metrofile

REVIEWED RESULTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

Summarised consolidated income statement

R'000	Notes	Reviewed 6 months ended 31 Dec 2005	Restated 6 months ended 31 Dec 2004	Restated 12 months ended 30 June 2005
Revenue		**136 626**	117 302	**254 437**
Operating income before foreign exchange gains		**42 397**	30 730	**75 091**
Foreign exchange gains		**37**	28	**33**
Operating income before depreciation	1	**42 434**	30 758	**75 124**
Depreciation		**(5 574)**	(6 268)	**(11 747)**
Exceptional gains		**3 706**	377	**133**
Operating profit before finance costs		**40 566**	24 866	**63 510**
Income from investments		**398**	425	**1 267**
Fair value adjustments on financial instruments	1	**(3 993)**		
Finance costs	1	**(28 635)**	(27 715)	**(53 782)**
Profit/(loss) before taxation		**8 336**	(2 424)	**10 995**
Taxation		**(4 492)**	(415)	**4 909**
Profit/(loss) for the period		**3 843**	(2 839)	**15 904**
Attributable to:				
– Equity holders		**1 544**	(2 838)	**14 815**
– Minority interest		**2 299**		**1 089**
Attributable profit/(loss)		**3 843**	(2 838)	**15 904**
Number of ordinary shares in issue (thousands)		**74 077**	74 077	**74 077**
Number of ordinary shares in treasury (thousands)		**6 877**	6 877	**6 877**
Number of ordinary shares in issue after deducting treasury shares (thousands)		**67 200**	67 200	**67 200**
Weighted average number of ordinary shares in issue (thousands)		**67 200**	67 200	**67 200**
Earnings/(loss) per ordinary share (cents)		**2,3**	(4,2)	**22,0**
Fully diluted headline earnings/(loss) per ordinary share (cents)	2			**6,1**
Headline earnings/(loss) per ordinary share (cents)		**2,3**	(4,8)	**29,0**
Fully diluted headline earnings per ordinary share (cents)	2			**7,8**

Summarised consolidated balance sheet

R'000	Notes	Reviewed as at 31 Dec 2005	Restated as at 31 Dec 2004	Restated as at 30 June 2005
ASSETS				
Non-current assets				
Property, plant and equipment		**153 351**	155 238	**150 174**
Long-term receivables		**614**		**1 126**
Intangibles	3			
Current assets		**65 019**	89 948	**67 104**
Inventories		**8 814**	8 981	**8 029**
Trade receivables		**40 875**	36 962	**38 911**
Other receivables		**5 612**	35 942	**10 793**
Bank balances		**9 718**	8 063	**9 371**
Total assets		**218 984**	245 186	**218 404**
EQUITY AND LIABILITIES				
Equity capital and reserves		**(291 952)**	(320 452)	**(295 795)**
Ordinary shareholders' interest		**(295 341)**	(320 452)	**(296 884)**
Outside shareholders' interest		**3 388**		**1 089**
Non-current liabilities		**441 360**	459 846	**438 568**
Interest-bearing provisions	4	**42 522**	53 867	**36 899**
Interest-bearing subordinated redeemable convertible loans	5	**206 121**	179 600	**190 682**
Interest-bearing liabilities	6	**187 650**	222 055	**205 338**
Deferred taxation liability		**5 068**	4 324	**5 650**
Current liabilities		**69 576**	105 791	**75 631**
Trade payables		**8 379**	7 920	**7 056**
Other payables		**20 364**	19 069	**24 990**
Deferred revenue		**5 337**	2 774	**3 317**
Provisions		**4 762**	12 158	**6 353**
Taxation		**9 480**	7 332	**13 600**
Bank overdrafts			425	
Interest-bearing liabilities		**21 255**	56 113	**20 315**
Total equity and liabilities		**218 984**	245 186	**218 404**
Net liability per ordinary share (cents)		**434,5**	476,9	**440,2**

Notes

1. *The current year profit before taxation includes R3,9 million provision raised to comply with IAS39 for future interest related to certain interest rate swap agreements entered into during the period under review. It also includes interest of R5,9 million provided on potential claims that still needs to be finalised. In terms of IFRS 2 R0,5 million was recognised as share-based payments in the current period (2005: R5,7 million).*
2. *The adjustment to determine diluted earnings per share is directly attributable to an interest saving of R5,3 million should the Metrofile Holdings loan notes convert into ordinary shares. The increase in number of ordinary shares in issue is calculated by dividing the outstanding capital amount (excluding any accrued interest) of the Metrofile Holdings loan notes held by third parties (include notes held by third party creditors and excludes any inter-company loan notes, share options and any other payables) by the average market price per share during the period and then adding the calculated increase in shares to the existing weighted average number of ordinary shares in issue. Current year and prior year interim diluted earnings per share are nil as they were anti-dilutive.*
3. *As intangibles are not revalued, no balances are reflected on the consolidated balance sheet. In Metrofile (Pty) Limited goodwill and trademarks in the amount of R183,9 million are reflected, being the values arising from the inter-group transactions arising in 2004, less trademark amortisation.*
4. *Long-term interest-bearing provisions include anticipated claims in terms of the S311 arrangement. The provisions also include creditors that may become owners of interest-bearing redeemable convertible loans. Interest-bearing provisions include provision for future interest related to certain interest rate swap agreements entered into during the period under review.*
5. *Interest-bearing convertible loan notes include the Metrofile C and MGX loan notes that have been subordinated by the financiers.*
6. *Long-term interest-bearing liabilities include the Metrofile A and B loan notes.*
7. *No segmental analysis has been reported as the group trades in only one segment.*

Summarised consolidated cash flow statement

R'000	Reviewed as at 31 Dec 2005	Restated as at 31 Dec 2004	Restated as at 30 June 2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations before net working capital changes	**42 146**	25 495	**92 754**
Decrease in net working capital	**44**	5 750	**(9 544)**
Cash generated from operations	**42 190**	31 245	**83 210**
Net finance costs	**(28 237)**	(27 290)	**(52 515)**
Normal taxation paid	**(9 270)**	(4 000)	**(10 594)**
Net cash inflow/(outflow) from operating activities	**4 683**	(45)	**20 101**
Net cash (outflow)/inflow from investing activities	**(8 270)**	(7 438)	**26 552**
Net cash inflow/(outflow) from financing activities	**3 934**	3 436	**(48 966)**
Net increase/(decrease) in cash and cash equivalents	**347**	(4 047)	**(2 313)**
Cash and cash equivalents at the beginning of the year	**9 371**	11 684	**11 684**
Cash and cash equivalents at the end of the year	**9 718**	7 637	**9 371**
Bank balances	**9 718**	8 063	**9 371**
Bank overdrafts		(426)	

Statement of changes in equity

	Share capital R'000	Share premium R'000	Non-distributable reserves R'000	Attributable loss R'000	Minority shareholder interest R'000	Total R'000
Balance at 1 July 2004 as previously reported	**408**	**195 656**	**(2 827)**	**(521 038)**		**(327 801)**
Adjustments for changes in accounting policies as a result of IFRS adoption IAS16 – Property, plant and equipment				10 898		10 898
Restated balance at 1 July 2004	**408**	**195 656**	**(2 827)**	**(510 140)**		**(316 903)**
Net loss for the six months ended 31 December 2004				(2 838)		(2 838)
Net loss for the period as previously reported				(4 060)		(4 060)
Adjustments for changes in accounting policies as a result of IFRS adoption IAS16 – Property, plant and equipment				1 222		1 222
Foreign currency reserve			(711)			(711)
Restated balance at 31 December 2004	**408**	**195 656**	**(3 538)**	**(512 978)**		**(320 452)**
Net profit for the six months ended 30 June 2005				22 948	1 089	24 037
Net profit/(loss) for the period as previously reported				23 222		23 222
Adjustments for changes in accounting policies as a result of IFRS adoption IAS16 – Property, plant and equipment				1 226		1 226
IFRS 2 – Share-based payments				(411)		(411)
Effect of IFRS adoption on minority interest in restated earnings for the period				(1 089)	1 089	
Foreign currency reserve			620			620
Restated balance at 30 June 2005	**408**	**195 656**	**(2 918)**	**(490 030)**	**1 089**	**(295 795)**
Profit for the period				1 544	2 299	3 843
Balance at 31 December 2005	**408**	**195 656**	**(2 918)**	**(488 486)**	**3 388**	**(291 952)**

Transitional report

R'000	Group 31 Dec 2005	31 Dec 2004	30 July 2004
Assets			
SA GAAP	**134 400**	140 821	
IAS16	**15 774**	14 417	
As reported under IFRS	**150 174**	155 238	
Deferred taxation liability			
SA GAAP	**3 298**	2 103	
IAS16	**2 352**	2 221	
As reported under IFRS	**5 650**	4 324	
Equity			
SA GAAP	**(307 797)**	(332 572)	(327 801)
IFRS 2	**(411)**		
IAS16	**12 413**	12 120	10 898
As reported under IFRS	**(295 795)**	(320 452)	(316 903)
Profit/(loss)			
SA GAAP	**19 162**	(4 060)	
IFRS 2	**(5 706)**		
IAS16 – reduced depreciation	**2 708**	1 222	
IAS16 – deferred taxation	**(260)**		
As reported under IFRS	**15 904**	(2 838)	
Profit/(loss) per share as previously reported (cents)	**29,6**	(6,0)	
Profit/(loss) per share as reported under IFRS (cents)	**29,0**	(4,8)	

Reconciliation of headline earnings

	6 months ended 31 Dec 2005 R'000	Restated 6 months ended 31 Dec 2004 R'000	Restated 12 months ended 30 June 2005 R'000
Profit/(loss) to ordinary shareholders	**1 544**	(2 838)	**14 815**
Capital (profit)/loss on sale of investments		(377)	**7 095**
Impairment of plant and equipment			**88**
(Profit)/loss on sale of plant and equipment	**24**	7	**(2 536)**
Headline earnings	**1 568**	(3 208)	**19 462**
Headline earnings/(loss) per ordinary share (cents)	**2,3**	(4,8)	**29,0**
Fully diluted headline earnings per ordinary share (cents)			**7,8**

Diluted headline earnings per share for the current year and comparative period are nil as it was anti-dilutive. Refer to note 2 to the summarised financials for explanation of how the increase in number of shares was determined.

Commentary on results

Metrofile Holdings profile

Metrofile Holdings is quoted in the "Support Services – Business Support Services" sector of the JSE Limited ("JSE"). The company was previously quoted in the "Information Technology – Software and Computer Services – Software sector".

The business of Metrofile Holdings is its investment of 65% in Metrofile (Pty) Limited.

Metrofile (Pty) Limited is the South African market leader in the management of business records through its 16 storage centres and locations throughout South Africa. It provides full life cycle paper and electronic records management on or offsite, including collation, scanning, digital conversions, physical or electronic preservation and destruction services that satisfy legislation and corporate governance requirements.

Loan notes in Metrofile Holdings and Metrofile (Pty) Limited

Shareholders and loan creditors are reminded of the terms of the loans, and in particular the definitions of events of default and the potential convertibility of some of the loans, as set out in various communications to shareholder and most recently the announcement of 14 March 2006.

Financial review

The results for the period reflect a substantial improvement on the prior year and were ahead of budget. EBITDA of R46,1 million (31 December 2004: R31,1 million) was achieved and the prior year's headline loss of 4,8 cents per share improved to headline earnings of 2,3 cents per share.

The profit for the period was negatively affected by additional provisions of R5,9 million that were raised in Metrofile Holdings for potential creditor claims and R3,9 million for financial instrument exposure in Metrofile (Pty) Limited in terms of *IAS39.*

Revenue was ahead of budget due to improved market penetration and the securing of new government business.

Interest-bearing debt in Metrofile (Pty) Limited totals R330 million, most of which is currently repayable by 4 March 2009. In Metrofile Holdings loan notes and provisions total R121,6 million (excluding inter-group loan notes of R279,2 million).

The consolidated balance sheet reflects an excess of liabilities over assets. It should however be noted that the assets on the consolidated balance sheet are reflected at historical cost. The board regards the group as a going concern for the following reasons:

- The total of the compulsory convertible subordinated loans, the provisions that may become subordinated loans and the estimated value of goodwill and trademarks in Metrofile not reflected in the consolidated balance sheets, are together sufficient to restore commercial solvency.
- The group's cash requirements for debt servicing and capital repayments are satisfactorily covered by the group's current and projected cash flows and the group has unutilised working capital facilities.
- Payments to all trade creditors are up to date.
- Balance sheet assets have been tested for impairment and none is over valued.
- The group is trading in line with budgets.
- Key management is in place with appropriate incentives.

Accounting policies

In terms of the Listings Requirements of the JSE, the interim results have been prepared in accordance with the International Financial Reporting Standards ("IFRS") IAS34 – Interim Financial Reporting, the Listings Requirements of the JSE and the South African Companies Act.

The group has adopted and applied IFRS for the first time for the year ending 30 June 2006.

The transition date is 1 July 2004 ("the transition date"). The group's opening IFRS balance sheet at the transition date and the comparative results for each of the reporting periods have therefore been restated to reflect all statements expected to be applicable at 30 June 2006.

The transitional report contains details of the adjustments effected.

IFRS adjustments implemented

a. **IFRS 2 – Share-based payments**
The disposal of 35% of Metrofile Holdings' investment in Metrofile (Pty) Limited in February 2005 was structured in agreements containing certain call and put options. In terms of IFRS, these transactions should be seen as share-based payments and the group accounted for these transactions as such retrospectively.

b. **IAS16 – Revision of estimated useful lives of property, plant and equipment**
Past interpretation of SA GAAP did not provide for the re-assessment of an asset's useful life and residual value annually. IAS16 requires useful lives and residual values to be reviewed at least at each financial year-end. This resulted in an increase in distributable reserves with a corresponding increase in property, plant and equipment.

Further developments in IFRS reporting

The interim results have been prepared on the basis of the group's expectation of the standards that will be applicable as at 30 June 2006. IFRS information at year-end may differ from the information contained herein as further standards and interpretations may be issued that are applicable for 2006 reporting or which are applicable to later accounting periods but with an option to adopt for earlier accounting periods.

IAS39 – Financial instruments

Future interest charges related to certain interest rate SWAP agreements entered into were accounted for as financial instruments at fair value in the period under review.

Auditors' review opinion

The results have been reviewed by Deloitte & Touche whose review report is available for inspection at the company's registered office. The report contains a matter of emphasis with respect to going concern.

Directorate and corporate governance

Mr Keshan Pillay was appointed to the board of directors during the period under review and the board currently comprises two executive and three non-executive directors.

Dividends

No dividends have been declared for the current period and it is not the intention that any dividends will be declared or paid in the foreseeable future.

Contingent liabilities

SRP/EC-HOLD

Shareholders' attention is drawn to the recent announcement in terms of which a settlement of the dispute with the SRP concerning an offer to be made to the shareholders of EC-Hold Limited was published. The group expects no loss to arise from this process due to indemnities held from third parties but a substantial contingent liability will have been settled.

MGX/Eureka Pension Fund

Based on the actuarial valuation as at 1 July 2004 the full amount of the assets will be transferred to other funds, and this will completely extinguish all liabilities to members. Accordingly, the employers would have no liability in this regard. As at 1 July 2004 the transfers to other funds still had to be approved by the Registrar of Pension Funds. It is believed that approval will be obtained. If approval is received from the Financial Services Board, the contingent liability of R9,1 million will fall away.

Commitments

- Operating lease commitments for the next two years amount to R6,9 million.
- Metrofile (Pty) Limited has committed to certain capital expansion and replacement projects of R8,2 million. This will be funded from free cash flows generated by operating activities.

Post-balance sheet events

No events material to the understanding of the report have occurred in the period between the period end date and the date of the report.

Restructuring and possible rights issue

Now that the EC-Hold matter has been resolved the two remaining legacy issues from the MGX era are the resolution of the pension fund matter referred to above and the quantification of the claims of a creditor for which provisions of R40,3 million have been raised by Metrofile Holdings. The group will then be in a position to complete a final restructuring.

Shareholders are advised that the board is considering various alternatives including a potential rights issue and/or early conversion of Metrofile Holdings loan notes into Metrofile Holdings shares. A prerequisite will be a refinancing of Metrofile (Pty) Limited loan obligations to remove the possible convertibility of two classes of its loan notes.

Shareholders will be advised as soon as the group has clarity on the legacy issues and the refinancing and is able to make a firm proposal to shareholders and loan note holders. It is anticipated that this may take place in the third quarter of 2006.

Prospects

The group expects improved revenue and operating results from Metrofile (Pty) Limited and positive headline earnings per share for Metrofile Holdings for the year to be ended 30 June 2006.

CHRISTOPHER SEABROOKE
Chairman

GRAHAM WACKRILL
CEO

ROY MIDLANE
CFO

31 March 2006
Cleveland
Gauteng

METROFILE HOLDINGS LIMITED
(Incorporated in the Republic of South Africa)
(Registration number 1983/012697/06)
Share code: MFL ISIN: ZAE000061727
(Metrofile Holdings or "the company" or "the group")

GRAPHICOR 34259

Registered office: 3 Gowie Road, The Gables, Cleveland, Johannesburg • **Registration number:** 1983/012697/06 • www.metrofileholdings.com
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Transfer secretaries: Computershare Investor Services Limited, 70 Marshall Street, Johannesburg, 2001
Directors: CS Seabrooke* *(Chairman)*, DE Baloyi*, K Pillay*, SR Midlane, GD Wackrill • **Company secretary:** CD du Plessis * Non-executive