Masimba Holdings Limited

Unaudited Half Year Results for the Period Ended 30 June 2014

Interim Announcement To Shareholders

FINANCIAL HIGHLIGHTS

	Six months to 30 June 2014 Unaudited US$	Six months to 30 June 2013 Unaudited US$
Revenue	13,562,961	17,423,652
EBITDA	759,638	1,330,966
Headline (Loss)/Earnings	(352,536)	106,791
EBITDA/Turnover	5.6%	7.6%
Basic (Loss)/Earnings Per Share (cents)	(0.16)	0.05
Headline (Loss)/Earnings Per Share (HEPS) (cents)	(0.16)	0.05

CHAIRMAN'S STATEMENT

Introduction

This Chairman's statement and the accompanying financial statements relate to the six month period ended 30 June 2014 with comparatives for the six month period ended 30 June 2013.

Operating environment

Throughout the period the economy experienced significant liquidity constraints which had an adverse impact on the general business environment characterised by falling aggregate demand, negative inflation, non-existent FDI and Government failing to meet its payments obligations on time. The negative inflation is to an extent attributable to some level of correction of an overvaluation of the real US$ exchange rate within the country which is estimated by economists to be between 17% and 25%. The country remains in an unsustainable trade deficit with consumption driven imports.

GROUP PERFORMANCE

Notwithstanding the challenges in the economy, in the last six months management focus was in the areas of debt reduction, capacity and order book growth, cost containment and alternative sources of funding for infrastructure projects. Some of these efforts yielded positive results in the period under review while the effect of others will be more demonstrable in the second half of the year and going forward.

Group revenue for the six months period fell by 22% to $13,562,961 (2013: $17,423,652), largely demonstrating the continued depressed economic activity experienced in the period. The Group achieved a higher gross profit margin of 17% in the period under review compared to the last reporting period of 15% mainly driven by cost containment and operating efficiencies initiatives spread across the Group. However, EBITDA decreased to $759,638 (2013: $1,330,966), a reflection of declining economic activity particularly in the infrastructure building sector. The June 2013 EBITDA included a once off fair value adjustment of $492,000 compared to NIL in the reporting period. Accordingly, on a sustainable measurement basis the June 2014 EBITDA was 9% off against June 2013, reflecting improved margins and the results of cost control initiatives commenced in 2013.

OPERATIONS REVIEW

Manufacturing

Manufacturing contributed $5,848,076 (June 2013: $6,058,966) or 43% to Group turnover compared to the previous reporting period contribution of 35%. The increase in manufacturing contribution to Group turnover highlights the buoyancy of the unit against a more pronounced slow performance experienced in the construction unit. The manufacturing unit achieved 87% of internal volume targets and volumes were flat on the comparative 2013 period. Gross profit margins in the unit were maintained at 21% during the period.

Sales to merchants, a recovering irrigation sector and direct civil construction projects, buoyed by housing developments were the key sources of revenue. Revenue growth was restricted by management strategies to manage credit risk given the deteriorating liquidity constraints prevailing in Zimbabwe. Exports during the period contributed 6% to Manufacturing revenues and the Board has strategies in place to grow this market.

Construction

Contracting revenue of $7,714,885 (June 2013: $11,364,686) was 57% contribution compared to prior period of 65% to total Group turnover. Contracting turnover fell by 32% reflecting the continued slowdown experienced in project revenues owing to the absence of large scale projects in the country due to the liquidity crisis during the reporting period. While Masimba Construction order book is firm at $41 million, a significant portion of the order book at $19 million remains inactive due to funding difficulties facing our clients. Various innovative initiatives are being pursued to unlock this order book. The projects that were executed in the period were fairly balanced between Housing development, Mining and Telecommunications.

Contracting gross profit margins improved to 15% (June 2013: 12%) owing to operating efficiencies and aggressive cost containment measures achieved during the period.

Properties

During the period under review low yielding investment properties with a book value of $470,000 were disposed of and the proceeds applied towards reducing the Group's borrowings.

Overhead cost

The restructuring initiatives that commenced in 2013 resulted in a sustainable overhead cost reduction of 20%. This area will continue to receive Board and management attention going into the future.

Cash flows and borrowings

Owing to the operating loss, the Group recorded negative cash flows from continuing operations of $668,808 (June 2013: $770,350). Investing activities, primarily property disposals net of acquisitions to expand operations yielded positive cash flows of $229,501 (June 2013: $345,901). The capital expenditure in the period amounted to $273,426 (2013: $282,373).

The Group borrowing position as at 30 June 2014 improved to $3,480,000 (Dec 2013: $3,649,999) and further reductions are anticipated by end of December 2014. Cash and cash equivalents at the same date amounted to $1,443,322 (Dec 2013: $2,476,137).

Prospects

Business conditions are expected to remain constrained for the rest of the year with liquidity challenges becoming even more pronounced. Both the Government and the IMF have revised downwards economic growth prospects for this year.

However, the Group sees opportunities particularly in the property development market in the short term, where Proplastics on one hand, is the supplier of choice for infrastructure materials and on the other, Masimba Construction is the preferred contractor. Significant successes have recently been registered in these specific areas of work.

To bolster the Group position in the infrastructure materials market, the Group continues to invest in plant modernisation that will increase capacity, efficiencies and product range. To this end, the first phase of the plant modernisation program comprising the commissioning of the new HDPE plant at Proplastics has been rescheduled to September following manufacturing delays in Europe.

The large national infrastructure development backlog continues to present growth potential for the construction industry in the long term. However, the external perceptions on the political environment and liquidity crisis continue to stand in the way of unlocking of such opportunities. In the short term, Masimba Construction has been strongly positioned to exploit opportunities in the short term, small to medium size projects in property development, mining, telecommunications and local government infrastructure.

The Group's performance is expected to significantly improve in the second half of the year to December 2014.

Dividend declaration

In view of the Company performance in the last six months and the continuing liquidity challenges in the market the Board has made the decision not to declare an interim dividend.

Appreciation

I wish to extend a special thank you to my colleagues on the Board for their support during the period. I would also like to thank management and staff for their efforts, commitment and dedication towards delivering value to the stakeholders in a very challenging environment. I also wish to extend my appreciation to customers, suppliers and regulatory authorities for their continued support to the Group.

For and behalf of the Board

G. Sebborn
21 August 2014

ABRIDGED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Six months to 30 June 2014 Unaudited US$	Six months to 30 June 2013 Unaudited US$
Revenue	13,562,961	17,423,652
Profit before interest, tax, depreciation and amortisation	759,638	1,330,966
Depreciation	(952,368)	(956,018)
Operating (loss)/profit	(192,730)	374,948
Net interest paid	(244,159)	(241,716)
(Loss)/profit before tax	(436,889)	133,232
Taxation	92,499	(34,307)
(Loss)/Profit for the period	**(344,390)**	**98,925**
Number of shares in issue (millions)	220.5	214.8
Basic (loss)/earnings per share (cents)	(0.16)	0.05
Headline (loss)/earnings per share (cents)	(0.16)	0.05

ABRIDGED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Loss)/profit for the period	(344,390)	98,925
Other comprehensive income/(loss):		
Available for sale financial assets	-	3,595
Income tax relating to components of other comprehensive income	-	(360)
Other comprehensive income for the period, net of tax	**-**	**3,235**
TOTAL COMPREHENSIVE (LOSS)/ INCOME FOR THE PERIOD	**(344,390)**	**102,160**

ABRIDGED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2014 Unaudited US$	31 Dec 2013 Audited US$
ASSETS			
Property, plant and equipment	4.2	11,552,599	12,253,294
Investment property	4.3	4,646,000	5,116,000
Investments		504	504
Non-current assets		**16,199,103**	**17,369,798**
Current assets			
Bank balances and cash		1,443,322	2,476,137
Contracts in progress and accounts receivable	4.4	11,308,865	12,652,892
Inventories		4,933,861	4,951,542
Current tax asset		225,460	-
		17,911,508	**20,080,571**
Total assets		**34,110,611**	**37,450,369**
EQUITY AND LIABILITIES			
Share capital		2,204,937	2,204,937
Share premium		260,063	260,063
Reserves		17,784,788	18,129,178
		20,249,788	**20,594,178**
Non-current liabilities			
Borrowings	4.5	1,083,333	833,333
Deferred tax		2,575,572	2,575,572
		3,658,905	**3,408,905**
Current liabilities			
Borrowings	4.5	2,396,667	2,816,666
Current tax liability		-	46,389
Accounts payable	4.6	7,805,251	10,584,231
		10,201,918	**13,447,286**
Total equity and liabilities		**34,110,611**	**37,450,369**

ABRIDGED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months to 30 June 2014 Unaudited US$	Six months to 30 June 2013 Unaudited US$
Cash utilised in continuing operations	(668,808)	(770,350)
Interest paid	(244,159)	(241,716)
Tax paid	(179,350)	(48,950)
Investing activities	229,501	345,901
Financing activities	(169,999)	460,004
Net cash utilised by operations	**(1,032,815)**	**(255,111)**

ABRIDGED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Shareholders' equity at the beginning of the period	20,594,178	19,269,855
Shares issued	-	57,191
Share premium	-	177,330
Share based payments reserve	-	44,022
Foreign currency translation reserve	-	(4,947)
Revaluation reserve	-	1,368,944
Dividend paid	-	(257,805)
(Loss)/profit for the period	(344,390)	(60,412)
Shareholders' equity at the end of the period	**20,249,788**	**20,594,178**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presentation

Statement of compliance

The condensed interim financial statements have been prepared using the accounting policies consistent with International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS"). The same accounting policies, presentation and methods of computation are followed in the interim financial statements as applied in the Group's latest annual financial statements

2. Currency of reporting

The Financial Statements are presented in United States Dollars, which is also the functional currency of the Group.

3. Significant accounting policies

The principal accounting policies of the Group are consistent, in all material respects with those adopted in the previous year.

4. Notes to the financial results

	30 June 2014 Unaudited US$	30 June 2013 Unaudited US$
4.1 Profit before tax		
Profit before tax is shown after charging the following items:		
Staff costs	1,564,706	1,601,007
Compensation of directors and key management		
- for services as directors	20,275	53,750
- for management services (included in staff costs)	494,617	799,654

	June 2014 Unaudited US$	Dec 2013 Audited US$
4.2 Property, plant and equipment		
Movement for the period:		
Balance at the beginning of the period	12,253,294	12,703,542
Capital expenditure	273,426	1,344,836
Revaluation	-	1,731,477
Depreciation	(952,368)	(2,968,120)
Disposals	(21,753)	(558,441)
Balance at the end of the period	11,552,599	12,253,294

Property, plant and equipment encumbered as per note 4.5

	June 2014 Unaudited US$	Dec 2013 Audited US$
4.3 Investment property		
Movement for the period:		
Balance at beginning of the period	5,116,000	6,118,000
Revaluation	-	(357,000)
Disposals during the period	(470,000)	(645,000)
Balance at end of the period	4,646,000	5,116,000

The investment property will be revalued at 31 December 2014 by independent sworn valuers on the open market basis.

	June 2014 Unaudited US$	Dec 2013 Audited US$
4.4 Contracts in progress and accounts receivable		
Contract receivables and contract work in progress	7,196,988	8,420,183
Trade receivables	2,760,176	2,614,030
Prepayments	1,086,097	1,238,160
Deposits and other receivables	546,729	657,080
	11,589,990	12,929,453
Less: Allowance for doubtful receivables	(281,125)	(276,561)
Receivables at end of the period	11,308,865	12,652,892

The Group provides for receivables aged above 90 days on a case by case basis where subsequent developments suggest that recovery of the amount is in doubt.

Book debts encumbered as per note 4.5.

	June 2014 Unaudited US$	Dec 2013 Audited US$
4.5 Interest bearing borrowings		
Long term	1,083,333	833,333
Short term	2,396,667	2,816,666
	3,480,000	3,649,999

The short term loans have a tenure of three months and the long-term loans have a tenure of two years. The loans accrue interest at an effective rate of 13%.These loans are fully secured against immovable property and a notarial general covering bond over moveable assets including a cession of book debts.

	June 2014 Unaudited US$	Dec 2013 Audited US$
4.6 Accounts payable		
Trade	982,490	1,359,483
Contract accruals and other payables	3,394,345	5,344,293
Subcontractor liabilities	3,428,416	3,880,455
	7,805,251	10,584,231
4.7 Capital commitments		
Authorised but not contracted for	913,516	2,155,000

This expenditure will be financed from internal resources and existing facilities.

4.8 Contingent liabilities

Bank guarantees on construction contracts in respect of performance, advance payments, retentions, bids and temporary imports.

	June 2014 Unaudited US$	Dec 2013 Audited US$
	1,352,523	2,872,001

4.9 Segment information

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on types of operations. The Group's reportable segments under IFRS8 are Contracting, Manufacturing and Other (incorporating holdings and property management).

The accounting policies of the reportable segments are the same as the Group's accounting policies.

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment. These revenues represent amounts generated from external customers.

	Segment revenue		Segment operating (loss)/profit before tax	
	30 June 2014 Unaudited US$	30 June 2013 Unaudited US$	30 June 2014 Unaudited US$	30 June 2013 Unaudited US$
Contracting	7,714,885	11,364,686	(432,743)	234,473
Manufacturing	5,848,076	6,058,966	311,522	259,110
Other	-	-	(71,509)	(118,635)
Total	13,562,961	17,423,652	(192,730)	374,948

Segment assets and liabilities as at

	30 June 2014 Unaudited US$	31 Dec 2013 Audited US$
Segment assets		
Contracting	14,487,064	14,721,743
Manufacturing	9,615,954	9,513,061
Other	10,007,591	13,215,565
Consolidated total assets	**34,110,609**	**37,450,369**
Segment liabilities		
Contracting	11,396,118	12,697,668
Manufacturing	1,522,524	2,882,418
Other	942,181	1,276,105
Consolidated total liabilities	**13,860,823**	**16,856,191**

Other segment information

	Depreciation		Capital expenditure	
	30 June 2014 Unaudited US$	30 June 2013 Unaudited US$	30 June 2014 Unaudited US$	30 June 2013 Unaudited US$
Contracting	553,899	581,935	24,937	99,931
Manufacturing	335,156	334,441	248,489	182,441
Other	63,313	39,642	-	-
	952,368	956,018	273,426	282,372