

DIRECTORS' REPORT

TO THE MEMBERS OF ALLIED ELECTRONICS CORPORATION LIMITED

The directors have pleasure in submitting the annual financial statements of the group for the year ended 28 February 2005.

NATURE OF BUSINESS

Altron is an investment holding company. Its principal subsidiaries, Allied Technologies Limited, Power Technologies (Pty) Limited and Bytes Technology Group Limited, are invested in the power electronics, telecommunications, multi-media and information technology industries.

FINANCIAL RESULTS

Group attributable earnings for the year ended 28 February 2005 were R400 million (2004: R304 million), representing earnings per share of 145 cents (2004: 112 cents). Headline earnings per share were 161 cents (2004: 138 cents).

Full details of the financial position and results of the group are set out in these financial statements.

DIVIDENDS

The following dividends were declared in respect of the year ended 28 February 2005:

- ordinary dividend No. 57 of 63.0 cents per share (2004: 52.0 cents); and
- participating preference dividend No. 11 of 63.0 cents per share (2004: 52.0 cents).

It remains policy to declare dividends annually at the time of announcing the group's results in May of each year.

SUBSIDIARIES, ASSOCIATE COMPANIES AND OTHER INVESTMENTS

Particulars of the principal subsidiaries of the group are given on page 102 whilst particulars of the associate companies and other investments are provided in Annexure 1 on page 96.

The attributable interest of the companies in the income and losses of their subsidiaries for the year ended 28 February 2005 is:

	2005 R million	2004 R million
Aggregate amount of income after taxation	676	548
Aggregate amount of losses after taxation	172	96

Black economic empowerment

On 1 March 2004, the following transactions were concluded:

- Powertech disposed of 30% of its interest in Aberdare Cables (Pty) Limited to the Izingwe Consortium for a consideration of R165 million;
- BTG disposed of 27% of its equity interest in Bytes Technology Group South Africa (Pty) Limited to Kagiso Strategic Investments, 5% of which was settled in cash and the remaining 22% to be settled on the exercise of options at a price of R198 million.

On 4 March 2004, Altech announced that it had entered into a binding heads of agreement with Pamodzi Investment Holdings (Pty) Limited ("Pamodzi") whereby Pamodzi would acquire a 25.01% shareholding in Altech Data (Pty) Limited, subject to the fulfilment of certain conditions precedent. These conditions precedent have been fulfilled.

For further information and details pertaining to Black Economic Empowerment transactions, please see note 11 of the annual financial statements.

NamITech

Following Competition Tribunal approval, the acquisition by Altech of a controlling interest in NamITech became effective from 1 March 2004. The consideration paid was R552 million. Simultaneously with the acquisition NamITech issued preferred ordinary shares to Pamodzi Investment Holdings (Pty) Limited. The preferred ordinary shares entitle Pamodzi Investment Holdings (Pty) Limited to 28% of the voting rights in respect of the total issued share capital of NamITech and to 28% of the earnings in excess of the predetermined base earnings of NamITech.

DIRECTORS' REPORT - (CONTINUED)**AEW**

As previously announced, effective 1 December 2004, Altech acquired a 50% plus one share interest in the issued share capital of AEW, a telecommunications investment holding company established in Botswana. The other partner in joint control of AEW is Econet Wireless Ventures which holds 50% minus one share of the issued share capital of AEW. The consideration paid by Altech was R416 million.

Purchase of 7.6% of Altech

The company took advantage of an opportunity in June 2004 to purchase 7.6% of the issued share capital of Altech on the open market at a cost of R257 million. Subsequent thereto, Altech purchased these shares from the company and now holds them as treasury stock.

CS Holdings

On 17 November 2004, BTG acquired the entire issued share capital of CS Computer Services Holdings Limited, following the unconditional approval of the transaction by the Competition Commission. CS Holdings' shareholders received one BTG share for every 37 CS Holdings shares which they held.

SHARE CAPITAL

Full details of the authorised, issued and unissued capital of the company at 28 February 2005 are contained in note 9 to the financial statements.

Share schemes

Particulars relating to the Altron Share Incentive Scheme and The Allied Electronics Corporation Limited Share Trust are set out in note 9 to the financial statements.

At the date of this report, a total of 4 847 855 ordinary shares and 29 607 755 participating preference shares remain reserved for the purposes of the company's employee share schemes.

The remaining unissued ordinary shares and participating preference shares are the subject of a general authority granted to the directors in terms of section 221 of the Companies Act, 1973, as amended, and which authority remains valid only until the next annual general meeting which will be held on Friday,

15 July 2005. At that meeting, shareholders will be asked to place 10% of the unissued ordinary and participating preference shares under the control of the directors. Shareholders will also be asked to waive their pre-emptive rights in favour of the directors to allot and issue ordinary and/or participating preference shares for cash as and when suitable circumstances arise.

DIRECTORATE**Appointment:**

1 November 2004 Dr PM Maduna

Resignation:

7 May 2004 LC van Vught

In terms of the company's articles of association, Dr PM Maduna retires at the forthcoming annual general meeting and Messrs MC Berzack, MJ Leeming, JRD Modise and CG Venter retire by rotation. All the retiring directors are eligible and available for re-election. Their profiles appear on pages 110 to 112.

SECRETARIES

Altron Management Services (Pty) Limited act as secretaries to the company. The secretaries' business and postal addresses appear on page 120.

During the year under review, Ms SF Linford resigned as group company secretary on 31 October 2004 to pursue her own interests. Mr AG Johnston was appointed as group company secretary on 15 February 2005.

SEGMENT REPORTING

Segment information is included in this annual report as part of the operational reviews and shareholders are referred to annexure 2 on page 98.

Headline earnings contributions to Altron were as follows:

	2005 R million	2004 R million
Altech	192	170
BTG	75	56
Powertech	148	144
Corporate	30	7

DIRECTORS' INTERESTS

At 28 February 2005 the present directors of the company held direct and indirect beneficial interests, including family interests, in 59 751 636 of the company's issued ordinary shares (2004: 59 704 773 ordinary shares) and 34 491 192 of the company's issued participating preference shares (2004: 34 484 139). Details of shares held per individual director that holds shares in the company are listed below. A total of 3 487 350 participating preference share options are allocated to directors in terms of the company's employee share schemes.

Chairman and director, Dr WP Venter, through his family and related trusts, is the controlling shareholder of the company.

DIRECT BENEFICIAL		
Name of director	Ordinary shares	Participating preference shares
Dr WP Venter	2 641 639	8 039
MC Berzack	—	451 332
Dr HA Serebro	458 373	1 555

INDIRECT BENEFICIAL		
Name of director	Ordinary shares	Participating preference shares
Dr WP Venter	56 649 124	34 029 256
Dr HA Serebro	—	1 010
MJ Leeming	2 500	—

At the date of this report, these interests remain unchanged.

RESOLUTIONS

A special resolution was passed and registered by the company on 9 November 2004 adopting new Articles of Association.

At subsidiary level Altech passed and registered two special resolutions during the period under review, one on 25 November 2004 adopting new Articles of Association and the other on 16 July 2004 approving the repurchase of 8 048 242 Altech ordinary shares from the company.

Except for the above, no other special resolutions, the nature of which might be significant to shareholders in their appreciation of the state of affairs of the group, were passed by the company or its subsidiaries during the period covered by this annual report.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The annual financial statements set out in this annual report have been prepared in accordance with South African Generally Accepted Accounting Practice and are based on appropriate accounting policies, which are supported by reasonable and prudent judgements and estimates.

The directors of the company are responsible for the preparation of the annual financial statements and related financial information that fairly present the state of affairs and the results of the company and the Altron group.

These financial statements have been prepared on the going-concern basis, since the directors have every reason to believe that the company and the group have adequate resources in place to continue in operation for the foreseeable future.

The auditors have concurred with the directors' going-concern statement. The annual financial statements for the year ended 28 February 2005 which appear on pages 61 to 102 were approved by the board and signed on its behalf on 9 May 2005.

For: **ALLIED ELECTRONICS CORPORATION LIMITED**



DR BILL VENTER - Chairman



RE VENTER - Chief Executive



DC RADLEY - Chief Financial Officer