

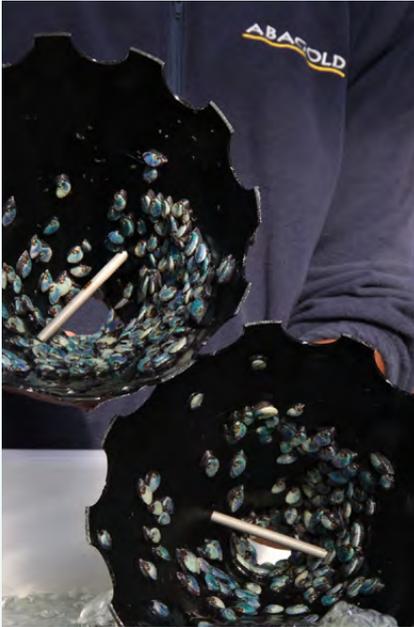


ABAGOLD

INTERIM REPORT (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016





INTERIM REPORT (UNAUDITED) FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

ABAGOLD LIMITED

DIRECTORATE

Non-executive

HR van der Merwe (Chairman of the Board)	❖
P Davies (elected effective 1 January 2017)	❖ ♦
P du P Hugo	♦ *
W Keast	
P du P Kruger (retired 10 December 2016)	❖ ♦ ❖
GM Negota	
YJ Visser	❖ ♦
JW Wilken	❖ ♦ ❖
SL de Villiers	❖ *

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 and nomination committee
- * = Member of social and ethics committee

Company Secretary

J Hugo

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

KPMG Inc

Bankers

The ABSA Group

Website and share trading

www.abagold.com

Company registration number

1995/070041/06

Review of interim results

for the six months ended 31 December 2016

FINANCIAL OVERVIEW

Turnover achieved for the six months to 31 December 2016 was R151,4 million, an increase of 46% over the comparative six months in the previous year (December 2015). This increase was supported by a significant sales volume increase (+31%), but at the same time was negatively impacted by the Rand strengthening by ZAR1,86/USD over the past 12 months.

The net result is a 10% increase in net profit before unrealised gains and losses and tax compared to the six months ended December 2015 to R21,9 million. Considering unrealised gains and losses, as is required for IFRS reporting, the net profit before tax decreased 86% to R9,1 million. This is due to a R70,8 million decrease in the fair value adjustment to biological assets caused by the negative impact of the strengthening Rand on the valuation of biological assets. Cash generated from operations increased by a healthy 81% to R36,7 million.

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

	UNAUDITED 31 DEC 2016 6 months	UNAUDITED 31 DEC 2015 6 months	% change	AUDITED 30 JUN 2016 12 months
Turnover (Rm)	151,4	103,9	46%	187,8
Live equivalent tonnes sold	305	233	31%	407
Tonnes growth recorded	212	202	5%	402
Total expenses	66,5	59,4	12%	117,5
Net profit before tax (Rm) – excluding unrealised gains/losses	21,9	20,0	10%	37,7
Net profit before tax (Rm) – including unrealised gains/losses	9,1	66,8	(86%)	82,2
Cash generated/(utilised) from operations (Rm)	36,7	20,3	81%	51,5

The increase in tonnage sold was mostly supplied from Abagold's pipeline, with only 10,8 tonnes of live abalone bought in from third party producers.

A net fair value gain of R65,6 million is recorded for the period and consists of three components: the strengthening of the exchange rate from ZAR14,79/USD at 30 June 2016 to ZAR13,74/USD at 31 December 2016 which resulted in an unrealised fair value loss of R16,1 million in biological assets; a fair value gain of R1,6 million in line with the upward revision of live USD selling prices; and, the growth in biological asset tonnage which increased the fair value gain by R80,1 million.

Expenses for the six months under review increased by 12% year-on-year, ahead of inflation at 6,8%. The main drivers are higher utility and diesel costs (which increased by R1,2 million) due to Eskom price increases and the feed factory becoming fully operational; staff cost increases totalling R5,3 million due to annual increases, a full complement of skilled staff at the feed factory, and incentive provisions.

Cash Generated from Operations amounted to R36,7 million compared to R20,3 million in the comparative period. The increased sales volume and improved customer collections, combined with lower inventory, resulted in this significant increase in cash generated from operations.

Investment in equity accounted entities is R2,1 million higher than the prior year largely due to a further R1,9 million investment in Mean Sea Level (Pty) Ltd.

Adequate bank financing in the form of a committed overdraft facility is available to fund operations for the foreseeable future.

Review of the interim results (continued)

for the six months ended 31 December 2016

OPERATIONAL OVERVIEW

Hatchery and Grow-out farms: Total growth recorded increased by 5% from 202 tonnes in the comparative period last year to 212 tonnes in this reporting period. Considering that we were simultaneously harvesting ahead of plan to satisfy market demand during our peak sales period, this is a very satisfactory performance. We were able to sell excess spat produced from our world-class hatchery to the value of R3,8 million thanks to surplus production and local demand.

Sales and marketing: Despite tough trading conditions during the six months under review (as a result of the demand for smaller, cheaper abalone products linked to Chinese austerity measures, and weaker economic growth and outlook in our markets) the business was able to increase the sales volume by 72 tonnes. Although the market remains under pressure with the low-growth Chinese economy and political environment, the progress that the Abagold brand and quality has made during the past few years should continue to allow Abagold to demand a premium price for our products.

Feeds: Development of our own and related aquaculture feeds continues to gather momentum, with significant expansion in the capacity of the facility and development of feeds for other species. This expansion has come with some growth pains and this can be seen from the financial assistance provided to SAF in the first half of the fiscal year. 347 tonnes of abalone feed and 829 tonnes of trout feed sales were sold for the six months under review. Increasing the total tonnes sold is a critical focus area in order to make the feed factory efficient and more profitable.

PROSPECTS

Regrettably, the highly satisfactory and smooth ongoing performance of our business was, subsequent to the reporting period, meaningfully disrupted by our farm (and other abalone farms) being hit by the worst red tide occurrence in recorded history on the Western Cape coastline. The red tide was exceptionally high in volume and density, impacted severely on inter alia abalone and lasted for several weeks during the latter part of January and the first weeks of February 2017. Despite massive efforts on the part of the Abagold team in battling this natural disaster, we suffered substantial spat and abalone mortalities, with the growth rate of surviving abalone also being negatively affected. This will have a significant negative impact on our ability to satisfy demand over the next six months. Shareholders may rest assured that the Abagold team, with the full support of and participation by Board members, have been doing and will continue to do their utmost in mitigating to the greatest possible extent the negative impact of this crisis on our business.

At the time of finalising these interim results, we were unable to accurately measure or estimate the full impact of this event. This may only become possible over the next few months, and we will advise shareholders further once we have a better idea of the extent and impact of this event. Until we do so, we would advise shareholders to exercise caution in dealing in their Abagold shares.

Specialised Aquatic Feeds (Pty) Ltd expects the current trout feed sales to increase significantly.

CONSIDERATIONS REGARDING AN INTERIM DIVIDEND

Due to the impact of the red tide on Abagold's pipeline with regard to spat and abalone mortalities, growth loss, reduced future growth, as well as lower sales, the Board considered it prudent not to declare an interim dividend. Resuming dividend payments will be considered in the normal course at financial year-end, when the impact of the red tide event will be better known.

Signed on behalf of the Board of Directors at Hermanus on 16 February 2017.



HR van der Merwe
Chairman



TR Hedges
Managing Director

Condensed consolidated statement of financial position

at 31 December 2016

	UNAUDITED 31 DECEMBER		AUDITED 30 JUNE	
	2016 R'000	% change	2015 R'000	2016 R'000
ASSETS				
Non-current assets	280 579	(1%)	283 481	307 817
Property, plant and equipment	160 993	(1%)	162 252	163 264
Biological assets	103 338	(7%)	110 839	132 756
Trademarks	198	(20%)	248	219
Goodwill	7 979	0%	7 979	7 979
Deferred tax	2 308	100%	–	–
Equity accounted investments	5 763	166%	2 163	3 599
Current assets	160 956	(10%)	178 885	145 520
Current portion of biological assets	81 577	(23%)	106 493	104 801
Inventories	23 755	(43%)	41 980	26 471
Trade and other receivables	41 871	38%	30 412	12 086
Derivative financial instruments	5 427	100%	–	2 162
Cash and cash equivalents	8 326	100%	–	–
Total assets	441 535	(5%)	462 366	453 337
EQUITY AND LIABILITIES				
Equity	285 858	(1%)	288 596	295 304
Share capital	7	0%	7	7
Share premium	87 498	0%	87 498	87 498
Retained earnings	198 353	(1%)	201 091	207 799
Total equity	285 858	(1%)	288 596	295 304
Non-current liabilities	142 772	3%	138 942	138 040
Deferred income tax	101 595	9%	93 348	96 757
Deferred income grant	3 623	(9%)	3 970	3 798
Long-term borrowings	30 627	(26%)	41 624	30 235
Trade and other payables	6 927	(100%)	–	7 250
Current liabilities	12 905	(63%)	34 828	19 993
Current portion of deferred income grant	348	0%	348	347
Current portion of long-term borrowings	2 057	(18%)	2 510	4 798
Trade and other payables	10 500	(27%)	14 451	13 338
Derivative financial instruments	–	(100%)	10 547	–
Bank overdraft	–	(100%)	6 972	1 510
Total liabilities	155 677	(10%)	173 770	158 033
Total equity and liabilities	441 535	(5%)	462 366	453 337

Condensed consolidated statement of comprehensive income

for the six months ended 31 December 2016

	UNAUDITED 31 DECEMBER			AUDITED 30 JUNE
	2016 6 months R'000	% change	2015 6 months R'000	2016 12 months R'000
Revenue	151 395	46%	103 955	187 845
Other income	1 897	8%	1 753	1 903
Fair value (losses)/gains in financial instruments	5 387	144%	(12 254)	(8 724)
Fair value gain on biological assets	65 638	(47%)	123 020	195 706
Cost of abalone sold	(146 834)	63%	(90 290)	(175 667)
Production costs	(19 135)	35%	(14 171)	(22 583)
Employee benefit expenses	(26 831)	25%	(21 457)	(48 138)
Depreciation and amortisation	(6 705)	9%	(6 125)	(12 884)
Other operating expenses	(13 779)	(10%)	(15 305)	(29 210)
Profit from operations	11 033	(84%)	69 127	88 248
Finance costs	(1 930)	(17%)	(2 322)	(4 666)
Share of loss of equity accounted investments	–	0%	–	(1 359)
Profit before income tax	9 103	(86%)	66 805	82 223
Income tax expense	(2 549)	(87%)	(19 087)	(22 597)
Profit for the period	6 554	(86%)	47 718	59 626
Total comprehensive income for the period	6 554	(86%)	47 718	59 626

Condensed consolidated statement of changes in owners' equity

for the six months ended 31 December 2016

	UNAUDITED 31 DECEMBER		AUDITED 30 JUNE	
	2016 6 months R'000	% change	2015 6 months R'000	2016 12 months R'000
Equity at the beginning of the period	295 304	19%	247 545	247 545
Profit for the period	6 554	(86%)	47 718	59 626
Dividend paid	(16 000)	140%	(6 667)	(11 867)
Equity at the end of the period	285 858	(1%)	288 596	295 304

Condensed consolidated statement of cash flow

for the six months ended 31 December 2016

	UNAUDITED 31 DECEMBER		AUDITED 30 JUNE	
	2016 6 months R'000	% change	2015 6 months R'000	2016 12 months R'000
CASH FLOW FROM OPERATING ACTIVITIES	34 811	93%	18 018	46 794
Cash received from clients	96 011	14%	84 023	188 130
Cash paid to suppliers and employees	(59 270)	(7%)	(63 683)	(136 670)
Cash generated from operations	36 741	81%	20 340	51 460
Finance costs	(1 930)	(17%)	(2 322)	(4 666)
CASH FLOW FROM INVESTMENT ACTIVITIES	(6 625)	(44%)	(11 786)	(20 798)
Purchases of property, plant and equipment	(4 458)	(62%)	(11 743)	(20 201)
Proceeds from disposal of property, plant and equipment	–	0%	–	624
Investment in equity accounted entities	(2 164)	7 915%	(27)	(1 198)
Purchases of trademarks	(3)	(81%)	(16)	(23)
CASH FLOW FROM FINANCING ACTIVITIES	(18 350)	108%	(1 561)	(15 863)
(Decrease)/increase in long-term borrowings	(2 350)	(146%)	5 106	(3 996)
Dividend paid to shareholders	(16 000)	140%	(6 667)	(11 867)
Net cash flow for the period	9 836	111%	4 671	10 133
Cash and cash equivalents – beginning of the period	(1 510)	(87%)	(11 643)	(11 643)
Cash and cash equivalents – end of the period	8 326	219%	(6 972)	(1 510)

Notes to the interim results

for the six months ended 31 December 2016

1. CORPORATE INFORMATION

Abagold Limited (the “Company”) is a company incorporated and domiciled in South Africa. The Company has one wholly owned subsidiary, 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 2016. The 30 June 2016 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 2016.

3. EARNINGS PER SHARE

	Unaudited 31 December		Audited 30 June
	2016 R'000	2015 R'000	2016 R'000
Total profit attributable to ordinary shareholders	6 554	47 718	59 626
The entire “Profit for the period” is attributable to ordinary shareholders			
Weighted average number of ordinary shares (in thousands)	133 333	133 333	133 333
Earnings per share (in cents per share)	4.92	35.79	44.72

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 EVENT

On the 17 January 2017, the operations of the Company were significantly and negatively disrupted by the worse red tide in recorded history on the Western Cape coastline. The red tide was exceptionally high in volume and density and impacted severely on the abalone on the Company’s farms. This disruption has lasted into February 2017 and has resulted in substantial spat and abalone mortalities, loss of growth in surviving abalone, and a negative impact on the Company’s ability to satisfy customer demand over the next six months. The management of the Company, with the full support of the Board, are in the process of implementing a recovery plan. Shareholders will be advised of the full effect of the red tide in due course.