



# SEARDEL

INVESTMENT CORPORATION LIMITED

## Group Interim Report to shareholders

for the six months ended 31 December 2008

### Income Statement

Rand thousands	Six months ended			Year ended 30 June 2008 (audited)
	31 December 2008 (unaudited)	31 December 2007 (unaudited)	% Change	
<b>Revenue</b>	<b>R2 052 097</b>	R2 030 159	1,1%	R3 867 565
<b>Gross profit</b>	<b>297 026</b>	414 309	- 28,3%	721 722
<b>Operating (loss)/profit before impairments and restructuring and retrenchment costs</b>	<b>(90 261)</b>	42 171		(14 876)
Impairment of assets	<b>(20 364)</b>	-		(108 693)
Restructuring and retrenchment costs	<b>(18 229)</b>	-		(41 886)
<b>Operating (loss)/profit before finance costs</b>	<b>(128 854)</b>	42 171	- 405,6%	(165 455)
Finance income	<b>6 743</b>	12 971	- 48,0%	31 134
Finance expenses	<b>(60 202)</b>	(51 788)	16,2%	(112 779)
Share of losses from joint venture	<b>(2 503)</b>	(2 143)	16,8%	(9 181)
<b>(Loss)/profit before taxation</b>	<b>(184 816)</b>	1 211		(256 281)
Taxation	<b>(3 747)</b>	1 441		72 212
<b>(Loss)/profit for the period</b>	<b>(188 563)</b>	2 652		(184 069)
<b>Attributable to:</b>				
Equity holders of the parent	<b>(183 450)</b>	3 785		(178 842)
Minority interest	<b>(5 113)</b>	(1 133)		(5 227)
<b>(Loss)/profit for the year</b>	<b>(R188 563)</b>	R2 652		(R184 069)

### Statistics Per Share

In cents, where applicable			
Weighted average number of shares in issue ('000)	<b>316 229</b>	90 228	90 048
Weighted average number of diluted shares in issue ('000)	<b>316 229</b>	90 427	90 232
Number of shares in issue	<b>702 946</b>	90 098	89 620
(Loss)/earnings	<b>(58,0)</b>	4,2	(198,6)
Diluted (loss)/earnings	<b>(58,0)</b>	4,2	(198,2)
Headline (loss)/earnings	<b>(53,3)</b>	4,0	(111,0)
Diluted headline (loss)/earnings	<b>(53,3)</b>	4,0	(110,8)
Distribution - annual	-	-	-
<b>RECONCILIATION BETWEEN (LOSS)/EARNINGS AND HEADLINE (LOSS)/EARNINGS</b>			
Income attributable to shareholders	<b>(183 450)</b>	3 785	(178 842)
Impairment of assets	<b>20 364</b>	-	108 693
Surplus on disposal of property, plant and equipment	<b>(5 052)</b>	(351)	(988)
Profit on acquisition of minority interest	<b>(926)</b>	-	-
Loss on disposal of property, plant and equipment	<b>429</b>	133	1 844
Tax effect of adjustments	-	63	(30 673)
<b>Headline (loss)/earnings</b>	<b>(R168 635)</b>	R3 630	(R99 966)

Rand thousands

## Balance Sheet

	As at 31 December		As at 30 June 2008 (audited)
	2008 (unaudited)	2007 (restated & unaudited)	
<b>ASSETS</b>			
<b>Non-current assets</b>	<b>1 109 763</b>	1 153 320	1 131 726
Property, plant and equipment	1 038 461	1 072 983	1 036 413
Intangible assets	21 910	3 453	33 283
Interest in joint ventures	8 000	14 330	18 000
Investments	1 615	2 413	2 405
Long-term receivables	33 920	38 452	35 189
Deferred taxation	5 857	21 689	6 436
<b>Current assets</b>	<b>1 687 437</b>	1 787 721	1 781 887
Inventories	729 769	784 964	848 142
Trade and other receivables	915 663	909 518	879 069
Non-current assets held for sale	11 087	26 743	10 146
Taxation receivable	3 387	53	1 664
Cash and cash equivalents	27 531	66 443	42 866
<b>TOTAL ASSETS</b>	<b>R2 797 200</b>	R2 941 041	R2 913 613
<b>EQUITY AND LIABILITIES</b>			
<b>TOTAL EQUITY</b>	<b>1 506 039</b>	1 543 600	1 396 839
Share capital and share premium	303 970	6 130	6 130
Treasury shares	(14 611)	(14 200)	(16 250)
Reserves	1 216 113	1 540 970	1 400 353
Total equity attributable to equity holders	1 505 472	1 532 900	1 390 233
Minority interest	567	10 700	6 606
<b>Non-current liabilities</b>	<b>352 315</b>	516 022	261 941
Interest-bearing liabilities	193 520	289 864	106 409
Post retirement medical aid benefits	89 182	70 400	89 182
Deferred royalty payment	25 319	-	21 998
Deferred taxation	43 847	152 373	43 912
Operating lease accruals	447	3 385	440
<b>Current liabilities</b>	<b>938 846</b>	881 419	1 254 833
Interest-bearing liabilities	29 697	207 625	331 471
Trade and other payables	559 695	495 050	727 749
Provisions	42 566	50 436	38 404
Bank overdrafts	306 888	109 634	147 143
Taxation payable	-	18 674	10 066
<b>TOTAL LIABILITIES</b>	<b>R1 291 161</b>	R1 397 441	R1 516 774
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>R2 797 200</b>	R2 941 041	R2 913 613
<b>Net asset value (excluding intangible assets)</b>	<b>R1 483 562</b>	R1 529 447	R1 356 950
<b>Net asset value per share after treasury shares - cents</b>	<b>211</b>	1 698	1 514

## Condensed Cash Flow Statement

	Six months ended 31 December		Year ended 2008 (audited)
	2008 (unaudited)	2007 (unaudited)	
Net cash flow from operating activities	(232 355)	(52 641)	6 023
Net cash flow from investing activities	(28 331)	(20 517)	(78 608)
Net cash flow from financing activities	85 606	(81 154)	(142 813)
Net decrease in cash and cash equivalents	(175 080)	(154 312)	(215 398)
Cash and cash equivalents at beginning of period	(104 277)	111 121	111 121
Cash and cash equivalents at end of period	(R279 357)	(R43 191)	(R104 277)

## Statement of Recognised Income and Expense

	2008 (unaudited)	2007 (restated & unaudited)	2008 (audited)
Income and expense recognised directly in equity	(9 590)	-	42 011
(Loss)/profit for the period	(188 563)	2 652	(184 069)
Total recognised income and expense for the period	(R198 153)	R2 652	(R142 058)
<b>Attributable to:</b>			
Equity holders of the parent	(193 040)	3 785	(136 831)
Minority interest	(5 113)	(1 133)	(5 227)
<b>Total recognised income and expense for the year</b>	<b>(R198 153)</b>	<b>R2 652</b>	<b>(R142 058)</b>

## Capital and Reserves

	Share Capital	Share Premium	Treasury Shares	Other Reserves	Retained Income	Total	Minority Interest	Total
<b>Balance 30 June 2007</b>	<b>5 943</b>	<b>187</b>	<b>(13 042)</b>	<b>187 795</b>	<b>1 360 210</b>	<b>1 541 093</b>	<b>11 833</b>	<b>1 552 926</b>
As previously stated							6 806	
Reclassification							5 027	
Share repurchases			(1 158)			(1 158)		(1 158)
Total recognised income and expense					3 785	3 785	(1 133)	2 652
Dividend					(10 820)	(10 820)		(10 820)
<b>Balance 31 December 2007</b>	<b>R5 943</b>	<b>R187</b>	<b>(R14 200)</b>	<b>R187 795</b>	<b>R1 353 175</b>	<b>R1 532 900</b>	<b>R10 700</b>	<b>R1 543 600</b>
<b>Balance 30 June 2008</b>	<b>5 943</b>	<b>187</b>	<b>(16 250)</b>	<b>241 386</b>	<b>1 158 967</b>	<b>1 390 233</b>	<b>6 606</b>	<b>1 396 839</b>
Acquisition of minority interest						-	(926)	(926)
Shares issued net of share issue expenses	153 265	144 575				297 840		297 840
Share disposals			1 639			1 639		1 639
Total recognised income and expense				(790)	(183 450)	(184 240)	(5 113)	(189 353)
<b>Balance 31 December 2008</b>	<b>R159 208</b>	<b>R144 762</b>	<b>(R14 611)</b>	<b>R240 596</b>	<b>R975 517</b>	<b>R1 505 472</b>	<b>R567</b>	<b>R1 506 039</b>

	2008	2007
<b>Composition of other reserves</b>		
Revaluation of investments	615	1 352
Capital redemption reserve fund	440	440
Surplus on disposal of subsidiary and associated companies	7 923	7 923
Surplus on revaluation of land and buildings	231 618	178 080
	<b>R240 596</b>	<b>R187 795</b>

## Condensed Segmental Report

	Textiles	Apparel & household textiles	Consumer electronics	Toys	Other	Total
<b>Six months ended 31 December 2008</b>						
<b>Segment revenue</b>						
External sales	907 632	887 270	107 482	175 285	–	2 077 669
Inter-segment sales (these transactions are at arm's length)	(25 572)	–	–	–	–	(25 572)
	<b>882 060</b>	<b>887 270</b>	<b>107 482</b>	<b>175 285</b>	<b>–</b>	<b>2 052 097</b>
<b>Segment results</b>						
Operating (loss)/profit	(49 017)	(70 258)	5 974	18 464	(34 017)	(128 854)
<b>Six months ended 31 December 2007</b>						
<b>Segment revenue</b>						
External sales	871 345	931 017	109 985	163 142	–	2 075 489
Inter-segment sales (these transactions are at arm's length)	(45 330)	–	–	–	–	(45 330)
	826 015	931 017	109 985	163 142	–	2 030 159
<b>Segment results</b>						
Operating (loss)/profit	17 360	(11 053)	8 103	16 842	10 919	42 171

## Comment on results and corporate actions

### Results

The 6 months to December 2008 saw Sear del record an attributable loss of some R183 million compared to a R4 million profit in the corresponding period. Included in the loss to December 2008 are the following non-recurring items:

- The Group's excess inventory has historically been disposed of through its factory stores and to bulk purchasers. The current market conditions have depressed the prices that can be achieved in these markets. In addition, the Group's focus on cash generation has meant that inventory sales have been more aggressive. This has resulted in the Group selling inventory at below carrying value. In order to bring inventory values to better approximate current net realisable values, inventory provisions have been raised by some R36 million;
- A R20 million impairment of asset expense was realised of which R10m relates to the write down of the intangible asset recognised with respect to the Fifa contract. The latest forecasts for this contract reflect sales well below those anticipated when the contract was signed. A further R8 million of the impairment relates to a write down of the Group's interest in Sustainable Fibre Solutions (Pty) Ltd ("SFS") a company which produces fibre from Kenaf plant. During the 6 months under review SFS required a further R15 million of funding. Sear del did not follow its rights and its interest in SFS has been diluted from 33% to just below 30%;
- R18 million worth of restructuring and retrenchment costs were recognised during the period;
- The severe and rapid depreciation of the Rand resulted in foreign exchange losses of R18 million being recorded.

After adjusting for the non-recurring items, Sear del recorded a core loss of approximately R91 million despite a marginal increase in turnover. This loss is almost entirely due to the deterioration of gross margins and increased finance costs. Excluding the R36 million of increased inventory obsolescence provision mentioned above, gross margins have decreased from 20.4% for the 6 months to December 2007 to 16.2% in the current period. This 4.2% deterioration translates into an R86 million reduction in gross profit. The decreasing margins are reflective of the Group's inability to pass on input cost increases particularly within the textile and clothing divisions.

### Textiles and clothing

The textile division's gross margins have been particularly affected as the majority of its input costs are US dollar denominated and the weakening Rand severely affected this division's profitability. Energy costs make up a substantial portion of the textile divisions cost base and the above inflation increases experienced in this area also negatively affected the achieved margins.

On the clothing side, the Group's customers continue to increase the levels of imports and are placing increasing pressure on Sear del to match import prices. Whilst input costs continue to rise, retailers are demanding price decreases which obviously places great strain on margins despite the Group's efforts to reduce costs through efficiency gains.

### Toys

Prima has continued on its positive growth trend with both turnover (up 7%) and operating profit (up 9%) improving contrary to the economic trend over the period. Prima has increased its market share and is now by far the most dominant toy, game and branded stationery distributor in the South African market. It will be concentrating on securing its growing market penetration and product range into 2009. New and exciting brands and characters, as well as some lower price-point product, will be on offer to help mitigate the impact of the current economic conditions.

### Consumer Electronics

Seartec experienced strong growth in calculator sales for the period, but copier and microwave sales volumes declined resulting in turnover being 2% below that of the corresponding period. The Scripto factory was closed in December and certain impairments for the closure of the factory

and unrealised foreign exchange losses negatively affected the division's operating profit which was 26% below that of the corresponding period.

### Recapitalisation

The period under review was significant in the life of Sear del. As reported on in the 2008 Annual Financial Statements, the pressures brought to bear on the Group during the previous financial year resulted in it breaching its funding covenants. To save itself from almost inevitable 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 successful conclusion of the rights issue and the provision of security, the Group's commercial funders, who have combined facilities with the Group in excess of R750 million, have agreed to maintain their facilities until 30 June 2010 provided that the Group does not breach any of its facility terms.

In addition to the facilities from the commercial funders, the Group has a R100 million loan from Grawood Investments (Pty) Ltd ("Grawood") a company controlled by Dr Aaron Searll, the Group's founder. Despite ongoing discussions with the representatives of Grawood the Group has not yet succeeded in reaching any agreement as to the basis on which Grawood may be afforded security for its loan account, nor has any of the terms of such security been finalised. The Group will continue with its efforts to bring these discussions to a close as soon as is reasonably possible.

### Changes to the Board

Post the rights issue, Dr Searll, resigned as Chairman and then from the Board. Mr John Copelyn was appointed Chairman and the Board was reconstituted. Messrs Arthur Jacobson and Russell Upton resigned from the board and the following new appointments were made:

- Mr Stuart Queen was appointed Chief Financial Officer;
- Mr Anthony Dixon-Seager was appointed CEO-Clothing Division;
- Mr Amon Ntuli was appointed an Executive Director; and
- Messrs Kevin Govender, Yunis Shaik and Mohammed Ahmed were appointed Non-executive Directors.

It has recently been announced that Mr Walter Simeoni, the Group's Chief Executive Officer is due to retire in November 2009 and as part of its succession planning, Mr Stuart Queen has been appointed CEO designate. Mr Anthony Dixon-Seager has been appointed Chief Operating Officer with his role expanding to include responsibility for the Group's textile operations in addition to his current responsibilities.

### Turnaround and restructuring

Since HCI has taken control, Sear del has commenced with an extensive restructuring program. It is recognised that there are no quick fixes to a Group of this size and that losses are anticipated until the benefits of turnaround come to fruition. The main thrusts of the turnaround include:

- Moving from a decentralised strategy to a more centralised approach;
- Unlocking economies of scale through factory consolidations. To this end the textile division has realigned itself around product clusters and work is being done to consolidate the Group's lingerie and swimwear divisions into one facility. Further consolidations are expected;
- Improving efficiencies through the adoption of world class manufacturing practices. To assist with this objective the Group has enhanced its engineering capabilities through the appointment of staff from industries where these practices are standard;
- Increasing production flexibility to enable quicker turnaround times and shorter runs the benefits of which will include the ability to unlock new markets;
- 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;

- Allocating finance costs to each division based on the levels of capital employed in order to better reflect the actual contribution of these divisions;
- Reducing working capital levels throughout the value chain;
- Eliminating low margin turnover by setting margin hurdle rates and if necessary, right sizing the Group; and
- Looking to increase market share in higher margin areas.

#### Industry dynamics

Whilst fixing the issues internal to Seardel is the key focus, there are a number of issues that are affecting the industry in general that require urgent attention. Local producers of textiles and garments are uncompetitive when compared to imports. It is often assumed that this is solely as a result of inefficiencies on the part of local producers. This is a simplistic view as, although there is certainly room for efficiency improvements, the non-competitiveness is a multi faceted problem. Some of the main issues facing the local industry include:

- Subsidisation programs, including state owned firms, in other parts of the world. The garment industry has the ability to create employment for relatively little investment with the cost per job created being one of the lowest of all manufacturing sectors. Governments in developing countries often use the industry as an employment generator, particularly in areas of low economic activity;
- Although we recognise that some of the local employment conditions need to be reviewed to bring them in line with other industries in our own territory, the necessity to pay a living wage means the local industry is required to pay significantly higher wages than those paid in competing countries;
- The above factors result in international firms achieving lower costs per unit manufactured and thus these manufacturers attract the volumes generated by the large international retailers which result in longer runs and greater efficiency;

The import tariffs provide some protection but the level of illegal and illicit imports is such that these protections do not have the full effect. We are encouraged by the work currently being undertaken by SARS to ensure compliance and this initiative has our full support.

Of further concern are the structural deficiencies implicit in the current policies. It is our view that the DCC scheme has been ineffective as a support mechanism for the local manufacturing industry and has simply served to subsidise fellow SACU members' export programs at the expense of local manufacturers. The current SACU and SADC arrangements are also problematic as these countries have discrepant wage structures with very limited tariff protection offered to local producers.

The issue of illegality is not confined to imports. Within the local market there is significant non-compliance to bargaining council agreements which undermines the competitiveness of compliant manufacturers. To this end Seardel is encouraged by the improved focus of the local bargaining council compliance teams but non-compliance is widespread and will require a concerted effort to remedy.

It is our view that each member of the value chain, including agents and retailers, need to take responsibility for ensuring that only legally imported or manufactured goods enter the local market and that there should be a sanction for those who choose to ignore this responsibility.

#### Outlook

Significant challenges need to be overcome to return the Group to profitability and we remain pragmatic in our assessment and approach to the issues. However, we are optimistic that a turnaround can be achieved.

#### Appreciation

The change processes being undertaken places significant pressure on staff at all levels requiring sacrifices to be made particularly with regard to personal and family time. The directors and management of Seardel would like to thank all those who are working tirelessly to effect the turnaround.

#### Notes

##### 1. Basis of preparation

The condensed financial statements have been prepared in accordance with International Accounting Standard IAS34: Interim Financial Reporting. They are also compliant with International Financial Reporting Standards (IFRS). These results have not been audited or reviewed by the company's auditors, KPMG Inc.

##### 2. Significant accounting policies

The condensed financial statements have been prepared under the historical cost convention, except for the revaluation of certain properties and financial instruments. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2008.

##### 3. Granting of security over assets

Lenders to the group (namely, ABSA Bank, Standard Bank, Nedbank, Investec Bank and State Bank of India) have undertaken to maintain the existing facilities until at least 30 June 2010 on the basis that most of the group's assets (including, without limitation, immovable property, intellectual property, insurances, trade debtors, inventory and material plant and machinery as well as pledges and cessions of shares in and claims against group companies) are secured in their favour in various ways.

The security has been provided to a special purpose company (Seardel Security (Pty) Ltd), which has guaranteed the obligations of the group companies in favour of the lenders and which in turn is indemnified by Group companies.

##### 4. Rights offer

The company issued 613,057,249 rights offer shares at R0.50 per share raising R306,528,624 which reduced group borrowings. Hosken Consolidated Investments Limited ("HCI") being one of the underwriters of the offer took up 497,603,811 rights offer shares resulting in HCI holding some 70.6% of the total issued share capital of the company.

##### 5. Acquisition of shares

The company acquired the 25.1% interest in Seartec Trading (Pty) Ltd held by Thesele Industrial (Pty) Ltd with the result that Seartec Trading (Pty) Ltd became a wholly owned subsidiary of Seardel Investment Corporation Limited.

##### 6. Disposal of shares

The Seardel Investment Corporation Limited Share Incentive Scheme 2001 disposed of its remaining holding of 268,400 N ordinary shares through the market for a total consideration of R108.5 thousand.

##### 7. Restatement of prior year comparatives

A subordinated shareholder loan to a subsidiary has been reclassified as being part of the minority interest in the group.

Balance of non-current interest bearing liabilities before reclassification	294 891
Reclassification	(5 027)
Balance of non-current interest bearing liabilities after reclassification	289 864
Minority interest prior to reclassification	5 673
Reclassification	5 027
Minority interest after reclassification	10 700
Deferred tax asset and liability balances in the prior year have been restated to show the aggregate positions reflected in the underlying legal entities. Previously the allocation was based on the nature of the temporary difference.	
Deferred tax asset prior to reclassification	122 788
Reclassification	(101 099)
Deferred tax asset after reclassification	21 689
Deferred tax liability prior to reclassification	253 472
Reclassification	(101 099)
Deferred tax liability after reclassification	152 373
Trade and other payables have been restated to include the items shown in the reconciliation below:	
Trade and other payables before restatement	495 035
Reallocation of shareholders for dividend	15
Trade and other payables after restatement	495 050

##### 8. Capital expenditure and commitments

Net capital expenditure during the period under review amounted to R45,7 million (2007: R42,8 million). There are further commitments in respect of contracted capital expenditure as at 31 December 2008 of approximately R 5,9 million (2007: R27,1 million).

Signed for and on behalf of the board in Durban on 23 March 2009.



W Simeoni  
Chief Executive Officer



S A Queen  
Chief Financial Officer



Registration number 1968/011249/06. The company's shares are listed under the Consumer Goods - Personal and Household Goods Sector of the JSE Limited. Seardel; Seardel-N; SER: ZAE000029815 SRN: ZAE000030144. DIRECTORS J A Copelyn\* BA(Hons) BProc (Chairman), Adv N N Lazarus\* SC (Deputy Chairman), W Simeoni\* (Chief Executive Officer) (Austrian), M H Ahmed\* BSc (Accounting), A E Dixon-Seager DipBus M(Hons) (Chief Operating Officer), T G (Kevin) Govender\*, A M Ntuli, S A Queen CA(SA) (Chief Financial Officer & Chief Executive Officer - Designate), Y Shaik\* BProc. (\* indicates Non-Executive) COMPANY SECRETARY HCI Managerial Services (Pty) Ltd. REGISTERED OFFICE 1 Moorsom Avenue, cnr Bofors Circle & Moorsom Avenue, Epping Industria II 7460, P O Box 524, Eppindust 7475, South Africa. TRANSFER SECRETARIES Computershare Investor Services (Pty) Ltd, 70 Marshall Street, Johannesburg 2001. P O Box 61051, Marshalltown 2107. AUDITORS KPMG Inc., SPONSORS Java Capital (Pty) Ltd