



BASIL READ



Unaudited results for the six months ended 30 June 2009

Revenue ▲ 47%

Operating profit ▲ 43%

Headline earnings per share ▲ 35%

Order book of R6,2 billion

BASIL READ HOLDINGS LIMITED Incorporated in the Republic of South Africa (Registration number 1984/007758/06) ("Basil Read" or "the group") ISIN: ZAE000029781 Share code: BSR www.basilread.co.za

Summarised consolidated income statement

Table with 4 columns: Unaudited 6 months 30 June 2009 R'000, Unaudited 6 months 30 June 2008 R'000, Audited 12 months 31 December 2008 R'000. Rows include Revenue, Operating profit, Net finance income, Profit before taxation, Profit after taxation, etc.

Summarised consolidated statement of comprehensive income

Table with 4 columns: Unaudited 6 months 30 June 2009 R'000, Unaudited 6 months 30 June 2008 R'000, Audited 12 months 31 December 2008 R'000. Rows include Net profit, Other comprehensive income, Share based payment, etc.

Summarised consolidated statement of financial position

Table with 4 columns: Unaudited 6 months 30 June 2009 R'000, Unaudited 6 months 30 June 2008 R'000, Audited 12 months 31 December 2008 R'000. Rows include ASSETS (Non-current, Current), EQUITY AND LIABILITIES (Capital and reserves, Non-current liabilities, Current liabilities).

Statement of changes in equity

Table with 4 columns: Unaudited 6 months 30 June 2009 R'000, Unaudited 6 months 30 June 2008 R'000, Audited 12 months 31 December 2008 R'000. Rows include Issued capital, Retained income, Other reserves, Minority interests.

Summarised consolidated statement of cash flows

Table with 4 columns: Unaudited 6 months 30 June 2009 R'000, Unaudited 6 months 30 June 2008 R'000, Audited 12 months 31 December 2008 R'000. Rows include Operating cash flow, Net cash generated, Cash flow from operating activities, etc.

Summarised consolidated segment report

Table with 6 columns: Revenue 30 June 2009 R'000, Operating profit 30 June 2009 R'000, Operating margin 30 June 2009 %, Operating margin 30 June 2008 %, Operating margin 31 December 2008 %. Rows include Construction, Mining, Developments, Total.

Additional information to the annual financial statements

Table with 4 columns: Unaudited 6 months 30 June 2009, Unaudited 6 months 30 June 2008, Audited 12 months 31 December 2008. Rows include Number of shares, Headline earnings, Reconciliation of basic earnings, Adjusted by, Reconciliation between weighted average number of shares, etc.

Commentary

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), IAS34 "Interim Financial Reporting", the South African Companies Act, as amended, and the JSE Listings Requirements. The principal accounting policies used in the preparation of the unaudited results for the period ended 30 June 2009 are consistent with those applied for the year ended 31 December 2008 and for the unaudited results for the six months ended 30 June 2008 in terms of IFRS.

Overall review

In a period characterised by global financial turmoil and discouraging local economic data confirming that South Africa is in a recession, Basil Read has produced a sound set of results in the six months to June 2009. Continuing in an expansionary phase, the group has maintained a steady trajectory of organic growth and is in the process of acquiring a strategically important investment confirming its goal of becoming a R10 billion turnover group by 2013.

The board is proud to report sustained growth, with operating profit of R181,8 million (June 2008: R126,9 million), a notable increase of 43%. This translated into an operating margin of 8,8% (June 2008: 9,0%). Turnover increased by 47% to R2,1 billion (June 2008: R1,4 billion) with net profit attributable to ordinary shareholders increasing by 43% to R122,1 million (June 2008: R85,6 million). Net margin was unchanged from December 2008 at 5,9% (June 2008: 6,1%).

Operating cash flow was satisfactory at R277,1 million (June 2008: R213,2 million) and was utilised to fund working capital, for investing activities and to reduce debt levels. Working capital requirements increased in the period under review as debtors terms extended due to the prevailing economic environment and money was invested in property developments, classified as development land held for sale as part of inventory. Development land comprises land held for the purposes of property development and subsequent resale.

A sizeable amount of taxation was paid in the six months to June 2009 as the group's assessed losses of prior years were completely used. The group tax rate is an effective 32,6% due to share based payment expenses disallowed for tax purposes and the effects of secondary taxation on companies relating to the dividend paid. The group expects the effective tax rate to remain high for the remainder of the year where after it should normalise to approximate the current promulgated company tax rate of 28%.

Cash on hand now stands at R810,1 million (June 2008: R467,6 million) with the debt equity ratio at a modest 25,5% (June 2008: 43,7%).

The group experienced significant balance sheet growth, with total assets at a level of R2,8 billion (June 2008: R1,8 billion), and considers the balance sheet to be appropriately structured to enable further growth.

The group secured new contracts in the period under review in the amount of R2,0 billion (June 2008: R2,8 billion) and the order book is a healthy R6,2 billion (June 2008: R5,4 billion). Commensurate with the growth of the group, and in line with its strategic intentions, Basil Read has successfully targeted large scale contracts, with several under negotiation.

International opportunities abound and while the group has yet to make an international acquisition, several expansionary activities are being explored across Africa, the Middle East and Australia. While the global outlook for growth remains slow, opportunities for infrastructural development exist in various countries and Basil Read will look to join forces with international partners to obtain a share of the work on offer.

Locally, the group is in the process of acquiring the Gerolomou/Mvela group for a total purchase consideration of R360 million. The current order book of the targeted group is R1,2 billion. Competition Commission approval for the transaction was granted in early August with the general meeting to obtain shareholder approval scheduled for 8 September 2009.

The performance of Stone and Allied Industries Limited, an operator in the aggregate business with static crushers erected on mine dumps mainly in the Free State and North West provinces, remained disappointing and the company continued to be a loss-making operation. Given the rapid expansion of the group, Stone and Allied is no longer considered of strategic importance and was effectively disposed of in July 2009. Impairments relating to the disposal amount to R11,7 million in the period under review and no further losses are anticipated in the second half of the year.

Following on from recent years, which have been characterised by significant investment in new plant to revitalise the group's fixed asset base, substantially less plant was invested in, in the six months under review. New plant worth R80,9 million (June 2008: R178,3 million) was acquired. Total capital expenditure budgeted for in the 2009 financial year is R150 million.

At the reporting date, the group had issued guarantees in the amount of R1,4 billion (June 2008: R1,2 billion). These guarantees have arisen in the ordinary course of business and it is not expected that any loss will arise out of the issue of these guarantees.

During 2008, the group registered a R1 billion medium-term note programme on the Bond Exchange of South Africa. Although this programme had not been utilised at the reporting date, Basil Read has subsequently raised R225 million against this facility during the month of August to fund the acquisition of the Gerolomou/Mvela group. If the transaction is approved, the Basil Read group will have a combined order book of R7,4 billion.

The group continued with its commitment to transformation and the main operating company, Basil Read (Pty) Limited, was re-certified as a level 4 B-BBEE contributor in terms of the Construction Sector Charter, which means that our clients can accumulate 100% of their expenditure with us towards their own Charter. Attention remains focused on improving our scores in all areas, particularly management control, employment equity and skills development, in order for us to achieve our stated target of achieving level 3 status in 2010.

To aid with our transformation goals, particularly relating to enterprise development, Basil Read restructured the shareholding of BR-Tsima Construction (Pty) Limited to incorporate two BEE partners. Basil Read will continue to assist and support BR-Tsima, managed by Bafana Ndenwa, to ensure that the black-owned entity will be successful.

Basil Read is also monitoring the progress of middle to senior black management within the group and continues to provide support and mentoring to all previously disadvantaged individuals in the group's employ.

Operational review

Safety, health, environmental, risk management and quality ("SHERQ"), Basil Read is in the process of attaining ISO14000 certification. A stage one assessment was successfully concluded in June 2009 and the group was commended for the progress made towards the certification. The stage two final assessment will take place in November 2009.

To reinforce our commitment towards reducing our environmental footprint and in support of the group's other efforts, solar panels are in the process of being installed at our head office to supplement our daily electricity usage. It is envisaged that the solar panels will contribute 50 kWh towards our daily usage of 250 kWh (20%) affording a monthly saving in electricity costs.

Safety is a key focus area for the group. The disabling injury frequency rate ("DIFFR") was a low 0,58 for the period under review. Unfortunately, we suffered three fatalities at our roads sites which emphasises the need to continually train and teach staff regarding the various hazards associated with construction sites. A comprehensive industrial theatre road show was launched in the second quarter, performed in three of the country's official languages, to remind staff that Basil Read considers the safety and well-being of all staff as paramount to its success and to highlight the need for workers to stay alert and attentive to what is going on around them.

Construction

Basil Read's largest division continued to perform well in the review period and reported revenue of R1,7 billion (June 2008: R1,1 billion) with operating profit of R128,3 million (June 2008: R86,8 million). The order book remains robust at a level of R5,0 billion (June 2008: 4,2 billion).

The group successfully secured numerous contracts including further roads contracts valued at R1 billion. Established as a market leader in the local economy, the roads division is set to use its expertise in the international market as it seeks to secure contracts outside of South Africa's borders, partnering with local contractors. Roadcrete Africa (Pty) Limited, acquired during the 2008 financial year, has been successfully integrated into the Basil Read stable of companies and continues to perform well. Focusing on township infrastructure and related bulk services, Roadcrete was awarded two new contracts in excess of R675 million in the period under review.

One of these projects is the upgrading of Malibongwe Drive between the N14 and Lanseria. The project involves the expansion of the road into a dual carriageway and should be substantially completed by 2011. The other project is a 22 month contract to reconstruct and rehabilitate the R30 between Glen Lyon and Brandfont.

Further contracts were secured by the group's subsidiary, Newport Construction, in the Coega Development Zone in Port Elizabeth. Projects include the construction of the Brickmakerskloof Bridge. The pending acquisition of the Gerolomou/Mvela group is set to further bolster the construction division. Significant synergies are expected to be realised through the considerable experience of the management team and their 27 year established reputation in the buildings industry. The pro-forma earnings enhancement of the acquisition is 28,21 cents and the soon to be acquired group is cash generative and debt-free.

The Regent in Morningside, an upmarket apartment block, is expected to be completed in September 2009. The building consists of two parking basements, eight floors consisting of apartments and a multi-storey ninth floor comprising high-end penthouses. Weskus Mall, situated on Saldanha Road, between Vredenburg and Saldanha was completed in only 17 months, despite being faced with extreme weather conditions. The mall was completed in March 2009, and is the largest shopping centre in the area.

Contracts secured in the period under review include the OR Tambo, Rhodesfield, Marlboro and Hatfield stations as part of the Gautrain project. Total contract value for all four stations is R100 million. Basil Read has already been awarded projects totalling R240 million taking the group's awards relating to the Gautrain project to R340 million. Work also commenced on the Cosmo City flats. The flats comprise 281 units, split between one- and two-bedroom configurations, and are aimed at low- to middle-income earners. The division is actively pursuing private-public partnerships ("PPPs") in joint venture with various partners. This type of business model enables the group to partner with larger teams of architects and other development partners, in the process developing skills and creating jobs.

The recent strike action by all roads and civil engineering labour, as rates of pay and working conditions were reviewed, was satisfactorily resolved without significant disruption to planned work programmes. The group remains on track with its commitments to complete the stadium and infrastructure contracts relating to the 2010 FIFA World Cup.

Mining

The mining division performed well in the year to June 2009, contributing revenue of R339,7 million (June 2008: R355,7 million) and operating profit of R51,0 million (June 2008: R35,9 million). Despite pressure on commodity prices, the division's order book remains promising at a level of R1 billion (June 2008: R1 billion).

Work at the Rössing Uranium mine in Namibia, for owner Rio Tinto, is ongoing. The mine is considered one of the safest in Africa and Basil Read prides itself on its contribution to the safety record. The division continues to work at Veneta diamond mine, near Musina. Operated by De Beers, the mine is South Africa's largest diamond producer.

Debswana's cancellation of mining activities in Botswana in the early part of 2009 resulted in the cancellation of the Damtshaa contract. Mutually acceptable termination conditions and compensation were agreed upon. The mining division replaced the above contract through the award of a two year contract on a local magnetite mine valued at R180 million that commenced during August 2009. The division is negotiating a further contract to the value of R360 million. Negotiations are expected to be concluded during the third quarter of 2009. This contract has been excluded from the division's order book.

Developments

The developments division continued to be a stable performer with revenue of R31,1 million (June 2008: R24,7 million) and operating profit of R2,5 million (June 2008: R4,1 million). Operating margin halved from 16,8% in June 2008 to 8,0% at June 2009. This contraction of margins is largely due to professional fees paid to technical advisors for work performed relating to existing developments that are yet to break ground. Preliminary expenses are typical to this type of project due to the long lead times to bring the project to fruition.

The division continues to work on numerous projects around the country with several expected to break ground in the coming year. The strategic importance of this division will then be realised as secondary work is generated for the group, particularly in the areas of roads and civil engineering. Some R3 billion worth of work, which is currently excluded from the group's order book, is expected to be generated over the life of current projects.

Bulk services are near completion at the Klipriver Industrial Park and marketing of the development is well under way. Several sale agreements are in the process of being negotiated. The site is conveniently situated in the south of Johannesburg, next to the newly developed Heineken brewery.

The division increased its investment in Sunset Bay Trading 282 (Pty) Limited to 100%, and the results of the company have been consolidated from 1 March 2009. A preliminary purchase price allocation exercise was undertaken which will be finalised in the second half. Sunset Bay is responsible for the development of the St Michels International Leisure Estate in Mpumalanga.

The division recognises the importance of energy efficient design and the impact that "new town" developments have on the environment. As a result, Basil Read Green Projects was established during the 2008 financial year and currently has in excess of 500 000 saplings, which will be used to "green" the various projects under way.

Prospects

Basil Read continues to actively pursue growth, both organic and acquisitive, to build a company of critical mass for shareholders. Despite uncertain economic times, the trend of development, particularly in sub-Saharan Africa is expected to resume in the near future, even if the growth trajectory is flatter. Although government has committed to continued infrastructural spend, a definite delay in the roll out of projects has been noted. Budgetary constraints in certain municipalities create opportunities for the Basil Read group to partner with them in creating innovative ways of financing future projects, particularly relating to the group's developments division.

The private-public project model continues to evolve and remains a feasible method of undertaking larger contracts. Basil Read continues to forge long term and robust partnerships with international construction conglomerates and turnkey contractors, such as Bouygues, Sodexo and Alstom, which will serve us well when bidding on this type of project.

Various PPP projects are in the pipeline, including government office blocks, mixed classification correctional centres and toll roads. Basil Read has pre-qualified for a number of these and has submitted bids, in joint venture, where applicable. Further bids are in the process of being compiled and will be submitted in due course. Combined construction value for the group's targeted PPP's is in excess of R15 billion.

The group expects significant water supply projects to be offered for tender in the next few years. Some R30 billion worth of work is anticipated, specifically to supply water to the power plants that are currently under construction. The government has also committed to upgrading the water treatment and waste water treatment plants due to an urgent need to create additional capacity.

Internationally, the group is re-establishing a presence in the rest of Africa, in partnership with selected local contractors. Expansionary opportunities continue to be explored elsewhere, particularly in the Middle East and Australia, where Basil Read has held discussions with local partners with established reputations in their respective construction industries. Opportunities for acquisition will continue to be cautiously explored.

On the back of a healthy balance sheet and effective management structure, Basil Read will adopt a prudent approach to managing the prevailing volatility to ensure the group can continue to grow in a controlled and structured manner.

In addition, shareholders are referred to the cautionary announcement released on SENES on 11 August 2009, in which shareholders were advised that Basil Read and TWP Holdings Limited were in discussions regarding a possible merger.

Corporate governance

The directors and senior management of the group endorse the Code of Corporate Practices and Conduct as set out in the King II report on Corporate Governance. Having regard for the size of the group, the board is of the opinion that the group substantially complies with the Code as well as with the Listings Requirements of the JSE Limited. The group performs regular reviews of its corporate governance policies and practices and strives for continuous improvement in this regard.

At the group's annual general meeting, held on 7 May 2009, Mr Bulelani Ngcuka resigned as chairman and non-executive director with immediate effect. Mr Lester Peteni was appointed as the new independent non-executive chairman of Basil Read, effective from 7 May 2009. Mr Peteni, who holds a BSc (Building Science) degree obtained from the University of Cape Town has substantial experience in the construction and property development industries.

In compliance with the JSE Listings Requirement section 3.84(h), the group is pleased to welcome Mr Donny Gouveia to the board in his capacity as Financial Director. The board is pleased to further welcome Ms Given Refilwe Sibiya as an independent non-executive director, who was appointed on 1 July 2009. She is a qualified chartered accountant and in addition to her board responsibilities, will serve on the audit/risk committee.

Dividends

The board has reviewed the current period's results together with the forecasts for 2009/10 and has decided not to declare an interim dividend.

Post-balance sheet review

Basil Read has a R1 billion Domestic Medium-Term Note Programme registered in November 2008 with The Bond Exchange of South Africa. On 6 August 2009 Basil Read raised R125 million under this programme. The note was listed on The Bond Exchange of South Africa on 12 August 2009 and bears interest at the 3-month ZAR-JIBAR-SAFEX rate plus 3,00%. Interest is payable quarterly and the capital sum is payable on 6 August 2010. On 7 August 2009 Basil Read raised R100 million under this programme. The note was listed on The Bond Exchange of South Africa on 13 August 2009 and bears interest at the 3-month ZAR-JIBAR-SAFEX rate plus 2,90%. Interest is payable quarterly and the capital sum is payable on 6 August 2010. On 7 August the 3-month ZAR-JIBAR-SAFEX was equal to 7,675%.

On behalf of the board

S L L Peteni (Chairman) M L Heyns (Chief Executive Officer) 27 August 2009

