

PROTECH KHUTHELE

HOLDINGS LIMITED

Protech Khuthele Holdings Limited
Registration number 2000/024352/06 JSE code: PKH ISIN: ZAE000101966 ("Protech" or "the Company" or "the Group")

Audited provisional report and dividend declaration

for the year ended 28 February 2010

Commentary

INTRODUCTION

Protech is a bulk earthworks and civil engineering group that offers fast-track contracting to the mining, public and private sectors, mainly in South Africa.

As indicated at Protech's 2009 year end results in May 2009 and interim results in November 2009, the group expected that the historic levels of growth would be difficult to maintain in increasingly volatile markets. However, the recession's negative impact was even more powerful over the last six months.

Results during the second half of the year were affected by three main factors:

50% impact on earnings – Excessive rainfall – many parts of the country experienced more than double the 60-year average rainfall. This had the largest impact on results as operations were much more concentrated than usual due to a strong focus on the coal mining sector.

30% impact on earnings – Worsening market conditions – both private and public sector spending was decimated, which resulted in increased competition across the board. The competition in South Africa was also further exacerbated by the somewhat slower roll out of African mining contracts and the return to home of large players from international markets due to global pressure.

20% impact on earnings - Public sector infrastructure postponements – the public sector saw severe spending delays, with bottlenecks in spending.

Against these factors, group revenue held up, but the operating margin declined to 16%. However, this margin remains higher than the average of our listed peers. The Group's core business of Contracting, representing 83% of group revenue, still had a solid 19% margin.

FINANCIAL REVIEW

Statement of comprehensive income

Revenue increased by 7% to R748,8 million (2009: R702,7 million). This was entirely organic growth. The Contracting division contributed R640,2 million (2009: R589,2 million), which represents 83% (2009: 83%) of group revenue before inter-group eliminations.

Operating profit was 24% down at R118,6 million (2009: R156,0 million).

Earnings per share was 18% lower at 20,9 cents per share (2009: 25,6 cents per share). Headline earnings per share did not differ significantly from the earnings per share.

Statement of financial position

The group incurred capital expenditure of R109,0 million (2009: R162,1 million) related to plant and machinery. The bulk of this capital expenditure was expensed to replace plant and equipment in line with Protech's

Condensed consolidated statement of comprehensive income for the year ended 28 February 2010

	2010	2009
	R'000	R'000
Revenue	748 778	702 745
Earnings before depreciation, amortisation and interest	162 366	188 172
Depreciation and amortisation of intangible assets	(43 812)	(32 185)
Earnings before interest and taxation	118 554	155 987
Net interest expense	(15 561)	(27 869)
Earnings before taxation	102 993	128 118
Taxation	(27 407)	(35 207)
Earnings for the year	75 586	92 911
Other comprehensive income for the year, net of tax	55	–
Movement in foreign currency translation reserve	55	–
Total comprehensive income for the year	75 641	92 911
<i>Earnings attributable to:</i>		
– Equity holders of the holding company	75 586	92 911
– Non-controlling interests	–	–
<i>Total comprehensive income attributable to:</i>		
– Equity shareholders of the company	75 641	92 911
– Non-controlling interests	–	–
Earnings per share (cents)		
Basic earnings per share	20,9	25,6
Diluted earnings per share	20,9	25,6

SUPPLEMENTARY STATEMENT OF COMPREHENSIVE INCOME INFORMATION

Reconciliation of weighted average number of shares in issue:

– Weighted average number of shares in issue ('000)

Reconciliation of headline earnings:

Earnings attributable to shareholders of the holding company

Adjusted for (profit)/loss on disposal of plant and equipment (net of tax)

Headline earnings

Headline earnings per share (cents)

– Basic

Condensed consolidated statement of financial position at 28 February 2010

	2010	2009
	R'000	R'000
ASSETS		
Non-current assets	412 130	393 143
Property, plant and equipment	373 659	354 172
Goodwill	33 549	33 549
Other intangible assets	1 762	1 817
Other financial assets	2 202	3 605
Deferred tax	958	–
Current assets	315 187	298 839
Inventory	8 536	16 946
Amounts due from contract customers	90 149	9 290
Trade and other receivables	122 183	163 088
Other financial assets	7 173	7 927
Bank balances and cash	87 146	101 588
Total assets	727 317	691 982
EQUITY AND LIABILITIES		
Total equity	310 255	234 614
Share capital and share premium	228 598	228 598
Reserves	(123 943)	(122 053)
Retained earnings	205 600	128 069
Equity attributable to equity holders of the holding company	310 255	234 614
Non-controlling interests	–	–
Total liabilities	417 062	457 368
Non-current liabilities	223 113	235 566
Interest bearing borrowings	165 481	186 517
Deferred tax	57 632	49 049
Current liabilities	193 949	221 802
Interest bearing borrowings	99 100	87 839
Trade and other payables	81 087	88 629
Subcontractor liabilities	6 928	9 704
Provisions	–	5 496
Current tax liabilities	6 834	30 134
Total equity and liabilities	727 317	691 982

SUPPLEMENTARY STATEMENT OF FINANCIAL POSITION INFORMATION

Total number of shares in issue ('000)

Net asset value per share (cents)

Capital expenditure (R'000)

– Spent

– Commitments – Authorised but unspent

Performance guarantees issued (R'000)

plant policy. The plant sold in the replacement process amounted to R74,7 million (2009: R32,8 million), resulting in net capital expenditure in respect of plant and machinery of R34,3 million (2009: R129,3 million).

Net asset value per share increased by 32% from 64,7 cents to 85,6 cents per share.

Interest bearing liabilities decreased by R9,8 million to R264,6 million (2009: R274,4 million) at the end of the period under review. The net debt equity ratio of the group improved to 57% (2009: 74%) and is now comfortably close to the medium term target range set by the group.

Net working capital increased by R44,2 million to R121,2 million from the previous year's net working capital of R77,0 million.

Statement of cash flows

Cash generated before working capital changes was 13% down to R153,8 million (2009: R177,4 million). When comparing cash generated by operations before working capital changes to EBITDA, the ratio of cash generated to EBITDA improved from 94% in 2009 to 95% in 2010. The group therefore remains confident of its cash generating ability.

OPERATIONAL REVIEW

Contracting – 83% of group revenue

Revenue for Contracting was up 9% to R640,2 million (2009: R589,2 million) against the market backdrop of a 50% decline in the total value of contracts awarded in the civils industry. The increase was achieved due to successfully winning several new contracts, as well as contract extensions and shifting to the mining sector where there was still some growth.

However, excessive rainfall, increased competition and certain pre-contract investments on mining contracts impacted the operating profit, resulting in a 19% decline. Margins remained solid at 19%.

Geotechnical – 2% of group revenue

Although this business is a small contributor to the group, it performed extremely well. Revenue was up 42% to R16,1 million due to increased capacity and operating profit was up from R0,8 million last year to R2,8 million this year, resulting in an 18% margin. The main reason for the strong improvement was due to higher revenue now being spread over a relatively fixed cost base.

Readymix – 15% of group revenue

Against very tough market dynamics, Readymix managed to sustain its market share through pro-actively driving sales and further entrenching its first-to-market reputation. In line with this, volumes during the last three quarters were up year on year by 6%. However, the first quarter was negatively impacted by the Easter holidays and the elections, as well as excessive rainfall. Volumes therefore declined by 5% year on year.

Revenue for the year increased by 5% to R113,0 million. As expected and indicated at interim time, margin remained under pressure and the business posted an operating loss of R5,4 million for the year.

Condensed consolidated statement of cash flows for the year ended 28 February 2010

	2010	2009
	R'000	R'000
Cash flows from operating activities	45 888	114 667
Cash generated by operations	104 531	142 930
Net interest paid	(15 561)	(27 869)
Income taxes paid	(43 082)	(394)
Cash flows from investing activities	(46 747)	(145 655)
Purchase of property, plant and equipment	(109 025)	(162 102)
– Replacement	(86 331)	(55 068)
– Additions	(22 694)	(107 034)
Purchase of intangible assets	(160)	–
Proceeds on disposal of property, plant and equipment	74 732	32 768
Assets acquired through acquisition	–	(7 000)
Movement in loan through acquisition	(11 625)	–
Increase in loans granted	(669)	(9 321)
Cash flows from financing activities	(13 583)	39 338
Settlement of Vendor liability	–	(71 356)
Net movement related to bank loans	(11 349)	54 054
Net movement related to instalment sale agreements	(2 234)	56 640
Net (decrease)/increase in cash and cash equivalents	(14 442)	8 350
Cash and cash equivalents at the beginning of the year	101 588	93 238
Cash and cash equivalents at the end of the year	87 146	101 588
<i>Cash and cash equivalents comprise of:</i>		
Bank balances and cash	87 146	101 588

Notes to the condensed consolidated financial statements for the year ended 28 February 2010

1. Basis of preparation and accounting policies

This provisional report complies with International Accounting Standard 34 – Interim Financial Reporting as well as with Schedule 4 of the South African Companies Act and the disclosure requirements of the JSE Limited's Listings Requirements. The provisional report has been prepared using accounting policies that comply with International Financial Reporting Standards. The standards noted below which became effective on 1 January 2009: IAS 1 Presentation of Financial Statements (revised) and IFRS 8 Operating Segments. The adoption of these standards has no effect on the results but required the restatement of the segmental report.

2. Acquisitions

During the year the Group acquired an interest in a company in Botswana, Protech Power Corp (Pty) Ltd. The business was a start up business and incurred minor losses which the group has funded. The Group consolidated Protech Khuthele Property Investments (Pty) Ltd as a subsidiary on 28 February 2010. The Group has no equity stake in the company, but the directors of major subsidiaries have the power to govern and control financial and operating policies.

The analysis of net assets acquired is as follows:

	2010
	R'000
Current assets	1 014
Property	25 681
Interest bearing borrowings	(3 808)
Net assets acquired	22 887
Net cash flow in terms of acquisition	22 887
Loan account Protech Khuthele Holdings Limited (company)	(435)
Loan account Protech Khuthele (Pty) Ltd	(22 452)
Total cash flow	–

3. Subsequent events

No material events have occurred subsequent to 28 February 2010 which may have an impact on the group's reported financial position at this date.

4. Audit opinion

The auditors, Deloitte & Touche, have issued their unmodified audit opinion on the Group's financial statements for the year ended 28 February 2010. The audit was conducted in accordance with International Standards on Auditing. A copy of their audit report is available for inspection at the company's registered office. These provisional financial statements have been derived from the Group financial statements and are consistent in all material respects, with the Group financial statements. Any reference to future financial performance included in this announcement, has not been reviewed or reported on by the Company's auditors.

5. Dividend declaration

Notice is hereby given that the Group has declared its maiden dividend of 4 cents per share. This is in respect of the year ended 28 February 2010 and was declared on Friday, 28 May 2010.

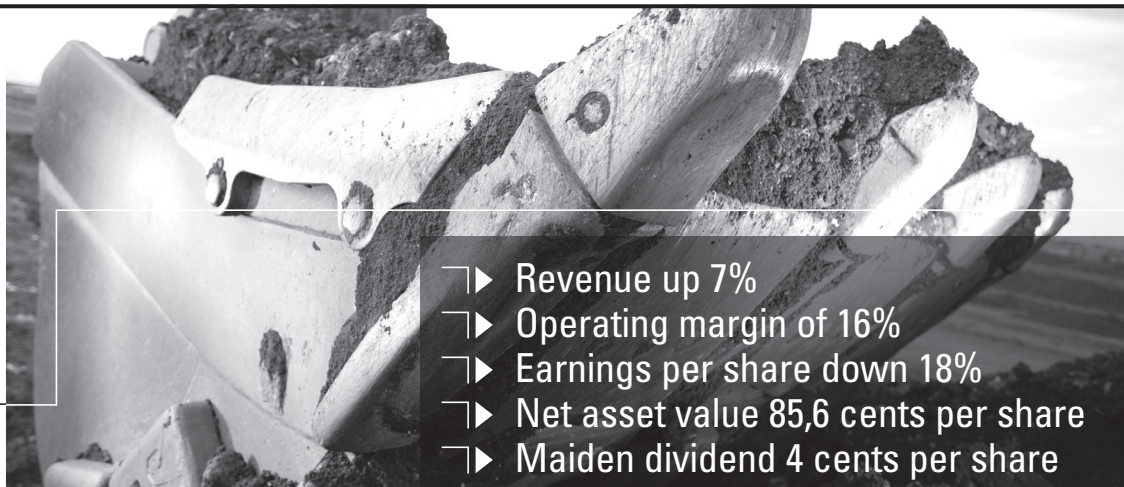
The timetable for the payment of the dividend is as follows:

Last date to trade cum dividend Friday, 23 July 2010
Commence trading ex dividend Monday, 26 July 2010
Record date Friday, 30 July 2010
Dividend payable Monday, 2 August 2010
Share certificates may not be dematerialised or rematerialised between Monday, 26 July 2010 and Friday, 30 July 2010, both dates inclusive.

Condensed consolidated statement of changes in equity for the year ended 28 February 2010

	Share capital	Share premium	Common control reserve	Foreign currency translation reserve	Retained earnings	Equity attributable to the shareholders of the company	Non-controlling interest	Total equity
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Balance at 29 February 2008	2	228 596	(122 053)	–	35 158	141 703	–	141 703
Total comprehensive income for the year	–	–	–	–	92 911	92 911	–	92 911
Balance at 28 February 2009	2	228 596	(122 053)	–	128 069	234 614	–	234 614
Realisation in respect of deregistered dormant subsidiaries ¹	–	–	(1 945)	–	1 945	–	–	–
Total comprehensive income for the year	–	–	–	55	75 586	75 641	–	75 641
Balance at 28 February 2010	2	228 596	(123 998)	55	205 600	310 255	–	310 255

¹ The adjustment against the common control reserve relates to the deregistration of the dormant subsidiaries Protech Projects Holding (Pty) Ltd and Umvundla Investments No.2 (Pty) Ltd subsequent to year end.



- ▶ Revenue up 7%
- ▶ Operating margin of 16%
- ▶ Earnings per share down 18%
- ▶ Net asset value 85,6 cents per share
- ▶ Maiden dividend 4 cents per share

Dividend

Although no dividend was declared for the year ended 28 February 2009, shareholders were advised that the directors would review this position at the following financial year end. Accordingly, the board has declared a maiden dividend of 4 cents per share. This is a 5,2 times dividend cover ratio.

OUTLOOK

The cornerstone of the group's model is its plant policy of only running new plant. The group's average fleet age of one year is unprecedented compared to the industry average of approximately six years. This results in no downtime for clients, a huge competitive advantage in tough times. Furthermore, due to Protech's unique arrangements with equipment suppliers, plant is always under warranty with no cash flow risk due to plant failure. During the year, the group's quality plant was demonstrated by a R3 million profit on sale of equipment and no impairment charges.

While the group expects the next year to remain extremely challenging, it starts the 2011 financial year with 99% of F2010 revenue already secured. Although in the short-term we expect margins to remain under pressure, the group now has enough business locked in to enable it to be selective in terms of the margin levels of further business it takes on.

The group also has a solid pipeline of R1,4 billion until 2012. R1,1 billion of contracts remains to be executed. The majority of contracts is focused around the mining sector as that is where the group believes most of the growth will be coming from in the next 12-18 months and where there is more ability to limit margin erosion.

On behalf of the directors

DA Ackerman Chairman of the Board
GD Chapman Group Chief Executive
CJA Wolmarans Group Financial Director

Lanseria
28 May 2010

Directors: DA Ackerman* (Chairman), GD Chapman (Group Chief Executive), CJA Wolmarans (Group Financial Director), MSG Mareletse*†, V Raseroka*, P van Tonder*, M Vuso*†
*non-executive †independent

Secretary: A van der Merwe

Registered office: Corner R512 and Elandsdrift Road, Bultfontein, Lanseria (Private Bag X6, Lanseria, 1748)

(Website: www.pkh.co.za)

Transfer secretary: Link Market Services South Africa (Proprietary) Limited
11 Diagonal Street, Johannesburg, 2001. (PO Box 4844, Johannesburg, 2000)

Sponsor: Deloitte & Touche Sponsor Services (Proprietary) Limited

Operational segmental reporting for the year ended 28 February 2010

Services within each business segment

In the reporting period to February 2009 the group had four major operating divisions – earthworks, plant hire, geotechnical laboratory and readymix. During 2010 management decided to combine the earthworks and plant hire divisions into one division, contracting, as the plant hire division forms an integral part of the earthworks division. The combination of these two divisions into one will also provide more meaningful reporting in terms of the Group's operating activities. Therefore the three divisions Contracting, Geotechnical laboratory and Readymix are the basis on which the Group will report its operating segment information. The principal services and products of each of these divisions are as follows:

Contracting – bulk earthworks, roads and civil engineering contractors, plant hire, impact compaction and logistical services.

Geotechnical laboratory – geotechnical laboratory and surveying services.

Readymix – supplier of readymixed concrete and pumping services.

Segment revenue and segment result	Segment revenue		Segment result	
	Year ended 28/02/2010	Year ended 28/02/2009 ¹	Year ended 28/02/2010	Year ended 28/02/2009 ¹
	R'000	R'000	R'000	R'000
Contracting	640 235	589 218	120 138	148 834
Geotechnical laboratory	16 064	11 347	2 847	754
Readymix	113 049	108 127	(5 430)	977
	769 348	708 692	117 555	150 565
Corporate ²	8 960	13 460	1 070	(5)
Intergroup eliminations	(29 530)	(19 407)	(71)	5 427
	748 778	702 745	118 554	155 987
Operating profit			(15 561)	(27 869)
Net interest paid				
Earnings before tax			102 993	128 118
Taxation			(27 407)	(35 207)
Earnings for the year			75 586	92 911

Segment revenue reported above represents revenue generated from external customers. Intersegment sales amounted to R