Accéntuate Limited
(Incorporated in the Republic of South Africa)
(Registration Number: 2004/029691/06)
Share code: ACE ISIN code: ZAE000115986
www.accentuateltd.co.za
("Accéntuate" or "the group" or "the company")

Unaudited summarised results
for the year ended 30 June 2018

Commentary

Introduction to the results

Accentuate Limited is a company with underlying investments involved in infrastructure supplies, with a focus on flooring, water treatment and the chemical sectors.

The past year was marked by an extremely challenging operating environment, a result of the critical situation in the South African construction sector and exacerbated by policy uncertainty. The focus for the year was on market share retention and cost-optimisation initiatives.

Review of financial performance

Revenue for the year was R295 million and in conjunction with gross margin was supplemented by the acquisition of Pentafloor, together with a slight increase in sales from Safic. Revenue for the flooring business (excluding Pentafloor) was significantly impacted as a result of a decline in activity in the construction industry, which caused a lack of throughput in the factory in East London.

Operating expenses increased by 10% to R144,1 million (2017: R131,1 million). This increase was, however, mainly as a result of the acquisition and consolidation of the results of Pentafloor. Cost containment was the key focus during the year under review, with operating costs being well contained.

This resulted in an operating loss of R23,5 million. Across the year the flooring business experienced no volume growth, which had a massive limitation on throughput at the East London FloorworX factory, where fixed cost recovery was not possible.

Finance costs increased from R2,4 million in 2017 to R3,5 million in the current year, predominantly due to the financing of the Pentafloor transaction with a loan from First National Bank.

The group decided not to recognise certain deferred tax assets as a result of the uncertainty in the South African market and this resulted in an additional loss of R3 million.

Earnings per share slumped to negative 16,53 cents per share in the current year, compared to negative 0,88 cents in 2017.

Cash and cash equivalents at the end of the year amount to negative R11,3 million (2017: (R8,6 million)).

Flooring business (100% owned)

The flooring business operations contributed 78% of group sales.

FloorworX, the largest contributor of revenue to the group, experienced a dramatic decline in sales volumes, especially in the areas of government spend on education and healthcare. Despite this, the business maintained market share, and the operation experienced positive growth in soft flooring and other specialised floor coverings.

Pentafloor, the acquisition concluded during the past financial year that added access flooring to Accentuate's repertoire of products, was impacted by operating costs such as fuel increases, as well as exchange rate volatility. The business managed costs successfully, but the slowdown across the construction and building sector has resulted in a reduced profit compared to the previous year.

Environmental solutions business (100% owned)

This comprises the chemical blending business operations of Safic, which contributed 22% to group sales.

Safic experienced an increase in production volume in line with a slight increase in sales volumes. This, together with revised pricing agreements, resulted in margin increases.

This operation has put a comprehensive development plan in place to increase volumes, which is starting to show results. Costs have increased slightly due to additional sales people being recruited to drive the new strategy.

Water treatment business (40% owned)

This comprises the Ion Exchange Safic water treatment business, a partnership between Accéntuate and Ion Exchange India. The business is equity accounted by the group as an associate.

Ion Exchange Safic has developed a new strategy, part of which includes the appointment of several distributors, a process which is well under way. Negotiations with global engineering, procurement and construction contracts have begun to take place.

Outlook

Despite poor market indicators and conditions this environment creates opportunities, more so than Accéntuate has seen in the past.

The dire water situation across the country with the Western Cape slowly recovering from a devastating drought as well as water restrictions in many other parts of the country, have served to underline the calamitous position the country will be in if something is not done quickly. In line with this Accéntuate is a participant in the country's "Water War Room". This provides the group with a platform to assist in making recommendations to government.

The flooring division has benefited from the diversification that Pentafloor provided; for now the focus remains on opportunities in the water and chemical blending segments to better balance the profitability of the group.

Going concern

In determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the group and company can continue in operational existence for the foreseeable future.

The group's results during the financial year under review were severely impacted by the adverse trading conditions in the South African construction industry. As a result, the group incurred a net loss after taxation of R22 million, mainly as a result of significantly reduced production volumes at our East London facilities.

Despite incurring significant operational losses the group's current assets of R144 million exceeds its current liabilities of R110 million and the group's solvency ratio remains sufficient.

A number of turnaround initiatives have been launched within the group during the course of the current financial year:

- A restructuring plan was implemented in FloorworX, which included the execution of a retrenchment plan and reorganisation within the functions of the company.
- The renegotiation of the lease on the Steeledale premises, which has resulted in a R7 million saving per annum.

The group currently makes extensive use of its main overdraft facilities of R28 million with its financiers and it is critical that these facilities are maintained. At year end, the group had R16,74 million in overdraft facilities available to manage its working capital. The covenants relating to these facilities and the bank loan, with an outstanding balance of R14,8 million at 30 June 2018, were breached as a result of poor trading conditions. The bank loan has, as a result, been classified as a current liability. Our financiers are, however, assessing conditions on a continuous basis and are committed to work closely with management to ensure that the facilities are maintained. The going concern status of the group is dependent on these facilities being available.

The cash-generating ability of the group remains under close scrutiny and a 12-month cash flow forecast based on the budget for the group indicated that, if realised, the group will be able to generate sufficient cash to sustain its operations and service its financing obligations.

Given the results and conditions mentioned above, management is aware of the fact that the implementation of the initiatives mentioned is critical to maintain and grow operations in the group. The Accéntuate group is therefore dependant on management generating the additional cash flow from the initiatives mentioned as well as our financiers continuing to provide overdraft facilities to the group, which gives rise to a material uncertainty regarding the going concern status of the group.

The board considers the group to be liquid but will monitor actual cash flows on a monthly basis against those forecast, to ensure that timeous and appropriate action is implemented, should a material deviation occur.

Board changes

There were no changes to the board in the period under review.

Dividend

The board deems it prudent not to declare a dividend.

Contingent liability

There are no contingent liabilities in the group.

Basis of preparation

The accounting policies and methods of computation applied in the preparation of these summarised consolidated financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in the previous annual consolidated financial statements, except for the adoption of new accounting standards.

The group adopted all of the new accounting standards relevant to its operations and effective for annual reporting periods beginning 1 January 2018, including IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*. The adoption of these new accounting standards has not had any significant impact on the results in the summarised consolidated financial statements or the disclosures herein, but resulted merely in the reclassification of certain transactions in previously published results.

The summarised consolidated interim financial statements are prepared in accordance with the requirements of the JSE Limited's Listings Requirements for interim reports and the requirements of the Companies Act of South Africa. The Listings Requirements require interim reports to be prepared in accordance with and containing the information required by IAS 34 *Interim Financial Reporting*, as well as the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council.

The preparation of this interim report was supervised by the chief financial officer, Maarten Coetzee CA(SA).

The directors take full responsibility for the preparation of the preliminary report and that the financial information has been correctly extracted from the underlying annual financial statements.

Appreciation

The board would like to take this opportunity to thank the various management teams for their loyalty and dedication during this difficult period. The board would further like to thank all the customers, partners, advisers, suppliers and most importantly, the shareholders for their ongoing support and faith.

12 October 2018

Unaudited summarised consolidated statement of comprehensive income

for the year ended 30 June 2018

	Unaudited 30 June 2018 R'000	Restated 30 June 2017 R'000
Revenue	**294 893**	295 061
Cost of sales	**(176 012)**	(176 327)
Gross profit	**118 881**	118 734
Other income	**1 795**	12 384
Operating expenses	**(144 126)**	(131 134)
Operating (loss)/profit before finance costs	**(23 450)**	(16)
Investment income	**486**	145
Finance costs	**(3 520)**	(2 420)
(Loss)/profit before tax	**(26 484)**	(2 291)
Taxation	**4 300**	1 139
(Loss)/profit for the period	**(22 184)**	(1 152)
Earnings per share		
(Loss)/earnings per share (cents)	**(16,53)**	(0,88)
Diluted (loss)/earnings per share (cents)	**(16,35)**	(0,86)
Net asset value per share (cents)	**79,17**	97,34
Headline earnings per share		
Headline (loss)/earnings per share (cents)	**(15,85)**	(1,37)
Diluted headline (loss)/earnings per share (cents)	**(16,01)**	(0,83)
Number of shares in issue		
Weighted average number of shares	**134 221 594**	130 405 641
Diluted weighted average number of shares	**137 118 565**	133 302 612
Total shares in issue	**139 366 188**	134 048 757
Reconciliation between earnings and headline earnings:		
Loss attributable to ordinary shareholders	**(22 184)**	(1 152)
Loss on disposal of property, plant and equipment	**9**	45
Equity settled share-based payment expenses	**906**	(681)
Headline earnings attributable to ordinary shareholders	**(21 269)**	(1 788)

Unaudited summarised consolidated statement of financial position

as at 30 June 2018

	Unaudited 30 June 2018 R'000	Restated 30 June 2017 R'000
ASSETS		
Non-current assets	**80 014**	58 885
Property, plant and equipment	**61 427**	54 339
Goodwill	**9 751**	–
Intangible asset	**7 141**	1 500
Deferred taxation	**1 695**	3 046
Current assets	**144 025**	131 372
Inventories	**80 234**	80 157
Trade and other receivables	**47 003**	47 266
Other financial assets	**8 231**	1 726
Current tax receivable	**2 027**	2 022
Cash and cash equivalents	**6 530**	201
Total assets	**224 039**	190 257
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent	**110 341**	130 487
Stated capital	**150 557**	147 613
Accumulated loss	**(67 589)**	(45 755)
Revaluation reserve	**27 264**	27 614
Share-based payment reserve	**109**	1 015
Total equity	**110 341**	130 487
Non-current liabilities	**3 645**	6 613
Deferred taxation	**3 645**	6 613
Current liabilities	**110 053**	53 157
Trade and other payables	**72 732**	41 635
Borrowings	**15 197**	–
Finance lease obligation	**360**	706
Operating lease liability	**1 271**	1 530
Current tax payable	**2 703**	500
Bank overdraft	**17 790**	8 786
Total liabilities	**113 698**	59 770
Total equity and liabilities	**224 039**	190 257

Unaudited summarised consolidated statement of changes in equity

	Unaudited 30 June 2018 R'000	Restated 30 June 2017 R'000
Capital and reserves – opening balance	**130 487**	116 506
Correction of error in equity	**–**	(721)
Total comprehensive income for the year	**(22 184)**	(1 152)
Shares acquired by subsidiary	**(247)**	–
Shared issued to acquire subsidiary	**3 190**	–
Shares issued for cash	**–**	7 500
Asset revaluation surplus	**–**	7 673
Share-based payment expense	**(906)**	681
Restated balance at 30 June 2017	**110 341**	130 487

Unaudited summarised consolidated statement of cash flows

	Unaudited 30 June 2018 R'000	Unaudited 30 June 2017 R'000
Cash flows from operating activities	**6 043**	12 477
Cash flows from investing activities	**(23 815)**	(1 089)
Net cash used in financing activities	**15 098**	8 206
Net increase in cash and cash equivalents	**(2 674)**	19 594
Cash and cash equivalents at beginning of period	**(8 586)**	(28 179)
Cash and cash equivalents at end of period	**(11 260)**	(8 585)

Segmental report

	Flooring		Environmental Solutions		Corporate and Eliminations		Consolidated	
	2018 R'000	2017 R'000	**2018 R'000**	2017 R'000	**2018 R'000**	2017 R'000	**2018 R'000**	2017 R'000
Comprehensive income								
Total sales	**229 010**	232 999	**71 006**	67 489	**12 273**	9 086	**312 288**	309 574
Less: Inter-segmental sales	**–**	–	**(5 123)**	(5 428)	**(12 273)**	(9 086)	**(17 396)**	(14 514)
Revenue	**229 010**	232 999	**65 883**	62 061	**–**	–	**294 893**	295 060
Gross profit	**92 856**	91 034	**41 364**	39 746	**(15 339)**	(12 049)	**118 881**	118 731
Operating profit	**(19 233)**	540	**(5 117)**	(2 379)	**900**	1 824	**(23 450)**	(16)
Finance income and costs	**(397)**	(1 270)	**(1 397)**	(1 097)	**(1 240)**	90	**(3 034)**	(2 276)
Profit/(loss) before tax	**(19 630)**	(730)	**(6 513)**	(3 475)	**(340)**	1 914	**(26 484)**	(2 291)
Other information								
Capital expenditure	**1 991**	1 133	**281**	130	**417**	333	**2 689**	1 596
Depreciation and amortisation	**4 824**	3 325	**874**	1 123	**257**	164	**5 955**	4 612
Segment assets	**183 598**	162 007	**26 067**	24 132	**14 374**	3 312	**224 038**	190 257
Segment liabilities	**63 851**	31 376	**25 235**	17 166	**24 612**	11 934	**113 337**	60 476

Corporate information

Non-executive directors
RB Patmore (*chairman*), NE Ratshikhopha, PS Kriel,
MM du Preez, A Mjamekwana (*alternate*),
OJ Goosen (*alternate*)

Executive directors
FC Platt (*chief executive officer*),
MJ Coetzee (*chief financial officer*), DE Platt

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Designated adviser
Bridge Capital Advisors (Pty) Limited

Attorneys
Fullard Mayer Morrison

Investor relations
Keyter Rech Investor Solutions

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