African Brick Centre Limited

(Incorporated in the Republic of South Africa)
(Registration number 1999/006214/06)
Share code: ABK ISIN: ZAE000105169
("African Brick Centre" or "the Company" or "the Group")

# Audited Condensed Financial Results

for the year ended 28 February 2010

## Introduction

The Board of Directors of African Brick Centre announces the Group`s results for the twelve months ended 28 February 2010. The consolidated Group results include Dash Brick and Building Supplies Strubensvalley (Proprietary) Limited ("Dash Brick"), African Brick (Proprietary) Limited ("African Brick"), African Brick Lenasia (Proprietary) Limited ("African Brick Lenasia") and Landton Properties (Proprietary) Limited ("Landton Properties") ("the subsidiaries"). The majority shareholder of African Brick Centre is Yakani Infraco (Proprietary) Limited ("Yakani Infraco") who acquired a 51% shareholding on 30 January 2009, and took effective control on 1 February 2009.

### Condensed consolidated statement of financial position

| Figures in Rand | Audited 28 February 2010 | Restated Audited 28 February 2009 | Restated Audited 29 February 2008 |
|---|---|---|---|
| **Assets** | | | |
| Non-current assets | **64 471 892** | 69 772 569 | 95 346 653 |
| Current assets | **32 175 796** | 48 351 500 | 89 168 493 |
| Total assets | **96 647 688** | 118 124 069 | 184 515 146 |
| **Equity and liabilities** | | | |
| Capital and reserves | **50 239 904** | 65 599 467 | 144 091 186 |
| Non-current liabilities | **25 731 543** | 28 021 248 | 14 693 529 |
| Current liabilities | **20 676 241** | 24 503 354 | 25 730 431 |
| Total equity and liabilities | **96 647 688** | 118 124 069 | 184 515 146 |
| Net asset value per share (cents) | **16.1** | 21.0 | 46.1 |
| Total interest bearing debt | **22 192 489** | 17 180 258 | 4 941 684 |

### Condensed consolidated statement of comprehensive income

| Figures in Rand | Audited 28 February 2010 | Restated Audited 28 February 2009 |
|---|---|---|
| Gross revenue | **89 779 903** | 191 867 895 |
| Operating costs | **(102 097 334)** | (224 634 648) |
| Earnings before disclosable items | **(12 317 431)** | (36 649 426) |
| Impairment of assets | **(5 017 250)** | (35 054 140) |
| Fair value adjustment | **–** | 159 278 |
| Profit on sale of assets | **219 113** | 32 343 |
| Depreciation and amortisation | **(4 148 617)** | (4 510 495) |
| Other Income | **5 274 441** | 982 384 |
| **Operating profit** | **(16 001 152)** | (75 040 056) |
| Finance costs | **(1 966 008)** | (1 538 360) |
| Interest received | **203 108** | 1 074 693 |
| **Loss before taxation** | **(17 764 052)** | (75 503 723) |
| Taxation | **2 384 302** | (521 155) |
| **Loss after tax** | **(15 379 750)** | (76 024 878) |
| **Profit/(Loss) attributable to:** | | |
| Non-controlling interest | **–** | 1 650 711 |
| Owners of the parent | **(15 379 750)** | (77 675 589) |
| | **(15 379 750)** | (76 024 878) |
| **Headline earnings** | | |
| Profit attributable to ordinary shareholders | **(15 379 750)** | (76 024 878) |
| Impairment of assets | **3 677 184** | 35 054 140 |
| Profit on sale of assets (net of tax) | **(157 761)** | (23 287) |
| Headline earnings attributable to ordinary shareholders | **(11 860 327)** | (40 994 025) |
| **Earnings per share** | | |
| Profit attributable to ordinary shareholders | **(15 379 750)** | (76 024 878) |
| Earnings attributable to ordinary shareholders | **(15 379 750)** | (76 024 878) |
| **HEPS (cents)/(HLPS)** | **(3.8)** | (13.1) |
| **EPS (cents)/(LPS)** | **(4.9)** | (24.4) |
| Shares in issue | **312 238 960** | 312 238 960 |
| Shares in issue – weighted average | **312 238 960** | 312 238 960 |
| There is no factors existing during this reporting period which require the disclosure or calculation of diluted EPS. | | |
| **Comprehensive income** | | |
| Change in tax rate on revaluation of property, plant and equipment | **20 187** | – |
| Reversal of revaluation of property, plant and equipment, net of tax at 28% | **–** | (789 997) |
| Loss after tax | **(15 379 750)** | (76 024 878) |
| **Total comprehensive income** | **(15 359 750)** | (76 814 875) |
| **Total comprehensive income attributable to:** | | |
| Non-controlling interest | **–** | 1 650 711 |
| Owners of the parent | **(15 379 750)** | (78 465 586) |
| | **(15 359 750)** | (76 814 875) |

### Condensed consolidated statement of changes in equity

| Figures in Rand | Audited 28 February 2010 | Restated Audited 28 February 2009 |
|---|---|---|
| **Opening balance** | **60 380 383** | 145 593 009 |
| Restatement of opening balance prior period error | **5 219 084** | (1 501 823) |
| Opening balance restated | | |
| Total comprehensive income | **65 599 467** | 144 091 186 |
| – Total restated comprehensive loss for the year | **(15 359 563)** | (76 814 875) |
| – Acquisition of additional shares | **–** | (2 982 214) |
| – Preliminary expenses incurred | **–** | (26 133) |
| – Acquisition of subsidiary | **–** | 1 331 503 |
| Opening balance as previously reported | **–** | 60 380 383 |
| Prior period error, current year | **–** | 5 219 084 |
| **Total** | **50 239 904** | **65 599 467** |

### Corporate Information

***Non-Executive Chairman:*** SA Tati
***Independent Non-Executive Directors:*** MM Patel, L Yanta, DTV Msibi
***Non-Executive Director:*** WAF Strydom
***Executive Directors:*** MP Shangase (Managing Director); B Blom (Financial Director)
***Business address:*** Farm 246, Luipaardsvlei, Krugersdorp, 1739
***Business postal address:*** PO Box 99, Rant en Dal, Krugersdorp, 1751
***Registered address:*** Waterford Office Park, Unit 28, First Floor, corner Witkoppen and Waterford Drive, Fourways, 2188
***Postal address:*** PO Box 1078, Jukskei Park, 2153
***Company Secretary:*** Premium Corporate Consulting Services (Pty) Limited
***Transfer Secretaries:*** Link Market Services South Africa (Pty) Limited
***Designated Adviser:*** Grindrod Bank Limited

### Condensed consolidated statement of cash flows

| Figures in Rand | Audited 28 February 2010 | Restated Audited 28 February 2009 |
|---|---|---|
| **Cash and equivalents at beginning of year** | **(1 651 857)** | 36 592 946 |
| **Cash flows from operating activities** | **(4 099 384)** | (28 199 185) |
| Cash generated from operations | **(2 378 948)** | (15 636 971) |
| Interest received | **203 108** | 1 074 693 |
| Interest paid | **(1 634 627)** | (1 073 121) |
| Taxation received paid | **(288 917)** | (12 563 786) |
| **Cash flows from investing activities** | **(1 050 725)** | (19 261 940) |
| **Cash flows from financing activities** | **874 896** | 9 216 322 |
| **Cash and equivalents at end of year** | **(5 927 070)** | (1 651 857) |

### Condensed consolidated segment report

| Figures in Rand | Audited 28 February 2010 | Audited 28 February 2009 |
|---|---|---|
| **External customers** | **82 282 138** | 191 867 895 |
| Retail | **82 283 138** | 191 867 895 |
| Manufacturing | **6 580 303** | – |
| Corporate | **916 462** | – |
| **Inter-segment revenue** | | |
| Retail | **–** | 9 585 223 |
| Manufacturing | **24 997 011** | 50 538 215 |
| Eliminations | **(24 997 011)** | (60 123 438) |
| **Consolidated revenue** | **89 779 903** | 191 867 895 |
| **Segment result before disclosed items** | | |
| Retail | **(3 510 778)** | (25 518 021) |
| Manufacturing | **(6 439 645)** | (12 516 207) |
| Corporate (Head Office) | **(1 252 592)** | (2 145 600) |
| Profit/(Loss) with sale of assets | | |
| Retail | **29 496** | 9 377 |
| Manufacturing | **189 617** | 22 966 |
| Impairment | | |
| Retail | **–** | (7 722 686) |
| Manufacturing | **(5 017 250)** | (27 331 454) |
| Corporate | **–** | 159 278 |
| **Reportable segment loss** | **(16 001 152)** | (75 040 056) |
| Retail | **(3 481 282)** | (33 231 330) |
| Manufacturing | **(11 267 278)** | (39 824 695) |
| Corporate (Head Office) | **(1 252 592)** | (1 986 322) |
| Eliminations | **–** | – |
| **Operating loss** | **(16 001 152)** | (75 040 056) |
| Finance costs | **(1 966 008)** | (1 538 360) |
| Interest received | **203 108** | 1 074 693 |
| **Loss before taxation** | **(17 764 052)** | (75 503 723) |
| Taxation | **2 384 302** | (521 155) |
| **Loss after taxation** | **(15 379 750)** | (76 024 878) |

### Condensed consolidated segment report

| Figures in Rand | Audited 28 February 2010 | Audited 28 February 2009 |
|---|---|---|
| **Reportable segment assets** | | |
| Retail | **24 168 890** | 39 437 694 |
| Manufacturing | **70 526 935** | 75 113 147 |
| Corporate | **22 743 901** | 13 521 840 |
| Eliminations | **(20 792 038)** | (9 948 612) |
| **Total** | **96 647 688** | 118 124 069 |
| **Reportable Segment Liabilities** | | |
| Retail | **(13 519 001)** | (17 739 187) |
| Manufacturing | **(39 530 044)** | (31 190 579) |
| Corporate | **(14 150 777)** | (13 543 446) |
| Eliminations | **20 792 038** | 9 948 610 |
| **Total** | **(46 407 784)** | (52 524 602) |
| **Net asset value** | **50 239 904** | 65 599 467 |

### Performance review

The year under review saw a slow recovery of the clay industry as anticipated. Approximately 60% of factories are operating between 40% to 50% capacity.

The industry also observed major downsizing of Human Resources through retrenchments and cutting from five days a week to three days in some operations.

Whilst the market price of clay bricks remains under pressure, restructuring initiatives were successful, limiting operational losses.

On the back of moderate increase in product demand and market price, expansion to the Krugersdorp factory was tailored and approved, which will enable the Group to regain production capacity lost during the recession. Final implementation is dependent on the Company's ability to recapitalise the Group. Funding in the amount of R1.6 million was successfully secured for increasing drying capacity with an additional working capital requirement of R3.3 million under review.

The Board of Directors is comfortable that management will secure additional capital to strengthen the balance sheet, support working capital and facilitate a growth strategy.

Significant impairments relating to the clay reserves and impairment to the Krugersdorp factory hostel saw substantial losses during the prior financial year which contributed to a drop in net asset value.

### Basis of preparation and accounting policies

The audited consolidated financial statements for the year ended 28 February 2010 have been prepared in accordance with the framework concepts and the measurement requirements of International Financial Reporting Standards ("IFRS"), the disclosure requirements of IAS 34: Interim Financial Reporting, the AC 500 standards as issued by the Accounting Practices Board and its successor, the JSE Limited Listings Requirements and in the manner required by the Companies Act, 61 1973, as amended. The accounting policies and method of measurement and recognition applied in preparation of the audited consolidated annual financial statements are consistent with those applied in the Group's annual financial statements for the year ended 28 February 2009, which comply with IFRS.

The following new standards and amendments to standards have become mandatory for the financial year beginning 1 March 2009:

- IAS 1 (revised) – Presentation of Financial Statements.
  The Group has elected to present one performance statement; namely a statement of comprehensive income and to rename the balance sheet to the statement of financial position.
- IFRS 8 – Operating Segments.
  This standard requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes.
- IAS 36 – Impairment of Assets.
  The standard requires disclosures of estimates used to determine the recoverable amount of cash-generating units containing goodwill or intangible assets with indefinite useful lives. When discounted cash flows are used to estimate fair value less costs to sell, disclosure of the period over which the cash flows are projected, the growth rate used and the discount rate is required.

**Going concern**

The financial statements have been prepared on the going concern basis. The Group is comfortable that funding will be available to support working capital needed through the rights issue, as underwritten by the major shareholder representing 51% of the issued shares.

**Related party transactions**

Yakani Brickveld (Pty) Ltd (100% subsidiary of Yakani Infraco)

The Company received management fees for financial and administration services rendered, inthe amount of R916 462 during the period under review.

Clay bricks in the amount of R4 243 534 were purchased during the period under review. All related party transactions were fully settled at year-end.

**Prior period error – Restatement of intangible clay reserve**

With the listing of African Brick Centre towards the end of 2007, the Company acquired a 100% shareholding in the manufacturing company, African Brick, which also mines clay (owns the rights to mine the clay) as well as a property company, Landton Properties, which owns the land and clay reserves (and the mining rights) on which premises African Brick currently mines the clay.

The clay reserves were never fair valued at date of acquisition resulting in only goodwill being raised.

The correction of the error(s) resulted in adjustments as follows:

| Statement of financial position | 2010 | 2009 | 2008 |
|---|---|---|---|
| Intangible assets | – | 5 219 082 | 28 696 906 |
| Accumulated loss | – | 5 219 082 | (1 501 824) |
| Profit or Loss: | | | |
| Impairment of goodwill | – | 5 219 082 | – |
| Amortisation of clay reserve | – | (1 501 824) | (1 501 824) |

The recoverable amount of clay mineral reserves has been determined on the basis of value-in-use calculations. The value-in use calculations use the cash flow projection method based on 2010 cash flow projections, discounted back at the weighted average cost of capital of 19%. Key assumptions used in the value-in-use calculations include budgeted revenue streams, production capacity and production volumes. Such assumptions are based on historical results and adjusted for anticipated future growth. The directors believe that any reasonable possible changes in the key assumptions on which the recoverable amount is based, would not cause the clay mineral reserves' carrying amount to further exceed its recoverable amount.

The useful life of clay mineral reserves is considered to be 20 years or 1.485 billion production units. Amortisation is calculated using the unit of production method. This method used is selected on the basis of the expected pattern of consumption of the expected future economic benefits. These assumptions are based on current market conditions.

### Dividend

In line with its policy, the Group will not pay a dividend for the 2010 year.

### Audit opinion

The auditors of African Brick Centre, SAB&T Inc., have issued an unmodified audit opinion on the Group's financial statements for the year ended 28 February 2010 in terms of Rule 3.18 of the Listings Requirements of the JSE Limited. The audit was conducted in accordance with International Standards on Auditing. A copy of their audit report is available for inspection at the registered office of African Brick Centre. These audited condensed annual financial statements have been derived from the Group audited annual financial statements and are consistent in all material respects.

### Post balance sheet event

The Company announced a R20 million rights issue at 3 cents per share to strengthen its balance sheet, support working capital and facilitate its growth strategy. Yakani Infraco, representing 51% of the issued shares, has irrevocably undertaken to follow its rights.

### Appreciation

We thank our loyal staff for their commitment and also thank our business partners, advisors, clients, and most importantly our shareholders, for their ongoing support and faith in the Group.

### Prospects

With the economy recovering slowly and positive signs in the retail building industry, banks reducing interest rates and reviewing credit granting criteria, the Group has a positive medium-term outlook.

The Department of Human Settlement has invited alternative building material suppliers to show case their products, with clay bricks as a viable alternative to other products. The Group has lined up marketing programmes to attract and comply with the environmental requirements of green building through the Claybrick Association.

A relatively new Executive and Sales team is surefooted to prepare for the new challenges. We believe that the worst in the building industry has passed and are positive that the year ahead will bear a moderate increase in sales and sales margins.

Expansion to the Krugersdorp factory was tailored and approved, which will enable the Group to regain production capacity towards the end of the 2011 financial year, lost during the recession.

By order of the Board

31 May 2010

**SA Tati**
*Chairman*

**B Blom**
*Financial Director*

**MP Shangase**
*Managing Director*

These results and an overview of African Brick Centre are available at www.africanbrick.co.za

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