ISB – INSIMBI – Unaudited Results For The six months ended 31 August 2010

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 2010 AND DIVIDEND ANNOUNCEMENT

- Revenue of R 412 million
- Gross profit of R 51 million
- Cash generative with good cash management
- Effective working capital management
- Dividend declaration number four of 2c per share

“We are very pleased with the much improved performance in what has proven to be more buoyant but still very volatile market. The improved market conditions, including commodity price increases and higher demand, coupled with our continued focus on effective working capital and cash-flow management has all contributed to our improved performance.

Indications are that the next six months will continue to be volatile and we expect some decreases in demand for certain commodities. The strong Rand is affecting manufacturing in certain sectors and this could slow the economic recovery in these sectors, so we expect that there are some challenges still lying ahead. Despite this, the Group remains optimistic about it’s prospects and we maintain our strong position in our target markets. We are also very excited by the acquisition of Metlite and Metalloy Fibres and with the continued economic recovery, we believe we will be able to optimise our full potential,” said Pieter Schutte (Chief Executive Officer)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 AUGUST 2010

	Unaudited 6 months to 31 August 2010 R'000	Unaudited Restated 6 months to 31 August 2009 R'000	Audited Restated 12 months to 28 February 2010 R'000
Revenue	412 043	305 159	611 631
Cost of sales	(360 954)	(267 144)	(534 854)
Gross profit	51 089	38 015	76 777
Other operating income	15 588	535	1 205
Other operating expenses	(22 248)	(12 175)	(30 093)
Administration expenses	(15 594)	(10 721)	(21 092)
Operating profit	28 835	15 654	26 797
Interest received	479	569	1 087
Finance costs	(5 818)	(4 954)	(10 142)
Profit before taxation	23 496	11 269	17 742
Taxation	(6 513)	(4 475)	(7 100)
Profit for the year	16 983	6 794	10 642
Other comprehensive income:			
Currency translation differences	72	-	56
Other comprehensive income for the year net of tax	72	-	56
Total comprehensive income for the year	17 055	6 794	10 698
Attributable to:			
Equity holders	17 055	6 794	10 698

Headline earnings for the group have been computed as follows:	Unaudited 6 months to 31 August 2010 R'000	Unaudited Restated 6 months to 31 August 2009 R'000	Audited Restated 12 months to 28 February 2010 R'000
Profit attributable to ordinary shareholders	17 055	6 794	10 698
Adjusted for loss on sale of property, plant and equipment	-	16	22
Adjusted for negative goodwill	(11 037)	-	-
Adjusted for impairment of goodwill	2 880	-	-
Headline earnings for the group	8 898	6 810	10 720
Basic attributable earnings per share are calculated by dividing the net profit attributable to shareholders by the number of shares in issue during the year			
Number of shares in issue at the end of the year	260 000	260 000	260 000
Less: treasury shares held in a subsidiary at the end of the year	(342)	(34)	(342)
	259 658	259 966	259 658
Basic and fully diluted:			
Earnings per share (cents)	6,57	2,61	4,12
Headline earnings per share (cents)	3,43	2,62	4,13

CONSOLIDATED STATEMENT OF FINANCE POSITION AT 31 AUGUST 2010

	Unaudited As at 31 August 2010 R'000	Unaudited Restated As at 31 August 2009 R'000	Audited Restated As at 28 February 2010 R'000
Assets			
Non-Current Assets			
Property, plant and equipment	42 679	24 333	23 277
Intangible asset	2 500	-	-
Goodwill	36 938	39 938	39 938
Investments in subsidiaries	-	-	-
Deferred tax	3 195	4 126	4 180
	85 312	68 397	67 395
Current Assets			
Inventories	67 598	61 659	54 883
Other financial assets	-	-	453
Taxation	-	-	283
Trade and other receivables	109 580	83 634	101 570
Cash and cash equivalents	36 540	16 765	27 177
	213 718	162 058	184 366
Total Assets	299 030	230 455	251 761
Equity and Liabilities			
Equity			
Share capital and premium	44 442	44 442	44 442
Reserves	62	78	134
Retained earnings	45 653	29 325	28 598
Treasury shares	(238)	(31)	(238)
	89 919	73 814	72 936
Non-Current Liabilities			
Borrowings	38 932	57 510	42 222
	38 932	57 510	42 222
Current Liabilities			
Current portion of borrowings	35 566	1 163	32 174
Taxation	6 497	7 425	6 094
Trade and other payables	128 116	90 543	98 335
	170 179	99 131	136 603
Total Equity and Liabilities	299 030	230 455	251 761

CONSOLIDATED CASH FLOW STATEMENT

	Unaudited 6 months to 30 August 2010 R'000	Unaudited Restated 6 months to 30 August 2009 R'000	Audited Restated 12 months to 28 February 2010 R'000
Cash flows from operating activities			
Cash generated from operations	30 373	16 401	24 907
Investment revenue	478	567	1 087
Finance costs	(4 482)	(4 952)	(10 142)
Taxation paid	(5 125)	(9 609)	(12 898)
Net cash generated from operating activities	21 244	2 407	2 954
Cash flow from investing activities			
Purchase of property, plant and equipment	(5 000)	(7 439)	(8 060)
Sale of property, plant and equipment	-	72	240
Purchase of businesses	(6 982)	-	-
Purchase of treasury shares	-	(23)	(230)
Net cash utilized in investing activities	(11 982)	(7 390)	(8 050)
Cash flows from financing activities			
Decrease in long term borrowings	(3 290)	517	(13 771)
Increase in current portion of borrowings	9 284	383	24 504
Dividends paid	-	(13 000)	(18 200)
Net cash generated from/(utilized in) financing activities	5 994	(12 100)	(7 467)
Net increase/(decrease) in cash and cash equivalents	15 256	(17 083)	(12 563)
Cash and cash equivalents at the beginning of the year	21 285	33 848	33 848
Total cash at the end of the year	36 541	16 765	21 285

STATEMENT OF CHANGES IN EQUITY

	Unaudited 6 months to 30 August 2010 R'000	Unaudited 6 months to 30 August 2009 R'000	Audited 12 months to 28 February 2010 R'000
Share capital*	-	-	-
Share premium			
Issue of shares	44 442	44 442	44 442
Treasury shares			
Purchase of shares by subsidiary (Note 2)	**(238)**	**(31)**	**(238)**
Reserves			
Currency translation differences	62	78	134
Retained earnings			
At beginning of year as previously reported	28 598	47 412	36 156
Prior year adjustment – equity	-	(9 100)	-
Restated balance at beginning of year	28 598	38 312	36 156
Net profit for the year	17 055	6 794	10 642
Dividends paid	-	(13 000)	(18 200)
At end of year	45 653	32 106	28 598
Total Equity	89 919	76 595	72 936

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

CONDENSED SEGMENT REPORT

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

	Unaudited 6 months to 31 August 2010 R'000	Unaudited 6 months to 31 August 2009 R'000	Audited 12 months to 28 February 2010 R'000
Revenue by division			
Foundry	83 984	59 648	122 670
Steel	100 439	59 449	153 530
Non Ferrous	45 372	36 574	63 941
Rotary Kiln	24 956	47 745	74 789
Refractory	6 640	8 678	15 562
Textiles	6 583	793	7 708
Speciality	30 808	33 068	50 914
KZN	23 161	24 146	47 722
Cape Town	26 304	-	43 688
Mechanical	9 978	-	16 735
Aluminium	45 728	-	13 271
Other	8 089	35 058	1 101
	412 043	305 159	611 631
Gross margin by division			
Foundry	9 684	5 696	12 476
Steel	6 494	4 718	10 992
Non Ferrous	4 156	3 037	12 481
Rotary Kiln	3 699	9 263	10 150
Refractory	1 006	1 557	1 519
Textiles	1 624	35	1 638
Speciality	4 734	5 325	8 289
KZN	4 596	3 548	7 003
Cape Town	4 204	-	4 240
Mechanical	2 677	-	3 681
Aluminium	6 625	-	4 310
Other	1 589	4 836	(2)
	51 090	38 015	76 777

EFFECT OF THE RESTATEMENTS ON THE PRIOR YEAR RESTATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 AUGUST 2010

	Unaudited Previously Reported 6 months to 31 August 2009 R'000	Restatements R'000	Unaudited Restated 6 months to 31 August 2009 R'000
Other operating expenses	(12 100)	(75)	(12 175)
Share of associated company's profit	(75)	75	-

CONSOLIDATED STATEMENT OF FINANCE POSITION AT 31 AUGUST 2010

	Un audited Previously Reported As at 31 August 2009 R'000	Restatements R'000	Un audited Restated As at 31 August 2009 R'000
Trade and other receivables	80 815	2 850	83 634
Amount owing by group company	14 731	(14 731)	-
Retained earnings	(41 206)	11 881	(29 325)

IMPACT OF THE RESTATEMENTS (UNAUDITED)

Insimbi Thermal Insulations (Proprietary) Limited was incorrectly recognized as an associate and is adjusted to be consolidated as a wholly owned subsidiary.

	2009 R'000
Other operating expenses	75
Share of associated company's profit	(75)
Trade and other receivables	5 631
Amount owing by group company	(5 631)

During the 2008 financial year, a dividend paid and declared was incorrectly recognized as a loan and is not recorded within retained earnings

	2009 R'000
Amount owing by group company	(9 100)
Retained earnings	9 100

An FEC asset created for the year ended February 2008 was not subsequently reversed as it had matured.

	2009 R'000
Trade and other receivables	(2 781)
Retained earnings	2 781

Overview

While our trading environment has definitely improved, it is still very volatile and challenging but Insimbi produced a solid performance for the six months ended 31 August 2010. This can be mainly attributed to:

- Price increases on some commodities
- Improved market conditions and demand
- Effective management of working capital

It is worth noting that the unusual market conditions of the preceding 2 years, have subsided and while certain commodities are still under pressure with regard to pricing and demand, markets have stabilized in certain sectors and this has contributed to our improved performance.

Financial Performance

Group revenue for the period was R412 million compared to R305 million for the corresponding period last year, a 35.1% increase in revenues. This improved performance was achieved on the back of recovering markets and commodity prices. The group has also continued to diversify our portfolio and product offering and focus on our continued high quality service offering, to our client base.

Demand for our products has increased when compared to the corresponding period ended 31 August 2009, with the exception of our Rotary and Refractory divisions which have historically lagged the steel and foundry cycles by up to 6 months. A consolidated gross margin of R51 million for the period was achieved compared to R38 million during the same period last year. This is a 34.3% increase in gross margin and margins have remained resilient at 12.4% when compared to 12.5% for the same period last year. This is very pleasing when one considers the comparative strength of the rand during the period under review when compared to the same period last year.

Consolidated operations and administration costs have increased by R15.5 million to R37.8 million as a result of the following:

- Overheads associated with the acquisition of Metlite and Metalloy Fibres
- Goodwill impairment
- Consolidation of Insimbi Thermal Insulation (Pty)Ltd previously equity accounted
- Professional Fees
- Lower overhead recoveries

Other than items highlighted above operating costs have in general, been well controlled. Staff costs remain consistent with the previous period.

Group operating profit for the period was R28.8 million compared to R15.7 million for the corresponding period, an 84.2% increase in operating profit on the previous corresponding period.

Insimbi achieved earnings and headline earnings per share of 6.57 cents and 3.43 cents per share respectively compared to 2.61 cents and 2.62 cents per share respectively, in the previous comparative period. This is a 151.7% and 30.9% increase on the previous comparative period, respectively.

Working capital management and cash-flow has remained a key focus for Insimbi and we have responded to changing market conditions effectively. This has ensured strong cash-flows throughout the period with cash generated from operations of R11.5 million compared to R2.4 million in the previous interim period. No Dividends were declared or paid during the 6 months ending 31 August 2010. Finance costs have reduced from R4.95 million to R4.48 million for the interim periods ended 31 August 2009 and 2010, respectively.

Cash and cash equivalents at 31 August 2010 were R36.5 million compared to R16.8 million at 31 August 2009, an improvement in cash position of R19.7 million.

As a consequence of effective working capital management, there were no provisions for doubtful debt during the period under review. Long term Group debt was reduced by R18.6 million to R38.9 million at 31 August 2010.

Operational Review

Insimbi has remained cash generative throughout the volatile period under review due to the Group’s diverse product offering, continued profitability and attention to working capital.

The steel, foundry and non-ferrous divisions have showed strong signs of recovery although there is still some uncertainty in these markets. However we remain confident that the recovery will be sustainable.

The cement industry has experienced difficult trading conditions but we did anticipate this and budgeted accordingly for the current financial year. Infrastructure spend continues to be disappointing but expectations in the market are that this will accelerate in the short term. Commodity prices in general are showing strong recovery although this has been offset to a small degree, by the strength of the Rand.

The Insimbi Group is committed to BBEEE and is currently rated as a Level 7 contributor. We continue to strive for a higher rating and believe this is achievable in time.

Post balance sheet event

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

Prospects

Although market conditions have improved in the first half of 2010, indications are that the next six months will continue to be volatile and challenging in certain market sectors. The strong rand is having a negative effect on certain industries and we have seen some reduction in demand for certain commodities, as a result. Notwithstanding this, Insimbi remains focused on expanding it’s “basket” of products and remaining as the market leader in the ferro-alloys, refractories and mechanical maintenance arenas. Cost and working capital management, remain a priority as well.

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

Business combinations

Insimbi Alloy Supplies (Proprietary) Limited (“Insimbi Alloys”) and Insimbi Alloy Properties (Proprietary) Limited (“Insimbi Properties”), both wholly owned subsidiary companies of Insimbi, have concluded separate agreements whereby, with effect from 13 July 2010, they respectively acquired, the entire issued share capitals of and claims on loan accounts against Metlite Alloys and Metlite Properties.

The acquired businesses contributed revenues of R 14,2 million and net profit after tax of R 742 000 to the group for the period from acquisition to 31 August 2010.

Details of net assets acquired and goodwill are as follows:

Total purchase consideration	10 892
Fair value of net identifiable assets acquired	(26 222)
Negative goodwill	(15 330)

The assets and liabilities arising from the acquisition are as follows:

	Fair Value
Property, plant and equipment	18 684
Intangible asset	2 500
Inventories	3 557
Trade and other receivables	7 392
Cash and cash equivalents	1 207
Trade and other payables	(7 027)
Identifiable assets acquired	26 313

Outflow of cash to acquire business, net of cash acquired

- cash consideration	10 892
- cash and cash equivalents in subsidiary acquired	(1 207)
Cash outflow on acquisition	9 685

Basis of preparation of the unaudited results

The interim consolidated financial results consist of a statement of comprehensive income, statement of financial position, statement of changes in equity, condensed statement of cash flows and condensed segment report for the period ended 31 August 2010. The interim financial results have been prepared in accordance with International Financial Reporting Standards (IFRS), IAS 34 Interim Financial Reporting, JSE Listing Requirements and the Companies Act of South Africa, incorporating the AC 500 series of Accounting Standards. The accounting policies are consistent with those applied in the prior year.

The company's auditors, PricewaterhouseCoopers Inc, have not reviewed or audited these results for the six month ended 31 August 2010, nor the results and restatements to 31 August 2009.

Secretary

R de Villiers resigned on effective 22 April 2010. K Holtzhausen was appointed in this position effective 7 June 2010.

Dividends

Notice is hereby given that Insimbi has declared an interim dividend (dividend declaration 4) for the six months ended 31 August 2010 of 2 cents per share.

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

Last day to trade “CUM” dividend	22 October 2010
First day to trade “EX” dividend	25 October 2010
Record date	29 October 2010
Payment date	1 November 2010

No share certificates will be dematerialized or rematerialised between Monday, 25 October 2010 and Friday, 29 October 2010, both days inclusive.

DJ O Connor
Chairman

P Schutte
Chief Executive Officer

8 October 2010

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

Company Secretary: Kristell Holtzhausen

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

Designated Advisor: PricewaterhouseCoopers Corporate Finance (Proprietary) Limited

Transfer Secretaries: Computershare Investor Services (Proprietary) Limited