KAP INDUSTRIAL HOLDINGS LIMITED

KAP INDUSTRY IN MOTION™

UNAUDITED RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2015

CONTRACTUAL LOGISTICS / Specialised contractual supply chain and logistics services

PASSENGER TRANSPORT / Personnel, commuter, intercity and tourism transport

INTEGRATED TIMBER / Forestry and timber manufacturing operations with primary and secondary processing

CHEMICAL / Manufacture of PET, resin and formaldehyde

AUTOMOTIVE COMPONENTS / Manufacture of components used in new vehicle assembly

INTEGRATED BEDDING / Manufacture of foam, fabrics, springs, bases and mattresses

Revenue from continuing operations **up by 3% to R8.2bn**

Operating margin of continuing operations **up by 120 bps to 11.0%**

Headline earnings per share from continuing operations **up by 15%**

Cash generated from operations **up by 11%**

Gearing reduced to 40% from 48%

Net asset value per share **up by 13%**

Corporate review

The period under review was utilised to consolidate the effect of the various corporate activities initiated in previous periods, which involved business acquisitions and disposals and operational rationalisation. The effect of this has resulted in continued focus on strategically aligned, established businesses with high barriers to entry that enhance the group's quality of earnings in respect of sustainability, solid margins and strong cash conversion. The implementation of this strategy produced pleasing results for the period.

Operational review

DIVERSIFIED LOGISTICS

Revenue of the segment decreased by 1% to R4 099 million for the period as a result of a lower average fuel price which was contractually passed on to customers. Margins showed a strong improvement of 120 bps (from 10.5% to 11.7%) as a result of continued reallocation of capital toward higher return activities and a reduction in overhead costs.

The Contractual Logistics division produced strong growth in the food, petrochemical and infrastructure sectors. Subdued activity in the mining, agriculture and furniture sectors was well managed by the division, with a reallocation of resources and strong cost containment.

The consolidation of the contractual logistics operations into a single business in order to facilitate growth within specific industry sectors, to optimise the utilisation of assets and infrastructure, and to improve efficiencies was concluded during the period and is operating effectively. Rationalisation of support functions was completed in December 2015.

The Passenger division performed well with the commuter, intercity and Gautrain operations offsetting low passenger activity in the mining and tourism sectors. The division benefited from a lower average fuel price in certain sectors. Operations in Mozambique continued to perform well.

DIVERSIFIED INDUSTRIAL

Revenue of the segment increased by 8% to R4 142 million for the period.

PG Bison performed well during the period with the upgraded MDF plant continuing to drive revenue growth through additional volume capacity, and margin improvement through better raw material utilisation. The division continued to drive sales of its value added products. Its solid surfacing and integrated sawmilling operations showed improvement following operational restructuring.

In the Chemical division, Woodchem performed well with strong market share gains and the commissioning of its paper impregnation plant. The performance of Hosaf, which continued to operate at full capacity, remained stable for the period in spite of import competition. Volatile currency and commodity price fluctuations were well managed in both operations.

Investment in technology upgrades and continuous improvement projects have resulted in a good performance by the Automotive Components division, despite locally manufactured vehicle build volumes remaining flat.

In the Integrated Bedding division, the integration of the various operations into a single business resulted in efficiency benefits and cost savings which improved the net margin for the division. The recently acquired Restonic operation performed to expectation, while the Vitafoam and DesleeMattex operations both outperformed as a result of their successful integration. The division made significant progress in the implementation of its strategy of decentralised mattress assembly and distribution.

Financial review

These are the unaudited results for the six months ended 31 December 2015.

Revenue and operating profit before capital items

Revenue from continuing operations increased by 3% to R8 189 million from R7 965 million, with growth coming mainly from the Diversified Industrial segment.

Operating profit before capital items from continuing operations increased by 15% to R898 million from R780 million, resulting in margins increasing to 11.0% from 9.8%.

The operating profit of the Diversified Logistics segment increased by 10% to R478 million from R436 million, resulting in margins increasing to 11.7% from 10.5%.

The operating profit of the Diversified Industrial segment increased by 22% to R420 million from R344 million, resulting in margins increasing to 10.1% from 8.9%.

Headline earnings per share (HEPS)

HEPS from continuing operations increased by 15% to 21.4 cents from 18.6 cents in the comparative period. HEPS including discontinued operations increased by 12% to 21.4 cents from 19.1 cents in the comparative period.

Tax rate

The effective tax rate from continuing operations increased to 28.8% from 27.6%, as a result of the repatriation of funds from non-South African territories.

Cash flow

Cash generated from operations increased by 11% to R391 million from R351 million.

Replacement capital expenditure, net of disposal proceeds and government grants, amounted to R443 million for the period, and over the long term continues to be managed in relation to the depreciation charge.

Expansion capital expenditure of R397 million resulted from various growth opportunities in the group, which include the expansion of the Hosaf plant and the Piet Retief particleboard plant upgrade.

Debt structure and finance costs

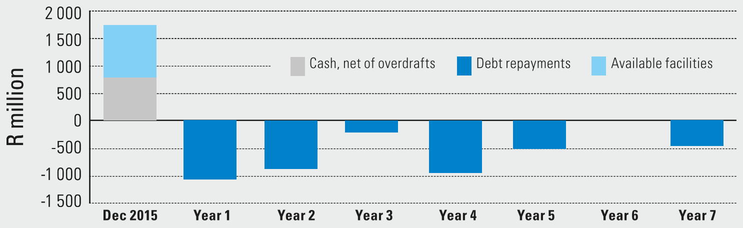
Despite various expansion initiatives currently underway, net interest-bearing debt reduced to R3 201 million from R3 299 million, which resulted in a further reduction in the gearing ratio to 40% from 48% and a reduction in finance costs. The debt structure and cover ratios are reflected as follows:

Debt structure	1H16 Rm	1H15 Rm
Interest-bearing long-term liabilities	2 920	3 431
Interest-bearing short-term liabilities	1 059	79
Bank overdrafts and short-term facilities	276	1 088
Cash and cash equivalents	(1 054)	(1 299)
Net interest-bearing debt	3 201	3 299
Total equity (excluding non-controlling interests)	8 037	6 876
Net interest-bearing debt: equity	40%	48%
EBITDA*	1 323	1 169
Net finance charges*	151	163
EBITDA: interest cover (times)**	9.4	7.2
Net debt: EBITDA (times)**	1.2	1.4

**From continuing operations **Rolling 12 months*

Maturity profile

The maturity profile of the net debt is reflected as follows:



Working capital

Consistent with previous interim periods, the first half of the financial year saw a seasonal investment in working capital.

Inventories reduced by R159 million, accounts receivable increased by R134 million, while accounts payable reduced by R422 million. The net working capital of the prior period did not include Restonic.

The net working capital investment remains low relative to the revenue of the group.

Net asset value (NAV)

The NAV per share increased by 13% to 330 cents from 293 cents in the comparative period.

Outlook

Management continues to focus on optimising existing operations, growing market share and growth in the rest of Africa where it has an existing footprint. The following initiatives have been concluded or are in progress in this regard:

Key contracts in the Contractual Logistics division were renewed. It is expected that improved efficiencies and significantly reduced costs resulting from the rationalisation of this division will result in further contract renewals and extensions.

The Passenger division continues to grow its operations in Mozambique.

An upgrade of the PG Bison particleboard line in Piet Retief will be commissioned in May 2017 and will provide additional volume capacity, product quality improvements and better raw material utilisation.

A high-gloss finishing line will be commissioned at PG Bison's Boksburg operation in June 2016 in order to further increase sales of value added products.

A paper impregnation line was successfully commissioned at Woodchem during December 2015 and is operating ahead of expectation.

An expansion of the Hosaf plant will be commissioned in August 2017 and will provide significant additional volume capacity and economy of scale benefits.

Continued model replacement introductions in the automotive sector provide a solid platform for the growth of the Automotive Components division.

The efficiency and integration opportunities resulting from the creation of the Integrated Bedding division; the implementation of their strategy; and the completion of their new factory in Johannesburg in April 2017 are expected to continue to bear fruit.

The group continues to pursue acquisition opportunities in accordance with its strategy, both at a corporate and divisional level. In view of its strong cash generation and reduced gearing, the group is well positioned to take advantage of opportunities in this regard, as they arise.

To this end, subsequent to the reporting date, the group concluded the acquisition of Autovest Limited (Autovest), subject to certain conditions precedent. Autovest is engaged in the manufacture of automotive accessories which are sold in the retail aftermarket via franchised fitment centres. This provides the Automotive Components division, which is currently engaged in the supply of components for domestic new vehicle build only, with access to the broader retail aftermarket. This aftermarket includes imported and pre-owned vehicles, in addition to domestic new vehicle build.

Appreciation

The board of directors records its appreciation for the continued support and loyalty of the group's employees, shareholders, customers and suppliers.

Interim dividend

In line with historical policy, the group has not declared an interim dividend.

On behalf of the board

J de V du Toit
Independent non-executive chairman

KJ Grové
Executive deputy chairman

GN Chaplin
Chief executive officer

15 February 2016

KAP INDUSTRY IN MOTION™

KAP Industrial Holdings Limited ("KAP" or "the company" or "the group")

Non-executive directors: J de V du Toit (Chairman)*, MJ Jooste, AB la Grange, IN Mkhari*, SH Müller*, SH Nomvete*, PK Quarmby*, DM van der Merwe, CJH van Niekerk* **Executive directors:** KJ Grové (Executive deputy chairman), GN Chaplin (Chief executive officer), JP Haveman (Chief financial officer) **Registration number:** 1978/000181/06 **Share code:** KAP **ISIN:** ZAE000171963 **Registered address:** 28 6th Street, Wynberg, Sandton, 2090 **Postal address:** PO Box 18, Stellenbosch, 7599 **Telephone:** 021 808 0900 **Facsimile:** 021 808 0901 **E-mail:** info@kap.co.za **Transfer secretaries:** Computershare Investor Services Proprietary Limited, 70 Marshall Street, Johannesburg, 2001 **Company secretary:** Steinhoff Secretarial Services Proprietary Limited **Auditors:** Deloitte & Touche **Sponsor:** PSG Capital Proprietary Limited *Independent non-executive directors

Condensed consolidated financial statements

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 31 Dec 2015 Unaudited Rm	Six months ended 31 Dec 2014 Unaudited* Rm	% change	Year ended 30 Jun 2015 Audited Rm
Revenue		8 189	7 965	3	15 664
Operating profit before depreciation, amortisation and capital items		1 323	1 169	13	2 450
Depreciation and amortisation		(425)	(389)		(784)
Operating profit before capital items		898	780	15	1 666
Capital items	1	(8)	5		(35)
Earnings before interest, dividend income, associate and joint venture earnings and taxation		890	785	13	1 631
Net finance charges		(151)	(163)		(289)
Share of profit of associate and joint venture companies		10	2		–
Profit before taxation		749	624	20	1 342
Taxation		(213)	(166)		(361)
Profit for the period from continuing operations		536	458	17	981
Loss for the period from discontinued operations	2	–	(26)		(51)
Profit for the period		536	432	24	930
Attributable to:					
Owners of the parent		513	415	24	888
Non-controlling interests		23	17		42
Profit for the period		536	432	24	930
From continuing and discontinued operations:					
Headline earnings per ordinary share (cents)		21.4	19.1	12	40.2
Fully diluted headline earnings per ordinary share (cents)		21.1	18.9	12	39.6
Basic earnings per ordinary share (cents)		21.2	17.7	20	37.2
Fully diluted earnings per ordinary share (cents)		20.8	17.5	19	36.7
From continuing operations:					
Headline earnings per ordinary share (cents)		21.4	18.6	15	40.6
Fully diluted headline earnings per ordinary share (cents)		21.1	18.4	15	40.1
Basic earnings per ordinary share (cents)		21.2	18.8	13	39.4
Fully diluted earnings per ordinary share (cents)		20.8	18.6	12	38.8
Number of ordinary shares in issue (m)		2 441	2 346	4	2 423
Weighted average number of ordinary shares in issue (m)		2 424	2 346	3	2 384
Earnings attributable to ordinary shareholders (Rm)		513	415	24	888
Headline earnings attributable to ordinary shareholders (Rm)	3	519	449	16	959

ADDITIONAL INFORMATION

	Six months ended 31 Dec 2015 Unaudited Rm	Six months ended 31 Dec 2014 Unaudited* Rm	Year ended 30 Jun 2015 Audited Rm
Note 1: Capital items			
From continuing operations:			
(Loss)/profit on disposal of property, plant and equipment and investment property	(5)	1	(1)
(Loss)/profit on disposal of investments and impairments	(3)	4	(34)
	(8)	5	(35)
From discontinued operations:			
Loss on disposal of property, plant and equipment and investment property	–	(1)	(6)
Loss on disposal of investments and impairments	–	(40)	(51)
	–	(41)	(57)
	(8)	(36)	(92)
Note 2: Loss for the period from discontinued operations			
Revenue	–	381	474
Operating profit/(loss) before depreciation, amortisation and capital items	–	17	(1)
Depreciation and amortisation	–	(4)	(7)
Operating profit/(loss) before capital items	–	13	(8)
Capital items	–	(41)	(57)
Deficit before interest, dividend income, associate and joint venture earnings and taxation	–	(28)	(65)
Net income from investments	–	–	–
Loss before taxation	–	(28)	(65)
Taxation	–	2	14
Loss for the period from discontinued operations	–	(26)	(51)
Note 3: Headline earnings attributable to ordinary shareholders			
Earnings attributable to owners of the parent	513	415	888
Adjusted for:			
Capital items (note 1)	8	36	92
Taxation effects of capital items	(2)	(2)	(21)
Non-controlling interests' portion of capital items (net of taxation)	–	–	1
Capital items of associate and joint-venture companies (net of taxation)	–	–	(1)
	519	449	959

FAIR VALUES OF FINANCIAL INSTRUMENTS

	Fair value as at 31 Dec 2015 Rm	Fair value as at 31 Dec 2014 Rm	Fair value as at 30 Jun 2015 Rm	Fair value hierarchy
Derivative financial assets	54	16	3	Level 2
Derivative financial liabilities	–	(5)	(3)	Level 2

Level 2 financial instruments are valued using techniques where all of the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data. These inputs include published interest rate yield curves and foreign exchange rates.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 Dec 2015 Unaudited Rm	31 Dec 2014 Unaudited Rm	30 Jun 2015 Audited Rm
ASSETS			
Non-current assets			
Goodwill and intangible assets	1 603	1 261	1 598
Property, plant and equipment and investment properties	7 600	6 860	7 129
Consumable biological assets	1 844	1 917	1 824
Investments in associate and joint venture companies	152	148	140
Investments and loans	1	22	1
Deferred taxation assets	89	66	85
	11 289	10 274	10 777
Current assets			
Inventories	1 266	1 425	1 179
Accounts receivable and other current assets	2 891	2 757	2 575
Short-term loans	23	159	23
Cash and cash equivalents	1 054	1 299	1 370
	5 234	5 640	5 147
Total assets	16 523	15 914	15 924
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary stated share capital	7 318	6 970	7 318
Reserves	719	(94)	443
	8 037	6 876	7 761
Non-controlling interests	181	154	169
Total equity	8 218	7 030	7 930
Non-current liabilities			
Interest-bearing long-term liabilities	2 920	3 431	3 129
Deferred taxation liabilities	1 196	1 027	1 086
Other long-term liabilities and provisions	92	75	93
	4 208	4 533	4 308
Current liabilities			
Accounts payable, provisions and other current liabilities	2 762	3 184	3 356
Interest-bearing short-term liabilities	1 059	79	327
Bank overdrafts and short-term facilities	276	1 088	3
	4 097	4 351	3 686
Total equity and liabilities	16 523	15 914	15 924
Net asset value per ordinary share (cents)	330	293	320
Net interest-bearing debt to equity (%)	40	48	27

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 31 Dec 2015 Unaudited Rm	Six months ended 31 Dec 2014 Unaudited Rm	Year ended 30 Jun 2015 Audited Rm
Profit for the period	536	432	930
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign subsidiaries	95	4	27
Total comprehensive income for the period	631	436	957
Total comprehensive income attributable to:			
Owners of the parent	606	419	916
Non-controlling interests	25	17	41
Total comprehensive income for the period	631	436	957

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months ended 31 Dec 2015 Unaudited Rm	Six months ended 31 Dec 2014 Unaudited Rm	Year ended 30 Jun 2015 Audited Rm
Balance at beginning of the period	7 930	6 859	6 859
Changes in ordinary stated share capital			
Net shares issued	–	–	348
Changes in reserves			
Total comprehensive income for the period attributable to owners of the parent	606	419	916
Dividends and capital distributions paid	(363)	(282)	(286)
Share-based payments	33	29	71
Other reserve movements	–	1	3
Changes in non-controlling interests			
Total comprehensive income for the period attributable to non-controlling interests	25	17	41
Dividends and capital distributions paid	(13)	(13)	(22)
Balance at end of the period	8 218	7 030	7 930
Comprising:			
Ordinary stated share capital	7 318	6 970	7 318
Reverse acquisition reserve	(3 952)	(3 952)	(3 952)
Distributable reserves	4 362	3 735	4 212
Share-based payment reserve	161	86	128
Other reserves	148	37	55
Non-controlling interests	181	154	169
	8 218	7 030	7 930

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 31 Dec 2015 Unaudited Rm	Six months ended 31 Dec 2014 Unaudited* Rm	Year ended 30 Jun 2015 Audited Rm
Operating profit before capital items	898	780	1 666
Depreciation and amortisation	425	389	784
Operating profit/(loss) before depreciation, amortisation and capital items from discontinued operations	–	17	(1)
Net fair value adjustments of consumable biological assets and decrease due to harvesting	(15)	(38)	(86)
Other non-cash adjustments	45	55	114
Cash generated before working capital changes	1 353	1 203	2 477
(Increase)/decrease in inventories	(98)	(214)	1
Increase in receivables	(288)	(306)	(17)
Decrease in payables	(576)	(332)	(186)
Changes in working capital	(962)	(852)	(202)
Cash generated from operations	391	351	2 275
Dividends received	2	–	2
Dividends paid	(379)	(295)	(304)
Net finance charges	(151)	(163)	(290)
Taxation paid	(159)	(71)	(200)
Net cash (outflow)/inflow from operating activities	(296)	(178)	1 483
Additions to property, plant and equipment – expansion	(397)	(213)	(512)
Additions to property, plant and equipment – replacement, net of proceeds and government grants received	(443)	(384)	(683)
Proceeds on disposal of investments	–	160	470
Acquisition of investments	–	–	(142)
Other investing activities	(23)	(10)	(7)
Net cash outflow from investing activities	(863)	(447)	(874)
Net cash outflow/(inflow) from operating and investing activities	(1 159)	(625)	609
Net cash inflow/(outflow) from financing activities	804	575	(602)
Net (decrease)/increase in cash and cash equivalents	(355)	(50)	7
Effects of exchange rate changes on cash and cash equivalents	39	1	15
Cash and cash equivalents at beginning of period	1 370	1 348	1 348
Cash and cash equivalents at end of period	1 054	1 299	1 370

SEGMENTAL ANALYSIS

	Six months ended 31 Dec 2015 Unaudited Rm	Six months ended 31 Dec 2014 Unaudited* Rm	% change	Year ended 30 Jun 2015 Audited Rm
Revenue from continuing operations				
Diversified Logistics	4 099	4 142	(1)	7 863
Diversified Industrial	4 142	3 853	8	7 885
	8 241	7 995	3	15 748
Intersegment revenue eliminations	(52)	(30)		(84)
	8 189	7 965	3	15 664
Operating profit before capital items from continuing operations				
Diversified Logistics	478	436	10	880
Diversified Industrial	420	344	22	786
	898	780	15	1 666

	31 Dec 2015 Unaudited Rm	%	31 Dec 2014 Unaudited Rm	%	30 Jun 2015 Audited Rm	%
Total assets						
Diversified Logistics	6 151	40	5 734	40	5 624	39
Diversified Industrial	9 066	60	8 461	60	8 616	61
	15 217	100	14 195	100	14 240	100

RECONCILIATION OF TOTAL ASSETS PER STATEMENT OF FINANCIAL POSITION TO TOTAL ASSETS PER SEGMENTAL ANALYSIS

	31 Dec 2015 Unaudited Rm	31 Dec 2014 Unaudited Rm	30 Jun 2015 Audited Rm
Total assets per statement of financial position	16 523	15 914	15 924
Less: Cash and cash equivalents	(1 054)	(1 299)	(1 370)
Less: Investments in associate and joint venture companies	(152)	(148)	(140)
Less: Interest-bearing long-term loans receivable	–	(22)	–
Less: Interest-bearing short-term loans receivable	(23)	(159)	(23)
Less: Related party receivables	(77)	(91)	(151)
Total assets per segmental analysis	15 217	14 195	14 240

KAP INDUSTRY IN MOTION™

GEOGRAPHICAL INFORMATION

	Six months ended 31 Dec 2015 Unaudited Rm	%	Six months ended 31 Dec 2014 Unaudited* Rm	%	Year ended 30 Jun 2015 Audited Rm	%
Revenue						
South Africa	7 170	88	6 991	88	13 856	88
Rest of Africa	1 019	12	974	12	1 808	12
	8 189	100	7 965	100	15 664	100

	31 Dec 2015 Unaudited Rm	%	31 Dec 2014 Unaudited Rm	%	30 Jun 2015 Audited Rm	%
Non-current assets						
South Africa	10 117	90	9 292	90	9 720	90
Rest of Africa	1 172	10	982	10	1 057	10
	11 289	100	10 274	100	10 777	100

** Prior period disclosure has been restated to reflect discontinued operations.*

NOTES TO THE FINANCIAL STATEMENTS

1. Statement of compliance

The condensed consolidated interim financial information has been prepared and presented in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the Listings Requirements of the JSE Limited, the information as required by IAS 34: *Interim Financial Reporting* and the requirements of the South African Companies Act, No. 71 of 2008 as amended. The condensed consolidated interim financial information has been prepared using accounting policies that comply with IFRS which are consistent with those applied in the financial statements for the year ended 30 June 2015.

2. Basis of preparation

The condensed consolidated interim financial statements are prepared in millions of South African Rands (Rm) on the historical cost basis, except for certain assets and liabilities which are carried at amortised cost, and derivative financial instruments and biological assets which are stated at their fair values. The preparation of the condensed consolidated interim financial statements for the six months ended 31 December 2015 was supervised by John Haveman, the group's chief financial officer.

3. Changes to comparative results

In addition to treating the Footwear business as discontinued operations, the December 2014 income statement has been re-presented to reflect the discontinued operations reported in the June 2015 annual financial statements, i.e. Fresh Freight, Bedding Component Manufacturers, Weatherboard sawmill and Braecroft plantations.

4. Financial statements

These results have not been reviewed or reported on by the group's auditors. The results were approved by the board of directors on 15 February 2016.

5. Changes in accounting policies

The accounting policies adopted in the preparation of the condensed interim financial information are consistent with those of the annual financial statements for the year ended 30 June 2015.

6. Post-balance sheet events

With the exception of the Autovest acquisition referred to elsewhere in this announcement, no significant events have occurred in the period between the end of the reporting period and the date of this report.

7. Changes to the board/board committees

There were no changes to the board of directors during the period under review.