Profit and dividend announcement for the six months ended 31 December 2002

Revenue 23% higher

EBITDA up 55%

Adjusted Headline Earnings per Share up 158% to 98 cents

Kersaf Investments Limited
(Registration number 1967/007528/06)
Share code: KER ISIN: ZAE000003844

Group income statement

	Six months ended 31 December 2002 Unaudited Rm	% change	2001 Unaudited Rm	Year ended 30 June 2002 Audited Rm
Revenue	**2 155**	23	1 759	3 719
Direct costs	**(924)**		(829)	(1 692)
Gross profit	**1 231**	33	930	2 027
Indirect costs	**(585)**		(513)	(1 064)
EBITDA	**646**	55	417	963
Depreciation and amortisation	**(218)**		(201)	(415)
Property rentals	**(37)**		(30)	(68)
Exceptional items	**(152)**		(29)	(374)
Operating profits	**239**	52	157	106
Foreign exchange (losses)/profits	**(57)**		59	59
Continuing operations	**(72)**		59	44
Discontinuing operations	**15**		–	15
Interest received	**33**		44	38
Continuing operations	**23**		36	23
Discontinuing operations	**10**		8	15
Interest expense	**(169)**		(162)	(295)
Profits/(losses) before equity accounted earnings	**46**	(53)	98	(92)
Share of associate companies' (losses)/profits – normal	**(9)**		(17)	(79)
Continuing operations	**26**		16	38
Discontinuing operations	**(35)**		(33)	(117)
– exceptional Discontinuing operations	**(1)**		(96)	(122)
Profit/(loss) before taxation	**36**		(15)	(293)
Taxation	**(101)**		(47)	(114)
Continuing operations	**(100)**		(46)	(111)
Discontinuing operations	**(1)**		(1)	(3)
Loss after taxation	**(65)**		(62)	(407)
Minority interests	**(45)**		15	110
Net loss for the period	**(110)**		(47)	(297)
Number of shares (000's)				
– in issue	**90 050**		90 050	90 050
– for EPS calculation	**90 050**		90 050	90 050
– for fully diluted EPS calculation	**91 163**		90 584	91 695
Earnings per share (cents)				
– headline (loss)/earnings per share	**(295)**		53	18
– adjusted headline earnings per share	**98**	158	38	99
– basic loss per share	**(122)**		(52)	(330)
Fully diluted earnings per share (cents)				
– headline (loss)/earnings per share	**(292)**		53	18
– adjusted headline earnings per share	**97**		38	97
– basic loss per share	**(121)**		(52)	(324)
Dividend declared per share (cents)	**25**		–	–
EBITDA margin	**30**		24	26
Interest cover (times)	**2**		2	2
Determination of headline and adjusted headline earnings				
Attributable loss per the income statement	**(110)**		(47)	(297)
Headline earnings adjustments	**(212)**		34	314
Net write downs due to sale and closure of operations	**–**		15	15
Goodwill (included in depreciation and amortisation)*	**10**		11	24
KZL dispute legal costs	**6**		8	16
Recognition of KZL long-term obligation and termination of litigation	**–**		–	297
Dilution loss on City Lodge debenture conversion	**–**		–	38
Impairment of goodwill	**34**		–	–
Profit on disposal of aircraft	**–**		–	(21)
Currency translation reserve realised on sale of KZL shares	**(262)**		–	(55)
Associate headline earnings adjustments	**1**		93	118
Impairment of cinema assets	**14**		73	122
(Profit)/loss on sale of cinema assets	**(13)**		20	(4)
Taxation relief on the above items	**–**		–	4
Minority interests in the above items	**55**		(32)	(122)
Headline earnings	**(266)**		48	17
Adjusted headline earnings adjustments	**417**		(42)	24
Pre-opening expenses	**–**		4	18
Write down of KZL to market value	**356**		3	60
Foreign exchange losses/(gains) on intercompany accounts*	**68**		(40)	(30)
Earnings from discontinuing operations*	**(25)**		(8)	(30)
Provision for gaming levies related to prior periods	**17**		–	–
Other items	**1**		(1)	6
Associate adjusted headline earnings adjustments	**36**		37	124
Discontinuing operations – Pre-opening expenses	**–**		3	4
Results from discontinuing operations*	**36**		34	120
Taxation relief on the above items	**(4)**		–	–
Minority interests in the above items	**(94)**		(9)	(76)
Adjusted headline earnings	**89**		34	89

*Not included in exceptional or associated exceptional items.

Divisional earnings analysis

	Six months ended 31 December 2002 Unaudited Rm	2001 Unaudited Rm	Year ended 30 June 2002 Audited Rm
Sun International South Africa	44	9	28
Other southern African activities	9	(3)	(12)
Management activities	27	16	53
City Lodge	15	9	22
Central office and other	(6)	3	(2)
	89	34	89

This analysis represents the Kersaf share of adjusted headline earnings.

Group balance sheet

	31 December 2002 Unaudited Rm	2001 Unaudited Rm	30 June 2002 Audited Rm
ASSETS			
Non current assets			
Property, plant and equipment	**4 595**	4 876	4 798
Intangible assets	**808**	698	665
Investments and loans	**1 023**	2 909	1 849
	6 426	8 483	7 312
Current assets			
Accounts receivable and other	**429**	440	380
Available for sale investment	**–**	–	507
Cash and cash equivalents	**226**	200	286
	655	640	1 173
Total assets	**7 081**	9 123	8 485
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary shareholders' equity	**2 394**	3 510	2 888
Outside shareholders' interests	**1 416**	1 838	1 657
	3 810	5 348	4 545
Non current liabilities			
Deferred taxation	**407**	376	395
Borrowings	**1 693**	2 013	2 438
	2 100	2 389	2 833
Current liabilities			
Accounts payable and other	**797**	761	748
Borrowings	**374**	625	359
	1 171	1 386	1 107
Total liabilities	**3 271**	3 775	3 940
Total equity and liabilities	**7 081**	9 123	8 485
Borrowings to total shareholders' equity (%)	**54**	49	62
Net asset value per share (Rand)	**26,59**	38,98	32,07
Capital expenditure	**103**	328	559
Capital commitments			
– contracted	**20**	148	11
– authorised but not contracted	**770**	655	837
Market value of listed investments	**748**	2 394	1 951
Directors' valuation of unlisted investments and loans	**363**	597	390
Total valuation of investments and loans and available for sale investment	**1 111**	2 991	2 341

Group cash flow statement

	Six months ended 31 December 2002 Unaudited Rm	2001 Unaudited Rm	Year ended 30 June 2002 Audited Rm
Cash generated by operations before:	**622**	439	934
Working capital changes	**(44)**	(94)	(44)
Pre-opening expenses	**–**	(4)	(18)
Cash generated by operations	**578**	341	872
Investment income	**44**	50	49
Interest expense	**(163)**	(162)	(286)
Taxation paid	**(70)**	(68)	(129)
Dividends paid	**(20)**	(13)	(32)
Cash retained from operating activities	**369**	148	474
Cash utilised in investing activities	**(277)**	(522)	(774)
Cash realised from investing activities	**531**	47	170
Net cash (outflow)/inflow from financing activities	**(671)**	275	167
Translation (losses)/gains on cash balances	**(12)**	14	11
(Decrease)/increase in cash balances	**(60)**	(38)	48

Consolidated statement of changes in equity

	Ordinary shares and share premium Rm	Retained earnings Rm	Foreign currency translation reserve Rm	Total Rm
Balances at 30 June 2002	555	1 201	1 132	2 888
– Net loss for the period to 31 December 2002	–	(110)	–	(110)
– Foreign currency translation adjustment	–	–	(184)	(184)
– Foreign currency translation reserve realised	–	–	(192)	(192)
– Fair value loss	–	(8)	–	(8)
Balances at 31 December 2002	555	1 083	756	2 394

Commentary

EARNINGS AND DIVIDEND

The group's casinos continued to benefit from the strength of the South African economy, producing strong growth in revenues and EBITDA. The hotels and resorts achieved occupancies and room rates well above those achieved in the previous year, due in part to the impact of 11 September 2001 on the corresponding period in the prior year, and to the increasing popularity of South Africa as a tourist destination. Adjusted headline earnings per share were 158% higher than last year at 98 cents. The increase is largely due to the higher earnings of Sun International (South Africa) Limited (SISA), Sun International Management Limited (SIML), City Lodge Hotels Limited (City Lodge) and the lower losses incurred in the Zambian operations.

Revenues for the period of R2,2 billion were 23% higher, with gaming revenues up 24% and hospitality and other revenues up 19%. The increase in gaming revenues was due to excellent trading at GrandWest which benefited from the vibrant Western Cape economy, strong growth in revenues at the Boardwalk and the inclusion of the Meropa and Flamingo casinos which opened in the second half of the prior year. The increase in hospitality revenues was due to the strong trading of the Table Bay Hotel and Sun City. Trading at the Zambian operations although well up on the prior period remained disappointing. The strong trading and well-contained costs resulted in a 6-percentage point increase in the EBITDA margin to 30%, and a 55% increase in EBITDA to R646 million. Depreciation and amortisation charges increased by 18% whilst net interest paid of R136 million was 15% higher than last year. Foreign exchange losses of R57 million compare to profits of R59 million in the prior year.

Ster Century Europe Limited (SCE) and Ster Century Middle East Limited (SCME) have been treated as discontinuing operations and as a consequence the earnings and results from these operations have been disclosed separately.

In view of the strong cash flows and growth in adjusted headline earnings, the board has declared an interim dividend of 25 cents per share (2001: nil).

ACCOUNTING POLICIES

The interim financial information presented has been prepared in accordance with South African Statements of Generally Accepted Accounting Practice (GAAP) and International Accounting Standards (IAS) and comply with AC127 "Interim financial reporting". The accounting policies used are consistent with those used in the annual financial statements for the year ended 30 June 2002.

The calculation of headline earnings has been based upon the Interpretation of Statement of Investment Practice No. 1, issued by the South African Institute of Chartered Accountants in December 2002 (circular 7/2002). In terms of this circular the prior year figures have been re-stated where applicable.

The group has decided to present "adjusted headline earnings" to assist users of the group's financial statements. Adjusted headline earnings exclude certain items of income or expense so as to enable users to obtain a more meaningful comparison of the group's performance with prior periods. These adjustments include pre-opening expenses, earnings and results from discontinuing operations and material items considered to be outside of the normal operating activities of the group and/or of a non-recurring nature.

OPERATIONAL REVIEW

SISA's trading continued the strong trend of the last six months of the previous financial year. Group revenues of R1,9 billion were 23% up on last year with gaming and hospitality revenues 25% and 19% up respectively. The increased revenues combined with cost containment resulted in EBITDA increasing 48% to R518 million with the EBITDA margin at 27%, 5 percentage points up on the prior year. Adjusted headline earnings of R100 million were R79 million up on the previous year.

The strong growth in gaming revenues resulted from the excellent trading of the group's new operations and the opening of the Flamingo and Meropa casinos. Gaming revenues at the group's biggest casino operation, GrandWest were 32% up on the previous year at R407 million with EBITDA at R156 million, 65% up on the prior year. The Boardwalk casino revenues grew by 33% to R122 million. The opening of a competitor casino in Durban at the end of November 2002 impacted the SugarMill temporary casino, although displacement of revenues was less than expected. The Carousel, Morula Sun, Thaba'Nchu Sun and Wild Coast Sun continued to be impacted by competition from more conveniently located urban casinos, albeit to a lesser extent than in the past. The launch of the group's "Mystery Jackpots" and other new product releases helped differentiate the group from its competitors and also contributed to the increased revenues.

SISA's average room occupancy at 76% was eleven percentage points above the previous year at an average rate of R748, 24% up on last year. Occupancies at Sun City, the Table Bay and Zimbali were 6, 20 and 4 percentage points ahead of the previous year at 78%, 71% and 68% respectively. The strong growth in both occupancy and rate experienced over the last year is attributed to the popularity and perceived relative safety of South Africa as a tourist destination as well as the value for money the country offers international tourists.

Construction of the Sibaya permanent casino at Umdloti will commence shortly and is scheduled for completion in December 2004. Consideration is being given to the relocation of the Thaba'Nchu Sun casino licence to Bloemfontein.

Other southern African operations had a mixed performance with strong trading at the Swaziland, Namibia and Lesotho operations, offset in part by disappointing trading at the Botswana and Zambia operations. Earnings attributable to Kersaf of R9 million were R12 million better than the loss incurred in the first half of the prior year (excluding foreign exchange gains and losses on intercompany accounts). The Zambian operations incurred a loss of R19 million (including depreciation charges of R10 million) before a foreign exchange loss of R42 million. Occupancies at 36%, 6 percentage points ahead of last year continue to be disappointing.

Management activities generated revenues 24% higher at R124 million as a consequence of the growth in SISA revenues and profitability. Earnings attributable to Kersaf of R27 million were 69% higher than last year. The increase is due to a number of factors including the higher revenues and the acquisition of the minority's effective 26,7% interest in SIML on 15 November 2002, which contributed an additional R3 million to attributable earnings.

SCE generated revenues of US$25,7 million, 21% lower than last year. Excluding the revenues from sold operations, revenues were 86% higher. The strong revenue growth was achieved as a result of new cinema openings during and since the prior period, good product and a continued improvement in trading at certain of the more established sites. The SCE group incurred an EBITDA loss of US$0,9 million compared to last year's loss of US$3,6 million. Attributable losses before exceptional items of US$5,6 million were 34% better than last year's US$8,4 million loss.

Processes are underway for the sale of SCE's remaining cinema interests in Spain, the United Kingdom and the Republic of Ireland.

SCME. A comprehensive restructuring of the business is near completion resulting in the closure of one of the sites in Sharjah and the downsizing of the other. Significant rental and cost reductions have also been achieved and it is anticipated that SCME will generate positive cash flows going forward. The instability in this region will make a sale in the short-term difficult although the group will continue to seek to exit this business.

City Lodge results for the period were outstanding with revenues increasing by 29% to R145 million and EBITDA increasing by 38% to R72 million. This was achieved by a 5 percentage point increase in occupancy to 77%, good rate growth and contribution for the full period from Road Lodge Kimberley and Town Lodge Polokwane as well as a three month contribution from Road Lodge Cape Town International Airport. Headline earnings increased by 68% to R39 million and fully diluted earnings per share were up 64% on the prior year. Earnings attributable to Kersaf at R15 million were R6 million higher than last year.

BALANCE SHEET

Effective 15 November 2002 the group acquired the minority's effective 26,7% interest in SIML. The consideration paid was US$16,9 million and was settled with 850 000 KZL shares. The group's obligation to dispose of two million KZL shares was discharged during December 2002 when it sold 2,3 million shares by way of a public offering, realising US$42 million after costs. The proceeds were largely utilised to discharge borrowings including the US$32 million owing to KZL. The group continues to hold 2,8 million KZL shares of which Kersaf effectively owns 2,2 million. In terms of the arrangement with KZL the group may dispose of up to 400 000 KZL shares per quarter through the market and it is likely that further sales will be completed during the second half of the financial year.

Capital expenditure for the six months of R103 million (2001: R328 million) was incurred on various projects including the establishment of a smoking casino at Sun City. It is anticipated that a further R135 million (2002: R153 million) capital expenditure will be incurred in the second half of the financial year.

The reduction in net asset value per share is primarily due to the decline in the KZL share price and the impact of the stronger Rand on the carrying values of the group's offshore assets.

During the period the group reduced borrowings by R671 million.

PROSPECTS

The positive outlook for the local economy should benefit the group's casino operations although growth in casino revenues in the second half will be lower, in part due to the new competitor facility in Durban.

Forward bookings at the group's hotels and resorts remain strong, but may be impacted by a conflict in the Middle East. Of further concern is the slowdown in economic growth of certain of the group's primary markets of Germany, United Kingdom and The United States of America and the potential negative impact this may have on tourism to the region.

Nevertheless the contribution from the group's casino and hotel operations in the second half is expected to be higher than the prior financial year. This together with an increased contribution from SIML, following the purchase of the minority's interest and a reduction in the losses from the Zambian operations should reflect strong growth in adjusted headline earnings over the second half of the prior year.

For and on behalf of the board

D A Hawton
Executive Chairman

D C Coutts-Trotter
Executive Director

5 March 2003

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Group Secretary: S A Bailes

DECLARATION OF INTERIM DIVIDEND

Notice is hereby given that an interim dividend of 25 cents per share (2001: nil) for the six months ended 31 December 2002 has been declared, payable to shareholders recorded in the register of the company at the close of business on the record date appearing below. The salient dates applicable to the interim dividend are as follows:

	2003
Last day to trade *cum* interim dividend	Thursday, 20 March
First day to trade *ex* interim dividend	Monday, 24 March
Record date	Friday, 28 March
Payment date	Monday, 31 March

No share certificates may be dematerialised or rematerialised between Monday, 24 March 2003 and Friday, 28 March 2003, both days inclusive.

Dividend cheques will be posted and electronic payments made, where applicable, to certificated shareholders on the payment date. Dematerialised shareholders will have their accounts with their Central Securities Depository Participant or broker credited on the payment date.

By order of the board

S A Bailes
Group secretary

5 March 2003