INSIMBI

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" or "the group")

UNAUDITED CONSOLIDATED CONDENSED FINANCIAL RESULTS

for the six months ended 31 August 2012

Key financial indicators

- Revenue increased by 8.3% to R491 million compared to the previous period.
- Operating costs increased by 6.7 %.
- Gross profit increased by 8.6% to R52.1 million, evidencing improved margins for the period under review.
- Profit before taxation is 13.8% higher when compared to the results for the same reporting period in the previous year.
- EPS was up by 13.4% when compared to the results for the same reporting period in the previous year.
- HEPS up by 13.2%.
- Operations generated R27.6 million cash in the 6 months to 31 August 2012 compared to R36 million in the previous comparative period.
- Tangible NAV up by 9.5% on comparative period and 15.1% on February 2012.
- A final dividend in respect of the year ended 29 February 2012 of 1 cent per share was declared and paid during the period under review. The group has declared an interim dividend of 2 cents per share for the period ending 31 August 2012.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited as at 31 August 2012 R'000	Unaudited as at 31 August 2011 R'000	Audited as at 28 February 2012 R'000
Revenue	**491 082**	453 592	844 717
Cost of sales	**(438 959)**	(405 610)	(751 256)
Gross profit	**52 123**	47 982	93 461
Other income	**60**	–	305
Operating expenses	**(32 530)**	(30 492)	(64 566)
Operating profit	**19 653**	17 490	29 200
Investment income	**111**	257	575
Finance costs	**(3 508)**	(3 467)	(7 314)
Profit before taxation	**16 256**	14 280	22 461
Taxation	**(4 215)**	(3 554)	(6 827)
Profit for the year	**12 041**	10 726	15 634
Other comprehensive income for the year	**–**	9	5
Total comprehensive income for the year	**12 041**	10 735	15 639
Total comprehensive income attributable to:			
Owners of the parent	**12 041**	10 735	15 639
Basic and fully diluted earnings per share	**4.74**	4.18	6.07

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited as at 31 August 2012 R'000	Unaudited as at 31 August 2011 R'000	Audited as at 28 February 2012 R'000
ASSETS			
Non-current assets			
Property, plant and equipment	**35 921**	34 713	34 672
Intangible assets	**41 175**	38 438	39 606
Deferred taxation	**4 523**	3 997	3 914
	81 619	77 148	78 192
Current assets			
Inventories	**79 514**	77 349	72 753
Trade and other receivables	**123 342**	106 403	120 864
Other financial assets	**644**	–	–
Taxation receivable	**495**	389	2 291
Cash and cash equivalents	**37 446**	21 112	36 506
	241 441	205 253	232 414
Total assets	**323 060**	282 401	310 606
Equity and liabilities			
Equity	**96 014**	88 990	87 863
Total liabilities	**227 046**	193 411	222 743
Total equity and liabilities	**323 060**	282 401	310 606

Overview

The interim period ended 31 August 2012 has shown steady revenue growth and gross margins have been maintained during this period against a background of the continued depressed global and in particular, European markets. Strikes and uncertainty in the mining sector in the second financial quarter of our financial year have created some challenges in obtaining a consistent supply of certain products and the group is continuously looking for new sources of product to ensure ongoing supply to its customers. It is pleasing to note that in spite of the above, the performance of the group during the 6 months ending 31 August 2012, has been positive and with careful management of costs the group has managed to increase attributable earnings by 12.2% compared to the previous period.

The weaker rand and improving commodity prices have contributed towards an improved performance in the first half of the financial year and we have seen growth of nearly 30% in exports when compared to the previous financial year. This has been mainly into Eastern Europe and Africa.

Insimbi continued to generate strong operating cash flows during the period under review and the board has approved a 2 cent per share interim dividend distribution after conservatively assessing all the factors relevant to this decision, including the macro-economic and business outlook.

Financial performance

Group revenue for the period was R491 million, 8.2% up on the R453 million achieved in the comparative period ending 31 August 2011 and 19% up on the R412 million achieved in the comparative period ending 31 August 2010. The sales performance was steady considering the extended downturn in global economic conditions and the continued downward pressure in certain market sectors, most notably the steel segment.

This improved performance is attributed to improved market conditions in our Foundry and Cement segments and the growth in exports. Gross profit was R52.1 million, 8.6% up on the R47.9 million achieved for the period ending 31 August 2011. Margins have been maintained and even show a slight improvement despite pressure on pricing across the board. The diversity within the group's product range and target markets has again proven to be invaluable in producing sustainable results in what is turning out to be an even more protracted global and local economic downturn than originally anticipated. Competition is fierce and we continue to defend our markets aggressively against competition. This includes implementing flexible pricing policies, introduction of innovative new products and continued high service levels.

Group operating profit is 11.9% up on the previous period ending 31 August 2011 and 22.9% up on 2010.

Group operating costs have been well controlled during the period under review and at R32.5 million are 6.7% higher than the corresponding period last year.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited as at 31 August 2012 R'000	Unaudited as at 31 August 2011 R'000	Audited as at 28 February 2012 R'000
Cash flow from operating activities			
Cash generated from operations	**27 600**	36 096	41 217
Investment income	**111**	257	575
Finance costs	**(3 508)**	(3 467)	(7 314)
Tax paid	**(5 655)**	(2 885)	(8 030)
Net cash inflow from operating activities	**18 548**	30 001	26 448
Cash flow from investing activities			
Purchase of property, plant and equipment	**(4 336)**	(973)	(5 828)
Proceeds on disposal of property, plant and equipment	**75**	–	383
Development costs capitalised	**(1 569)**	–	(1 168)
Settlement of financial assets	**(1 551)**	–	495
Net cash utilised from investing activities	**(7 381)**	(973)	(6 118)
Cash flow from financing activities			
Repayment of other financial liabilities	**(6 314)**	(40 987)	(5 556)
Dividends paid	**(2 539)**	–	(5 200)
Repurchase of treasury shares	**(1 351)**	(1 504)	(2 325)
Net cash outflow from financing activities	**(10 204)**	(42 491)	(13 081)
Net movement in cash for the period/year	**963**	(13 463)	7 249
Cash and cash equivalents at the beginning of the period/year	**36 483**	29 237	29 234
Cash and cash equivalents at the end of the period/year	**37 446**	15 774	36 483

CONDENSED SEGMENT REPORT

	Unaudited as at 31 August 2012 R'000	Unaudited as at 31 August 2011 R'000	Audited as at 28 February 2012 R'000
Revenue by segment			
Foundry	**304 323**	288 364	541 165
Steel	**128 632**	123 802	215 738
Refractory	**58 127**	41 426	87 814
	491 082	453 592	844 717
Gross profit by segment			
Foundry	**32 995**	30 714	59 473
Steel	**12 195**	11 282	22 436
Refractory	**6 933**	5 986	11 552
	52 123	47 982	93 461
Operating profit by segment			
Foundry	**4 754**	4 186	3 506
Steel	**10 894**	10 062	19 804
Refractory	**4 005**	3 242	5 890
	19 653	17 490	29 200

Group finance costs are 1% higher and group profit before taxation is 13.8% higher than the corresponding period ended 31 August 2011.

Insimbi achieved group EPS and HEPS of 4.74 and 4.72 cents per share respectively compared to 4.18 and 4.16 cents per share in the previous comparative period. This equates to a 13.4% increase in EPS and a 13.5% increase in HEPS respectively.

Working capital management and cash flow has continued to be a key focus area for Insimbi and we have responded to changing market conditions effectively. This has ensured strong cash flows throughout the period with R27.6 million cash generated from operations.

Operational review

The Foundry segment has continued to show pleasing growth of 6% in the new financial year despite the challenges that have faced mining and infrastructure sectors during this period. Government commitment to infrastructure uplift and improvement is still not translating into an actual "spend" and this continues to concern us generally. However, this segment has proven historically to be an accurate "indicator" of how well the economy is doing and we are confident that we will see sustainable growth in the future.

The Steel segment's performance is concerning and steel and stainless steel global outlook remains subdued. However, this notwithstanding, it achieved growth of 4% on the same period last year and improved margins.

The Refractory segment has shown very pleasing revenue growth of 40% when compared to the same period in 2011 albeit at slightly reduced margins and confirms our previous statements that it tends to lag between 6 and 9 months behind the steel "cycle". Our major concern continues to be the apparent inability of government to actually implement the infrastructure upgrade initiatives provided for in the Ministry of Finance's 2012/2013 budget.

Insimbi has remained strongly cash generative throughout the period under review due to the group's diverse product offering, continued profitability and attention to working capital management.

The Insimbi Group remains committed to BBBEE and has improved its rating from a Level 7 to a Level 6 contributor. We continue to strive for a higher rating but are largely dependent on our large suppliers themselves, being officially rated which will enable us to improve our rating, unfortunately many of these suppliers are not able to provide us with rating certificates and this negatively impacts on our procurement scorecard.

Prospects

Despite the continued uncertainty in the global economy and the labour instability locally, Insimbi continues to grow our revenues and profits by an innovative and diverse offering of products and services. We anticipate the second half of the year will prove to be more challenging than the first half mainly due to the strike actions in September and the traditional industrial shutdowns in December and January, however, at this stage, we have had no indications of extended shutdowns as has happened in previous years.

We remain confident that our secondary aluminium smelter in Johannesburg will be in production imminently and that our investment into our new nano milling (or micronisation) technology will start to generate sustainable revenue and profit streams in the second half of the year, both later than we had originally anticipated but with these types of investments, there are always unexpected hurdles that delay the start of operations and ours proved to be no different. However, we believe that we have now perfected the requirements for both these operations and expect production to commence within the next month at both. This is expected to generate new business in the remainder of the financial year to offset any potential negative impacts of the strike actions and holidays. Our confidence in our traditional African and other emerging target markets, remains strong and our dependence on the North American and sovereign European markets continues to diminish.

We remain cautiously optimistic about the outlook for the rest of the year and we actively seeking suitable strategic acquisitive targets to ensure that we can achieve growth beyond organic growth.

OTHER GROUP SALIENT FEATURES

	Unaudited as at 31 August 2012 R'000	Unaudited as at 31 August 2011 R'000	Audited as at 28 February 2012 R'000
Headline earnings per share:			
Number of weighted shares in issue at the end of the period/year	**260 000**	260 000	260 000
Less: treasury shares held in a subsidiary at the end of the year	**(5 812)**	(3 332)	(2 484)
	254 188	256 668	257 516
Profit attributable to ordinary shareholders	**12 041**	10 735	15 634
Adjusted for (profit)/loss on sale of property, plant and equipment	**(47)**	(48)	(199)
Headline earnings for the group	**11 994**	10 687	15 435
Basic and fully diluted headline earnings per share (cents)	**4.72**	4.16	6.00
Dividends per share	**3.00**	–	2.00
Net asset value per share (cents)	**37.77**	34.67	34.12
Tangible net asset value per share (cents)	**21.57**	19,69	18.74
Depreciation	**3 087**	2 444	4 749
Capital expenditure	**4 336**	1 034	5 828
Commitments: Operating Leases	**6 762**	7 442	6 256
Related party transactions			
Management fees paid to Insimbi Holdings (Proprietary) Limited	**4 295**	3 745	7 307

CAPITAL COMMITMENTS

	Unaudited as at 31 August 2012 R'000	Unaudited as at 31 August 2011 R'000	Audited as at 28 February 2012 R'000
Capital expenditure authorised and contracted			
Property, plant and equipment	**13 500**	–	13 500

R13.5 million relates to the KwaZulu-Natal warehousing facility at Teakwood Road, Jacobs. A refundable deposit of R2.7 million has already been paid. A mortgage bond has been approved by Nedbank Limited

Accounting policies

The condensed consolidated financial statements for the interim period ended 31 August 2012 have been prepared in accordance with International Financial Reporting Standards (IFRS), IAS 34, the AC 500 series of accounting standards, JSE listing Requirements and the Companies Act of South Africa, and prepared under the supervision of the Financial Director, Frederick Botha CA (SA). The accounting policies are consistent with those applied in the annual financial statements for the previous year.

Contingencies

The company does not have any material contingencies.

Post balance sheet event

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

Dividends

Final dividend No. 6 of 1 cent per share was declared on 28 May 2012, payable to shareholders registered on 29 June 2012. The total payout was R2 539 036 (R2011: nil).

An interim gross dividend of 2 cents per share has been declared on 1 October 2012. There are 260 000 000 ordinary shares in issue at announcement date, of which 7 439 507 are held in treasury and the total dividend amount payable is R5 051 210 (2011: R5 200 000).

This is a dividend as defined in the Income Tax Act, 1962, and is payable from income reserves. The South African dividend tax (DT) rate is 15% and no credits in terms of secondary tax on companies have been utilised. The net amount payable to shareholders who are not exempt from DT is 1.70 cents per share, while it is 2.0 cents per share to those shareholders who are exempt from DT. The income tax reference number of the company is 9 078 488 153.

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

Last day to trade cum dividend	Friday, 2 November 2012
First day to trade ex dividend	Monday, 5 November 2012
Record date	Friday, 9 November 2012
Payment date	Monday, 12 November 2012

No share certificates will be dematerialised or rematerialised between Monday, 5 November 2012 and Friday, 9 November 2012, both days inclusive.

Shares repurchased by a subsidiary since the year end and held in treasury amounted to 2 563 783 (2011: 2 990 124), which brings the total number of treasury shares to 7 439 507 (2011: 3 331 824).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R'000	Share capital	Share premium	Treasury shares	Foreign Currency Translation Reserves	Distributable Reserve	Total Equity
Balance at 31 August 2011 (unaudited)*	–	44 442	(1 732)	163	46 117	88 990
Total comprehensive income	–	–	–	(4)	4 909	4 905
Share-based payments	–	–	–	–	–	–
Dividend paid	–	–	–	–	(5 200)	(5 200)
Net movement in treasury shares	–	–	(832)	–	–	(832)
Balance at 29 February 2012 (audited)	**–**	**44 442**	**(2 564)**	**159**	**45 826**	**87 863**
Total comprehensive income	**–**	**–**	**–**	**–**	**12 041**	**12 041**
Dividend paid	**–**	**–**	**–**	**–**	**(2 539)**	**(2 539)**
Net movement in treasury shares	**–**	**–**	**(1 351)**	**–**	**–**	**(1 351)**
Balance at 31 August 2012 (unaudited)	**–**	**44 442**	**(3 915)**	**159**	**55 328**	**96 014**

* Share capital is equal to 260 000 000 shares at 0.000025 cents each = R65

Approval:

DJ O Connor — Chairman
P Schutte — Chief Executive Officer
5 October 2012

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

Company Secretary: Kristell Holtzhausen

Directors: CF Botha, F Botha (Financial Director), EP Liechti, GS Mahlati*, LY Mashologu*, DJ O Connor*, PJ Schutte (Chief Executive Officer), LG Tessendorf. (* indicates non executive)

Sponsor: Bridge Capital Advisors (Proprietary) Limited

Transfer Secretaries: Computershare Investor Services (Proprietary) Limited