



SEARLE

INVESTMENT CORPORATION LIMITED

Audited Results for the 9 month period ended 31 March 2009

Consolidated Income Statement

	AUDITED FOR PERIOD ENDED 31 MARCH 2009	AUDITED FOR YEAR ENDED 30 JUNE 2008
Rand thousands		
Revenue	2 883 102	3 867 565
Cost of revenue	(2 476 676)	(3 145 843)
Gross profit	406 426	721 722
Other income	84 056	90 021
Distribution costs	(283 808)	(341 461)
Administrative and other expenses	(339 225)	(485 158)
Operating loss before impairments and restructuring and retrenchment costs	(132 551)	(14 876)
Impairment of assets	(82 522)	(108 693)
Restructuring and retrenchment costs	(26 819)	(41 886)
Operating loss before finance costs	(241 892)	(165 455)
Finance income	18 859	31 134
Finance expenses	(86 494)	(112 779)
Share of losses from joint venture	(2 503)	(9 181)
Loss before taxation	(312 030)	(256 281)
Income tax expense	27 470	72 212
Loss for the period/year	(284 560)	(184 069)
Attributable to:		
Equity holders of the parent	(279 344)	(178 842)
Minority interest	(5 216)	(5 227)
Loss for the period/year	(284 560)	(184 069)

Statistics Per Share

	AUDITED FOR PERIOD ENDED 31 MARCH 2009	AUDITED FOR YEAR ENDED 30 JUNE 2008
In cents, where applicable		
Weighted average number of shares in issue ('000)	443,253	90 048
Weighted average number of diluted shares in issue ('000)	443,253	90 232
Number of shares in issue ('000)	702,946	89 620
Basic loss	(63,0)	(198,6)
Diluted loss	(63,0)	(198,2)
Headline loss	(45,6)	(111,0)
Diluted headline loss	(45,6)	(110,8)

RECONCILIATION BETWEEN LOSS AND HEADLINE LOSS

	AUDITED FOR PERIOD ENDED 31 MARCH 2009	AUDITED FOR YEAR ENDED 30 JUNE 2008
Loss attributable to equity holders of the parent	(279 344)	(178 842)
Impairment of assets	82 522	108 693
Insurance claim	(55)	-
Surplus on disposal of property, plant and equipment	(7 733)	(988)
Release of negative goodwill	(926)	-
Loss on disposal of property, plant and equipment	3 616	1 844
Tax effect of adjustments	-	(30 673)
Headline loss	(201 920)	(99 965)

Consolidated Balance Sheet

	AUDITED AS AT PERIOD ENDED 31 MARCH 2009	AUDITED AS AT YEAR ENDED 30 JUNE 2008
Rand thousands		
ASSETS		
Non-current assets	1 031 644	1 131 726
Property, plant and equipment	969 526	1 036 413
Intangible assets	21 490	33 283
Interest in subsidiary companies	-	-
Interest in joint ventures	-	18 000
Other investments	1 442	2 405
Long-term receivables	35 412	35 189
Deferred tax asset	3 774	6 436
Current assets	1 558 351	1 781 887
Inventories	754 354	848 142
Trade and other receivables	769 100	879 069
Non-current assets held for sale	26 818	10 146
Current tax asset	129	1 664
Cash and cash equivalents	7 950	42 866
TOTAL ASSETS	2 589 995	2 913 613
EQUITY AND LIABILITIES		
Total equity	1 409 413	1 396 839
Share capital and share premium	303 969	6 130
Treasury shares	(14 610)	(16 250)
Reserves	1 119 590	1 400 353
Total equity attributable to equity holders	1 408 949	1 390 233
Minority interest	464	6 606
Non-current liabilities	257 099	261 947
Interest-bearing liabilities	168 387	106 409
Post employment medical aid benefits	80 831	89 182
Deferred royalty payment	-	21 998
Deferred tax liability	7 420	43 912
Operating lease accruals	451	440
Current liabilities	923 483	1 254 833
Interest-bearing liabilities	40 357	331 471
Post employment medical aid benefits	4 346	-
Deferred royalty payment	45 172	23 249
Trade and other payables	558 359	704 500
Provisions	12 057	38 404
Bank overdrafts	259 660	147 143
Current tax liability	3 532	10 066
TOTAL LIABILITIES	1 180 582	1 516 774
TOTAL EQUITY AND LIABILITIES	2 589 995	2 913 613
Net asset value (excluding intangible assets)	1 387 459	1 356 950
Net asset value per share after treasury shares (cents)	197	1 514

Consolidated Cash Flow Statement

	AUDITED FOR PERIOD ENDED 31 MARCH 2009	AUDITED FOR YEAR ENDED 30 JUNE 2008
Rand thousands		
NET CASH FLOW FROM OPERATING ACTIVITIES	(162 040)	6 023
Cash generated from operations	(78 301)	85 807
Working capital changes	(397)	27 624
Finance income	18 859	31 134
Finance expenses	(86 494)	(112 779)
Taxation paid	(12 865)	(10 821)
Dividend paid	109	-
Proceeds on sale of treasury shares	-	-
Contributions for post employment medical benefits	(2 951)	(3 838)
NET CASH FLOW FROM INVESTING ACTIVITIES	(56 616)	(78 608)
Additions to property, plant and equipment	(73 811)	(103 735)
Proceeds on disposal of property, plant and equipment	19 714	27 876
Acquisition of intangible asset	-	(8 493)
(Increase)/decrease in non-current receivables	(223)	20 315
Investment income	234	165
Advances to joint venture	(20)	(14 736)
Business combinations	(2 510)	-
NET CASH FLOW FROM FINANCING ACTIVITIES	71 223	(142 813)
Increase/(decrease) in non-current borrowings	64 498	(7 13)
Increase in current borrowings	-	109 794
Decrease in current borrowings	(199 333)	(48 837)
Reclassification of short term loan to bank overdraft	(1 781)	(77 000)
Reclassification of 13 month notice facility to bank overdraft	-	(122 849)
Proceeds on share options exercised	-	85
Share repurchases	-	(3 293)
Rights issue	297 839	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(147 433)	(215 398)
Cash and cash equivalents at beginning of period/year	(104 277)	111 121
CASH AND CASH EQUIVALENTS AT END OF PERIOD/YEAR	(251 710)	(104 277)

Statement of Recognised Income and Expense

	AUDITED FOR PERIOD ENDED 31 MARCH 2009	AUDITED FOR YEAR ENDED 30 JUNE 2008
Rand thousands		
Revaluation of land and buildings	(7 206)	34 800
Revaluation of investments	(963)	53
Post employment medical benefit - actuarial gain/(loss)	8 256	(16 084)
Taxation on income recognised directly in equity	(1 506)	23 242
Income and expense recognised directly in equity	(1 419)	42 011
Loss for the period/year	(284 560)	(184 069)
Total recognised income and expense for the period/year	(285 979)	(142 058)
Attributable to:		
Equity holders of the parent	(280 763)	(136 831)
Minority interest	(5 216)	(5 227)
Total recognised income and expense for the period/year	(285 979)	(142 058)

Capital and Reserves

	Share Capital	Share Premium	Treasury Shares	Other Reserves	Retained Income	Total	Minority Interest	Total
Rand thousands								
Balance 30 June 2007	5 943	187	(13 042)	187 795	1 360 210	1 541 093	11 833	1 552 926
Total recognised income and expense	-	-	-	53 591	(190 422)	(136 831)	(5 227)	(142 058)
Share repurchases	-	-	(3 293)	-	-	(3 293)	-	(3 293)
Share options exercised	-	-	85	-	-	85	-	85
Dividend	-	-	-	-	(10 821)	(10 821)	-	(10 821)
Balance 30 June 2008	5 943	187	(16 250)	241 386	1 158 967	1 390 233	6 606	1 396 839
Total recognised income and expense	-	-	-	(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
Balance 31 March 2009	159 207	144 762	(14 610)	234 023	885 567	1 408 949	464	1 409 413

Segmental Report

		Apparel and household textiles	Office automation and consumer electronics	Toys	Other	Total
Rand thousands						
For the period ended 31 March 2009						
Segment revenue						
External sales	1 247 775	1 304 486	149 349	223 900	-	2 925 510
Inter-segment sales (these transactions are at arms length)	(42 408)	-	-	-	-	(42 408)
1 205 367	1 304 486	149 349	223 900	-	2 883 102	
Segment results						
Operating (loss)/profit before finance costs	(136 628)	(102 127)	7 124	39 735	(49 996)	(241 892)
For the year ended 30 June 2008						
Segment revenue						
External sales	1 774 863	1 692 752	203 773	266 579	-	3 937 967
Inter-segment sales (these transactions are at arms length)	(71 724)	1 322	-	-	-	(70 402)
1 703 139	1 694 074	203 773	266 579	-	3 867 565	
Segment results						
Operating (loss)/profit before finance costs	(52 865)	(105 347)	11 042	38 717	(57 002)	(165 455)

Notes

1. Basis of preparation
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), specifically IAS 34 (Interim financial reporting), and its interpretations adopted by the International Accounting Standards Board (IASB), as well as the South African Companies Act, 1973 and the Listings Requirements of the JSE Limited. These consolidated financial statements have been audited by the company's auditors, KPMG Inc., and their unqualified audit opinion is available for inspection at the company's registered office.

2. Change in accounting policies

The basis of segmentation has been changed to reflect the changes effected during the restructuring of the group. The segment previously referred to as Industrial Products has been incorporated under Textiles and the results of Oceanair, the Searle head office and the effect of consolidation entries is now separately disclosed. The accounting policies adopted are in all other respects consistent with those applied in the preparation of the group's annual financial statements for the year ended 30 June 2008.

3. Business combinations

With effect from 1 October 2008, the group acquired the remaining 25.1% interest in Searlec Trading (Pty) Ltd with the result that Searlec Trading (Pty) Ltd became a wholly owned subsidiary of Searle Investment Corporation Limited.

4. Impairments

During the period the following categories of assets were impaired:

	2009	2008
Property, plant and equipment	64 890	87 852
Assets held for sale	7 632	4 028
Intangible assets	10 000	16 813
Total	82 522	108 693

5. Deferred taxation

Tax losses have been recognised in Searle Group Trading (Pty) Ltd and Brits Automotive Systems (Pty) Ltd to the extent of the taxable temporary differences existing in those entities. Deferred tax assets in respect of Valau et al (Pty) Ltd, Searlec Trading (Pty) Ltd and Frame Industrials (Pty) Ltd continue to be recognised. The directors have considered the future profitability of these deferred tax assets and on the basis that they are projected to produce taxable income in the foreseeable future, these deferred tax assets are considered fully recoverable.

6. Revaluations

Land and buildings were revalued effective 31 March 2009 to fair value by independent valuers, David Newham Property Management Co. (Pty) Ltd and reflect a fair value of R528 million (2008: R548 million) in arriving at the fair value of the land and buildings. Consideration was given to their rental producing capacity taking into account their location, structure and the rental producing capacity of similar buildings in similar locations.

7. Intangibles

During the prior year the group concluded an agreement to manufacture and distribute certain clothing products for the FIFA 2010 World Cup. In terms of this agreement, a guaranteed minimum royalty is payable to the licensor. This royalty has been recognised as an intangible asset. Based on current projections of sales and related production, this asset has been impaired as shown in note 4 above.

8. Non-current assets held for sale

Following the commitment from management, the following assets have been reflected as non-current assets held for sale:

	2009	2008
Land and buildings	7 009	2 008
Plant and machinery	11 263	3 377
Investments	8 000	6 759
Total	26 818	10 146

9. Commitments

Net capital expenditure during the period under review amounted to R73.8 million (2008: R103 million). There are further commitments in respect of contracted capital expenditure as at 31 March 2009 of R6.4 million. Foreign currency commitments as at 31 March 2009 amounted to R170 million (2008: R257 million) of which R35 million (2008: R168 million) were uncovered.

10. Contingencies

The company has contingent liabilities amounting to R4 million relating to royalty claims.

11. Change in comparatives

The deferred royalty payment due within 12 months has been separately disclosed on the face of the balance sheet. Previously these were included in trade and other payables.

12. Securitisation of assets

Lenders to the group have undertaken to maintain the existing facilities until at least 30 June 2010. Security has been provided to a special purpose vehicle (Special Security Pty) Ltd which has guaranteed the obligations of the group companies in favour of the lenders and which in turn is indemnified by the group companies.

13. Post balance sheet events

The group has made the decision in principle, subject to the outcome of the required consultation process with interested parties, to close four manufacturing operations comprising the Frame Division's vertical pipeline being spinning, finishing and denim divisions. The divisions are situated in KwaZulu-Natal and the financial results are reported within the apparel and operating segment. Revenue totalling R11 million and loss before taxation totalling R127 million pertaining to these divisions, have been included in the income statement.

Comment on results and corporate actions

Overview

The period under review was significant in the life of Searle. As reported on in the June 2008 annual financial statements, the pressures brought to bear on the group resulted in it bringing its funding covenants to save itself from a special dividend liquidation, the group required a recapitalisation. A rights issue was concluded on 27 October 2008 which saw Hosken Consolidated Investments Limited ("HCI") become the controlling shareholder with a 71% shareholding. As a result of the success of the rights issue, the group's financial security, the group's commercial funders, who have combined facilities with the group in excess of R750 million, have agreed to leave their facilities in place until 30 June 2010 provided that the group does not breach any of its facility terms.

Since HCI has taken control, significant changes have been made to the senior management ranks and the board has been reconstituted. Searle has commenced with an extensive restructuring program, the main thrusts of which include:

- Improving efficiencies through the adoption of world class manufacturing practices;
- Eliminating low margin and high cost manufacturing operations; and
- Right-sizing the group. The industry is characterised by long lead times and so the benefit of this initiative will take some time to filter through.

Locking to increase market share in higher margin areas; we have been

- Reducing working capital levels throughout the value chain;
- Increasing production flexibility to enable quicker turnaround times and shorter runs in line with international retail trends. In order to achieve this goal, factory layouts need to be redesigned and work needs to be done on refining the group's supply chain management practices and expertise;
- Moving from a decentralised strategy to a more centralised approach;
- Unlocking economies of scale through factory consolidations;
- Ensuring that the existing assets of the group generate satisfactory long term returns and that future capital is only allocated to projects where there is a high degree of confidence in the expected returns; and
- Allocating finance costs to each division based on the levels of capital employed in order to better reflect the actual contribution of these divisions and the design of individual bonus structures that reward management for outperformance taking into account the capital under their management.

Subsequent events

On 9 April 2009, the group announced, on SENS, its intention to close certain divisions within the Frame Textile Group's vertical pipeline, namely the spinning, weaving, finishing and denim divisions. After having spent a number of months evaluating the current performance, considering the prospects of these divisions and stress testing a number of restructuring alternatives, it became clear that there was little that could be done, within management's control, to return these divisions to profitability. These divisions have been significant loss makers for a number of years, have been through a number of restructurings and significant amounts of capital expenditure have been incurred in attempts to stem the losses. However, it was apparent that even at budgeted efficiencies that are considered world class, these divisions were still predicting losses. We