



# SEARDEL

INVESTMENT CORPORATION LIMITED

("Sear del" or "the Group")

# AUDITED CONSOLIDATED CONDENSED RESULTS

FOR THE YEAR ENDED 31 MARCH 2010

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Audited at 31 March 2010	Audited at 31 March 2009
<b>ASSETS</b>		
<b>Non-current assets</b>	963 056	1 031 644
Property, plant and equipment	906 162	969 526
Intangible assets	3 933	21 490
Other investments	3 026	1 442
Long-term receivables	34 760	35 412
Deferred tax asset	15 175	3 774
<b>Current assets</b>	1 246 895	1 558 351
Non-current assets held for sale	81 725	26 818
Inventories	501 354	754 354
Trade and other receivables	583 089	769 100
Current tax asset	44	129
Cash and cash equivalents	80 683	7 950
<b>Total assets</b>	2 209 951	2 589 995
<b>EQUITY AND LIABILITIES</b>		
<b>Total equity</b>	1 291 949	1 409 413
Share capital and share premium	303 969	303 969
Treasury shares	(14 610)	(14 610)
Reserves	1 001 989	1 119 590
Total equity attributable to equity holders	1 291 348	1 408 949
Non-controlling interest	601	464
<b>Non-current liabilities</b>	78 466	257 099
Deferred tax liability	6 919	7 420
Post-employment medical aid benefits	65 297	80 831
Interest-bearing liabilities	1 945	168 397
Operating lease accruals	4 305	451
<b>Current liabilities</b>	839 536	923 483
Current tax liabilities	3 074	3 532
Post-employment medical aid benefits	4 428	4 346
Interest-bearing liabilities	186 173	40 357
Provisions	17 770	12 057
Deferred royalty payment	–	45 172
Trade and other payables	431 211	558 359
Bank overdrafts	196 880	259 660
<b>Total liabilities</b>	918 002	1 180 582
<b>Total equity and liabilities</b>	2 209 951	2 589 995
<b>Net asset value (excluding intangible assets)</b>	1 287 415	1 387 459
<b>Net asset value (excluding intangible assets) per share after treasury shares (cents)</b>	183	197

## STATISTICS PER SHARE

	Audited for the year ended 31 March 2010	Audited for the 9 months ended 31 March 2009
In cents, where applicable		
<b>Net number of shares in issue ('000)</b>	702 946	702 946
<b>Weighted average number of shares</b>	702 946	443 253
<b>Diluted weighted average number of shares</b>	737 346	443 253
<b>Basic loss per share</b>	(29.0)	(63.0)
Continuing operations	0.1	(28.3)
Discontinued operations	(29.1)	(34.7)
<b>Diluted loss per share</b>	(27.6)	(63.0)
Continuing operations	0.1	(28.3)
Discontinued operations	(27.7)	(34.7)
<b>Headline loss per share</b>	(22.2)	(45.6)
Continuing operations	–	(18.7)
Discontinued operations	(22.2)	(26.9)
<b>Diluted headline loss per share</b>	(21.2)	(45.6)
Continuing operations	–	(18.7)
Discontinued operations	(21.2)	(26.9)
<b>Headline loss</b>	(156 002)	(201 920)
<b>Reconciliation between loss and headline loss</b>		
Loss attributable to equity holders of the parent	(203 593)	(279 344)
Impairment of assets	62 313	82 522
Reversal of impairment of assets	(32 714)	–
Insurance claim for capital asset	(74)	(55)
Surplus on disposal of property, plant and equipment	(4 045)	(7 733)
Negative goodwill	–	(926)
Loss on disposal of property, plant and equipment	22 111	3 616

## CONSOLIDATED CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	Audited for the year ended 31 March 2010	Audited for the 9 months ended 31 March 2009 (restated)
<b>Revenue</b>	2 586 923	2 169 584
<b>Gross profit</b>	612 325	430 189
<b>Operating profit/(loss) before impairments and restructuring and retrenchment costs</b>	42 616	(49 072)
Net impairment of assets	646	(47 510)
Restructuring and retrenchment costs	(5 304)	(20 730)
<b>Operating profit/(loss) before finance costs for continuing operations</b>	37 958	(117 312)
Finance income	22 563	18 859
Finance expenses	(58 438)	(57 112)
Share of losses from joint venture	–	(2 503)
<b>Profit/(loss) before taxation for continuing operations</b>	2 083	(158 068)
Income tax expense	(1 211)	27 470
<b>Profit/(loss) for the period from continuing operations</b>	872	(130 598)
Loss for the period from discontinued operations	(204 328)	(153 962)
<b>Loss for the period</b>	(203 456)	(284 560)
<b>Other comprehensive income:</b>		
Fair value adjustment on available-for-sale financial assets	2 755	(828)
Revaluation of land and buildings	81 972	(6 535)
Post-employment medical benefit – actuarial gain	1 265	5 944
<b>Other comprehensive income/(loss) for the period</b>	85 992	(1 419)
<b>Total comprehensive loss for the period</b>	(117 464)	(285 979)
<b>Loss attributable to:</b>		
Equity holders of the parent	(203 593)	(279 344)
Non-controlling interests	137	(5 216)
	(203 456)	(284 560)
<b>Total comprehensive loss attributable to:</b>		
Equity holders of the parent	(117 601)	(280 763)
Non-controlling interests	137	(5 216)
	(117 464)	(285 979)

## CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS

	Audited for the year ended 31 March 2010	Audited for the 9 months ended 31 March 2009
<b>Net cash flow from operating activities</b>	148 976	(162 149)
Operating profit/(loss) before finance costs from continuing operations	37 958	(117 312)
Operating loss before finance costs from discontinued operations	(182 081)	(124 580)
Loss for the period before finance costs	(144 123)	(241 892)
Adjustments for:		
Depreciation and amortisation	47 250	46 011
Net unrealised foreign exchange losses	11 458	15 822
Negative goodwill on acquisition of subsidiary	–	(926)
Loss/(surplus) on disposal	18 066	(2 586)
Net impairment of assets	29 599	82 522
Post-employment medical aid benefit	(13 695)	4 251
Waiver of liability	(18 897)	–
Net finance costs	(53 611)	(67 869)
Taxation paid	(10 768)	(12 865)
Net changes to working capital	283 697	15 383
<b>Net cash flow from investing activities</b>	7 173	(56 507)
Additions of property, plant and equipment	(50 115)	(73 811)
Proceeds on disposal	56 520	19 823
Change in non-current receivables	652	(223)
Investment income	116	234
Advances to joint venture	–	(20)
Business combinations	–	(2 510)
<b>Net cash flow from financing activities</b>	(20 636)	71 223
Change in borrowings	(20 636)	(134 835)
Reclassification of short-term loan to bank overdraft	–	(91 781)
Rights issue	–	297 839
<b>Net change in cash and cash equivalents</b>	135 513	(147 433)
Cash and cash equivalents at beginning of period	(251 710)	(104 277)
<b>Cash and cash equivalents at end of period</b>	(116 197)	(251 710)

## NOTES

- Basis of preparation**  
These consolidated condensed results are prepared in accordance with the recognition and measurement requirements of IFRS, the AC 500 standards, the disclosure requirements of IAS 34 and the Listings Requirements of the JSE Limited.
- Accounting policies**  
The accounting policies adopted are in all respects consistent with those applied in the preparation of the Group's annual financial statements for the period ended 31 March 2009, except for the revised IAS 1, IFRS 8, IAS 23 and Circular 3/2009 (the revised headline earnings per share circular). The presentation of the financial statements (IAS 1) and operating segment disclosures (IFRS 8) are changed accordingly, with no adjustment necessary on the adoption of Circular 3/2009. The adoption of IAS 23 had no impact on the results.
- Segmentation of the group**  
The basis of segmentation has been changed to reflect the definition of an operating segment as contained in IFRS 8. To this effect, the segments previously referred to as textiles, apparel and household textiles, office automation, toys and other, are now reflected as textiles, clothing, toys and office automation, properties, and head office and consolidation entries. The comparative results have been restated accordingly.
- Change in comparatives**  
As explained in note 3, Segmentation of the group, the basis of segmentation has been changed. During the year the Group announced the closure of certain divisions, namely the Spinning, Weaving, Finishing and Denim textile division and the Men's Suit factory. The results of these divisions have been separately disclosed as discontinued operations. The comparative results have been restated accordingly.
- Independent audit**  
These consolidated condensed results have been audited by our auditors KPMG Inc., who have performed the audit in accordance with International Standards on Auditing. A copy of the unqualified audit report is available for inspection at the registered office of the company.
- Related party transactions**  
During the year the Group incurred the following related party expenditure:  
  - Managerial services received from HCI – R4 232 740
  - Professional services for recruitment of staff from Isiumko Staffing (Pty) Ltd – R630 858
  - Professional services rendered by Mr Neil Lazarus, deputy chairman of Sear del – R31 136
  - Professional services rendered by Mr Yunis Shaik – R75 000
- Capital expenditure and commitments**  
Net capital expenditure during the year under review amounted to R50.1 million. There are further commitments in respect of contracted capital expenditure as at 31 March 2010 of R11.6 million.
- Dividends**  
The directors have resolved not to declare a dividend for the year ended 31 March 2010.

## AUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Rand thousands	Share capital	Share premium	Treasury shares	Other reserves	Retained income	Total	Minority interest	Total
<b>Balance 30 June 2008</b>	5 943	187	(16 250)	241 386	1 158 967	1 390 233	6 606	1 396 839
Total comprehensive income	–	–	–	(7 363)	(273 400)	(280 763)	(5 216)	(285 979)
Acquisition of minority interest	–	–	–	–	–	–	(926)	(926)
Share issue	153 264	144 575	–	–	–	297 839	–	297 839
Share disposals	–	–	1 640	–	–	1 640	–	1 640
<b>Balance 31 March 2009</b>	159 207	144 762	(14 610)	234 023	885 567	1 408 949	464	1 409 413
Total comprehensive income	–	–	–	84 727	(202 328)	(117 601)	137	(117 464)
Release reserve held for available financial assets for sale	–	–	–	(731)	731	–	–	–
<b>Balance 31 March 2010</b>	159 207	144 762	(14 610)	318 019	683 970	1 291 348	601	1 291 949
							<b>Audited for the year ended 31 March 2010</b>	<b>Audited for the 9 months ended 31 March 2009</b>
<b>Composition of other reserves</b>							2 601	577
Revaluation of investments							440	440
Capital redemption reserve fund							7 923	7 923
Surplus on disposal of subsidiary and associated companies							307 055	225 083
Surplus on revaluation of land and buildings							318 019	234 023

## AUDITED CONDENSED SEGMENTAL REPORT

Rand thousands	Textiles	Clothing	Toys, office automation and consumer electronics	Properties	Head office and consolidation entries	Total
<b>Business segments</b>						
<b>2010</b>						
<b>Segment revenue</b>						
External revenue	933 881	1 283 060	423 616	53 674	–	2 694 231
Inter-segment revenue (these transactions are at arm's length)	(52 712)	–	(1 263)	(53 333)	–	(107 308)
	881 169	1 283 060	422 353	341	–	2 586 923
<b>Segment results</b>						
Combined operating (loss)/profit before finance costs	(139 927)	(83 817)	42 514	38 141	(5 661)	(148 750)
Disclosed as discontinued operations (excluding finance charges and taxation)	157 558	29 150	–	–	–	186 708
Operating profit/(loss) before finance costs from continuing operations	17 631	(54 667)	42 514	38 141	(5 661)	37 958
Net finance costs	–	–	–	–	(35 875)	(35 875)
<b>Profit/(loss) before taxation from continuing operations</b>	17 631	(54 667)	42 514	38 141	(41 536)	2 083
<b>Segment assets</b>	666 959	598 536	241 633	585 991	161 832	2 209 951
<b>Segment liabilities</b>	273 246	147 990	69 783	471	426 512	918 002
<b>2009</b>						
<b>Segment revenue</b>						
External revenue	718 606	1 120 000	373 249	33 385	–	2 245 240
Inter-segment revenue (these transactions are at arm's length)	(42 408)	–	–	(33 248)	–	(75 656)
	676 198	1 120 000	373 249	137	–	2 169 584
<b>Segment results</b>						
Combined operating (loss)/profit before finance costs	(157 025)	(102 127)	46 658	30 990	(62 891)	(244 395)
Disclosed as discontinued operations (excluding finance charges and taxation)	104 499	20 081	–	–	–	124 580
Operating (loss)/profit before finance costs from continuing operations	(52 526)	(82 046)	46 658	30 990	(62 891)	(119 815)
Net finance costs	–	–	–	–	(38 253)	(38 253)
<b>(Loss)/profit before taxation from continuing operations</b>	(52 526)	(82 046)	46 658	30 990	(101 144)	(158 068)
<b>Segment assets</b>	1 080 137	719 573	224 898	532 850	32 537	2 589 945
<b>Segment liabilities</b>	328 896	229 287	45 734	13 646	563 019	1 180 582

## COMMENTARY

The period to the end of March 2010 represents 17 months since Sear del completed its rights issue and began implementing its turnaround strategies. We have been consistent in our message that there are no quick fixes in turning around a Group of this size. The fact that since the rights issue, we have suffered a global recession and have seen a period of significant Rand strength has not aided the turnaround cause. Against this backdrop, we are pleased with the progress made to date. Operationally, we believe that the Group has made great strides forward and although the numbers do not yet reflect the full benefit of the turnaround strategies, the improvements are starting to show. Indeed, the second half of the financial year has been profitable.

During the period under review the Group was required to close down certain of its underperforming operations after it became apparent that there was little that could be done within management's control that would see these businesses return to profitability. We reported in April 2009 the closure of certain of the textile divisions, namely Spinning, Weaving, Finishing and Denim and towards the end of this financial year we have also announced the closure of our Men's Suit factory in Durban. The results of these operations are reflected as discontinued operations.

Out of necessity, the Group has undergone significant change in a very short period of time which brings with it the inevitable insecurities and teething problems. We believe that we are now at a point where the major reorganisational initiatives have largely been completed which will allow management to focus on improving the performance of the individual business units. In the ensuing year we expect further progress on our journey of continuous improvement and not only do we expect to see further efficiency improvements, but also improvements in service delivery and quality metrics.

### Results

The results to 31 March 2010 are not directly comparable with those to March 2009 due to the March 2009 results only being for a nine-month period.

The Group recorded a loss of R204 million for the year ended 31 March 2010 with the full loss attributable to the discontinued operations. The fact that continuing operations managed to report a breakeven situation was particularly pleasing as these operations had reported a R50 million loss in the first six months. If one adjusts for certain reclassifications that took place during the second half of the year then, on a like-for-like basis, continuing operations delivered an attributable net profit of R29 million for the second half.

On an annualised basis, the Group's turnover from continuing operations declined by 11% on the back of weaker demand. The turnover reduction was countered by a 7% improvement in gross margin of which 2% is attributable to a non-recurring increase in the provision for obsolescence in 2009. The remaining 5% improvement is down to better efficiencies and improved procurement practices. The Group's administration expenses were cut back by 9%, saving some R35 million on an annualised basis before taking into account inflationary effects.

Although the attributable loss amounted to R204 million, the net asset value of the Group only declined by R117 million due largely to an R82 million upward revaluation of land and buildings which is accounted for directly in equity. The strong focus on cash generation in the year meant that net interest-bearing borrowings have declined by R156 million improving the net interest-bearing debt to equity ratio by 9% from 33% as at 31 March 2009 to 24% at the end of the current year.

### Operational Review

#### Textiles

The performance of the continuing textile operations was pleasing. Despite a 3% reduction in turnover on an annualised basis, these operations delivered an operating profit before interest of R18 million for the year to March 2010. This compares to a R53 million loss for the nine months to March 2009, a R71 million turnaround. The turnaround reflects the benefits of our strategy to realign the textile division around product clusters as well as the strength and dedication of the management teams within these divisions.

There are still weak areas within the textile operations and these areas are receiving attention. We are confident that the underperforming divisions can be fixed and will become contributors in the future.

#### Clothing

Although improvements have been made, the performance of the clothing operations remains disappointing with them delivering an operating loss of R55 million in the current year compared to an R82 million loss for the nine months ended March 2009.

Our restructuring and turnaround initiatives have managed to reduce annual fixed costs by some R25 million before adjusting for the effects of inflation. However, the benefit of these savings has been off-set by the declining volumes, with turnover down 14% on an annualised basis. These operations carry a significant portion of fixed cost and are hence sensitive to volume declines.

The current year's results have been affected by a number of factors. Not only have we struggled against the global recession and relatively strong Rand we also endured the 12-day industry-wide strike. The direct cost of the strike on the continuing operations was some R13 million. In addition to our own industry strike we have also had to endure MetroRail and taxi industry strikes during the year. The vast majority of our employees depend on public transport to get to work and hence, any disruption to these services has a significant effect on the business.

It is well known that the clothing industry as a whole has been under tremendous pressure for a number of years. Job losses continue unabated as retailers source an ever-increasing amount of their needs offshore or from our neighbouring states. Certainly the macroeconomic problems facing the industry are not new and although the economic environment of the past 12 months has not helped matters, the problems with the local industry are long-standing and multi-faceted.

Despite the troubles being experienced, we still believe that there is a place for local manufacture in the value chain. Whilst it's true that the higher cost