Profit and dividend announcement for the year ended 30 June 2003

- Revenue + 13%
- EBITDA + 33%

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

- EBITDA margin + 4 percentage points
- Adjusted Headline Earnings per Share + 118%

Group income statement

	Year ended 30 June 2003 Reviewed Rm	% change	2002 Audited Rm
Revenue	4 214	13	3 719
Direct costs	(1 811)		(1 692)
Gross profit	2 403	19	2 027
Indirect costs	(1 120)		(1 064)
EBITDA	1 283	33	963
Depreciation and amortisation	(441)		(415)
Property rentals	(86)		(68)
Exceptional items	11		(374)
Operating profits	767		106
Foreign exchange (losses)/profits	(116)		59
Continuing operations	(142)		44
Discontinuing operations	26		15
Interest received	73		38
Continuing operations	53		23
Discontinuing operations	20		15
Interest expense	(297)		(295)
Profit/(loss) before equity accounted earnings	427		(92)
Share of associate companies' (losses)/profits			
– normal	(8)		(79)
Continuing operations	58		38
Discontinuing operations	(66)		(117)
– exceptional			
Discontinuing operations	(30)		(122)
Profit/(loss) before taxation	389		(293)
Taxation	(190)		(114)
Continuing operations	(187)		(111)
Discontinuing operations	(3)		(3)
Profit/(loss) after taxation	199		(407)
Minority interests	(74)		110
Net profit/(loss) for the year	125		(297)
Number of shares (000's)			
– in issue	90 050		90 050
– for EPS calculation	90 050		90 050
– for fully diluted EPS calculation	91 761		91 695
Earnings per share (cents)			
– basic earnings/(loss) per share	139		(330)
– headline (loss)/earnings per share	(54)		18
– adjusted headline earnings per share	214	118	98
Fully diluted earnings per share (cents)			
– basic earnings/(loss) per share	137		(324)
– headline (loss)/earnings per share	(53)		18
– adjusted headline earnings per share	210		97
Dividends declared per share (cents)	75		–
EBITDA margin (%)	30		26
Interest cover (times)	2		2
Determination of headline earnings and adjusted headline earnings			
Attributable earnings/(loss) per the income statement	125		(297)
Headline earnings adjustments	(205)		314
Net write downs due to sale and closure of operations	–		15
Goodwill (included in depreciation and amortisation)*	8		24
KZL dispute legal costs	2		16
Recognition of KZL long-term obligation and termination of litigation	–		297
Dilution loss on City Lodge debenture conversion	–		38
Impairment of goodwill	36		–
Impairment of loan to associate	5		–
Net profits on sale of shares in subsidiaries	(43)		–
Profit on disposal of aircraft	–		(21)
Currency translation reserve realised on sale of KZL shares	(213)		(55)
Associate headline earnings adjustments	26		118
Impairment of cinema assets	14		122
Loss/(profit) on sale of cinema assets	12		(4)
Taxation relief on the above items	3		4
Minority interests in the above items	2		(122)
Headline (loss)/earnings	(49)		17
Adjusted headline earnings adjustments	278		24
Pre-opening expenses	–		18
Write down of KZL to market value	74		60
Foreign exchange losses/(gains) on intercompany loans*	97		(30)
Fair value adjustments to share trust loan	64		–
Post retirement medical aid funding	40		–
Earnings from discontinuing operations*	(20)		(30)
Provision for gaming levies related to prior periods	23		–
Other items	–		6
Associate adjusted headline earnings adjustments	70		124
Discontinuing operations – Pre-opening expenses	4		4
Results from discontinuing operations*	66		120
Taxation relief on the above items	(34)		–
Minority interests in the above items	(73)		(76)
Adjusted headline earnings	192		89

* Not included in exceptional or associate exceptional items

Divisional earnings analysis

Year ended 30 June

	Revenues 2003 Rm	Revenues 2002 Rm	EBITDA 2003 Rm	EBITDA 2002 Rm	Attributable earnings 2003 Rm	Attributable earnings 2002 Rm
Sun International South Africa	3 762	3 294	1 003	787	78	28
Other southern African activities	439	408	106	76	26	(12)
Botswana	139	144	50	59	27	30
Swaziland	134	122	28	24	9	7
Namibia	82	76	28	27	12	12
Zambia	84	66	–	(34)	(26)	(65)
Lesotho					4	4
Management activities	241	202	108	67	52	53
City Lodge					34	22
Central office and other	5	4	66	33	2	(2)
Elimination of intra-group revenues	(233)	(189)	–	–	–	–
	4 214	3 719	1 283	963	192	89

This analysis of attributable earnings above represents the Kersaf share of adjusted headline earnings.

Group balance sheet

	Year ended 30 June 2003 Reviewed Rm	2002 Audited Rm
ASSETS		
Non current assets		
Property plant and equipment	4 595	4 798
Intangible assets	723	664
Investments and loans	774	1 854
	6 092	7 316
Current assets		
Accounts receivable and other	343	380
Available-for-sale investment	364	507
Loans	143	–
Cash and cash equivalents	349	286
	1 199	1 173
Total assets	7 291	8 489
EQUITY AND LIABILITIES		
Capital and reserves		
Ordinary shareholders' equity	2 470	2 888
Outside shareholders' interests	1 600	1 657
	4 070	4 545
Non current liabilities		
Deferred taxation	403	395
Borrowings	1 699	2 438
Other	40	–
	2 142	2 833
Current liabilities		
Accounts payable and other	783	752
Borrowings	296	359
	1 079	1 111
Total liabilities	3 221	3 944
Total equity and liabilities	7 291	8 489
Borrowings to total shareholders' equity (%)	49	62
Net asset value per share (Rand)	27.42	32.07
Capital expenditure	352	559
Capital commitments		
– contracted	244	11
– authorised but not contracted	812	837
Market value of listed investments	855	1 951
Directors' valuation of unlisted investments and loans	524	390
Total valuation of investments and loans and available for sale investment	1 379	2 341

Group cash flow statement

	Year ended 30 June 2003 Reviewed Rm	2002 Audited Rm
Cash generated by operations before:	1 168	934
Working capital changes	46	(44)
Pre-opening expenses	–	(18)
Cash generated by operations	1 214	872
Investment income	93	49
Interest expense	(289)	(286)
Taxation paid	(184)	(129)
Dividends paid	(81)	(32)
Cash retained from operating activities	753	474
Cash utilised in investing activities	(720)	(774)
Cash realised from investing activities	761	170
Net cash (outflow)/inflow from financing activities	(687)	167
Translation (losses)/gains on cash balances	(44)	11
Increase in cash balances	63	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 profit for the year to 30 June 2003	–	125	–	125
– Foreign currency translation adjustment	–	–	(283)	(283)
– Foreign currency translation reserve realised	–	–	(213)	(213)
– Fair value loss	–	(24)	–	(24)
– Dividends paid	–	(23)	–	(23)
Balances at 30 June 2003	555	1 279	636	2 470

Commentary

EARNINGS AND DIVIDEND

The group performed well during the year, in particular, during the first six months, where revenues were well above the previous year. During the second half of the financial year, casino revenues were impacted by the new competitor facility which opened in Durban and occupancies at the group's major resorts were affected by the conflict in the Middle East and SARS pandemic.

Adjusted headline earnings per share were 118% higher than last year at 214 cents. The substantial improvement was largely due to the higher earnings of Sun International South Africa and City Lodge and the reduced losses incurred in the Zambian resort.

Revenues for the year of R4.2 billion were 13% higher, with gaming revenues up 15% and hospitality and other revenues up 9%. Strong trading and well-contained costs resulted in a 4-percentage point increase in the EBITDA margin to 30%, and a 33% increase in EBITDA to R1.3 billion. Depreciation and amortisation charges increased by 6% whilst net interest paid of R224 million was 13% lower than last year. Foreign exchange losses of R116 million relate primarily to unrealised exchange losses on intercompany loans. Associate earnings from continuing operations at R58 million were 53% up on last year as a result of the excellent trading of the City Lodge group.

The group incurred a number of exceptional charges during the year. The most significant of these were a R64 million fair value adjustment in respect of the interest free loan to the Sun International Employee Share Trust, a charge of R40 million for post retirement medical aid funding, and a fair value adjustment in respect of the group's investment in Kerzner International Limited ("KZL") of R74 million. The group transferred R213 million of the foreign currency translation reserve to exceptional earnings as a consequence of the sale of KZL shares.

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 cashflows and growth in adjusted headline earnings, the board has declared a final dividend of 50 cents per share (2002: nil) bringing the total dividends declared in respect of the year to 75 cents per share (2002: nil).

ACCOUNTING POLICIES

The preliminary financial information presented has been prepared in accordance with South African Statements of Generally Accepted Accounting Practice (GAAP) and International Financial Reporting Standards (IFRS). The accounting policies used are consistent with those used in the annual financial statements for the year ended 30 June 2002. The results have been reviewed by the group's auditors, PricewaterhouseCoopers Inc., and their unqualified review opinion is available for inspection at the company's registered office.

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 experienced improved trading over the past year, in particular during the first half of the financial year. The group's hotels and resorts benefited from the increase in foreign visitor numbers and the group's casinos benefited from the strength of the South African economy. Overall group revenues were 14% higher, with gaming revenues 16% up and rooms revenues 20% up on last year. Average room occupancy at 74% was 5 percentage points ahead of last year, with Sun City in line with last year and the Table Bay occupancies 9 percentage points up. SISA's average achieved room rate at R922 was 19% up on last year. The increase in gaming revenues was due to strong trading at the GrandWest and the Boardwalk casinos, and the inclusion for the full year of the Meropa and Flamingo casinos. Margins increased as a result of both the increase in revenues and cost containment, with a 27% increase in EBITDA to R1 billion. Net interest costs were R5 million below the previous year, reflecting the strong cash flows and improved profitability. Adjusted headline earnings of R176 million were 107% ahead of the previous year.

With effect from 30 June 2003, the group sold a 12% economic interest in SunWest to Grand Parade Investments, the group's empowerment partner in the Western Cape. Effective 1 May 2003 the group sold 30% of the Wild Coast Sun to a local community trust.

Construction of the Sibaya permanent casino at Umdloti has commenced and is scheduled for completion in December 2004 at an estimated capital cost of R650 million. An application has been submitted to the Free State Gambling Board to relocate the licence from Thaba 'Nchu to Bloemfontein. Construction of the new facility will commence in the second half of the forthcoming financial year in the event of a successful application.

The Department of Trade and Industry (DTI) has recently made available a revised draft of the proposed National Gambling Bill. The casino industry, represented by the Casino Association of South Africa (CASA), will be making representation to the DTI's Parliamentary Portfolio Committee with respect to specific areas of concern prior to the finalisation of the bill.

Other southern African operations had a mixed performance, with strong trading in Swaziland and Lesotho, offset in part by disappointing trading in Botswana and Zambia. Earnings attributable to Kersaf of R26 million were R38 million higher than the loss incurred in the prior year (excluding foreign exchange gains and losses on intercompany loans). The Zambian resort incurred a loss of R26 million (including depreciation charges of R23 million) before a foreign exchange loss of R64 million. Occupancies rose nine percentage points to 39%. Forward bookings are encouraging and an improved result is anticipated in the year ahead.

The management activities of Sun International Management Limited (SIML) generated revenues 19% higher at R241 million as a consequence of the growth in revenues and profitability. Costs were well maintained and as a result, EBITDA of R108 million was 61% higher than last year. Amortisation charges of R15 million were R14 million higher than last year due to a R9 million amortisation charge relating to the acquisition of the minorities' interest in SIML's management contracts and a R5 million charge relating to the amortisation of the Sun International name. Earnings attributable to Kersaf at R52 million were lower than last year as a result of the higher amortisation charges, a tax charge of R23 million in the current year against a tax credit of R8 million in 2002 and foreign exchange losses of R6 million in the current year against profits of R8 million in 2002.

Ster Century Europe has now finalised the sale of all of its operations other than one complex located in Slovakia which is currently the subject of a sale process. The Poland and Greece cinema interests were sold in July 2002 for US$19.6 million and the sale of the Spain operations was concluded on 30 June 2003 for a consideration of E9.3 million. Subsequent to the year-end, the sale of the UK and Ireland operations was concluded for a consideration of GBP16.9 million.

Ster Century Middle East was comprehensively restructured during the past year, resulting in the closure of one of the sites and the downsizing of the other site in Sharjah. Significant rental and cost reductions were achieved and it is anticipated that SCME will generate positive cashflows going forward. The conflict in Iraq negatively impacted trading for much of the second half of the year. The group will continue to seek to exit from this business.

City Lodge's results for the year were outstanding. Strong demand from domestic business and leisure travellers, improved inbound tourism and one-off events such as the World Summit on Sustainable Development and the Cricket World Cup helped boost occupancies over the previous year by four percentage points to 76%. This increased demand, together with full year contributions from Road Lodge Kimberley and Town Lodge Polokwane, as well as a nine month contribution from Road Lodge Cape Town International Airport, resulted in an increase of 12% in room nights sold. The higher room nights sold and room rate growth resulted in revenues increasing by 26% to R293 million and EBITDA increasing by 35% to R153 million. Headline earnings increased by 58% to R88 million and fully diluted earnings per share were up 56% on the prior year. Earnings attributable to Kersaf at R34 million were R12 million higher than last year.

BALANCE SHEET

Effective 15 November 2002, the group acquired the minority's effective 27% interest in SIML. The consideration paid of US$16,9 million was settled with 850 000 KZL shares. The group's obligation to dispose of a minimum of two million KZL shares was discharged during December 2002 when it sold 2 300 000 shares by way of a public offering, realising US$42 million after costs. The proceeds were primarily utilised to discharge borrowings including the US$32 million owing to KZL. A further 509 293 KZL shares were disposed of in the second half of the year, realising proceeds of US$13.5 million. At year end, the group held 2.3 million KZL shares of which Kersaf effectively owns 1.8 million. In terms of the arrangement with KZL, the group may dispose of up to 500,000 KZL shares per quarter through the market and it is likely that further sales will take place in the new financial year.

Capital expenditure for the year of R352 million (2002: R559 million) was incurred on various projects, including the establishment of a smoking casino and refurbishments at Sun City and R80 million on the group's Sibaya project.

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

The utilisation of the proceeds from the sale of KZL shares to settle borrowings and the strong cash flows from operations resulted in group borrowings reducing by R802 million.

SUN INTERNATIONAL EMPLOYEE SHARE TRUST

Sun International's proposal to establish an Employee Share Trust was approved by that company's shareholders and by the relevant provincial gambling boards. The Trust holds interests in the group and its underlying operations and will benefit all employees other than management. The trust has been financed by interest free loans from group companies of R128 million.

We believe this is one of the most comprehensive employee empowerment schemes implemented in the tourism and leisure sectors which underpins Sun International's commitment to transformation in respect of the ownership and benefits of our industry in South Africa.

ACQUISITION OF FURTHER INTEREST IN SISA

On 6 June 2003, the group announced that it had reached agreement with the North West Development Corporation to acquire their 18.6% interest in SISA for R547 million, bringing the group's effective interest up to 62.2%. The acquisition has now been approved by the Competition Tribunal and the various Provincial Gaming Boards and the completion will take place on Monday 1 September 2003. The acquisition will be funded out of proceeds from the sale of KZL shares and new banking facilities.

PROSPECTS

The group made considerable progress in the disposal of its non core investments in the year under review. This combined with the acquisition of the minority's interest in SIML and the recently announced acquisition of an additional 18.6% interest in SISA will contribute to the ongoing simplification of the group's structure.

The slow down in the domestic economy and continued high real interest rates will place disposable income under pressure which together with the opening of the competitive facility in Durban in November 2002 will impact on the group's gaming revenues for the first half of the year ahead. Forward bookings at the groups hotels and resorts are strong and continue to benefit from the increasing popularity of South Africa as a tourist destination.

The above acquisitions combined with the expected increase in the contributions from the group's underlying operations should result in strong earnings growth in the year ahead.

For and on behalf of the board

D A Hawton
Chairman

P D Bacon
Chief Executive

29 August 2003

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DECLARATION OF FINAL DIVIDEND

Notice is hereby given that a final dividend of 50 cents per share (2002:nil) for the year ended 30 June 2003 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 final dividend are as follows:

	2003
Last day to trade *cum* final dividend	Thursday, 18 September
First day to trade *ex* final dividend	Friday, 19 September
Record date	Friday, 26 September
Payment date	Monday, 29 September 2003
No share certificates may be dematerialised or rematerialised between Friday, 19 September 2003 and Friday, 26 September 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

29 August 2003