Santova Logistics Ltd

GROUP INTERIM RESULTS

for the six months ended 31 August 2008

CONDENSED GROUP INCOME STATEMENT

		6 months to 31 August 2008 Unaudited R'000	Restated 6 months to 31 August 2007 Unaudited R'000	12 months to 29 February 2008 Audited R'000
Turnover		61 189	54 688	108 243
Gross billings		972 845	924 416	1 956 021
Cost of billings		911 656	869 728	1 847 778
Other income		339	366	3 954
Administrative expenses		47 854	44 569	88 502
Operating income		13 674	10 485	23 695
Depreciation and amortisation		959	946	2 563
Interest received		1 870	2 339	4 454
Finance costs		9 336	8 496	17 550
Profit before taxation		5 249	3 382	8 036
Income tax expense		1 327	1 132	1 965
Profit for the period/year		3 922	2 250	6 071
Attributable to:				
Equity holders of the parent		3 920	2 234	6 026
Minority interest		2	16	45
Basic earnings per share	(cents)	0,29	0,18	0,45
Diluted earnings per share	(cents)	0,29	0,18	0,45
SUPPLEMENTARY INFORMATION				
Reconciliation between earnings and headline earnings				
Profit attributable to equity holders of the parent		3 920	2 234	6 026
Loss/(profit) on disposals of plant and equipment		75	(48)	(14)
Taxation effects		(21)	14	4
Headline earnings		3 974	2 200	6 016
Shares in issue	(000's)	1 375 357	1 341 788	1 366 788
Weighted average number of shares	(000's)	1 329 990	1 228 833	1 335 522
Diluted number of shares	(000's)	1 329 990	1 228 833	1 335 522
Shares for net asset value calculation	(000's)	1 329 990	1 335 068	1 329 990
Performance per ordinary share				
Basic headline earnings per share	(cents)	0,30	0,18	0,45
Diluted headline earnings per share	(cents)	0,30	0,18	0,45
Net asset value per share	(cents)	6,12	5,57	5,82
Tangible net asset per share	(cents)	3,89	3,37	3,64

CONDENSED GROUP CASH FLOW STATEMENT

	6 months to 31 August 2008 Unaudited R'000	Restated 6 months to 31 August 2007 Unaudited R'000	12 months to 29 February 2008 Audited R'000
Cash generated by operations before working capital changes	13 875	10 391	23 570
Changes in working capital	(4 983)	26 302	8 174
Cash generated from operations	8 892	36 693	31 744
Interest received	1 870	2 339	4 454
Finance costs	(9 336)	(8 496)	(17 550)
Income tax paid	(1 364)	(417)	(1 824)
Cash generated from operating activities	62	30 119	16 824
Net cash flows from investing activities	(1 839)	(2 256)	(3 511)
Cash inflows on acquisition of subsidiaries	–	1 001	1 001
Net cash flows from financing activities	6 896	(34 581)	(16 407)
Net increase/(decrease) in cash and cash equivalents	5 119	(5 717)	(2 093)
Effects of exchange rate changes on cash and cash equivalents	47	23	30
Cash and cash equivalents at the beginning of the period/year	5 910	7 973	7 973
Cash and cash equivalents at the end of the period/year	11 076	2 279	5 910

CONDENSED GROUP BALANCE SHEET

	31 August 2008 Unaudited R'000	Restated 31 August 2007 Unaudited R'000	29 February 2008 Audited R'000
ASSETS			
Non-current assets	44 199	43 862	43 502
Plant and equipment	9 398	10 119	9 498
Intangible assets	29 632	29 280	29 029
Deferred taxation	5 169	4 463	4 975
Current assets	302 129	271 008	286 789
Trade receivables	272 020	256 974	263 110
Other receivables	14 870	7 646	13 855
Amounts owing from related parties	4 163	4 087	3 871
Financial asset	–	22	43
Cash and cash equivalents	11 076	2 279	5 910
Total assets	346 328	314 870	330 291
EQUITY AND LIABILITIES			
Capital and reserves	81 398	74 303	77 438
Share capital and premium	156 401	157 104	156 401
Foreign currency translation reserve	79	19	41
Accumulated loss	(75 123)	(82 835)	(79 043)
Attributable to equity holders of the parent	81 357	74 288	77 399
Minority interest	41	15	39
Non-current liabilities	2 434	3 849	2 658
Interest-bearing borrowings	222	1 594	446
Long-term provision	2 212	2 255	2 212
Current liabilities	262 496	236 718	250 195
Trade and other payables	115 589	118 588	112 480
Current tax payable	1 096	1 002	940
Amounts owing to related parties	114	115	120
Current portion of interest-bearing borrowings	594	–	772
Financial liability	83	–	–
Short-term borrowings and overdraft	140 634	114 786	133 330
Short-term provisions	4 386	2 227	2 553
Total equity and liabilities	346 328	314 870	330 291

CONDENSED GROUP SEGMENTAL ANALYSIS

	Southern Africa R'000	Far East R'000	United Kingdom R'000	Group R'000
31 AUGUST 2008 GEOGRAPHICAL SEGMENT				
Turnover (external)	56 395	1 012	3 782	61 189
Net profit before interest and tax	12 508	77	130	12 715
Net finance cost	(7 263)	(9)	(194)	(7 466)
Income tax expense	(1 313)	(14)	–	(1 327)
Net profit/(loss)	3 932	54	(64)	3 922
Total assets	340 410	3 024	2 894	346 328
Total liabilities	259 887	2 023	3 019	264 929
Depreciation and amortisation	916	8	35	959
Capital expenditure	1 382	12	7	1 401
31 AUGUST 2007 RESTATED GEOGRAPHICAL SEGMENT				
Turnover (external)	49 652	1 073	3 963	54 688
Net profit/(loss) before interest and tax	9 295	436	(192)	9 539
Net finance cost	(6 157)	–	–	(6 157)
Income tax expense	(1 132)	–	–	(1 132)
Net profit/(loss)	2 006	436	(192)	2 250
Total assets	308 900	3 120	2 850	314 870
Total liabilities	236 114	2 755	1 698	240 567
Depreciation and amortisation	911	6	29	946
Capital expenditure	2 102	3	158	2 263

	Freight forwarding and clearing R'000	Insurance R'000	Group R'000
31 AUGUST 2008 BUSINESS SEGMENT			
Net profit	3 874	48	3 922
Total assets	344 573	1 755	346 328
Total liabilities	263 896	1 033	264 929
31 AUGUST 2007 RESTATED BUSINESS SEGMENT			
Net profit	1 966	284	2 250
Total assets	314 037	833	314 870
Total liabilities	240 151	416	240 567

CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent									
	Share capital R'000	Share premium R'000	Treasury share capital R'000	Treasury share premium R'000	Subscriptions awaiting allotment R'000	Foreign currency translation reserve R'000	Accumulated loss R'000	Total R'000	Minority interest R'000	Total equity R'000
Restated balances at 28 February 2007	1 123	133 160	(11)	(805)	22 928	(3)	(85 070)	71 322	–	71 322
Net profit for the period as restated	–	–	–	–	–	–	2 234	2 234	16	2 250
Net profit as previously reported	–	–	–	–	–	–	2 135	2 135	16	2 151
Re-assessment of plant and equipment under IAS 16	–	–	–	–	–	–	71	71	–	71
Related deferred taxation	–	–	–	–	–	–	(21)	(21)	–	(21)
Employee share scheme as previously reported	–	49	–	–	–	–	–	49	–	49
Re-assessment of shares offered under IFRS 2	–	(49)	–	–	–	–	49	–	–	–
Reversal of minority interest allocated against the parent	–	–	–	–	–	–	1	1	(1)	–
Foreign currency translation adjustment	–	–	–	–	–	22	–	22	–	22
Share capital movements for period as restated	219	22 204	–	–	(21 714)	–	–	709	–	709
Issue of share capital as previously reported	219	41 104	–	–	–	–	–	41 323	–	41 323
Re-assessment of purchase price of subsidiaries and subscriptions awaiting allotment realised	–	(18 900)	–	–	(21 714)	–	–	(40 614)	–	(40 614)
Restated balances at 31 August 2007	1 342	155 364	(11)	(805)	1 214	19	(82 835)	74 288	15	74 303
Net profit for the period	–	–	–	–	–	–	3 792	3 792	29	3 821
Minority interest adjustment	–	–	–	–	–	–	–	–	(5)	(5)
Issue of share capital	25	2 975	(25)	(2 975)	–	–	–	–	–	–
Adjustment to subscriptions awaiting allotment	–	–	–	–	71	–	–	71	–	71
Re-assessment of shares offered under IFRS 2	–	(54)	–	–	–	–	–	(54)	–	(54)
Foreign currency translation adjustment	–	–	–	–	–	22	–	22	–	22
Share capital repurchased	–	–	(9)	(711)	–	–	–	(720)	–	(720)
Balances at 29 February 2008	1 367	158 285	(45)	(4 491)	1 285	41	(79 043)	77 399	39	77 438
Net profit for the period	–	–	–	–	–	–	3 920	3 920	2	3 922
Foreign currency translation adjustment	–	–	–	–	–	38	–	38	–	38
Issue of subscriptions awaiting allotment	9	1 276	–	–	(1 285)	–	–	–	–	–
Balances at 31 August 2008	1 376	159 561	(45)	(4 491)	–	79	(75 123)	81 357	41	81 398

COMMENTARY

GROUP PROFILE

Santova Logistics Limited and its subsidiary companies ("Santova"/"Group"), operating out of South Africa, the United Kingdom, Hong Kong and China, provide integrated "end-to-end" logistics solutions for importers/exporters and consumers.

OPERATIONAL REVIEW

The six-month period ending 31 August 2008 witnessed a global economic slowdown. This was compounded even further by soaring oil prices and the sub-prime crisis, which had its origins in the United States. Whilst South Africa's economic fundamentals remained strong, these international developments had heightened South Africa's economic vulnerabilities and resulted in a steady decline in The Trade Activity Index from 50 in February 2008 to 42 in June 2008.

Despite a weakening economy, the Group proved to be fundamentally very strong and achieved improved results over those of the same period last year. Profit for the period and basic headline earnings per share in 2008 were R3 922 379 (2007: R2 250 295) and 30 cents (2007: 18 cents), increases of 74,3% and 66,9%, respectively.

This achievement reinforces our view that our business model, which has been developed over the years, is a sustainable one capable of delivering earnings in challenging times. Our leading edge technology, integrated portfolio of services, and global network, together with our expertise in supply chain logistics has allowed us to capitalise on these opportunities to meet the demands of our organic growth strategy.

Southern Africa

The clearing and freight forwarding operations in the domestic market, Impson Logistics (Pty) Limited ("Impson"), have performed exceptionally well with net profit increasing from R1 966 173 in 2007 to R3 874 659 in 2008, an increase of 97,1%. This is largely as a result of the management team having settled down and become fully integrated with well-aligned operational policies and procedures resulting in greatly enhanced efficiencies and effectiveness. In addition, new client acquisition and the retention of existing clients on improved pricing structures also contributed to an impressive performance.

Despite reduced earnings, the insurance business of Leading Edge Insurance Brokers (Pty) Limited ("Leading Edge") has continued to perform well in so far as the acquisition of new clients is concerned. Earnings have been adversely affected by two factors; the first concerns the cost of investing in staff to ensure the future capabilities of the business, and the second, broker commissions being renegotiated downwards by an underwriter on a significant portion of the existing insurance book. Marine insurance revenue, however, which accrues to the Group and not to Leading Edge, is significantly up (47,4%) on the same period last year.

International

The Santova Hong Kong operation has experienced reduced volumes on both the South African and United Kingdom routes. This, together with a significant investment in a world class warehouse facility and a consolidation HUB facility in Shenzhen China, has impacted on the earnings of the business. However, the value of such a facility linking Shenzhen with the rest of the Guangdong province for global clients will more than compensate the costs of such an investment. Whilst the revenue derived from such a facility will only be evident in the second six-month period, the Group is expecting improved earnings from this operation for the period ending February 2009.

Whilst earnings of the United Kingdom operation have improved on last year, the UK is experiencing an economic slowdown that has impacted on the rate of earnings growth in this region. The Group has introduced strategic initiatives that will see improved results going forward despite the difficult economic climate.

In concluding, it must be recognised that Leading Edge, Santova Hong Kong and Santova United Kingdom are relatively small business units that were essentially "zero based" from an earnings perspective on establishment or acquisition. It was always the decision of the Group to opt for low risk profile businesses which could be developed by investing in quality human, financial and physical resources that were necessary to achieve the Group's strategic objectives. Because these units are self-governing and have minimal earnings, any spend or investment in the future capabilities of these businesses results in a material effect on the earnings of these business units.

FINANCIAL REVIEW

Overview of 2008 performance

The Group has achieved improved results for the first six months of 2008. In comparison to the restated period last year, the following could be said to constitute some of the salient features of this performance:

- Turnover increased by 11,9% to R61 189 216;
- Operating income increased by 30,4% to R13 673 945;
- Profit after tax increased by 74,3% to R3 922 379;
- Net asset value per share increased by 10,0% to 6,12 cents; and
- Tangible net asset value per share increased by 15,4 % to 3,89 cents.

The improved performance is a direct result of the successful integration of capabilities and intellectual capital that is "enabling" systematic innovation and more importantly the successful implementation thereof. Furthermore, the business is slowly but surely attaining improved levels of critical mass that allow it to benefit more and more from economies of scale. This is highlighted by the improvement in the trading margin of the business which has improved by 16,6% from 19,2% last period to 22,3% this period.

In spite of a 33,5% increase in cash generated from operations, before working capital changes, cash generated from operations is somewhat lower. This is due, in the main, to the increased cash advanced to customers through accounts receivable, some R9,9 million when compared to a decrease in cash advanced last year of R15,2 million. This is in line with the increased trade volumes or Gross Billings of R48,4 million when compared to the same period last year. The ageing of the accounts receivables themselves are within normal trading terms and provided for wherever their collection is in doubt. This increased demand for cash has to a large extent been funded by operations with a relatively small drawdown of R6,9 million on our Invoice Discounting facilities compared to the repayment of R34,6 million in the previous period. The Group is trading well within our long and short-term financing facilities afforded to us by our bankers.

Financial reporting and accounting policy changes

The Group interim results reflect certain changes to the previously reported financial information of the Group for the interim results presented for the six months to 31 August 2007.

The reasons for this are discussed further in note 28 of the Annual Financial Statements contained within the 2008 Annual Report. The effect of the adjustments on the six months to 31 August 2007 are reflected in the Statement of Changes in Equity and include an adjustment to residual values on certain motor vehicles within the Group of R71 236 together with the related taxation effect of R20 658 and an adjustment to correct the treatment of certain share trust entries of R49 323.

This resulted in the basic earnings per share changing from 0,17 cents to 0,18 cents per share when comparing the 31 August 2007 previously reported results to the restated results respectively, a 7,0% increase, and 0,16 cents to 0,18 cents per shares for basic headline earnings per share, an 11,9% increase.

Period under review

The period under review has been an exciting one, which saw the shareholders approve a number of resolutions at the annual general meeting held on 23 September 2008. The most notable resolution being shareholder approval for the Company to repurchase 219 666 667 shares, representing 15,97% of the total issued share capital of Santova Logistics Limited. None of these changes have been accounted for in these half-year results since they occurred post balance sheet date, they will be accounted for subsequent to this period.

On 5 June 2008, 8 568 981 shares were issued to the vendors of Leading Edge after meeting their profit warranties; this was the last batch of shares held under "subscriptions awaiting allotment".

Subsequent events

There have been no material subsequent events since 31 August 2008 that have not been referred to elsewhere in this report.

OUTLOOK FOR THE NEXT SIX MONTHS

There is no doubt that the deteriorating global economic outlook has increased the risk to South Africa's economy. This is evident in local current economic conditions where spending has been substantially curtailed and consumer confidence dramatically reduced. Whilst trade expectations tend to be "on hold", the Group is confident it will continue to make progress in the third and fourth quarter of the February 2009 financial year.

This growth will be achieved through continued new client acquisition and enhanced multi-product/service delivery to existing clients. In a contracting economy, the opportunities reside in the fact that businesses tend to review their current structures (systems and work flow processes) and seek those that are more efficient and effective. Santova's Optimised Supply Chain Active Resource suite of software packages ("OSCAR®") will allow those businesses seeking greater efficiencies to manage their supply chain on a real-time basis, ensuring greater efficiencies, together with synchronisation and improved cash flows as a consequence.

BASIS OF PREPARATION

The unaudited condensed interim financial statements have been prepared using accounting policies that comply with International Financial Reporting Standards, as issued by the International Accounting Standards Board ("IASB"), and should be read in conjunction with the 29 February 2008 annual financial statements. The accounting policies adopted and methods of computation are consistent with those applied in the financial statements for the year ended 29 February 2008 and are applied consistently throughout the Group. The Group has adopted all of the new and revised Standards and Interpretations issued by the International Financial Reporting Interpretations Committee of the IASB that are relevant to its operations and effective as at 1 March 2008.

These Group interim results comply with International Accounting Standard 34 – Interim Financial Reporting, Schedule 4 of the South African Companies Act, 1973, and the disclosure requirements of the JSE Listings Requirements.

DIVIDENDS

In line with the Company's policy, no dividend has been declared for the period.

RETIREMENT OF DIRECTOR

TR Mezher retired as director from the boards of the Company and of its subsidiary Impson on 23 September 2008, the Board would like to extend its thanks to Tom for his contribution to the Santova Group and wish him a long and happy retirement.

ACKNOWLEDGEMENTS

The Board would like to express its appreciation to all management and staff for their efforts during the period.

For and on behalf of the Board

GH Gerber
Chief Executive Officer

SJ Chisholm
Group Financial Director

10 November 2008

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