

# **ABAGOLD**

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## **INTERIM REPORT**

(UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019







# INTERIM REPORT (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

## ABAGOLD LIMITED

### DIRECTORATE

#### Non-executive

HR van der Merwe (Chairman of the Board,  
and nomination committee)  
YJ Visser (Chairman of the risk committee)  
JW Wilken (Chairman of the remuneration committee  
and audit committee)  
CIJ Williams  
T Mokgosi-Mwantembe  
W Keast

#### Executive

TR Hedges (Managing Director)

- ❖ = Member of audit committee
- ◆ = Member of risk committee
- ✱ = Member of remuneration committee
- ✚ = Member of nomination committee
- ✳ = Member of social and ethics committee

#### Company Secretary

E Manchest

- ✱✚
- ❖◆✱✚
- ❖◆✱✚
- ❖◆

✱

### ADMINISTRATION

#### Registered office

Abagold Limited  
Cnr of Church and Stil Streets  
Hermanus 7200  
PO Box 1291, Hermanus 7200  
Tel: +27 (0) 28 313 0253  
Fax: +27 (0) 28 312 2194  
Email: info@abagold.co.za

#### Auditors

BDO South Africa Incorporated

#### Bankers

The ABSA Group

#### Website and share trading

www.abagold.com

#### Company registration number

1995/070041/06

# Review of the interim results for the six months ended 31 December 2019

The first six months of the 2020 financial year have remained difficult for Abagold. However, it is heartening that, even in these complicated times for the business and our industry, we are able to review and recognise a number of positive signs as well as encouraging results of the hard work and commitment reported in this and prior periods.

## FINANCIAL OVERVIEW

Turnover for the six months to 31 December 2019 came to R116,9 million, an increase of 2% over the comparative six months in the previous year (to December 2018). This indicates a further recovery from the same period last year, more so as the sales conditions and lower prices in respect of certain sizes were significantly impacted by the unsettling events in Hong Kong and oversupply of smaller-size animals from China.

The strong growth achieved on the farms and the accelerating maturation of the post-red tide biological assets to 'fit for processing' in the last six months have enabled our business to regain the strong trading position in our markets, even though size distribution in the pipeline has not yet recovered completely. The conservative, strategic approach taken since February 2017 continues to pay off and the health and size of the abalone production pipeline now provide options for management across the three sales formats (Live, Dried and Canned). The tonnage increases on the farms during this reporting period have led to the significant sales volume increase in tonnes sold (+27%), and Abagold was able to supply all our customers at improved levels.

Operating costs have increased in line with the significant volume and tonnage held, produced and processed. Expenses for the six months under review increased by 16% year-on-year, ahead of inflation at around 4,1%. Feed, Utilities, Maintenance and Payroll costs remain the largest costs to the business, and our ability to contain further increases in line with inflation will be important to the profitability of our business. Significant time and investments are being committed to continuously evaluate innovation and technology to achieve productivity and efficiency improvements. The higher costs associated with feed volumes are directly linked to the higher tonnage and excellent growth achieved. Improving efficiencies in managing production volumes on the farms have largely been offset by the production cost increases, resulting in the total cost per Kg produced remaining unchanged over the past six months when compared with the same period in 2018.

The net loss before tax of R11,7 million, which includes unrealised fair value adjustments, has been significantly impacted by a net write-down of biological assets in the first half of the financial year, based on lower prices in the market. The decline in the fair value gain on biological assets to R68,7 million, compared with R112,6 million in the prior period, is due to price pressure in the market for smaller-size abalone in the first half of the year. The net profit before tax excluding fair value adjustments is R11,3 million and showed a meaningful improvement when compared with the prior 6 month comparative period.

The table below sets out some key comparisons with prior periods:

	UNAUDITED 31 DEC 2019 6 months	UNAUDITED 31 DEC 2018 6 months	% change	AUDITED 30 JUN 2019 12 months
Tonnes closing stock	641	560	14%	592
Tonnes growth recorded	283	246	15%	335
Turnover (Rm)	116,9	114,1	2%	206,4
Live equivalent tonnes sold	234	185	27%	439
Total expenses (Rm)	88,0	76,1	16%	139,2
Net profit/(loss) before tax (Rm) – excl. fair value adjustments	11,3	0,6	1 783%	(6,7)
Net profit/(loss) before tax (Rm)	(11,7)	62,4	(119%)	10,2
Cash generated/(utilised) from operations (Rm)	14,6	(4,5)	423%	(9,8)

Abagold continued to purchase abalone from a number of other farms for processing in the first quarter in order to satisfy the requirements and demands of our sales partners and customers. All such third-party purchases were, however, stopped in September, as, although this activity would have assisted the recovery of the production

# Review of the interim results (continued)

## for the six months ended 31 December 2019

pipeline, the negative impact of doing so on free cash flow would have been significant. The benefits of this decision can be seen in the cash generated from operations for the full period.

A fair value gain on biological assets of R68,7 million is recorded for the period and is a combination of three components: rand exchange rate gains/losses (ROX), which remained fairly unchanged for the first half of the financial year; dollar market prices; and the growth in biological asset tonnages.

Cash generated from operations amounted to R14,6 million, compared with an outflow of R4,5 million in the comparative period. The reduction in third-party purchases, while maintaining the sales volume from our own sources, resulted in the improvement in EBITDA as well as cash generated from operations. It is forecasted that cash generated from operations will be neutral in the second half of the year, as we anticipate a seasonal reduction in sales volumes and continued pressure on pricing of smaller sizes together with the uncertainty created from the recent spread of the 'Coronavirus' in China and Asia.

Investment in equity accounted entities of R8,1 million was significantly more than the R1,5 million in the prior year due to the initiation of the Phase 1 construction of the Oman abalone farm. In addition, the business spent R4,9 million on capital items, which was in line with the prior year, as we continue to manage expansion capex in line with available funding.

Adequate bank financing in the form of an overdraft and loan facility, together with the funds raised from the rights issue (outlined below), is available to fund operations for the foreseeable future.

### Abagold Rights Issue outcome

In terms of the Abagold Rights Offer in November 2019 ('Rights Offer'), Abagold offered 16 666 667 new ordinary shares ('Rights Offer Shares') to qualifying shareholders at a subscription price of R3,00 per Rights Offer Share, in the ratio of 12,5 Rights Offer Shares for every 100 ordinary shares held on the Rights Offer record date, being 6 November 2019 ('Record Date').

The results of the Rights Offer, which closed on Thursday, 21 November 2019, were as follows:

	Number of Rights Offer Shares	% of Rights Offer Shares
Rights Offer Shares available for subscription	16 666 667	100%
Rights Offer Shares subscribed for by Shareholders	7 214 903	43,3%

Shareholders who subscribed for Rights Offer Shares were allocated their Rights Offer Shares on Friday, 22 November 2019, and resulted in a capital raise of R21,6 million.

## OPERATIONAL REVIEW

### Hatchery and Grow-out farms

The biological pipeline is starting to crystallise as a more mature and efficient pipeline for supplying the more stable, larger-size demand from the market. Total growth recorded increased by 15% from the 246 tonnes in the comparative period last year to 283 tonnes in this reporting period, indicating that the focused approach to ensuring that all basic farming functions were reviewed and repeated consistently is bearing fruit. Growth per basket per month, as well as percentage growth and yield, remained consistently high and in line with projected levels, facilitating the recovery to a full, mature farm. The hatchery's capacity has been reduced in the past three months in line with current demand for spat as well as lower demand from the other South African farms. In addition to delivering all the spat required for our own operations, the Port Nolloth Sea Farms Ranching operation has been receiving some of the excess 20- to 40-gram animals, which it has been planting into the sea at Kleinzee on the West Coast. As a result of this, we remain on track to implement reseeding schedules and planned harvesting at this operation, which will actively commence in mid-2020.

# Review of the interim results (continued)

## for the six months ended 31 December 2019

The consistent growth of close to 50 tonnes/month in the last quarter – and indications that this growth will continue to be strong into the second half of the year – bodes well for Abagold.

### **Sales and Marketing**

With the Hong Kong protests ongoing and the demand for smaller-size abalone remaining low, the team still managed a meaningful recovery in sales volumes during the last two months of this reporting period. Understandably, the price per kilogram dropped below budget, as we cleared some of the excess slow-moving stock in store, which otherwise would have stood over well into 2020. We experienced continued improvements in the demand for live abalone during the period leading up to the festival season and the Chinese New Year at the end of January 2020. Our dried-abalone customer base has been a stable and provided valuable support to Abagold since July, and, even though the prices are coming under pressure with regard to the smaller-size dried pieces, we are still at price levels that compare favourably with the average live weight selling price equivalents of the other formats.

Owing to lower demand and greater competition from China as regards smaller-size abalone, the focus has been on actively improving the overall age and weight of the biological pipeline so as to target a 200-gram-plus market by the end of the fiscal year. We remain bullish about the health and growth of our animals at this time.

The quality of our abalone remains of a high standard and allows our product to enjoy a premium status in the market place. Furthermore, our ability to differentiate through the Abagold brand or customer house brands places us in a strong market position.

### **Innovation**

Innovation is proving, now more than ever, to be the trigger that will allow us to improve productivity and efficiency while at the same time reducing costs. Unfortunately, innovating in the right way takes time, and the appropriate diligence is necessary to ensure that our patience and planning yield handsome dividends later. We now have a set of prototype, self-cleaning tanks in production on Sulamanzi and Bergsig. The planned upgrade to Bergsig and the tanks planned for Oman will see this design, and the knowledge gained as a result of these self-cleaning tanks, implemented. Evaluations continue as we become more comfortable with the innovation process, and many of the small issues and problems have been identified and ironed out.

The focus on centralised and automated sorting is yielding positive results, with four sorting machines becoming operational early in 2020, thereby reducing staffing requirements while increasing accuracy, throughput and handling. These four machines will be operational on the Sulamanzi and Bergsig farms by February 2020.

### **Specialised Aquatic Feeds (SAF)**

SAF generated stable volumes of feed sales in the period and has good control over costs. In addition, it is diversifying product ranges and initiating some exciting innovations. The financial results for SAF are consolidated into the Abagold group financials.

The year-to-date (YTD) sales volume of 1 791 tonnes is 213 tonnes below the comparative period volumes. Sales volume for the next six months will be higher than expected if the planned initiatives come to fruition.

We received positive feedback from abalone, trout and koi customers, indicating that good growth and feed conversion ratios were being experienced in the period concerned. This shows that the progress made through continued improvements in feed quality and formulations is paying dividends and validates all the efforts of the team. New-product development gained good traction and five new products, including koi feed, flexible abalone long leaf, abalone health diet (used during unseasonal warm water and red tide periods), seaweed inclusion abalone diets, and abalone-infused dog food, are all currently on trial.

# Review of the interim results (continued)

## for the six months ended 31 December 2019

### PROSPECTS

The focus of the business remains on delivering a full and mature farm with a well-distributed and balanced pipeline by June 2020. This commitment includes efficient and cost-effective production and operations, while maintaining the healthy and diverse customer base across multiple geographies and opening up new areas in North America and China. At the same time, the business continues to make good progress in growing and developing existing and new opportunities and initiatives.

Construction in Oman started in June 2019 and is progressing well, with the stage of completion for phase 1 at around 35%, and the start up date for hatchery production is now scheduled for June 2020. Unfortunately, we had to put the Mauritius fish-farming initiative on hold, with no residual financial commitments, while we await government approval for the project to move forward. Port Nolloth Sea Farms Ranching stock evaluations are encouraging, and the team has agreed with our partners to increase the flow of spat to this operation as a result of the success of the last four years' growth in the ocean.

Mean Sea Level (MSL) is currently re-evaluating its methodology and approach in respect of the construction of the wave energy converter in the sea and we expect to receive feedback from MSL in April 2020.

The second half of the fiscal year will continue to see progress with regard to the recovery of the farms, however sales growth will be impacted by the effects of the 'Coronavirus' on market demand which has negatively impacted sales in the third quarter. If this was to continue, we expect a negative impact on cash generated from operations.

### DIVIDEND

In view of the ongoing requirements of the recovery plan that was originally communicated in 2017, and which is progressing as planned, the Board regrets to announce that there will be no interim dividend for the 2020 financial year. The management and Board of Abagold remain committed to enhance shareholder value with a credible, consistent and effective dividend policy, but also believe that all shareholders will understand the decision.

Signed on behalf of the Board of Directors at Hermanus on 13 February 2020.



**HR van der Merwe**  
Chairman



**TR Hedges**  
Managing Director

# Condensed consolidated statement of financial position at 31 December 2019

	UNAUDITED 31 DECEMBER		AUDITED 30 JUNE	
	2019 R'000	% change	2018 R'000	2019 R'000
<b>ASSETS</b>				
<b>Non-current assets</b>	266 858		330 560	270 925
Property, plant and equipment	191 604	(4%)	198 770	194 326
Biological assets	49 367	(58%)	118 033	61 057
Trademarks	181	(1%)	183	176
Goodwill	7 979	-	7 979	7 979
Loan receivable	80	100%	-	1 283
Equity accounted investments	17 647	215%	5 595	6 104
<b>Current assets</b>	192 922		184 180	196 225
Current portion of biological assets	133 708	15%	116 266	137 949
Inventories	39 940	15%	34 780	43 055
Trade and other receivables	17 415	(47%)	32 736	15 206
Derivative financial instruments	1 843	100%	-	-
Cash and cash equivalents	16	(96%)	398	15
<b>Total assets</b>	<b>459 780</b>	<b>(11%)</b>	<b>514 740</b>	<b>467 150</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>	272 258		298 122	259 074
Share capital	7	0%	7	7
Share premium	109 128	25%	87 498	87 498
Retained earnings	156 116	(23%)	203 712	164 770
Foreign currency translation reserve	-	100%	(202)	(14)
Non-controlling interest	7 007	(1%)	7 107	6 813
<b>Total equity</b>	<b>272 258</b>	<b>(9%)</b>	<b>298 122</b>	<b>259 074</b>
<b>Non-current liabilities</b>	127 778		139 451	129 926
Deferred income tax	76 917	(16%)	91 668	77 002
Deferred income grant	10 140	(8%)	11 041	10 590
Long-term borrowings	40 721	11%	36 742	37 859
Trade and other payables	-	-	-	4 475
<b>Current liabilities</b>	59 744		77 168	78 150
Current portion of deferred income grant	900	-	899	900
Current portion of long-term borrowings	8 032	136%	3 405	6 761
Trade and other payables	32 388	(22%)	41 339	33 374
Derivative financial instruments	-	(100%)	3 691	1 024
Bank overdrafts	18 424	(34%)	27 834	36 091
<b>Total liabilities</b>	<b>187 522</b>	<b>(13%)</b>	<b>216 619</b>	<b>208 076</b>
<b>Total equity and liabilities</b>	<b>459 780</b>	<b>(11%)</b>	<b>514 741</b>	<b>467 150</b>



# Condensed consolidated statement of comprehensive income

for the six months ended 31 December 2019

	UNAUDITED 31 DECEMBER			AUDITED 30 JUNE
	2019 6 months R'000	% change	2018 6 months R'000	2019 12 months R'000
Revenue	116 922	2%	114 124	206 351
Other income	5 436	(44%)	9 720	2 819
Fair value (losses)/gains in financial instruments	2 469	265%	676	(985)
Fair value gain on biological assets	68 679	(39%)	112 595	137 721
Cost of sales	(117 048)	18%	(99 409)	(195 588)
Production costs	(24 645)	26%	(19 551)	(26 003)
Employee benefit expenses	(34 339)	14%	(29 996)	(60 478)
Depreciation and amortisation	(7 729)	7%	(7 250)	(14 900)
Other operating expenses	(16 861)	11%	(15 194)	(31 314)
(Loss)/Profit from operations	(7 117)	(111%)	65 714	17 622
Finance costs	(4 420)	48%	(2 985)	(6 550)
Share of loss of equity accounted investments	(184)	(100%)	(335)	(894)
<b>(Loss)/Profit before income tax</b>	<b>(11 722)</b>	<b>(119%)</b>	<b>62 394</b>	<b>10 178</b>
Income tax expense	(3 278)	(81%)	(17 191)	(3 029)
<b>(Loss)/Profit for the year from continuing operations</b>	<b>(8 443)</b>	<b>(119%)</b>	<b>45 203</b>	<b>7 149</b>
Loss for the year from discontinued operations	(0)		(1 411)	(2 594)
<b>(Loss)/Profit for the period</b>	<b>(8 444)</b>	<b>(119%)</b>	<b>43 792</b>	<b>4 555</b>
Other comprehensive (expense)/income	(0)		(266)	(79)
<b>(Loss)/Profit for the period</b>	<b>(8 444)</b>	<b>(119%)</b>	<b>43 526</b>	<b>4 476</b>
Profit relating to non controlling interest	(195)		(647)	(352)
<b>Total comprehensive (loss)/income for the period</b>	<b>(8 638)</b>	<b>120%</b>	<b>42 879</b>	<b>4 124</b>



## Condensed consolidated statement of changes in owners' equity for the six months ended 31 December 2019

	UNAUDITED 31 DECEMBER			AUDITED 30 JUNE
	2019 6 months R'000	% change	2018 6 months R'000	2019 12 months R'000
<b>Equity at the beginning of the period</b>	<b>259 073</b>	<b>2%</b>	<b>254 597</b>	<b>254 597</b>
(Loss)/Profit for the period	(8 639)	(120%)	43 145	4 203
Foreign currency translation reserve	-		(267)	(79)
Profit relating to non-controlling interest	195		647	352
Share issue	21 630	100%	-	-
<b>Equity at the end of the period</b>	<b>272 258</b>	<b>(9%)</b>	<b>298 122</b>	<b>259 073</b>

# Condensed consolidated statement of cash flow

for the six months ended 31 December 2019

	UNAUDITED 31 DECEMBER		AUDITED 30 JUNE	
	2019 6 months R'000	% change	2018 6 months R'000	2019 12 months R'000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>10 448</b>		<b>(7 363)</b>	<b>(16 312)</b>
Cash received from clients	124 158	5%	118 049	209 964
Cash paid to suppliers and employees	(109 543)	(11%)	(122 581)	(219 726)
<b>Cash generated/(utilised) from operations</b>	<b>14 615</b>	<b>423%</b>	<b>(4 532)</b>	<b>(9 762)</b>
Finance costs	(4 167)	47%	(2 831)	(6 550)
Tax paid	-	0%	-	-
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>	<b>(13 087)</b>		<b>(6 173)</b>	<b>(8 746)</b>
Purchases of property, plant and equipment	(4 978)	9%	(4 562)	(7 611)
Investment in equity accounted entities	(8 075)	409%	(1 587)	(1 068)
Purchases of trademarks	(34)	41%	(24)	(67)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>20 308</b>		<b>4 109</b>	<b>6 990</b>
(Decrease)/Increase in long-term borrowings	(1 322)	(132%)	4 109	7 670
Loan granted to associate	-	-	-	(600)
Increase in share capital	21 630	100%	-	-
Net cash flow for the period	17 668	287%	(9 427)	(18 068)
Cash and cash equivalents – beginning of the period	(36 076)	100%	(18 008)	(18 008)
<b>Cash and cash equivalents – end of the period</b>	<b>(18 408)</b>	<b>33%</b>	<b>(27 435)</b>	<b>(36 076)</b>

# Notes to the interim results

## for the six months ended 31 December 2019

### 1. CORPORATE INFORMATION

Abagold Limited (the "Company") is a company incorporated and domiciled in South Africa. The Company owns 70% of Specialised Aquatic Feeds (Proprietary) Limited, which produces and sells formulated feeds.

### 2. ACCOUNTING POLICIES AND BASIS OF PREPARATION

#### Basis of preparation

The interim financial statements are presented in Rands, rounded off to the nearest thousand.

The financial statements are prepared in accordance with and comply with the requirements of International Financial Reporting Standards (IFRS). In addition, the financial statements comply with IAS 34 (Interim Financial Reporting) and relevant sections of the South African Companies Act of 2008, as amended. The accounting policies and basis of presentation have been applied consistently with the previous period.

Interim condensed financial statements do not include all the information and the disclosures required in the audited annual financial statements, and should be read in conjunction with the Company's audited annual financial statements as at 30 June 2019. The 30 June 2019 figures are included for ease of reference and comparison.

#### Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 30 June 2019.

### 3. EARNINGS PER SHARE

	Unaudited 31 December		Audited 30 June
	2019 R'000	2018 R'000	2019 R'000
Total (Loss)/Profit attributable to ordinary shareholders	(8 444)	43 526	4 476
The entire "Profit/(Loss) for the period" is attributable to ordinary shareholders			
Weighted average number of ordinary shares (in thousands)	137 542	133 333	133 333
(Loss)/Earnings per share (in cents per share)	(6.14)	32.16	3.36

**Note:** There are no instruments in issue that could have a dilutive effect and therefore the diluted earnings per share equals the earnings per share.

There are no material adjustments to earnings required in determining the headline earnings and therefore the headline earnings per share equals the earnings per share.

### 4. SIGNIFICANT POST BALANCE SHEET EVENTS

The effect of the 'Coronavirus' on Asian markets has resulted in restrictions on people and logistics in an effort to curtail the spread of the virus. The market disruption has had a negative impact on Abagold sales in the third quarter, the extent of which will depend on the recovery of sales post the 'Coronavirus'.

