



# Audited results for the year ended 30 June 2005

# excellerate

**EXCELLERATE HOLDINGS LIMITED**

Registration number 1997/009884/06 JSE code: EXL ISIN: ZAE000026092  
EXLD ISIN: ZAE000044145 (Incorporated in the Republic of South Africa)

Revenue **+36%** Operating profit **+69%** Earnings per share **+93%**

## Overview

The past financial year has been a mix of good results in the group in general and an unexpected poor result from the food trading division. There has been particularly strong performance in the catering equipment business, Foodserv, as well as the parking business, Interpark. Foodserv has made every effort to bolster its production capabilities and has a full order book for the remainder of the year. Interpark has thoroughly applied best practice to reduce unnecessary costs and streamline the business into an effective and efficient professional parking management business nationally. The Housewares division continues to perform well with Goldenmarc achieving good results.

The main disappointment for this past financial year has been Ibiza Trading, the group's food trading division comprising the Alpine Importers, Fruti Flow and HS Nuts businesses. It came to the attention of the group shortly after the financial year end that certain irregularities had occurred at the Ibiza Trading division and as a consequence thereof it was decided that a change in the management team of Ibiza Trading was necessary. Despite these unforeseen events, the consequences of which will unfold on a legal level over the next few months, the outlook for the food trading division is positive under the leadership of the new management team who emanate from within the Excellerate group.

With new management in Ibiza Trading and prospects of a positive result in the 2006 financial year coupled with good performance in the rest of the group, 2006 promises to present more opportunities for good results and continued growth.

## Exceptional events

The HS Nuts business of Ibiza Trading appeared to be achieving good results during the first half of the financial year, but after the end of the financial year in July 2005 it was discovered that inappropriate expenditure had been incurred and irregular transactions had been conducted during the course of the financial year and thereafter up to the date of discovery. These matters have been subjected to a forensic investigation. Upon being confronted with these matters, the former senior management resigned. All avenues are being explored to recover funds that have been inappropriately applied, including perfecting the securities held by the group and all other avenues available to the group. The group has suffered the loss of an estimated R8,5 million (of which R1,2 million will impact the 2006 financial year) due to these events. Recovery of the shortfall between actual losses and a profit warranty of R8,0 million given by the vendor is still under investigation. The 49,5% shares as well as the loan accounts that stood to the credit of the vendor company have since been ceded back to the group whilst the remainder of the claim is being formulated.

## Review of operating results

The group's revenue increased by 36,2% to R535,9 million largely due to the inclusion of HS Nuts' turnover from 1 July 2004. Operating profits increased by 68,7% to R28,3 million compared to R16,8 million in 2004. This increase was due largely to the improved trading results and cost-cutting exercises but was before an impairment for accounting purposes to recognise potential non-recovery of losses incurred in Ibiza Trading.

The Housewares trading division comprising Goldenmarc, Hypertrade, Louis Smiedt and Ferrengi, performed well. Goldenmarc acquired the business of Travelscene, supplying luggage and related products under some powerful brand names including the AA and the Bad Boy and Bad Girl trademarks. Goldenmarc also acquired the furniture kits business of Gafax to add to its range of similar products. The full benefits of these acquisitions will only be felt for the first time in 2006 as

sales orders start to achieve full potential. The manufacturing concern of Ferrengi producing pot scourers and steel wool products has increased its production capacity with the acquisition of additional plant and continues to have a strong demand for its products.

Foodserv continues to grow its manufacturing and import trading activities at an exceptional rate with several exciting projects in the pipeline to come on stream in 2006. With the acquisition of new capital equipment during 2005, the business has seen a rapid expansion of its production capabilities and continues to experience a very healthy demand for its products. Foodserv acquired the business of Outdoor Cooling during the second half of the financial year, which is likely to start yielding financial benefits early in the 2006 financial year.

Interpark has improved its results significantly through cost-cutting and improving on its service delivery by providing a professional and streamlined parking management service to its clients. Interpark's challenge will be to continue to be the service provider of choice, which it has achieved due to its sophisticated controls which ensure its clients achieve the best parking management results in the industry.

Levingers had a good year, opening three new stores in the Pretoria and Johannesburg areas. In addition it took over the remaining two franchise stores and now consists completely of corporate stores. The new accounting interpretation to amortise lease rentals on a straight-line basis over the term of the lease has adversely impacted on the accounting result for 2005. There are a number of interesting projects currently underway for Levingers to grow its business in 2006.

Sterikleen, together with Autoclenz and working hand-in-hand with Katanga Property Care and Katanga Autocare, its BEE partners, has managed to stay ahead despite strong competition. The business has won the award of a contract for a large client country-wide which is due to be rolled out in October 2005. The office plant rental business, Greenmachine, has been turned into a professionally run operation with very promising prospects looking forward.

Ibiza Trading has, as noted above, had its fair share of challenges. The acquisition of the HS Nuts business effective 1 July 2004 increased the division's revenue significantly and has created greater critical mass in the business, but rationalisation of this business with the Alpine Importers and Fruti Flow businesses has taken longer than expected and the combined business has yet to achieve its potential. In October 2005 the entire division will relocate its various operations into one common warehouse which is expected to accelerate the integration of the businesses and lead to greater cost reductions and efficiencies. Prices in the retail sector were kept under pressure resulting in lower absolute margins. Higher commodity prices adversely affected margins in the trading of tree nuts during the second half of the financial year. The new management team is in the process of implementing plans to ensure that trading results are improved in the division and that the business is properly positioned for growth.

## Other factors affecting results

Earnings per share increased by 93,0% due largely to the new accounting statements that discontinue the amortisation of certain intangible assets, while headline earnings only increased marginally. The new interpretation of accounting for operating lease rentals resulted in an adverse prior year adjustment to the extent of R0,7 million after deferred tax and current year's income was reduced by R0,3 million after deferred tax. These amounts will reverse out in future years.

## Black economic empowerment

In line with the latest draft Code of Good Practice on Broad-Based Black Economic Empowerment issued by the Department of Trade and Industry, the group is actively pursuing negotiations with a consortium of very promising black entrepreneurs. On 7 September 2005, the group published an announcement in this regard. It is expected that on the successful conclusion of a BEE transaction, the new partners will provide real economic benefits to the group over the years to come.

## Future prospects

The outlook for the next financial year is positive across the group's various divisions and the food trading business' problems that have persisted over the past two years in various forms still leave some challenge to completely resolve in the months ahead with the restructuring that is currently under way under the new management team.

Effective 1 July 2005, the group sold its interests in Securipark, a small part of the parking business, as it was not considered core to the group and not in line with the group's strategy. There are several prospects for acquisitions looking forward and every opportunity will be rigorously pursued to achieve sound growth for the group to the benefit of all stakeholders.

## Changes to the board

On 5 May 2005, the board appointed Mr. Michael Mohohlo as an independent non-executive director in line with its objectives to have greater representation by independent directors. Michael comes with a great wealth of experience and wisdom and will no doubt contribute to the group through his insight into business.

## Dividends

Congruent with the group's current strategy, no dividend has been declared in light of the group's desire to utilise its resources to achieve the operational objectives of organic growth, to finance selective acquisitions as well as to service the current working capital requirements of the group.

For and on behalf of the board

## Chief Executive Officer

20 September 2005

## Basis of preparation of results

The financial information contained in this announcement has been audited by Grant Thornton. A copy of their unqualified audit opinion is available for inspection at Excellerate's registered office.

This profit announcement has been prepared in compliance with the listings requirements of the JSE Limited ("the JSE"). The accounting policies of the Excellerate group comply with South African Statements of Generally Accepted Accounting Practice. Such policies are in all material respects consistent with those applied in the preparation of unqualified audited financial statements for the year ended 30 June 2004, except for the adoption of AC129 "Intangible Assets" and AC140 "Business Combinations".

AC129 requires that intangible assets with an indefinite life should not be amortised. The useful life of such an asset should be reviewed at each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. Attributable earnings for the comparative year ended 30 June 2004 includes amortisation of intangible assets.

AC140 requires that goodwill acquired in a business combination be measured, after initial recognition, at cost less any accumulated impairment losses. Consequently goodwill is not amortised but instead must be tested for impairment annually, or more frequently, if events or changes in circumstances indicate that it might be impaired. Attributable earnings for the comparative year ended 30 June 2004 includes amortisation and impairment of goodwill.

## Group income statement

for the year ended 30 June R'000	Audited 2005	Audited (restated) 2004	Audited (as previously reported) 2004
Revenue	535 923	393 370	393 370
Cost of revenue	(376 145)	(268 066)	(268 066)
Gross profit	159 778	125 304	125 304
Other operating costs	(131 469)	(108 522)	(108 297)
selling and distribution administration	(34 277)	(30 254)	(30 254)
	(97 192)	(78 268)	(78 043)
Operating profit before foreign exchange profit	28 309	16 782	17 007
Foreign exchange profit	-	-	348
Operating profit	28 309	16 782	17 355
Income from associates	1 323	1 181	1 181
Impairment of goodwill	(445)	(3 436)	(3 436)
Amortisation of goodwill	-	(3 073)	(3 073)
Fair value adjustment on loan accounts	(3 271)	-	-
Revaluation of compulsory convertible debentures liability	123	2 864	2 864
Profit from operations	26 039	14 318	14 891
Net interest paid	(4 120)	(4 357)	(4 357)
Profit before taxation	21 919	9 961	10 534
Taxation	(7 191)	(2 245)	(2 411)
Profit after taxation	14 728	7 716	8 123
Attributable to minority shareholders	(61)	(105)	(105)
Profit attributable to ordinary shareholders	14 667	7 611	8 018
Earnings per share (cents)	8,3	4,3	4,5
Fully diluted basic earnings per share (cents)	6,7	2,9	3,1

## Group statement of changes in equity

for the year ended 30 June R'000	Share capital	Share premium	Compulsory convertible debentures	Non-distributable reserves	Retained earnings	Total
<b>Balance at 30 June 2003 (audited)</b>	1 786	53 605	18 641	17 700	19 951	111 683
as previously reported					(232)	(232)
Prior year adjustment**						
<b>Restated balance at 30 June 2003 (audited)</b>	1 786	53 605	18 641	17 700	19 719	111 451
Derivative portion of compulsory convertible debentures	-	-	(2 206)	-	-	(2 206)
Share based payment transactions	-	-	-	315	-	315
Net profit for the year	-	-	-	-	7 611	7 611
<b>Balance at 30 June 2004 (audited)*</b>	1 786	53 605	16 435	18 015	27 330	117 171
Repurchase of shares	(55)	(3 853)	-	-	-	(3 908)
Derivative portion of compulsory convertible debentures	-	-	2 206	-	-	2 206
Share based payment transactions	-	-	-	772	-	772
Net profit for the year	-	-	-	-	14 667	14 667
<b>Balance at 30 June 2005 (audited)</b>	1 731	49 752	18 641	18 787	41 997	130 908

\* The balances for retained income at 30 June 2004 are reconciled as follows:

Balance as previously reported	1 786	53 605	16 435	18 015	27 969	117 810
Prior year adjustments**					(639)	(639)
Restated balance at 30 June 2004 (audited)	1 786	53 605	16 435	18 015	27 330	117 171

\*\* Prior year adjustment due to accounting for operating leases on a straight-line basis.

## Group balance sheet

at 30 June R'000	Audited 2005	Audited (restated) 2004	Audited (as previously reported) 2004
<b>ASSETS</b>			
<b>Non-current assets</b>	90 344	85 496	85 235
Property, plant and equipment	22 529	16 292	16 292
Long-term loan	173	-	-
Investment in associates	3 234	4 034	4 034
Intangible assets	53 358	51 066	51 066
Deferred taxation	11 050	14 104	13 843
<b>Current assets</b>	179 781	133 403	133 403
Inventories	84 780	50 511	50 511
Accounts receivable	89 492	71 343	71 343
Taxation	3 994	3 424	3 424
Bank and cash	1 515	8 125	8 125
<b>Total assets</b>	270 125	218 899	218 638
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	1 731	1 786	1 786
Share premium	49 752	53 605	53 605
Compulsory convertible debentures	18 641	16 435	16 435
Non-distributable reserves	18 787	18 015	18 015
Retained earnings	41 997	27 330	27 969
Ordinary shareholders' interest	130 908	117 171	117 810
Outside shareholders' interest	665	604	604
Total shareholders' interest	131 573	117 775	118 414
<b>Non-current liabilities</b>	9 267	9 478	9 478
<b>Current liabilities</b>	129 285	91 646	90 746
Accounts payable	108 824	84 059	83 159
Current portion of long-term liabilities	7 145	4 182	4 182
Taxation	3 024	2 554	2 554
Bank overdrafts	10 292	851	851
<b>Total equity and liabilities</b>	270 125	218 899	218 638

## Summarised group cash flow statement

for the year ended 30 June R'000	Audited 2005	Audited** 2004
<b>Cash flows from operating activities</b>	10 994	14 917
Cash generated by operations	21 420	29 198
Net interest paid	(6 183)	(6 576)
Taxation paid	(4 243)	(7 705)
<b>Cash flows from investing activities</b>	(26 759)	(12 505)
<b>Cash flows from financing activities</b>	(286)	(942)
<b>Net (decrease)/increase in cash and cash equivalents</b>	(16 051)	1 470
<b>Cash and cash equivalents at beginning of year</b>	7 274	5 804
<b>Cash and cash equivalents at end of year</b>	(8 777)	7 274

\*\* There has been no effect on cash flows for the prior year adjustment.

## Calculation of earnings per share

for the year ended 30 June R'000	Audited 2005	Audited (restated) 2004	Audited (as previously reported) 2004
Weighted average shares in issue for the year	175 868 512	178 642 162	178 642 162
Fully diluted weighted average shares in issue	227 394 485	232 808 829	232 808 829
Earnings per share (cents)	8,3	4,3	4,5
Fully diluted basic earnings per share	6,7	2,9	3,1
Headline earnings per share (cents)	8,3	7,9	8,1
Fully diluted headline earnings per share (cents)	6,6	5,7	5,9
The following adjustments to income attributable to shareholders were taken into account in the calculation of headline earnings:			
Attributable to ordinary shareholders	14 667	7 611	8 018
- amortisation of goodwill	-	3 073	3 073
- Impairment of goodwill/investments	445	3 436	3 436
- net (profit)/loss on sale of property, plant and equipment and intangibles	(728)	20	20
- Taxation effect of adjustments	167	(6)	(6)
<b>Headline earnings</b>	<b>14 551</b>	<b>14 134</b>	<b>14 541</b>

The calculation of earnings per share is based on earnings of R14 667 000 (2004: R7 611 000) for the year. The calculation of headline earnings per share is based on headline earnings of R14 551 000 (2004: R14 134 000) for the year.

## Summarised group segmental report

for the year ended 30 June R'000	Audited 2005	Audited (restated) 2004	% change
<b>Turnover</b>	<b>535 923</b>	<b>393 370</b>	<b>36,2</b>
Services	117 544	124 894	(5,9)
Trading - Distribution	418 379	268 476	55,8
<b>Operating profit</b>	<b>28 309</b>	<b>16 782</b>	<b>68,7</b>
Services	14 079	6 831	106,1
Trading - Distribution	14 230	9 951	43,0
<b>Depreciation</b>	<b>7 790</b>	<b>6 616</b>	<b>17,7</b>
Services	3 896	4 264	(8,6)
Trading - Distribution	3 894	2 352	65,5
<b>Capital expenditure</b>	<b>15 078</b>	<b>6 835</b>	<b>120,6</b>
Services	5 717	4 115	38,9
Trading - Distribution	9 361	2 720	244,2
<b>Cash flow from operating activities</b>	<b>10 994</b>	<b>14 917</b>	<b>(26,3)</b>
Services	19 935	11 117	79,3
Trading - Distribution	(1 462)	2 542	(157,5)
Corporate	(7 479)	1 258	(694,5)
<b>Cash flow from investment activities</b>	<b>(26 759)</b>	<b>(12 505)</b>	<b>114,0</b>
Services	(5 445)	(4 990)	9,1
Trading - Distribution	(21 223)	(7 474)	184,0
Corporate	(91)	(41)	122,0
<b>Cash flow from financing activities</b>	<b>(286)</b>	<b>(942)</b>	<b>(69,6)</b>
Services	2 262	(66)	(3 527,3)
Trading - Distribution	1 360	37	3 575,7
Corporate	(3 908)	(913)	328,0

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