South Ocean HOLDINGS

Group condensed consolidated interim financial results announcement

for the six months ended 30 June 2012

Highlights

Revenue increased by	Headline earnings per share increased by
5,5% to R652,8 million	**8,3% to 11,7 cents**

Earnings per share increased by	Net asset value per share increased by
8,3% to 11,7 cents	**2,3% to 512,5 cents**

Condensed consolidated statement of financial position

	Notes	As at 30 June 2012 (Unaudited) R'000	As at 30 June 2011 (Unaudited) R'000	As at 31 December 2011 (Audited) R'000
Assets				
Non-current assets		**645 725**	633 549	643 151
Property, plant and equipment	4	**310 878**	291 678	305 929
Intangible assets	4	**334 847**	341 871	337 222
Current assets		**581 776**	504 279	438 551
Inventories		**287 885**	227 577	244 966
Trade and other receivables		**272 861**	256 245	165 296
Taxation receivable		**3 213**	5 064	574
Cash and cash equivalents		**17 817**	15 393	27 715
Total assets		**1 227 501**	1 137 828	1 081 702
Equity and liabilities				
Capital and reserves attributable to equity holders of the Company				
Share capital and share premium	5	**441 645**	441 645	441 645
Reserves		**(301)**	(720)	(352)
Retained earnings		**360 032**	312 868	341 701
Total equity		**801 376**	753 793	782 994
Liabilities				
Non-current liabilities		**96 415**	109 853	105 653
Interest-bearing borrowings	6	**59 135**	77 490	70 055
Deferred taxation		**34 649**	30 047	33 842
Share-based payments		**2 631**	2 316	1 756
Current liabilities		**329 710**	274 182	193 055
Trade and other payables		**188 684**	104 784	139 496
Interest-bearing borrowings	6	**35 694**	38 731	38 226
Taxation payable		**1 481**	1 292	1 401
Shareholders for dividends		**4**	4	4
Derivative financial instruments		**169**	36	30
Share-based payments		**450**	1 076	–
Bank overdraft		**103 228**	128 259	13 898
Total liabilities		**426 125**	384 035	298 708
Total equity and liabilities		**1 227 501**	1 137 828	1 081 702

Condensed consolidated statement of comprehensive income

	Note	Six months ended 30 June 2012 (Unaudited) R'000	Six months ended 30 June 2011 (Unaudited) R'000	Change %	Year ended 31 December 2011 (Audited) R'000
Revenue		**652 854**	618 627	5,5	1 261 019
Cost of sales		**(541 924)**	(512 366)		(1 036 271)
Gross profit		**110 930**	106 261	4,4	224 748
Other operating income		**868**	870		2 871
Administration expenses		**(33 864)**	(34 430)		(66 200)
Distribution expenses		**(12 246)**	(13 430)		(24 378)
Operating expenses		**(33 538)**	(29 047)		(61 335)
Operating profit		**32 150**	30 224	6,4	75 706
Finance income		**139**	520		310
Finance costs		**(6 272)**	(5 989)		(10 976)
Profit before taxation		**26 017**	24 755	5,1	65 040
Taxation	7	**(7 686)**	(7 799)		(19 251)
Profit for the period		**18 331**	16 956	8,1	45 789
Other comprehensive income					
Exchange differences on translating foreign operation		**51**	(14)		354
Total comprehensive income for the period		**18 382**	16 942	8,5	46 143
		Cents	Cents		Cents
Earnings per share – basic and diluted		**11,7**	10,8	8,3	29,3
Dividend per share		**–**	–		–

Condensed consolidated statement of changes in equity

	Note	Six months ended 30 June 2012 (Unaudited) R'000	Six months ended 30 June 2011 (Unaudited) R'000	Year ended 31 December 2011 (Audited) R'000
Share capital				
Opening and closing balance	5	**1 274**	1 274	1 274
Share premium				
Opening and closing balance	5	**440 371**	440 371	440 371
Foreign currency translation reserve				
Opening balance		**(352)**	(706)	(706)
Exchange differences on translation of foreign operation		**51**	(14)	354
Closing balance		**(301)**	(720)	(352)
Retained earnings				
Opening balance		**341 701**	295 912	295 912
Comprehensive income for the period		**18 331**	16 956	45 789
Closing balance		**360 032**	312 868	341 701

Condensed consolidated statement of cash flows

	Six months ended 30 June 2012 (Unaudited) R'000	Six months ended 30 June 2011 (Unaudited) R'000	Year ended 31 December 2011 (Audited) R'000
Cash (utilised in)/generated from operating activities	**(71 806)**	(117 047)	39 526
Cash utilised in investing activities	**(14 021)**	(39 759)	(62 078)
Cash (utilised in)/generated from financing activities	**(13 452)**	9 181	1 242
Net decrease in cash and cash equivalents	**(99 279)**	(147 625)	(21 310)
Cash and cash equivalents at the beginning of period	**13 817**	34 773	34 773
Effects of exchange rate movement on cash balances	**51**	(14)	354
Cash and cash equivalents at the end of period	**(85 411)**	(112 866)	13 817

Selected notes to the condensed consolidated interim financial information

1. General information

South Ocean Holdings and its subsidiary companies manufacture and distribute electrical cables, import and distribute light fittings, lamps and electrical accessories, and property investments. The Company is a public company listed on the Johannesburg Stock Exchange ("JSE") and is incorporated and domiciled in the Republic of South Africa.

2. Basis of preparation

The condensed consolidated financial information has been prepared in accordance with International Financial Reporting Standards (IFRS), IFRIC Interpretations, IAS 34 'Interim Financial Reporting', the Companies Act, 2008, applicable to companies reporting under IFRS, as well as the JSE Listings Requirements. This should be read with the audited annual financial statements for the year ended 31 December 2011. The condensed consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The unaudited condensed consolidated interim financial results were compiled by JP Bekker (CA) SA (Group Chief Financial Officer) and approved for issue by the Board of Directors on 1 August 2012.

3. Accounting policies

The accounting policies adopted are consistent with those applied in the audited financial statements for the year ended 31 December 2011, except where indicated. There were no new standards or amendments that were issued since the last annual report that are applicable to the Group or that will result in a material impact in the reported results of the Group. These accounting policies comply with IFRS.

4. Property, plant and equipment and intangible assets

During the six months, the Group invested R14,1 million (2011: R40 million) in capital expenditure mainly relating to the manufacturing/assembly plant at Radiant Group Proprietary Limited ("Radiant Group"). The details of changes in tangible and intangible assets are as follows:

	Tangible assets (Unaudited) R'000	Intangible assets (Unaudited) R'000
Six months ended 30 June 2012		
Opening net carrying amount	**305 929**	**337 222**
Additions	**14 070**	**–**
Disposals and write-offs	**(64)**	**–**
Depreciation/Amortisation and other movements	**(9 057)**	**(2 375)**
Closing net carrying amount	**310 878**	**334 847**
Six months ended 30 June 2011		
Opening net carrying amount	259 642	343 991
Additions	39 594	413
Disposals and write-offs	(181)	–
Depreciation/Amortisation and other movements	(7 377)	(2 533)
Closing net carrying amount	291 678	341 871
Year ended 31 December 2011	(Audited)	(Audited)
Opening net carrying amount	259 642	343 991
Additions	61 936	413
Disposals and write-offs	(189)	–
Depreciation/Amortisation and other movements	(15 460)	(7 182)
Closing net carrying amount	305 929	337 222

5. Share capital and share premium

	Number of shares issued	Ordinary shares R'000	Share premium R'000	Total R'000
At 30 June 2012 (Unaudited)				
Opening and closing balance	**156 378 794**	**1 274**	**440 371**	**441 645**
At 30 June 2011 (Unaudited)				
Opening and closing balance	156 378 794	1 274	440 371	441 645
At 31 December 2011 (Audited)				
Opening and closing balance	156 378 794	1 274	440 371	441 645

6. Interest-bearing borrowings

Secured loans	As at 30 June 2012 (Unaudited) R'000	30 June 2011 (Unaudited) R'000	As at 31 December 2011 (Audited) R'000
Non-current	**59 135**	77 490	70 055
Current	**35 694**	38 731	38 226
	94 829	116 221	108 281
The movement in borrowings is analysed as follows:			
Opening balance	**108 281**	107 039	107 039
Additional loans raised	**5 818**	35 594	47 297
Finance costs	**3 976**	4 191	8 433
Repayments	**(23 246)**	(30 603)	(54 488)
Closing balance	**94 829**	116 221	108 281

7. Taxation

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate calculated before taking into account STC is 29,5% (2011: 31,5%).

8. Reconciliation of headline earnings

	Six months ended 30 June 2012 (Unaudited) R'000	Six months ended 30 June 2011 (Unaudited) R'000	Year ended 31 December 2011 (Audited) R'000
Comprehensive income attributable to the equity holders of the Company for the period	**18 331**	16 956	45 789
Loss/(profit) on disposal of property, plant and equipment	**15**	(67)	(59)
Impairment of intangible assets	**–**	–	2 117
Headline earnings for the period	**18 346**	16 889	47 847
Headline earnings per share (cents)	**11,7**	10,8	30,6

9. Weighted average number of shares

	Six months ended 30 June 2012 (Unaudited)	Six months ended 30 June 2011 (Unaudited)	Year ended 31 December 2011 (Audited)
Number of shares in issue	**156 378 794**	156 378 794	156 378 794
Weighted average number of shares in issue at the beginning and end of period	**156 378 794**	156 378 794	156 378 794
Weighted average number of shares in issue for diluted earnings per share	**156 378 794**	156 378 794	156 378 794

10. Net asset value

	As at 30 June 2012 (Unaudited)	As at 30 June 2011 (Unaudited)	As at 31 December 2011 (Audited)
Net asset value per share (cents)	**512,5**	482,0	500,7

11. Interim dividend declaration

The Company policy is to consider the declaration of a final dividend after its financial year-end.

12. Segment reporting

The segment information has been prepared in accordance with IFRS – Operating Segments, which defines the requirements for disclosure of financial information of an entity's segments.

The standard requires segmentation on the Group's internal organisation and reporting of revenue and EBITDA based upon internal accounting presentation.

The segment revenue and EBITDA generated by each of the Group's reportable segments are summarised as follows:

Six months ended	Adjusted EBITDA R'000	Segment assets R'000	Segment liabilities R'000
30 June 2012 (Unaudited)			
Electrical cables manufacturing	**31 611**	**451 653**	**215 207**
Lighting and electrical accessories	**10 793**	**566 786**	**107 858**
Property investments	**9 371**	**203 167**	**60 947**
	51 775	**1 221 606**	**384 012**
30 June 2011 (Unaudited)			
Electrical cables manufacturing	22 941	387 652	189 371
Lighting and electrical accessories	19 316	553 015	85 300
Property investments	8 014	191 387	69 746
	50 271	1 132 054	344 417
Year ended 31 December 2011 (Audited)			
Electrical cables manufacturing	50 259	336 080	108 794
Lighting and electrical accessories	47 114	540 137	79 431
Property investments	17 099	200 531	70 311
	114 472	1 076 748	258 536

12. Segment reporting continued

Reconciliation of total segment report to statement of financial position and statement of comprehensive income is provided as follows:	Six months ended 30 June 2012 (Unaudited) R'000	Six months ended 30 June 2011 (Unaudited) R'000	Year ended 31 December 2011 (Audited) R'000
Revenue			
Reportable segment revenue	**663 534**	627 835	1 280 476
Inter-Group revenue: property rentals	**(10 680)**	(8 706)	(18 680)
Property revenue reported in other operating income	**–**	(502)	(777)
Revenue per consolidated statement of comprehensive income	**652 854**	618 627	1 261 019
Profit before tax			
Adjusted EBITDA	**51 775**	50 271	114 472
Corporate and other overheads	**(8 193)**	(10 137)	(16 124)
Depreciation	**(9 057)**	(7 377)	(15 460)
Impairment of intangible assets	**–**	–	(2 117)
Amortisation of intangible assets	**(2 375)**	(2 533)	(5 065)
Operating profit	**32 150**	30 224	75 706
Finance income	**139**	520	310
Finance cost	**(6 272)**	(5 989)	(10 976)
Profit before income tax per statement of comprehensive income	**26 017**	24 755	65 040
Assets			
Reportable segment assets	**1 221 606**	1 132 054	1 076 748
Corporate and other assets	**2 682**	710	4 380
Taxation receivable	**3 213**	5 064	574
Total assets per statement of financial position	**1 227 501**	1 137 828	1 081 702
Liabilities			
Reportable segment liabilities	**384 012**	344 417	258 536
Corporate and other liabilities	**5 983**	8 279	4 929
Deferred taxation	**34 649**	30 047	33 842
Taxation payable	**1 481**	1 292	1 401
Total liabilities per statement of financial position	**426 125**	384 035	298 708

13. Director changes

As reported in the annual report, Messrs WP Li and CC Wu were appointed as alternate directors during February 2012. There were no other director changes during the period under review.

14. Subsequent events

The directors are not aware of any significant events arising since the end of the financial period, which would materially affect the operations of the Group or its operating segments, not dealt with in the financial results.

Commentary

Introduction

South Ocean Holdings is pleased to announce its condensed consolidated results for the six months ended 30 June 2012.

South Ocean Holdings is an investment holding company, comprising four operating subsidiaries namely: South Ocean Electric Wire Company Proprietary Limited ("SOEW"), a manufacturer of low voltage electrical cables, Radiant Group, an importer and distributor of light fittings, lamps and electrical accessories, a property holding company, Anchor Park Investments 48 Proprietary Limited ("Anchor Park"), and SOH Calibre International Limited ("SOH Calibre"), a procurement agency on behalf of the Group, based in Hong Kong.

Notwithstanding the global financial market volatility affecting the local market, the Group's operating margin was in line with the prior period's margin at 4,9% (2011: 4,9%).

Market uncertainty which resulted in the fluctuation of the currency and volatility of commodity prices during the period contributed to the subdued results.

Financial overview

Earnings

Group revenue for the six-month period to 30 June 2012 increased by 5,5% (2011: 12,5%) to R652,8 million (2011: R618,6 million). The Group's gross profit increased by 4,4% to R110,9 million (2011: R106,3 million) and operating profit also increased by 6,4% to R32,2 million (2011: R30,2 million) compared to the prior period.

Group profit before tax improved by 5,1% to R26,0 million (2011: R24,8 million) compared to the prior period. Earnings and headline earnings per share have, as a result, improved compared to the prior period. The basic earnings per share increased by 8,3% to 11,7 cents (2011: 10,8 cents) with the headline earnings per share increasing by 8,3% to 11,7 cents (2011: 10,8 cents) compared to the prior period. Headline earnings increased by 8,3% to R18,3 million (2011: R16,9 million).

Cash flow and working capital management

Investment in working capital contributed to cash utilised in operations of R71,8 million (2011: R117,0 million) during the period. Working capital increased primarily due to an increase in accounts receivable, as a result of an increase in revenue. Certain significant customers paid late and this contributed to the negative cash flow for the Group. Inventory levels increased due to higher copper prices, an increase in cable stock levels compared to year-end, which is traditionally lower, as well as an increase in light fittings, lamps and electrical accessories inventory to improve stock availability.

The Group invested R14,0 million (2011: R40,0 million) in capital expenditure which was mainly financed by long-term borrowings during this period and utilised R23,2 million (2011: R30,6 million) to repay its long-term interest-bearing borrowings.

The Group's net cash utilised during the period of R99,3 million (2011: R147,6 million) resulted in the net overdraft improving from R112,9 million reported at 30 June 2011 to R85,4 million at the end of the current period.

Segment results

Electrical cables – SOEW

SOEW's revenue increased by 10,4% to R494,4 million (2011: R447,9 million). This was mainly attributable to the diversification of product range.

Current economic conditions necessitate that the focus at SOEW remains on streamlining production processes and improving operational efficiencies in order to contain costs. Progress is being made by increasing the product range and expanding sales to include the tender market.

The new plant is now operational, resulting in additional working capital requirements for inventory and an increase in the debtors' book, which is financed by utilising normal credit facilities.

Lighting and electrical accessories – Radiant Group

Radiant Group reported revenue of R158,4 million (2011: R170,7 million), 7,2% lower compared to the same period in the prior year. The margins have continued to be under pressure, due to the depressed market conditions and changes in customer spending patterns. Costs containment was successful, resulting in cost increases well below inflation. This was achieved through a number of management interventions resulting in a minimal increase of 1,7% compared to the same period last year.

Property investments – Anchor Park

Anchor Park's revenue is derived from Group companies, as it leases its properties to fellow subsidiaries. The reduction in interest expense is due to the decrease in loan balances. During this period capital investment was made at Radiant Group to relocate the factory assembly facility closer to the bulk warehouse to improve control and save future transport costs.

Seasonality

The Group's earnings are affected by seasonality as earnings for the second half of the year are historically higher than the first half. Management expects the historic seasonality trend to continue.

Prospects

The market for the next six months is likely to be even more challenging and it is anticipated that the results will be dependent on taking advantage of Government's infrastructure spending programmes to increase revenue.

The Group has increased the manufacturing capacity of its electrical cable plant, enabling it to grow the business organically. Growth in the lighting segment is expected to be driven by focusing on more economical, energy-saving lighting solutions for corporate and industrial clients looking to reduce their electricity consumption as well as more economical light fittings and LED lamps, in line with current consumer spending trends. Radiant Group has also added a new corporate gifts division to increase its product range and expand into new markets. The Group will continue focusing on diversifying its product range and expanding its client base, including Government tenders.

The above information, including any projections, included in this announcement has not been reviewed or reported on by South Ocean Holdings' independent external auditors.

On behalf of the Board

Ethan Dube
Chairman

Paul Ferreira
Chief Executive Officer

1 August 2012

Corporate information

(Registration number 2007/002381/06)
Incorporated in the Republic of South Africa
("South Ocean Holdings", "the Group" or "the Company")
Share code: SOH ISIN: ZAE000092748

Directors:
EG Dube# (Chairman)
EHT Pan*@ (Deputy Vice Chairman)
PJM Ferreira* (Chief Executive Officer)
JP Bekker* (Chief Financial Officer)
M Chong#
HL Li√Q
WP Li√Q†
CH Pan√Q†
KH Pon#
DL Tam#
CC Wu√†
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