Accéntuate Limited
(Incorporated in the Republic of South Africa)
(Registration Number: 2004/029691/06)
Share Code: ACE • ISIN Code: ZAE000115986

Condensed consolidated financial statements

for the year ended 30 June 2019

Commentary

Introduction to the results

Accéntuate Limited has underlying investments that are involved in infrastructure supplies, with a focus on flooring, water treatment and the chemical sectors.

The year under review was particularly tough for the South African economy, from which the group derives most of its revenue. Turnover continues to be hampered by the lack of any real economic growth and infrastructure expenditure. Notwithstanding the identified need for Government infrastructure spend in the areas of education, healthcare and water, this year saw the lowest levels of Government infrastructure spent in history.

The challenges faced by the major companies in the construction sector have also had a negative impact on demand for the products and services offered by the group. In addition to this, the volatile exchange rate and the rising price of Brent Crude negatively influenced petrol and diesel prices as well as petrochemical derivative input costs in both the chemical and flooring manufacturing facilities.

Sale of Pentafloor

On 29 March 2019, in the release of the company's interim results for the six-months ended 31 December 2018, a detailed update on the sale of Pentafloor was provided. Due to the repurchase of shares, the corporate action involved, as well as the action relating to subordinate convertible loan agreements occurring in close proximity to one another, the JSE granted Accéntuate dispensation to combine both corporate actions into one circular, which was distributed to shareholders on 25 October 2019.

Small related party transaction

On 3 April 2019, Accéntuate announced that it had entered into convertible loan agreements with Frederick Cornelius Platt (chief executive officer), Pruta Securities (Jersey) Limited ("Pruta"), Jacana Assets Limited ("Jacana") and TBI Strategic Partners (Pty) Ltd ("TBI") (collectively "the Lenders").

The rationale for the transaction was that Accéntuate required loan funding in order to meet and/or exceed covenants in terms of a bank facility agreement.

The related parties to the transaction include:

Fred Platt, the chief executive officer of Accéntuate, holds a beneficial interest of 5.19% in Accéntuate ordinary shares and is a related party and has loaned R1 000 000 (one million rand) to the company. TBI is a material shareholder with a 28.92% holding of Accéntuate ordinary shares and is a related party and has loaned R1 000 000 (one million rand) to the company.

The non-related parties to the transaction include:

Pruta holds 8.61% Accéntuate ordinary shares and is not a related party and has loaned R1 500 000 (one million five hundred thousand rand) to the company.

Jacana holds 9.72% Accéntuate ordinary shares and is not a related party and has loaned R1 500 000 (one million five hundred thousand rand) to the company.

The related parties will be taken into account in determining a quorum at the general meeting to be held on 22 November 2019, but their votes will not be taken into account in determining the results of the voting at the general meeting.

Subordinated convertible loan agreements

Accéntuate has entered into subordinated convertible loan agreements ("the loans") with the Lenders (mentioned above) in terms of which the Lenders have advanced the loans to the Company. Subject to approval of the shareholders at the general meeting, to be held on 22 November 2019, the Lenders will have an option to convert such loans into a maximum of 16 666 667 ordinary shares in their sole discretion, prior to repayment of the loans, equating to a share price of 30 cents per ordinary share. The Lenders also have an option, upon a "corporate event" (as defined), to convert their loans into ordinary shares at the corporate event price per share less a 15% discount thereon. The loans are to be repaid by the company on or before the expiry of a 24-month period.

Review of financial performance

Although the results for the year under review are disappointing, they are in line with expectations and reflect the general performance of the construction industry in which Accéntuate operates. Revenue was impacted negatively due to the lowest demand levels in recent memory and the current state of infrastructure spend and the depressed macro-economic environment within which Accéntuate operates. Growth in market share and margin maintenance, notwithstanding lower production volumes, has however seen operational performance in line with the previous year. Major cost reduction initiatives were instituted and have assisted with the resilience. Since the impact of the Pentafloor disposal and the costs associated with restructuring were taken into account, we are starting to see a positive trend emerge.

At a group level the results were impacted by:

- Poor macro-economic conditions
- Lack of Government infrastructure spend
- Currency volatility.

Revenue for the year was R285,3 million (2018: R294,9 million, which included an additional R35.2 million turnover from Pentafloor), which is lower than the previous year due to poor trading conditions that had an impact on output throughout the group.

Operating expenses increased by 1,4% to R146,1 million (2018: R144,1 million, which includes expenses relating to Pentafloor amounting to R13,7 million). Despite the negative impact of once-off cost restructuring throughout the group, normal operating cost have been reduced, including a significantly reduced rental charge as a result of renegotiated terms with the landlord of the Steeledale premises.

Finance costs increased from R3,5 million in 2018 to R4,2 million in the current period. The increase is due to higher interest charges and increased utilisation of overdraft facilities which, going forward, will be slightly reduced by the sale of Pentafloor.

Earnings per share is a negative 17,46 cents per share in the current year, compared to negative 16,58 cents in 2018.

Cash and cash equivalents at the end of the period amount to negative R15,9 million (2018: (R11,3 million)).

Operational review

Notwithstanding the challenging market conditions, much time and attention was spent by the executive team in developing plans that address costs, sustainability and the growth of market share, all of which have contributed to an organisation that is leaner, more focused, and able to take advantage of the opportunities that present themselves. Strengthening the balance sheet remains a high priority for the executive team and the board.

Flooring business (100% owned)

The flooring business operations contributed 78% of group sales.

Floorworx, the largest contributor of revenue to the group, experienced a major decline in demand which negatively impacted sales and production volumes. This was especially noticeable in the areas of Government spend on education and healthcare. Despite this, it has maintained and grown market share, whilst actively managing costs and ensuring sustainable platform for profitable growth into the future.

Due to the dramatic reduction in activity within Government infrastructure spend, the strategy of diversification into the commercial market has borne fruit, with strong growth in the areas of soft and specialised floor coverings.

Reorganisation of the sales structure has seen a refocused and invigorated sales team that has strategically positioned itself for growth. This bodes well for the future growth of the organisation.

The performance of the Flooring division is negatively impacted by the performance of Pentafloor during the period under review, as well as the impairment of investment costs due to the disposal of Pentafloor during this same period.

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. These volumes were predominantly as a result of growth within the commercial as well as the food and beverage sectors. Traditional high-volume market sectors such as mining, manufacturing and metal treatment remained constrained. A comprehensive market development plan has been developed and adopted, which Accéntuate believes will impact positively on the performance of the division. This, together with revised pricing agreements, resulted in margin increases. Some of these gains were however offset by increased administered costs, the increase in petrochemical derivative inputs as well as the increased costs of logistics. An investment in sales staff caused fixed sales costs to rise marginally during the period under review but this should impact positively on the growth and profitability of the division going forward.

Water treatment business (40% owned)

Ion Exchange Safic, the joint venture between Ion Exchange India and Safic, continues with the implementation of its strategy, which includes the appointment of distributors, building local engineering and execution capacity and collaborating with execution partners with regards to identified projects. Much progress has been made in building capacity and establishing credibility, all of which will stand the company in good stead as the need for innovative and cost-effective water solutions become critical to the sustainable growth of the South African economy.

Outlook

Despite poor market conditions and the prevailing negative sentiment, Accéntuate is currently experiencing early indications (certainly better than have been seen in the past five years) of potential growth within the infrastructure and construction sectors.

The focus in the period ahead will remain on sustainable growth that will see Accéntuate weather the current deep cycle to remain relevant and profitable into the future. The group will further continue to focus on the growth of both the chemical blending and water sector assets in order to reduce reliability on the construction sector and ensure a return to profitability.

Given the capital raised from shareholders, intensive cost-cutting and a good pipeline of work - albeit that projects tend to be shifted out - Accéntuate is in a much better position from which to move forward. Emphasis will be placed on strengthening the balance sheet, remaining conscious not to load the business with costs knowing that the market remains unpredictable and most importantly, to recapitalise the business.

Subsequent events

No significant events occurred in the period between the reporting date and the date of this announcement.

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 adverse trading conditions in the South African construction industry weighed on the operating results of the Accéntuate group.

Despite incurring major operational losses, the group's current assets of R97,3 million exceed current liabilities of R67.4 million and therefore the group's solvency ratio remains sufficient. As a result of a breach in covenants, all long-term liabilities have been reclassified to current liabilities.

A number of turnaround initiatives to reduce cost were launched within the group during the course of the current financial year.

The group currently makes extensive use of its main overdraft facilities of R23 million, which was granted on condition that shareholders inject an amount of R5 million in capital into the business by the end of March 2019. The shareholder funding was received by Accéntuate and the requirement has been satisfied. The overdraft facilities from Accéntuate's financiers will be re-evaluated by the end of January 2020.

Our financiers assess market 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, Accéntuate 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 initiatives mentioned, as well as our financiers continuing to provide overdraft facilities.

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

Board changes

Thys du Preez retired as a non-executive director at the company's annual general meeting on 18 January 2019. Accéntuate indicated via a SENS announcement on 4 March 2019 that Andile Mjamekwana (alternate non-executive director and head of the audit and risk committee) would, with effect from 1 March 2019, join the board as a non-executive director. On 26 March 2019, Ockert Goosen resigned as an alternate non-executive director.

Dividend

The board deems it prudent not to declare a dividend.

Contingent liability

There are no contingent liabilities in the group.

Change in auditors

The company announced on 24 May 2019 that the board of directors had unanimously agreed to accept the audit and risk committee's recommendation to appoint Moore Johannesburg Inc. ("Moore") as the company's external auditors, with effect from this date. Ms Candice Whitefield is the designated individual registered auditor, who will undertake future audits.

Basis of preparation

The accounting policies and methods of computation applied to these condensed consolidated financial statements are in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS") and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council 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 is effective for annual reporting periods beginning 1 January 2018, including IFRS 9 Financial Instruments, Revenue from Contracts with Customers and IFRS 16 Leases. The adoption of these new accounting standards has not had any significant impact on the results in the condensed consolidated financial statements, or the disclosures herein, but resulted merely in the reclassification of certain transactions in previously published results.

The condensed consolidated financial statements are prepared in accordance with the requirements of the JSE Limited's Listings Requirements for preliminary reports and the Companies Act in South Africa. The Listings Requirements require preliminary 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 preliminary report was supervised by the group financial manager, Desigan Moodley 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.

Ralph Patmore
Chairman

Fred Platt
Chief Executive Officer

Statement of financial position

as at 30 June 2019

	Group	
	Audited 30 June 2019 R'000	**Audited 30 June 2018 R'000**
Assets		
Non-current assets	**63 689**	80 015
Property, plant and equipment	**55 227**	61 427
Investment property	**2 800**	-
Goodwill	**-**	9 751
Intangible assets	**1 143**	7 142
Deferred tax	**4 519**	1 695
Current assets	**97 347**	144 025
Inventories	**56 785**	80 234
Trade and other receivables	**35 646**	47 003
Other financial assets	**40**	8 231
Current tax receivables	**3 003**	2 027
Cash and cash equivalents	**1 873**	6 530
Total assets	**161 036**	**224 039**
Equity and liabilities		
Equity attributable to owners of the parent	**91 556**	110 341
Stated capital	**150 557**	150 557
Accumulated loss	**(90 276)**	(67 541)
Revaluation reserve	**31 202**	27 216
Share based payment reserve	**73**	109
Non-current liabilities	**2 076**	3 645
Borrowings	**2 076**	
Deferred taxation	**-**	3 645
Current liabilities	**67 404**	110 053
Loans from group companies	**-**	-
Trade and other payables	**47 767**	72 732
Borrowings	**806**	15 197
Finance lease obligation	**517**	360
Operating lease liability	**40**	1 271
Current tax payable	**483**	2 703
Bank overdraft	**17 791**	17 790
Total liabilities	**69 480**	113 698
Total equity and liabilities	**161 036**	**224 039**

Statement of profit or loss and other comprehensive income as at 30 June 2019

	Group	
	Audited 30 June 2019 R'000	**Audited 30 June 2018 R'000**
Revenue	**285 262**	**294 893**
Cost of sales	(166 276)	(176 012)
Gross profit	**118 986**	**118 881**
Other income	4 224	1 795
Operating expenses	(146 138)	(144 126)
Operating loss before finance costs	(22 928)	(23 450)
Finance income	1 162	486
Finance costs	(4 185)	(3 520)
Loss before tax	**(25 951)**	**(26 484)**
Taxation	5 095	4 300
Loss from continuing operations	(20 857)	(22 184)
Loss from discontinued operations	(2 474)	-
Loss for the year	**(23 330)**	**(22 184)**
Other comprehensive income (loss)		
Items that will not be reclassified to profit or loss		
Asset revaluation surplus	4 581	-
Gross revaluation surplus	5 753	-
Deferred tax	(1 172)	-
Other comprehensive income for the period, net of tax		
Total comprehensive loss for the period	**(23 330)**	**(22 184)**
Loss attributable to:		
Owners of the parent	(23 330)	(22 184)
Non-controlling interest	-	-
	(23 330)	**(22 184)**
Total comprehensive loss attributable to:		
Owners of the parent	(23 330)	(22 184)
Non-controlling interest	-	-
	(23 330)	**(22 184)**
Earnings per share (cents)		
Loss per share (cents)	(17,46)	(16,58)
Diluted loss per share (cents)	(17,46)	(16,58)
Asset value per share (cents)	65,69	82,31

Statement of changes in equity

for the year ended 30 June 2019

Group	Stated capital R'000	Share premium R'000	Revaluation Reserve R'000	Share-based payment reserve R'000	Accumulated losses R'000	Total equity R'000
Balance at 30 June 2017	**1**	**147 613**	**27 614**	**1 015**	**(45 755)**	**130 487**
Loss for the year	-	-	-	-	(22 184)	(22 184)
Transfer of revaluation reserve	-	-	(398)	-	398	-
Shares acquired by subsidiary	**-**	**(247)**	**-**	**-**	**-**	**(247)**
Acquisition of subsidiary	-	3 190	-	-	-	3 190
Share based payment expense	**-**	**-**	**-**	**(906)**	**-**	**(906)**
Balance at 30 June 2018	**1**	**150 556**	**27 216**	**109**	**(67 541)**	**110 340**
Loss for the year	-	-	-	-	(23 330)	(23 330)
Revaluation for the year	-	-	4 581	-	-	4 581
Deferred tax on revaluation surplus	**-**	**-**	**(595)**	**-**	**595**	**-**
Reserve adjustment	**-**	**-**	**-**	**(36)**	**-**	**(36)**
Balance at 30 June 2019	**1**	**150 556**	**31 202**	**73**	**(90 276)**	**91 556**

Statement of cash flow

for the year ended 30 June 2019

	Group	
	Audited 30 June 2019 R'000	**Audited 30 June 2018 R'000**
Cash flow from operating activities		
Cash generated from operations	**(10 071)**	9 552
Finance income	**1 162**	486
Taxation paid	**(386)**	(475)
Finance costs	**(4 261)**	(3 520)
Cash flow from operating activities	**(13 555)**	6 043
Cash flow from investing activities		
Acquisition of property, plant and equipment	**(2 548)**	(2 689)
Acquisition of subsidiary	**-**	(14 745)
Disposal of subsidiary	**13 081**	-
Proceeds on disposal of property, plant and equipment	**292**	124
Proceeds from loans received	**8 191**	-
Loans repaid	**-**	(6 505)
Cash flow from investing activities	**19 015**	(23 815)
Cash flow from financing activities		
Proceeds from shares issued for cash	**-**	247
Proceeds from borrowings	**2 806**	15 197
Repayments of borrowings	**(13 081)**	-
Increase/(decrease) in finance lease obligations	**157**	(346)
Net cash used in financing activities	**(10 118)**	15 098
Net increase in cash and cash equivalents	**(4 658)**	(2 674)
Cash and cash equivalents at beginning of period	**(11 260)**	(8 586)
Cash and cash equivalents at end of period	**(15 918)**	(11 260)

Segment Information

for the year ended 30 June 2019

	Flooring		Environmental Solutions		Corporate (and eliminations)		Consolidated	
	Audited 30 June 2019 R'000	Audited 30 June 2018 R'000	Audited 30 June 2019 R'000	Audited 30 June 2018 R'000	Audited 30 June 2019 R'000	Audited 30 June 2018 R'000	Audited 30 June 2019 R'000	Audited 30 June 2018 R'000
Comprehensive income								
Total sales	**221 441**	229 010	**67 657**	71 006	**31 749**	12 273	**320 846**	312 288
Less: Inter-segmental sales		-	**(4 456)**	(5 123)	**(31 128)**	(12 273)	**(35 584)**	(17 396)
Revenue	**221 441**	229 010	**63 201**	65 883	**620**	-	**285 262**	294 893
Gross profit	**91 846**	92 856	**38 735**	41 364	**(11 596)**	(15 339)	**118 986**	118 881
Operating (loss)/profit	**(19 838)**	(19 233)	**(6 304)**	(5 117)	**3 214**	900	**(22 928)**	(23 450)
Finance income	**1 102**	47	**176**	-	**(116)**	439	**1 162**	486
Finance costs	**(99)**	(444)	**(2 008)**	(1 397)	**(2 078)**	(1 679)	**(4 185)**	(3 520)
(Loss)/profit before tax	**(17 649)**	(19 630)	**(6 610)**	(6 513)	**(1 692)**	(341)	**(25 951)**	(26 484)
Other information								
Capital expenditure	**382**	1 991	**217**	281	**21**	417	**620**	2 689
Depreciation and amortisation	**2 839**	4 908	**721**	1 019	**(8 801)**	695	**(5 241)**	6 622
Segment Assets	**145 466**	183 598	**22 757**	26 067	**(7 187)**	14 374	**161 036**	224 039
Segment liabilities	**39 963**	63 851	**30 241**	25 234	**(724)**	24 613	**69 480**	113 698

Corporate information

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

Non-executive directors

RB Patmore (Independent chairman)
NE Ratshikhopha
PS Kriel
A Mjamekwana

Executive directors

FC Platt (chief executive officer)
MJ Coetzee (chief financial officer)
DE Platt

Registered address

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Company secretary

Juba Statutory Services Proprietary Limited
(represented by Sirkien van Schalkwyk)

Transfer secretary

Computershare Investor Services Proprietary Limited

Designated advisor

Bridge Capital Advisors Proprietary Limited

Attorneys

Fullard Mayer Morrison

Investor relations

Keyter Rech Investor Solutions

External auditors

Moore Johannesburg Inc.