

# **ABAGOLD**

## **INTERIM REPORT** (UNAUDITED)

FOR THE SIX MONTHS ENDED  
31 DECEMBER 2020





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## FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

### 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

CT Ralebitso (appointed 1 January 2021)

JN Hamman (appointed 1 January 2021)

T Mokgosi-Mwantembe

W Keast

##### Executive

TR Hedges (Managing Director)

E Manchest (Financial Director)

##### Prescribed Officer

P Kubheka

- ❖ = 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 2020

The first six months of the FY21 financial year have been impacted by the ongoing effects of the Covid-19 pandemic. However, it is valuable to note that even in these complicated times for the world, our business and the abalone industry, Abagold has been able to continue the improvements and maintain momentum started in the previous fiscal year. This progress has delivered encouraging results that are covered in this review.

### FINANCIAL OVERVIEW

Group revenue for the six months to 31 December 2020 was R129,2 million, reflecting an increase of 11% over the comparative six months of the previous year. The majority of this increase in revenue is attributable to the growth in feed sales by Specialised Aquatic Feeds (SAF). The revenue of abalone sales marginally reduced by 3% to R92,4 million compared to R94,8 million of the prior period. However, tonnage sold was significantly up for the same period. There continues to be tremendous pressure on abalone pricing, which has hampered the recovery of the industry. The impact of lower demand after the first wave of Covid-19 in our markets resulted in many of the foodservice and tourist outlets operating at a significantly lower capacity. This impacted on live and canned abalone sales and consumption in Asia. The improved feed sales at SAF are supported by continued expansion into new markets, improvement in feed formulation and quality, with personalised customer service delivering better revenue results.

The growth achieved on the farms, as well as the more balanced and mature biological asset pipeline, have created more flexibility to service the retail and gifting markets. This has allowed the business to export larger volumes of abalone than during the same period last year. The conservative and strategic approach to growing out the pipeline continues to deliver value and the health and size of the abalone production pipeline now provide options for sales across all three sales formats (Live, Dried and Canned). The standing biological tonnage on the farms has stabilised during this reporting period. This has led to a 12% sales volume increase in tonnes sold and Abagold was able to supply all our customers at the required product demand levels. SAF's significant 38% volume and 47% revenue increase assisted the overall performance of the Group in the reporting period.

Operating costs have stabilised in line with growth, tonnage held, harvesting and processing volumes. Expenses for the six months under review decreased by 3% against the prior period. Feed, utilities, 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 sustainability of our business. Significant progress has been made on innovation and technology implementations to improve productivity and efficiency. Production volumes on the farms have been negatively impacted by work stoppages and interruptions of farming schedules during the pandemic, resulting in the total production cost per kilogram increasing from the prior period by 9%. This increase in cost is also linked to the larger-sized abalone on the farm which grow slower once they reach larger sizes. The pipeline integrity and profile remain well set to respond to the current market dynamics, with the focus on an ongoing improvement in our ability to supply larger animals in all formats to customers.

The net loss before tax of R26,3 million includes the impact of revaluing biological assets to the fair value less costs to sell, as required by International Accounting Standard (IAS 41). The fair value of biological assets has been affected by the lower abalone dollar pricing, increased logistics costs and a strengthening rand in the last quarter of the calendar year. The rand ended the year on R14.68/US\$ compared to R17.34/US\$ as at the end of June 2020. The statement of comprehensive income for the current period includes a fair value loss of R24,6 million, while the comparative period included a R16 million fair value loss. Excluding fair value adjustments, the net loss before tax is R1,7 million compared with a profit of R4,2 million in the prior period. In the current period export cost increased by R8,4 million due to a change in sales mix which increased the volume exported by air, as well as price increases on international commercial flights due to the global lockdown.

# Review of the interim results (continued)

## for the six months ended 31 December 2020

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

	UNAUDITED 31 DEC 2020 6 months	UNAUDITED 31 DEC 2019 6 months	% change	AUDITED 30 JUN 2020 12 months
Revenue (Rm)	129,2	116,9	11%	203,1
Live equivalent tonnes sold	263	234	12%	439
Tonnes growth recorded	251	283	-11%	335
Total expenses (Rm)	85,6	88,0	-3%	139,8
Net profit/(loss) before tax (Rm) – excl. fair value adjustments	(1,7)	4,2	-141%	11,9
Net profit/(loss) before tax (Rm)	(26,3)	(11,7)	124%	17,7
Cash generated/(utilised) from operations (Rm)	5,8	14,6	-60%	11,3

Cash generated from operations amounted to R5,8 million compared to R14,6 million in the comparative period, with increased investment in working capital in the current year. The prior period cash flow benefited from the strategic sale of slow-moving stock at discounted prices. It is expected that cash generated from operations will improve in the second half of the year, supported by production output increases and the continued harvesting of larger-sized abalone.

Covid-19-related delays with phase 1 construction of the Oman abalone farm led to significantly lower investment in equity-accounted entities of R1,3 million compared to the R8,1 million in the prior year. In addition, the business spent R4,4 million on capital items, which was in line with the prior year. Capital investments and expansion are continuously managed in line with available funding. Capex requirements locally are expected to proceed as planned and to be approved in the second half of the year to further improve performance and reduce costs.

The balance sheet has been strengthened through a shareholder loan of R15 million in the current period and adequate bank financing, in the form of an overdraft and term facility, is available to fund operations for the foreseeable future.

### OPERATIONAL REVIEW

#### Hatchery and grow-out farms

The biological pipeline has matured significantly, and this improved pipeline has enabled the business to supply more consistent larger-sized abalone which matches the demand from the market. Total growth recorded decreased by 11% from 283 tonnes in the comparative period last year to 251 tonnes in this reporting period, reflecting the rapidly maturing pipeline and the increased tonnage of animals over 180g on the farm. The company continues to focus on all the operational components while reviewing these regularly in line with targets. Performance against key measures such as 'growth per basket per month' as well as 'percentage growth' and 'yield', remained consistent and in line with projected levels, helping to achieve a full and mature farm. The hatchery capacity has been further reduced to align with lower current requirements for spat in Abagold operations as well as the other South African abalone farms. In addition to delivering all the spat required for Abagold's own operations, the Port Nolloth Sea Farm Ranching operation has been receiving excess 20 to 40g animals during the past few years. These animals have now been planted in the sea at the ranching project at Kleinzee on the West Coast. As a result of this, the ranching project is on track to achieve reseeding schedules and to start planned harvest during 2021.

The consistent growth across all size categories in the period and indications that this growth will continue to be strong into the second half of the year bodes well for the Abagold operations.

#### Sales and marketing

Due to the pandemic, Hong Kong and Asian restaurants operated at reduced occupancy levels for most of this reporting period. However, the sales and marketing team has still managed to maintain consistent monthly sales volumes. Pricing pressure on certain lines of product negatively impacted the dollar price/kilogram achieved versus last year. The industry experienced inconsistent access to logistics supply channels as the number of flights available for live abalone freight was severely reduced by the global reduction in flights and the limited routes that were open to the market.

# Review of the interim results (continued)

## for the six months ended 31 December 2020

The dried abalone market has been a stable and valuable support to Abagold throughout the period and it is pleasing to see the prices of this format improving significantly since June 2020. Improved pricing of the dried product is expected to continue along with more consistent demand in this market, which will be enhanced further with normalised consumption as soon as the threat of the pandemic reduces.

The continued competition from China, especially on smaller-size abalone in cans and live formats, underscores the differentiated focus by Abagold to actively improve the overall size and weight of the offering to the marketplace. This is likely to support improved trading results in the second half of the year. The sales team remains bullish about the position of the Abagold brand, the premium 200g plus offering and the consistent quality of the product being produced and sold.

### **Innovation**

Innovation is proving, now more than ever, to be the trigger to allow the business to improve productivity and efficiency, while reducing costs at the same time. Abagold has now implemented centralised automatic weight-sorting on all farms and after working through some design improvements in the last few months, the team is starting to see excellent results with improved efficiency, productivity, and accuracy in this discipline.

Self-cleaning tanks, operating in both the hatchery and on some of the farms, are starting to deliver improved efficiencies as well. There are several other technology improvements being implemented across the farms, all playing a role in ensuring improved overall accuracy and delivering improved performance.

### **Oman**

The continued extended lockdowns in Oman have complicated the progress on the building and construction, with restricted travel and delays the main consequence. The project is delayed by at least five months from the original schedule and the Board approved contingency plans to support the planned completion of phase one construction.

Staff have been unable to travel from South Africa since March 2020 and thus a lot of the commissioning, testing and validation required for the start-up components of the project have been delayed. However, in the last week of December, the first full commissioning team and permanent farm and hatchery staff from South Africa were able to travel to the Mirbat site.

With the critical parts of the team now in place, momentum will improve. The production of spat and initial grow-out in the small project hatchery has been successful, so the transition to the new hatchery is expected to be smooth when construction is completed.

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

SAF generated significantly improved revenue and volumes of feed sales in the period and have maintained good control over costs, while they continue diversifying their product ranges and initiating some exciting feed and product innovations. The financial results for SAF are consolidated into the Abagold group financials.

The strong sales volumes can be attributed to a number of initiatives as well as favourable abalone and trout customers' farming conditions. The SAF factory continues producing premium products for new markets. 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 in commercial trials.

The year-to-date (YTD) sales volume of 2 466 tonnes is 675 tonnes ahead of last year's volume. The business is confident that they will maintain the volume increases achieved in the first half of the year, continue this momentum, and deliver a profitable year.

SAF received positive feedback from abalone, trout and koi customers, showing good growth and feed conversion ratios in the period. This shows that the progress made through continued improvements in feed quality and formulations is benefitting customers and validates the efforts of the team.

# Review of the interim results (continued)

for the six months ended 31 December 2020

## PROSPECTS

The focus of the business remains on delivering and unlocking the value of a full and mature farm with a well-distributed and balanced pipeline. This commitment includes efficient and cost-effective production and operations while maintaining a healthy and diverse customer base across multiple geographies and opening new markets 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.

Port Nolloth Sea Farm Ranching stock evaluations are encouraging and the team is looking forward to the first sizeable harvests in the calendar year ahead. As and when there are available and surplus juvenile abalone to sell to Port Nolloth, the company will transact with them to continue a flow of this abalone to the ranching area.

A sustainable and reliable energy supply remains a key imperative and the business is at an advanced stage of negotiations for a Power Purchase Agreement on a 1MW capacity photovoltaic system, having signed a Heads of Agreement with the preferred supplier. The project is expected to start in the second half of this financial year, with a large portion of the installation subject to approval from the harbour landlord, Department of Public Works.

It is expected that improved pricing and demand should be experienced during the second half of the fiscal year, supported by the world slowly recovering from the Covid-19 global pandemic. Cash generated from operations is expected to improve as benefits from the additional growth, improved sizes and a more stable sales environment over the balance of the year are realised.

## DIVIDEND

Due to the ongoing uncertain trading environment in which Abagold is currently operating, the Board regrets to announce that there will be no interim dividend for the 2021 financial year. The Board and management of Abagold remain committed to enhancing shareholder value with a credible, consistent, and effective dividend policy, but also believe that all shareholders will understand the decision in these extraordinary times.

Signed on behalf of the Board of Directors at Hermanus on 12th February 2021.



**TR Hedges**  
Managing Director



**E Manchest**  
Financial Director

# Condensed consolidated statement of financial position at 31 December 2020

	UNAUDITED 31 DECEMBER		AUDITED 30 JUNE	
	2020 R'000	% change	2019 R'000	2020 R'000
<b>ASSETS</b>				
<b>Non-current assets</b>	<b>255 662</b>		<b>266 858</b>	<b>241 949</b>
Property, plant and equipment	180 559	(6%)	191 604	183 487
Biological assets	46 154	(7%)	49 367	29 577
Trademarks	123	(32%)	181	152
Right-of-use of asset	3 444	-	-	3 443
Goodwill	7 979	0%	7 979	7 979
Loan receivable	4 850	5963%	80	1 373
Equity accounted investments	12 553	(29%)	17 647	15 938
<b>Current assets</b>	<b>216 707</b>		<b>192 922</b>	<b>244 380</b>
Current portion of biological assets	166 991	25%	133 708	208 135
Inventories	26 211	(34%)	39 940	27 407
Trade and other receivables	23 505	35%	17 415	8 838
Derivative financial instruments	-	100%	1 843	-
Cash and cash equivalents	0	(97%)	16	-
<b>Total assets</b>	<b>472 369</b>	<b>3%</b>	<b>459 780</b>	<b>486 329</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>	<b>273 599</b>		<b>272 258</b>	<b>292 505</b>
Share capital	7	0%	7	21 637
Share premium	109 128	0%	109 128	87 498
Retained earnings	156 776	0%	156 116	176 502
Non-controlling interest	7 688	10%	7 007	6 868
<b>Total equity</b>	<b>273 599</b>	<b>0%</b>	<b>272 258</b>	<b>292 505</b>
<b>Non-current liabilities</b>	<b>150,436</b>		<b>127 778</b>	<b>141 255</b>
Deferred income tax	77 827	1%	76 917	83 415
Lease liability	6 363	-	-	6 300
Deferred income grant	9 240	(9%)	10 140	9 690
Long-term borrowings	57 006	40%	40 721	40 707
Trade and other payables	-	-	-	1 143
<b>Current liabilities</b>	<b>48 334</b>		<b>59 744</b>	<b>52 569</b>
Current portion of deferred income grant	900	-	900	900
Current portion of long-term borrowings	7 467	(7%)	8 032	9 137
Current portion of lease liability	886	0%	-	949
Trade and other payables	21 562	(33%)	32 388	15 438
Derivative financial instruments	170	0%	-	76
Bank overdraft	17 349	(6%)	18 424	26 069
<b>Total liabilities</b>	<b>198 770</b>	<b>6%</b>	<b>187 522</b>	<b>193 824</b>
<b>Total equity and liabilities</b>	<b>472 369</b>	<b>3%</b>	<b>459 780</b>	<b>486 329</b>

# Condensed consolidated statement of comprehensive income

for the six months ended 31 December 2020

	UNAUDITED 31 DECEMBER			AUDITED 30 JUNE
	2020 6 months R'000	% change	2019 6 months R'000	2020 12 months R'000
Revenue	129 204	11%	116 922	203 064
Other income	3 615	(33%)	5 436	7 836
Fair value gains in financial instruments	2 867	16%	2 469	908
Fair value gain on biological assets	67 607	(2%)	68 679	192 217
Fair value of abalone sold	(93 523)	9%	(85 683)	(186 440)
Consumption of raw material	(35 010)	38%	(25 399)	(43 156)
Export costs	(14 333)	140%	(5 965)	(12 654)
Production costs	(25 094)	2%	(24 645)	(28 016)
Employee benefit expenses	(35 523)	3%	(34 339)	(60 923)
Depreciation and amortisation	(7 370)	(5%)	(7 729)	(15 507)
Other operating expenses	(14 812)	(12%)	(16 861)	(26 789)
Impairment of PPE	-	-	-	(3 093)
<b>(Loss)/Profit from operations</b>	<b>(22 373)</b>	<b>214%</b>	<b>(7 117)</b>	<b>27 447</b>
Finance income	10	-	-	-
Finance costs	(2 806)	(37%)	(4 420)	(8 520)
Share of loss of equity accounted investments	(1 143)	(100%)	(184)	(1 203)
<b>(Loss)/Profit before income tax</b>	<b>(26 311)</b>	<b>124%</b>	<b>(11 721)</b>	<b>17 724</b>
Income tax expense	(7 367)	125%	(3 278)	(6 165)
<b>(Loss)/Profit for the year from continuing operations</b>	<b>(18 944)</b>	<b>124%</b>	<b>(8 443)</b>	<b>11 559</b>
Loss for the year from discontinued operations	-	-	-	(31)
<b>(Loss)/Profit for the period</b>	<b>(18 944)</b>	<b>124%</b>	<b>(8 443)</b>	<b>11 528</b>
Other comprehensive (expense)/income	-	-	-	(14)
<b>(Loss)/Profit for the period</b>	<b>(18 944)</b>	<b>124%</b>	<b>(8 443)</b>	<b>11 514</b>
Profit/(Loss) relating to non-controlling interest	(681)	-	(195)	56
<b>Total comprehensive (loss)/income for the period</b>	<b>(19 625)</b>	<b>(127%)</b>	<b>(8 638)</b>	<b>11 458</b>

## Condensed consolidated statement of changes in owners' equity for the six months ended 31 December 2020

	UNAUDITED 31 DECEMBER			AUDITED 30 JUNE
	2020 6 months R'000	% change	2019 6 months R'000	2020 12 months R'000
<b>Balance at 30 June 2019 (as previously reported)</b>	<b>292 505</b>	<b>13%</b>	<b>259 073</b>	<b>259 073</b>
IFRS 16 transition (leases)	-	-	-	275
<b>Balance at 30 June 2019 (restated)</b>	<b>292 505</b>	<b>13%</b>	<b>259 073</b>	<b>259 348</b>
Total comprehensive income for the year	(19 587)	127%	(8 639)	11 471
Profit relating to non-controlling interest	681	249%	195	56
Share issue	-	(100%)	21 630	21 630
<b>Equity at the end of the period</b>	<b>273 599</b>		<b>272 259</b>	<b>292 505</b>

# Condensed consolidated statement of cash flow

for the six months ended 31 December 2020

	UNAUDITED 31 DECEMBER			AUDITED 30 JUNE
	2020 6 months R'000	% change	2019 6 months R'000	2020 12 months R'000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>2 982</b>		<b>10 448</b>	<b>5 999</b>
Cash received from clients	123 208	(1%)	124 158	217 212
Cash paid to suppliers and employees	(117 382)	7%	(109 543)	(205 934)
<b>Cash generated from operations</b>	<b>5 826</b>	<b>60%</b>	<b>14 615</b>	<b>11 278</b>
Finance costs	(2 844)	(32%)	(4 167)	(5 404)
Tax paid	-	0%	-	125
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>	<b>(5 722)</b>		<b>(13 087)</b>	<b>(19 924)</b>
Purchases of property, plant and equipment	(4 442)	(11%)	(4 978)	(9 095)
Proceeds from disposal of property, plant and equipment	52	0%	-	<b>12</b>
Investment in equity accounted entities	(1 332)	(84%)	(8 075)	(10 807)
Purchases of trademarks	-	(100%)	(34)	(34)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>11 460</b>		<b>20 308</b>	<b>23 932</b>
(Decrease)/Increase in long-term borrowings	14 305	(1182%)	(1 322)	3 271
Loan granted to associate	(2 845)	-	-	(90)
Increase in share capital	-	100%	21 630	21 630
Net cash flow for the period	8 720	51%	17 669	10 007
Cash and cash equivalents - beginning of the period	(26 069)	(28%)	(36 076)	(36 076)
<b>Cash and cash equivalents - end of the period</b>	<b>(17 349)</b>	<b>6%</b>	<b>(18 407)</b>	<b>(26 069)</b>

# Notes to the interim results

## for the six months ended 31 December 2020

### 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 2020. The 30 June 2020 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 2020.

### 3. EARNINGS PER SHARE

	Unaudited 31 December		Audited 30 June
	2020 R'000	2019 R'000	2020 R'000
Total (Loss)/Profit attributable to ordinary shareholders	(18 944)	(8 443)	11 527
The entire “Profit/(Loss) for the period” is attributable to ordinary shareholders			
Weighted average number of ordinary shares (in thousands)	140 548	137 542	133 333
(Loss)/Earnings per share (in cents per share)	(13.48)	(6.14)	8.65

**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

In January 2021 there was an isolated incident of arson at the Oman operation in which equipment was damaged in a fire. The extent of the damage is estimated at R5 million and an insurance claim will be submitted through the appointed building contractor. Abagold’s maximum exposure will be limited to 50% of the replacement cost of the damaged equipment less the potential insurance proceeds.

The Covid-19 pandemic remains a challenge to the world economy and the business, however we are unable to quantify the financial impact on the business for the foreseeable future.

