ANDULELA
Investment Holdings

UNAUDITED CONSOLIDATED INTERIM RESULTS

for the six months ended 30 June 2019

Consolidated statements of financial position

	Notes	Unaudited as at 30 June 2019 R'000	Restated Unaudited as at 30 June 2018 R'000	Audited Year ended 31 Dec 2018 R'000
Assets				
Non-current assets		**341 713**	385 616	371 456
Property, plant and equipment	1	**273 509**	312 014	300 379
Goodwill	2	**56 679**	56 679	56 679
Deferred tax asset		**11 525**	16 923	14 398
Current assets		**388 008**	428 074	304 426
Inventory	3	**165 648**	228 797	147 024
Trade and other receivables		**214 593**	190 785	151 339
Cash and cash equivalents		**7 767**	8 492	6 063
Total assets		**729 721**	813 690	675 882
Equity and liabilities				
Equity		**67 818**	80 950	88 216
Issued capital		**976 114**	976 114	976 114
Cash flow hedge reserve		**–**	(1 928)	–
Accumulated loss		**(915 497)**	(898 161)	(893 887)
Non-controlling interest		**7 201**	4 925	5 989
Liabilities				
Non-current liabilities		**100 618**	120 618	125 711
Borrowings	4	**30 957**	21 204	34 448
Redeemable preference shares	5	**33 259**	31 654	32 421
Lease liabilities		**6 490**	30 259	19 042
Deferred tax liability		**29 912**	37 501	39 800
Current liabilities		**561 285**	612 122	461 955
Trade and other payables		**195 938**	220 669	74 912
Borrowings	4	**331 687**	351 927	354 426
Lease liabilities		**23 769**	19 520	21 559
Derivative financial liabilities		**–**	3 205	–
Bank overdraft		**9 891**	16 801	11 058
Total liabilities		**661 903**	732 740	587 666
Total equity and liabilities		**729 721**	813 690	675 882
Net asset value per share (cents)		**69,16**	86,74	93,82
Net tangible asset value per share (cents)		**15,11**	32,69	39,76

Consolidated statements of comprehensive income

	Unaudited as at 30 June 2019 R'000	Restated Unaudited as at 30 June 2018 R'000	Audited Year ended 31 Dec 2018 R'000
Revenue	**688 056**	674 732	1 287 509
Cost of sales	**(577 505)**	(569 413)	(1 061 731)
Gross profit	**110 551**	105 319	225 778
Other income	**1 572**	2 340	127
Operating expenses	**(98 829)**	(99 432)	(187 694)
Impairment of plant and equipment	**(16 918)**	–	–
(Increase)/Decrease in loss allowance for trade receivables	**(299)**	630	2 842
Operating (loss)/profit	**(3 924)**	8 857	41 053
Finance income	**120**	40	86
Finance costs	**(23 723)**	(22 357)	(44 389)
Net loss before taxation	**(27 527)**	(13 460)	(3 250)
Taxation benefit/(charge)	**7 129**	2 780	(1 152)
Loss for the period	**(20 398)**	(10 680)	(4 402)
Other comprehensive income that will be reclassified into profit or loss			
Profit on accrual of derivative cash flow hedge	**–**	7 288	10 492
Deferred tax thereon	**–**	(2 041)	(2 938)
Total other comprehensive income	**–**	5 247	7 554
Total comprehensive (loss)/profit for the period	**(20 398)**	(5 433)	3 152
Net loss attributable to:	**(20 398)**	(10 680)	(4 402)
– Equity holders of Andulela	**(21 610)**	(9 507)	(3 916)
– Non-controlling interest	**1 212**	(1 173)	(486)
Total comprehensive (loss)/profit attributable to:	**(20 398)**	(5 433)	3 152
– Equity holders of Andulela	**(21 610)**	(5 121)	2 399
– Non-controlling interest	**1 212**	(312)	753
Basic and diluted basic loss per share (cents)*	**(24,66)**	(10,85)	(4,47)

Issued and weighted average number of ordinary shares in issue ('000)	**87 645**	87 645	87 645
Reconciliation of headline loss			
Attributable net loss	**(21 610)**	(9 507)	(3 916)
– Impairment of plant and equipment	**16 918**	–	–
– Profit on sale of plant and equipment	**–**	(38)	(38)
– Tax effect of the above	**(4 737)**	11	11
Headline loss	**(9 429)**	(9 534)	(3 943)
Headline and diluted headline loss per share (cents)*	**(10,76)**	(10,88)	(4,50)

* *The basic and diluted basic loss per ordinary share and the headline and diluted headline loss per ordinary share are calculated by dividing these amounts by the weighted average number of ordinary shares in issue during the year.*

Consolidated statements of cash flows

	Unaudited as at 30 June 2019 R'000	Restated Unaudited as at 30 June 2018 R'000	Audited Year ended 31 Dec 2018 R'000
Cash flows from operating activities			
Operating (loss)/profit	**(3 924)**	8 857	41 053
Depreciation and amortisation	**15 063**	15 938	30 312
Impairment of plant and equipment	**16 918**	–	–
Profit on disposal of property, plant and equipment	**–**	(38)	(38)
Changes in inventories	**(18 624)**	(98 479)	(16 707)
Changes in trade and other receivables	**(63 140)**	(4 789)	33 576
Changes in trade and other payables	**121 026**	122 098	(23 515)
Cash generated from operations	**67 319**	43 587	64 681
Interest income	**120**	40	86
Finance charges	**(21 339)**	(19 166)	(38 371)
Income taxes	**–**	–	254
Net cash from operating activities	**46 100**	24 461	26 650
Cash flows from investing activities			
Purchase of property, plant and equipment	**(5 111)**	(2 944)	(5 682)
Proceeds from disposal of property, plant and equipment	**–**	60	60
Net cash applied to investing activities	**(5 111)**	(2 884)	(5 622)
Cash flows from financing activities			
Borrowings raised	**–**	23 314	45 046
Borrowings repaid	**(26 230)**	(37 679)	(44 311)
Preference dividend paid	**–**	–	(70)
Repayment of lease liabilities	**(11 888)**	(10 808)	(21 975)
Net cash applied to financing activities	**(38 118)**	(25 173)	(21 310)
Total cash movement for the period	**2 871**	(3 596)	(282)
Cash at the beginning of the period	**(4 995)**	(4 713)	(4 713)
Cash at the end of the period	**(2 124)**	(8 309)	(4 995)

Consolidated statements of changes in equity

	Unaudited as at 30 June 2019 R'000	Restated Unaudited as at 30 June 2018 R'000	Audited Year ended 31 Dec 2018 R'000
Balance previously reported	**88 216**	96 529	85 065
Adjustments for changes in accounting policy	**–**	(10 147)	–
Opening balance	**88 216**	86 382	85 065
Movements for the period			
– Loss for the period	**(21 610)**	(9 507)	(3 916)
– Cash flow hedge reserve	**–**	4 387	6 314
– Non-controlling interest	**1 212**	(312)	753
Closing balances	**67 818**	80 950	88 216

Notes to the consolidated interim financial statements

Basis of preparation

The unaudited consolidated interim financial statements for the six months ended 30 June 2019 were prepared in accordance with the JSE Listings Requirements for interim reports and the requirements of the Companies Act of South Africa. The JSE Listings Requirements require reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of 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.

The accounting policies applied in the preparation of the consolidated interim financial statements for the six months ended 30 June 2019 are in terms of International Financial Reporting Standards and consistent with those of the annual financial statements for the year ended 31 December 2018.

The directors are not aware of any matters or circumstances arising subsequent to 30 June 2019 that require additional disclosure or adjustments to the financial statements. The directors take responsibility for the preparation of the consolidated interim financial statements based on the underlying financial information. These results were prepared under the supervision of Henk Engelbrecht CA(SA), the Group Chief Financial Officer. The interim financial statements have not been reviewed or reported on by the Group's auditors.

1. Property, plant and equipment

	Unaudited as at 30 June 2019 R'000	Restated Unaudited as at 30 June 2018 R'000	Audited Year ended 31 Dec 2018 R'000
Opening balance	**300 379**	325 028	325 028
Additions	**5 111**	2 944	5 682
Disposals	**–**	(20)	(19)
Impairments	**(16 918)**	–	–
Depreciation and amortisation	**(15 063)**	(15 938)	(30 312)
Closing balance	**273 509**	312 014	300 379

Property, plant and equipment includes the right-of-use assets in terms of IFRS 16 – Leases.

With reference to the results of the Group for the year ended 31 December 2018, the Group disclosed the financial effects of the adoption of IFRS 16 for the six months ended 30 June 2018 in its interim results, which were published on 26 September 2018. The restated numbers for the six months ended 30 June 2018 were incorrect due to the approach followed in the calculation of the net present value of the future lease premiums and the consequent redemption of the lease liabilities. The redemption of the lease liabilities and the interest cost thereon were based on equal monthly payments instead of on the actual monthly lease payments.

The effect of the incorrect approach on the results of the Group for the six months ended 30 June 2018, with the results published in the interim results announcement in September 2018 in the "Before" column and the correct results as per this announcement in the "After" column, can be summarised as follows:

Adjustment of financial results – 30 June 2018

	Before R'000	After R'000	Difference R'000
Statement of financial position			
Property, plant and equipment	312 622	312 014	(608)
Lease liabilities	(36 053)	(49 779)	(13 726)
Deferred tax liabilities	(41 515)	(37 501)	4 014
Accumulated loss	887 841	898 161	10 320
Statement of comprehensive income			
Operating expenses	98 936	98 802	(134)
Finance costs	21 982	22 357	375
Deferred tax expense	(2 712)	(2 780)	(68)
Net loss for the year	10 507	10 680	173
Loss and diluted loss per share (cents)	(10,65)	(10,85)	(0,20)
Headline and diluted headline loss per share (cents)	(10,68)	(10,88)	(0,20)

2. Goodwill

The goodwill arose from the acquisition of the remaining interests in Abalengani Mining Investments Proprietary Limited ("AMI") and JB Platinum Holdings Proprietary Limited ("JBPH") by the Company in 2010. AMI and JBPH respectively hold 49,63% and 33,96% in Kilken Platinum Proprietary Limited ("Kilken") as their only investments.

A discounted cash flow ("DCF") model was constructed by management based on the value in use to determine the recoverable amount for the cash-generating operations of the Kilken Imbani Joint Venture,in which Kilken is a 70% partner, using a discount rate of 17,9% (2018: 17,9%), based on the risk-free rate adjusted for market, sector and project-specific risks and an annual Platinum Group Metals ("PGM") production rate of 12 732 ounces (2018: 11 574 ounces) (based on historic production volumes). Forecast PGM metals prices and the USD/ZAR exchange rates were derived from a consensus forecast from reputable external market analysts. The DCF valuation model takes into account attributable net cash flows from the operation for 35 years, which is consistent with the industry standard for this type of valuation and is also consistent with the extended life-of-mine agreement in place with Rustenburg Platinum Mines Limited. The tailings head feed is based on the average monthly feed received from the mine.

Overall, production levels have stabilised over the last 12 months, and the average basket price per kilogram of PGMs increased significantly due to mainly the increase in the rhodium and palladium prices over the period. The net result of the above was an improvement in the revenue and profitability of this business, compared to the same period in 2018.

As at 30 June 2019 the updated DCF valuation resulted in an estimated recoverable amount of R112 million for the Group's effective interest in the cash generating unit and no further impairment was therefore required against goodwill.

3. Inventory

Inventory, which relates to the steel processing business of the Group, was impaired by R13,6 million during the six months to 30 June 2019, following price decreases implemented by the main supplier of raw materials.

4. Borrowings

Total borrowings of the Group amounted to R362,6 million as at 30 June 2019 compared to R373,1 million as at 30 June 2018, and can be summarised as follows:

	Unaudited as at 30 June 2019 R'000	Restated Unaudited as at 30 June 2018 R'000	Audited Year ended 31 Dec 2018 R'000
Absa Bank Limited	–	17 267	3 946
Reichmans Capital Proprietary Limited	**328 687**	332 551	347 480
Waleed Investment Holdings Proprietary Limited	**33 957**	21 204	37 448
Kilken Imbani Joint Venture	–	2 109	–
Total borrowings	**362 644**	373 131	388 874
Current borrowings	**(331 687)**	(351 927)	(354 426)
Non-current borrowings	**30 957**	21 204	34 448

Subsequent to the period end, PRSM restructured its borrowings from Reichmans to the following:

- a medium-term loan of R150 million, bearing interest at the prime overdraft rate less 0,5%, of which R100 million is repayable in monthly instalments over seven years in terms of an agreed amortisation schedule and the remaining balance of R50 million on the final settlement date;
- an asset-based lending facility of R170 million, bearing interest at the prime overdraft rate less 0,5%, with a settlement date of 30 August 2020; and
- an intra-month facility of R50 million bearing interest at the prime overdraft rate less 0,5% and to be settled by the 20th day of the following month.

The net effect of the above restructuring of the borrowings will be that R150 million that is currently reflected as current liabilities, will be moved to non-current liabilities, improving the current assets to current liabilities ratio of the Group, and also providing certainty to PRSM with regard to the terms of the facilities.

5. Redeemable preference shares

The Company and the preference shareholder mutually agreed to suspend the repayment of the redeemable preference share capital and the accrued preference dividends until at least 1 January 2022. The redeemable preference share capital and the accrued preference dividends are therefore classified as non-current liabilities.

6. Financial instruments

The derivative financial liability (cash flow hedge) in 2018 was measured at fair value and the profit/(loss) accrual recorded as other comprehensive income in the Statement of Comprehensive Income. The fair value of the derivative financial liability was a level 2 recurring fair value measurement and was obtained directly from the service provider, calculated as the present value of the estimated future cash flows based on observable commodity prices and current exchange rates. The cash flow hedge was settled in September 2018.

All other financial assets and liabilities are measured at amortised cost which approximates their carrying values.

7. Material related party transactions and balances

	Unaudited as at 30 June 2019 R'000	Restated Unaudited as at 30 June 2018 R'000	Audited Year ended 31 Dec 2018 R'000
Sales	**(40 310)**	(37 522)	(85 665)
Purchases	**22 530**	20 835	58 539
Administration fees paid	**–**	150	300
Preference dividend expense	**838**	809	1 645
Lease premium paid	**11 888**	10 808	21 975
Other lease expenses paid	**1 171**	1 922	2 163
Trade receivables	**12 532**	14 237	9 556
Trade payables	**(9 010)**	(4 902)	(4 271)
Borrowings	**(33 957)**	(23 313)	(37 448)
Redeemable preference shares	**(33 259)**	(31 654)	(32 421)

8. Segment reporting

The Group Chief Executive Officer is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the Group Chief Executive Officer for the purposes of allocating resources and assessing performance and risk. The Group has two main reportable segments, namely the production of Platinum Group Metals at the Kilken Platinum tailings treatment facility and the processing and distribution of steel products by the Pro Roof Steel Merchants group.

	Unaudited as at 30 June 2019 R'000	Restated Unaudited as at 30 June 2018 R'000	Audited Year ended 31 Dec 2018 R'000
Revenue			
– Tailings treatment facility	**52 693**	20 206	56 597
– Steel processing	**635 363**	654 526	1 230 912
Total revenue	**688 056**	674 732	1 287 509
There are no sales between segments.			
Profit/(loss) after tax			
– Tailings treatment facility	**7 386**	(7 149)	(2 964)
– Steel processing plants	**(25 463)**	(1 716)	4 801
– Other unallocated	**(2 321)**	(1 815)	(6 239)
	(20 398)	(10 680)	(4 402)
Assets			
– Tailings treatment facility	**64 497**	56 692	59 931
– Steel processing plants	**653 037**	726 989	589 903
– Inter-group eliminations	**(44 492)**	(26 670)	(30 631)
Reportable segment assets	**673 037**	757 011	619 203
Goodwill – tailings treatment facilities	**56 679**	56 679	56 679
	729 721	813 690	675 882
Liabilities			
– Tailings treatment facility	**82 555**	88 627	86 114
– Steel processing plants	**579 461**	634 498	495 954
– Other unallocated liabilities	**11 120**	7 727	39 506
– Inter-group eliminations	**(44 493)**	(29 766)	(66 329)
Reportable segment liabilities	**628 644**	701 086	555 245
Redeemable preference shares	**33 259**	31 654	32 421
	661 903	732 740	587 666

9. Events subsequent to the period-end

Other than matters set out in this results announcement, no other events occurred subsequent to the period-end up to the date of this announcement which could have a material effect on the results of the Group or its subsidiaries.

10. Commitments

The Group had no outstanding capital commitments at 30 June 2019 (2018: None).

11. Going concern

The interim financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The Group incurred a net loss for the six months ended 30 June 2019 of R20,4 million and as at that date its current liabilities exceeded its current assets due to amongst other factors, the short-term nature of some of its debt facilities with financial institutions. The loss incurred by PRSM during the period increased due to the abnormal devaluation of inventory and the impairment of plant and equipment, both of which are not regular occurrences for the group.

PRSM restructured its borrowings from Reichmans, details of which are set out in this results announcement. The restructuring of the borrowings formalise the facility and provides PRSM with certainty of the terms of the borrowings from Reichmans. The restructuring of PRSM borrowings will also improve the current assets to current liabilities ratio by moving R150 million of the total facility to non-current liabilities.

The cash flow forecast for PRSM, together with the restructuring of its facilities subsequent to the period end, indicates that this company and its subsidiaries should have sufficient financial resources to meet their obligations over the next twelve months.

Kilken Platinum returned to profitability and positive cash flows during the current period and this is expected to continue into the foreseeable future.

The Company and the preference shareholder have mutually agreed to suspend the repayment of the preference shares and the accrued dividends until at least 1 January 2022.

The Group has access to sufficient financial facilities and cash resources to meet its obligations as and when they become due over the next twelve months. The directors are therefore satisfied with applying the going concern principle.

Nature of the business

The Company is an investment holding company with controlling interests in the group companies.

Directors and company secretary

There were no changes to the board of directors or the company secretary since the financial year-end of the Group.

Financial review

Revenue increased by 2% from 2018 to 2019, mainly due to the improved performance by Kilken Platinum during the period under review.

The Group incurred a loss after tax of R20,4 million for the six months ended 30 June 2019 (2018: loss of R10.7 million), after an impairment of plant and equipment by PRSM of R12,2 million after tax, and a devaluation of inventory by PRSM of R9,8 million after tax. The headline loss improved marginally from R9,5 million in 2018 to R9,4 million in 2019.

Overall Group debt reduced from R373,1 million in 2018 to R362,6 million at 30 June 2019.

Kilken

Kilken Platinum produced a profit after tax of R7,4 million for the six months to 30 June 2019, compared to a loss after tax of R7,2 million for the comparable period to 30 June 2018. The major contributors to the improved results were higher production levels which increased by 35% from 2018, the average basket prices for the PGMs being 28% higher than in 2018 and the final settlement of the cash flow hedge in September 2018. The above contributed to an increase in revenue of 161% from R20,2 million in 2018 to R52,7 million in 2019, while tight management of operating expenditure further contributed to the improved results.

The improved performance of the Kilken operations enabled the company to start reducing its borrowings.

Current indications are that the Kilken operations will continue with the improved production and profitability on the back of the high basket prices for the PGMs.

The above does not constitute a profit forecast and has not been reviewed by the auditors of the Group.

Pro Roof Steel Merchants

Overall market conditions remained tough in the steel industry as the political uncertainty continued to hamper the investments in infrastructure and related projects. This, combined with a continued oversupply of steel products internationally, also contributed to lower sales prices, pressure on margins and lower revenues,

Price decreases by the main raw material supplier in South Africa resulted in a R13,6 million impairment of inventory, contributing to the increased loss incurred during the six months to 30 June 2019. The plant and equipment that were impaired during the period, relates to product lines that were discontinued.

The banking facilities with Reichmans were restructured during August 2019, details of which are provided in Note 4 above.

Management do not expect a marked improvement in the performance for the remainder of the 2019 year and the focus is on containing costs and ensuring that the business remains cash flow positive during this period.

The above does not constitute a profit forecast and has not been reviewed by the auditors of the Group.

For and on behalf of the Board

Mohamed Husain
Independent non-executive Chairman

Ashruf Kaka
Chief Executive Officer

Sandton
25 September 2019

Andulela Investment Holdings Limited
(Incorporated in the Republic of South Africa)
(Registration number: 1950/037061/06)
JSE share code: AND ISIN: ZAE000172870
(**"Andulela"** or **"the Company"** or **"the Group"**)

Registered office: 108 4th Street, Parkmore, Sandton 2196

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BW Smith#; PE du Preez#; NMS Hadjee#
Independent non-executive

Company Secretary: Ms GH Miller

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