DAWN

Distribution & Warehousing Network

UNAUDITED INTERIM RESULTS

for the six months ended
30 September 2017

DAWN

Distribution & Warehousing Network

(Incorporated in the Republic of South Africa)
(Registration number 1984/008265/06)
("DAWN" or "the group" or "the company")
Alpha code: DAW
ISIN: ZAE000018834
E-mail: info@dawnltd.co.za

REGISTERED OFFICE:

Cnr Barlow Road and Cavaleros Drive, Jupiter Ext 3, Germiston, 1401

DIRECTORS:

Diederik Fouché ^ (chairman), Stephen Connelly (deputy executive chairman), Lou Alberts ^ (lead independent director) , Edwin Hewitt (chief executive officer), Chris Booyens (chief financial officer and financial director), Charles Boles ^, Theunis de Bruyn*, Dinga Mncube ^, Akhter Moosa ^, George Nakos*, René Roos

** Non-executive ^ Independent non-executive*

PREPARER:

Prepared by Tintswalo Mohlakoana (CA(SA)), group financial accountant, under the supervision of Hanré Bester (CA(SA)), group financial manager, and Chris Booyens (CA(SA)), chief financial officer and financial director

COMPANY SECRETARY:

iThemba Governance and Statutory Solutions (Pty) Ltd

TRANSFER SECRETARIES:

Computershare Investor Services (Pty) Ltd, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196

(PO Box 61051, Marshalltown, 2107)

SPONSOR:

Deloitte & Touche Sponsor Services (Pty) Ltd

www.dawnltd.co.za

GROUP STRUCTURE

as at the publication date, being 20 November 2017

	BUILDING	INFRASTRUCTURE
TRADING	DAWN Logistics; WHS; Saffer Bathroom & Plumbing; Stability Wholesalers; WHD SA Hardware & Tools; Pro-Max; Roco First in Fittings; hamilton's The Perfect Finish DAWN Africa	Incledon Quality Fluid Conveyance Products
MANUFACTURING	Disposal group held-for-sale: COBRA* A South African Icon; GROHE ▪ DAWN Water Technology*; GROHE*; Vaal* Sanitaryware; isca* Let Life Flow; APEX Valves* South Africa; plexicor* The Best in Bathroomware; Libra* Bathrooms; Expro (Swaziland)*	DPI Plastics Building Tomorrow; Ubuntu plastics DPI International; NPC Namibia Plastic Converters; DPI Simba Limited#

* Associates
# Joint ventures

RESULTS COMMENTARY

for the six months ended 30 September 2017

NATURE OF BUSINESS

Distribution and Warehousing Network Limited, which is listed on the JSE ("DAW"), manufactures and distributes quality branded hardware, sanitaryware, plumbing, kitchen, engineering and civil products throughout South Africa and to selected countries in the rest of sub-Saharan Africa. The group operates through two segments: trading and manufacturing. These segments leverage off common pools of expertise, allowing each segment to focus on its core market and areas of specialisation. The trading segment markets a comprehensive range of products, sourced locally from the group's manufacturing segment as well as other local manufacturers and imports. The manufacturing segment produces mainly PVC and HDPE water reticulation and drainage pipe and fitting systems. A large range of customers are served through a national footprint of outlets under the names of WHS (trading as WHD, Saffer and Stability), Incledon and DPI Plastics.

INTRODUCTION

Growth in the South and Southern African economies remained subdued for the period. The South African growth rate for 2017 was adversely affected by downgrades in sovereign ratings and political instability, which also impacted on business confidence and made trading conditions extremely challenging. The effect of the ongoing economic situation in the country has put pressure on disposable income with consumers being more selective on how they spend their hard-earned money.

The sustained adverse performance in F2016 and F2017 resulted in DAWN having to approach shareholders for a rights issue of R358 million in April 2017, of which R200 million was required to repay bridging finance, R75 million to reduce other debt and the balance to fund operations. The overall focus remains on returning the group to sustainable profitability.

FINANCIAL REVIEW

In line with the trading statement issued on 13 November 2017, the group recorded an earnings per share (EPS) loss of 19,5 cents per share compared to the EPS loss in the comparable period in the previous financial year of 111,8 cents per share. Headline earnings per share (HEPS) was a loss of 13,7 cents per share in H1 2018 compared to a HEPS loss in H1 2017 of 98,1 cents per share.

Revenue for the six months to September 2017 declined by 19,8%, compared to the corresponding period in the previous financial year. In monetary terms revenue is at R1,9 billion for H1 2018, down from R2,4 billion for the first half of the previous fiscal year and includes the effect of businesses closed and disposed of. Cost of goods sold of R1,5 billion was down from the comparative 2017 figure of R2,0 billion and reflects a reduction in volumes offset by an increase in unit costs. The gross margin percentage improved by six percentage points to 22,2%. The margin includes the partial clean out of slow-moving and obsolete inventory and the reversals of related provisions. It also reflects the effect of the loss of the Gardena distributorship, which ended in August 2017.

The trading segment revenue declined by 14% compared to the corresponding annualised figure in the previous year. WHS and Incledon revenues declined, attributable to the tougher trading conditions, internal inefficiencies, the impact of lost market share as a result of previous reputational damage with customers and suppliers, as well as supplier underperformance on certain key product categories. Revenue from the manufacturing segment, which mainly comprises DPI and Swan Plastics, also declined, with DPI Plastics contributing a double digit decline attributable to a lack of government water infrastructure spend. Margin deterioration in a very competitive market remains a concern.

Expenses decreased considerably and reflects the intense focus on cost reduction and operational efficiencies. The main expense drivers remain employment costs, vehicle transportation expenditure and occupancy costs, which account for 87% of total expenses.

Once-off restructuring costs amounted to a profit of R12,6 million and comprises the impairment of investments and property, plant and equipment, offset by a profit on the disposal of Fibrex in Angola, Aqualia in Mauritius and Boutique Baths in South Africa.

The EBITDA loss of continuing operations amounted to R1,2 million compared to R264,2 million in the comparable period in the previous financial year. The operating loss for the year to September 2017 was R18,5 million compared to a loss of R338,1 million for H1 F2017.

RESULTS COMMENTARY continued

for the six months ended 30 September 2017

In the first half of F2018, the operational loss (after impairments and restructure costs) improved from a loss in H1 F2017 of R52,1 million to a loss in H1 F2018 of R26,4 million. Net finance charges amounted to R16,1 million, compared to R29,2 million in H1 F2017. This was attributable both to the proceeds from the rights issue in April 2017 and a reduced usage of trade finance.

Profit from associates amounted to R1,7 million and compares to a loss of R8,1 million in F2017. Heunis Steel posted a pleasing performance in H1 F2017, but was subsequently disposed of in January 2017 to raise funding.

Discontinued operations refer to the GDW investment which is accounted for as a disposal group held-for-sale.

CORPORATE ACTIVITY

During the period under review, the group disposed of Fibrex in Angola for a cash consideration of R10,5 million at a profit of R12,2 million, Aqualia in Mauritius and Boutique Baths in South Africa and acquired the remaining 26% share in Hamilton's for R6 million. The group announced the disposal of its remaining 49% shareholding in GDW, including its loan account, for a consideration of R324,5 million. Swan Plastics was disposed of after the reporting period during October 2017 for R35 million, of which R30 million was received in October 2017.

STATEMENT OF FINANCIAL POSITION

The statement of financial position reflected that the group was solvent and was strengthened by the rights issue early in the current financial year which also addressed the liquidity constraint. It is essential that the group must return to sustainable profitable operations to remain both solvent and liquid.

Property, plant and equipment decreased from R225,5 million at September 2016 to R215,4 million at the half year-end. Additions on machinery in DPI and Swan Plastics, additions to the vehicle fleet and leasehold improvements amounted to R21,6 million in H1 F2018.

Intangible assets comprise goodwill of R1,3 million, trademarks of R2,5 million, software of R53,5 million and customer relationships of R3,7 million, totalling R61 million.

Net working capital days at September 2017 were 60 days, and comprised debtor days of 46 days and inventory days of 60 days, offset by creditor days of 46 days. Due to the lower revenue, inventory days increased despite a 13,1% decrease in monetary terms. After a focused stock clean-up, which is still ongoing, the inventory mix is healthier and more current than the comparable period in F2017.

Accounts receivable collection period showed an increase of eight days over that of the previous year, also despite a reduction in monetary terms. Creditor funding in monetary terms and days outstanding decreased considerably as a result of creditors now being paid on terms and a reduction in purchases to align inventory to the lower revenue levels.

As a result of trading losses, cash generated from operations was negative by R9 million. Investment in working capital amounted to R66 million. Net finance charges and taxation paid amounted to outflows of R24 million and R9 million, respectively. Investing and net finance activities resulted in an inflow of R7 million, mainly comprising inflows from the rights issue offset by loan and bridging and trade finance repayments and capital expenditure.

Cash balances are managed on a daily basis and the management committee meets at least weekly to review the cash flow projections.

PROSPECTS

Most businesses are underperforming as a result of the tough economic environment as well as the legacy issues still impacting the businesses after the appointment of new management. The group has commenced the implementation of a new plan to return all operations to sustainable profitability. The implementation commenced a few months ago and is expected to take longer than initially envisaged. The disposal of GDW and Swan Plastics is expected to result in cash inflows of approximately R360 million, which will be utilised to repay the group's debt and fund future growth. The board anticipates a gradual recovery in the year ahead that will remain challenging and competitive.

The cash inflow of R324,5 million from the disposal of the GDW shares, still subject to approval, is expected to be received by the end of December 2017. R30 million of the Swan Plastics proceeds has been received in October 2017.

DAWN has irrevocable undertakings from 75% of shareholders.

Any forward-looking statement has not been reviewed or reported on by the company's auditors.

for the six months ended 30 September 2017

CHANGES TO THE BOARD

With effect from 20 July 2017, Charles Boles has been appointed as an independent non-executive director and Theunis de Bruyn as a non-executive director of the board.

Charles is a qualified Chartered Accountant and holds an MBA degree. Charles has extensive experience in corporate finance and asset management. He founded his own investment firm in 1999 and, through his holdings in various small to mid-cap listed entities, he has had exposure to the industries and markets where DAWN is positioned. Charles currently serves as a non-executive director of Hulamin Ltd and Interwaste Holdings Ltd.

Theunis is also a qualified Chartered Accountant and has many years of financial and investment experience. He currently serves as non-executive director on several boards across a wide range of industries, including RECM and Calibre Ltd, ELB Group Ltd and Sentula Mining Ltd.

The board is confident that these appointments will add significant knowledge and new points of view going forward.

Veli Mokoena, a non-executive director of DAWN, has tendered his resignation, to pursue personal interests, with effect from 16 November 2017.

The chairman and board would like to express sincere gratitude to Veli for his input and contribution over the period of his tenure as a director.

For and on behalf of the board of directors

Diederik Fouché
Independent non-executive chairman

Edwin Hewitt
Chief executive officer

Chris Booyens
Chief financial officer

Germiston
20 November 2017

SUMMARY CONSOLIDATED INCOME STATEMENT

	Unaudited 6 months ended 30 September 2017 R'000	Unaudited 6 months ended 30 September 2016 R'000	Audited 12 months ended 31 March 2017 R'000
Continued operations			
Revenue	1 927 625	2 402 825	4 300 864
Cost of sales	(1 498 978)	(2 013 296)	(3 523 327)
Gross profit	428 647	389 529	777 537
Net operating expenses before derecognition and re-recognition of investments and impairments	(455 081)	(681 572)	(1 176 393)
Operating loss before derecognition and re-recognition of investments and impairments	(26 434)	(292 043)	(398 856)
Net gain/(loss) on derecognition of subsidiaries and associates	12 615	(10 114)	1 202
Impairments	(4 719)	(35 947)	(63 309)
Operating loss	(18 538)	(338 104)	(460 963)
Finance income	1 372	2 118	989
Finance expense	(17 461)	(31 300)	(61 904)
Loss after net financing costs	(34 627)	(367 286)	(521 878)
Share of profit in investments accounted for using the equity method	1 669	8 117	14 731
Loss before taxation	(32 958)	(359 169)	(507 147)
Income tax (expense)/income	(9 847)	19 872	(51 272)
Loss from continuing operations	(42 805)	(339 297)	(558 419)
Loss from discontinued operations	(62 175)	(27 498)	(61 637)
Loss for the period	(104 980)	(366 795)	(620 056)
Loss attributable to:			
Owners of the parent	(111 386)	(369 047)	(637 371)
Non-controlling interest	6 406	2 252	17 315
Loss for the period	(104 980)	(366 795)	(620 056)

SUMMARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	% change	Unaudited 6 months ended 30 September 2017 R'000	Unaudited 6 months ended 30 September 2016 R'000	Audited 12 months ended 31 March 2017 R'000
Loss for the period		**(104 980)**	(366 795)	(620 056)
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
– Effects of retirement benefit obligations		–	–	91
– Taxation related to components		–	–	(25)
		–	–	66
Items that may be subsequently reclassified to profit or loss:				
– Exchange differences recycled through the income statement		(2 479)	7 957	7 164
– Exchange differences on translating foreign operations		(1 299)	2 874	(1 423)
– Cash flow hedging reserve		165	433	858
– Tax-related components		(46)	–	(240)
		(3 659)	11 264	6 359
Total other comprehensive (loss)/income		**(3 659)**	11 264	6 425
Total comprehensive loss		**(108 639)**	(355 531)	(613 631)
Total comprehensive loss attributable to:				
Owners of the parent		(115 045)	(357 783)	(630 946)
Non-controlling interest		6 406	2 252	17 315
		(108 639)	(355 531)	(613 631)
Included above:				
Depreciation and amortisation		25 256	30 887	54 939
Operating lease rentals		42 849	48 279	90 012
DETERMINATION OF HEADLINE EARNINGS				
Attributable earnings		(111 386)	(369 047)	(637 371)
Adjustment for the after-tax and non-controlling interest effect of:				
Net (profit)/loss on disposal of property, plant and equipment		(3 399)	605	(7 256)
Impairment of intangible assets		–	–	290
Impairment of property, plant and equipment		3 349	4 956	6 455
Impairment of available-for-sale assets		43 961	–	–
Impairment of other assets		1 377	30 992	67 651
Tax effect on disposal of property, plant and equipment and impairment of intangible assets (customer relationships)		64	(1 316)	332
Non-controlling interest		34	–	1 747
Net (profit)/loss on derecognition of previously held interest		(12 615)	10 114	(1 202)
Headline earnings adjustments relating to associates and joint ventures		–	(10)	–
Headline earnings		**(78 615)**	(323 706)	(569 354)
Statistics				
Number of ordinary shares ('000)				
– in issue		600 372	242 243	242 243
– held in treasury		(13 629)	(5 499)	(5 499)
Number of shares for net asset value calculation ('000)		586 744	236 744	236 744
Weighted average number of shares ('000)				
– for earnings per share		572 713	329 984*	329 984*
– for diluted earnings per share		572 713	329 984*	329 984*
Earnings per share (cents)	83	(19,45)	(111,84)*	(193,15)*
Headline earnings per share (cents)	86	(13,73)	(98,10)*	(172,54)*
Diluted earnings per share (cents)	83	(19,45)	(111,84)*	(193,15)*
Diluted headline earnings per share (cents)	86	(13,73)	(98,10)*	(172,54)*
Operating profit (%)		(0,96)	(14,07)**	(10,72)**

** Recalculated due to rights issue*
*** Recalculation due to disclosure of discontinued operation*

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	% change	Unaudited 30 September 2017 R'000	Unaudited 30 September 2016 R'000	Audited 31 March 2017 R'000
ASSETS				
Non-current assets		346 054	854 839	674 594
Property, plant and equipment		215 368	225 493	225 794
Intangible assets		60 952	67 632	65 126
Investments in associates and joint ventures		5 982	403 646	296 261
Derivative financial assets		–	34 380	19 115
Deferred tax assets		63 752	123 688	68 298
Current assets		1 282 292	1 435 988	1 297 183
Inventories		518 805	597 001	519 378
Trade and other receivables		656 998	748 321	660 325
Cash and cash equivalents		98 335	85 872	108 741
Derivative financial instruments		1 472	535	632
Current tax assets		6 682	4 259	8 107
Assets of disposal group classified as held-for-sale		271 328	29 561	6 652
Total assets		1 899 674	2 320 388	1 978 429
EQUITY AND LIABILITIES				
Equity				
Capital and reserves		638 609	697 657	423 122
Equity attributable to equity holders of the company		588 344	655 143	375 147
Non-controlling interest		50 265	42 514	47 975
Non-current liabilities		282 898	329 566	302 995
Borrowings		53 976	68 327	58 275
Derivative financial instruments		72 217	93 554	78 217
Deferred profit		26 087	31 414	28 749
Deferred tax liabilities		19 803	17 626	25 762
Retirement benefit obligation		5 066	5 100	5 066
Share-based payment liabilities		6 298	4 883	5 329
Operating lease liabilities		99 451	108 662	101 597
Current liabilities		978 167	1 282 008	1 250 724
Trade and other payables		739 762	898 785	785 735
Borrowings		218 534	358 285	448 176
Operating lease liabilities		7 503	5 100	5 204
Derivative financial instruments		192	3 960	588
Deferred profit		5 327	5 327	5 327
Current tax liabilities		6 849	6 366	5 694
Share-based payment liabilities		–	4 185	–
Liabilities of disposal group classified as held-for-sale		–	11 157	1 588
Total liabilities		1 261 065	1 622 731	1 555 307
Total equity and liabilities		1 899 674	2 320 388	1 978 429
FUTURE COMMITMENTS				
Capital commitments		6 940	18 171	9 998
Operating leases		543 766	613 236	576 023
Net cash		8 014	50 393	108 693
Net debt		169 335	307 971	367 453
Value per share				
Asset value per share				
– net asset value (cents)	(64)	100,27	276,73	158,46
– net tangible asset value (cents)	(64)	89,88	248,16	130,95
– market price (cents)		112	253	101
Market capitalisation (R'000)		672 417	612 875	244 665
Financial gearing ratio (%)*		26,5	44,1	86,8
Current asset ratio (times)		1,3	1,1	1,0

** Includes cash and cash equivalents*

SUMMARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited 6 months ended 30 September 2017 R'000	Unaudited 6 months ended 30 September 2016 R'000	Audited 12 months ended 31 March 2017 R'000
Balance at beginning of the period	**423 122**	1 056 212	1 056 212
Total loss for the period	**(104 980)**	(366 795)	(620 056)
Other comprehensive (loss)/income	**(3 659)**	11 264	6 585
Rights Issue proceeds	**338 615**	–	–
Changes in ownership interest – control not lost	**(3 455)**	–	–
Transactions with non-controlling interest	**(4 672)**	605	(350)
Share-based payment charge and vesting of options	**1 786**	5 866	2 700
Treasury shares acquired and delivered	**(8 148)**	–	–
Dividends paid to non-controlling interest holders	**–**	(9 495)	(21 969)
Balance at end of period	**638 609**	697 657	423 122

SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited 6 months ended 30 September 2017 R'000	Unaudited 6 months ended 30 September 2016 R'000	Audited 12 months ended 31 March 2017 R'000
Cash utilised in operations before working capital changes	(8 679)	(19 728)	(89 735)
Working capital changes	(66 711)	102 334	134 242
Net finance costs paid	(23 876)	(23 460)	(51 435)
Net taxation paid	(8 694)	(9 468)	(22 268)
Net cash (utilised in)/generated from operating activities	(107 960)	49 678	(29 196)
Net cash generated by/(utilised in) investing activities	12 174	(13 711)	29 680
Net cash (utilised in)/generated from financing activities	(3 933)	(50 530)	42 423
(Decrease)/increase in cash resources	(99 719)	(14 563)	42 907
Cash resources at beginning of the period	108 693	69 892	69 892
Translation effects on cash and cash equivalents balances	(960)	(838)	(1 344)
Cash and cash equivalents of disposal group held-for-sale at end of period	–	(4 098)	(2 762)
Cash resources at end of period	8 014	50 393	108 693
Cash resources comprise of:	8 014	50 393	108 693
Cash and cash equivalents	98 335	85 872	108 741
Bank overdraft included in borrowings	(90 321)	(35 479)	(48)

SUMMARY CONSOLIDATED SEGMENTAL ANALYSIS

The executive committee, being the chief operating decision-making body of the group, assessed the reportable segments of the group and determined that reporting from a trading and manufacturing perspective would be more meaningful. These segments are therefore also reported this year, as it constitutes the future disclosure.

	Trading R'000	Manu-facturing R'000	Head office and other reconciling items [1] R'000	Total R'000
6 months – 30 September 2017 (Unaudited)				
Revenue	**1 507 938**	**622 179**	**(202 492)**	**1 927 625**
Depreciation and amortisation	**(8 408)**	**(12 758)**	**(4 090)**	**(25 256)**
Operating (loss)/profit before impairments and derecognition and re-recognition of investments	**(5 640)**	**(2 683)**	**(18 111)**	**(26 434)**
Impairments and derecognition	**–**	**8 216**	**(320)**	**7 896**
Operating loss after impairments and derecognitions and re-recognition of investments	**(5 640)**	**5 533**	**(18 431)**	**(18 538)**
Net finance (expense)/income	**(23 958)**	**(13 834)**	**21 703**	**(16 089)**
Share of profit from associates and joint ventures	**–**	**1 376**	**293**	**1 669**
Tax expense/(income)	**(2 259)**	**(3 855)**	**(3 733)**	**(9 847)**
Net loss after tax from continuing operations	**(31 857)**	**(10 780)**	**(168)**	**(42 805)**
Net loss after tax from discontinued operations	**–**	**(62 175)**	**–**	**(62 175)**
Assets	**1 159 551**	**88 771**	**651 352**	**1 899 674**
Liabilities	**1 214 727**	**569 279**	**(522 941)**	**1 261 065**
Capital expenditure [2]	**8 372**	**13 100**	**157**	**21 629**
6 months – 30 September 2016 (Unaudited) – Restated				
Revenue	1 751 969	841 112	(190 256)	2 402 825
Depreciation and amortisation	(10 105)	(12 842)	(7 941)	(30 887)
Operating loss before impairments and derecognition and re-recognition of investments	(215 638)	(34 296)	(42 109)	(292 043)
Impairments and derecognition	(12 294)	(33 461)	(306)	(46 061)
Operating loss after impairments and derecognitions and re-recognition of investments	(227 932)	(67 757)	(42 415)	(338 104)
Net finance (expense)/income	(24 924)	(12 899)	8 641	(29 182)
Share of (losses)/profit from associates and joint ventures	26 738	(18 949)	328	8 117
Tax expense/(income)	21 784	868	(2 780)	19 872
Net loss after tax from continuing operations	(204 334)	(98 737)	(36 226)	(339 297)
Net loss after tax from discontinued operations	–	(27 498)	–	(27 498)
Assets	1 286 676	216 428	817 284	2 320 388
Liabilities	1 239 437	562 813	(179 517)	1 622 731
Capital expenditure [2]	5 648	15 582	10 726	31 957
12 months ended 31 March 2017 (Audited) – Restated				
Revenue	3 142 060	1 461 433	(302 629)	4 300 864
Depreciation and amortisation	(17 196)	(27 705)	(10 038)	(54 939)
Operating loss before impairments and derecognition and re-recognition of investments	(328 066)	(17 699)	(53 091)	(398 856)
Impairments and derecognition	10 371	(71 909)	(569)	(62 107)
Operating loss after impairments and derecognitions and re-recognition of investments	(317 695)	(89 608)	(53 660)	(460 963)
Net finance (expense)/income	(45 337)	(31 640)	16 061	(60 916)
Share of (losses)/profit from associates and joint ventures	54 732	(39 970)	(31)	14 731
Tax expense/(income)	61 430	(9 782)	(102 919)	(51 272)
Net loss after tax from continuing operations	(246 870)	(171 000)	(140 549)	(558 419)
Net loss after tax from discontinued operations	–	(61 637)	–	(61 637)
Assets	1 230 640	802 630	(54 841)	1 978 429
Liabilities	1 255 378	525 380	(225 451)	1 555 307
Capital expenditure [2]	13 079	45 076	11 787	69 942

[1] *Other reconciling items consist of corporate and consolidation adjustments. These predominantly include elimination of intergroup sales, profits, losses and intergroup receivables and payables and other unallocated assets and liabilities contained within the vertically integrated group. Head office and other reconciling items is not considered to be an operating segment.*

[2] *Includes expenditure on property, plant and equipment and intangibles. Government grants received are deducted from the capital expenditure amount.*

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

These unaudited interim summary consolidated financial statements for the 6 months ended 30 September 2017 was approved by the board on 16 November 2017.

The interim summary consolidated financial statements are prepared in accordance with the requirements of the JSE Limited's (JSE) requirements for interim financial statements and the requirements of the Companies Act applicable to interim financial statements. The JSE requires interim financial statements to be prepared in accordance with the framework concepts, the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and must also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the interim summary consolidated financial statements are in terms of IFRS and are consistent with the accounting policies applied in the preparation of the consolidated annual financial statements for the year ended 31 March 2017.

The preparation of the interim summary consolidated financial statements by Tintswalo Mohlakoana (CA(SA)), group financial accountant, has been supervised by the group financial manager, Hanré Bester (CA(SA)) and the chief financial officer and financial director, Chris Booyens (CA(SA)).

The directors take full responsibility for the preparation of the interim summary consolidated financial statements.

Going concern assessment

In determining the appropriate basis of preparation of the half year financial statements, the directors are required to consider whether the group can continue to operate as a going concern for the foreseeable future.

DAWN posted significant losses in F2016 and F2017, mainly because of the costs of the necessary restructuring of the group to allow it to cope with the difficult economic environment. The results for the first half of F2018, whilst still unsatisfactory, represent a considerable improvement over the corresponding period in the previous financial year.

After the rights issue which was concluded in April 2017, from which the group received R358 million, the group had banking facilities available amounting to R200 million, comprising a revolving credit facility and general banking facility of R100 million each.

Management has proceeded with the implementation of a turnaround plan, which was approved by the board. It is, however, still in its early stages of implementation and there is a considerable gap between current levels of revenue and profitability and those targeted in the turnaround plan. The plan is being executed in an increasingly challenging economic, socio-political and competitive environment and, consequently, the turnaround is expected to take longer than initially expected.

As part of the turnaround plan, during F2018, DAWN disposed of its shareholdings in Swan Plastics and GDW. Of the R35 million proceeds from the disposal of Swan, R30 million has already been received and the remaining R5 million will be paid in April 2018. The R325 million proceeds from the disposal of GDW is forecast to be received in December 2017, once the transaction becomes unconditional. R100 million of the proceeds have been ceded to ABSA in settlement of their revolving credit facility.

Although the board has approved cash flow forecasts which it believes to be both rational and reasonable, the ability of the underlying businesses to meet the forecasts in the current economic, socio-political and competitive environment inevitably gives rise to uncertainty. If the forecasts are not achieved, there will be a risk regarding the group's ability to continue as a going concern.

Having considered all the above, the board concluded, based on the forecasts for the next 12 months and on the cash inflows resulting from the disposal of the Swan and GDW shares, that DAWN will be solvent and liquid for the 12 months to November 2018.

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS continued

2. DISPOSAL GROUP AND OTHER ASSETS HELD-FOR-SALE

The group has taken a decision to dispose of its 49% shareholding in Grohe DAWN Watertech. It is the group's intention to dispose of this investment in the near future.

		30 September 2017 R'000	30 September 2016 R'000	31 March 2017 R'000
Grohe DAWN Watertech (GDW)				
(a)	*Loss from discontinued operations*			
	Profits in stock	–	(1 125)	(1 125)
	Effects of call and put options	–	–	3 232
	Share of losses	(18 352)	(26 690)	(54 648)
	Held-for-sale impairment	(43 961)	–	–
	Impairment	–	–	(11 087)
	Interest	191	3	2 328
	Tax expense	(53)	314	(337)
	Total	(62 175)	(27 498)	(61 637)
		GDW		**Boutique Baths**
	Boutique Baths was a held-for-sale asset in March 2017, that was subsequently disposed of in April 2017. GDW was classified as held-for-sale in June 2017.			
(a)	Assets of disposal group classified as held-for-sale	271 327	–	6 652
(b)	Liabilities of disposal group classified as held-for-sale	–	–	1 558
	The cash flows as well as the income statement results have been included in the group results			
(a)	*Assets of disposal group classified as held-for-sale*			
	Property, plant and equipment	–	–	3 768
	Investment in associates	272 220	–	–
	Derivative non-current asset financial instrument	19 113	–	–
	Derivative non-current liability financial instrument	(6 000)	–	–
	Loan receivable	29 953	–	–
	Held-for-sale impairment	(43 961)	–	–
	Inventory	–	–	2 056
	Cash and cash equivalents	–	–	7
	Other current assets	–	–	821
	Total	271 327	–	6 652
(b)	*Liabilities of disposal group classified as held-for-sale*			
	Non-current liabilities	–	–	–
	Trade and other payables	–	–	802
	Other current liabilities	–	–	786
	Total	–	–	1 588

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS continued

3. NET GAIN ON DERECOGNITION OF INVESTMENT IN ASSOCIATES AND SUBSIDIARIES

		Date of derecognition	30 September 2017 R'000
Carrying amount of net asset value			841
Gain on the derecognition of associates and subsidiaries			**12 615**
Net loss on derecognition of investment in Boutique Baths Proprietary Limited	Subsidiary	28 April 2017	(320)
Net gain on sale of shares in Fibrex Angola – Fabrica deArt.De.F.b. Sinteticas, S.A.R.L.	Associate	15 June 2017	12 248
Net gain on sale of shares in Aqualia DPI Proprietary Limited	Associate	30 May 2017	687

4. CONTINGENCIES

The group has contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities.

Competition Tribunal

On 23 March 2017, the Competition Tribunal (the Tribunal) handed down a decision in which it determined that DAWN Consolidated Holdings Proprietary Limited (DCH), a subsidiary of DAWN, through the wholly-owned subsidiary DPI Plastics Proprietary Limited of DCH, engaged in a market allocation arrangement with Sangio Pipe Proprietary Limited (Sangio), in which DCH had a 49% interest at the time.

On 9 October 2017, DAWN formally notified the Competition Appeal Court of its intention to appeal the Tribunal's decision. The Group believes, supported by legal advice that the appeal will be successful.

5. EVENTS AFTER THE REPORTING DATE

Grohe DAWN Watertech (GDW)

Shareholders are referred to the announcements released on SENS on 14 September 2017 and 18 September 2017, respectively, wherein they were advised that DAWN had concluded a share purchase agreement and ancillary transaction agreements with LIXIL Corporation, the 51% controlling shareholder of GDW.

Under the terms of the share purchase agreement, LIXIL will acquire the remaining 49% of the issued ordinary shares in GDW held by DAWN and GDW will repay DAWN's shareholder loan claim against GDW, pursuant to which DAWN will receive an aggregate consideration of R324,5 million.

The transaction is a category 1 transaction in accordance with the JSE Listings Requirements of the JSE therefore a general meeting of Shareholders will be convened to propose the requisite resolutions to implement the transaction.

Written undertakings have been procured from five shareholders holding 72,5% of the total DAWN shares in issue to vote the shares held by them, as of the general meeting record date, in favour of the transaction. It is, therefore, anticipated that the resolutions necessary to implement the transaction will be passed at the general meeting.

Further details in respect of these written undertakings will be included in the circular to shareholders containing the full details of the transaction, and incorporating a notice convening the general meeting, which will be posted to shareholders in due course.

5. EVENTS AFTER THE REPORTING DATE continued

Swan Plastics

Shareholders are referred to the announcements released on SENS on 5 October 2017 and 20 October 2017, respectively, whereby they were advised that DAWN Consolidated Holdings Proprietary Limited (DCH), a wholly-owned subsidiary of DAWN, entered into a sale of shares and claims in Swan Plastics agreement with Michael Swanson, Phillip Cotterill and Desmond Robins, being the minority shareholders in Swan Plastics, for the disposal of DCH's 51% equity shareholding in Swan Plastics, which disposal became effective on 19 October 2017.

The purchase price for the shares and claims is R35 million, payable in cash as follows:

- R30 million within 7 days of signature date of the sale agreement which amount was received on 25 October 2017; and
- R5 million by 3 April 2018, which amount will bear interest at the prime rate and will be calculated from the signature date of the sale agreement until the date of payment.

Title to the shares and claims passed upon payment of the R30 million. Payment of the R5 million is to be secured to DAWN's satisfaction.

DAWN intends to use the sale proceeds towards working capital, thereby reducing the company's interest burden and associated gearing levels.

As at 30 September 2017, DCH's investment in Swan Plastics reflected a carrying amount of R20 million.

The total profit after tax of Swan Plastics for the six months ended 30 September 2017 amounted to R11,4 million, and the net asset value of Swan Plastics as at 30 September 2017 amounted to R59 million.

Condonation of bank covenant breach

As announced on SENS on 27 October 2017, DAWN advised shareholders that, as necessitated by the JSE Listings Requirements and further to the related announcement of 2 August 2017, the group had received formal condonation from Absa Bank Ltd (Absa) regarding a breach at the September 2017 measurement date of one of the financial covenants contained in the group's banking facilities.

The condonation obtained from Absa is conditional upon a cession of R100 million of the GDW disposal proceeds in favour of Absa and forms part of the R200 million debt repayment envisaged from the GDW proceeds to make the group debt free.

The circular relating to the GDW transaction announced on 14 September 2017 is expected to be distributed to shareholders in due course and subject to the required approvals, funds are expected to flow late in December 2017.

In addition, R30 million has been received on the disposal of the Group's 51% shareholding in Swan Plastics, as announced on 5 and 20 October 2017, respectively. This cash will be re-invested in DAWN for future growth and working capital purposes.

6. DIVIDENDS

The Group has a policy not to pay a dividend at the interim stage.

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