

# PROFIT ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2001

- Revenues +23% to R3,1 billion
- EBITDA +30% to R872 million



- Headline earnings +20% to R283 million

**Kersaf Investments Limited**  
(Registration number 1967/007528/06)  
Share code: KER ISIN code: ZAE00003844

## GROUP INCOME STATEMENT

	Years ended 30 June		
	2001 Audited Rm	% change	2000 Audited Rm
<b>Revenue</b>	<b>3 174</b>	23	2 572
Direct costs	(1 450)		(1 155)
<b>Gross profit</b>	<b>1 724</b>	22	1 417
Indirect costs	(852)		(746)
<b>EBITDA</b>	<b>872</b>	30	671
Depreciation and amortisation	(295)		(194)
Property rentals	(63)		(42)
Exceptional items	(244)		(190)
<b>Profit from operations</b>	<b>270</b>		245
Foreign exchange profits	27		19
Interest received	32		80
<b>Operating profit</b>	<b>329</b>		344
Interest paid	(136)		(61)
Share of associate company profits			
– normal	132		109
– exceptional	(488)		57
<b>(Loss)/profit before taxation</b>	<b>(163)</b>		449
Taxation	(91)		(166)
(Loss)/profit after taxation	(254)		283
Minority interests	31		(96)
<b>(Loss)/earnings attributable to ordinary shareholders</b>	<b>(223)</b>		187
<b>Number of shares (000's)</b>			
– in issue	90 050		88 650
– for EPS calculation	88 990		88 650
– for fully diluted EPS calculation	89 571		89 080
<b>Earnings per share (cents)</b>			
– headline earnings per share	318	20	266
– basic (loss)/earnings per share	(251)		211
<b>Fully diluted earnings per share (cents)</b>			
– headline earnings per share	316		265
– basic (loss)/earnings per share	(249)		210
<b>Interest cover (times)</b>	4		9

### Determination of headline earnings

Attributable (loss)/earnings per the income statement	2001 Audited Rm	2000 Audited Rm
Exceptional items	244	190
Pre-opening expenses	144	77
Goodwill	29	22
Net write downs due to sale and closure of operations	11	68
Cost of restructuring of the group's interests in SIHL including the share registration cost	40	–
Downsizing and restructuring costs	14	15
Investment written down	–	21
(Loss)/profit on disposal of interest in subsidiaries	6	(8)
Indirect taxation claims relating to prior years	–	(5)
Associate companies' exceptional items	488	(57)
Pre-opening expenses	37	7
Goodwill	4	6
Share tender and aborted leveraged buyout costs	–	10
Desert Inn termination costs	–	16
Profit on Paradise Island land sales	(25)	(96)
Loss on sale of Atlantic City	413	–
Impairment of cinema assets	59	–
Taxation relief on the above items	(8)	(14)
Minority interests in the above items	(218)	(70)
<b>Headline earnings</b>	<b>283</b>	236

## DIVISIONAL EARNINGS ANALYSIS

	Years ended 30 June	
	2001 Audited Rm	2000 Audited Rm
Sun International Inc	253	152
Sun International South Africa	87	61
Other southern African activities	25	34
Management activities	51	34
Other international activities	(39)	(20)
Sun International Hotels	109	78
Central office costs and other	20	4
20% minority stake*	–	(39)
City Lodge	20	18
Kersaf central office and other	10	66
	<b>283</b>	236

This analysis represents the Kersaf share of headline earnings and excludes the impact of exceptional items (normal and associate).

\*Effective 30 June 2000, Kersaf acquired the 20% minority stake in Sun International Inc for R425 million. The R39 million in the 2000 financial year represents the earnings attributable to this minority stake and has been separately reflected so as to enable more meaningful comparison of the divisional earnings.

## GROUP BALANCE SHEET

	30 June	
	2001 Audited Rm	2000 Audited Rm
<b>ASSETS</b>		
<b>Operating assets and investments</b>		
Operating assets	5 128	3 795
Goodwill	81	78
Investments and loans	2 108	2 046
	<b>7 317</b>	5 919
<b>Current assets</b>		
Deposits and cash	238	200
Accounts receivable and other	418	552
	<b>656</b>	752
<b>Total assets</b>	<b>7 973</b>	6 671
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and reserves</b>		
Ordinary shareholders' equity	2 832	2 744
Outside shareholders' interests	1 673	1 568
	<b>4 505</b>	4 312
<b>Non-current liabilities</b>		
Borrowings	1 858	1 231
Deferred taxation	376	430
	<b>2 234</b>	1 661
<b>Current liabilities</b>		
Borrowings	435	67
Accounts payable and other	799	631
	<b>1 234</b>	698
<b>Total liabilities</b>	<b>3 468</b>	2 359
<b>Total equity and liabilities</b>	<b>7 973</b>	6 671
Borrowings to total shareholders' equity (%)	51	30
Net asset value per share (Rand)	31,44	30,95
Capital expenditure	1 590	1 143
Capital commitments		
– contracted	473	1 439
– authorised but not contracted	823	1 128
Market value of listed investments	1 752	1 138
Directors' valuation of unlisted investments and loans	341	290
Total valuation of investments and loans	2 093	1 428

## GROUP CASHFLOW STATEMENT

	Years ended 30 June	
	2001 Audited Rm	2000 Audited Rm
<b>Cash generated by operations before:</b>	<b>824</b>	641
Working capital changes	229	(211)
Pre-opening expenses	(144)	(77)
<b>Cash generated by operations</b>	<b>909</b>	353
Investment income	36	89
Interest expense	(136)	(61)
Taxation paid	(104)	(128)
Dividends paid	(53)	(120)
<b>Cash retained from operating activities</b>	<b>652</b>	133
<b>Cash utilised in investing activities</b>	<b>(1 785)</b>	(1 785)
<b>Cash realised from investing activities</b>	<b>41</b>	53
<b>Net cash inflow from financing activities</b>	<b>1 110</b>	743
<b>Translation gains on cash balances</b>	<b>20</b>	34
<b>Net increase/(decrease) in cash balances</b>	<b>38</b>	(822)

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Ordinary shares and share premium Rm	Retained earnings Rm	Foreign currency translation reserve Rm	Total Rm
<b>Balances at 30 June 2000</b>	526	1 603	615	2 744
– Ordinary share issues	29	–	–	29
– Losses for the year ended 30 June 2001	–	(223)	–	(223)
– Dividends	–	(27)	–	(27)
– Foreign currency translation adjustment	–	–	309	309
– Transfer from foreign currency translation reserve to retained earnings	–	131	(131)	–
<b>Balances at 30 June 2001</b>	<b>555</b>	<b>1 484</b>	<b>793</b>	<b>2 832</b>

## COMMENTARY

### EARNINGS AND DIVIDEND

Trading conditions in southern Africa deteriorated significantly during the last six months of the year and particularly during the final quarter. Poor local economic conditions and lower consumer confidence have negatively impacted casino revenues whilst deteriorating perceptions of southern Africa have reduced inward bound tourism to the region. The effects of these factors were offset by the opening of the GrandWest casino in Cape Town, the Boardwalk casino in Port Elizabeth and the Sugarmill temporary casino in Durban.

The group's headline earnings per share were 20% higher than last year at 318 cents. This improvement is primarily the result of the improved profitability attributable to the management and ownership of the new casino properties in South Africa. The increased earnings from Sun International Hotels Limited ("SIHL"), assisted by the depreciation in the SA Rand, were partially offset by increased losses of Ster Century Europe. The divisional analysis has been presented so as to assist comparison by reflecting the impact of the 20% minority stake in Sun International Inc acquired by Kersaf effective 30 June 2000. This additional 20% holding enhanced earnings by 3% during the year under review.

Revenues for the year of R3,2 billion were 23% higher, with gaming revenues 38% above last year. Tight cost controls and an increase in management fee income resulted in EBITDA increasing by 30% to R872 million. Depreciation charges increased by 52% as a result of the commissioning of the new casinos. Net interest paid of R104 million during the current year compares to the R19 million net interest earned in the previous year. This was as a consequence of the funding of the new casinos together with the R425 million acquisition of the minority stake in Sun International Inc. Normal associate earnings increased by 21% to R132 million as a result of good performances by SIHL and City Lodge offset in part by the higher losses of Ster Century Europe. The taxation charge was significantly lower, due largely to a R35 million deferred tax asset raised by the Sun International (South Africa) Limited group ("SISA") relating to tax losses, the realisation of which is probable in the foreseeable future.

The group incurred a number of exceptional charges during the year, the most significant of which were the pre-opening expenses relating to the commissioning of the new casino and hotel properties, the impairment in value of certain of the multiplex cinemas of Ster Century Europe and the loss on the sale of the Resorts Hotel Casino in Atlantic City by SIHL.

In line with previous indications to shareholders and given the significant ongoing investment programme in the group, no dividends have been declared for the current year. It is likely that dividend payments will resume for the 2003 financial year.

### OPERATIONAL REVIEW

Sun International South Africa's results for the year reflect the impact on profitability of the new permanent casinos in Gauteng, the deteriorating consumer confidence in South Africa and reduced tourism offset by the trading from the recently opened Boardwalk, GrandWest and Sugarmill casinos. Group revenues were 27% higher, with gaming revenues 39% up and hospitality revenues just 4% up on last year. Average room occupancy at 65% was two percentage points below last year with the flagship Sun City resort down four percentage points to 71%. The improvement in gaming revenues is due to the opening of the Boardwalk casino (nine months' trading), the GrandWest casino (six and a half months' trading) and the Sugarmill casino (five months' trading). Revenues at the Carousel, Morula Sun and Wild Coast Sun declined following the opening of new casinos in their respective markets. Margins improved as a result of the increase in gaming revenues with a 34% increase in EBITDA to R699 million. Despite the increased capital charges arising on the new projects, headline earnings were 40% higher at R200 million.

The Boardwalk casino was opened in October 2000 followed by the retail component in December 2000 at a total capital cost of R444 million. Trading has been below expectations over the last six months, due in part to the weak economy in that region. The GrandWest casino was opened well ahead of schedule during December 2000, at a total capital cost of R1,45 billion. Trading to date has been satisfactory. The Sugarmill temporary casino was opened at the beginning of February 2001 and to date trading has been strong. Construction on the permanent Sibaya casino and resort at Umfolozi is likely to commence in 2002. Construction has commenced on the group's Kimberley and Pietersburg casino projects with the estimated capital costs at R110 million and R190 million respectively. Both casinos are anticipated to open during the final quarter of the 2002 financial year.

Other southern African operations traded satisfactorily with an increase in revenues and profitability from the existing operations. The overall result was negatively impacted by the R14 million loss incurred by the Zambesi Sun and Royal Livingstone hotels at the Victoria Falls in Zambia which opened during the final quarter of the year. The total capital expenditure on this project was US\$52 million. The attributable losses over the next year are likely to be higher than originally forecast in light of the worsening situation in Zimbabwe and the consequent negative perceptions of the region in international tourist markets. With effect from 30 June 2001, the group acquired the 18% minority shareholding in the Kalahari Sands in Namibia for R9,5 million.

Management activities generated earnings 51% higher primarily due to contributions from the new casinos and the project fees earned on the major projects which were in progress during the year.

Sun International Hotels Limited's earnings before exceptional items were up 17% in US Dollar terms due primarily to the positive impacts of the disposal of the loss making Atlantic City casino. Earnings as reported in SA Rands were 39% higher due to the significant depreciation of the SA Rand. As previously announced to shareholders, the group has entered into agreements which, *inter alia*, achieve the following:

- \* the restructure of its shareholding in SIHL;
- \* disposal of its SIHL shares over time, with a minimum of 2 million shares to be disposed of by 30 June 2002;
- \* the acquisition of the world-wide rights to the Sun International brand name; and
- \* the release of the group from its restraint of trade obligations.

In terms of this arrangement, effective 1 July 2001, SIHL is no longer considered an associate of the group and therefore Kersaf's holdings in SIHL will in future be accounted for as an investment. For the year ended 30 June 2001, this change in accounting treatment would have reduced the group's earnings per share by 122 cents to 196 cents.

Ster Century Europe experienced difficult trading conditions in common with the industry worldwide. In addition new sites took longer than anticipated to establish themselves which, combined with the weakness of the Euro currency, resulted in the losses attributable to Kersaf of R33 million. During the year, Ster Century Europe opened a further eight cinema complexes in the United Kingdom, Poland, Greece, Czech Republic, Slovakia and Spain, bringing the total now trading to 15. As previously reported to shareholders, the sale process has been discontinued and a refinancing package is currently being finalised. The group remains committed to the disposal of this non-core asset in due course.

City Lodge experienced mixed trading conditions with an encouraging improvement during the first nine months of the year followed by a disappointing decline in occupancy during the last quarter. Average room occupancies for the year increased by two percentage points to 71%. The increase in occupancy and good average room rate combined with the new hotels helped increase revenues 16% on last year whilst higher capital charges resulted in attributable earnings 14% higher than last year. Two new hotels are due to open during the next financial year with a number of other potential opportunities under consideration.

### BALANCE SHEET

Major investment expenditure during the year under review was R752 million at GrandWest, R264 million at the Boardwalk, R180 million on the Sugarmill casino, R250 million at Victoria Falls and R142 million to fund Ster Century Europe. This capital expenditure was funded by increased borrowings of R995 million, existing cash resources and operating cash flows.

### CAPITAL COMMITMENTS

The group currently has total capital commitments of R1,3 billion, inclusive of the Sibaya project, the Meropa casino at Pietersburg and the Flamingo casino at Kimberley. Capital expenditures of approximately R458 million will be incurred in the year to 30 June 2002.

### PROSPECTS

The adverse trading conditions in southern Africa are anticipated to continue for the foreseeable future with the consequent pressure on revenues and margins. The new casino properties will, however, contribute to further significant growth in revenues and EBITDA in the year ahead. Notwithstanding these improvements, higher capital and taxation charges are likely to result in headline earnings being lower than in the current year (after adjusting the 2001 year for the SIHL equity accounted earnings).

The group's new casino developments are strongly cash generative and the medium-term earnings prospects for the group remain excellent.

### STRATE

The company has been advised by the JSE Securities Exchange South Africa ("JSE") that its shares will be transferred to the STRATE system on 15 October 2001. Trading for electronic settlement will commence on 5 November 2001, with electronic settlement taking place from 12 November 2001. Existing share certificates will no longer be good for delivery for transactions entered into on the JSE on or after 5 November 2001.

For and on behalf of the Board

**DA Hawton**  
Executive Chairman  
31 August 2001

**D C Coutts-Trotter**  
Group Finance Director

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**Group Secretary:** S A Bailes

