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

Unaudited results

for the 6 months ended 31 December 2019

Commentary

Introduction to the results

Accéntuate is a group of companies involved the flooring market, water treatment, chemical blending, industrial and commercial cleaning and metal treatment sectors. Accéntuate is a truly South African company, partnered with local and international leaders in their field, and in this way is able to fulfil the mandate of consciously supporting economic transformation in the country.

Demand remained subdued during the first 6 months of the financial year, negatively impacting revenue. The challenges faced by the major companies in the construction sector have also had a negative impact on the business during the period under review. Lastly, the volatile exchange rate and the rising price of Brent Crude during this period, has negatively influenced petrol/diesel prices as well as petrochemical derivative input costs in both the chemical and flooring manufacturing facilities.

Sale of Pentafloor

In the release of the Company's financial results for the year ended 30 June 2019, a detailed update on the sale of Pentafloor Proprietary Limited ("Pentafloor") was provided. The general meeting of shareholders to approve the repurchase of shares, the corporate action involved, as well as the action relating to the subordinated convertible loan agreements, was held on 22 November 2019 ("General Meeting") and all resolutions passed by the required majority.

Small related party transaction

On 3 April 2019, Accéntuate announced that it had entered into subordinated convertible loan agreements with Frederick Cornelius Platt, the chief executive officer, Pruta Securities (Jersey) Limited, Jacana Assets Limited and TBI Strategic Partners Proprietary Limited. The action relating to subordinate convertible loan agreements, was tabled at the General Meeting on 22 November 2019 and the requisite resolution was passed by the required majority and excluded the related parties from voting.

Dissenting shareholder

Shareholders are advised that, prior to the General Meeting held, the company received a dissenting shareholder's notice in terms of Section 164(3) of the Companies Act, 2008 as amended ("the Act").

The dissenting shareholder holds 5,250,000 ordinary shares in the authorised and issued share capital of the company, equal to 3.77% of the issued share capital. The company has engaged with the dissenting shareholder in terms of the procedure as set out in section 164 of the Act, 2008 and discussions are currently in progress.

Discontinued operation

The group received an offer for one of the subsidiaries within the group, with an effective date of 31 December 2019. The offer was accepted by the Board at a special board meeting held on 25 March 2020 and will result in the disposal of the Environmental Solutions segment from the group once all the conditions precedent have been met. As a result of the firm offer, and the criteria per IFRS 5: *Non-current assets* held for sale and discontinued operations, having been met, the subsidiary as at 31 December 2019 was reported in the financial results for the 6 months ended 31 December 2019 as a discontinued operation. Financial information relating to the discontinued operation for the reporting period has been included separately within the financial results.

Review of financial performance

Although the results for the 6 months under review are disappointing and slower than anticipated, they reflect the general performance of the construction industry in which Accéntuate operates. Revenue was negatively impacted by the lowest demand levels experienced in recent memory and the current state of infrastructure spend and the depressed macro-economic environment.

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.

Revenue for the 6 months to December 2019, excluding discontinued operations, was R94.5 million (2018: R120.4 million, which included R27.1 million revenue from Pentafloor). The gross margins increased by 7% from 38% (December 2018) to 45% (December 2019), mainly as a result of cost containment measures.

Operating expenses decreased to R54.9 million (2018: R61.4 million, which included operating expenses for Pentafloor amounting to R11.1 million). Despite the negative impact of once-off cost restructuring throughout the group, normal operating costs have been reduced during the period, including a significantly reduced rental charge as a result of renegotiated terms with the landlord of the Steeledale premises. Finance costs were maintained at R2.2 million for the period (this amount included R0.7 million finance charge for operating leases on application of IFRS 16).

Earnings per share ("EPS") is a negative 8,58 cents per share in the current year, compared to negative 12.05 cents in 2018. Headline earnings per share ("HEPS") was 8.58 cents per share, while the comparative period was 7.75 cents per share.

Cash and cash equivalents at the end of the period amount to negative R22.8 million (December 2018: R15.7million), a R7.0 million reduction from prior period under review.

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, and more focused. Strengthening the statements of financial position remains a high priority for the executive team and the Board.

Flooring business (100% owned)

The flooring business operations contributed 74% 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 a sustainable platform.

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.

Environmental solutions business (100% owned)

This comprises the chemical blending business operations of Safic, which contributed 26% to group sales.

Safic experienced a slight increase in revenue over the period under review. This was achieved predominantly as a result of growth within the commercial, food and beverage as well as metal treatment sectors. Traditional high-volume market sectors such as manufacturing and heavy engineering remained constrained. A comprehensive market development plan has been implemented, which Accéntuate believes will impact positively on the performance of the division. The gross profit margin has declined marginally due to a reduction in chemical sales and an increase in equipment sales at a lower margin. Total operating costs declined by 1.3% but was negatively impacted by increased administration costs, the increase in petrochemical derivative inputs as well as the increased costs of logistics.

As mentioned, a firm offer was received and the Board approved the disposal of Safic subject to the conditions precedent being met. Shareholders are referred to the firm intention announcement released on SENS on 6 April 2020.

Water treatment business (40% owned by Safic)

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

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. Much focus has been placed on both cost containment and efficiencies that will allow a focused approach to the anticipated increase in infrastructure activity specifically in the areas of healthcare and education.

Subsequent events

Subsequent to the reporting date, the company has agreed to key terms for a proposed transaction for the disposal of its 100% shareholding in Safic Proprietary Limited a subsidiary of the company. The proposed transaction has received Board approval. The disposal is subject to the fulfilment of various conditions precedent. The proposed transaction has been classified as a Category 1 transaction requiring shareholder approval and accordingly a circular will be distributed to Shareholders in this regard. This proposed transaction will result in the disposal of the Environmental Solutions and Water Treatment segment, to enable the company to strategically focus on the flooring business.

On 6 March 2020, Accéntuate Management Services Proprietary Limited was found to be in breach of the Facility Agreement with First National Bank (the Bank), in terms of refinancing the business per agreed timelines. The breach resulted in the overdraft facilities of R23 million being reduced to R22 million. The Bank is continuously monitoring the facility and assessing conditions on a continuous basis and are committed to working with management to ensure that the facilities are maintained. The going concern status of the group is dependent on these facilities remaining available.

Going concern

In determining the appropriate basis of preparation of the financial results for the 6 months ended 31 December 2019, the directors are required to consider whether the group and company can continue in operational existence for the foreseeable future.

Despite incurring major operational losses, the group's current assets of R99.7 million exceed current liabilities of R79.4 million and therefore the group's solvency ratio remains sufficient.

Short-term liquidity, impacted by difficult trading conditions and exacerbated by the Coronavirus Disease 2019 (Covid-19) pandemic, remains a priority for the Board. Currently discussions with various financing options continue to ensure the sustainability of the group. At the same time, Covid-19 has also presented opportunities for FloorworX in the roll out of flooring solutions in the health and educational sectors.

As the only local vinyl flooring manufacturer, FloorworX is working closely with Government to provide the necessary facilities necessitated by the pandemic and operates as an essential service during the lockdown.

The group is also in the midst of a restructuring and include the disposal of Safic as described above.

Board changes

The Board refers shareholders to the company's 2019 integrated annual report distributed to shareholders on 11 November 2019 wherein they were advised that the audit and risk committee had initiated a process which might result in the termination of the contract of the chief financial officer.

Shareholders are referred to the SENS announcement released on 2 December 2019 wherein they were advised that Maarten Coetzee's contract with the company had been terminated with effect from 29 November 2019.

The group financial manager, Desigan Moodley CA(SA), acted as chief financial officer to 28 February 2020. The FloorworX financial director, Wisdom Mushohwe CA(SA), was appointed as the chief financial officer of Accéntuate Limited on 25 March 2020.

Fred Platt resigned as chief executive officer effective 31 August 2020. Dr Donald Platt will work with Fred Platt during his six-month notice period and be appointed as chief executive officer effective 1 September 2020.

Dividend

The Board deems it prudent not to declare a dividend.

Litigation

A case has been lodged against Mazars relative to the fraudulent activities identified by FloorworX during 2016. Shareholders will be appraised of any development in this regard. Mazars was the external auditors of the company during 2016.

A notion of motion was received from the dissenting shareholder on 6 March 2020 and is being attended to by the Board.

Contingent liability

There are no contingent liabilities in the group.

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 IFRS 16: *Leases* on 1 July 2019. IFRS 16 became effective for periods starting 1 January 2019.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. The group has applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

The group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. At inception or on reassessment of a contract that contains a lease component, the group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative standalone prices.

As a lessee, the group previously classified leases as operating, or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the group recognises right-of-use assets and lease liabilities for most leases. However, the group has elected not to recognise right-of-use assets and lease liabilities for some leases, as allowed by the standard, for the following:

- Short-term leases (term of one year or less) and low value leases (where the right-of-use asset would have been lower than R72 000) were not capitalised and were recognised an expense on a straight-line basis over the lease term.
- Leases with less than one year remaining on the contract as at 1 January 2019 were excluded from capitalisation.

The effects of IFRS 16 on the Statement of financial position and statement of comprehensive income is set out as follows:

Impact of change in accounting policy on the financial statements on 1 July 2019 **Statement of Financial Position**	**01-Jul-19** **R'000**
Assets	
Right-of-use assets presented in property, plant & equipment	**15 704**
Liabilities	
Operating lease liability	**16 208**
Equity	
Retained earnings (opening balance)	**505**

Effects of changes in accounting policy IFRS 16 Leases on the current period Statement of Comprehensive income	**31-Dec-19 R'000**
Group	
Rent paid reduction/reversal	**(2 872)**
Increase in depreciation on right-of-use asset	**2 452**
Increase in interest on right of use liabilities	**680**
Taxation	**(73)**
Net movement due to changes	**187**

The group, in prior year, adopted IFRS 9: *Financial instruments* and IFRS 15: *Revenue from contracts* with customers; the adoption had no material impact on the financial results in prior year and current period.

The condensed consolidated financial statements are prepared in accordance with the requirements of the JSE Limited's Listings Requirements ("Listings Requirements") for interim reports and the Act. 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, Wisdom Mushohwe CA(SA).

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

Forward looking statements

Any forward-looking statements contained in this announcement have not been reviewed nor reported on by the company's external auditors.

Steeledale
30 April 2020

Condensed statement of financial position

	Group	
	Unaudited 6 months to 31-Dec-19 R'000	**Unaudited 6 months to 31-Dec-18 R'000**
Assets		
Non-current assets	**66 632**	73 867
Property, plant and equipment	**52 921**	58 688
Right-of-use asset	**5 310**	-
Investment Property	**2 800**	-
Goodwill	**-**	3 985
Intangible assets	**-**	6 782
Deferred tax	**5 599**	4 412
Current assets	**99 684**	130 542
Inventories	**45 233**	87 907
Trade and other receivables	**17 957**	31 767
Other financial assets	**208**	-
Current tax receivables	**1 143**	2 173
Cash and cash equivalents	**2 635**	8 695
Non-current assets and disposal groups classified as held for sale	**32 508**	-
Total assets	**166 316**	**204 409**
Equity and liabilities		
Total equity	**81 507**	94 090
Stated capital	**150 557**	150 557
Accumulated loss	**(101 765)**	(83 670)
Revaluation reserve	**32 373**	27 094
Share based payment reserve	**342**	109
Non-current liabilities	**5 454**	1 810
Borrowings/Loans payable	**5 454**	1 810
Current liabilities	**79 354**	108 508
Trade and other payables	**31 512**	76 127
Borrowings	**636**	12 232
Operating lease liability	**-**	655
Lease liability	**5 003**	1 579
Current tax payable	**-**	2 194
Bank overdraft	**22 893**	15 721
Liabilities associated with non-current assets and disposal groups classified as held for sale	**19 310**	-
Total equity and liabilities	**166 316**	**204 408**

Condensed statement of profit or loss and other comprehensive income

	Group	
	Unaudited 6 months to 31-Dec-19 R'000	**Unaudited 6 months to 31-Dec-18 R'000**
Revenue	**94 530**	**120 429**
Cost of sales	(52 057)	(75 303)
Gross profit	**42 474**	**45 126**
Other income	159	117
Operating expenses	(54 901)	(61 447)
Operating loss before finance costs	(12 269)	(16 205)
Finance income	-	
Finance costs	(2 197)	(2 205)
Loss before tax	**(14 465)**	**(18 410)**
Taxation	1 611	3 524
Loss after tax from continuing operations	**(12 854)**	**(14 886)**
Profit/(loss) after tax from discontinued operations	1 391	(1 243)
Loss for the year	**(11 463)**	**(16 129)**
Earnings per share (cents)		
Loss per share (cents)	(8,58)	(12,05)
Diluted loss per share (cents)	(8,58)	(11,80)
Net asset value per share (cents)	58,48	67,51
Notes to the statement of comprehensive income:	-	-
Headline loss per share (cents)	(8,58)	(7,75)
Diluted headline loss per share (cents)	(8,58)	(7,58)
Number of shares:		
Weighted average number of shares	133 609 965	133 827 505
Diluted weighted number of shares	133 609 965	136 724 476
Number of shares in issue	139 366 188	139 366 188
Reconciliation of headline and normalised earnings (R'000)		
Loss for the period attributable to ordinary shareholders	(11 463)	(16 129)
Loss on disposal of property, plant and equipment – net of taxation	(6)	(6)
Pentafloor goodwill write off	-	5 766
Headline earnings attributable to ordinary shareholders	(11 469)	(10 369)

Condensed statement of changes in equity

	Group	
	Unaudited 6 months to 31-Dec-19 R'000	**Unaudited 6 months to 31-Dec-18 R'000**
Capital and reserves opening balance	**91 556**	110 341
Net equity adjustments for changes in accounting policy	**(25)**	-
Loss for the year	**(11 463)**	(16 129)
Asset revaluation surplus	**1 171**	(122)
Share-based payment expense	**269**	-
Capital and reserve closing balance	**81 507**	94 091

Condensed statement of cash flow

	Group	
	Unaudited 6 months to 31-Dec-19 R'000	**Unaudited 6 months to 31-Dec-18 R'000**
Net cash flow provided by operating activities from continuing operations	**(7 204)**	(4 225)
Net cash flow provided by operating activities from discontinued operations	**(2 431)**	
Net cash flow provided by operating activities	**(9 635)**	(4 225)
Net cash flow used in investing activities by operating activities from continuing operations	**(3 558)**	
Net cash flow used in investing activities by operating activities from discontinued operations	**3 844**	
Net cash flow from investment activities	**286**	9549
Net cash used in financing activities by operating activities from continuing operations	**7 109**	
Net cash flow used in financing activities by operating activities from discontinued operations	**(998)**	
Net cash used in financing activities	**6 111**	(1 090)
Net increase in cash and cash equivalents	**(3 238)**	4 234
Cash and cash equivalents at beginning of period	**(15 918)**	(11 260)
Cash and cash equivalents at end of period	**(19 156)**	(7 026)

Condensed consolidated segment Information

	Flooring		Corporate (and eliminations)		Consolidated	
	Unaudited 6 months to 31-Dec-19 R'000	**Unaudited 6 months to 31-Dec-18 R'000**	**Unaudited 6 months to 31-Dec-19 R'000**	**Unaudited 6 months to 31-Dec-18 R'000**	**Unaudited 6 months to 31-Dec-19 R'000**	**Unaudited 6 months to 31-Dec-18 R'000**
Comprehensive income						
Total sales	**94 533**	121 011	**11 949**	-	**106 482**	121 011
Less" Inter-segmental sales	**-**	(582)	**(11 949)**	-	**(11 949)**	(582)
Revenue	**94 533**	120 429	**-**	-	**94 533**	120 429
Gross profit	**42 474**	48 536	**(249)**	(3 410)	**42 225**	45 126
Operational (loss)/profit	**(5 588)**	(9 932)	**(4 670)**	(6 272)	**(10 258)**	(16 204)
Finance income	**18**	-	**(18)**	-	**-**	-
Finance costs	**-**	(47)	**(100)**	(1 127)	**(100)**	(1 174)
(Loss)/profit before tax	**(5 869)**	(9 979)	**(4 588)**	(7 400)	**(10 457)**	(17 379)
Share of profit/(loss) from associate	**-**	-	**-**	-	**-**	-
Other information						-
Capital expenditure	**426**	179	**240**	21	**666**	200
Depreciation and amortisation	**2 732**	1 894	**111**	432	**2 843**	2 326
Segment assets	**132 106**	178 573	**3 930**	(1 764)	**136 036**	176 809
Segment liabilities	**32 860**	63 820	**(3 957)**	19 464	**28 903**	83 284

Segment Information - Discontinued Operation

Environmental Solutions segment has been disclosed as a discontinued operation with financial results included in the group results. Financial information relating to the discontinued operation for the period to the date of disposal is set out below and reported as a separate segment for the interim period ended 31 December 2019.

	Environmental Solutions (Discontinued operations)	
	Unaudited 6 months to 31-Dec-19 R'000	**Unaudited 6 months to 31-Dec-18 R'000**
Comprehensive income		
Total sales	**34 825**	34 361
Less" Inter-segmental sales	**(2 064)**	(361)
Revenue	**32 762**	34 000
Gross profit	**19 839**	20 529
Operational (loss)/profit	**(1 688)**	(1 712)
Finance income	**-**	-
Finance costs	**(1 808)**	(1 045)
(Loss)/profit before tax	**(3 496)**	(2 757)
Share of profit/(loss) from associate	**-**	-
Other information		
Capital expenditure	**340**	71
Depreciation and amortisation	**1 436**	462
Segment assets	**30 280**	27 598
Segment liabilities	**43 955**	27 033

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)
W Mushohwe (Chief Financial Officer)
DE Platt

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Company secretary

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Transfer secretary

Computershare Investor Services Proprietary Limited

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Bridge Capital Advisors Proprietary Limited

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Fullard Mayer Morrison Inc.

Investor relations

Keyter Rech Investor Solutions

External auditors

Moore Johannesburg Inc.

The full announcement is also available at https://senspdf.jse.co.za/documents/2020/jse/isse/ACE/FY2020H1.pdf

Disclaimer

This announcement may contain certain forward-looking statements concerning Accéntuate's operations, business strategy, financial conditions, growth plans and expectations. These statements include, without limitation, those concerning the economic outlook, business climate and changes in the market. Such views involve both known and unknown risks, assumptions, uncertainties and important factors that could materially influence the actual performance of the group. No assurance can be given that these will prove to be correct and no representation or warranty, expressed or implied, is given as to the accuracy or completeness of such views contained in this announcement.