



[www.suninternational.com](http://www.suninternational.com)



# Sun International Limited

Registration no 1967/007528/06, Share code: SUI, ISIN: ZAE000070678



## PROFIT AND DIVIDEND ANNOUNCEMENT for the six months ended 31 December 2006

**+15%**  
Revenue

**+23%**  
EBITDA

**+32%**  
Adjusted HEPS

**+37%**  
Dividend per share



## Group income statement

<i>R million</i>	<i>Six months ended</i>		<i>Year ended</i>	
	<i>Unaudited</i> <b>2006</b>	<i>31 December</i> % <i>change</i>	<i>Unaudited</i> 2005	<i>30 June</i> <i>Audited</i> 2006
<b>Continuing operations</b>				
<b>Revenue</b>	<b>3 380</b>	15	2 943	5 949
Casino	<b>2 594</b>	16	2 232	4 543
Rooms	<b>386</b>	16	334	681
Food, beverage and other	<b>400</b>		377	725
Other income	<b>84</b>		97	216
Pension fund surplus recognition	<b>142</b>		–	–
Employee costs	<b>(661)</b>		(610)	(1 214)
Levies and VAT on casino revenues	<b>(546)</b>		(468)	(948)
Depreciation and amortisation	<b>(253)</b>		(235)	(473)
Promotional and marketing costs	<b>(293)</b>		(260)	(508)
Other operational costs	<b>(716)</b>		(667)	(1 354)
Impairment of investment	<b>(97)</b>		–	–
BEE transaction charge	–		(218)	(219)
<b>Operating profit</b>	<b>1 040</b>		582	1 449
Foreign exchange (losses)/profits	<b>(11)</b>		(29)	52
Interest income	<b>57</b>		26	74
Interest expense	<b>(168)</b>		(113)	(250)
<b>Profit before taxation</b>	<b>918</b>		466	1 325
Taxation	<b>(359)</b>		(242)	(517)
<b>Profit from continuing operations</b>	<b>559</b>		224	808
<b>Discontinued operations</b>				
Profit from discontinued operations	–		380	387
<b>Profit</b>	<b>559</b>		604	1 195
<b>Attributable to</b>				
Minorities	<b>96</b>		135	262
Ordinary shareholders	<b>463</b>		469	933
	<b>559</b>		604	1 195
<b>Number of shares (000's)</b>				
– in issue	<b>104 589</b>		105 805	105 488
– for EPS calculation	<b>105 135</b>		108 167	107 056
– for diluted EPS calculation	<b>107 132</b>		109 564	108 394
<b>Earnings per share (cents)</b>				
– basic	<b>440</b>		434	872
– headline	<b>503</b>		98	437
<b>Diluted earnings per share (cents)</b>				
– basic	<b>432</b>		428	861
– headline	<b>494</b>		97	431
<b>Dividends declared per share (cents)</b>	<b>185</b>	37	135	290
<b>Interest cover (times)</b>	<b>6.5</b>		6.1	6.9
<b>Dividend payout (%)</b>	<b>55.4</b>		53.8	53.1
<b>HEADLINE EARNINGS RECONCILIATION</b>				
<b>Profit attributable to ordinary shareholders</b>	<b>463</b>		469	933
Net loss on disposal and closure of operations	<b>1</b>		4	–
Profit on disposal of City Lodge	–		(395)	(392)
(Profit)/loss on disposal and impairment of property, plant and equipment	<b>(4)</b>		2	10
Impairment of investment	<b>97</b>		–	–
Currency translation reserve realised	–		–	(108)
Taxation relief on the above items	–		27	22
Minority interests in the above items	<b>(28)</b>		(1)	2
<b>Headline earnings</b>	<b>529</b>		106	467

## Group balance sheet

<i>R million</i>	31 December	30 June	
	2006 <i>Unaudited</i>	2005 <i>Unaudited</i>	2006 <i>Audited</i>
<b>ASSETS</b>			
<b>Non current assets</b>			
Property, plant and equipment	5 613	5 381	5 407
Intangible assets	372	411	395
Available-for-sale investment	208	141	141
Pension fund asset	142	–	–
Loans and receivables	194	289	302
	<b>6 529</b>	6 222	6 245
<b>Current assets</b>			
Accounts receivable and other	411	372	325
Available-for-sale investment	–	190	183
Loans and receivables	5	–	5
Cash and cash equivalents	993	705	756
	<b>1 409</b>	1 267	1 269
<b>Total assets</b>	<b>7 938</b>	7 489	7 514
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Ordinary shareholders' equity	2 291	2 894	3 083
Minorities' interest	609	768	742
	<b>2 900</b>	3 662	3 825
<b>Non current liabilities</b>			
Deferred taxation	425	397	391
Borrowings	2 461	1 718	1 458
Other non current liabilities	133	106	125
	<b>3 019</b>	2 221	1 974
<b>Current liabilities</b>			
Accounts payable and other	813	808	847
Borrowings	1 206	798	868
	<b>2 019</b>	1 606	1 715
<b>Total liabilities</b>	<b>5 038</b>	3 827	3 689
<b>Total equity and liabilities</b>	<b>7 938</b>	7 489	7 514
Borrowings to total shareholders' equity (%)	126	69	61
Net asset value per share (Rand)	21,90	27,35	29,23
Capital expenditure	465	350	568
Capital commitments			
– contracted	471	159	223
– authorised but not contracted	506	688	1 053
Market value of listed investments	–	190	223
Directors' valuation of unlisted investments and loans	407	499	408
Total valuation of loans and receivables and available-for-sale investments	407	689	631

## Group cash flow statement

<i>R million</i>	<i>Six months ended</i>		<i>Year ended</i>
	<i>31 December</i>	<i>2005</i>	<i>30 June</i>
	<b>2006</b>		<b>2006</b>
	<b>Unaudited</b>	<i>Unaudited</i>	<i>Audited</i>
<b>Cash generated by operations before:</b>	<b>1 173</b>	959	2 048
Working capital changes	<b>(76)</b>	(34)	(6)
<b>Cash generated by operations</b>	<b>1 097</b>	925	2 042
Taxation paid	<b>(381)</b>	(348)	(598)
<b>Cash retained from operating activities</b>	<b>716</b>	577	1 444
Cash utilised in investing activities	<b>(1 415)</b>	(451)	(651)
Cash realised from investing activities	<b>327</b>	256	315
Net cash inflow/(outflow) from financing activities	<b>576</b>	(256)	(952)
Translation (losses)/gains on cash balances	<b>(9)</b>	(10)	11
Cash acquired through acquisition of subsidiary	<b>42</b>	-	-
<b>Increase in cash balances</b>	<b>237</b>	116	167

## Consolidated statement of changes in equity

<i>R million</i>	<i>Ordinary shares and share premium</i>	<i>Other reserves Note<sup>1</sup></i>	<i>Retained earnings</i>	<i>Minority interest</i>	<i>Total</i>
<b>Balances at 30 June 2006</b>	<b>788</b>	<b>(413)</b>	<b>2 708</b>	<b>742</b>	<b>3 825</b>
- Share buy back	(92)				(92)
- Treasury share options purchased	(54)				(54)
- Employee share based payments		10			10
- Acquisition of minorities' interest		(859)		(106)	(965)
- Profit			463	96	559
- Foreign currency translation adjustment		(12)		(2)	(14)
- Fair value adjustment		(84)			(84)
- Dividends paid			(164)	(121)	(285)
<b>Balances at 31 December 2006</b>	<b>642</b>	<b>(1 358)</b>	<b>3 007</b>	<b>609</b>	<b>2 900</b>

**Note 1:** Included in other reserves are FCTR, fair value reserves, share based payments reserve and reserve for non-controlling interests.

## Supplementary information

<i>R million</i>	<i>Six months ended</i>		<i>Year ended</i>	
	<b>2006</b>	<i>%</i>	<i>2005</i>	<i>2006</i>
	<b>Unaudited</b>	<i>change</i>	<i>Unaudited</i>	<i>Audited</i>
<b>EBITDA RECONCILIATION</b>				
Operating profit	<b>1 040</b>	79	582	1 449
Depreciation and amortisation	<b>253</b>		235	473
Other income	<b>(84)</b>		(97)	(216)
Pension fund surplus recognition	<b>(142)</b>		–	–
BEE transaction charge*	–		218	219
Property and equipment rental	<b>37</b>		31	62
Net losses on disposal and closure of operations*	–		4	–
Indirect taxes relating to prior years*	–		–	(11)
(Profit)/loss on disposal and impairment of property, plant and equipment*	<b>(4)</b>		2	10
Impairment of investment*	<b>97</b>		–	–
Pre-opening expenses*	<b>6</b>		5	13
Reversal of Employee Share Trusts' consolidation*	<b>14</b>		6	16
<b>EBITDA</b>	<b>1 217</b>	23	986	2 015
<b>EBITDA margin (%)</b>	<b>36</b>		34	34
<b>ADJUSTED HEADLINE EARNINGS RECONCILIATION</b>				
<b>Headline earnings</b>	<b>529</b>		106	467
Pre-opening expenses	<b>6</b>		5	13
Realisation of fair value gains on KZL shares	<b>(84)</b>		(81)	(83)
Pension fund surplus recognition	<b>(142)</b>		–	–
Foreign exchange losses/(profits) on intercompany loans	<b>4</b>		16	(11)
Fair value adjustments on loan origination	–		(16)	(25)
Indirect taxes relating to prior years	–		–	(11)
BEE transaction charge	–		218	219
Taxation relief on the above items	<b>53</b>		12	14
Minority interests in the above items	<b>(4)</b>		22	16
Reversal of Employee Share Trusts' consolidation <sup>#</sup>	<b>11</b>		2	20
Results from discontinuing operations	–		(12)	(17)
<b>Adjusted headline earnings</b>	<b>373</b>	37	272	602
<b>Number of shares (000's)#</b>				
– in issue	<b>111 031</b>		112 072	111 930
– for adjusted headline EPS calculation	<b>111 577</b>		108 400	110 218
– for diluted adjusted headline EPS calculation	<b>113 574</b>		109 797	111 556
<b>Earnings per share (cents)</b>				
– adjusted headline	<b>334</b>		251	546
– diluted adjusted headline	<b>328</b>	32	248	539

<sup>#</sup> The consolidation of the Employee Share Trusts is reversed as the group does not receive the economic benefits of the trusts.

## Accounting policies

The preliminary financial information has been presented and prepared in accordance with International Financial Reporting Standards (IFRS) and complies with IAS 34, Interim Financial Reporting. The accounting policies applied are consistent with those in the annual financial statements for the year ended 30 June 2006.

## Earnings and dividend

The group continued to generate good growth in revenues with all business units contributing strongly. Group revenue of R3,4 billion was 15% ahead of last year, which resulted in a 23% increase in EBITDA to R1,2 billion.

The EBITDA margin at 36% was two percentage points better than last year. Expenditure was well controlled, although levies and VAT on casino revenues were 17% ahead of the previous year primarily due to fiscal drag.

In terms of IAS 19: Employee Benefits, the group has been required to recognise an asset of R142 million resulting from a valuation surplus in the Sun International Pension Fund, despite the uncertainty as to whether some or all of this surplus will accrue to the group in the future.

The Cape Town International Convention Centre Company (CONVENCO) has impaired the carrying value of its buildings. Therefore, in terms of IAS 39 – Financial Instruments: Recognition and Measurement, the group has impaired the carrying value of its 24,6% investment in CONVENCO, resulting in a charge of R97 million.

Interest expense of R168 million was R55 million higher than last year, reflecting increased interest rates and the additional debt incurred to fund the Real Africa Holdings Limited (RAH) acquisition.

Taxation of R359 million was 48% higher than last year and the effective rate of 35% was in line with last year after adjusting for the CONVENCO impairment and the BEE transaction cost.

Adjusted headline earnings of R373 million were 37% up on the previous year. The diluted adjusted headline earnings per share of 328 cents were 32% above last year.

The board has declared an interim dividend of 185 cents per share, a 37% increase on last year which is in line with the group's stated intention of increasing dividends at a rate higher than the earnings growth rate.

# Trading

## Segmental Analysis

R million	Revenues			EBITDA			Operating Profit		
	Six months to 31 Dec		Year ended 30 June	Six months to 31 Dec		Year ended 30 June	Six months to 31 Dec		Year ended 30 June
	2006 Unaudited	2005 Unaudited	2006 Audited	2006 Unaudited	2005 Unaudited	2006 Audited	2006 Unaudited	2005 Unaudited	2006 Audited
GrandWest	778	689	1 398	336	290	600	285	242	504
Sun City	538	488	965	93	78	160	44	38	79
Carnival City	437	389	786	154	126	268	123	97	209
Sibaya	318	289	586	103	81	175	72	52	114
Boardwalk	208	187	384	84	73	151	70	58	122
Carousel	150	120	251	44	31	69	33	20	46
Wild Coast	135	116	237	28	21	46	20	13	30
Morula	108	94	190	23	22	44	12	12	23
Meropa	93	78	159	38	29	61	30	22	45
Zambia	91	70	140	24	15	30	16	8	16
Windmill	90	40	112	37	14	40	29	9	29
Table Bay	85	73	154	30	23	52	16	7	18
Swaziland	78	75	140	12	11	14	8	6	6
Flamingo	63	53	108	25	20	39	20	13	27
Botswana	57	50	93	17	16	24	11	12	16
Namibia	54	47	95	15	13	25	7	7	10
Lesotho	48	41	79	11	6	11	9	4	7
Golden Valley	12	-	-	4	-	-	2	-	-
Management activities	278	231	482	145	125	221	140	120	211
Central office	24	36	52	<6>	<8>	<15>	<20>	<26>	<32>
Eliminations	<265>	<223>	<462>	-	-	-	-	-	-
Other income							84	97	216
Pension fund surplus recognition							142	-	-
Other expenses#							<113>	<229>	<247>
	<b>3 380</b>	<b>2 943</b>	<b>5 949</b>	<b>1 217</b>	<b>986</b>	<b>2 015</b>	<b>1 040</b>	<b>582</b>	<b>1 449</b>

# Items included indicated by \* on EBITDA reconciliation.



## Gaming

Casino revenue was 16% ahead of last year primarily due to increased levels of disposable income.

**GrandWest** achieved revenue growth of 13% over the previous year and EBITDA grew 16% to R336 million, reflecting improved margins despite higher casino levies.

**Carnival City** generated revenue growth of 12%. However, market share was diluted to 17,1% in the six months, 0,5 percentage points lower than the previous year, due to a decline in tables volumes. Margins nevertheless improved with EBITDA of R154 million (+22%).

**Sibaya** achieved revenues of R318 million (+10%), with gaming revenues 14% ahead of last year. Food and beverages revenues which were previously accounted for in revenue, are no longer included in revenue as a consequence of a change in the outsourcing contract for these operations. EBITDA at R103 million was 27% higher than last year with the overall EBITDA margin improving significantly to 32%, due to increased efficiencies and the contract amendment.

**Boardwalk** achieved revenues of R208 million (+11%), while EBITDA of R84 million was 15% better.

## Hotels and resorts

Rooms revenue of R386 million was up 16% on the previous year. The overall group occupancy of 73% was up 2,1 percentage points and the room rate of R777 was 10% up, due mainly to good growth in the international individual tourist market, particularly at The Table Bay and Royal Livingstone.

**Sun City** room occupancy of 79% was three percentage points above last year and the average room rate of R1 016 for the resort was 9% higher.

**The Table Bay** achieved an occupancy of 70%, up four percentage points, and a room rate of R1 544, which was 11% higher.

**The Royal Livingstone and Zambezi Sun** in Zambia enjoyed a 75% occupancy, six percentage points above last year at an average room rate of US\$148 (+ 9%).

## Management activities

Management fee income of R278 million was 20% ahead of the previous year, reflecting the favourable trading conditions enjoyed by the group. EBITDA of R145 million was up 16%, resulting in an EBITDA margin of 52,2%, marginally below last year. The reduced margin is the result of increased costs of R23 million associated with investigating various opportunities in Africa, the UK and Russia (2005: R12 million).

## Developments

The GrandWest expansion has progressed well and the new smoking privé, external walkway, ground level of the parkade and new fast food areas were opened to the public in early December 2006. The project remains in line with the original programme with the smoking casino due for completion in June 2007 and the arena in October 2007. The forecast cost of the project has been increased from R425 million to R450 million due to higher building costs, mainly as a result of increases in raw materials such as steel and copper and a deterioration in the exchange rate.

The Golden Valley Casino at Worcester was completed within the targeted spend of R150 million. The 183 slot casino has traded satisfactorily and a further R65 million will be spent on a 98 room hotel which will complement the casino facilities. Construction commenced in February 2007 and will be completed by the end of the calendar year.

The 118 room Sibaya Lodge was opened in October 2006 and has been well received. The project was completed at a cost of R80 million.

Construction on the additional 57 rooms at Carnival City commenced in August 2006 and is scheduled for completion in April 2007 at a cost of R50 million.

The phased R200 million Sun City Hotel refurbishment commenced in February 2007 and will be completed in November 2009. The R23 million refurbishment to the Cabanas rooms is due for completion in the fourth quarter of the current financial year.

## Balance sheet

The offer made by the group to acquire all the issued share capital of RAH closed on 15 September 2006. Shareholders holding 58,1% of the company accepted the offer and together with the 12 193 698 RAH shares acquired in the market, the group now controls 61,5% of RAH. The total consideration paid for the RAH shares, including costs, amounted to R1 183 million. The excess of the purchase consideration over net book value of R850 million was taken directly to reserves.

The group's borrowings have increased by R1,3 billion since 30 June 2006, reflecting the RAH transaction and the capital expenditure incurred at GrandWest, Golden Valley, Sibaya and Carnival City.

The remaining Kerzner International Limited shares were disposed of and realised R183 million.

<b>Third Party Borrowings</b>	31 December	30 June
R million	2006	2006
SunWest International (Pty) Ltd	392	332
Emfuleni Resorts (Pty) Ltd	140	154
Afrisun KZN (Pty) Ltd	460	473
Meropa Leisure and Entertainment (Pty) Ltd	69	69
Teemane (Pty) Ltd	49	42
Afrisun Gauteng (Pty) Ltd	245	231
Mangaung Sun (Pty) Ltd	64	95
Worcester Casino (Pty) Ltd	131	–
Central Office	1 923	734
	<b>3 473</b>	<b>2 130</b>
Employee Share Trusts	194	196
	<b>3 667</b>	<b>2 326</b>

<b>Capital expenditure incurred during the six months:</b>	
R million	
Expansions:	
GrandWest	140
Golden Valley Casino	101
Sibaya Lodge	32
Carnival City	5
	<b>278</b>
Ongoing asset replacement and minor expansions	187
	<b>465</b>

## Contingent liability

Shareholders have previously been advised that Afrisun Leisure Investments (Pty) Ltd (Afrisun) has instituted legal proceedings against Sun International (South Africa) Limited (SISA). Afrisun seeks to void the transactions entered into between SISA and Grand Parade Investments Limited (GPI) and between SISA and Business Venture Investments No. 575 (Pty) Ltd (BVI) in June 2003 and to ask for certain consequential orders, or alternatively to seek damages in respect of a 5,5% shareholding in SunWest International (Pty) Ltd (SunWest) in the amount of a maximum of R311 million based on RAH's estimated market value of the SunWest shares in dispute as at June 2003.

The legal claim is proceeding and SISA continues to defend the claim.

## Developments regarding shareholding in SunWest

Shareholders have previously been advised that the group and SISA have entered into a revised Memorandum of Understanding with GPI and BVI whereby GPI will acquire an additional 4% shareholding in SunWest from Sun International for R83 million and be granted an option by SunWest over a further 5% shareholding in SunWest at a strike price of R165 per share.

The transaction remains subject to the fulfilment of a number of conditions precedent, including various regulatory and shareholder approvals and the lock-in of a 35% Western Cape BEE shareholding in GPI until 2012.

It remains the intention of the parties that GPI will ultimately hold a 30% economic interest in SunWest, and the group will therefore offer a further 2,46% of the SunWest shares to GPI, at fair value, at a future date.

## Share buy back

During the six months under review, the group repurchased 899 400 shares at an average price of R102,03. The shares have been delisted from the Johannesburg Stock Exchange and represented 0,76% of the group's issued share capital.

## Offshore expansion opportunities

### Russia

A new gambling dispensation has been introduced in the Russian Federation in terms of which casinos will only be permitted in four remote zones. In the event that further zones are legislated, the group will continue to investigate the potential Moscow region opportunity, together with its Russian partners.

### United Kingdom

The single regional casino has been awarded, subject to parliamentary ratification, to the City of Manchester. The City has indicated that it will conduct a competitive bid process to appoint a developer and operator for the casino. The group is awaiting notification of the process and is likely to proceed with a bid.

### Nigeria

Further progress on the opportunity in Lagos has been made at both state and federal levels and it is anticipated that a decision on this potential investment is likely to be made during the course of this calendar year.

## Outlook

Continued good growth in casino revenues is expected in the second half of the year and the group's hotels and resorts should benefit from the ongoing growth in inbound tourism. As a result, the group expects similar growth in EBITDA from its operations for the full year. Earnings were, however, significantly enhanced in 2006 by an exchange gain of R52 million (47,3 cents per share) which is not currently anticipated to recur this year and accordingly, growth in adjusted headline earnings per share for the full year is likely to be below that achieved in the first six months of the year.

### DA Hawton

*Chairman*

#### Registered office:

27 Fredman Drive, Sandown, Sandton 2031

#### Registrar:

Computershare Investor Services 2005 (Pty) Ltd, 70 Marshall Street, Johannesburg 2001

#### Directors:

DA Hawton (Chairman), DC Coutts-Trotter (Chief Executive)\*, H Adams, RP Becker\*, L Boyd, PL Campher, MP Egan,

Dr NN Gwagwa, IN Matthews, LM Mojela, MV Moosa, DM Nurek, E Oblowitz, GR Rosenthal, PEI Swartz

\*Executive

### DC Coutts-Trotter

*Chief Executive*

## Declaration of interim dividend

Notice is hereby given that an interim dividend of 185 cents (2005: 135 cents) per share for the six months ended 31 December 2006 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:

	<b>2007</b>
Last day to trade cum interim dividend	Thursday, 15 March
First day to trade ex interim dividend	Friday, 16 March
Record date	Friday, 23 March
Payment date	Monday, 26 March

No share certificates may be dematerialised or rematerialised between Friday, 16 March 2007 and Friday, 23 March 2007, 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 the Central Securities Depository Participant or broker credited on the payment date.

By order of the board

**SA Bailes**

*Group Secretary*

20 February 2007