

ISB – INSIMBI – Unaudited Results For The six months ended 31 August 2009

INSIMBI REFRACTORY AND ALLOY SUPPLIES LTD

(Incorporated in the Republic of South Africa)

(Registration No: 2002/029821/06)

Share code: ISB & ISIN code: ZAE000116828

("Insimbi" or "the company")

UNAUDITED RESULTS FOR THE SIX MONTHS ENDED 31 AUGUST 2009 AND DIVIDEND  
ANNOUNCEMENT

- Revenue of R305 million
- Gross profit of R38 million
- Cash generative with good cash management
- Effective working capital management
- Dividend declaration number three of 2c per share

*"We are very pleased with our solid performance in this tough market. Our diverse product portfolio and focus on effective management of our working capital has stood us in good stead during the first half of the financial year. While we expect the next half of the year to continue to be tough and market recovery to be slower than originally thought Insimbi is well placed and ready to take advantage of the upswing already evident in the economy,"* said Pieter Schutte (Chief Executive Officer)

# **CONSOLIDATED INCOME STATEMENT FOR THE PERIOD ENDED 31 AUGUST 2009**

	Unaudited 6 months to 31 August 2009 R'000	Unaudited 6 months to 31 August 2008 R'000	Audited 12 months to 29 February 2009 R'000
Revenue	305 159	584 110	969 041
Cost of sales	(267 144)	(498 964)	(828 847)
<b>Gross profit</b>	<b>38 015</b>	<b>85 146</b>	<b>140 194</b>
Other operating income	535	595	465
Administration expenses	(10 721)	(21 882)	(25 239)
Other operating expenses	(12 100)	(5 002)	(28 484)
<b>Operating profit</b>	<b>15 729</b>	<b>58 857</b>	<b>86 936</b>
Interest received	569	-	525
Finance costs	(4 954)	(3 962)	(11 275)
Profit before share of associated company's loss	11 344	54 895	76 186
Share of associated company's loss	(75)	(175)	(225)
Minority share of subsidiary	-	807	-
<b>Profit before taxation</b>	<b>11 269</b>	<b>55 527</b>	<b>75 961</b>
Taxation	(4 475)	(16 379)	(22 215)
<b>Profit for the year</b>	<b>6 794</b>	<b>39 148</b>	<b>53 746</b>
<b>Attributable to:</b>			
Equity holders of the parent	6 794	39 148	53 746
Minority interest	-	-	-

	Unaudited 6 months to 31 August 2009 R'000	Unaudited 6 months to 31 August 2008 R'000	Audited 12 months to 29 February 2009 R'000
Headline earnings for the group have been computed as follows:			
Profit attributable to ordinary shareholders	6 794	39 148	53 746
Adjusted for loss/(profit) on sale of property, plant and equipment	16	(21)	(97)
Adjusted for impairment of property, plant and equipment	-	-	595
Headline earnings	6 810	39 127	54 244
<b>Number of shares (000's)</b>	260 000	260 000	260 000
Basic and fully diluted: Earnings per share (cents)	2,61	15,06	20,67
Headline earnings per share (cents)	2,62	15,05	20,86

# CONSOLIDATED BALANCE SHEET

	Unaudited As at 31 August 2009 R'000	Unaudited As at 31 August 2008 R'000	Audited As at 29 February 2009 R'000
<b>Assets</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	24 333	18 862	19 394
Goodwill	39 938	41 438	39 938
Investments in associates	-	-	75
Deferred tax	4 126	717	2 724
Other financial assets	-	-	8
	<b>68 397</b>	<b>61 017</b>	<b>62 139</b>
<b>Current Assets</b>			
Inventories	61 659	95 026	72 789
Trade and other receivables	80 815	188 178	89 976
Cash and cash equivalents	16 765	26 767	42 196
Other financial assets	-	1 990	-
Amount owing by group company	14 731	13 970	12 202
	<b>173 970</b>	<b>325 931</b>	<b>217 163</b>
<b>Total Assets</b>	<b>242 367</b>	<b>386 948</b>	<b>279 302</b>
<b>Equity and Liabilities</b>			
<b>Equity</b>			
Share capital	44 442	45 956	44 442
Reserves	78	-	78
Accumulated profit	41 206	43 214	47 412
	<b>85 726</b>	<b>89 170</b>	<b>91 932</b>
<b>Non-Current Liabilities</b>			
Other financial liabilities	57 510	56 036	55 993
Nedbank loan	-	18 000	1 000
	<b>57 510</b>	<b>74 036</b>	<b>56 993</b>
<b>Current Liabilities</b>			
Trade and other payables	90 543	202 465	109 965
Bank overdraft	-	-	8 348
Other financial liabilities	1 163	3 777	1 132
Taxation	7 425	17 500	10 932
	<b>99 131</b>	<b>223 742</b>	<b>130 377</b>
<b>Total Equity and Liabilities</b>	<b>242 367</b>	<b>386 948</b>	<b>279 302</b>

**CONSOLIDATED CASH FLOW STATEMENT**

	Unaudited 6 months to 30 August 2009 R'000	Unaudited 6 months to 30 August 2008 R'000	Audited 12 months to 29 February 2009 R'000
<b>Cash flow from operating activities</b>			
Cash generated from operations	18 898	51 772	112 439
Net interest paid	(4 385)	(5 540)	(10 750)
Taxation paid	(9 609)	(9 391)	(23 799)
Dividends paid	(13 000)	-	(10 400)
<b>Net cash from operating activities</b>	<b>(8 096)</b>	<b>36 841</b>	<b>67 490</b>
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment	(7 439)	(17 557)	(13 291)
Proceeds from disposal of property, plant and equipment	72	678	967
Purchase of Goodwill	-	-	(10 000)
Acquisition of businesses	-	-	(300)
Movements in group company loans	(2 497)	(13 025)	(12 064)
Sale of financial assets	-	-	2 773
Share Buy Back	(23)	-	-
Increase in Share Capital	-	45 956	-
<b>Net cash from investing activities</b>	<b>(9 887)</b>	<b>16 052</b>	<b>(31 915)</b>
<b>Cash flows from financing activities</b>			
Proceeds of share issue	-	-	44 442
Current portion of other financial liabilities	383	-	(25 546)
Other financial liabilities	517	(33 020)	(27 517)
<b>Net cash from financing activities</b>	<b>900</b>	<b>(33 020)</b>	<b>(8 621)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(17 083)</b>	<b>19 873</b>	<b>26 954</b>
Cash and cash equivalents at the beginning of the year	33 848	6 894	6 894
<b>Total cash at the end of the year</b>	<b>16 765</b>	<b>26 767</b>	<b>33 848</b>

STATEMENT OF CHANGES IN EQUITY

	Unaudited 6 months to 30 August 2009 R'000	Unaudited 6 months to 30 August 2008 R'000	Audited 12 months to 29 February 2009 R'000
Share capital*	-	-	-
Share premium			
Issue of shares	44 442	45 956	44 442
Foreign currency translation reserve			
Currency translation differences	78	-	78
Retained earnings			
At beginning of year	47 412	4 066	4 066
Net profit for the year	6 794	39 148	53 746
Dividends paid	(13 000)	(-)	(10 400)
At end of year	41 206	43 214	47 412
Total Equity	85 726	89 170	91 932

\* Share capital equals 260 000 000 of 0.000025cents each = R65

# Condensed segmental report

Set out below is the revenue and gross margin by division.

	Unaudited 6 months to 31 August 2009 R'000	Unaudited 6 months to 31 August 2008 R'000	Audited 12 months to 29 February 2009 R'000
<b>Revenue by division</b>			
Foundry	59 648	146 712	249 914
Non Ferrous	36 574	84 163	120 846
Refractory	8 678	12 319	21 971
Speciality	33 068	36 434	70 158
Steel	59 449	201 433	314 539
Rotary Kiln	47 745	54 051	96 912
Textiles	793	3 644	4 285
KZN	24 146	31 574	70 413
Cape Town	17 612	-	-
Aluminum	15 086	13 780	18 274
Other	2 360	-	1 729
	<u>305 159</u>	<u>584 110</u>	<u>969 041</u>
<b>Gross margin by division</b>			
Foundry	5 696	25 446	41 875
Non Ferrous	3 037	9 067	12 703
Refractory	1 557	1 285	3 501
Speciality	5 325	8 520	16 162
Steel	4 718	24 862	36 796
Rotary Kiln	9 263	7 692	11 604
Textiles	35	(55)	(37)
KZN	3 548	7 333	13 845
Cape Town	1 524	-	-
Aluminum	674	996	2 802
Other	2 638	-	943
	<u>38 015</u>	<u>85 146</u>	<u>140 194</u>

## Income tax charge

Interim period income tax charge is accrued based on the estimated average annual effective income tax rate of 28 per cent.

## Commentary

### Overview

In a tough trading environment, Insimbi produced a solid performance for the six months ended 31 August 2009 with only the internal textile division showing a gross loss. This can be mainly attributed to:

- o Resilient and diversified product portfolio
- o Effective working capital management
- o Efficient distribution and support systems

It is worth noting that due to the abnormal trading environment experienced last year, which saw an exceptionally strong demand for commodities as well as high prices to match, it is difficult to make a direct comparison between this period and the comparative period last year.

### Financial Performance

Group revenue for the period was R305 million. This strong performance was achieved despite the significant slowdown in the market and can be attributed to the company's diverse portfolio and product offering which has seen it withstand the brunt of the economic downturn.

With the drop in demand for commodities, volumes were under considerable strain and had an adverse effect on margins in certain divisions, most notably the steel and foundry divisions while other divisions showed some resilience and even improved margins. A consolidated gross margin of R38 million was achieved for the half year which is down from the R85 million during the same period last year. The decrease in margins is largely a result of lower than average volumes in the foundry, non-ferrous and steel divisions which were negatively impacted by economic conditions. The acquisition of land and buildings comprising warehousing and office space in Atlantis from the company's long standing agent, gave rise to the new division called Cape Town.

Consolidated operations and administration costs have decreased by R4 million to R22.8 million. This can be largely attributed to the smooth performance of the aluminum smelter which experienced a number of teething problems in the first half of 2008 which required significant non-recurring repairs and maintenance expenditure. Operating costs in general have been well controlled. Staff costs remain consistent with the previous period and while no salary increases were awarded during the period under review, no staff have been retrenched either. This is to ensure that we have the necessary skills in place for the anticipated improvement in economic conditions in the short to medium term.

Group operating profit for the period was R15.7 million, down from R58.9 million the previous year. Although economic conditions were severe the company remained profitable. This is testament to the strategy of the business, our strong brand recognition and dedication from staff and management.

Insimbi achieved earnings and headline earnings per share of 2.61 cents and 2.62 cents per share respectively. Whilst this is a substantial drop from the comparative period last year, it is in line with the market.



Over the past year working capital management has been a key focus for Insimbi. The ability to respond quickly and adapt to changing market conditions has ensured effective management of stock holding and the purchasing cycle. Through strict credit controls the company has managed to lower its debtor's days to 37 and stock days to 28. Cash flow remained healthy during the period with cash generated from operations of R18.9 million, prior to any additional outflows. Dividends totalling R13 million were paid out of this free cashflow. Additional outflows including taxation of R9.6 million (including STC of R1.3 million) and a net interest charge of R4.3 million led to a net cash outflow from operating activities of R8.1 million.

As a consequence of effective working capital management, there were no provisions for doubtful debt during the period under review. Group debt was reduced and a Nedbank loan of R18 million repaid in full.

### **Operational Review**

Despite the tough market conditions, Insimbi has remained cash generative due largely to the company's diverse product offering, continued profitability and attention to working capital. The aluminum smelter, which experienced some teething problems last year, continues to operate in a subdued aluminium market resulting from the extremely difficult automotive industry but the signs of recovery are very positive and management remains optimistic on the future of this operation. Revenue in the Specialty division remained robust at R33.1 million largely due to an increase in the product offering.

The steel, foundry and non-ferrous divisions were the worst affected by the economic downturn and all three divisions experienced a slow down due to their customer base operating on a three or four working day week for much of the period under review. While it is expected that there will be some recovery in these industries, the next 12 months will continue to be tough.

The Insimbi Group is committed to BBEEE and is currently working on balancing its scorecard in all 7 areas under the revised codes. However, as the current economic situation has demonstrated, it is paramount that any BBEEE deals are sustainable and strategically sound for all parties involved. Insimbi Thermal Insulation, the industrial heat resistant textile company, is a level 4 contributor in terms of the revised BBEEE codes.

We see positive signs of recovery in Zimbabwe and we remain optimistic about our supply initiatives and offtake agreements with many Zimbabwean customers and suppliers who have been severely effected over the past 5 years

### **Post balance sheet event**

No material fact or circumstance existed post balance sheet date that affects the results being reported.

### **Prospects**

The tough trading conditions are expected to persist into the second half of the financial year with demand and prices remaining subdued although we do believe that there are definite signs of a sustainable and gradual

recovery in our markets across the board. Notwithstanding these tough conditions, Insimbi remains focused on costs and working capital management and maintain a comfortable level of debt.

As a group, we will continue to evaluate strategic acquisitions in various industries which will bring synergies and added value to the group.

With the government infrastructure programme expected to last well beyond 2010 and Insimbi's expanding export potential, ongoing organic growth and new product development, the company is well positioned to benefit from an eventual upswing in the economy.

#### **Basis of preparation of the unaudited results**

The interim consolidated financial results consist of an income statement, balance sheet, statement of changes in equity, condensed cash flow and condensed segment report for the period ended 31 August 2009. The interim financial statements have been prepared in accordance with the Group's accounting policies what are consistent with the previous period. These comply with accounting policies consistent with International Financial Reporting Standards and in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*.

#### **Dividends**

Notice is hereby given that Insimbi has declared an interim dividend (dividend declaration 3) for the six months ended 31 August 2009 of 2 cents per share.

The salient dates applicable to the interim dividend are as follows:

Last day to trade "CUM" dividend	23 October 2009
First day to trade "EX" dividend	26 October 2009
Record date	30 October 2009
Payment date	2 November 2009

No share certificates will be dematerialized or rematerialised between Monday, 26 October 2009 and Friday, 30 October 2009, both days inclusive.

DJ O Connor  
Chairman

P Schutte  
Chief Executive Officer

9 October 2009

**Registered office:** Stand 359 Crocker Road, Wadeville, Germiston, 1422

**Company Secretary:** Rene de Villiers

**Directors:** FBB Abdul Gany, CF Botha, F Botha, EP Liechti, GS Mahlati\*, LY Mashologu\*, PJ Schutte, LG Tessororf, DJ O Connor\*  
(\* non executive)

**Designated Advisor:** PricewaterhouseCoopers Corporate Finance (Proprietary) Limited

**Transfer Secretaries:** Computershare Investor Services (Proprietary) Limited

