Group condensed consolidated interim financial results announcement

for the six months ended 30 June 2013

South Ocean HOLDINGS

HIGHLIGHTS

Revenue increased by 17,8% to R769,2 million
Headline earnings per share decreased by 70,9% to 3,4 cents
Earnings per share decreased by 70,1% to 3,5 cents
Tangible net asset value per share increased by 10,0% to 328,2 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2013 (Unaudited) R'000	As at 30 June 2012 (Unaudited) R'000	As at 31 December 2012 (Audited) R'000
Assets				
Non-current assets		**485 143**	645 725	479 060
Property, plant and equipment	4	**327 639**	310 878	321 122
Intangible assets	4	**157 504**	334 847	157 938
Current assets		**709 273**	581 776	546 755
Inventories		**316 714**	287 885	283 166
Trade and other receivables		**358 939**	272 861	226 698
Taxation receivable		**7 829**	3 213	4 127
Cash and cash equivalents		**25 791**	17 817	32 764
Total assets		**1 194 416**	1 227 501	1 025 815
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		**236**	(301)	(191)
Retained earnings		**228 860**	360 032	223 416
Total equity		**670 741**	801 376	664 870
Liabilities				
Non-current liabilities		**75 533**	96 415	81 785
Interest-bearing borrowings	6	**39 177**	59 135	46 059
Deferred taxation		**34 116**	34 649	33 425
Share-based payments		**2 240**	2 631	2 301
Current liabilities		**448 142**	329 710	279 160
Trade and other payables		**232 995**	188 684	94 413
Interest-bearing borrowings	6	**27 141**	35 694	28 834
Taxation payable		**273**	1 481	252
Shareholders for dividends		**–**	4	–
Derivative financial instruments		**–**	169	219
Share-based payments		**8**	450	465
Bank overdraft		**187 725**	103 228	154 977
Total liabilities		**523 675**	426 125	360 945
Total equity and liabilities		**1 194 416**	1 227 501	1 025 815

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Six months ended 30 June 2013 (Unaudited) R'000	30 June 2012 (Unaudited) R'000	Change %	Year ended 31 December 2012 (Audited) R'000
Revenue		**769 152**	652 854	17,8	1 406 317
Cost of sales		**(674 422)**	(541 924)		(1 179 536)
Gross profit		**94 730**	110 930	(14,6)	226 781
Other operating income		**357**	868		8 050
Administration expenses		**(31 748)**	(33 864)		(65 235)
Distribution expenses		**(14 429)**	(12 246)		(23 866)
Operating expenses		**(32 988)**	(33 538)		(236 816)
Operating profit/(loss)		**15 922**	32 150	(50,5)	(91 086)
Finance income		**221**	139		512
Finance costs		**(8 179)**	(6 272)		(14 788)
Profit/(loss) before taxation		**7 964**	26 017	(69,4)	(105 362)
Taxation	7	**(2 520)**	(7 686)		(12 923)
Profit/(loss) for the period		**5 444**	18 331	(70,3)	(118 285)
Other comprehensive income					
Exchange differences on translating foreign operation		**427**	51		161
Total comprehensive income/(loss) for the period		**5 871**	18 382	(68,1)	(118 124)
		Cents per share	Cents per share		Cents per share
Earnings per share – basic and diluted		**3,5**	11,7	(70,1)	(75,6)
Dividend per share		**–**	–		–

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Six months ended 30 June 2013 (Unaudited) R'000	Six months ended 30 June 2012 (Unaudited) R'000	Year ended 31 December 2012 (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		**(191)**	(352)	(352)
Exchange differences on translation of foreign operations		**427**	51	161
Closing balance		**236**	(301)	(191)
Retained earnings				
Opening balance		**223 416**	341 701	341 701
Comprehensive income/(loss) for the period		**5 444**	18 331	(118 285)
Closing balance		**228 860**	360 032	223 416

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June 2013 (Unaudited) R'000	Six months ended 30 June 2012 (Unaudited) R'000	Year ended 31 December 2012 (Audited) R'000
Cash utilised in operating activities	**(15 283)**	(71 806)	(71 271)
Cash utilised in investing activities	**(16 290)**	(14 021)	(31 528)
Cash utilised in financing activities	**(8 575)**	(13 452)	(33 392)
Net decrease in cash and cash equivalents	**(40 148)**	(99 279)	(136 191)
Cash and cash equivalents at the beginning of the period	**(122 213)**	13 817	13 817
Effects of exchange rate movement on cash balances	**427**	51	161
Cash and cash equivalents at the end of the period	**(161 934)**	(85 411)	(122 213)

SELECTED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. General information

South Ocean Holdings Limited ("South Ocean Holdings" or "the Group") and its subsidiary companies manufacture and distribute electrical cables, import and distribute light fittings, lamps, electrical accessories and corporate gifts and have 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, as well as the JSE Listings Requirements. This should be read with the audited annual financial statements for the year ended 31 December 2012. 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 J P Bekker (CA) SA (Group Chief Financial Officer) and approved for issue by the Board of Directors on 31 July 2013.

3. Accounting policies

The accounting policies adopted are consistent with those applied in the audited financial statements for the year ended 31 December 2012, 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 R16,7 million (2012: R14,1 million) in capital expenditure mainly relating to the manufacturing plant at South Ocean Electric Wire Company Proprietary Limited. 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 2013		
Opening net carrying amount	**321 122**	**157 938**
Additions	**15 897**	**822**
Disposals and write-offs	**(295)**	**–**
Foreign exchange movements	**(6)**	**–**
Depreciation/amortisation and other movements	**(9 079)**	**(1 256)**
Closing net carrying amount	**327 639**	**157 504**
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
Year ended 31 December 2012	(Audited)	(Audited)
Opening net carrying amount	305 929	337 222
Additions	32 748	–
Disposals and write-offs	(1 207)	–
Foreign exchange movements	3	–
Impairment of goodwill	–	(175 000)
Depreciation/amortisation and other movements	(16 351)	(4 284)
Closing net carrying amount	321 122	157 938

5. Share capital and share premium

	Number of shares issued	Ordinary shares R'000	Share premium R'000	Total R'000
At 30 June 2013 (Unaudited)				
Opening and closing balance	**156 378 794**	**1 274**	**440 371**	**441 645**
At 30 June 2012 (Unaudited)				
Opening and closing balance	156 378 794	1 274	440 371	441 645
At 31 December 2012 (Audited)				
Opening and closing balance	156 378 794	1 274	440 371	441 645

6. Interest-bearing borrowings

	As at 30 June 2013 (Unaudited) R'000	As at 30 June 2012 (Unaudited) R'000	As at 31 December 2012 (Audited) R'000
Non-current	**39 177**	59 135	46 059
Current	**27 141**	35 694	28 834
	66 318	94 829	74 893
The movement in borrowings is analysed as follows:			
Opening balance	**74 893**	108 281	108 281
Additional loans raised	**7 775**	5 818	5 817
Finance costs	**2 522**	3 976	7 091
Repayments	**(18 872)**	(23 246)	(46 296)
Closing balance	**66 318**	94 829	74 893

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 is 31,6% (2012: 29,5%).

8. Reconciliation of headline earnings

	Six months ended 30 June 2013 (Unaudited) R'000	30 June 2012 (Unaudited) R'000	Year ended 31 December 2012 (Audited) R'000
Comprehensive income attributable to the equity holders of the Company for the period	**5 444**	18 331	(118 285)
(Profit)/loss on disposal of property, plant and equipment – net of taxes	**(126)**	15	(13)
Goodwill impairment	**–**	–	175 000
Headline earnings for the period	**5 318**	18 346	56 702
Headline earnings per share (cents)	**3,4**	11,7	36,3

9. Weighted average number of shares

	Six months ended 30 June 2013 (Unaudited)	Six months ended 30 June 2012 (Unaudited)	Year ended 31 December 2012 (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 the 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 2013 (Unaudited)	As at 30 June 2012 (Unaudited)	As at 31 December 2012 (Audited)
Net asset value per share (cents)	**428,9**	512,5	425,2
Tangible net asset value per share (cents)	**328,2**	298,3	324,2

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	Revenue R'000	Adjusted EBITDA R'000	Segment assets R'000	Segment liabilities R'000
30 June 2013 (Unaudited)				
Electrical cables manufacturing	**602 293**	**16 892**	**566 874**	**343 196**
Lighting and electrical accessories	**174 884**	**11 364**	**411 594**	**94 738**
Property investments	**8 735**	**7 254**	**206 746**	**44 223**
	785 912	**35 510**	**1 185 214**	**482 157**
30 June 2012 (Unaudited)				
Electrical cables manufacturing	494 438	31 611	451 653	215 207
Lighting and electrical accessories	158 416	10 793	566 786	107 858
Property investments	10 680	9 371	203 167	60 947
	663 534	51 775	1 221 606	384 012
Year ended 31 December 2012 (Audited)				
Electrical cables manufacturing	1 058 277	72 657	425 596	177 622
Lighting and electrical accessories	354 321	29 285	391 237	92 919
Property investments	21 360	18 749	202 725	51 284
	1 433 958	120 691	1 019 558	321 825

12. Segment reporting continued

	Six months ended 30 June 2013 (Unaudited) R'000	Six months ended 30 June 2012 (Unaudited) R'000	Year ended 31 December 2012 (Audited) R'000
Reconciliation of total segment report to the statement of financial position and statement of comprehensive income is provided as follows:			
Revenue			
Reportable segment revenue	**785 912**	663 534	1 433 958
Inter-segment revenue (property rentals)	**(8 735)**	(10 680)	(21 360)
Inter-segment revenue – other	**(8 025)**	–	(6 281)
Revenue per consolidated statement of comprehensive income	769 152	652 854	1 406 317
Profit before tax			
Adjusted EBITDA	**35 510**	51 775	120 691
Corporate and other overheads	**(9 253)**	(8 193)	(16 142)
Depreciation	**(9 079)**	(9 057)	(16 351)
Impairment of intangible assets – lighting and electrical accessories segment	**–**	–	(175 000)
Amortisation of intangible assets	**(1 256)**	(2 375)	(4 284)
Operating profit/(loss)	**15 922**	32 150	(91 086)
Finance income	**221**	139	512
Finance cost	**(8 179)**	(6 272)	(14 788)
Profit/(loss) before income tax per statement of comprehensive income	**7 964**	26 017	(105 362)
Assets			
Reportable segment assets	**1 185 214**	1 221 606	1 019 558
Corporate and other assets	**1 373**	2 682	2 130
Taxation receivable	**7 829**	3 213	4 127
Total assets per statement of financial position	**1 194 416**	1 227 501	1 025 815
Liabilities			
Reportable segment liabilities	**482 157**	384 012	321 825
Corporate and other liabilities	**7 129**	5 983	5 443
Deferred taxation	**34 116**	34 649	33 425
Taxation payable	**273**	1 481	252
Total liabilities per statement of financial position	**523 675**	426 125	360 945

13. Director changes

There were no 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 2013.

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 Proprietary Limited ("Radiant Group"), an importer and distributor of light fittings, lamps, electrical accessories and corporate gifts; a property holding company, Anchor Park Investments 48 Proprietary Limited ("Anchor Park"); and SOH Calibre International Limited ("SOH Calibre"), a procurement agency of the Group, based in Hong Kong.

Financial overview

Earnings

Group revenue for the six-month period to 30 June 2013 increased by 17,8% (2012: 5,5 %) to R769,2 million (2012: R652,8 million). The Group's gross profit decreased by 14,6% (2012: 4,4% increase) to R94,7 million (2012: R110,9 million) and operating profit decreased by 50,5% (2012: 6,4% increase) to R15,9 million (2012: R32,2 million) compared to the prior period.

Group profit before tax decreased by 69,4% (2012: 5,1% increase) to R8,0 million (2012: R26,0 million) compared to the prior period. The basic earnings per share decreased by 70,1% (2012: 8,3% increase) to 3,5 cents (2012: 11,7 cents) with the headline earnings per share deceasing by 70,9% (2012: 8,3% increase) to 3,4 cents (2012: 11,7 cents) compared to the prior period. Headline earnings for the period were R5,3 million (2012: R18,3 million).

The Group's results were materially negatively affected by the electricity supply problem experienced by SOEW as pointed out in the SENS announcement released on 25 April 2013.

Cash flow and working capital management

Cash utilised in operations amounted to R15,3 million (2012: R71,8 million) during the period. Working capital increased by R28,2 million (2012: R101,3 million) primarily due to an increase in accounts receivable, as a result of an increase in revenue, and an increase in inventory. Certain significant customers paid at the beginning of the month following this period, which contributed to the negative cash flow for the period. 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 R16,7 million (2012: R14,0 million) in capital expenditure which was mainly financed by long-term borrowings during this period and utilised R18,9 million (2012: R23,2 million) to repay its long-term interest-bearing borrowings.

The Group's net cash utilised during the period of R40,1 million (2012: R99,3 million) resulted in the net overdraft increase from R85,4 million reported at June 2012 to R161,9 million at the end of the current period.

Segment results

Electrical cables – SOEW

SOEW's revenue increased by 21,8% (2012: 10,4% increase) to R602,3 million (2012: R494,4 million). This was mainly attributable to an increase of 8,8% in the moving average Rand Copper Price ("RCP"), diversification of product range and an increase in production due to increased capacity with new machinery installed.

SOEW's production was affected by the electrical supply problems experienced during the months of February to the beginning of April. This has materially affected the results of SOEW resulting in lower production than budgeted, increased production costs, increased scrap rates and decreased production efficiencies. The electrical supply problem has been resolved by the municipality replacing the electrical cables supplying the transformer.

The margins during this period were materially affected as the cost of products escalated.

Production for the months from April to June 2013 was as budgeted. The focus for the rest of the year remains to streamline the production process and improve operational efficiencies in order to contain costs and increase production.

Lighting and electrical accessories – Radiant Group

Radiant Group reported revenue of R174,9 million (2012: R158,4 million), which is a 10,4% increase (2012: 7,2% decrease) when compared to the same period in the prior year. The margins are still under pressure due to the subdued market conditions and external competition with changes in customer spending patterns. Costs were again successfully reduced during the period in line with management's strategy to improve profitability. This was achieved through a number of management interventions resulting in a cost reduction of 5,8% (2012: 1,7% increase) compared to the same period last year.

Certain strategic changes are being implemented to reduce costs and refocus the business. These are expected to improve results.

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 interest-bearing debts.

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 seasonal trend to continue.

Prospects

The prospects for the South African economy remain mixed with muted growth rates expected for the year.

The highly competitive environment is also expected to continue for the rest of the year.

The Group has entered the tender market as previously indicated. Tenders to Eskom have been submitted by SOEW and Radiant Group but the awarding of the tenders has been delayed. The positive outcome of any tender business will increase the revenue and results of the Group.

The Cable segment will be able to take advantage of the improved capacity for the rest of the year and the strategic changes implemented at the Lighting and Electrical segment will contribute to improving results.

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

E G Dube
Chairman

P J M Ferreira
Chief Executive Officer

31 July 2013

CORPORATE INFORMATION

South Ocean Holdings Limited
(Registration number 2007/002381/06)
Incorporated in the Republic of South Africa
Share code: SOH ISIN: ZAE000092748

Directors:
E G Dube[#] (Chairman)
E H T Pan[√@] (Deputy Vice-Chairman)
P J M Ferreira[*] (Chief Executive Officer)
J P Bekker[*] (Chief Financial Officer)
M Chong[#]
M H Lee[√A]
H L Li[√Q]
C H Pan[√QA]
K H Pon[#]
D L Tam[#]
C C Wu[√A]
C Y Wu[√Q]
[*] Executive
[#] Independent Non-Executive
[√] Non-Executive
[Q] Taiwanese
[@] Brazilian
[A] Alternate

Registered Office:
12 Botha Street, Alrode, 1451
PO Box 123738, Alrode, 1451
Telephone: +27(11) 864 1606
Telefax: +27(86) 628 9523

Company Secretary:
W T Green, 21 West Street, Houghton, 2198
PO Box 123738, Alrode, 1451

Sponsor:
Investec Bank Limited
(Registration number 1969/004763/06)
Second Floor, 100 Grayston Drive, Sandown, Sandton, 2196

Share Transfer Secretary:
Computershare Investor Services Proprietary Limited
Ground Floor, 70 Marshall Street, Johannesburg, 2001
PO Box 61051, Marshalltown, 2107, South Africa
Telephone: +27(11) 370 5000
Telefax: +27(11) 688 5200
Website: www.computershare.com

Auditors:
PricewaterhouseCoopers Inc.
2 Eglin Road, Sunninghill, 2157
Telephone: +27(11) 797 4000
Telefax: +27(11) 797 5800
Website: www.pwc.co.za

www.southoceanholdings.com