ABAGOLD

INTERIM REPORT

(UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

re:new

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FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

ABAGOLD LIMITED

DIRECTORATE

Non-executive

HR van der Merwe (Chairman of the Board, remuneration committee and nomination committee)	❇ ✚
YJ Visser (Chairman of the risk committee)	❖ ♦ ❇ ✚
JW Wilken (Chairman of the audit committee)	❖ ♦ ❇ ✚
SL de Villiers (Chairman of social and ethics committee)	❇ ✚ ✶
P Davies	❖ ♦
T Mokgosi-Mwantembe	
W Keast	

Executive

TR Hedges (Managing Director)
CH van Dyk (Operations Director)
L-A Lubbe (HR 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 Cape Inc.

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 2018

FINANCIAL OVERVIEW

Turnover for the six months to 31 December 2018 came to R114,1 million, an increase of 41% over the comparative six months in the previous year (to December 2017). This indicates a healthy recovery from the same period last year, when the 2017 red tide event adversely impacted our abalone products available for sale. The strong growth achieved on the farms, as well as the third-party abalone purchases for processing in the last six months, has enabled the business to regain the dominant trading position in our markets, although size distribution in the pipeline has not yet recovered completely. The conservative strategic approach taken since February 2017 is starting 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 (+45%), and Abagold was able to supply all our customers at improved levels. Volumes will continue to increase until full capacity is achieved in 2020. The additional volume in the production pipeline and the weaker Rand over the past 12 months have also had a positive impact on the valuations of the biological assets on the farms.

Operating costs have increased in line with the significant volume and tonnage produced and processed. Expenses for the six months under review increased by 31% year-on-year, ahead of inflation at 5,0%. Payroll costs remain the single biggest cost to the business and any further increases above inflation will have a negative impact on the sustainability of our business. Significant time and investments are being committed to continuously evaluate innovation and technology in order to achieve productivity and efficiency improvements. The other cost drivers are significantly higher feed volumes and associated costs due to the higher tonnage and excellent growth achieved, higher utility and diesel costs due to full farms, increased processing, and higher cost of maintenance. Improvements in production volume on the farms have resulted in a 31% reduction in the total cost per kilogram produced over the past six months when compared with the same period in 2018.

The net profit before tax of R61,2 million, which includes unrealised fair value adjustments, is a significant improvement when compared with the R10 million loss in the prior period. The fair value gain on biological assets of R112,6 million, compared with R39,6 million in the prior period, is due to excellent growth and a weakening Rand. Excluding the fair value adjustments, the net profit before tax is R0,6 million, compared with a loss of R4,8 million in the prior period.

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

	UNAUDITED 31 DEC 2018 6 months	UNAUDITED 31 DEC 2017 6 months	% change	AUDITED 30 JUN 2018 12 months
Turnover (Rm)	114,1	81,0	41%	150,0
Live equivalent tonnes sold	185	127	45%	245
Tonnes growth recorded	246	144	71%	337
Total expenses (Rm)	76,1	58,0	31%	125,1
Net profit/(loss) before tax and fair value adjustments (Rm)	0,6	(4,8)	112%	(37,5)
Net profit/(loss) before tax (Rm)	61,2	(10,0)	715%	2,5
Cash utilised from operations (Rm)	(4,5)	(28,5)	84%	(32,2)

Abagold continued to purchase abalone from a number of other farms for processing in order to achieve the requirements and demands of our sales partners and customers. The volume of third-party stock purchased in the period was 71,5 tonnes. Although this activity helped the production pipeline to continue the recovery, the impact on free cash flow was significant and this short-term effect can be seen in the cash generated from operations performance.

A fair value gain on biological assets of R112,6 million is recorded for the period and is a summary of three components: Rand exchange rate gains/losses (ROX) from R13,75/USD at 30 June 2018 to R14,38/USD at 31 December 2018; better dollar market prices; and the growth in biological asset tonnages.

Cash utilised from operations amounted to R4,5 million compared with R28,5 million in the comparative period. The increased sales volume and improved customer collection, combined with slightly higher inventory (Chinese New Year being later in 2019), resulted in the improvement in cash generated from operations. There is, however, still a drag on this performance criterion, which is receiving focused attention from management.

Review of the interim results (continued)
for the six months ended 31 December 2018

The R4,5 million spent on capital items was significantly lower than in the prior year due to the earlier completion of the protection system for red tide defence. Meeting capex requirements locally will still go ahead as planned in the second half of the year, in line with planned projects and innovation. Investment in equity accounted entities is R1,3 million more than in the prior year, with significant investment expected in Oman in the second half of the year.

Adequate bank financing in the form of an overdraft and loan facility is available to fund operations for the foreseeable future.

OPERATIONAL REVIEW

Hatchery and Grow-out farms: Total growth recorded increased by 71% from 144 tonnes in the comparative period last year to 246 tonnes in this reporting period. Furthermore, the growth "yield" achieved in 2019 has increased by 24% to 109%, 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 remained consistently high and in line with long-term levels, facilitating the recovery to a full farm remaining on schedule. The hatchery's performance in the last six months has been nothing short of phenomenal, with it consistently producing over 1,5 million spat per month throughout this reporting period. This has also allowed the business to generate revenue from the excess spat sales to new and expanding farms. In addition to delivering all the spat required for our own operations, the Port Nolloth Sea Farm Ranching operation has been receiving all the contracted spat required to stay on track and to achieve planned reseeding schedules and harvesting in 2020.

Sales and Marketing: With improved volumes to sell and significantly higher volumes of smaller sizes, the sales team agreed specific delivery plans, by month, with all of our sales partners and customers. Customer volumes have started returning to pre-2017 tonnages, as allowed by availability of product, and we believe that we have been able to maintain our market share during the tough times and that all customers are primed for quick expansion and growth in 2019. Trading conditions in Asia, during the six months under review, have seen normal demand across all formats, although the financial uncertainty being experienced globally is definitely impacting the sentiment in Asia, with the risk of softening demand in the first half of 2019. The USD price has also moved upwards significantly on all formats, and this has helped offset the impact of the unstable Rand in order to maintain good average selling prices for the reporting period.

Specialised Aquatic Feeds (SAF): SAF experienced continued growth during this reporting period. The overall performance of the business and the stability achieved are very encouraging. The performance of the operations in the first six months has been impressive, with sales volumes increasing by 18,7%, revenue up by 20,4%, and profitability in line with expectations, with NPBT for the six months at R2,99 million, which reflects continued improvement of 24,7% in the performance compared with the prior period.

The majority of the volume growth continues to come from servicing the trout industry and the new abalone farming customers, both in South Africa and Lesotho, while progress regarding export of product across the range of offerings is also now gathering momentum.

PROSPECTS

The focus of the business remains on delivering a full farm with a well-balanced pipeline by June 2020. This commitment includes efficient and cost-effective production, while maintaining the healthy customer base across multiple geographies. We are comfortable reporting that we are at least three months ahead of this schedule, at this time, which will have significant financial benefits for the business in the next 12 months. At the same time, the business continues to progress well with regard to existing and new opportunities. Construction in Oman will start in Q1 2019 and an expansion proposal for Mauritius is awaiting ministerial approval for the team to start that operation. Port Nolloth Sea Farm Ranching stock evaluations are encouraging, and the team has agreed with our partners to increase the flow of spat to this operation in view of the success of the last four years' growth in the ocean. Mean Sea Level continues to make progress with the pilot wave energy converter in the sea.

Review of the interim results (continued)

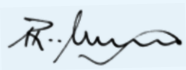
for the six months ended 31 December 2018

The second half of the fiscal year will continue to see progress in the recovery of the farms, and sales growth is expected to continue. We expect a significant improvement in cash generated from operations in this coming period to year end as we gain greater benefits from the additional growth, improved sizes, and the third-party sales over the full year.

DIVIDEND

Due to the impact of the red tide event, reported in fiscal year 2017, and the recovery steps that had to be implemented since then, the Board regrets that there will be no interim dividend for the 2019 financial year. We, the management and Board of Abagold, remain committed to enhance shareholder value with a credible and consistent dividend policy, but we also believe that all shareholders will understand this decision.

Signed on behalf of the Board of Directors at Hermanus on 14 February 2019.



HR van der Merwe
Chairman

TR Hedges
Managing Director

Condensed consolidated statement of financial position at 31 December 2018

	UNAUDITED 31 DECEMBER			AUDITED 30 JUNE
	2018 R'000	% change	2017 R'000	2018 R'000
ASSETS				
Non-current assets	330 560		266 690	242 287
Property, plant and equipment	198 770	(1%)	201 153	201 563
Biological assets	118 033	135%	50 180	26 656
Trademarks	183	11%	165	159
Goodwill	7 979	0%	7 979	7 979
Equity accounted investments	5 595	(22%)	7 213	5 930
Current assets	184 180		127 858	194 331
Current portion of biological assets	116 266	40%	83 234	147 662
Inventories	34 780	120%	15 841	29 160
Trade and other receivables	32 736	23%	26 668	17 283
Derivative financial instruments	–	(100%)	2 115	–
Cash and cash equivalents	398	100%	–	226
Total assets	**514 740**	**30%**	**394 548**	**436 618**
EQUITY AND LIABILITIES				
Equity	298 122		244 919	254 597
Share capital	7	6%	7	7
Share premium	87 498	0%	87 498	87 498
Retained earnings	203 712	35%	150 953	160 567
Foreign currency translation reserve	(202)	(100%)	–	65
Non-controlling interest	7 107	10%	6 461	6 460
Total equity	**298 122**	**22%**	**244 919**	**254 597**
Non-current liabilities	139 451		97 240	122 757
Deferred income tax	91 668	31%	69 845	73 974
Deferred income grant	11 041	26%	8 756	11 482
Long-term borrowings	36 742	133%	15 751	34 168
Trade and other payables	–	(100%)	2 888	3 133
Current liabilities	77 168		52 389	59 264
Current portion of deferred income grant	899	158%	348	908
Current portion of long-term borrowings	3 405	(12%)	3 870	2 781
Current tax liabilities	–	(100%)	3 137	–
Trade and other payables	41 339	83%	22 628	31 177
Derivative financial instruments	3 691	0%	–	6 164
Cash and cash equivalents	27 834	24%	22 406	18 234
Total liabilities	**216 618**	**45%**	**149 629**	**182 021**
Total equity and liabilities	**514 740**	**30%**	**394 548**	**436 618**

Condensed consolidated statement of comprehensive income

for the six months ended 31 December 2018

	UNAUDITED 31 DECEMBER			AUDITED 30 JUNE
	2018 6 months R'000	% change	2017 6 months R'000	2018 12 months R'000
Revenue	114 124	41%	81 032	149 990
Other income	9 720	647%	1 301	7 569
Fair value (losses)/gains in financial instruments	676	(76%)	2 832	(4 258)
Fair value gain on biological assets	112 595	184%	39 584	119 925
Cost of sales	(99 409)	31%	(75 790)	(142 861)
Production costs	(19 551)	30%	(15 047)	(22 934)
Employee benefit expenses	(29 996)	15%	(26 065)	(55 923)
Depreciation and amortisation	(7 250)	4%	(6 991)	(12 272)
Other operating expenses	(16 339)	65%	(9 899)	(30 545)
Profit from operations	64 570		(9 044)	8,690
Finance costs	(2 985)	223%	(923)	(3,390)
Share of loss of equity accounted investments	(335)	(100%)	–	(2,776)
Profit before income tax	**61 250**	**715%**	**(9 967)**	**2 524**
Income tax expense	(17 458)	(688%)	2 968	91
Profit/(Loss) for the period	**43 792**	**726%**	**(6 999)**	**2 615**
Other comprehensive (expense)/income	(267)		–	65
Profit for the period	**43 525**	**722%**	**(6 999)**	**2 680**
Profit relating to non-controlling interest	(647)		(511)	(510)
Total comprehensive income/(loss) for the period	**42 878**	**671%**	**(7 510)**	**2 170**

Condensed consolidated statement of changes in owners' equity for the six months ended 31 December 2018

	UNAUDITED 31 DECEMBER			AUDITED 30 JUNE
	2018 6 months R'000	% change	2017 6 months R'000	2018 12 months R'000
Equity at the beginning of the period	**254 597**	**4%**	**245 967**	**245 967**
Profit/(Loss) for the period	43 145	675%	(7 509)	2 105
Non-controlling interest – Shares	–		5 950	5 950
Foreign currency translation reserve	(267)		–	65
Profit relating to non-controlling interest	647		511	510
Equity at the end of the period	**298 122**	**22%**	**244 919**	**254 597**

Condensed consolidated statement of cash flow

for the six months ended 31 December 2018

	UNAUDITED 31 DECEMBER			AUDITED 30 JUNE
	2018 6 months R'000	% change	2017 6 months R'000	2018 12 months R'000
CASH FLOW FROM OPERATING ACTIVITIES	**(7 363)**		**(31 107)**	**(39 184)**
Cash received from clients	118 049	60%	73 979	155 783
Cash paid to suppliers and employees	(122 581)	20%	(102 492)	(188 020)
Cash generated/(utilised) from operations	**(4 532)**	**(84%)**	**(28 513)**	**(32 237)**
Finance costs	(2 831)	207%	(923)	(3 390)
Tax paid	–	(100%)	(1 671)	(3 557)
CASH FLOW FROM INVESTMENT ACTIVITIES	**(6 173)**		**(16 822)**	**(25 378)**
Purchases of property, plant and equipment	(4 562)	(73%)	(16 590)	(24 659)
Proceeds from disposal of property, plant and equipment	–	0%	–	891
Loan granted to subsidiary	–	0%	–	–
Investment in equity accounted entities	(1 587)	584%	(232)	(1 592)
Purchases of trademarks	(24)	(100%)	–	(18)
CASH FLOW FROM FINANCING ACTIVITIES	**4 109**		**1 395**	**22 425**
(Decrease) in long-term borrowings	4 109	190%	(4 555)	12 775
Grant received	–		–	3 700
Increase in share capital	–		5 950	5 950
Net cash flow for the period	(9 427)	(80%)	(46 534)	(42 137)
Cash and cash equivalents – beginning of the period	(18 009)	(175%)	24 128	24 128
Cash and cash equivalents – end of the period	**(27 436)**	**(22%)**	**(22 407)**	**(18 009)**

Notes to the interim results

for the six months ended 31 December 2018

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 the 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 2018. The 30 June 2018 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 2018.

3. EARNINGS PER SHARE

	Unaudited 31 December		**Audited 30 June**
	2018 R’000	**2017 R’000**	**2018 R’000**
Total Profit/(Loss) attributable to ordinary shareholders	42 878	(7 510)	2 170
Weighted average number of ordinary shares (in thousands)	133 333	133 333	133 333
Earnings/(Loss) per share (in cents per share)	32,16	(5,63)	1,63

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

There were no significant post balance sheet events.

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