Directors' report for the year ended 30 June 2006

The directors have pleasure in presenting the group annual financial statements of Steinhoff International Holdings Limited, for the year ended 30 June 2006.

NATURE OF BUSINESS

Steinhoff International Holdings Limited (Steinhoff) is a holding company investing predominantly in the household goods and related industries. Steinhoff is a globally-integrated lifestyle supplier that manufactures, warehouses, retails and distributes household goods, retails motor vehicles and also provides financial and management services to the group companies.

RESULTS FOR THE YEAR

The results for the year under review are fully set out in the attached annual financial statements.

DISTRIBUTIONS

The directors have resolved to declare a capital distribution from share premium of 37,5 cents per share (2005: 30 cents per share), payable on 13 November 2006 to those shareholders recorded in the books of the company at the close of business on 10 November 2006.

SUBSIDIARY COMPANIES

		Issued share capital	Effective shareholding (%)
Steinhoff International Holdings Limited's subsidiary is Steinhoff Investment Holdings Limited	Ordinary shares	R75 000	100
	Preference shares	R15 000	
Steinhoff Investment Holdings Limited's principal subsidiaries are:			
Steinhoff Africa Holdings (Proprietary) Limited and its subsidiaries		R35 700	100
Steinhoff Möbel Holdings Alpha GmbH (incorporated in Austria) and its subsidiaries		€35 790	100

The attributable interest of the company in the aggregated net income after taxation of its subsidiaries for the year ended 30 June 2006 is:

	2006 R'000	2005 R'000
Aggregate amount of profit after taxation	**2 462 648**	1 669 386
Aggregate amount of loss after taxation	**(513 537)**	(385 436)
	1 949 111	1 283 950

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 the 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 R988 million (2005: R703 million) in property, plant and equipment. This capital expenditure was funded by internally-generated cash and bank facilities.

Further information relating to the investment in property, plant and equipment of the group is presented in note 10 to the annual financial statements.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

These are the group's first consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS). The accounting policies adopted under IFRS have been applied in preparing the consolidated financial statements for the year ended 30 June 2006, the comparative information for the year ended 30 June 2005, and the preparation of an opening IFRS balance sheet at 1 July 2004 (the group's date of transition). Refer to note 40 for detail on the transition to IFRS.

CONSOLIDATION OF BLACK EMPOWERMENT TRANSACTION

In the prior year, prior to Unitrans Limited (Unitrans) becoming a subsidiary of Steinhoff Africa Holdings (Proprietary) Limited (Steinhoff Africa), Unitrans entered into a Black economic empowerment (BEE) transaction with Fundiswa Investments (Proprietary) Limited (Fundiswa) whereby Fundiswa subscribed for 11,6 million Unitrans shares. The deal was funded with a bridging loan of R292 million from Rand Merchant Bank (RMB). This loan was converted to A-preference shares in the current year. The loan was secured by a cession of the shares as well as the guarantees of the shareholders of Fundiswa (Arch Equity Limited, Mvelaphanda Capital (Proprietary) Limited and a Unitrans Employee Trust). In addition, RMB has a put option in respect of the funding to Steinhoff Africa under certain default conditions. Fundiswa pays and accrues dividends (interest) on the funding at 67% of the prime interest rate. In addition, they have an obligation to Steinhoff Investment Holdings Limited at 6% of the A-preference share capital (put premium). Amounts owed to Steinhoff Africa under this arrangement carried forward from the prior year were converted to B-preference shares in the current year.

In addition, Fundiswa and Steinhoff Africa entered into an equity sharing arrangement whereby the parties agree to share the surplus equity interest resulting from the potential disposal of the shares based on a formula dependent on the timing of the potential disposal.

During the June 2005 year, and given that Unitrans was only an associate at the time of the transaction, the transaction was viewed as a straight shares-for-cash issue and as such Steinhoff Africa did (and does) not assume control over the shares or had (has) any influence on the board of Fundiswa.

During the current year, this view was revisited and subsequently changed. It was concluded that Steinhoff Africa retains the majority of the risks and rewards pertaining to the 11,6 million shares, as Steinhoff Africa will remain eligible to at least 50% interest in equity participation (should Fundiswa dispose of the shares at any time in the future) and that the guarantees from Fundiswa, and its ultimate shareholders is not believed to be robust enough to argue that the risks from the transaction have been effectively transferred to Fundiswa. The revised view places the transaction within the requirements of SIC 12 – Consolidation of Special Purpose Entities (SPE) and Steinhoff Africa is therefore required to account for the risks and rewards pursuant in Fundiswa (effective consolidation of Fundiswa).

As a result, Steinhoff Africa should have consolidated Fundiswa and consequently the prior year financial statements were restated. The consolidation of Fundiswa effectively brings the Fundiswa preference share obligations on Steinhoff Africa's balance sheet, increases the effective shareholding in Unitrans by 13% with a resultant decrease in minorities and an increase in goodwill. The interest expense on the debt is also recognised in profit or loss.

SHARE CAPITAL

The company's authorised share capital increased to R11 000 000 (2005: R7 500 000), divided into 2 000 000 000 (2005: 1 500 000 000) ordinary share of 0,5 cents each and 1 000 000 000 (2005: nil) non-cumulative, non-redeemable, non-participating, variable rate preference shares of 0,1 cents each.

	Date	Number of shares	R
The following ordinary shares were issued during the year:	19 May 2006	5 879 479	45 293 684
	30 June 2006	5 659 134	121 331 833

At year-end, the group's share trust held 4 791 964 (2005: 4 111 728) shares which have been netted off against issued ordinary share capital as treasury shares. In addition, the company has reserved for the allocation and issue on conversion 54 744 526 ordinary shares under its obligations for the holders of convertible bonds issued on 30 June 2006.

	Date	Number of shares	R
A subsidiary of the group also issued the following variable rate, cumulative, non-redeemable, non-participating preference shares during the year:	18 November 2005	3 500 000	361 795 000
	22 May 2006	5 000 000	548 785 000

CONTRACTS

No contracts, other than those disclosed in note 39, 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 or which could have resulted in a conflict of interest were entered into during the year.

POST-BALANCE SHEET EVENTS

The directors are not aware of any significant post-balance sheet events that will have a material effect on the group's results or financial position as presented in these financial statements.

Directors' report for the year ended 30 June 2006 (continued)

DIRECTORATE

The executive directors in office during the financial year and date of this report, were:

Bruno Ewald Steinhoff (German) – Executive chairman	
Markus Johannes Jooste – Chief executive officer	
Karel Johan Grové	
Fredrik Johannes Nel – Financial director	
Daniël Maree van der Merwe	
Johannes Henoch Neethling van der Merwe – Chief financial officer	
Rodney Howard Walker (Australian)	(Resigned – 1 November 2005)
Ian Topping (British)	(Appointed – 5 December 2005)

The non-executive directors in office during the financial year and date of this report were:

Dirk Emil Ackerman*	
Claas Edmund Daun (German)*	
Johannes Nicolaas Stephanus du Plessis*#	(Resigned – 15 March 2006)
Dr Deenadayalen Konar*	
Johannes Fredericus Mouton*	
Dr Franklin Abraham Sonn*	
Norbert Walter Steinhoff (German)	

The alternate directors in office during the financial year and date of this report, were:

Hendrik Johan Karel Ferreira	(Appointed – 5 December 2005)
Johannes Nicolaas Stephanus du Plessis#	(Appointed – 15 March 2006)
Stephanus Johannes Grobler	(Appointed – 5 December 2005)

* *Independent non-executive directors*

Was reclassified from independent non-executive to executive director on 15 March 2006.

DIRECTORS' SHAREHOLDING

At 30 June 2006, the present directors of the company held direct and indirect interest in 178 931 245 (2005: 191 282 875) or 15,6% (2005: 16,9%) of the company's issued ordinary shares.

There have been no changes to directors' shareholding between year-end and the date of this report. Details of individual holdings are disclosed on page 150 and 151.

CORPORATE GOVERNANCE

The group complies with the JSE Limited (JSE) listing requirements and in all material respects with the Code of Corporate Practice and Conduct published in the King II Report on Corporate Governance.

SHARE INCENTIVE SCHEME

The directors are authorised to issue, allot or grant rights to a maximum of 10% (2005: 10%) of the issued share capital of the company from time to time in terms of the employee share incentive schemes. It is noted that the performance hurdles in respect of the share incentives scheme approved and granted in December 2003 were met and will mature in three annual tranches effective from 1 December 2006. Details of participation by directors in the share incentive scheme are set out in note 22 of the annual financial statements.

SECRETARY

Stephanus Johannes Grobler acts as secretary to the company.

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