KAP International Holdings Ltd

HEADLINE EARNINGS PER SHARE INCREASE BY 61%
ACQUISITIONS BOOST REVENUE TO R1,4 BILLION (2004: R0,4 BILLION)
OPERATING PROFIT OF R77 MILLION (2004: R19,3 MILLION)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2005

Abridged group balance sheet

R million	30 Jun 2005 Reviewed	30 Jun 2004 Restated for IFRS Unaudited	31 Dec 2004 Restated for IFRS Audited
Assets			
Non-current assets	631,7	103,9	595,9
Property, plant and equipment and investment properties	483,6	89,8	441,2
Investments and loans	21,6	14,1	25,4
Deferred taxation	126,5	–	129,3
Current assets	1 052,8	300,6	998,1
Inventories and biological assets	511,9	167,3	456,1
Receivables and prepayments	519,8	109,6	497,0
Cash and cash equivalents	21,1	23,7	45,0
Total assets	1 684,5	404,5	1 594,0
Equity and liabilities			
Equity	971,9	257,0	921,4
Equity holders' interest	962,3	256,9	912,4
Minority interest	9,6	0,1	9,0
Non-current liabilities	148,4	17,4	127,6
Interest-bearing borrowings	95,5	0,2	78,5
Retirement benefit obligations	40,8	9,9	40,6
Deferred taxation	12,1	7,3	8,5
Current liabilities	564,2	130,1	545,0
Short-term borrowings	24,7	37,0	118,6
Trade and other payables	345,8	89,2	350,4
Provisions	33,6	3,9	30,7
Bank overdrafts	160,1	–	45,3
Total equity and liabilities	1 684,5	404,5	1 594,0
Net asset value per share (cents)	227	153	218

Abridged group cash flow statement

R million	30 Jun 2005 Reviewed	30 Jun 2004 Restated for IFRS Unaudited	31 Dec 2004 Restated for IFRS Audited
Cash flows from operating activities	42,9	19,0	89,9
Cash generated from operations before working capital changes	96,8	21,7	162,3
Net working capital changes	(44,2)	(0,4)	(48,2)
Cash generated from operations	52,6	21,3	114,1
Net finance costs	(8,3)	(0,3)	(10,6)
Taxation paid	(1,4)	(2,0)	(13,6)
Cash flows from investing activities	(94,9)	0,4	(474,1)
Acquisition of subsidiaries, net of cash acquired	–	–	(444,2)
Purchase of property, plant and equipment	(62,7)	(2,9)	(62,9)
Other investing activities	(32,2)	3,3	33,0
Cash flows from financing activities	(86,7)	(32,9)	346,5
Decrease in borrowings	(78,0)	(32,9)	(27,3)
Dividends paid	(8,7)	–	–
Proceeds on share issue	–	–	373,8
Net decrease in cash and equivalents	(138,7)	(13,5)	(37,7)
Opening cash and equivalents	(0,3)	37,2	37,4
Closing cash and equivalents	(139,0)	23,7	(0,3)

Notes

R million	30 Jun 2005 Reviewed	30 Jun 2004 Restated for IFRS Unaudited	31 Dec 2004 Restated for IFRS Audited
1. Net finance costs	8,3	0,3	10,6
Interest received	(10,4)	(2,4)	(8,8)
Interest paid	18,7	2,7	19,4
2. Capital expenditure commitments	90,1	–	44,7
Contracted	71,5	–	24,5
Approved but not yet contracted	7,6	–	20,2
3. Operating lease commitments	28,1	–	67,2
4. Guarantees and contingent liabilities	10,6	2,7	4,4
5. Taxation	10,8	1,8	19,8
Current taxation			
– in respect of current period profits	1,6	1,8	2,2
– over provision prior period	(3,0)	–	–
Deferred taxation			
– in respect of current period profits	16,0	–	16,8
– raised in respect of assessed losses	(10,1)	–	–
Secondary tax on companies	2,6	–	0,8
Effect of tax rate change	3,7	–	–

6. Reviewed results
The results for the half year ended 30 June 2005 have been reviewed by Deloitte & Touche. The unqualified review report is available for inspection at the registered office of the company.

Segmental analysis

R million	Revenues	%	Operating profit	%	Total assets	%
June 2005 (reviewed)	1 416,3	100	77,0	100	1 684,5	100
Industrial	882,7	62	53,9	70	1 008,9	60
Consumer	532,6	38	23,0	30	587,3	35
Other	1,0	–	0,1	–	88,3	5
June 2004 (unaudited, restated for IFRS)	427,1	100	19,3	100	404,5	100
Industrial	133,3	31	22,6	117	150,1	37
Consumer	293,8	69	3,5	18	238,3	59
Other	–	–	(6,8)	(35)	16,1	4
December 2004 (audited, restated for IFRS)	1 911,9	100	149,3	100	1 594,0	100
Industrial	1 022,3	53	105,7	70	943,3	59
Consumer	894,7	47	43,2	30	541,7	34
Other	(5,1)	–	0,4	–	109,0	7

Abridged group income statement

R million	6 months ended 30 Jun 2005 Reviewed	6 months ended 30 Jun 2004 Restated for IFRS Unaudited	12 months ended 31 Dec 2004 Restated for IFRS Audited
Revenue	1 416,3	427,1	1 911,9
Operating profit	77,0	19,3	149,3
Negative goodwill from acquisitions	–	–	181,8
Net finance costs	(8,3)	(0,3)	(10,6)
Share of results of joint ventures	1,1	–	1,2
Profit before taxation	69,8	19,0	321,7
Taxation	(10,8)	(1,8)	(19,8)
Net profit	59,0	17,2	301,9
Attributable to ordinary shareholders	56,8	17,1	299,7
Attributable to minorities	2,2	0,1	2,2
Reconciliation of headline earnings			
Net profit attributable to ordinary shareholders	56,8	17,1	299,7
Profit on sale of property, plant and equipment	(0,1)	(0,2)	(2,5)
Impairment of property released	–	(0,4)	–
Sale of subsidiaries	–	(2,4)	(3,1)
Negative goodwill	–	–	(181,8)
Headline earnings	56,7	14,1	112,3
Number of shares (thousand)			
in issue	423 258	168 120	418 720
weighted average	421 477	168 120	293 412
Earnings per share (cents)	13,5	10,2	102,1
Headline earnings per share (cents)	13,5	8,4	38,3
Dividends per share (cents)	–	–	5,0

Abridged statement of changes in equity

R million	6 months ended 30 Jun 2005 Reviewed	6 months ended 30 Jun 2004 Restated for IFRS Unaudited	12 months ended 31 Dec 2004 Restated for IFRS Audited
Balance at the beginning of the period	921,4	238,9	238,9
Balance at the beginning of the period as previously stated	879,1	203,7	203,7
Reclassification of minorities' interests in equity	9,0	0,1	0,1
Cumulative effects of IFRS adoption	33,3	35,1	35,1
Shares issued during the period	13,8	–	375,9
Share issue costs	–	–	(2,0)
Minority shareholders acquired	–	–	6,6
Movement in foreign currency translation reserve	0,2	0,9	0,1
Net profit for the period	59,0	17,2	301,9
Net profit for the period as previously stated	59,0	16,4	301,4
Effects of IFRS adoption	–	0,8	0,5
Dividends paid	(20,9)	–	–
Dividends paid to minorities	(1,6)	–	–
Balance at the end of the period	971,9	257,0	921,4

Reconciliation of previous GAAP to IFRS

Basis of preparation

The reviewed results of the group for the six months ended 30 June 2005 have been prepared in accordance with the accounting policies of the group, which fully comply with International Financial Reporting Standards (IFRS). The group is reporting under IFRS for the first time for the year ending 31 December 2005. Comparative figures have accordingly been restated.

The disclosures required by IFRS 1 (First-time Adoption of International Financial Reporting Standards) concerning the transition from South African Statements of Generally Accepted Accounting Practice (SA GAAP) to IFRS and the required changes in accounting policies are set out in the table below.

R million	12 months ended 31 Dec 2004 Audited	6 months ended 30 Jun 2004 Unaudited	IFRS transition 1 Jan 2004 Audited
Balance sheet			
Equity			
Equity as previously reported – SA GAAP	879,1	221,0	203,7
Restatements for IFRS	33,3	35,9	35,1
Property, plant and equipment	32,3	34,3	34,1
Investment property	9,3	8,8	8,2
Deferred taxation assets	(5,5)	–	–
Deferred taxation liabilities	(2,8)	(7,2)	(7,2)
Equity holders' interest	912,4	256,9	238,8
Minority interests in subsidiaries previously reported outside of equity	9,0	0,1	0,1
Restated equity – IFRS	921,4	257,0	238,9
Income statement			
Net profit as previously reported – SA GAAP	301,4	16,4	
Restatements for IFRS	0,5	0,8	
Change in depreciation rates	10,9	0,9	
Negative goodwill	(8,2)	–	
Deferred taxation	(4,4)	(0,1)	
Minorities' interests	2,2	–	
Restated net profit – IFRS	301,9	17,2	

Group profile

Division	Operating entity	Product/service
Industrial	Feltex Automotive Leather	Automotive leather manufacturer
	Feltex Automotive Trim	Integrated automotive trim and acoustic manufacturer
	Rieter Feltex Automotive (49%)	Automotive acoustics and thermal management
	Feltex Fehrer (74%)	Moulded polyurethane manufacturer of seating and other foam products for the automotive industry
	Feltex Foam Converting	Manufacturer of slabstock and peeled foams used for lamination in the automotive industry
	Feltex Unifrax	Supplier of mats for catalytic converters for exhausts of motor vehicles
	Wayne Rubber	Manufacturer of pre-cured tread and industrial rubber products
	United Fram	Manufacturer of industrial leather footwear
	Wayne Plastics	Manufacturer of gumboots and safety footwear
	Mossop Western Leathers	Tannery supplying bovine leather to footwear and leather goods industry
	Hosaf Fibres	Manufacturer of polyester fibre and PET bottle resin
Consumer	Jordan & Co	Branded fashion footwear and sport shoe manufacturer and distributor
	Bull Brand Foods	Fresh and canned meal manufacturer
	Glodina	Branded terry towel manufacturer

Commentary

Review of results

The board of directors is pleased to report a 61% increase in headline earnings per share to 13,5 cents for the six months to 30 June 2005. The adoption of IFRS has resulted in the prior year headline earnings per share of 8 cents being restated to 8,4 cents. Businesses acquired with effect from 1 July 2004 added R965 million to revenue and R52 million to operating profit for the six month period. Operations in the group prior to 1 July 2004 increased revenue by 6% and operating profit by 28%.

The group has invested in

- new equipment which has been installed in the automotive segment in anticipation of the additional volumes that will be generated from new export vehicle models;
- increasing the size of the cattle herd at Bull Brand Foods to enhance economies of scale and grow revenue; and
- repaying all shareholder loans to take advantage of more favourable sources of funding.

These investments have resulted in a cash utilisation of R139 million for the period. However, cash generated from operations remains robust, with the debt/equity ratio deteriorating only slightly from 21 to 26%. The strong debt/equity ratio, together with an interest cover of nine times, are indicative of the strength of the balance sheet.

Industrial division

Automotive
Acceptable operating margins were achieved. Contracts for export models which have now been secured will generate significant additional volumes from the second half of 2005.

Industrial footwear
This division continues to generate acceptable returns despite pressure on margins from merchandise imported from China.

The installation of new machinery has already enhanced efficiencies at the gumboot plant and capital expenditure planned for the fourth quarter of 2005 will further improve margins.

Hosaf Fibres
Hosaf has almost quadrupled its PET capacity from 12 000 to 50 000 tons per annum over the last two years. Market share and revenue have therefore increased which, together with improved operating efficiencies and reduced waste at its modern plants, have contributed to better earnings.

Consumer division

Fashion and sport footwear
Jordan has managed to maintain its profit margin through a solid growth in the sales of both its own and international brands for which the distribution rights are held. A ladies' shoe division has been launched which has already contributed to profit for the current period and is expected to grow steadily.

Bull Brand Foods
Operating results of the Fresh Meat division exceeded expectations primarily due to stable meat prices, favourable feed cost and enhanced efficiencies.

Canned meals maintained acceptable domestic growth despite increased pressure on margins due to rising input costs.

An aggressive programme of new product launches has been initiated to grow market share and capitalise on the strength of its brands.

Glodina
Improved operating margins have been achieved due to better production efficiencies and increased revenue in the current favourable retail environment.

Corporate action

It was previously announced that during July 2005 the group entered into an agreement to acquire the properties occupied by the Feltex manufacturing operations from Courthiel Holdings (Proprietary) Limited, a related party, for R55,1 million. For operational reasons one property is no longer being acquired and the total purchase consideration is now R 44,1 million. The cancellation of the acquisition of this property does not affect the fair and reasonable opinion of PSG Capital Limited and its impact on the proforma financial effects on KAP is not significant (below 3%). Feltex has a need for continued expansion of capacity and the flexibility to do so is better achieved if the properties are owned.

The group also entered into an agreement to dispose of its properties occupied by African Hide Trading (Proprietary) Limited, a related party, for R5,5 million. These properties are not considered core to the business of the group.

Dividend

In accordance with group policy, no interim dividend will be declared.

Prospects

Volume growth in vehicle manufacture in South Africa, together with strong retail demand and low interest rates, bode well for earnings growth of the group. Shareholders are reminded that KAP's peak profit generation is in the second half of the year due to the cyclical nature of the business.

For and on behalf of the board

C E Daun
Chairman

P C T Schouten
Chief executive officer

15 September 2005

Non-executive directors: C E Daun* (Chairman), M J Jooste, J B Magwaza, I N Mkhari, F Möller*, S H Nomvete *German
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