Unaudited Consolidated Condensed Interim Results For The Six Months Ended 30 September 2017

DENEB INVESTMENTS LIMITED
('Deneb' or 'the Group' or 'the company')
The company's shares are listed under the Financial Services - Speciality Finance sector.
Registration number: 2013/091290/06 (Incorporated in the Republic of South Africa)
JSE share code: DNB
ISIN: ZAE000197398
Income tax registration number: 9844426156

UNAUDITED CONSOLIDATED CONDENSED INTERIM RESULTS
for the six months ended 30 September 2017

FINANCIAL HIGHLIGHTS
Revenue from continuing operations up R127 million (11%) to R1 292 million
Net profit from continuing operations up R9 million (37%) to R33 million
Net profit down R39 million to a loss of R32 million
Earnings per share from continuing operations up 3,4 cents (77%) to 7,8 cents
Earnings per share down 8,7 cents to a loss of 7,4 cents per share
Headline profit per share from continuing operations up 3,5 cents (81%) to 7,8 cents
Headline profit per share down 3,8 cents to a loss of 2,6 cents per share
Net asset value per share up 10 cents to 404 cents

STATEMENT OF FINANCIAL POSITION
as at 30 September 2017

	Unaudited 30 Sept 2017 R'000	Unaudited 30 Sept 2016 R'000
ASSETS		
Non-current assets	1 820 121	1 712 770
Plant and equipment	378 261	312 631
Owner-occupied property	460 842	435 345
Investment property	732 266	729 170
Intangible assets	46 729	22 583
Goodwill	23 765	42 872
Other investments	3 026	3 391
Long-term receivables	81 350	79 665
Deferred tax	93 882	87 113
Current assets	1 757 156	1 801 261
Non-current assets held for sale	1 560	16 034
Loan receivables	-	87 955
Inventories	776 257	839 335
Trade and other receivables	933 315	851 287
Current tax asset	2 498	2 120
Cash and cash equivalents	43 526	4 530
Total assets	3 577 277	3 514 031
EQUITY AND LIABILITIES		
Total equity	1 734 376	1 688 475
Stated capital	1 450 888	1 448 501
Reserves	283 833	239 861
Equity attributable to owners of the parent	1 734 721	1 688 362
Non-controlling interests	(345)	113
Non-current liabilities	911 178	703 897
Deferred tax liability	12 323	5 009
Post-employment medical aid benefits	93 081	91 966
Interest-bearing liabilities	102 101	6 063
Related party loan	102 233	-
Medium-term loan	600 000	600 000
Operating lease accruals	1 440	859
Current liabilities	931 723	1 121 659

Current tax payable	3 646	1 460
Post-employment medical aid benefits	7 219	6 876
Interest-bearing liabilities	52 010	89 343
Amounts owing to related party	-	267 014
Provisions	15 691	-
Trade and other payables	629 581	657 534
Bank overdrafts	223 576	99 432
Total liabilities	1 842 901	1 825 556
Total equity and liabilities	3 577 277	3 514 031
Net asset value	1 734 721	1 688 362
Net asset value per share after treasury shares (cents)	404	394

CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the six months ended 30 September 2017

	Note	Unaudited 6 months 30 Sept 2017 R'000	Unaudited 6 months 30 Sept 2016* R'000
Revenue		1 292 063	1 165 071
Gross profit		316 622	327 960
Operating profit before finance costs		37 562	49 166
Finance income		-	5 802
Finance expenses		(36 188)	(24 805)
Profit before tax		1 374	30 163
Income tax income/(expense)	3.1	31 529	(6 062)
Profit for the period from continuing operations		32 903	24 101
Loss from discontinued operations	3.2	(65 020)	(17 187)
(Loss)/Profit for the period		(32 117)	6 914
Other comprehensive income:			
Foreign operations - foreign currency translation differences		1 878	-
Total comprehensive (loss)/income for the period		(30 239)	6 914
(Loss)/Profit attributable to:			
Owners of the parent		(31 671)	7 384
Non-controlling interests		(446)	(470)
		(32 117)	6 914
Total comprehensive (loss)/income attributable to:			
Owners of the parent		(29 793)	7 384
Non-controlling interests		(446)	(470)
		(30 239)	6 914

* Comparatives were restated for discontinued operations (refer to note 3.2).

CONDENSED STATEMENT OF CASH FLOWS
for the six months ended 30 September 2017

	Note	Unaudited 6 months 30 Sept 2017 R'000	Unaudited 6 months 30 Sept 2016 R'000
Net cash flow from operating activities		(114 986)	(160 424)
Net cash flow from investing activities		(20 822)	(64 121)
Net cash flow from financing activities	5.2	(36 876)	648 105
Net (decrease)/increase in cash and cash equivalents		(172 684)	423 560
Cash and cash equivalents at beginning of period		(7 366)	(518 462)
Cash and cash equivalents at end of period		(180 050)	(94 902)

STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 September 2017

Non-
con-

	Stated capital R'000	Other reserves R'000	Retained income R'000	Total R'000	trolling interest R'000	Total equity R'000
Balance at 1 April 2016	1 717 286	242 999	(10 522)	1 949 763	583	1 950 346
Total comprehensive profit for the period	-	-	7 384	7 384	(470)	6 914
Transactions with owners						
Share buyback	(268 785)	-	-	(268 785)	-	(268 785)
Balance at 30 September 2016	1 448 501	242 999	(3 138)	1 688 362	113	1 688 475
Balance at 1 April 2017	1 449 653	253 456	75 220	1 778 329	101	1 778 430
Total comprehensive (loss)/profit for the period	-	1 878	(31 671)	(29 793)	(446)	(30 239)
Transactions with owners						
Distribution	-	-	(12 859)	(12 859)	-	(12 859)
Share scheme - options exercised	1 235	-	(1 235)	-	-	-
Common control transaction						
Business acquisition under common control	-	(956)	-	(956)	-	(956)
Balance at 30 September 2017	1 450 888	254 378	29 455	1 734 721	(345)	1 734 376

	30 Sept 2017 R'000	30 Sept 2016 R'000
Composition of other reserves		
Foreign currency translation reserve	1 878	-
Revaluation of investments	-	(253)
Common control reserve	(16 858)	(15 902)
Surplus on revaluation of land and buildings	269 358	259 154
	254 378	242 999

CONDENSED SEGMENTAL REPORT
for the six months ended 30 September 2017

	Properties R'000	Branded Product Distribution R'000	Industrial Manufac-turing R'000	Textile Manufac-turing R'000	Head office and Centra-lised Services R'000	Total R'000
2017						
Segment revenue						
Gross sales	78 149	640 895	405 185	386 281	-	1 510 510
Inter-segment sales	(23 643)	(2 244)	-	-	-	(25 887)
	54 506	638 651	405 185	386 281	-	1 484 623
Less: Revenue attributable to discontinued operations	-	(34 394)	-	(158 166)	-	(192 560)
Revenue as per statement of comprehensive income	4 506	604 257	405 185	228 115	-	1 292 063
Segment results						
Profit from continuing operations before finance costs	56 530	(16 238)	14 969	5 105	(22 804)	37 562
Loss from discontinued operations before finance costs	-	(8 053)	-	(46 512)	-	(54 565)

2016

Segment revenue						
Gross sales	74 379	592 331	306 117	402 789	113	1 375 729
Inter-segment sales (these transactions are at arm's length)	(21 961)	(2 412)	-	-	-	(24 373)
	52 418	589 919	306 117	402 789	113	1 351 356
Less: Revenue attributable to discontinued operations	-	(34 181)	-	(152 104)	-	(186 285)
Revenue as per statement of comprehensive income	52 418	555 738	306 117	250 685	113	1 165 071
Segment results						
Profit from continuing operations before finance costs	52 697	(10 929)	23 892	(6 066)	(10 428)	49 166
Loss from discontinued operations before finance costs	-	(2 807)	-	(5 446)	-	(8 253)

STATISTICS PER SHARE
for the six months ended 30 September 2017

		Unaudited 6 months 30 Sept 2017	Unaudited 6 months 30 Sept 2016*
Weighted average number of shares in issue	(R'000)	428 789	561 490
Number of shares in issue	(R'000)	429 559	427 982
Diluted weighted average number of shares in issue	(R'000)	428 789	562 546
Basic (loss)/earnings	(cents)	(7,4)	1,3
Continuing operations	(cents)	7,8	4,4
Discontinued operations	(cents)	(15,2)	(3,1)
Headline (loss)/earnings	(cents)	(2,6)	1,2
Continuing operations	(cents)	7,8	4,3
Discontinued operations	(cents)	(10,4)	(3,1)
Diluted (loss)/earnings	(cents)	(7,4)	1,3
Continuing operations	(cents)	7,8	4,4
Discontinued operations	(cents)	(15,2)	(3,1)
Diluted headline (loss)/earnings	(cents)	(2,6)	1,2
Continuing operations	(cents)	7,8	4,3
Discontinued operations	(cents)	(10,4)	(3,1)
Reconciliation between profit and headline earnings			
Income attributable to shareholders	(R'000)	(31 671)	7 384
Impairment of property, plant and equipment	(R'000)	20 223	-
Surplus on disposal of property, plant and equipment	(R'000)	(219)	(926)
Loss on disposal of property, plant and equipment	(R'000)	645	-
Total tax effect of adjustments	(R'000)	(119)	260
Headline earnings		(11 141)	6 718

* Comparatives were restated for discontinued operations (refer to note 3.2).

NOTES TO THE UNAUDITED CONSOLIDATED CONDENSED INTERIM RESULTS
for the six months ended 30 September 2017

1. Basis of preparation

The unaudited consolidated condensed results for the six months to September 2017 have been prepared in accordance with, and containing the information as required by, International Accounting Standard (IAS) 34: Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and are in compliance with the Listing Requirements of the JSE Limited and the requirements of the South African Companies Act as amended. These results do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 March 2017.

These results have been prepared under the supervision of the Financial Director, Gys Wege (CA)SA, and have not been audited or reviewed by the Group's auditors, PwC Inc.

2. Significant accounting policies

The unaudited consolidated condensed results have been prepared under the historical cost convention, except for the revaluation of certain properties and financial instruments. The accounting policies adopted are in terms of IFRS and consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2017, except for the adoption of new standards and interpretations effective as at 1 April 2017. The new standards have no impact on the unaudited consolidated condensed financial statements.

3. Significant operating activities

3.1 Taxation and deferred taxation

	30 Sept 2017 R'000	30 Sept 2016 R'000
Reconciliation of the applicable tax to the effective tax:		
Continued operations		
Profit before tax from continued operations	1 374	30 163
Tax expense using the statutory rate of 28%	(385)	(8 446)
Difference in tax rate from foreign jurisdiction	310	-
Non-deductible expenses	(438)	(140)
Recognition of deferred tax asset on tax losses	32 042	2 524
Effective tax	31 529	(6 062)

3.2 Discontinued operations

The Group announced its intention to discontinue certain textile and branded product businesses and accordingly their results have been separately disclosed on the face of the statement of profit or loss and other comprehensive income. Where practical these results have been restated.

	30 Sept 2017	30 Sept 2016
Results of discontinued operations	R'000	R'000
Revenue	192 560	186 285
Operating loss before impairments and restructuring and retrenchment costs	(18 651)	(8 253)
Impairment of assets	(20 223)	-
Restructuring and retrenchments costs	(15 691)	-
Operating loss before finance costs	(54 565)	(8 253)
Finance expense	(10 455)	(10 465)
Loss before taxation	(65 020)	(18 718)
Income tax expense	-	1 531
Loss for the period from discontinued operations	(65 020)	(17 187)
Cash flows used in discontinued operations		
Net cash used in operating activities	(29 106)	(18 718)
Net cash used in investing activities	(2 406)	(7 119)
Net cash used in discontinued operations	(31 512)	(25 837)

The loss from discontinued operations is attributable entirely to equity holders of the parent.

4. Significant investing activities

4.1 Capital expenditure and commitments

	Capital expenditure 30 Sept 2017 R'000	Capital expenditure 30 Sept 2016 R'000	Contractual expenditure 30 Sept 2017 R'000	Contractual expenditure 30 Sept 2016 R'000
Investment property	-	6 009	21 000	1 550
Land and buildings	277	3 279	-	-
Plant and equipment	29 111	17 173	7 602	3 742
Total capital expenditure	29 388	26 461	28 602	5 292

4.2 Business combinations

Current period

The group has acquired 100% of the shares in Formex Industries Proprietary Limited ('Formex') from Hosken Consolidated Investments Limited ('HCI').

The acquisition of Formex represents a common control transaction as HCI is the ultimate controlling entity of Formex before and after the transaction. The Group has chosen the book value accounting policy, applying the hierarchy for the selection of accounting policies in IAS 8: Accounting Policies, Changes and Accounting Estimates and Errors. The accounting policy choice has been applied consistently to all transactions of a similar nature.

The book value accounting method requires the assets acquired and the liabilities assumed through the reorganisation to be accounted for using the book values in the financial statements of the transferor (HCI).

Formex Industries consists of Formex Pressing and Formex Tubing. Formex Pressing is a technologically competitive entity focusing on the development, manufacturing and supply of pressed components for the automotive market. Formex Tubing specialises in the manufacture of tubular and exhaust-related components.

Subsidiary name	Acquisition date	Segment	% voting interest acquired	Revenue contributed to the Group R'000	Net loss contributed to the Group R'000	Revenue contributed to the Group had the acquisition been effective on 1 April 2017 R'000	Net loss contribution to the Group had the acquisition been effective on 1 April 2017 R'000
Formex Industries Proprietary Limited	1 Aug 2017	Industrials	100	59 857	(813)	173 666	(1 761)

Prior period

The group acquired the entire issued share capital of Premier Rainwatergoods Proprietary Limited ('Premier').

Premier is a manufacturer of galvanised steel roofing accessories including gutters, downpipes ceiling accessories ducting and general rainwater products.

Subsidiary name	Acquisition date	Segment	% voting interest acquired	Revenue contri-buted to the Group R'000	Net profit contri-buted to the Group R'000	Revenue contri-buted to the Group had the acqui-sition been effective on 1 April 2016 R'000	Net profit contri-bution to the Group had the acqui-sition been effective on 1 April 2016 R'000
Premier Rainwater-goods Proprietary Limited	1 June 2016	Industrials	100	34 160	3 394	53 655	6 573

Consideration transferred and identifiable assets acquired and liabilities assumed
The following table summarises the consideration paid for the entity and the amount of the assets acquired and liabilities assumed recognised at the acquisition date.

	30 Sept 2017 R'000	30 Sept 2016 R'000
Consideration		
Cash	-	67 865
Loan from related party	25 058	-
Contingent consideration	-	9 086
Total consideration	25 058	76 951
Recognised amounts of identifiable assets acquired and liabilities assumed		
Property, plant and equipment	79 438	5 993
Inventories	44 863	22 181
Trade and other receivables	77 419	15 791
Cash and cash equivalents	-	24 307
Non-current loan	(99 148)	-
Deferred liabilities	-	(820)
Deferred tax liability	-	(829)
Trade and other payables	(58 836)	(6 783)
Taxation payables	-	(10 737)
Bank overdrafts	(19 633)	-
Total identifiable net assets	24 103	49 103
Common control reserve	955	-
Goodwill	-	27 848
Total consideration	25 058	76 951
Cash flow from this investing activity		
Cash transferred	-	67 865
Less cash and cash equivalents in the business acquired	(19 633)	(24 307)
	(19 633)	43 558

Measurement of fair values in prior period
The assets and liabilities acquired in the prior period were measured on a provisional basis. The accounting for the business combination in the prior period was completed at 31 March 2017 with all identifiable assets acquired and liabilities assumed stated at their fair values.

5. Significant financing activities
5.1 Significant related party transactions

Current period
As referred to in note 4.2, the Group acquired 100% of the shares in Formex from HCI with effect from 1 August 2017 for an amount of R25 million. The transaction was announced on SENS on 10 July 2017 and 21 July 2017.

Prior period
In the prior period the company repurchased 133 507 226 shares from the Southern African Clothing and Textile Worker's Union (SACTWU) for a consideration of R267 014 452. The repurchased shares were delisted and cancelled on 30 September 2016.

5.2 Banking facilities
Prior period
The Group renegotiated its banking facilities in the prior period whereby R650 million of short-term facilities were converted to term funding.

6. Diluted weighted average number of shares
The difference between the weighted average number of shares and the diluted weighted average number of shares in the prior period are due to the impact of the unexercised options under the Group's incentive scheme. The Group's incentive scheme had no impact in the current period.

7. Post period-end events
There have been no reportable post-period-end events.

The Group has entered into a sale of shares and claims agreement with Main Street Holdings Proprietary Limited and in terms of which Deneb has agreed to purchase 100% of the shares and claims in New Just Fun Group Proprietary Limited, subject to the fulfilment of conditions precedent which have not been met as at 30 September 2017. The transaction was announced on SENS on 13 July 2017.

8. Dividends/Distributions
The directors have resolved not to declare an interim dividend/distribution for the six months ended 30 September 2017 (2016: Nil).

COMMENTARY
for the period ending September 2017

We mentioned in our results to 31 March 2017 that the Group had a number of loss-making businesses that were weighing on the Group's results. We have taken decisive action with regard to these businesses and a number of restructuring processes are underway or have been completed. The results for the period under review are significantly influenced by these restructuring initiatives. In certain instances, the restructuring affects separately identifiable pieces of businesses and where this is the case, the results for these pieces are reflected as discontinued operations. There are other processes that affect certain product ranges and parts of continuing businesses, and in these cases the costs of exiting these areas remain within the continuing operations.

The restructuring processes affect the following three businesses:
- Winelands Textiles, which in September communicated to its stakeholders its intention to discontinue a significant portion of the business and consolidate what may remain into a single production facility in Worcester. The consultation process is expected to be completed by the end of November. The results for Winelands Textiles are disclosed as discontinued operations;
- The second restructure relates to the Group's office automation business. The Group has decided to concentrate this business on the Gauteng market. We are investigating

various opportunities to dispose of the outlying branches to external parties who will then continue to service customers in these regions and good progress has been made in this regard. Should any of the branches not be able to be sold, they will be closed in an orderly and disciplined manner to ensure that customers are not inconvenienced. All the branches, other than Gauteng and the central administration office, are accounted for as discontinued operations; and

- The third restructure relates to our branded sporting goods business. This business has been placed under the control of the Prima management team that has been working on discontinuing loss-making brands, improving operational efficiencies and effectiveness and optimising management structures. The result of these initiatives will see the breakeven point drop significantly.

The costs associated with these restructures have a more pronounced effect on the results for the first half of the year, which is traditionally the slower period for the Group, while the savings will only begin to reflect in the second half. We expect that the full benefits will only accrue in the new financial year although in the case of the office automation business, certain of the costs may continue into the new financial year.

Continuing operations

Outside of the divisions undergoing restructure, the rest of the businesses have struggled to deliver growth in a challenging economic environment. Having said that, if one excludes the three divisions mentioned above, the operating profit before interest and taxation from the remaining divisions did increase by 4% to R68 million.

On the growth front, the following transactions had an effect on the Group's results:

- The acquisition of Formex Industries from our holding company, HCI, was completed with effect from 1 August 2017. This business manufactures specialised pressing and tubing components for the automotive market. Deneb has been managing this business on behalf of HCI for a number of years. Its order book is the strongest it has been in a long time and we are confident that this acquisition will prove to be value enhancing; and
- The formation of HTIC (Hong Kong), which sources goods from overseas manufacturers primarily for its South African client base, including our own Group companies. The business has a long association with the Group, but in prior years it acted as an import agent. As from January 2017, it is classified as a subsidiary. The effect of this is that we now account for all the revenue and all the costs as opposed to just accounting for the net margin earned as was the case previously.

The results for the continuing operations can be summarised as follows:

- Revenue growth of 11% driven largely by acquisition as the current year includes Premier Rainwatergoods for the full six months as opposed to only four months in the prior period; Formex which was acquired effective 1 August 2017; and HTIC which was formed in January 2017;
- Gross margins reduced by 360 basis points, largely attributable to new revenue streams from HTIC and the acquisition of Formex, both of which operate a high volume, low margin business model;
- Interest expense increased by R17 million to R36 million as a result of higher debt levels from the share buyback completed in September 2016 and the interest-bearing debt assumed with the acquisition of Formex;
- The Group recognised a deferred tax asset on tax losses of R32 million; and
- The net profit from continuing operations is up R9 million (37%) to R33 million.

Property segment

Our industrial property portfolio continued to deliver solid results with occupancies at, or close to, 100% for the period. Revenue is up 5,6%, primarily from rental escalations, and operating profit is up 7,3% to R57 million.

During the period under review, we disposed of a property in Lansdowne, Cape Town for R28 million, and subsequent to the reporting period we acquired a new light industrial property in Montague Gardens, Cape Town for R21 million.

Industrial segment
The result for the industrial segment includes revenue from Premier Rainwatergoods for the full six months and two months of revenue from Formex. These acquisitions largely drive the 32% growth in revenue to R405 million.

Operating profit is down 38% to R15 million due in part to pressure on margins as a result of the general business environment but also affected by certain short-term issues. In our non-woven business one of our customers closed their South African operations which resulted in lost turnover. It has taken a bit of time to replace this turnover with a more direct channel to market, but ultimately it will leave us in a stronger position. Furthermore, we have incurred start-up costs in establishing an industrial insulation offering to augment our domestic insulation range. We are pleased with the traction in this area and subsequent to half year we have seen some good revenue growth.

Branded product segment
The branded product segment's performance was disappointing and reflects the challenging retail environment. This segment has three main components: Prima Group (Toys, Stationery and Interactive Games); the continuing piece of the office automation business; and branded sporting goods.

Within the Prima Group, interactive gaming had a strong first six months with both revenue and operating profit up quite substantially. Our stationery business weathered the difficult environment well, reporting some marginal growth. On the other hand, toys had a challenging first six months for two main reasons: retailers came into the year overstocked compounded by a growing trend by retailers to procure later for the peak Christmas season.

The other two businesses, office automation and branded sporting goods, are going through restructuring as discussed above. Even though the restructure process is painful in the short term, the longer-term effects will be to improve operating margins in this segment quite substantially.

Textile segment
Textile manufacturing from continued operations returned to profitability before interest and reported a R5 million operating profit, compared to a R6 million operating loss in the prior year. This turnaround is largely due to the unwinding of the prior year's forex losses, which has seen gross margins improve.

Acquisitions
We announced on SENS on 13 July 2017 that we had entered into a sale and purchase agreement with Main Street Holdings Proprietary Limited, in terms of which we agreed to purchase 100% of the equity of New Just Fun Group Proprietary Limited ('Just Fun'). This transaction is moving through the regulatory process and is expected to be finalised shortly. The acquisition of Just Fun will bolster the Group's position in the toy distribution market as this business does fundamentally the same thing as our own Prima Toys.

On behalf of the board

Stuart Queen
Chief Executive Officer

Gys Wege
Financial Director

22 November 2017
Cape Town

DENEB INVESTMENTS LIMITED

Registered office: 5th Floor, Deneb House, Cnr Main and Browning Roads, Observatory 7925, Cape Town
PO Box 1585, Cape Town 8000

Directors: J A Copelyn* (Non-executive Chairperson), M H Ahmed*^ (Lead Independent Director), D Duncan, T G Govender*, L Govender*^, N Jappie*^, A M Ntuli, S A Queen (Chief Executive Officer), Y Shaik*, R D Watson*^, G D T Wege (Financial Director)
(* Non-executive ^ Independent)

Company secretary: C Philip

Transfer secretaries:
Computershare Investor Services Proprietary Limited
Rosebank Towers, 15 Biermann Avenue, Rosebank 2196
PO Box 61051, Marshalltown 2107

Auditors: PwC Inc

Sponsors: PSG Capital Proprietary Limited