SPANJAARD

Spanjaard Limited (Incorporated in the Republic of South Africa)
Registration number: 1960/004393/06 **Share code:** SPA **ISIN:** ZAE000006938 ("Company" or "Group")

UNAUDITED INTERIM GROUP RESULTS FOR THE SIX MONTHS ENDED 31 AUGUST 2018

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

R'000	Six months to 31 Aug 2018	Six months to 31 Aug 2017
Revenue	**63 737**	56 181
Cost of sales	**(38 907)**	(36 149)
Gross profit	**24 830**	20 032
Other income	**76**	485
Distribution costs	**(5 706)**	(6 235)
Administration expenses	**(16 524)**	(17 335)
Finance costs	**(559)**	(432)
Profit/(loss) before tax	**2 117**	(3 485)
Taxation	**(863)**	684
Profit/(loss) for the period	**1 254**	(2 801)
Other comprehensive income/(loss)		
Items that may be subsequently reclassified to profit or loss		
Movement in foreign currency translation reserve	**(92)**	24
Total comprehensive income/(loss) for the period attributable to ordinary shareholders	**1 162**	(2 777)
Profit/(loss) per ordinary share		
— basic and diluted (cents)	**15,40**	(34,39)
Headline profit/(loss) per ordinary share		
— basic and diluted (cents)	**15,50**	(35,48)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

R'000	As at 31 Aug 2018	As at 28 Feb 2018
ASSETS		
Non-current assets	**32 592**	30 572
Property, plant and equipment	**31 047**	28 994
Intangibles	**1 108**	1 141
Goodwill	**437**	437
Current assets	**41 381**	33 658
Inventories	**17 555**	16 768
Trade receivables and other receivables	**23 365**	16 255
Cash and cash equivalents	**461**	635
Non-current assets held for sale	**22**	126
Total assets	**73 995**	64 356
EQUITY AND LIABILITIES		
Capital and reserves attributable to the Company's equity holders		
Ordinary shares	**407**	407
Share premium	**6 464**	6 464
Reserves	**35 411**	34 065
Foreign currency translation reserve	**94**	2
Revaluation reserve	**7 379**	7 621
Share-based payment compensation reserve	**—**	1 906
Retained earnings	**27 938**	24 536
Total shareholders' equity	**42 282**	40 936
Non-current liabilities	**7 492**	4 553
Deferred tax liabilities	**5 108**	4 164
Borrowings	**2 384**	389
Current liabilities	**24 221**	18 867
Trade and other payables	**14 418**	11 479
Bank overdraft	**8 833**	7 035
Borrowings	**962**	345
Shareholders for dividends	**8**	8
Total liabilities	**31 713**	23 420
Total equity and liabilities	**73 995**	64 356
Net asset value per share	**519,24**	502,71

DIVIDENDS

Dividend declared per ordinary share (cents)	Six months to 31 Aug 2018	Six months to 31 Aug 2017
— interim	**—**	—

SUPPLEMENTARY INFORMATION

R'000	Six months to 31 Aug 2018	Six months to 31 Aug 2017
Capital expenditure	**(3 121)**	(967)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

R'000	Six months to 31 Aug 2018	Six months to 31 Aug 2017
Cash flows from operating activities		
Cash receipts from customers	**56 985**	54 327
Cash paid to suppliers and employees	**(58 164)**	(58 239)
Cash used in operations	**(1 179)**	(3 912)
Interest paid	**(559)**	(432)
Tax received	**—**	207
Net cash used in operating activities	**(1 738)**	(4 137)
Cash flows from investing activities		
Purchases of property, plant and equipment	**(3 019)**	(861)
Purchases of intangible assets	**(102)**	(106)
Proceeds on sale of property, plant and equipment	**3**	270
Proceeds on sale of non-current assets held for sale	**98**	—
Net cash used in investing activities	**(3 020)**	(697)
Cash flows from financing activities		
Borrowings repaid	**(344)**	(957)
Proceeds from borrowings	**2 956**	680
Loans from holding company — loans received	**—**	374
Loans from holding company — repayments made	**—**	(285)
Net cash generated from/(used in) financing activities	**2 612**	(188)
Net decrease in cash and cash equivalents	**(2 146)**	(5 022)
Cash and cash equivalents at beginning of period	**(6 400)**	(2 997)
Effect of exchange rate changes on cash and cash equivalents	**174**	(11)
Cash and cash equivalents at end of period	**(8 372)**	(8 030)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R'000	Six months to 31 Aug 2018	Six months to 31 Aug 2017
Ordinary shares	**407**	407
Share premium	**6 464**	6 464
Share-based payment compensation reserve	**—**	1 906
Opening balance	**1 906**	1 906
Transfer to retained earnings	**(1 906)**	—
Foreign currency translation reserve	**94**	(7)
Opening balance	**2**	17
Movement for the period	**92**	(24)
Revaluation reserve	**7 379**	8 193
Opening balance	**7 621**	8 536
Transfer to retained earnings	**(242)**	(343)
Retained earnings	**27 938**	25 697
Opening balance	**24 536**	28 155
Total profit/(loss) for the period	**1 254**	(2 801)
Transfer from share-based compensation reserve	**1 906**	—
Transfer from revaluation reserve	**242**	343
Total shareholders' equity	**42 282**	42 660

OPERATING SEGMENTS

R'000	Six months to 31 Aug 2018	Six months to 31 Aug 2017
Segment revenue		
Special lubricants and allied chemicals	**62 566**	54 496
External foreign customers	**12 072**	7 285
External local customers	**50 494**	47 211
Anti-friction powders	**41**	965
External foreign customers	**—**	435
External local customers	**41**	530
Other	**3 953**	3 271
External foreign customers	**2 753**	2 071
External local customers	**1 200**	1 200
Interdivisional transactions	**(2 823)**	(2 551)
Inter-segment sales	**(2 823)**	(2 551)
	63 737	56 181

OPERATING SEGMENTS continued

R'000	**Six months to 31 Aug 2018**	Six months to 31 Aug 2017
Segment earnings/(loss) before interest and tax		
Special lubricants and allied chemicals	**2 496**	(3 125)
Anti-friction powders	**(562)**	(370)
Other	**863**	563
Reconciling items	**(121)**	(121)
	2 676	(3 053)
Segment assets		
Special lubricants and allied chemicals	**62 200**	52 967
Anti-friction powders	**9 133**	9 510
Other	**21 178**	20 579
Reconciling items	**(18 516)**	(18 700)
	73 995	64 356
Segment liabilities		
Special lubricants and allied chemicals	**33 609**	25 743
Anti-friction powders	**2 305**	2 078
Other	**12 520**	12 659
Reconciling items	**(16 721)**	(17 060)
	31 713	23 420

RECONCILIATION OF HEADLINE EARNINGS

R'000	**Six months to 31 Aug 2018**	Six months to 31 Aug 2017
Profit/(loss) attributable to shareholders	**1 254**	(2 801)
Loss/(profit) on disposal of property, plant and equipment	**12**	(123)
Income tax effect on disposal	**(3)**	36
Headline earnings/(loss)	**1 263**	(2 888)
Weighted average number of ordinary		
Shares in issue ('000)	**8 143**	8 143
Headline earnings/(loss) per ordinary share		
— basic and diluted (cents)	**15,50**	(35,48)

BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated interim financial statements for the six months ended 31 August 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS), IAS 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and the Financial Pronouncements as issued by the Financial Reporting Standards Council, as well as the requirements of the South African Companies Act and the JSE Listings Requirements.

The condensed consolidated interim financial statements do not include all the disclosures required for a full set of financial statements prepared in accordance with International Accounting Standards (IFRS) as issued by the International Accounting Standards Board.

The condensed consolidated interim financial statements appearing in this announcement are the responsibility of the directors and the directors take full responsibility for the preparation thereof. Ian Saunders CA(SA), Financial Director, is responsible for this set of condensed consolidated interim financial statements.

The accounting policies applied in the preparation of these condensed consolidated interim financial statements are in terms of IFRS and are consistent with those applied in the consolidated annual financial statements for the year ended 28 February 2018. The condensed consolidated interim financial statements have not been reviewed or audited by the group's auditors.

COMMENTARY

POINTS OF INTEREST

- **Group revenue is up by 13,4%**
- **Operating profit of R2,67 million**
- **Net asset value increased from 502,71 to 519,24 cents per share**

STATEMENT BY THE CEO

Spanjaard saw somewhat of a recovery during the first half of the financial year. Revenue grew by 13,45%, mainly as a result of increasing export sales and a recovery in cooking spray sales which was a concern for the group during the comparative period. As a result of these increased sales and a reduction in costs, we managed to improve from a loss before tax of R3,485 million in the comparative period a year ago to a profit before tax of R2,117 million for this reporting period.

The resulting headline earnings per share has increased from a loss of 35,48 cents per share to a profit of 15,50 cents per share. Gross profit margins also improved by 3,3% to 38,95% which is pleasing. Management has continued to aggressively interrogate all costs and substantial savings have been made in many operational areas.

The closure of the operations of our anti-friction powders subsidiary Coppermet (Pty) Ltd was completed in April 2018. Although this had a negative effect on revenue during the period, we look forward to the anticipated future savings of operational expenses. Although we have closed our own manufacturing operations we will still continue to trade graphite powders into the foreseeable future. Management will continue to look for ways in which we can grow the special lubricants and allied chemicals business, where revenue grew by 14,81%, organically through the development of new products and entering new markets.

Our special lubricants and allied chemical product exports improved by 66% as a result of new business and we look forward to strengthening and establishing long-term partnerships with our new distributors with the support of our dedicated team to ensure their success. Our export pipeline looks stable for ther remainder of the year. Our European operation out of Rotterdam has also shown good growth in revenue and profit.

During the reporting period, our new gassing equipment arrived from Europe and was successfully commissioned. This equipment was financed through traditional asset finance and has improved the efficiency of two of our aerosol lines. We will continue to invest in new machinery to replace aging machinery which is proving difficult to maintain as replacement parts become harder to source.

The outsourcing of our warehousing and distribution commenced in September 2018. While we acknowledge that, while the transition is taking place, we may experience slight teething problems that could impact our sales in the short term, we are confident that as a result of this move our service to our customers will improve and lead to improved performance and efficiency.

Our negative cash flow for the period, although not ideal, can largely be attributed to short-term timing differences. These include the prepayment of our learnership program earlier in the year, which only commenced in September 2018 and also the slightly delayed receipts from relatively large debtors which amounts were due by 31 August 2018. Increased finance charges that can be attributed to our higher overdraft levels as well as the financing of our new equipment impacted both cash flow and the income statement.

As reported in our integrated annual report for the year ended 28 February 2018, we are currently cooperating with the Department of Labour in terms of an employment equity dispute. We expect the matter to be amicably resolved in the near future.

With added costs of learnerships, increased warehousing and distribution costs as well as the recessionary environment the Country currently finds itself in, management will continue to work hard to ensure that we have a successful second half of the year.

Mr Bernard Montgomery, a long-standing independent non-executive director of the company, resigned as a director and member of the Audit Committee with effect from 31 August 2018.

INTERIM DIVIDEND

The Board has resolved that no interim dividend will be declared for the six months ended 31 August 2018 (2017: RNil).

By order of the Board

Prof DP van der Nest
Independent Non-executive Chairman

K Welgemoed
Chief Executive Office

I Saunders
Financial Director

18 October 2018

COMPANY INFORMATION

REGISTRATION NUMBER

1960/004393/06

DIRECTORS

Prof DP van der Nest* (Independent Non-executive Chairman), K Welgemoed CA(SA) (Chief Executive Officer), I Saunders CA(SA) (Financial Director), GF Cort, CKT Palmer MSc MBA, TN Stewart, S Hari*
*Independent Non-executive

REGISTERED OFFICE

748 – 750 Fifth Street, Wynberg, Sandton, 2090

COMPANY SECRETARY

Levitt Kirson Business Services (Pty) Ltd, 4th Floor, Aloe Grove, Houghton Estate Office Park, 2 Osborn Road, Houghton, 2198

TRANSFER SECRETARIES

Computershare Investor Services Proprietary Limited Rosebank Towers, 15 Biermann Avenue, Rosebank, Johannesburg, 2196

SPONSORS

Arbor Capital Sponsors Proprietary Limited, 20 Stirrup Lane, Woodmead Office Park, Corner Woodmead Drive and Van Reenens Avenue, Woodmead 2191

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