KAP International Holdings Ltd

Audited Group Results

for the year ended 30 June 2010

Highlights

* Further improvement of debt/equity ratio to 24%
* Strong cash flows generated for the period
* Headline earnings grow from 3 cents loss to 21 cents profit per share
* Recovery in the automotive division

Performance

We submit our report to shareholders on the results and activities of KAP International for the year ended 30 June 2010.

Revenue and earnings

Operating profit before restructuring costs has improved by 45% to R199 million following the restructuring of the 2008/9 period. Coupled with a reduction in interest, this has resulted in headline earnings per share including discontinued operations improving to a profit of 21,0 cents from a loss of 3,2 cents in 2008/9. Headline earnings per share excluding discontinued operations also increased significantly to 21,2 cents, up from 11,4 cents in 2008/9. Revenue for the year from continuing operations has increased slightly to R3,97 billion (2008/9: R3,84 billion).

The results reflect the impact of the restructuring which management completed early in the business cycle (2008/9) in respect of the fresh meat and automotive divisions, as well as the disposal of the automotive leathers division. This restructuring should help to provide more predictability of earnings going forward.

Balance sheet and cash flow

Following continued focus on cash generation, net interest-bearing borrowings have decreased further by R189,3 million to R325,6 million (2009: R514,9 million). The debt/equity ratio at year-end was 23,9%, which is particularly pleasing in the light of tough economic conditions.

This cash was generated by strong operating cash flows, tight working capital management and strict control over capital expenditure.

Capital distribution

In light of the improved cash flow, the board has declared a final capital distribution of 7 cents per share, approximately three times cover.

Operational overview

Industrial segment

Feltex Automotive

Vehicle build remained nearly constant in the current financial year (2010: 392 299 vs 2009: 398 419) but are at similar levels to 2003/4. The restructuring initiatives in the previous year led to strong profit growth, albeit off a low base. Working capital was well managed and cash generation good. The trim division took advantage of the difficult economic circumstances to increase its market share further.

Trading conditions are expected to continue to be stable, but tight, as a significant proportion of vehicles produced in South Africa are exported to the United States and Europe whose economies still face significant challenges.

Industrial footwear

This division continued to perform well. Wayne Plastics continued to deliver good volumes. United Fram's volumes and prices remain under pressure due to competition from imports. The turnaround in Mossop has been completed and the division is now delivering better trading results.

Hosaf

Hosaf increased local sales of PET by 65% over the last financial year as a result of the closure of Sans Fibres (a former competitor) and the expanded plant is running efficiently. Market conditions during the period under review remained satisfactory although disappointing that the impact of the World Cup on volumes has not been as large as originally anticipated.

Consumer segment

Bull Brand Foods

Volumes in the cannery operations of Bull Brand remained low, although the value-added manufacturing fared better. The division's strategy of increasing exports remains a focus area. The reorganisation of the production process has also resulted in better efficiencies and operational cost savings, and the division now requires increased volumes for these improvements to reflect in the results.

Brenner Mills

The maize price reduced due to a bumper local and US maize crop, which had an effect on both prices and margins, and resulted in lower profitability. Brenner continues to provide good operating profits and cash flow.

Jordan

As a result of the Jordan strategy to focus on lower volume, higher margin products, pairs sold declined by 10% to 2,1 million, while revenue declined by only 2,5%. Although the strong Rand assists the imported products, some retailers have opted to import directly from China. The premium Asics brand continues to dominate the running market in South Africa.

Glodina

There was strong growth in the hospitality sector due to the World Cup, while the retail sector remained relatively flat as the market continues to feel the effects of the recession. The hospitality sector year on year increased in volume by 15%, while volumes to the major chains reduced by 4%.

Corporate activity

There was no material corporate activity during the period.

Directors and officers

K E Schmidt and U Schäckermann were appointed to the board on 1 March 2010 as independent non-executive directors, and as members of the audit and risk committee.

Outlook

The group will continue to focus on strong cash generation and strict cost control.

We are confident that our investment in the PET division, coupled with continued growth in automotive will provide good returns in future years.

Appreciation

We are grateful to our shareholders, employees and other stakeholders, and thank them for their continued support.

Claas Daun	Paul Schouten	John Haveman
Non-executive chairman	Chief executive officer	Chief financial officer

Capital distribution

In terms of the general authority obtained by the company at the general meeting of shareholders held on 27 November 2009, the directors of the company have declared a final capital distribution out of share premium of 7 cents per share in respect of the period ending 30 June 2010.

The distribution will be payable on Monday, 4 October 2010 to shareholders recorded in the register at the close of business on Friday, 1 October 2010.

To comply with the requirements of Strate the following dates are applicable:

Last date to trade cum-distribution	Thursday, 23 September 2010
Trading commences ex-distribution	Monday, 27 September 2010
Record date	Friday, 1 October 2010
Posting of cheques/electronic bank transfers	Monday, 4 October 2010
Accounts credited at CSDP or broker in respect of shareholders who have dematerialised their shares	Monday, 4 October 2010

Share certificates may not be dematerialised or rematerialised between Thursday, 23 September 2010 and Friday, 1 October 2010, both days inclusive.

Any changes to the above dates will be advised by notification on SENS and in the press.

For and on behalf of the board

M Balladon
Company secretary

Paarl
6 September 2010

Condensed Statements of Comprehensive Income

	30 Jun 2010 12 months Rm	30 Jun 2009 12 months Rm
Continuing operations		
Revenue	3 970,5	3 839,0
Operating profit before restructuring costs	198,2	152,5
Restructuring costs	(3,7)	(19,9)
Operating profit	194,5	132,6
Net finance costs	(52,7)	(59,3)
Other costs	–	(4,1)
Share of results of joint ventures	3,0	2,7
Profit before taxation	144,8	71,9
Taxation	(48,7)	(20,5)
Profit after taxation from continuing operations	96,1	51,4
Discontinued operations		
Revenue	29,7	725,2
Operating profit/(loss) before restructuring costs	0,5	(15,3)
Restructuring costs	(4,0)	(69,5)
Operating loss	(3,5)	(84,8)
Net finance costs	(1,5)	(18,2)
Loss after taxation from discontinued operations	(2,4)	(84,1)
Total profit/(loss) for the period	93,7	(32,7)
Other comprehensive income/(loss)		
Movement in foreign currency translation reserve	–	(0,3)
Total comprehensive income/(loss)	93,7	(33,0)
Total profit/(loss) for the period	93,7	(32,7)
Owners of the company	87,4	(37,3)
Non-controlling interest	6,3	4,6
Total comprehensive income/(loss)	93,7	(33,0)
Owners of the company	87,4	(37,6)
Non-controlling interest	6,3	4,6
Earnings per share (basic and diluted)		
Including discontinued operations	20,6	(8,8)
Excluding discontinued operations	21,2	11,0
Headline earnings per share (basic and diluted)		
Including discontinued operations	21,0	(3,2)
Excluding discontinued operations	21,2	11,4
Reconciliation of headline earnings/(loss)		
Net profit/(loss) attributable to owners of the company	87,4	(37,3)
Profit on sale of property, plant and equipment	(2,2)	(1,9)
Impairments	4,0	14,0
Loss on remeasurement of disposal group	–	11,4
Headline earnings/(loss)	89,2	(13,8)
Weighted average shares in issue	424,5	424,5

Condensed Statements of Financial Position

	30 Jun 2010 Rm	30 Jun 2009 Rm
ASSETS		
Non-current assets	1 128,5	1 166,4
Property, plant and equipment and investment properties	945,7	939,9
Goodwill	66,7	66,7
Interest in joint ventures	22,7	22,1
Pension fund surplus	25,1	30,4
Deferred taxation assets	68,3	107,3
Current assets	1 381,7	1 342,2
Inventories	646,3	675,8
Trade and other receivables	621,1	547,9
Bank balances and cash	101,8	58,5
Assets held for sale	12,5	60,0
Total assets	2 510,2	2 508,6
EQUITY AND LIABILITIES		
Capital and reserves	1 364,7	1 272,1
Equity holders' interest	1 327,0	1 238,6
Non-controlling interest	37,7	33,5
Non-current liabilities	61,7	64,7
Long-term interest-bearing borrowings	30,5	29,6
Retirement benefit obligations	10,6	11,3
Deferred taxation liabilities	20,6	23,8
Current liabilities	1 083,8	1 171,8
Short-term interest-bearing borrowings	72,7	193,5
Trade and other payables	636,8	591,0
Provisions	50,1	37,0
Bank overdrafts	324,2	342,0
Liabilities directly associated with assets held for sale	–	8,3
Total equity and liabilities	2 510,2	2 508,6
Number of shares in issue (millions)	424,5	424,5
Net asset value per share (cents)	312,6	291,8
Net interest-bearing debt to equity (%)	23,9	40,5

Condensed Statements of Cash Flows

	30 Jun 2010 12 months Rm	30 Jun 2009 12 months Rm
Cash flows from operating activities	233,9	276,4
Cash generated from operations before working capital changes	268,6	136,3
Net working capital changes	28,4	231,8
Cash generated from operations	297,0	368,1
Net finance costs	(54,2)	(77,5)
Taxation paid	(8,9)	(14,2)
Cash flows to investing activities	(42,5)	(230,5)
Purchase of property, plant and equipment		
Expansion	(34,2)	(189,0)
Replacement	(29,1)	(68,4)
Other investing activities	20,8	26,9
Cash flows from operating and investing activities	191,4	45,9
Cash flows to financing activities	(130,3)	(144,6)
Dividends and distributions paid to minorities	(2,1)	(3,6)
Decrease in borrowings	(128,2)	(141,0)
Net increase/(decrease) in cash and cash equivalents	61,1	(98,7)
Cash and cash equivalents at the beginning of the period	(283,5)	(184,8)
Cash and cash equivalents at the end of the period	(222,4)	(283,5)

Condensed Statements of Changes in Equity

	30 Jun 2010 12 months Rm	30 Jun 2009 12 months Rm
Balance at the beginning of the period	1 272,1	1 308,7
Other comprehensive income	–	(0,3)
Movement in share-based payment reserve	1,0	–
Net profit/(loss) for the period	93,7	(32,7)
Distributions to minorities	(2,1)	(3,6)
Balance at the end of the period	1 364,7	1 272,1
Owners of the company	1 327,0	1 238,6
Non-controlling interest	37,7	33,5

Notes

	30 Jun 2010 12 months Rm	30 Jun 2009 12 months Rm
1 Net finance costs – continuing operations	52,7	59,3
Interest received	(3,7)	(3,1)
Interest paid	56,4	62,4
Net finance costs – discontinued operations	1,5	18,2
2 Capital expenditure commitments	57,4	50,9
Contracted	8,0	15,7
Approved but not yet contracted	49,4	35,2
3 Operating lease commitments	72,8	41,0
4 Guarantees and contingent liabilities	11,1	9,6

5 Taxation

The taxation rate is higher than the statutory rate mainly due to permanent differences in respect of the group's pension fund surplus. The cumulative effect is a current year adjustment of R7,2 million.

6 Basis of preparation

The condensed financial information has been prepared in accordance with the framework concepts and the measurement and recognition requirements of IFRS, the AC 500 standards as issued by the Accounting Practices Board and the information as required by IAS 34 – Interim Financial Reporting. The report has been prepared using accounting policies that comply with International Financial Reporting Standards which are consistent with those applied in the financial statements for the year ended 30 June 2009, except for the changes required by IAS 1 – Presentation of Financial Statements resulting in names for the components of the financial statements and introduction of other comprehensive income.

7 Audit opinion

The auditors, Deloitte & Touche, have issued their opinion on the group's annual financial statements for the year ended 30 June 2010. The audit was conducted in accordance with International Standards on Auditing. They have issued an unmodified audit opinion. These condensed financial statements have been derived from the group financial statements and are consistent in all material respects, with the group financial statements. A copy of their audit report is available for inspection at the company's registered office. Any reference to future financial performance included in this announcement, has not been reviewed or reported on by the company's auditors.

Condensed Segmental Analyses

	Revenue Rm	Operating profit before restructuring costs Rm	Depreciation Rm	Total assets Rm
June 2010 (12 months)	4 000,2	198,7	(70,8)	2 510,2
Industrial	2 495,2	142,4	(56,0)	1 675,3
Consumer	1 505,0	56,3	(14,8)	721,8
Other	–	–	–	113,1
June 2009 (12 months)	4 564,2	137,2	(59,3)	2 508,6
Industrial	2 242,0	73,5	(43,4)	1 718,5
Consumer	2 321,1	64,7	(15,4)	752,1
Other	1,1	(1,0)	(0,5)	38,0

These results can be viewed on: www.kapinternational.com

Corporate information

Non-executive directors: C E Daun* (Chairman), M J Jooste, J B Magwaza, I N Mkhari, F Möller*, S H Nomvete, U Schäckermann*, K E Schmidt, D M van der Merwe * German **Executive directors:** P C T Schouten (CEO), J P Haveman (CFO) **Registration number:** 1978/000181/06 **Share code:** KAP **ISIN:** ZAE000059564
Registered address: 1st Floor, New Link Centre, 1 New Street, Paarl, 7646 **Postal address:** PO Box 3639, Paarl, 7620 **Telephone:** 021 872 8726 **Facsimile:** 021 872 9064 **Transfer secretaries:** Computershare Investor Services (Proprietary) Limited **Address:** 70 Marshall Street, Johannesburg, 2001
Postal address: PO Box 61051, Marshalltown, 2107 **Telephone:** 011 370 5000 **Facsimile:** 011 688 7710 **Sponsor:** PSG Capital (Proprietary) Limited