WEARNE
WG WEARNE LTD

WG Wearne Limited
(Incorporated in the Republic of South Africa)
(Registration number 1994/005983/06)
JSE code: WEA ISIN: ZAE000078002
("the company" or "the Group")

Reviewed financial results

for the period ended 31 August 2011

Condensed Interim Consolidated Statement of Financial Position

	Reviewed 6 months August 2011 R'000	Unaudited 6 months August 2010 R'000	Audited 12 months February 2011 R'000
ASSETS			
Non-current assets	**348 275**	568 869	371 051
Property, plant and equipment	**342 544**	525 992	365 466
Intangible assets	**–**	33 465	–
Other financial assets	**4 114**	3 712	3 968
Deferred taxation asset	**1 617**	5 700	1 617
Current assets	**76 198**	100 839	57 433
Inventories	**12 608**	31 713	14 281
Loans receivable	**1 652**	385	–
Other financial assets	**2 850**	5 329	2 953
Current taxation receivable	**–**	–	270
Trade and other receivables	**43 664**	63 131	36 394
Cash and cash equivalents	**15 424**	281	3 535
Non-current asset held for sale	**4 969**	–	72 402
Total assets	**429 442**	669 708	504 886
EQUITY AND LIABILITIES			
Equity	**39 589**	208 396	61 451
Issued capital	**178 215**	176 446	174 637
Reserves	**452**	276	374
Accumulated (loss)/profit	**(139 078)**	30 486	(114 344)
Non-controlling interest	**–**	1 118	784
Non-current liabilities	**277 083**	197 204	255 356
Borrowings	**248 435**	163 984	220 377
Deferred taxation liability	**891**	18 032	1 369
Trade and other payables	**13 410**	–	19 620
Environmental provision	**14 347**	15 188	13 990
Current liabilities	**110 872**	264 108	150 388
Loans payable	**5 523**	4 473	5 678
Borrowings	**1 973**	93 874	2 838
Current taxation payable	**2 390**	–	1 795
Trade and other payables	**70 653**	102 927	64 940
Bank overdraft	**30 333**	62 116	75 137
Non-current liabilities held for sale	**1 898**	–	37 691
Total liabilities	**389 853**	461 312	443 435
Total equity and liabilities	**429 442**	669 708	504 886
Number of shares in issue ('000)	**273 017**	250 092	246 715
Net asset value per share (cents)	**14.5**	83.3	24.9
Net tangible asset value per share (cents)	**14.5**	83.3	24.9

Segmental Reporting

	Reviewed 6 months August 2011 R'000	Unaudited 6 months August 2010 R'000	Audited 12 months February 2011 R'000
Revenue			
Aggregates	**110 636**	113 708	188 472
Readymix concrete	**56 954**	107 195	170 984
Concrete manufactured products	**8 402**	6 306	11 006
Total revenue	**175 992**	227 209	370 462
EBIT			
Aggregates	**5 747**	18 279	(56 488)
Readymix concrete	**(13 024)**	(7 471)	(22 307)
Concrete manufactured products	**926**	602	1 296
Total EBIT	**(6 351)**	11 410	(77 499)
(Loss)/Profit for the period			
Aggregates	**(10 549)**	7 068	(83 602)
Readymix concrete	**(14 718)**	(6 766)	(28 516)
Concrete manufactured products	**(252)**	296	313
Total (loss)/profit for the period	**(25 519)**	598	(111 805)
Property, plant and equipment			
Aggregates	**270 504**	367 786	274 626
Readymix concrete	**48 915**	82 188	61 820
Concrete manufactured products	**23 125**	26 436	25 954
Total property, plant and equipment	**342 544**	476 410	362 400
Total assets			
Aggregates	**331 394**	493 808	349 037
Readymix concrete	**65 206**	127 551	106 016
Concrete manufactured products	**32 842**	48 349	49 833
Total assets	**429 442**	669 708	504 886

INTRODUCTION

WG Wearne Limited and its subsidiaries ("the Group") provide a comprehensive range of products to the building and construction industry in South Africa. The major operating divisions comprise aggregates, ready mixed concrete and the manufacture of specialised cast concrete products.

REVIEW OF RESULTS

Group revenue decreased by 22.54% to R175.9 million (2010 period: R227.2 million) for the six months ended 31 August 2011 ("2011 period"). The largest contributor to this decline was the readymix concrete division which contributed a 46.87% or a R50.2 million decline when compared to the six months ended 31 August 2010 ("2010 period").

This decline in revenue resulted in a gross profit of R63.4 million (2010 period: R94.1 million) which is a 32.61% or a R30.6 million decrease from the 2010 period. Included in cost of sales is repairs and maintenance expenditure of R7.4 million on plant and R2.6 million on vehicles, a significant portion of which represents repair work which has been postponed from the prior year. In addition to this R10 million, the Group spent R13.8 million on capital replacement of property, plant and equipment, which has resulted in the Group spending R2.5 million on external plant hire to ensure that operations continued during the repair process.

Operating expenses decreased by 21.11% to R50.6 million (2010 period: R64.2 million) compared to the 2010 period. This decrease is a result of the Group streamlining overhead structures in order to reduce expenditure and implementing cost monitoring processes to ensure that these are aligned with revenue. Operating expenses include the following non-recurring items, among others: R3.5 million loss on scrapping of property, plant and equipment, R4.9 million debtors' impairment and legal fees of R0.8 million relating to the implementation of the Group's section 311 creditors' arrangement.

The Group's R13.8 million asset capitalisation project was made possible through funding received from the Industrial Development Corporation ("IDC"). The project was aimed at improving the Group's assets, and allows it to meet its customers' expectations. In conjunction with this project the Group has also been engaged in an asset optimisation project which is aimed at identifying excess assets in order to maximise effectiveness through streamlining the operations. As a result of the replacement of property, plant and equipment the Group's depreciation has remained fairly constant when compared to the 2010 period.

Finance costs have remained predominately unchanged from the 2010 period. This resulted from the Group receiving R10 million from its financiers in April 2011 and R34 million from the IDC in April 2011 in order to recapitalise the business.

The Group's net asset value per share declined by 81.28% to 15.6 cents (2010 period: 83.3 cents per share) as a result of the loss on the sale of the Portland Group and the introduction of the IDC as a shareholder. The sale of the Portland Group was settled though the cancellation of 56 646 370 ordinary shares on 15 April 2011 and the receipt of R30 million in cash for the transfer of the Portland Group property on 22 June 2011. The conclusion of the sale resulted in the Group derecognising R76.4 million in assets and R37.6 million in liabilities. On 22 August 2011 the IDC concluded its investment in the Group through the acquisition of 82 917 964 ordinary shares (or 30%) for R11.7 million. This investment was in conjunction with the initial IDC term loan of R34.0 million granted to the Group.

Condensed Interim Consolidated Statement of Comprehensive Income

	Reviewed 6 months August 2011 R'000	Unaudited 6 months August 2010 R'000	Audited 12 months February 2011 R'000
Continuing operations			
Revenue	**175 992**	227 209	370 462
Cost of sales	**(112 545)**	(133 064)	(255 921)
Gross profit	**63 447**	94 145	114 541
Other income	**2 089**	2 412	11 394
Operating expenses	**(53 670)**	(64 226)	(160 516)
Earnings before interest, taxation, depreciation and amortisation ("EBITDA")	**11 866**	32 331	(34 581)
Depreciation and amortisation	**(21 295)**	(20 921)	(42 918)
Earnings/(Loss) before interest and taxation ("EBIT")	**(9 429)**	11 410	(77 499)
Investment income	**112**	32	–
Finance costs	**(15 649)**	(15 860)	(36 313)
Loss before taxation	**(24 956)**	(4 418)	(113 812)
Taxation	**(563)**	5 016	2 007
Loss for the period	**(25 519)**	598	(111 805)
Profit/(Loss) from discontinued operations	**707**	(3 468)	(36 795)
Other comprehensive income for the period	**78**	–	98
Total comprehensive loss for the period	**(24 734)**	(2 870)	(148 502)
Total comprehensive loss attributable to:			
Owners of the parent	**(24 734)**	(3 355)	(148 583)
Non-controlling interests	**–**	485	81
Loss for the period	**(24 734)**	(2 870)	(148 502)
Reconciliation of headline earnings:			
Comprehensive loss attributable to equity holders	**(24 734)**	(3 355)	(148 583)
Impairments	**4 308**	–	42 468
Fair value on non-current assets held for sale	**–**	–	56 859
Loss/(Profit) on sale of property, plant and equipment	**1 727**	688	(2 804)
Headline loss attributable to ordinary shareholders	**(18 699)**	(2 667)	(52 060)
Weighted average number of shares in issue ('000)	**208 001**	249 852	246 492
Fully diluted weighted average number of shares ('000)	**208 001**	249 852	246 492
Continuing operations			
Basic and diluted (loss)/earnings per share (cents)	**(12.27)**	0.24	(45.36)
Continuing and discontinued operations			
Basic and diluted loss per share (cents)	**(11.89)**	(1.34)	(60.28)
Basic and diluted headline loss per share (cents)	**(8.99)**	(1.07)	(21.12)

PROSPECTS

Over and above the asset realisation programme, resources have been deployed in the enhancement of systems and processes. These include, among others, the following: The implementation of ISO 9001 accredited procedures with regards to the supply of aggregate and readymix products; the establishment of an effective human resources function and the implementation of procedures focused on generating operational efficiencies.

The realisation of these processes will enable the Group to provide quality services to customers through the provision of quality products and an on time service. In addition, the Group has entered into a number of strategic alliances which the directors expect will enable it to gain market share and as a result grow sales.

Lastly, the Group is considering additional cost projects that will create additional positive contributions to the bottom line.

With effect from 1 October 2011 the Group sold its 50% interest in its bricks manufacturing division. The sale was concluded after the reporting date. However the Group was in negotiations with the buyers with the intention of selling at the end of the reporting period, therefore the business was classified as a non-current asset held for sale in terms of IFRS 5: Non-current Assets Held for Sale and Discontinued Operations. In line with this standard, the Group has accordingly restated comparable numbers for the prior periods.

GOING CONCERN

The Group incurred a total comprehensive loss for the 2011 period of R24.7 million. This highlights a going concern issue which is emphasised further by the Group's negative liquidity position, high gearing and depleted net asset value. Furthermore, as a result of a weakened performance period on period, the Group has remained under considerable strain to fund its working capital requirements.

Solvency and liquidity

The Group is currently solvent with a net asset value of R39.5 million or 14.5 cents per share. However it is currently experiencing liquidity difficulties emphasised through its current liabilities (R110.8 million) exceeding its current assets (R76.2 million).

Cash flow

In addressing its cash flow demands, the holding company WG Wearne Limited, and its subsidiary, Wearne Aggregates (Proprietary) Limited, entered into a scheme of arrangement in terms of section 311 of the Companies Act. In terms of the scheme of arrangement: The secured creditors granted the companies a moratorium period from 1 February 2011 to 31 January 2013 under which the companies are only required to service the monthly interest arising from the loans owing to them, and the concurrent creditors granted the companies a moratorium from 1 January 2011 to 31 August 2011 under which the companies are not obliged to make any payment in respect to any claims outstanding. Thereafter, the concurrent creditors' outstanding balance will be paid over twenty instalments including interest raised at 3% per annum.

Further to the moratorium the companies are required to settle any concurrent creditors' debt, incurred after the moratorium period began, by the seventh working day of the month immediately following the month in which the claim arose.

The companies under the scheme of arrangement made their first payment in September 2011 and are continuing to service those claims on a monthly basis.

Cash management

In response to its cash requirements the Group has entered into a cash management programme with its financiers, which has resulted in a more even distribution of cash. The effective utilisation of this cash has, in turn, allowed the Group to meet its obligations under its current moratorium state.

Condensed Interim Consolidated Statement of Changes in Equity

	Reviewed 6 months August 2011 R'000	Unaudited 6 months August 2010 R'000	Audited 12 months February 2011 R'000
Balance at beginning of period	**61 451**	210 246	210 246
Total comprehensive loss for period	**(21 734)**	(3 355)	(148 583)
Other comprehensive income	**78**	–	98
Issue of share capital net of expenses	**11 638**	1 495	1 495
Redemption of share capital	**(7 926)**	–	–
Movement treasury shares	**(134)**	(77)	(1 886)
Non-controlling interest	**(785)**	485	81
Dividends	**–**	(398)	(1 094)
Balance at end of period	**42 589**	208 396	61 451

Condensed Interim Consolidated Statement of Cash Flows

	Reviewed 6 months August 2011 R'000	Unaudited 6 months August 2010 R'000	Audited 12 months February 2011 R'000
Cash flows from operating activities	**(1 167)**	39 562	35 947
Cash flows from investing activities	**24 839**	(6 025)	10 623
Cash flows from financing activities	**33 021**	(28 449)	(51 249)
Net increase/(decrease) in cash and cash equivalents	**56 693**	5 088	(4 679)
Cash and cash equivalents at beginning of period	**(71 602)**	(66 923)	(66 923)
Cash and cash equivalents at end of period	**(14 909)**	(61 835)	(71 602)

Share Capital

	Reviewed 6 months August 2011 R'000	Unaudited 6 months August 2010 R'000	Audited 12 months February 2011 R'000
Authorised			
500 000 000 ordinary par value Share of 0.1 cent each	**500 000**	500 000	500 000
Reconciliation of number of shares Issued (millions):			
Opening balance	**246**	246	246
Bought back during period	**(56)**	1	–
Issued during period	**83**	(1)	–
Closing balance	**273**	246	246
Issued share capital			
Ordinary share capital	**273**	246	246
Ordinary share premium	**177 942**	176 200	174 391
	178 215	176 446	174 637

Continued focus

All facets of the Group are under scrutiny in an effort to further streamline processes and reduce costs. These measures include the restructure of human capital; the identification and evaluation of unencumbered assets and the effective distribution and utilisation of resources.

The outcome of these processes should result in the Group incurring less expenditure in underproductive areas, thereby releasing cash and enabling the Group to meet its debts as they fall due.

In light of the above, the going concern basis has been adopted in preparing these interim financial statements. The directors have no reason to believe that the Group or any company within the Group will not be a going concern in the foreseeable future.

BASIS OF PREPARATION

These interim results have been prepared in accordance with and contain the information required in terms of International Financial Reporting Standards ("IFRS"), the Companies Act of South Africa (Act 71 of 2008), as amended, and International Accounting Standards (IAS 34: Interim Financial Reporting), AC 500 Standards as issued by the Accounting Practices Board and in compliance with the Listings Requirements of the JSE Limited. The accounting policies and standards used to prepare these interim financial statements are in terms of IFRS and are consistent with those applied in the prior interim period and at year-end 28 February 2011, except for the application of IAS 1 (revised): Presentation of Financial Statements.

These condensed interim consolidated financial statements incorporate the financial information of the company, its subsidiaries and special purpose entities that, in substance, are controlled by the Group. Results of subsidiaries are included from the effective date of acquisition or up to the effective date of disposal. All significant transactions and balances between Group enterprises are eliminated on consolidation.

REVIEW CONCLUSION

Grant Thornton, the Group's independent auditors, have reviewed the consolidated financial results for the six months ended 31 August 2011 and have expressed a modified review conclusion which contains the following emphasis of matter: "Without qualifying our conclusion, we draw attention to the reviewed condensed results which indicate that the Group incurred a total comprehensive loss of R24.7 million during the period under review and as of that date the Group's current liabilities exceeded its current assets by R34.6 million. These conditions along with other matters as set out in the results commentary, indicated the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern." The review report is available for inspection at the company's registered office.

The preparation of the condensed interim consolidated financial results was supervised by R C Devereux, (CA)SA.

DIVIDENDS

In line with past practice, no dividend has been declared for the period.

By order of the board

30 November 2011

S J Wearne
Chairman

R C Devereux
Chief Executive Officer

CORPORATE INFORMATION

Non-executive directors: S J Wearne (Chairman); C Ramushu; M Salanje; M M Patel
Executive director: R C Devereux
Registered address: 3 Kiepersol House, Stone Mill Office Park, 300 Acacia Road Cresta, 2195
Postal address: PO Box 1674, Cresta, 2118

Company secretary: Ithemba Governance and Statutory Solutions (Pty) Limited
Telephone: (011) 459 4500 • Facsimile: (011) 478 5481
Transfer secretaries: Computershare Investor Services (Pty) Limited
Designated Adviser: Vunani Corporate Finance

These results and an overview of Wearne are available at www.wearne.co.za