

A man in a dark suit and light tie stands in front of a wooden structure with a woven basket. The man is looking slightly to the left. The background is a blurred outdoor setting with wooden elements and a woven basket.

AFRICAN & OVERSEAS
ENTERPRISES LIMITED

**UNAUDITED INTERIM CONDENSED
CONSOLIDATED RESULTS**
for the six months ended 31 December 2018

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 31 December 2018	Six months ended 31 December 2017	Year ended 30 June 2018
%	Unaudited R'000	Unaudited R'000	Audited R'000
Revenue	13.9	361 691	317 506
Turnover	13.5	349 567	307 987
Cost of sales		(158 739)	(145 578)
Gross profit	17.5	190 828	162 409
Other income	14.7	8 839	7 705
Other operating costs	4.6	(168 689)	(161 236)
Operating profit	248.9	30 978	8 878
Dividend income		23	22
Finance income		3 262	1 792
Finance costs		(75)	(99)
Share of profit of associate (net of taxation)		26 516	–
Dilution loss on investment in associate		(14 811)	–
Profit before tax	333.2	45 893	10 593
Income tax expense		(10 214)	(3 358)
Profit for the period	393.1	35 679	7 235
Other comprehensive income			
Items that are or may be subsequently reclassified to profit or loss			
Fair value adjustment on available-for-sale investment		–	–
Fair value adjustment on assets held at fair value through other comprehensive income		9	–
Total comprehensive income for the period (net of taxation)		35 688	7 235
Profit attributable to:			
Ordinary and "N" ordinary shareholders of the parent		18 995	3 614
Preference shareholders		17	17
Profit attributable to equity holders of the parent		19 012	3 631
Non-controlling interest		16 667	3 604
Profit for the period		35 679	7 235
Total comprehensive income attributable to:			
Ordinary and "N" ordinary shareholders of the parent		19 000	3 614
Preference shareholders		17	17
Profit attributable to equity holders of the parent		19 017	3 631
Non-controlling interest		16 671	3 604
Total comprehensive income for the period		35 688	7 235
Reconciliation of headline earnings			
Earnings attributable to Ordinary and "N" ordinary shareholders of the parent		18 995	3 614
Adjusted for:			
(Profit) / loss from disposal of property, plant and equipment (net of taxation)		(88)	3
Dilution loss on investment in associate		8 133	–
Non-headline earnings items included in earnings from associate		(17 296)	–
Gain from bargain purchase of investment		(17 300)	–
Loss from disposal of property, plant and equipment (net of taxation)		4	–
Headline earnings		9 744	3 617
Basic earnings per ordinary share (cents)	426.2	166.8	31.7
Headline earnings per ordinary share (cents)	169.2	85.6	31.8
Diluted earnings per ordinary share (cents)	426.2	166.8	31.7
Diluted headline earnings per ordinary share (cents)	169.2	85.6	31.8
Weighted average number of equity shares on which earnings per share is based (000's)		11 387	11 387
Weighted average number of equity shares on which diluted earnings per share is based (000's)		11 387	11 387
KEY RATIOS			
Gross profit margin	%	54.6	52.7
Retail operating costs to turnover	%	46.3	50.5
Other operating costs to revenue	%	46.6	50.8
Operating profit margin	%	8.9	2.9
Retail segment operating profit margin	%	8.4	2.3

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2018 Unaudited R'000	As at 31 December 2017 Unaudited R'000	As at 30 June 2018 Audited R'000
ASSETS				
Non-current assets		206 702	158 395	156 096
Property, plant and equipment		59 623	60 776	60 721
Investment property		67 195	69 667	68 741
Intangible assets		21 880	23 821	22 980
Investment in associate	4.1	11 705	–	–
Loan to associate	4.1	43 092	–	–
Other investments		847	524	835
Deferred tax asset		2 360	3 607	2 819
Current assets		192 666	176 085	192 920
Inventories	4.2	129 607	67 461	92 132
Trade and other receivables		21 935	27 971	27 521
Forward exchange contracts		2 525	–	746
Income tax receivable		227	134	163
Accrued operating lease asset		267	3 189	2 859
Cash and cash equivalents		38 105	77 330	69 499
Total assets		399 368	334 480	349 016
EQUITY AND LIABILITIES				
Capital and reserves		308 185	268 005	272 522
Share capital	4.3	1 200	1 200	1 200
Share premium		6 616	6 616	6 616
Share-based payment reserve		(116)	(116)	(116)
Other reserves		1 443	1 301	1 438
Retained earnings		159 222	138 132	140 227
Non-controlling interest		139 820	120 872	123 157
Non-current liabilities		20 827	18 518	19 807
Post-retirement liability		778	910	792
Accrued operating lease liability		13 903	13 816	14 235
Deferred tax liability		6 146	3 792	4 780
Current liabilities		70 356	47 957	56 687
Trade and other payables		57 518	40 878	51 819
Accrued operating lease liability		4 635	5 027	4 849
Forward exchange contracts		–	2 049	–
Income tax payable		8 203	3	19
Total equity and liabilities		399 368	334 480	349 016

OTHER INFORMATION AND KEY RATIOS

		As at 31 December 2018 Unaudited R'000	As at 31 December 2017 Unaudited R'000	As at 30 June 2018 Audited / Unaudited R'000
Capital commitments				
Authorised - not contracted for	(R'000)	3 046	6 199	12 102
Authorised - contracted for	(R'000)	2 273	2 372	5 723
Return on equity ^	%	13.2	2.7	2.1
Return on capital ^	%	31.7	8.1	6.6
Return on assets ^	%	24.6	6.4	5.1
Inventory turn ^	times	2.9	4.0	3.2
Asset turn ^	times	1.9	1.9	1.7
Net asset value per share	R	14.44	12.62	12.81

^ Ratios for December have been annualised

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	Six months ended 31 December 2018 Unaudited R'000	Six months ended 31 December 2017 Unaudited R'000	Year ended 30 June 2018 Audited R'000
Operating profit before working capital changes	42 963	24 713	39 367
Working capital changes	(25 855)	4 710	(8 238)
Interest received	1 632	1 792	4 687
Interests paid	(75)	(99)	(71)
Dividends paid	(25)	(25)	(50)
Dividends received	23	22	45
Income tax (paid) / received	(312)	1 012	167
Net cash inflow from operations	18 351	32 125	35 907
Additions to property, plant and equipment	(7 789)	(13 422)	(22 951)
Additions to investment property	(311)	(517)	(1 494)
Additions to intangible assets	(533)	(801)	(1 908)
Proceeds from disposal of property, plant and equipment	215	–	–
Loan advanced to associate	(41 327)	–	–
Net cash outflow from investing activities	(49 745)	(14 740)	(26 353)
Net (decrease) / increase in cash and cash equivalents	(31 394)	17 385	9 554
Cash and cash equivalents at the beginning of the period	69 499	59 945	59 945
Cash and cash equivalents at the end of the period	38 105	77 330	69 499

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months ended 31 December 2018 Unaudited R'000	Six months ended 31 December 2017 Unaudited R'000	Year ended 30 June 2018 Audited R'000
Share capital	1 200	1 200	1 200
Share premium	6 616	6 616	6 616
Other reserves and share based payment reserve	1 327	1 185	1 322
Opening balance	1 322	1 185	1 185
Fair value adjustment on available-for-sale financial assets	–	–	137
Fair value adjustment on assets held at fair value through other comprehensive income	5	–	–
Retained earnings	159 222	138 132	140 227
Opening balance	140 227	134 518	134 518
Profit for the period	19 012	3 631	5 742
Preference dividends declared / paid	(17)	(17)	(33)
Non-controlling interest	139 820	120 872	123 157
Opening balance	123 157	117 276	117 276
Profit for the period	16 667	3 604	5 790
Fair value adjustment on available-for-sale financial assets	–	–	108
Fair value adjustment on assets held at fair value through other comprehensive income	4	–	–
Preference dividends declared / paid	(8)	(8)	(17)
Total capital and reserves	308 185	268 005	272 522

GROUP SEGMENTAL REPORTING

	Six months ended 31 December 2018 Unaudited R'000	Six months ended 31 December 2017 Unaudited R'000	Year ended 30 June 2018 Audited R'000
Revenue			
Total external retail revenue	349 603	307 979	587 632
Retail segment revenue	352 399	309 970	591 644
Intersegment revenue earned	(2 796)	(1 991)	(4 012)
Total external property revenue	8 667	7 713	15 700
Property segment revenue	11 543	10 518	21 381
Intersegment revenue earned	(2 876)	(2 805)	(5 681)
Water infrastructure revenue	136	–	–
Dividend income	23	22	45
Finance income	3 262	1 792	4 687
Total group revenue	361 691	317 506	608 064
Segment operating profit			
Retail segment profit	29 364	7 003	8 171
Property segment profit	5 566	4 894	9 984
Water infrastructure profit	98	–	–
Group services loss*	(4 050)	(3 019)	(5 387)
Total group operating profit	30 978	8 878	12 768
Depreciation and amortisation			
Retail	10 317	11 409	22 791
Property	2 032	2 013	4 046
Total group depreciation and amortisation	12 349	13 422	26 837
Segment assets			
Retail	242 492	222 619	213 844
Property	76 885	75 234	78 475
Water infrastructure	54 797	–	–
Group services*	25 194	36 627	56 697
Total group segment assets	399 368	334 480	349 016
Segment liabilities			
Retail	79 123	58 573	67 805
Property	8 889	5 855	7 019
Water infrastructure	583	–	–
Group services*	2 588	2 047	1 670
Total group segment liabilities	91 183	66 475	76 494
Capital expenditure			
Retail	8 193	13 198	22 734
Property	440	1 542	3 619
Total group capital expenditure	8 633	14 740	26 353

* Group services include corporate costs

1. Basis of presentation of financial statements

The unaudited condensed consolidated interim financial statements are prepared in accordance with the requirements of the JSE Listings Requirements and the requirements of the Companies Act of South Africa. The JSE Listings Requirements require interim reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34: Interim Financial Reporting.

These financial statements have been prepared using accounting policies that comply with IFRS and which are consistent with those applied in the preparation of the annual financial statements for the year ended 30 June 2018, except for the adoption of IFRS 9: Financial Instruments and IFRS 15: Revenue from Contracts with Customers. Neither standards however had a material impact on these results or comparative information.

2. Unaudited results

These results have not been reviewed nor audited by the group's auditors. The unaudited condensed consolidated interim financial statements have been prepared under the supervision of WD Nel CA (SA), the company's financial director, and were approved by the board of directors on 25 March 2019.

3. Preference dividend

A dividend on the 6% cumulative preference shares for the six months ended 31 December 2018 in the amount of R16 500 was declared by the board of directors on 14 December 2018 and was paid on 14 January 2019.

4. Notes to the financial results

4.1. Investment in and loan to associate:

During the period under review the group subscribed for 33.78% of the issued share capital of SA Water Works Holding Company (RF) (Pty) Ltd (formerly SA Water Works Holding Company (Pty) Ltd) ("SAWW") for a nominal consideration through its wholly-owned subsidiary, Ombrecorp Trading (RF) (Pty) Ltd (formerly Ombrecorp Trading (Pty) Ltd) ("Ombrecorp") which was acquired as a shelf company for this purpose.

SAWW was specifically incorporated to house the water business interests of the group and is accounted for as an associate within the group. Simultaneously with the subscription, SAWW acquired, through a wholly-owned subsidiary, a majority equity interest in Sembcorp Siza Water (RF) (Pty) Ltd ("Sembcorp Siza") through shareholder and external loan funding.

Sembcorp Siza conducts a water concession business operating predominantly in the municipal boundaries of the Ilembe District Municipality and surrounding areas in KwaZulu-Natal, South Africa.

Founded in 1998, it provides water and water services to residential, industrial and commercial consumers pursuant to a concession agreement executed between the Ilembe District Municipality and Sembcorp Siza's predecessors-in-title.

Subsequent to the aforementioned acquisition, SAWW acquired, via the same wholly-owned subsidiary, [i] 100% of the ordinary issued share capital of SA Water Works Utilities Proprietary Limited (formerly Sembcorp Utilities South Africa Proprietary Limited) ("SA Water Works Utilities") which holds 52% of the ordinary issued shares in Silulumanzi – and [ii] 48% of the ordinary issued shares in the share capital of Silulumanzi, from Sembcorp Utilities (Netherlands) NV.

SA Water Works Utilities has been in existence since 1998 and provides operation and maintenance services to Silulumanzi. Silulumanzi conducts a water concession business, operating in the municipal boundaries of the City of Mbombela Local Municipality and the greater parts of Nelspruit and, since 1999, has provided water and water services to residential, commercial and industrial consumers pursuant to the concession agreement executed between the City of Mbombela Local Municipality and Silulumanzi's predecessors-in-title.

Persuant to the introduction of a new SAWW shareholder, Ombrecorp's shareholding in SAWW was subsequently diluted from 33.78% to 15.16%.

Subsequent to the reporting date, the principal operating subsidiary of the company, Rex Trueform Group Ltd ("Rex Trueform"), entered into a subscription agreement with certain not-for-profit organisations (being The Community Chest of the Western Cape, Cornerstone Institute (RF) NPC, Desmond Tutu HIV Foundation NPC, the Trustees for the time being of the District Six Museum Foundation Trust and the Trustees for the time being of the Wheatfield Estate Foundation Trust) (collectively, the "new Ombrecorp Shareholders") and Ombrecorp whereby Rex Trueform and each of the new Ombrecorp shareholders subscribed for new shares in Ombrecorp. Rex Trueform's shareholding in Ombrecorp was consequently diluted from 100% to 52% due to the introduction of the new Ombrecorp shareholders.

In addition, Ombrecorp subscribed for further SAWW ordinary shares and advanced further funding to SAWW such that Ombrecorp now holds 30% of the issued share capital of SAWW. Further detail in this regard is contained in the SENS announcement issued by Rex Trueform on 25 February 2019.

4.2. Inventories:

Inventories increased in line with the increased store foot print and the strategic acceleration of new store roll outs in conjunction with a drive to increase turnover per store.

NOTES CONTINUED

4.3 Share capital is comprised of the following:

	As at 31 December 2018 Unaudited R'000	As at 31 December 2017 Unaudited R'000	As at 30 June 2018 Audited R'000
Ordinary share capital	650	650	650
Preference share capital	550	550	550
	1 200	1 200	1 200

Once the new standard is adopted, the group will either apply the standard on a full or modified, with practical expedients allowed per IFRS 16, retrospective basis.

IFRIC Interpretation 23: Uncertainty over Income Tax Treatment.

Effective for annual periods beginning on or after 1 January 2019

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. Management is in the process of assessing the potential impact of this new interpretation on the group.

5. Standards and interpretations issued but not yet effective

The following standard and interpretation that are relevant to the group have been issued but are not effective for the period under review.

IFRS 16: Leases

Effective for annual period beginning on or after 1 January 2019

IFRS 16 replaces the existing lease standard, IAS 17 Leases, and related interpretations. The standard will be adopted for the first time by the group for the financial year commencing 1 July 2019.

The group's property segment will not be significantly impacted as lessor accounting will remain largely unchanged.

The standard will significantly impact the group's retail segment operating from leased premises. Based on the new standard the group will no longer be required to straight-line operating lease payments, as a result, occupancy costs will decrease.

The new standard will require the recognition of a right of use asset and a corresponding lease liability resulting in increased depreciation and finance costs. Key metrics in the statement of financial position and statement of comprehensive income will be affected.

Optional exemptions for short-term leases and leases of low-value items will lessen the impact of the standard.

The group continues to assess the potential impact of the new standard on its consolidated financial statements, including the assessment of the practical application of the principles contained in the new standard.

The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on, inter alia, future economic conditions including the group's borrowing rate at 1 July 2019, the criteria that meet the definition of a lease, the composition of the store lease portfolio and the group's assessment of its intent to exercise lease renewal options.

COMMENTARY

The principal operating subsidiary, Rex Trueform Group Limited, reports as follows:

“Group profile

Rex Trueform Group Ltd (“Rex Trueform”) is an investment holding company and is currently invested in property, retail and water infrastructure. Its interest in retail is through its wholly-owned subsidiary company, Queenspark (Pty) Ltd (“Queenspark”), and its subsidiary. Rex Trueform’s interest in property includes direct property ownership as well as indirect property investment through a subsidiary. Rex Trueform’s investment in water infrastructure is through its wholly-owned subsidiary Ombrecorp Trading (RF) (Pty) Ltd and its investments. During the prior period, Rex Trueform changed its name from Rex Trueform Clothing Company Ltd to Rex Trueform Group Ltd to better reflect the diverse nature of its business.

Group results

The group produced a pleasing performance during the first half of the financial year. Revenue, mainly impacted by the retail segment, increased by 13.9% to R361.9 million (2017: R317.7 million). The gross profit generated from the retail segment increased by 17.5% to R190.8 million (2017: R162.4 million). Other group income which includes rental income increased by 14.2%. Operating costs were contained and increased by 4.3%.

The result is that operating profit has increased by 234.7% to R32.2 million (2017: R9.6 million). Profit before tax has increased by 316.3% to R47.2 million (2017: R11.3 million) resulting in the basic earnings per share increasing by 363.0%. Headline earnings per share has increased by 151.0%, mainly due to the exclusion of the gain from bargain purchase of the investment in the water infrastructure business, amounting to R31.5 million.

Net asset value per share increased to R14.99 per share (2017: R12.99 per share).

Retail

The Queenspark store growth strategy progressed well with the opening of five new stores and the closure of one in the period bringing the total number of walk-in stores in South Africa and Namibia to seventy-four, excluding one franchise store in Kenya. Where feasible and the risk of cannibalisation is low, Queenspark continues to introduce new brands to complement the existing ranges.

As a result of the implementation of its strategy, Queenspark’s turnover increased by 13.5% and it achieved a gross profit margin of 54.6% (2017: 52.7%). Retail operating costs, which included additional store costs, were well contained and increased by a modest 3.9%. This resulted in a retail operating profit of R29.4 million (2017: R7.0 million).

Property

The Rex Trueform Office Park complex in Salt River is the main income generating operation within the group’s property segment.

There are a further two undeveloped properties in the Salt River precinct: one has heritage significance and the other is vacant land. One further property is situated in the Wynberg precinct in Cape Town and is leased to Queenspark as a distribution centre.

The operating profit of this segment for the period amounted to R5.6 million (2017: R4.9 million). This improvement in operating profit was partly due to the containment of operating costs.

Water infrastructure

The investment in water infrastructure was made during the period under review and contributed R11.8 million to the profit for the period of the group.

Please refer to note 4.1 to the results for further details of the acquisition.

Group services

Costs for group services increased by 25.1% to R2.8 million (2017: R2.3 million). This was largely due to costs incurred in setting up an employee share incentive scheme as well as printing and publication costs pertaining to the water infrastructure investment.

Prospects

Retail

While the Queenspark strategy and initiatives are delivering the required result, management is cognisant of the difficult trading environment (including having regard to the recent recurrence of load-shedding in South Africa) and subdued economy.

Management however remains confident in the retail segment’s future and in its ability to deliver sustainable growth and value creation for shareholders.

Property

Rex Trueform has the intention to develop the two undeveloped properties in the medium term, both situated in the Cape Town area, and is continuing to consider development options in this regard. One of the undeveloped properties has heritage significance. As a result, decisions regarding the development of the property have been delayed in order to consider the significance of the property in this regard and heritage guidelines more fully, whilst also ensuring that any development is sustainable and economically viable. Financing is also being carefully considered in relation to all development options.”

MR Molosiwa

(Chairman)

MA Golding

(Chief Executive Officer)

Cape Town

25 March 2019

African and Overseas Enterprises Limited
(Incorporated in the Republic of South Africa - Reg No. 1947/027461/06)
("the company")

JSE share codes:
AOO - AON - AOVP

ISIN:
ZAE000000485 - ZAE000009718 - ZAE000000493

Directors:
MR Molosiwa* (Chairman), MA Golding (Chief Executive Officer), WD Nel (Financial Director),
HB Roberts*, PM Naylor*, LK Sebatane*
* Independent non-executive

There were no changes to the board of directors during this period.

Registered office:
263 Victoria Road, Salt River, Cape Town, 7925

Company Secretary:
AT Snitcher

Transfer secretaries:
Computershare Investor Services Proprietary Limited
Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196

Sponsor:
Java Capital

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