</b>		
<b>21.1 Analysis of closing balance</b>		
Secured financing:		
• Mortgage and term loans	356 227	331 597
• Capitalised finance lease and instalment sale agreements	24 360	200
• Long-term licence fee liability	249 146	277 713
	<b>629 733</b>	<b>609 510</b>

	2004 R'000	2003 R'000
<b>21. LONG-TERM LIABILITIES (continued)</b>		
<b>21.1 Analysis of closing balance (continued)</b>		
Unsecured financing:		
• Syndicated loan	1 322 352	860 957
• Guaranteed registered bonds	1 000 000	–
• Deferred payment – non-exiting vendors	229 400	–
• Puttable bonds	244 241	271 897
• Mortgage and term loans	67 851	–
• Other	36 708	24 180
	<b>2 900 552</b>	<b>1 157 034</b>
Total long-term liabilities	<b>3 530 285</b>	<b>1 766 544</b>
Portion payable before 30 June 2005 included in short-term liabilities (see note 23)	<b>261 486</b>	<b>119 765</b>
Net long-term liabilities	<b>3 268 799</b>	<b>1 646 779</b>
<b>21.2 Weighted average interest rates</b>		
	%	%
• Syndicated loan	3,17	4,16
• Mortgage and term loans	4,50	4,40
• Capitalised finance lease and instalment sale agreements	11,5	16,00
• Puttable bonds	6,94	6,94
• Guaranteed registered bonds	10,00	–
<b>21.3 Analysis of repayments</b>		
Repayable within the next year and thereafter:	R'000	R'000
• Next year	261 486	119 765
• Within 2 – 5 years	3 219 444	1 262 325
• Thereafter	49 355	384 454
	<b>3 530 285</b>	<b>1 766 544</b>

# Notes to the annual financial statements (continued)

for the year ended 30 June 2004

	2004 '000	2003 '000
<b>21. LONG-TERM LIABILITIES (continued)</b>		
<b>21.3 Analysis of repayments (continued)</b>		
<i>Loan details</i>		
• Syndicated loan with Citibank International plc and Commerzbank AG		
Facilities available:		
– Term loan	€175 000	€99 995
– Revolving credit commitments	€125 000	€75 005
Amounts utilised/drawdowns:		
– Term loan	R1 322 352	R860 957
– Revolving credit – (2004: Rnil (2003: utilisation of R86 100 000 included in short-term liabilities – note 23))		
The term loan is repayable in five equal quarterly repayments or three equal semi-annual repayments, commencing on 15 April 2005.		
The revolving credit commitments will be reduced and permanently cancelled in full by five equal quarterly or three equal semi-annual commitment reductions, commencing 15 April 2005.		
Steinhoff International Holdings Limited has subordinated a shareholder loan due from Steinhoff Europe AG (Austria), amounting to €220 000 000 until the senior debt has been unconditionally and irrevocably paid and discharged in full.		
• Commerzbank, OLB and DZ Bank		
Amounts utilised	R132 321	R174 328
These term loans are repayable in equal quarterly instalments, repayable with final payment on 31 December 2009.		
• Sparkasse Hochsauerlan, Bank BPH, Bank Handlowy, BNP Paribas and CIB		
Amounts utilised	R117 672	R25 830
These mortgage loans are secured and renegotiated at 12 to 18-month intervals and repayable between August and December 2005.		
• Royal Bank of Scotland plc		
Facilities available	£16 400	£16 400
Amounts utilised	R106 234	R131 439
The term-loan is repayable in six monthly instalments of £1 250 000, repayable in full on 30 June 2006.		
• Capitalised finance lease and instalment sale agreements	R24 360	R200
Secured hire purchase and lease agreements, bearing interest at the prime overdraft rate, or prime less 1,5% repayable in monthly or annual instalments over periods of five to eight years.		
• Long-term licence fee liability due to Rand Merchant Bank	R249 146	R277 713
Repayable in equal instalments of R34 262 375 semi-annually with the final payment on 15 July 2008. The licence fee liability represents the net present value of the future minimum licence payments discounted at a market-related interest rate in South Africa.		
13 100 394 of the 19 956 784 shares that Steinhoff Africa Holdings (Proprietary) Limited held in Unitrans Limited as at year-end, as well as funds on call and deposit to the amount of R198 487 028 have been pledged as security for the long-term licence fee liability (see note 10).		

	2004 R'000	2003 R'000
<b>21. LONG-TERM LIABILITIES (continued)</b>		
<b>21.3 Analysis of repayments (continued)</b>		
<i>Loan details (continued)</i>		
• Deferred payment – non-exiting vendors Loan payable to non-exiting shareholders of PG Bison Holdings (Proprietary) Limited, on 25 June 2007 either in cash or shares in Steinhoff International Holdings Limited.	229 400	–
• Rand Merchant Bank Senior unsecured puttable bonds amounting to €37 500 000 at 6,94% effective interest, payable semi-annually in arrears in equal instalments. These bonds were issued at a discount of 16,3%. The puttable bonds are to be redeemed on 1 February 2009.	244 241	271 897
• Guaranteed registered bonds Senior unsecured guaranteed registered bonds at 10,0% interest payable semi-annually in arrears on 28 February and 31 August of each year commencing on 28 February 2004 provided that the last date for such payment shall be on 28 February 2008. The bonds are repayable in full on 28 February 2008. These bonds are unconditionally and irrevocably guaranteed, jointly and severally by Steinhoff Africa Holdings (Proprietary) Limited and Steinhoff International Holdings Limited.	1 000 000	–
• Raiffeisen Bank This loan is unsecured and repayable on 31 December 2005.	67 851	–
• Other loans	36 708	24 180

The book value of assets encumbered in favour of the above mortgage and term loans and finance lease and instalment sale agreements amounts to R554 708 000 (2003: R575 078 000) (see note 8).

Total long-term liabilities

Certain comparative amounts have been reclassified in respect of the various loan categories, in order to be comply with the current year disclosure.

The reclassifications are as follows:

	Previously stated R'000	Reclassification R'000	Restated R'000
Mortgage and term loans – secured	355 777	(24 180)	331 597
Other loans – unsecured	–	24 180	24 180

# Notes to the annual financial statements (continued)

for the year ended 30 June 2004

	2004 R'000	2003 R'000
<b>22. ACCOUNTS PAYABLE</b>		
Trade payables	1 677 093	915 447
Provisions	157 032	110 718
Other payables and amounts due	923 753	546 110
	<b>2 757 878</b>	<b>1 572 275</b>

Included in other payables and amounts due are short-term royalties, rebates, payroll and other accruals.

Provisions consist of:	Opening balance R'000	Additional provision R'000	Amounts utilised R'000	Amounts reversed R'000	Exchange differences R'000	Closing balance R'000
Leave pay provision	43 077	74 382	(32 071)	(463)	(5 940)	<b>78 985</b>
Bonus provision	6 110	18 941	(4 744)	(50)	–	<b>20 257</b>
Warranty provisions	30 217	34 598	(28 246)	–	(3 617)	<b>32 952</b>
Pension provision	31 314	–	(2 875)	–	(3 601)	<b>24 838</b>
	<b>110 718</b>	<b>127 921</b>	<b>(67 936)</b>	<b>(513)</b>	<b>(13 158)</b>	<b>157 032</b>

## Provision for leave pay

The leave pay provision relates to vesting leave pay to which employees may become entitled upon leaving the employment of the group. The provision arises as employees render a service that increases their entitlement to future compensated leave and is calculated based on an employee's total cost of employment. The provision is utilised when employees become entitled to and are paid for the accumulated leave pay or utilise compensated leave due to them.

## Provision for bonus

The provision for bonus consists of a performance-based bonus. The bonus payable is fixed by applying a specific formula based on the employees' achievement of performance targets. The employee must be in service on 30 June 2004 to qualify for the bonus.

## Provision for warranty

The warranty provision represents management's best estimate, based on past experience, of the group's liability under warranties granted on products sold.

## Provision for pensions

The provision for pension relates to the group's obligation for a director of the company in Europe.

	2004 R'000	2003 R'000
<b>23. SHORT-TERM LIABILITIES</b>		
Current portion of long-term liabilities (note 21)	261 486	119 765
Short-term loans payable	330 307	573 676
	<b>591 793</b>	<b>693 441</b>

The short-term loans mainly comprise loans with various European banks, repayable within a year. The loans bear interest at European banks' lending rates.

## 24. RETIREMENT BENEFIT PLANS

### 24.1 Provident and pension funds

The majority of the group's South African salaried employees are members of the Steinhoff Africa Holdings Provident Fund. The Steinhoff Africa Holdings Provident Fund is a defined contribution provident fund. Certain employees are members of the Afcot Pension Fund. All active employees are in the process of transferring their benefits from the Afcot Pension Fund to the Steinhoff Africa Holdings Provident Fund. These employees have been contributing to the Steinhoff Africa Holdings Provident Fund since 1 March 2004 and approval in terms of section 14 to transfer their benefits is awaited from the Financial Services Board.

The employees of the group's subsidiaries in Europe are members of State-managed retirement benefit schemes operated by the governments of the various countries. The subsidiaries are required to contribute a specified percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the group, with respect to the retirement benefit schemes, is to make the specified contributions.

All the retirement benefit plans operated by group companies domiciled in the Republic of South Africa are governed by the Pension Funds Act (Act No 24 of 1956). Approximately 98% (2003: 98%) of South African full-time group employees are covered by retirement benefit plans.

#### Defined contribution plan: Steinhoff Africa Holdings Provident Fund

The total cost charged to income of R30,6 million (2003: R27,2 million) represents contributions payable to this scheme by the group at rates specified in the rules of the schemes.

#### Defined benefit plan: The Afcot Pension Fund

This fund has been closed. The process of surplus apportionment is being completed. No future benefits will accrue after 29 February 2004, being the effective date of transfer to the Steinhoff Africa Holdings Provident Fund.

The effective date of the most recent actuarial valuation is 31 March 2001. At that date, in the opinion of the actuary the defined benefit plan was found to be in a sound financial position. The fund is actuarially valued at intervals of not more than three years. The 31 March 2004 valuation is in the process of being completed by the fund actuary.

The current contributions are calculated on the pensionable emoluments of members.

The following amounts resulted in a net gain for the fund:

	2004 R'000	2003 R'000
Current service cost	2 646	2 857
Net of interest and expected return on plan assets	(4 232)	(7 037)
Amortisation: unrecognised loss	234	-
Company contributions	(570)	-
Net gain	<b>(1 922)</b>	<b>(4 180)</b>

The actual return on plan assets was R11 615 000 (2003: R16 095 000).

# Notes to the annual financial statements (continued)

for the year ended 30 June 2004

	2004 R'000	2003 R'000
<b>24. RETIREMENT BENEFIT PLANS (continued)</b>		
<b>24.1 Provident and pension funds (continued)</b>		
<b>Defined benefit plan: The Afcol Pension Fund (continued)</b>		
The amount included in the balance sheet arising from the group's obligation in respect of defined benefit retirement plans is as follows:		
Present value of funded obligations	(150 782)	(126 483)
Unrecognised actuarial gains	43 643	21 721
Fair value of plan assets	194 651	190 352
Net assets	87 512	85 590
Movements in the net assets in the current period were as follows:		
At beginning of year	85 590	81 410
Net gain included in income	1 922	4 180
At end of year	87 512	85 590
Surplus asset recognised:		
Current assets: Other receivables and amounts due	23 332	16 529
Key assumptions used:	%	%
Discount rate	9,5	10,0
Expected return on plan assets	9,0	9,0
Expected rate of salary increases	6,5	6,5
Future pension increases	4,3	4,8

The Afcol Pension Fund has an actuarial surplus based on the latest statutory actuarial valuation dated 31 March 2001. Initial indications are that the surplus to be apportioned is approximately R44 million. This apportionment will be effected in line with the relevant legislation.

## 24.2 Post-retirement medical benefits

The group provided certain post-retirement medical benefits by funding a portion of the medical aid contributions of certain retired members, and a future liability for current employees. These were charged against income as incurred. In 2002, upon adoption of the Statement of Generally Accepted Accounting Practice, AC116: Employee Benefits, the group's liability in respect of this obligation was recorded. Through agreement with the in-service and retired employees the group came to a settlement in terms of which the present value of future benefits will be settled in cash.

	2004 R'000	2003 R'000	
<b>24. RETIREMENT BENEFIT PLANS (continued)</b>			
<b>24.2 Post-retirement medical benefits (continued)</b>			
The total liability in respect of the post-retirement medical benefits was valued during 2002 by an independent actuary. The liability arose as a result of past and current service as follows:			
Accrued liability at beginning of year	8 241	9 162	
Less: Settlements	(1 039)	(921)	
Accrued liability at end of year	<u>7 202</u>	<u>8 241</u>	
At year-end this total unpaid liability was included in other payables and amounts due (see note 22).			
<b>25. COMMITMENTS AND CONTINGENCIES</b>			
<b>25.1 Capital expenditure</b>			
Contracts for capital expenditure authorised	30 397	114 951	
Capital expenditure authorised but not contracted for	<u>184 699</u>	<u>63 329</u>	
<b>25.2 Amounts outstanding under operating lease agreements payable within the next year and thereafter:</b>			
	Property R'000	Plant, equipment, vehicles and other R'000	Total R'000
Next year	264 160	67 039	331 199
Within 2 – 5 years	952 230	87 579	1 039 809
Thereafter	403 346	2 969	406 315
		2004 R'000	2003 R'000
<b>25.3 Borrowing facilities</b>			
In terms of the articles of association, the borrowing powers of the company are unlimited.			
<b>25.4 Unutilised borrowing facilities</b>		<u>2 298 055</u>	<u>1 143 362</u>

# Notes to the annual financial statements (continued)

for the year ended 30 June 2004

## 25. COMMITMENTS AND CONTINGENCIES (continued)

### 25.5 Contingent liabilities

The group has a possible exposure relating to the potential surplus or deficit of the PG Bison Pension Fund. There are a number of uncertainties, such as availability of former member data and extent of improper use of the surplus by the company that have prevented the board from concluding on the overall availability of the surplus or deficit. Management has concluded that due to the extent of the uncertainties, it will not be possible to reliably determine the potential surplus or deficit.

Certain other companies in the group are involved in disputes where the outcome is uncertain. The directors are however confident that they will be able to defend these actions, that the potential of outflow or settlement is remote and, if not, that the potential impact on the group will not be material.

There is no other litigation, current or pending, which is considered likely to have a material adverse effect on the group.

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## 26. FINANCIAL RISK MANAGEMENT

### Treasury risk management

Senior executives meet on a regular basis to analyse currency and interest rate exposures and re-evaluate treasury management strategies against revised economic forecast.

### Foreign currency management

Material forward currency contracts are summarised in note 14. The writing of option contracts is prohibited; currency options are only purchased as a cost-effective alternative to forward currency contracts.

### Liquidity risk management

The group continuously manages its liquidity risk, which is evidenced by its liquid resources and unutilised borrowing facilities.

### Concentration of credit risk

Potential concentrations of credit risk consist principally of short-term cash and cash equivalent investments, trade and other debtors and loans receivable. The group deposits short-term cash surpluses with major banks of high quality credit standing. Trade debtors comprise a widespread customer base and group companies perform ongoing credit evaluations on the financial condition of their customers. At 30 June 2004, the group did not consider there to be any significant concentration of credit risk which had not been adequately provided for. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the group companies' management based on prior experience and the current economic environment.

### Fair value of financial instruments

The group's financial instruments consist mainly of cash at bank and cash equivalents, investments, loans due to the group, accounts and other receivables, accounts and other payables and long and short-term liabilities.

The estimated net fair values at which financial instruments are carried on the balance sheet at 30 June 2004 have been determined using available market information and appropriate valuation methodologies, but are not necessarily indicative of the amounts that the group could realise in the normal course of business.

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	2004 R'000	2003 R'000
<b>27. CASH GENERATED FROM OPERATIONS</b>		
Net income before taxation	1 073 391	877 033
Adjusted for:		
Net (profit)/loss on disposal of property, plant and equipment	(6 514)	4 977
Fair value adjustment of plantations	(14 429)	(515)
Depreciation of property, plant and equipment	214 302	191 858
Amortisation and impairment of intangible assets	38 592	37 383
Impairment of property, plant and equipment	59 328	37 977
Other impairments	176	303
Investment income	(191 856)	(76 220)
Finance costs	268 694	197 397
Net profit on disposal of subsidiaries and businesses	(234)	(2 207)
Pension fund asset charge	1 617	2 359
Increase in benefit fund surplus	-	(5 000)
Investment reserve released to sundry income	(1 125)	(12 033)
Operating profit before working capital changes	1 441 942	1 253 312
Working capital changes:		
Decrease in inventories	26 061	63 556
Increase in accounts receivable	(705 188)	(317 640)
Increase/(decrease) in accounts payable	767 334	(91 774)
Decrease in VAT receivable	5 356	3 697
Increase/(decrease) in VAT payable	3 860	(12 908)
Net changes in working capital	97 423	(355 069)
Cash generated from operations	1 539 365	898 243
<b>28. TAXATION PAID</b>		
Taxation payable at beginning of year	(21 026)	(36 350)
Foreign currency translation difference	2 161	5 179
Taxation receivable of subsidiaries disposed	-	(768)
Taxation payable of subsidiaries acquired	(77 315)	(56)
Current taxation expense per income statement	(127 555)	(74 780)
Taxation payable at end of year	106 255	21 026
Net taxation paid	(117 480)	(85 749)

# Notes to the annual financial statements (continued)

for the year ended 30 June 2004

	2004 R'000	2003 R'000
<b>29. NET CASH FLOW ON ACQUISITION OF SUBSIDIARY COMPANIES</b>		
The fair value of assets and liabilities assumed at date of acquisition were as follows:		
Assets:		
• Property, plant and equipment	570 389	65 004
• Inventories	578 629	45 643
• Accounts receivable	565 209	46 627
• Cash on hand	115 759	8 520
• Deferred taxation assets	45 232	11 858
• Trademarks	145 700	5 954
• Investments	18 128	781
Liabilities:		
• Long-term liabilities	(14 641)	(24 018)
• Trade payables	(593 448)	(79 457)
• Deferred taxation liabilities	(30 854)	-
• Taxation payable	(77 315)	(56)
• VAT payable	(10 639)	-
• Shareholders for dividend	(130 212)	-
• Foreign currency liability	(3 738)	-
• Short-term loans	(33 366)	(13 774)
• Shareholders' loan	-	(64 004)
Minority interest	(18 489)	9 139
Fair value of assets and liabilities acquired	1 126 344	12 217
Net goodwill at acquisition	113 287	22 391
Total consideration	(1 239 631)	(34 608)
Purchase price	(1 044 191)	(34 608)
Associate company converted to a subsidiary	(195 440)	-
Cash on hand at acquisition	112 021	8 520
Purchase consideration included in short-term liabilities	191 246	-
Purchase consideration included in long-term liabilities	229 400	-
Purchase consideration included in accounts receivable	(38 009)	-
Associate company converted to a subsidiary	195 440	8 266
Net cash outflow on acquisition of subsidiaries	(549 533)	(17 822)

	2004 R'000	2003 R'000
<b>30. NET CASH FLOW ON DISPOSAL OF SUBSIDIARY COMPANIES</b>		
The fair value of assets and liabilities disposed at the date of disposal were as follows:		
Assets:		
• Property, plant and equipment	2 217	17 066
• Inventories	–	5 899
• Accounts receivable	1 002	36 999
• Cash on hand	–	13 762
• Taxation receivable	–	768
• VAT receivable	–	225
• Intangible assets and goodwill	1 896	–
Liabilities:		
• Bank overdraft	–	(5 587)
• Trade payables	–	(18 439)
Minority interest	(99)	–
Fair value of assets and liabilities disposed	5 016	50 693
Profit on disposal	234	2 207
Proceeds on disposal	5 250	52 900
Bank overdraft at date of disposal	–	5 587
Cash on hand at date of disposal	–	(13 762)
Received through loan account	–	(52 900)
Net cash inflow/(outflow) on disposal of subsidiaries	5 250	(8 175)
<b>31. PROCEEDS ON ISSUE OF SHARE CAPITAL</b>		
Share capital and share premium issued for cash	1 046 377	130 600
Less: Issue expenses paid	(50 754)	(1 217)
Cash proceeds on issue of share capital	995 623	129 383

# Notes to the annual financial statements (continued)

for the year ended 30 June 2004

	2004 R'000	2003 R'000
<b>32. CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents consist of cash on hand and balances with banks as well as near-cash instruments. Bank overdrafts are only included where the group has a legal right of set-off due to cash management arrangements. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:		
Funds on call and deposits	1 532 418	198 597
Bank balances and cash	2 123 964	1 655 559
Bank overdrafts	-	-
Bank overdrafts per balance sheet	(10 677)	(537 283)
Less: Bank overdrafts included in financing activities	10 677	537 283
Net foreign currency assets	60	146 375
	<b>3 656 442</b>	<b>2 000 531</b>

Included in cash and cash equivalents are amounts of R2 795 million committed as security for future acquisitions and/or expenses of the group.

## 33. RELATED PARTY TRANSACTIONS

Related party relationships exist between shareholders, subsidiaries, joint ventures and associate companies within the group. These transactions are concluded at arm's length in the normal course of business and include transactions as a result of the groupwide treasury management of foreign currency movements. All material intergroup transactions are eliminated on consolidation.

### 33.1 Joint ventures and associate companies

Details of investments in associate companies and joint ventures are disclosed in notes 10 and 11 respectively.

### 33.2 Interests of directors in contracts

All directors of the company have confirmed that they did not have any material interests in any contract of significance with the company or any of its subsidiary companies, which could have resulted in a conflict of interest during the year.

### 33.3 Related interests of directors and officers in share capital

Details have been included in the directors' report, and in the analysis of shareholding.

### 34. PRIOR YEAR ADJUSTMENT

#### Consolidation of employee share incentive trusts

The accounting for the employee share incentive trusts have been changed to comply with AC132: Consolidated financial statements and accounting for investments in subsidiaries. In terms of AC132 all entities should be consolidated where the substance of the relationship indicates that an entity is controlled by the reporting enterprise. In addition, a directive in this regard was also issued by the JSE Securities Exchange South Africa. Since the group controls the employee share incentive trusts in substance, the trusts are consolidated with retrospective effect.

The aggregate effect of the application of AC132 is as follows:

	As previously stated R'000	Adjustment R'000	Restated R'000
Distributable reserves			
Prior year opening balance	1 651 499	(257)	1 651 242
Share capital and premium			
Prior year opening balance	2 155 425	(10 055)	2 145 370
<b>Prior year:</b>			
<b>Income statement</b>			
Operating expenses	1 337 304	27	1 337 331
Income from investments	76 216	4	76 220
Earnings attributable to ordinary shareholders	873 043	(23)	873 020
<b>Balance sheet</b>			
<i>Assets</i>			
Investments and loans	386 247	(8 185)	378 062
Accounts receivable	2 352 807	(347)	2 352 460
Bank balances and cash	1 655 254	305	1 655 559
<i>Equity and liabilities</i>			
Share capital and premium	2 253 603	(12 659)	2 240 944
Reserves	2 688 583	(280)	2 688 303
Accounts payable	1 567 581	4 694	1 572 275
Taxation payable	31 887	18	31 905
<b>Cash flow statement</b>			
Net cash inflow from operating activities	691 823	(39)	691 784
Net cash outflow from investing activities	(812 189)	7	(812 182)
Net cash inflow from financing activities	993 633	77	993 710
Net decrease in cash and cash equivalents	873 267	45	873 312
Cash and cash equivalents at beginning of year	979 169	260	979 429
Cash and cash equivalents at end of year	2 000 226	305	2 000 531

Amounts included in the segment report have been adjusted accordingly.

# Notes to the annual financial statements (continued)

for the year ended 30 June 2004

## 35. DISCONTINUED OPERATIONS

In order to rationalise and achieve economies of scale, a number of business divisions, both locally and internationally, were closed as follows:

Date of initial discontinuance	Division	Business	Date discontinuance completed	2004 R'000	2003 R'000
15 July 2003	Pionki Sp.zo.o.	Pine furniture manufacturer	31 December 2003	38 132	–
5 April 2004	Steinhoff Logistic GmbH	Transport	30 June 2004	10 835	–
30 April 2004	Dormira GmbH	Bedding manufacturer	30 June 2004	2 703	–
31 March 2004	Timber division of AS Marshall Holdings Proprietary Limited	Case goods manufacturer	30 June 2004	5 693	–
20 February 2004	Gommagomma Furniture (Proprietary) Limited production facility	Show wood manufacturer	30 June 2004	12 289	–
	Peach & Hatton Heritage (Proprietary) Limited			–	13 663
20 April 2003	Unita division of Peach & Hatton Heritage (Proprietary) Limited	Pine furniture manufacturer	30 June 2003	–	3 558
31 August 2002	Peach & Hatton division of Peach & Hatton Heritage (Proprietary) Limited	Pine furniture manufacturer	31 December 2002	–	10 105
30 April 2003	Ultrabord (Proprietary) Limited	Particle board manufacturer	30 June 2003	–	4 427
28 February 2003	Magdeburger Möbelwerke (GmbH)	Lounge suite manufacturer	30 June 2003	–	5 404
9 August 2002	Schäfermöbel (GmbH)	Lounge suite manufacturer	31 March 2003	–	7 315
15 August 2002	Klose Herzlake (GmbH)	Warehouse	30 June 2003	–	6 553
				<b>69 652</b>	<b>37 362</b>

	2004 R'000	2003 R'000
<b>35. DISCONTINUED OPERATIONS (continued)</b>		
The results, including cost of discontinuance of Pionki Sp.zo.o. which have been included in the consolidated financial statements, are:		
Revenue	75 313	180 853
Operating costs	(91 315)	(142 656)
(Loss)/profit before taxation	(16 002)	38 197
Taxation	-	-
(Loss)/profit after taxation	(16 002)	38 197
The carrying amounts of the total assets and total liabilities of the discontinued Pionki Sp.zo.o. are:		
Carrying value of total assets	79 923	95 158
Carrying value of total liabilities	52 364	86 694
The results, including cost of discontinuance of Steinhoff Logistic GmbH, which have been included in the consolidated financial statements, are:		
Revenue	152 994	113 950
Operating costs	(178 581)	(113 187)
(Loss)/profit before taxation	(25 587)	763
Taxation	(293)	(217)
(Loss)/profit after taxation	(25 880)	546
The carrying amounts of the total assets and total liabilities discontinued of Steinhoff Logistic GmbH are:		
Carrying value of total assets	22 121	33 458
Carrying value of total liabilities	-	31 538

# Notes to the annual financial statements (continued)

for the year ended 30 June 2004

	2004 R'000	2003 R'000
<b>35. DISCONTINUED OPERATIONS (continued)</b>		
The results, including cost of discontinuance of Dormira GmbH, which have been included in the consolidated financial statements, are:		
Revenue	7 461	–
Operating costs	(13 763)	(9)
Loss before taxation	(6 302)	(9)
Taxation	–	–
Loss after taxation	(6 302)	(9)
The carrying amounts of the total assets and total liabilities discontinued of Dormira GmbH are:		
Carrying value of total assets	5 672	207
Carrying value of total liabilities	–	9
The results, including cost of discontinuance of the timber division of AS Marshall Holdings Proprietary Limited, which have been included in the consolidated financial statements, are:		
Revenue	244	97 890
Operating costs	(1 253)	(112 380)
Loss before taxation	(1 009)	(14 490)
Taxation	–	–
Loss after taxation	(1 009)	(14 490)
The carrying amounts of the total assets and total liabilities discontinued of the timber division of AS Marshall Holdings Proprietary Limited are:		
Carrying value of total assets	1 094	57 127
Carrying value of total liabilities	–	48 974

	2004 R'000	2003 R'000
<b>35. DISCONTINUED OPERATIONS (continued)</b>		
The results, including cost of discontinuance of the Gommagomma Furniture (Proprietary) Limited production facility in Garankuwa, which have been included in the consolidated financial statements, are:		
Revenue	63 059	82 664
Operating costs	(83 642)	(88 387)
Loss before taxation	(20 583)	(5 723)
Taxation	-	-
Loss after taxation	(20 583)	(5 723)
The carrying amounts of the total assets and total liabilities discontinued of the Gommagomma Furniture (Proprietary) Limited production facility in Garankuwa are:		
Carrying value of total assets	14 188	41 402
Carrying value of total liabilities	41 485	40 803

# Special resolutions

for the year ended 30 June 2004

During the period under review the following special resolutions by the company and its subsidiaries in South Africa were approved and registered with the Registrar of companies.

1. Steinhoff International Holdings Limited (1998/003951/06)  
The resolution proposed in the previous annual report authorising the repurchase of the company's shares was approved and registered on 23 December 2003.
  2. Steinhoff Africa Holdings (Proprietary) Limited (1969/015042/07)  
The resolution to amend the Articles of Association in order to authorise the repurchase of shares, reduction of share capital and the making of share payments was approved and registered on 5 January 2004.
  3. Steinhoff Manufacturing (Proprietary) Limited (1968/007966/07)  
The resolution to amend the Articles of Association in order to authorise the repurchase of shares and or acquisition of shares issued by any holding company of the company and to alter the maximum number of directors from nine to twenty, was approved and registered on 23 July 2003.
  4. Steinhoff Timber Group (Proprietary) Limited (1996/017594/07)  
The resolution for the change of name from Megacor Group (Proprietary) Limited was approved and registered on 8 October 2003.
-

# Analysis of shareholding

for the year ended 30 June 2004

	Public		Shareholder type Directors		Other	
	Number	%	Number	%	Number	%
<b>Shareholders in South Africa</b>						
• Number of shareholders	3 671	99,70	9	0,25	2	0,05
• Number of shares	418 869 787	92,05	27 079 469	5,95	9 090 624	2,00
<b>Shareholders other than in South Africa</b>						
• Number of shareholders	233	97,90	4	1,68	1	0,42
• Number of shares	514 260 146	75,83	162 756 773	24,00	1 141 966	0,17
<b>Total</b>						
• Number of shareholders	3 904	99,59	13	0,33	3	0,08
• Number of shares	933 129 933	82,34	189 836 242	16,75	10 232 590	0,90

According to the share register of the company, the following shareholders are registered as holding in excess of 5% of the issued share capital of the company:

SCMB Custody Account	505 150 502	44,58
Nedcor Bank Nominees Limited	196 042 825	17,30
First National Nominees (Pty) Limited	100 628 988	8,88
Fihag Finanz und Handels AG	80 315 126	7,09
Andisa Securities (Pty) Limited	58 576 773	5,17
	<b>940 714 214</b>	<b>83,02</b>

Save for the above, according to the disclosure in terms of section 140A of the Companies Act, the following shareholders are registered as holding in excess of 5% of the issued share capital of the company, as compiled from the nominee disclosures:

RMB Asset Management and funds administered by them	136 105 515	12,01
Bruno Steinhoff Immobilien und Verwaltungs GmbH	106 660 605	9,41
Stanlib Limited	59 068 304	5,21
Morgan Stanley Investment Management Limited	57 588 355	5,08

# JSE trading history and exchange rates

for the year ended 30 June 2004

	2004	2003	2002	2001	2000
Closing price (cents)	835	660	825	650	600
Highest price (cents)	925	830	975	700	690
Lowest price (cents)	651	455	590	460	390
Number of shares traded (million)	727	402	348	192	192
Value of share traded (R million)	5 612	2 643	2 717	1 206	993
Average weighted traded price (cents)	772	657	780	648	517
Closing spot: Industrial 25 index (Indi 25)	6 544,05	5 204,60	7 178,15	7 240,238	8 086,814
Dividend yield (%)	2,64	2,72	1,80	1,90	1,24
Earnings yield (%)	13,05	14,99	11,03	9,85	8,67
Price earnings ratio (x)	7,66	6,67	9,07	10,16	11,54
Market capitalisation (Rm)	9 462	6 284	7 480	5 391	4 827

The following table sets out the high and low closing prices of Steinhoff shares and the average daily trading volume of our shares on a yearly basis for the last five financial years, as reported by I-Net Bridge (Pty) Limited (I-Net Bridge), a South African financial information service:

Year ended 30 June	Closing price (Rand per share)		Average daily trading volume (Number of shares)
	High	Low	
2000	6,75	3,85	724 827
2001	7,50	5,80	890 168
2002	9,13	6,20	1 471 125
2003	8,20	4,55	1 371 338
<b>2004</b>	<b>9,05</b>	<b>6,60</b>	<b>2 896 807</b>

## EXCHANGE RATES

The following table sets forth, for the periods indicated, the average and period-end exchange rates in rand expressed in R per €1,00, used to convert the results and the balance sheets of the European subsidiaries into South African rands.

Year ended 30 June	Average (1)	Closing (2)
2000	6,36	6,51
2001	6,75	6,85
2002	9,00	10,25
2003	9,415	8,61
<b>2004</b>	<b>8,215</b>	<b>7,56</b>

Note

(1) The average exchange rate was used to translate income and expenditure.

(2) The closing rate was used to translate assets and liabilities.

(3) Prior to 2002, the euro rate is based on the Deutsche mark exchange rate which is DM1,95583 per €1,00.

# Notice of annual general meeting

for the year ended 30 June 2004

Notice is hereby given that the annual general meeting of the shareholders of Steinhoff International Holdings Limited (the company) will be held at 08:00 in the main boardroom of the company, 28 Sixth Street, Wynberg, Sandton, on Monday, 29 November 2004, for the purpose of dealing with the business and considering and, if deemed fit, passing, with or without modification, the resolutions set out below:

## Ordinary business

1. To receive and adopt the annual financial statements for the year ended 30 June 2004, together with the report of the directors and the auditors thereon.
2. Ordinary business
  - 2.1 To elect directors for the positions to the board. In terms of Article 50.1, CE Daun, KJ Grove, FA Sonn and D Konar shall retire, but all four directors are eligible and available for re-election. (Curriculum Vitae – see pages 10 and 11)
  - 2.2 To ratify the appointment of RH Walker as executive director. (Curriculum Vitae – see page 10)
  - 2.3 To transact any other business capable of being transacted at an annual general meeting:
    - 2.3.1 To ratify the aggregate sum of directors' remuneration in respect of the financial year ended 30 June 2004 as set out in note 1.2 to the annual financial statements as reflected on page 80 of the annual report; and
    - 2.3.2 To reappoint Messrs Deloitte & Touche of Pretoria as auditors of the company in terms of section 270 of the Act.

## Ordinary resolution number 1

- 3.1 Resolved that 261 834 912 ordinary shares of 0,5 cents each in the authorised but unissued share capital of the company be and they are hereby placed under the control of the directors of the company as a general authority in terms of section 221(2) of the Act, but subject to the rules and requirements of the JSE Securities Exchange South Africa ("JSE"), to allot and issue such shares to such person(s) and on such terms and conditions as the directors may determine.

## Ordinary resolution number 2

- 3.2 Resolved that, subject to the listing requirements of the JSE relating to a general authority of directors to issue shares for cash, the directors of the company be and they are hereby authorised for a period of 15 (fifteen) months from the date of this meeting or until the date of the company's next annual meeting to issue 56 000 000 (fifty six million) ordinary shares in the capital of the company for cash in accordance with the requirements set out in paragraph 5.52 of the listing requirements of the JSE as follows:
  - 3.2.1 the relevant securities to be issued under such authority must be of a class already in issue;
  - 3.2.2 the securities must be issued to public shareholders as defined by the JSE's listing requirements and not to related parties;
  - 3.2.3 issues for cash may not exceed 15% of the issued number of securities in issue in any one financial year;

# Notice of annual general meeting (continued)

for the year ended 30 June 2004

- 3.2.4 the maximum discount at which such securities may be issued may not exceed 10% of the weighted average traded price of those securities during the 30 business days preceding the date on which the price of the issue is determined or agreed by the directors; and
- 3.2.5 once the company has issued on a cumulative basis within a financial year, 5% or more of the number of securities in issue prior to that issue, the company will publish an announcement containing the full details for the issue, including the average discount to the weighted average traded price over the 30 day period prior to the date the price was determined or agreed and the effect of the issue on net asset value, not tangible asset value and headline earnings per share.
- 3.3 Subject to the renewal of the general authority proposed in terms of ordinary resolution number 1, and in terms of the requirements of the JSE, shareholders to grant a waiver of any pre-emptive rights to which ordinary shareholders may be entitled in favour of the directors for the allotment and issue of ordinary shares in the capital of the company for cash other than in the normal course by way of a rights offer or a claw-back offer or pursuant to the company's share schemes or acquisitions utilising such securities as currency to discharge the purchase consideration.

The proposed resolution represents less than 5% of the issued capital of the company.

A 75% majority of votes cast by those shareholders present or represented and voting at the general meeting will be required in order for paragraph 3.2 of ordinary resolution number 2 to become effective.

## Ordinary resolution number 3

4. Resolved that, subject and in accordance with the requirements of the JSE:
- 4.1 the company places and reserves 103 469 553 unissued ordinary shares in the company (which number constitutes less than 10% of the company's issued share capital) at the disposal of the directors for the continued implementation of the Steinhoff International Incentive Schemes.

## Special resolution number 1

5. Resolved that, subject to paragraphs 5.72, 5.73 and 5.74 of the listing requirements of the JSE, the board of directors be authorised, up to and including the date of the following annual general meeting, to approve as a general authority the purchase of its own shares by the company or a subsidiary provided that:
- 5.1 this authority shall not extend beyond 15 (fifteen) months from the date of this meeting or until the date of the company's next annual general meeting whichever is the sooner;
- 5.2 this authority be limited to a maximum of 20% of the issued share capital of that class in one financial year;

- 5.3 repurchases shall not be made at a price more than 10% above the weighted average of the market value of the securities traded for the five business days immediately preceding the date of repurchase (on which the transaction was agreed), subject to the provisions of the Act and the requirements of the JSE;
- 5.4 the repurchase of securities being implemented through the order book operated by the JSE trading system ("open market") and without any prior understanding or arrangement with any counterparty; and
- 5.5 a certificate by the company's sponsor in terms of 2.12 of the listing requirements of the JSE confirming the statements by the directors referred to hereunder in this notice convening the meeting, be issued before commencement of repurchase.

#### **Information and statement**

- The following general information is reflected in the annual report;
  - directors and management of the company and its subsidiaries (refer to pages 8 to 11, 27 and 37)
  - major shareholders of the company (refer to page 119)
  - director's interest in the company's securities (refer to page 64)
  - share capital of the company, refer to note 18 to the annual financial statements (on page 67)
- The directors, whose names are given on pages 10 to 11 of this annual report, collectively and individually accept full responsibility for the information given in this notice and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading and that all reasonable enquiries to ascertain such facts have been made;
- There have been no material changes in the financial or trading position of the group since the publication of the financial results for the year ended 30 June 2004;
- The directors are not aware of any information on any legal or arbitration proceedings, including any proceedings that are pending or threatened, that may have had in the previous twelve months, a material effect on the group's financial position.

#### **Reason and effect for the special resolution**

Subject to the Act and the requirements of the JSE, this authority is granted to the directors to repurchase shares, although it is not the board's intention to make use thereof unless prevailing circumstances (including the tax dispensation and market conditions) in their opinion warrant it. All required certificates and relevant statements shall be issued. The effect of the special resolution is that the directors are authorised to implement a general repurchase of shares in accordance with the provisions of the Act and the listing requirements of the JSE.

The directors are of the opinion, after considering the effect of a maximum repurchase of shares; that:

- the company will be able, in the ordinary course of business, to pay its debt;
- the consolidated assets of the company, fairly valued in accordance with Generally Accepted Accounting Practice, will be in excess of the consolidated liabilities of the company;
- the company will have adequate capital for a period of 12 (twelve) months after the date of this notice; and
- the working capital of the company will be adequate for a period of 12 (twelve) months after the date of this notice.

# Notice of annual general meeting (continued)

for the year ended 30 June 2004

## Ordinary resolution number 4

6. Resolved that the board of directors be and it is hereby authorised in terms of Article 26.2 of the articles of association of the company to create and issue convertible debentures, debenture stock, bonds or other convertible instruments in the capital of the company, subject to such conversion and other terms and conditions as it may determine in its sole and absolute discretion but subject further at all times to the rules and requirements of the JSE.

## Ordinary resolution number 5

7. Resolved that, subject to the passing of special resolutions numbers 1, 2 and 3 and ordinary resolutions numbers 1, 2 and 3 contained in the notice convening this annual general meeting, any director or secretary of the company, for the time being, be and is hereby authorised to take all such steps and sign all such documents and to do all such acts, matters and things for and on behalf of the company as may be necessary to give effect to the special and ordinary resolutions passed at this general meeting.

## Voting

Each shareholder, whether present in person or by proxy, is entitled to attend and vote at the general meeting. A form of proxy in which is set out the relevant instructions for its completion is enclosed for use by any shareholder who is unable to attend the general meeting but wishes to be represented thereat. If you have dematerialised your shares with a Central Securities Depository Participant ("CSDP") or broker you must arrange with them to provide you with the necessary authorisation to attend the general meeting or you must instruct them as to how you wish to vote in this regard. This must be done in terms of the agreement entered into between you and the CSDP or broker. Any shareholder who completes and lodges a form of proxy will not be precluded from attending and voting at the general meeting to the exclusion of the proxy appointed by him.

Each shareholder is entitled to appoint one or more proxies (who need not be shareholders of the company) to attend, speak and vote in his/her stead. On a show of hands every shareholder who is present in person or by proxy shall have one vote and, on a poll, every shareholder present in person or by proxy shall have one vote for each share held by him/her. The forms of proxy should be completed and forwarded to reach the offices of the company's transfer secretaries or the company secretary at the address given below by not later than 13:00 on Friday, 26 November 2004.

By order of the board

**SJ Grobler**

*Company secretary*

5 November 2004

## Registered office

28 Sixth Street

Wynberg

Sandton

2090

(PO Box 1955, Bramley, 2018)

# Proxy form

for the year ended 30 June 2004

(Incorporated in the Republic of South Africa)  
(Registration number 1998/003951/06)  
("Steinhoff" or "the company")

To: The Company Secretary  
Steinhoff International Holdings Limited

For use only by shareholders who hold share certificates or who have dematerialised their certificates but who are registered in their own name in the company's sub-register.

For use at the annual general meeting of the holders of ordinary shares in the company ("Steinhoff shareholders") to be held at the head office of the company, 28 Sixth Street, Wynberg, Sandton, on Monday, 29 November 2004 at 08:00 ("the general meeting").

I/We

of

appoint (see note 1)

or failing him/her,

or failing him/her,

the chairman of the general meeting,  
as my/our proxy to act for me/us at the general meeting for the purposes of considering and, if deemed fit, passing, with or without modification, the resolutions to be proposed thereat and at each adjournment thereof and to vote for and/or against the resolutions and/or abstain from voting in respect of the ordinary shares registered in my/our name/s in accordance with the following instructions:

Voting instructions in respect of all/.....number of shares held	In favour of	Against	Abstain
1. To receive and adopt the annual financial statements			
2.1 To re-elect to the board – CE Daun			
– KJ Grove			
– D Konar			
– FA Sonn			
2.2 To ratify the appointment of RH Walker			
2.3.1 To ratify the directors' remuneration			
2.3.2 To reappoint Deloitte & Touche as auditors			
3. Ordinary resolution number 1			
4. Ordinary resolution number 2			
5. Ordinary resolution number 3			
6. Special resolution number 1			
7. Ordinary resolution number 4			

Signed at \_\_\_\_\_ on \_\_\_\_\_ 2004

Signature

Assisted by me (where applicable) (state capacity in full name)

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

# Notes to the proxy

for the year ended 30 June 2004

## NOTES

A Steinhoff shareholder may insert the name of a proxy or the names of two alternative proxies of his/her choice in the space(s) provided, with or without deleting "the chairman of the general meeting", but any such deletion must be initialled by the Steinhoff shareholder concerned. The person whose name appears first on the form of proxy and has not been deleted will be entitled to act as proxy to the exclusion of those whose names follow.

A Steinhoff shareholder's instructions to the proxy must be shown by indicating, in the appropriate boxes provided, the manner in which that Steinhoff shareholder wishes to vote by inserting an "X" in the relevant box, unless a shareholder wishes to split his/her votes in which case the relevant numbers of shares to be so voted must be indicated in the proxy to vote or abstain from voting at the general meeting as he/she deems fit in respect of all the Steinhoff shareholder's votes exercisable thereat. A Steinhoff shareholder or his/her proxy is not obliged to use all the votes exercisable by the Steinhoff shareholder or his/her proxy, but the total of the votes cast and in respect whereof abstention is recorded may not exceed the total of the votes exercisable by the Steinhoff shareholder or by his/her proxy. Should a shareholder fail to complete the number of shares held, it will be deemed to have exercised the vote in respect of all shares held as recorded in the register.

Any shareholder who holds shares through a nominee or in dematerialised form may use this proxy to advise their nominee/broker/Central Security Depository Participant ("CSDP") of their voting instructions. However, should such member wish to attend the meeting, they will need to request their CSDP, broker or nominee to provide them with the necessary authority in terms of the agreement governing their relationship.

Forms of proxy and any power of attorney by virtue of which such proxy is signed (or a notarially certified copy of such power of attorney) must be lodged at or posted to the company's transfer secretaries or delivered to the Company Secretary, to be received by not later than 13:00 on Friday, 26 November 2004.

Any alternation or correction made to this form of proxy must be initialled by the signatory/ies.

Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the company's transfer secretaries or waived by the chairman of the general meeting.

The completion and lodging of this form of proxy will not preclude the relevant Steinhoff shareholders from attending the general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such Steinhoff shareholder wish to do so.

No facility currently exists for receiving forms of proxy by e-mail.

# Voting instruction form

for the year ended 30 June 2004

(Incorporated in the Republic of South Africa)  
(Registration number 1998/003951/06)  
("Steinhoff" or "the company")

To: \_\_\_\_\_  
(name of shareholder's CSDP/broker)

**For use only by shareholders who have already dematerialised their share certificates and which shares are not registered in their own names (example in name of CSDP or broker/nominee)**

For use in respect of the annual general meeting of the holders of ordinary shares in the company ("Steinhoff shareholders") to be held at the head office of the company, 28 Sixth Street, Wynberg, Sandton, on Monday, 29 November 2004, 08:00 the (general meeting).

Shareholders who have already dematerialised their shares may use this form to advise their Central Securities Depository Participant ("CSDP") or broker of their voting instructions on the proposed resolutions in the spaces provided below. However, should a shareholder wish to attend the meeting in person, written authority would be required from such CSDP or broker.

I/We

of

being a shareholder of the company, who has/have dematerialised my/our shares do hereby indicate below my/our voting instructions on the resolutions to be proposed at the annual general meeting:

Voting instructions in respect of all/.....number of shares held	In favour of	Against	Abstain
1. To receive and adopt the annual financial statements			
2.1 To re-elect to the board – CE Daun			
– KJ Grove			
– D Konar			
– FA Sonn			
2.2 To ratify the appointment of RH Walker			
2.3.1 To ratify the directors' remuneration			
2.3.2 To reappoint Deloitte & Touche as auditors			
3. Ordinary resolution number 1			
4. Ordinary resolution number 2			
5. Ordinary resolution number 3			
6. Special resolution number 1			
7. Ordinary resolution number 4			

Signed at \_\_\_\_\_ on \_\_\_\_\_ 2004

Signature

Assisted by me (where applicable) (state capacity in full name)

# Notes to voting form

for the year ended 30 June 2004

## NOTES

Any shareholder who holds shares through a nominee or in dematerialised form must use this voting instruction form to advise their nominee/broker/Central Security Depository Participant ("CSDP") of their voting instructions and should not use the proxy form. However, should such member wish to attend the meeting, they will need to request their CSDP, broker or nominee to provide them with the necessary authority in terms of the agreement governing their relationship.

A shareholder's instructions to the CSDP/broker must be shown by indicating, in the appropriate boxes provided, the manner in which that shareholder wishes to vote by inserting an "X" in the relevant box, unless a shareholder wishes to split his/her votes in which case the relevant numbers of shares to be so voted must be indicated in the form to vote or abstain from voting at the general meeting as he/she deems fit in respect of all the Steinhoff shareholder's votes exercisable thereat. A shareholder is not obliged to use all the votes exercisable by the shareholder, but the total of the votes cast and in respect whereof abstention is recorded may not exceed the total of the votes exercisable by the Steinhoff shareholder. Should a shareholder fail to complete the number of shares held, it will be deemed to have exercised the vote in respect of all shares held as recorded in the relevant register.

Voting instruction forms and power of attorney by virtue of which such instructions are signed (or a notarially certified copy of such power of attorney) must be sent to the CSDP or broker in terms of the agreements governing their relationship and preferably with a copy to be lodged at or posted to the company's transfer secretaries or delivered or faxed to the Company Secretary, the latter to be received by not later than 13:00 Friday 26 November 2004

Any alteration or correction made to this form must be initialled by the signatory/ies.

Documentary evidence establishing the authority of a person signing this form in a representative capacity must be attached to this form unless previously recorded by the CSDP/broker or waived.

No facility currently exists for receiving these forms of instruction by e-mail.

# Corporate information

for the year ended 30 June 2004

## REGISTRATION NUMBER

1998/003951/06

## REGISTERED OFFICE

28 Sixth Street  
Wynberg  
Sandton, 2090  
(PO Box 1955, Bramley, 2018)

## WEBSITE

<http://www.steinhoffinternational.com>

## SECRETARY

SJ Grobler  
28 Sixth Street  
Wynberg  
Sandton, 2090  
(PO Box 1955, Bramley, 2018)

## AUDITORS

Deloitte & Touche, Chartered Accountants (SA)  
221 Waterkloof Road  
Waterkloof, 0181  
(PO Box 11007, Hatfield, 0028)

## TRANSFER SECRETARIES

Computershare Investor Services 2004 (Pty) Limited  
(Registration number 2004/003647/07)  
Ground Floor, 70 Marshall Street,  
Johannesburg, 2001  
(PO Box 7184, Johannesburg, 2000)

## COMMERCIAL BANK

Standard Corporate and Merchant Bank  
(A division of The Standard Bank of South Africa Limited)  
(Registration number 1962/000738/06)  
Ground Floor, 3 Simmonds Street  
Johannesburg, 2001  
(PO Box 61150, Marshalltown, 2107)

## SPONSOR

PSG Capital Limited  
(Registration number 2002/017362/06)  
Building 8  
Woodmead Estate  
1 Woodmead Drive  
Woodmead, 2157  
(PO Box 987, Parklands, 2121)

Steinhoff  
International Holdings Ltd



[www.steinhoffinternational.com](http://www.steinhoffinternational.com)