WG Wearne Limited
(Incorporated in the Republic of South Africa)
(Registration number 1994/005983/06)
JSE Code: WEA
ISIN: ZAE000078002
("Wearne" or "the company" or "the Group")

Highlights

Increase in revenue from continuing operations of 5.9%

Reviewed condensed financial results for the year ended 29 February 2016

Reviewed Condensed Consolidated Statement of Financial Position

	Reviewed 12 months February 2016 R'000	Audited 12 months February 2015 R'000
Assets		
Non-Current Assets	**305,444**	**328,504**
Property, plant and equipment	294,426	316,931
Other financial assets	6,167	5,864
Deferred taxation asset	4,851	5,709
Current assets	**76,470**	**101,149**
Inventories	27,642	37,058
Trade and other receivables	48,195	63,912
Cash and cash equivalents	633	179
Assets in disposal group classified as held for sale	**21,291**	**-**
Total assets	**403,205**	**429,653**
Equity and Liabilities		
Equity	**42,233**	**54,701**
Issued capital	178,357	178,357
Reserves	1,392	1,353
Revaluation reserves	57,326	52,735
Accumulated losses	(194,842)	(177,744)
Non-current liabilities	**148,051**	**198,296**
Borrowings	129,950	178,153
Deferred taxation liability	7,039	8,884
Environmental provision	11,062	11,259
Current liabilities	**196,294**	**176,656**
Borrowings	56,681	48,958
Current taxation payable	55	1,119
Trade and other payables	116,066	91,157
Bank overdraft	23,492	35,422
Liabilities directly associated with assets in the disposal group classified as held for sale	**16,627**	

Total liabilities	**360,972**	**374,952**
Total equity and liabilities	**403,205**	**429,653**
Number of shares in issue ('000)		
After eliminating treasury shares	273 038	273 038
Net asset value per share (cents)	15.47	20.03
Net tangible asset value per share (cents)	15.47	20.03

Reviewed Condensed Consolidated Statement of Comprehensive Income

	Reviewed 12 months February 2016 R'000	Audited 12 months February 2015 R'000
Continuing Operations		
Revenue	511,859	483,342
Cost of sales	(403,763)	(384,130)
Gross profit	**108,096**	**99,212**
Other income	4,292	8,270
Operating expenses	(107,315)	(90,010)
Operating profit	**5,073**	**17,472**
Investment income	196	401
Finance costs	(26,670)	(24,463)
Loss before taxation	**(21,401)**	**(6,590)**
Taxation	2,950	(2,404)
Loss from continuing operations	**(18,451)**	**(8,994)**
Discontinued Operations		
Profit from Discontinued operations	1,502	3,362
Taxation	(858)	(602)
Loss for the year	**(17,807)**	**(6,234)**
Other comprehensive income:		
Items that will be reclassified subsequently to profit or loss:		
Fair value adjustments: Available-for-sale	39	461
Items that will not be reclassified subsequently to profit or loss:		
Gain on revaluation of property	5,300	11,564
Total comprehensive (loss)/profit for the year	**(12,468)**	**5,791**
EBITDA	**39,542**	**58,300**

Weighted average number of shares in issue ('000)*	273 038	273 038
Continuing operations: Basic loss per share (cents)	(6.76)	(3.29)
Discontinued operations: Basic profit per share (cents)	0.24	
Continuing and discontinued operations: Basic loss per share (cents)	**(6.52)**	**(2.28)**

*There were no dilutive instruments in issue during the year.

Reconciliation of headline(loss)/earnings:		
Loss for the year	(17,807)	(6,234)
Profit on sale of property, plant and equipment	(2,904)	-
Fair value of non-current assets held for sale	1,745	(1,481)
Headline loss attributable to ordinary shareholders	(18,966)	(7,715)
Basic and diluted headline loss per share (cents)	(6.95)	(2.83)

Reviewed Condensed Consolidated Statement of Changes in Equity

	Reviewed 12 months February 2016 R'000	Audited 12 months February 2015 R'000
Balance at beginning of the year	54,701	48,910
Loss for the year	(17,807)	(6,234)
Other comprehensive income	5,339	12,025
Balance at end of the year	42,233	54,701

Reviewed Condensed Consolidated Statement of Cash Flows (from continuing and discontinued operations)

	Reviewed 12 months February 2016 R'000	Audited 12 months February 2015 R'000

Cash flows from operating activities	61,627	20,070
Cash flows from investing activities	(22,027)	(329)
Cash flows from financing activities	(27,586)	(39,012)
Net increase/(decrease in cash and cash equivalents	**12,014**	**(19,271)**
Cash and cash equivalents at beginning of the year	**(35,243)**	**(15,972)**
Cash and cash equivalents at end of the year	**(23,229)**	**(35,243)**

Share Capital	Reviewed 12 months February 2016 R'000	Audited 12 months February 2015 R'000
Authorized		
500,000,000 ordinary par value Share of 0.1 cent each	500,000	500,000
Reconciliation of number of shares		
Issued:		
Opening balance	273	273
Closing balance	273	273
Issued share capital		
Ordinary share capital	273	273
Ordinary share premium	178,084	178,084
	178,357	**178,357**

Segmental reporting	Reviewed 12 months February 2016 R'000	Audited 12 months February 2015 R'000
External sales		
Aggregates	195,719	219,961
Ready mixed concrete	256,313	228,323
Concrete manufactured products	-	23,219
Contracting	59,827	35,058
Total external sales	**511,859**	**506,561**
Inter-segment sales		
Aggregates	95,780	78,977
Ready mixed concrete	7	33
Concrete manufactured products	-	-
Contracting	27,847	23,654
Total inter-segment sales	**123,634**	**102,684**

Total revenue		
Aggregates	291,499	298,958
Ready mixed concrete	256,320	228,355
Concrete manufactured products	-	23,219
Contracting	87,674	58,712
Total revenue	**635,493**	**609,244**
Operating profit		
Aggregates	3,169	29,267
Ready mixed concrete	(1,368)	(10,308)
Concrete manufactured products	-	4,276
Contracting	3,274	(234)
Total Operating Profit	**5,075**	**23,001**
Property, plant and equipment		
Aggregates	249,157	248,339
Ready mixed concrete	26,608	27,971
Concrete manufactured products	-	22,037
Contracting	18,659	18,584
Total property, plant and equipment	**294,424**	**316,931**
Total assets		
Aggregates	303,246	301,409
Ready mixed concrete	57,923	64,056
Concrete manufactured products	-	25,997
Contracting	20,745	38,191
Total assets	**381,914**	**429,653**

*The concrete manufactured products segment was classified as a discontinued operation in the current year hence revenue and operating profits have been excluded from the segmental report. The related assets and liabilities of the segment are accounted for under “Assets in disposal group classified as held for sale” and “Liabilities directly associated with assets in the disposal group classified as held for sale” in the statement of financial position.

INTRODUCTION

WG Wearne Limited and its subsidiaries (“the Group”) provide a comprehensive range of products and contracting services to the building and construction industry in South Africa. The major operating divisions comprise aggregates, ready mixed concrete, the manufacture of precast concrete products and contracting services.

CHANGES OF DIRECTORATE

The following changes in the directorate occurred during the year under review:

1. MJ Ross resigned as the Chief Financial Officer on 31 January 2016.
2. MC Milazi was appointed as Chief Financial Officer on 1 February 2016.

REVIEW OF RESULTS

The Group revenue from continuing operations, yielded an increase of 5.9% (or R28 million) to R511 million for the year ended 29 February 2016. Increase in revenue was below inflation and was largely caused by a very competitive construction industry as well as slow economic growth.

Revenue in the Aggregates division decreased by R24 million to R196 million (R220 million in 2015), this resulted in lower operating profits of R3.1 million (R29.3 million in 2015) being achieved in the division. The reduced revenue was due to an increase in competition in certain areas as well as a slowdown in road construction projects especially in the Limpopo province. Operating profit was further negatively affected by the high increase in energy costs that could not be passed on to customers. The Ready Mix concrete division saw an improvement in revenue of 12.3% to R256 million (R228 million in 2015). Margins in this division however remained very low due to the over-supply of cement in the industry. The contracting division saw a significant improvement in revenue of 71% with revenue of R59.8 million in the current year (R35 million in 2015) being achieved. This was mainly due to the contracts that were awarded to the group for construction services on the solar farm projects in the Northern Cape. The Precast division (concrete manufactured products) saw a reduction in revenue of 11% or R2.6 million and has been disclosed as a discontinued operation.

The Group’s gross profit margins from continuing operations increased to 21.1% (2015: 20.5%) The slight improvement in margins was in part due to efficiencies achieved in the Readymix Concrete division.

The Group's EBITDA declined by 32% to R39.5 million (2015: R58.3 million). During the year the Group disposed of unproductive assets resulting in proceeds of R6.1 million. The Group expanded its plant and equipment by R15.1 million. In addition, R12.8 million was spent on improving plant and equipment.

The Group reflects a total comprehensive loss (including discontinued operations) of R12.5 million (2015: R5.8 million profit). The 2016 comprehensive loss includes an increase in the property valuation of the Brandvlei Quarry of R5.3 million.

Total liabilities decreased by R14 million to R361 million (2015: R375 million) and R27 million in borrowings were settled in the current year.

The current year performance resulted in a headline loss per share of 6.95 cents (2015: loss of 2.83 cents) and a diluted loss per share from continuing and discontinued operations of 6.52 cents (2015: earnings of 2.28 cents). The net asset value per share decreased to 15.47 cents (2015: 20.03 cents).

DISCONTINUED OPERATIONS

Following the decision to dispose of the Precast division as a going concern as announced on SENS on 10 May 2016, the results of this operation were reclassified to discontinued operations in the statement of comprehensive income and its assets and liabilities reclassified as a disposal group held for sale in the statement of financial position. The property, plant and equipment of the division were re-stated to their fair value less costs to sell of R19.6 million. The resulting impairment loss of R1.7 million is included in the results of discontinued operations in the statement of comprehensive income.

CHANGE IN ACCOUNTING POLICY

During the current year the directors' have not changed any accounting policies.

CHANGE IN COMPARATIVES

The results of discontinued operations have been separately disclosed on the face of the statement of comprehensive income.

PROSPECTS

The group experienced a decline in performance contributed by slow economic growth, high competition and less than anticipated government infrastructure spend.

The Group’s strategy of focusing on key operational areas and the monitoring of individual business units continues to drive the business’s turnaround initiatives. The board has taken a decision to sell all non-core assets and focus on areas where synergies can be achieved between the aggregate and ready mixes concrete divisions.

The prospects for the ready mixed concrete division remains subdued due to the over-supply of cement in the industry resulting in increased margin pressures. The division is however focusing on the solar and wind farm market in the Northern Cape and expect to receive further contract awards in the coming financial year. The intensive sales drive and pricing strategy implemented in the prior year to gain market share and increase volumes sold will be continued to ensure improved operational results.

The Aggregates business experienced tough trading conditions in the current year contributed by increased levels of competition in various regions. Margins remained under pressure due to high energy costs and high fixed costs. The aggregates division’s outlook remains optimistic with the governments increased focus on infrastructure spend expected in the coming year along with additional road projects being anticipated. The growth rate of the division and group is however expected to be limited by the low economic growth currently experienced.

The contracting division saw improved results in the current year due to the tenders awarded for construction services in the division. Turnover in this division will decline in the coming year as most of these contracts will be coming to an end. The group will not seek to increase further contracts for construction services as it will seek to focus on its core business of the production and selling of ready mixed concrete and aggregates.

GOING CONCERN

The Group incurred a headline loss on continuing and discontinued operations for the 2016 financial period of R18.9 million. This highlights a material uncertainty regarding the going concern issue which is emphasised further by the Group`s negative liquidity position and high gearing.

Due to the high gearing and negative liquidity position of the group, the group is currently in the process of re-structuring its operations. The first phase of the re-structuring process was implemented with the planned sale of the Precast Division. The aim of the process is to reduce the cash flow pressures of the group and improve liquidity and solvency of the individual subsidiaries. The group is optimistic that once the re-structure plan has been implemented in full, a viable and profitable business will emerge.

Solvency and Liquidity

The Group is currently technically solvent with a net asset value of R42.2 million. Current liabilities of R213 million exceed current assets of R97.7 million by R115 million. The group encountered significant cash flow pressures in the current year. Hence a restructure plan has been developed to sell off non -core assets to improve liquidity and solvency.

Cash flow

The group generated cash flows from operations of R61.6 million which in part is contributed by an increase in trade and other payables. The group maintained its strict cash flow management policy, however due to cash flow pressures delays were encountered in meeting working capital obligations. Cash flow management remains key in this challenging period. Cash resources are expected to improve as the restructure plan which, includes the sale of non- core and underperforming assets, is expected to be in full swing in the coming financial year.

Continued focus

In addition to the re-structuring plan, management continues to review all aspects of the business in order to ensure that resources are being utilized effectively. This ensures that all cost areas are closely monitored in order to reduce expenditure and relieve cash reserves for the Group’s working capital.

In light of the above, the going concern basis has been adopted in preparing these financial statements. The directors have no reason to believe that the Group or any company within the Group will not be a going concern in the foreseeable future.

BASIS OF PREPARATION

The condensed consolidated financial results for the year ended 29 February 2016 have been prepared in accordance with the framework concepts, in accordance with and containing the information required by IAS 34: Interim Financial Reporting, the recognition and measurement requirements of International Financial Reporting Standards, the financial reporting pronouncements as issued by the Financial Reporting Standards Council, the SAICA financial reporting guides as issued by the Accounting Practices Committee and the South African Companies Act, No 71 of 2008, as amended, and comply with the JSE Listings Requirements. The accounting policies and method of computation applied in preparation of the financial statements are consistent with those applied in the audited annual financial statements for the year ended 28 February 2015. There has been no material effect on the results of the Group as a result of the adoption of new standards and amendments apart from some additional disclosure.

Fair value of the Group`s main property assets is estimated based on appraisals performed by independent, professionally-qualified property valuers. The significant inputs and assumptions are developed in close consultation with management. The valuation processes and fair value changes are reviewed by the board of directors and audit committee at each reporting date.

The revaluation on the Brandvlei Quarry (Level 3 in terms of IFRS 13) was conducted by an independent appraiser in April 2016. The appraisal was carried out using a market approach that reflects observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the land in question, including plot size, location, encumbrances, current use and discounted cash flows.

The fair value less costs to sell of the Wearne Precast Property plant and equipment (Level 1 in terms of IFRS 13) was based on quoted market prices being the agreed purchase price of the assets.

Fair value of available for sale financial instruments is considered level 1 in terms of IFRS 13. The investments are held in various funds to spread the risk related to returns and maximise the return to the Group for the purposes of rehabilitating the land upon which quarrying operations are performed.

The condensed reviewed consolidated financial results have been prepared under the supervision of the Chief Financial Officer, MC Milazi CA (SA).

REVIEW CONCLUSION

This report was compiled under the supervision of Ms, MC Milazi CA(SA). The modified review report, issued by Grant Thornton Johannesburg Partnership, which included an emphasis of matter paragraph regarding the entities ability to continue as a going concern, has been done so based on the underlying annual financial statements from which these condensed financial results have been derived and is available for inspection at the registered office of the Company. This summarised report is extracted from the reviewed financial information, but is itself not reviewed. The directors take full responsibility for the preparation of these condensed financial results and any accompanying notes and commentaries.
The reviewed results have been prepared on a going-concern basis, as the directors believe that the group will be a continuing operation in the foreseeable future and these were approved by the board of directors on 31 May 2016.

DIVIDENDS

In line with the past practice, no dividend has been declared for the period. By order of the board.

09 June 2016

S J Wearne

Chief Executive Officer

MC Milazi

Chief Financial Officer

CORPORATE INFORMATION

Non-executive directors: MM Patel (Chairman); MC Khwinana; WP van der Merwe
Executive directors: SJ Wearne; MC Milazi
Registration number: 1994/005983/06
Registered address: 3 Kiepersol House; Stone Mill Office Park; 300 Acacia Road; Cresta; 2195
Postal address: PO Box 1674, Cresta, 2118
Company secretary: Ithemba Governance and Statutory Solutions (Pty) Ltd
Telephone: (011) 459 4500. Facsimile: (011) 478 5481
Transfer secretaries: Computershare Investor Services (Pty) Ltd
Designated Adviser: Exchange Sponsors (2008) (Pty) Ltd
These results and an overview of Wearne are available at www.wearne.co.za