

# PERFORMANCE AND FUTURE OUTLOOK

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# NON-EXECUTIVE CHAIRPERSON'S REPORT

## DEAR SHAREHOLDER

African Equity Empowerment Investments limited (AEEI) is on a positive trajectory and well positioned for further growth.



## INDEPENDENT NON-EXECUTIVE CHAIRPERSON'S REPORT – continued

I am honoured to be officially addressing our stakeholders for the first time as the newly appointed non-executive chairperson of the AEEI Board of directors.

I wish to express the Board's gratitude to our outgoing independent non-executive chairman, Reverend Dr Mehana, for enabling the seamless transition of chairmanship and for his unselfish and unwavering support to the Group. Despite the challenging times, our resilience, focus and diligence have safeguarded the Group. Furthermore, our dedicated team of employees ensures that AEEI remains cash generative, is financially stronger and continues to grow stakeholder value.

I must admit that our operating environment has been especially tough this year. However, I will err on the side of optimism by predicting that the impact of the economic downturn and global climate change will reach an even keel over the next year or two.

I believe that one's team takes its lead from the top, so by being optimistic one can lead through daunting conditions with the utmost confidence that there will be an upturn in the very near future.

### KEY BOARD FOCUS AREAS FOR THE 2019 FINANCIAL YEAR

AEEI's resilience in uncertain times is testimony to its value system and work ethic that have stood the test of time for the last 21 years – since its listing on the JSE in 1999. Reflecting on our key focus areas, I would like to highlight the following:

- Our Group's financial year-end results reflect a growth in revenue as well as a substantial growth in our asset base.
- AEEI has been awarded a Level 1 B-BBEE accreditation.
- AEEI's stringent application of good corporate governance practices.
- The fishing and brands division has shown growth despite a reduction in the Total Allowable Catch (TAC) rates for the west coast rock lobster; the Department of Agriculture, Forestry and Fisheries (DAFF) will be announcing the TAC rates for the fishing industry in early 2020.

- The technology division has come out strong with positive cash flows due to its planned achievement pipeline, acquisitions made during and post the financial year-end as well as through organic growth. The acquisitions were lucrative and complement the current ICT products and services which this division offers to its clients.

### VISION 2020 VISION TO VISION 2025 VISION

A key feature of our 2019 financial year has been the significant progress and achievements we have made in executing our Vision 2020 Vision strategy to become the leading diversified company in South Africa that creates superior stakeholder value and empowers people through profits and performance.

Our 2019 performance is testament to the broader Group rallying together to drive continued optimisation and efficiency of our operations while growing a sustainable cash flow and value for our shareholders.

Our Vision 2020 Vision strategy is underpinned by our diverse portfolio and is reflected in our results. This growth strategy has laid a strong foundation for the next phase of the AEEI Group's evolution. Eager about the next exciting phase for AEEI, we are already considering our Vision 2025 Vision strategy.

The Group now has a more diversified asset/product base to reduce risk exposure and to secure access to distribution channels nationally and internationally, which will enable value creation for our shareholders.

### TRANSFORMATION

We continue to drive the South African transformation agenda across our value chain. This, combined with diversity and a sense of responsibility to facilitate job creation and empowerment of the previously disadvantaged, are essential to the sustainability of AEEI.

I am delighted to mention that records indicate that AEEI has played a part in carving the way for our future nation through its skills development and corporate social responsibility programmes, which are implemented throughout the country but especially in the communities in which we operate.



During the year, we renewed our focus on critical skills and leadership capability development as key enablers to build a resilient organisation for the future. We continued to invest in sponsored study programmes and in learning programmes, which include leadership, career and succession development plans.

To secure a pipeline for the future, we invested significantly in our employees through skills development and training, ranging from basic literacy to health and safety training as well as further training, to ensure our employees and professionals remain on top of their game.

The empowerment of women remains a key focus area, and our skills development programmes are designed to secure the critical and scarce skills required to operate our divisions and deliver long-term growth ambitions. I am delighted to announce that we have increased the number of women employed within the Group – not only on the ground but from middle management to executive positions.

In addition to this and related to transformation, we recognise that it is imperative to continue with the adequate upskilling of our employees and the communities within which we operate through skills development and training programmes. We remain focused on reducing our carbon footprint, and being aware of practices which our teams may implement to ensure safe and sustainable fishing in our oceans.

Culture, underpinned by our values, is essential to support us in achieving our goals and transformation aspirations. To this end, we will continue to further embed the behaviours that support our transformation objectives in all our divisions.

Read more on pages 19 to 24 of the online Sustainability Report.

## OUR EMPLOYEES

Our employees are fundamental to the success of the Group, and I must acknowledge that it is because of the resilience and diligence of our values-driven, high-performing employees that we are able to create value for our key stakeholders.

We strengthened our relationships with labour unions, which required a review of the broader employee relations landscape and the adoption of a more integrated approach across all stakeholder groups, aimed at achieving greater employee engagement and ensuring business continuity.

## SUSTAINABILITY AT AEEI

At AEEI we are cognisant of our material sustainability focus areas and their impact on our stakeholders. Stakeholder engagement at AEEI is supported by transparent and effective communication, mutually beneficial outcomes where possible, inclusiveness and integrity. We participated in initiatives to inform and ensure a best practice approach in the areas of sustainability and social impact. We actively engage with our stakeholders to ensure the achievement of the best outcomes. Read more about building relationships with our stakeholders on pages 85 to 92 of the Abridged Integrated Report.

## GOVERNANCE AT AEEI

The Board strives to ensure that AEEI is governed effectively – with integrity, transparency and in accordance with sound corporate governance practices. The Group's policies, practices and charters are updated regularly to remain compliant with the relevant laws, rules, regulations, codes and standards, including but not limited to the JSE Listings Requirements. We have also embraced the inclusion of the King IV™ principles in all areas where applicable. Read more about this in the online Corporate Governance Report.

## INDEPENDENT NON-EXECUTIVE CHAIRPERSON'S REPORT – continued

**APPRECIATION**

It is with sincere appreciation that I thank all our stakeholders for their unwavering support and confidence in me as the non-executive chairperson of the Board. Not only do they have the utmost confidence in me but also in the leadership teams who have remained steadfast in their implementation of our strategy of growth and value creation.

I would like to recognise the support and contribution of my fellow Board colleagues, who have willingly and without prejudice contributed their collective skills and experiences during the year. I wish to extend a warm welcome to the newly appointed non-executive directors and we look forward to their fresh insights and contributions.

I would also like to thank the management teams for their leadership during a challenging year. I remain confident that the executive management team will consistently drive our business strategy and not only achieve satisfactory results, but also create value in the long term for all our stakeholders.

**CONGRATULATIONS**

Hearty congratulations to Khalid Abdulla on achieving the organisation's goals as well as the accolades in recognition of his leadership, skills, insight and commitment to realising the potential of our Group. A special word of thanks to the executive management team and all our employees in the Group, without whom we could not have achieved such growth.

I look forward to chairing the Board through the next exciting growth phase of AEEI.

Thank you.



**Mrs Aziza Amod**

Non-executive chairperson

# CHIEF EXECUTIVE OFFICER'S REPORT

**VISION 2020 VISION  
DURING A TURBULENT YEAR**



## CHIEF EXECUTIVE OFFICER'S REPORT – continued

It gives me great pleasure to present the AEEI Group's financial results and performance for the year ending 31 August 2019. It is an honour to announce that not only did we achieve our strategic objectives but we also exceeded our growth targets for the financial year, which means we continue to create value for all our stakeholders. Initiatives throughout the Group have resulted in a set of excellent results and year-on-year growth, despite the trying market conditions.

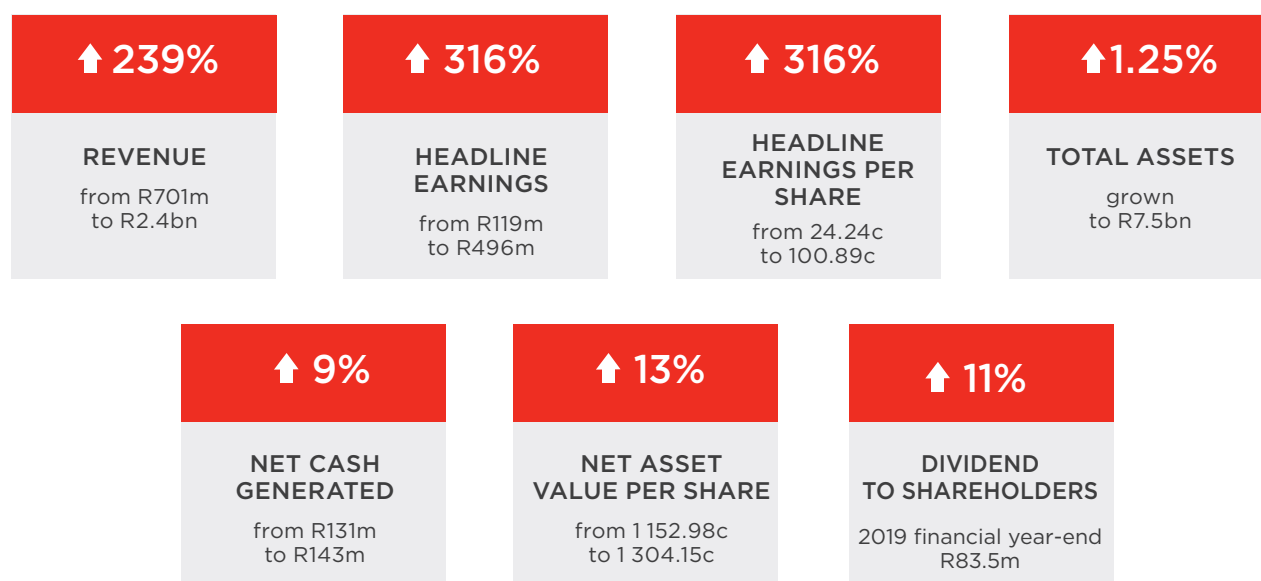
South Africa's Investor Rating, which is teetering on the edge of Ba1 (Non-Investment Grade as per Moody's), opportunities and threats presented by the Fourth Industrial Revolution (4IR), anomalous weather conditions, lack of dependable basic services (electricity, transport, housing and water), significant increases in fuel and other consumables, and an upsurge in local social unrest have affected most companies, and AEEI is no exception.

Over the next few decades, most of the challenges mentioned above will be overcome and should transform the world into a more prosperous one for some. The combination of challenges together with political change and economic stability will create unprecedented challenges but also opportunities that we can only imagine and explore at the appropriate time.

Fortunately for AEEI, we recognised that these challenges may increasingly impact our business, hence we have been proactive by implementing mitigating plans to manage a sustainable business, create shareholder value and provide for additional employment-creating opportunities, while remaining mindful of our primary goals of transformation, sustainability and value creation for all stakeholders.

## BY THE NUMBERS

Despite the challenges we faced during the 2019 financial year, AEEI has produced an admirable set of results:



*"You must be the change you wish to see in the world."* – Mahatma Gandhi

Embracing "change" (which is defined as an act or process through which something becomes different and may cause transformation) is what makes AEEI such a resilient powerhouse. This year was an unduly turbulent year for AEEI and its subsidiaries, shareholders and stakeholders.

This financial year has seen excellent performances from our operational subsidiaries, all of which, in their own way, have contributed positively to our year-end results. We continue to build on our objectives as set out in our Vision 2020 Vision growth strategy, and I am proud to announce that with a few more months to go to the 2020 financial year-end, 99% of our strategy has already been met and in most instances exceeded.

## PROGRESS ON VISION 2020 VISION

In 2015, we set out a growth strategy called Vision 2020 Vision, whereby we set out a roadmap to achieve financial and non-financial targets. The following objectives encompassed the Vision 2020 Vision:

- Double revenue: Revenue increased substantially by 257% over five years from R672m in 2015 to R2.4bn in 2019
- Increase normalised profit before tax: Increased substantially by 197% from R78.4m in 2015 to R233m in 2019
- Increase operational cash flow: Significantly increased by 180% from R51m in 2015 to R143m in 2019
- Increase NAV: Significantly increased by 696% from 163.75c in 2015 to 1 304.15c in 2019
- Double total assets: Total assets increased by 455% from R1.3bn in 2015 to R7.5bn in 2019
- Separate listing of the technology and food and fishing businesses: AEEI successfully listed both AYO Technology Solutions Ltd and Premier Fishing and Brands Ltd during 2017
- Regular payment of dividends to shareholders: Since 2015, regular interim and final dividends were paid to shareholders, amounting to over R230m since 2015
- Create employment: We increased our employee headcount from 618 in 2015 to more than 6 000 (direct and indirect employees) in 2019

## WELCOME

On behalf of AEEI, I would like to congratulate all our new Board members on their appointments and especially our new non-executive chairperson, Mrs Aziza Amod, as we start to build momentum for our next growth phase.

On behalf of AEEI, I would also like to thank Reverend Dr Mehana for his astute custodianship as chairperson of the Board during the time he held this position and for the many years of guidance and service he provided to AEEI. We truly appreciated his input and guidance. We wish him success in his future endeavours.

## WHAT SETS US APART

In the context of our business, we cannot afford to become complacent and at AEEI there is no room for mediocrity. We need to maintain our competitive market advantages and build on what sets us apart:

We have neared completion of our Vision 2020 Vision strategy and implementation plan defining clear short, - medium - and long-term business strategies.

We have a diversified business portfolio built on solid empowerment credentials and return on investment including:

- Level 1 B-BBEE accreditation with 73.55% black ownership and 39.39% black female ownership
- We are a B-BBEE partner of choice, with solid empowerment credentials and return on investment
- We have sustainable and organic growth while containing costs and driving efficiencies
- We have a strong brand, credentials and proven delivery with a successful track record and excellent business reputation
- We have a strong management team and experienced executives leading our business units with a hands-on approach in our business development strategy
- We have a strong risk-based management of investments, associates and a strategic investment portfolio with low debt and gearing ratios
- We have been rated as one of the JSE's most transformed companies with a proven track record of financial performance, transformation, culture and results
- In 2019, AEEI was awarded the winner of the Top Most Empowerment Companies in the Generic and Financial Services Sectors as well as an award for Top Most Empowered Management.

## SUSTAINABILITY

AEEI is aware of and appreciates the evolution of governance and that the Group's core purpose, robust business model, performance, risks, opportunities and sustainable development are inseparable elements of the value-creation process.

At AEEI, we do not consider the 4IR to be the panacea to Africa's problems. The 4IR is being heralded as the answer to the continent's socio-economic woes, but understanding just what the 4IR is and what the positive and negative impacts the 4IR could have on the future have not yet been fully considered nor disclosed. Although the 4IR promises exciting potential for the continent, this potential should be seen through a responsible lens.

In my opinion, I see that technology, when conscientiously applied, can alleviate a broad range of our current, everyday problems. Indeed, the 4IR does not have the power and potential to raise global income levels and improve the quality of life for everyone, but how could it translate into business opportunities for AEEI and other companies actively participating in the 4IR, which would then filter down to employment creation and poverty alleviation – this is the imperative.



## CHIEF EXECUTIVE OFFICER'S REPORT – continued

Like every responsible forward-thinking leader, I know that now is the time to further invest in people, skills development, innovative ideas and idea generators to provide AEEI with the best long-term returns.

It is quite an exhilarating time to be in business right now. The prospect for technology to change people's lives for the better is extraordinary. Equally so, for doing better business.

The Earth's natural resources are said to be running low. In a few years, our world as we know it will be different. This is a world where corporate responsibility is not just a nice-to-have but it is a business imperative. It is characterised by a strong social conscience, a sense of environmental responsibility, a focus on diversity and human rights and a recognition that business has an impact that goes well beyond the financial.

Refer to our online Sustainability Report.

## REVIEW OF OUR OPERATIONAL INVESTMENTS

*“When the world is in the midst of change, when adversity and opportunity are almost indistinguishable, this is the time for visionary leadership and when leaders need to look beyond the survival needs of those they’re serving.” – Chip Conley*

## FISHING AND BRANDS DIVISION

Premier Fishing and Brands Ltd (Premier or the Premier Group) performed well this year, with total revenue increasing by 17% from R491m to R574m. Cash generated from operations increased from R91m to R124m and property, plant and equipment increased by 31% from R310m to R408m. Premier increased its abalone stock holding to 161 tons from 144 tons in the prior year and continued to produce spat at an average monthly production of 200 000 animals per month. They continued to extract synergies from their acquisition of Talhado Fishing Enterprises (Pty) Ltd since the prior year which is reflected in their results.

This year, Premier achieved a Level 1 B-BBEE accreditation, ensuring that we remain focused on and committed to promoting B-BBEE.

Premier's achievements:

- A proud Level 1 B-BBEE contributor
- The Board comprises 100% historically disadvantaged individuals
- Voting rights of black people is 74.16%
- Woman represent 35.41% of the Premier Board and executive management.

Another key area for this division is its intensified focus on sustainable fishing, with an awareness of the over-exploitation and depletion of fish stocks and the heightened increase in poaching of rare fish species.

For Premier to make an impact on biologically sustainable fishing, they are encouraging local and international collaboration, which is a tall ask. Sustainable fishing is vital for the survival of fish species as well as a source of food for all beings.

Premier is well positioned for growth over the next two years to further unlock shareholder value by exploring innovative fishing and production techniques, increasing their partnerships with outside quota holders, diversifying their product range and increasing production capacity at the abalone farm.

Read more about our fishing and brands division on pages 109 to 111 of this Abridged Integrated Report and pages 4 to 14 of the online Responsible Investments Report.

## TECHNOLOGY DIVISION

AYO Technology Solutions Ltd (AYO) delivered excellent organic and acquisitive revenue and profit because of the strong contributions from all the underlying operations and investments under its control.

AYO's revenue increased to R1.6bn and profit before tax increased to R123m.

The AYO Group leverages its group-wide capabilities and strategic partnerships to deliver end-to-end digital and technology solutions to multiple industries in both the public and private sectors in South Africa as well as in Africa.

AYO continues to drive its planned acquisition strategy and has set its sights on obtaining new contracts with other multinational companies as it builds on its platforms driven by its “Go to Market” strategy. The AYO Group achieved noteworthy organic growth during the year as a result of a contract with a multinational company.

AYO continues to focus on its acquisition strategy in order to complement and augment its current businesses. Upon completion of certain acquisitions, AYO will be strongly positioned to win significant market share in its industry and to challenge and disrupt the ICT landscape.

Read more about our technology division on pages 112 to 114 of the Abridged Integrated Report and pages 15 to 29 of the online Responsible Investments Report.

## EVENTS AND TOURISM DIVISION

espAfrika (Pty) Ltd (espAfrika), the owners of The Cape Town International Jazz Festival, hosted a successful 20th Jazz Festival, and the company contributed positively to all its stakeholders. The company continues to broaden its own portfolio, with the objective of increasing stakeholder value, thereby ensuring sustainability.

It has been a challenging year for the SA tourism industry which affected Tripos Travel (Pty) Ltd (Tripos), with a resulting impact on its revenue for the year. Tripos plans to mitigate this by acquiring small to medium-sized clientele and investing more resources into the growth of their leisure and inbound tourism departments.

Magic 828 (Pty) Ltd (Magic), the only radio station that has built and is communicating via its own broadcasting mast, is built on an advertising revenue model, split between agencies and direct advertising, which is driven primarily by listenership. This relationship of listenership versus advertising revenue is evident, with both increasing by more than 40%.

Read more about our events and tourism division on pages 115 to 116 of this Abridged Integrated Report and pages 30 to 54 of the online Responsible Investments Report.

## HEALTH AND BEAUTY DIVISION

The vision of Orleans Cosmetics (Pty) Ltd (Orleans) is to be a leading player in the prestige and masstige cosmetics industry in both the retail industry and in beauty salons. It intends to acquire another skincare range as well as further fragrance lines to complement its current skincare ranges.

AfriNat (Pty) Ltd (AfriNat) experienced a reduction in sales as a result of international tariff increases and local protests at ports. Strategic objectives in post-harvest and hygiene and sanitation have been put in place to address the underperformance. These are starting to show results while the company continues to engage with manufacturers to bolster its market presence and hopes to see the results in the new financial year.

Read more about the health and beauty division on pages 121 to 125 of this Abridged Integrated Report and pages 55 to 71 of the online Responsible Investments Report.

## RESEARCH AND DEVELOPMENT DIVISION

Genius Biotherapeutics (Genius) has made great strides with its research and development activities as it completed the construction of a clean-room facility. The research and development division is in the regulatory preparation and process validation phase to produce erythropoietin (EPO), a biosimilar drug used to treat anaemia caused by kidney disease. It is also completing developmental work on the dendritic cell vaccine (DCV) for cancer immunotherapy and communicable diseases such as extreme drug-resistant tuberculosis.

Further developmental activities are taking place at the Ribotech facility for a second biosimilar drug called Recogen, a granulocyte-colony stimulating factor (G-CSF) used for the treatment of neutropenia as well as the production of protein-based reagents used mainly in research laboratories and industrial applications.

Read more about the research and development division on pages 126 to 127 of this Abridged Integrated Report and pages 72 to 80 of the online Responsible Investments Report.

## REVIEW OF OUR STRATEGIC INVESTMENTS

The Group's strategic investments consist of minority equity stakes in SAAB Grintek Defence (Pty) Ltd (25%+1), BT Communication Services South Africa (Pty) Ltd (30%) and Sygnia Ltd. AEEI is one of the largest external shareholders in Sygnia with 1.735% equity. During 2019, AEEI disposed of its 0.75% equity stake in Pioneer Foods Ltd.

These investments performed well with regular dividends being received annually.

Read more about our strategic investments on pages 128 to 130 of this Abridged Integrated Report and pages 81 to 83 of the online Responsible Investment Report.

## OUR AWARDS

AEEI was awarded the following Empowerdex Awards in 2019:

- Winner: Most Empowered Company: Generic Codes
- Winner: Most Empowered Company: Management Control
- Second Runner - Up: Most Empowered Company: Women Ownership

## CHIEF EXECUTIVE OFFICER'S REPORT – continued

Despite South Africa as well as global markets having faced a precipitous economic downturn, AEEI has remained positive and focused on delivering sustainable and positive shareholder value with steadfast determination. This has been achieved through a combination of sound strategic decisions and prudent control of working capital and capital allocation, without compromising long-term benefits while also investing in training and development, safety and risk management, all of which are non-negotiables.

We are satisfied that our Vision 2020 Vision strategy, underpinned by our resilient business model, high-performance culture and steadfast focus on the fundamentals of our businesses and business model, has created a steady platform for AEEI to continue its growth and value creation for all stakeholders.

## SPECIAL THANKS

*“As we express our gratitude, we must never forget that the highest appreciation is not to utter words, but to live by them.” – John F Kennedy*

A special thank you goes to our more than 6 000 (direct and indirect) employees – team AEEI did their best to ensure the sustainability of our business with very little distraction from outside forces and remained focused.

During this challenging time for AEEI and its subsidiaries, it is our team, associates, partners and stakeholders that we graciously thank for their unwavering loyalty and support during one of the most turbulent years of late.

## WE ARE READY FOR 2020

*“Success is about creating benefit for all and enjoying the process. If you focus on this and adopt this definition, success is yours.” – Kelly Kim*

Enthusiastic about the next exciting phase of our growth, we are already considering our Vision 2025 Vision strategy, which will be robust yet flexible. This will surely build onto the existing solid business platform built to date.

The year 2020 is expected to be another challenging year; perhaps challenges of a different nature will face us – but whatever comes our way, I am confident that AEEI and the team are prepared and ready.

I look forward to the next phase of AEEI's growth trajectory, and I am excited about developing and implementing our next five-year strategy to 2025.

Thank you.



**Khalid Abdulla**  
Group chief executive officer

# GROUP CHIEF FINANCIAL OFFICER'S REVIEW

## AEEI WRAPS UP ITS FIVE-YEAR STRATEGIC PLAN ON ITS VISION 2020 VISION

### KEY FINANCIAL HIGHLIGHTS

STRONG REVENUE  
GROWTH DRIVEN BY  
CHANGE IN CONTROL



HEADLINE EARNINGS  
INCREASED BY 316%  
FROM R119M TO R496M



DIVIDEND DECLARED  
INCREASED FROM  
12C TO 17C PER SHARE



“We can anticipate and respond effectively because we have the foundation in place. Finance is embedded in the business and is a broad-scope function, which enables end-to-end process improvement and strong process integrity and controls.”

– Lain Macdonald, CFO, BP



## CHIEF FINANCIAL OFFICER'S REPORT – continued

## OVERVIEW OF THE 2019 FINANCIAL YEAR

We are in the final stages of wrapping up our Vision 2020 Vision journey. The Group separately listed both the technology and fishing and brands divisions, thus unlocking shareholder value in 2017 and 2018. This followed by several acquisitions and this led to doubling up of our revenue, cash EBIT and total assets in the five years. We concluded 2019 with a resilient performance that created consistent value for shareholders.

We succeeded in meeting most of our strategic objectives set out in our Vision 2020 Vision by achieving the visionary growth as set out in 2015 over our five-year journey depicted on pages 64 and 65. During the 2019 financial year, we continued with our acquisitive growth strategy through the acquisition of further technology businesses and utilising the capital from the fishing and brands listing to expand their businesses.

Our first strategic priority to leverage the investment portfolio – driving growth through acquisitions, was met. With the conclusion of the acquisitions of Zaloserve (Pty) Ltd, Mainstreet (Pty) Ltd and Global Command and Control Technologies (Pty), Ltd effective 19 December 2018, 28 February 2019 and 1 March 2019 respectively, we achieved our strategic objectives to grow our investment portfolio through acquisitions.

The second strategic priority was to maintain gross margins from our underlying operations and retain the Group's margins within the targeted range. A change in product and business mix resulted in our margins decreasing below the target range of 30% to 35%. However, our businesses continued to grow in volume rather than in margin. The Group's gross profit increased by 150% from R290m in the prior year to R725m in 2019.

Our third strategic priority for the Group was to improve social, governance and financial sustainability in our business in order to secure long-term growth and value creation for the Group. We continued to support an early childhood development facility – Where Rainbows Meet Training and Development Centre, to uplift the community in Vrygrond as part of our corporate social responsibility programme at AEEI.

As from 1 September 2018, the Group adopted the newly effective International Financial Reporting Standards (IFRS) standards: IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. After the initial assessment, these did not have a material impact on the annual financial statements and only additional disclosures were included as required by the new standards.

We are delighted that transformation targets were met in AEEI as we retained our previous B-BBEE status from the prior year and maintained a Level 1 accreditation. Refer to page 20 of the online Sustainability Report for more details.

We believe that 2019 has been “business unusual” with the stakeholder scrutiny and an increase in audit and reputational risks. Yet we continued with our strategic focus to grow the businesses organically as well as through acquisitions for a sustainable future. Our investment portfolio grew by adding three additional businesses to the Group, increasing our total assets from R1.3bn in 2015 to the current R7.4bn.

After taking into consideration the once-off accounting loss and impairments, the loss before tax amounts to R2.4bn. The ordinary earnings attributable to AEEI shareholders declined to a R1.5bn loss, which translated to 304.09c loss per share. The headline earnings, which is adjusted for loss on disposal and impairments, is R495m against the prior year's R119m earnings. An increase of 316% compared to the prior year reflects exceptional acquisition growth in the financial performance of the subsidiaries. The table on page 63 sets out the normalised view of profit before taxation after excluding the non-recurring items and shows the adjusted profit achieved from the underlying divisions as R233m, an 117% increase from the prior year.

After 21 December 2018, the Group regained control over AYO Technology Limited (AYO), and subsequently consolidated AYO from the date of control as defined by IFRS 10 Consolidated Financial Statements. The change in control stemmed from AEEI's ability to direct the relevant activities of AYO based on the IFRS 10 control assessment. AEEI's investment in AYO was previously classified as an associate and was accounted for using the equity method in accordance with IAS 28.

AYO and its underlying subsidiaries were consolidated with effect from December 2018 and the disposal of the associate investment occurred at a fair value consideration of R2.3bn, realising an accounting loss of R2.4bn on the deemed disposal. The net revenue and expenses of the technology division were consolidated in the statement of profit and loss. Income from equity accounted investments includes a full year of our share of profits in BT Communication Services South Africa (Pty) Ltd as well as four months' share of profits from the technology division.

Due to the muted outlook, we adopted a prudent approach to impair the potential value in the biotechnology division. The statement of profit and loss includes a R59m impairment charge as a result thereof.

## GROUP FINANCIAL PERFORMANCE

Summarised statement of profit or loss	Audited 2019 R'000	Restated Audited 2018 R'000	Var %
Revenue	2 377 368	700 691	239
Gross profit	725 313	290 499	150
Gross margin (percentage)	31%	41%	
(Loss)/profit before taxation	(2 388 102)	6 010 650	
Add back loss/gain on deemed disposal	(2 480 713)	(6 049 029)	
Add back impairments	82 573	140 319	
Fair value adjustments and other operating losses	57 871	5 414	
Normalised profit before taxation	233 055	107 355	117
Total comprehensive (loss)/profit attributable to AEEI shareholders	(1 493 605)	4 992 064	
Basic earnings per share	(304.09)	1 016.01	
Headline earnings	495 565	119 085	316
Headline earnings per share	100.89	24.24	316
Normalised headline earnings	540 073	123 297	338
Normalised headline earnings per share	109.45	25.09	339

## GROUP FINANCIAL POSITION

The most significant event in the balance sheet was the consolidation of the assets and liabilities of the AYO Group of companies as this investment is now accounted for as a subsidiary at a fair value of R2.3bn. The change in control in the subsidiary is the major reason for the decrease in the ordinary equity to AEEI shareholders from R4.9bn to R3.3bn, as the decrease in value was accounted for against the statement of profit and loss.

On 26 February 2019, the AEEI Board of directors accepted the non-binding offer from Pioneer Foods Group Ltd (PFG) to repurchase 1 589 998 Pioneer Foods shares and 1 598 998 Quantum Foods Holding shares for the purchase consideration of R78.19 and R3.30 per share respectively. The proceeds were used to redeem all outstanding liabilities in respect of the A preference shares and B preference shares as well as settle all outstanding dividends on the latter shares by 27 May 2019. The financial impact on the Group of the net proceeds received from the disposal of the Pioneer Quantum Foods shares, before any tax liability, amounted to R17m.

On 30 June 2019, the technology division disposed of Acacia Cloud Solutions (Pty) Ltd, a subsidiary of Afrozaar (Pty) Ltd and AYO, for a consideration of R1.2m and realised a profit on disposal of R1.3m.

## ASSETS

Non-current fixed assets increased by R197m in additional property, plant and equipment, mainly as a result of the R126m expansion of the abalone farm and vessel upgrades in the fishing and brands division as well as R106m additions from the technology division. The intangible assets increased from R277m to R293m, mainly due to the addition of R72m from the newly acquired subsidiaries and R49m of impairment from the biotechnology division. The increase in goodwill from R86m to R219m is mainly due to the acquisition of AYO and its subsidiaries.

Cash and cash equivalents increased substantially from R363m to R3.9bn at year-end. This is largely attributable to the cash included from the technology division and also includes cash on hand from all subsidiaries in the Group. Total current assets of almost R5bn includes the assets of AYO and its newly acquired subsidiaries.

## LIABILITIES

The total liabilities decreased by 38% from R1 697m to R1 051m, which demonstrates the low gearing of the Group. The disposal of investments in the Group impacted the financial liabilities, which decreased from R226m to R126m and was mainly due to settlement of the preference share liability of R109m relating to the Pioneer Foods investment.

As a result of the investment in associate being disposed of, the deferred tax liability reduced from R1.2bn to R156m and is the major reason for the non-current liabilities decreasing from R1.4bn to R284m.

## CHIEF FINANCIAL OFFICER'S REPORT – continued

## EQUITY

The net asset value (NAV) per share increased by 12% from 1 152.98c to 1 304.15c which is underpinned by the strong asset value from the underlying investments delivering a resilient performance. Over the past five years, the NAV per share grew at an annual growth rate of 138%.

## CASH FLOWS

Net cash generated from operating activities increased by 9% from R131m to R143m. Additional interest income affected the operating activities of the subsidiary operations. The strong operational performance from the fishing and brands division was offset by the cash utilised by the technology and events and tourism divisions, which reduced the cash generated from operations.

The investing activities were impacted by the business combination which amounted to R3.3bn, resulting from the change in control in AYO, together with the acquisitions in the technology division as well as the sale of financial assets. Capital expenditure of R45m was incurred for the existing fishing operations and R80m to expand the fishing operations is in line with the growth plans which played a significant part in our Vision 2020 Vision.

Shareholders were paid dividends amounting to R217m during the current year compared to R72m in the prior year, which reflects our commitment to increase

our returns to our shareholders. We are committed to reducing our debt exposure by the repayment of our financial obligations of R161m (2018: R81m) during the year.

## SHAREHOLDER RETURNS

AEEI returns value to its shareholders in the form of dividends and share price appreciation. We continue to reward our shareholders and accordingly increased our total gross dividend per share to 17c per share, an 11% increase from the prior year. The Board declared a final gross dividend of 6c per share based on the 2019 financial results on 23 December 2019. The share price closed at 165c at year-end and we expect this to increase further as the Group continues to meet its strategic objectives.

Share buybacks were approved by the Board of directors and the Company bought back 317 000 shares representing 0.06% of the total shares in issue. The shares were purchased at an average price of R2.95 per share for a total cash consideration of R936 887 and this reduced our share capital from 491 339 434 to 491 022 434 shares.

## OUR JOURNEY TO VISION 2020 VISION

	2015 R'000	2016 R'000	2017 R'000	2018 R'000	2019 R'000
Profit before tax	185 747	287 740	680 890	6 010 650	(2 388 102)
Normalised profit before tax	72 682	97 155	127 891	107 354	233 055
Headline earnings	152 615	211 930	466 232	119 085	495 565
Normalised headline earnings	46 210	60 651	51 008	123 297	540 073
Operating cash flows	50 794	75 377	79 532	130 814	143 144
Total assets	1 345 471	1 691 219	2 822 153	7 362 276	7 454 311
Net asset value	804 549	1 001 035	2 038 120	5 665 049	6 403 691
Net asset value per share	163.75	203.74	414.81	1 152.98	1 304.15

## 2015

Name change from  
Sekunjalo to AEEI

Vision 2020  
Vision approved

Maiden dividend paid  
to shareholders

Operationalised the strategic  
plans for next 5 years

## 2016

Most empowered and fastest  
growing B-BBEE company listed  
on JSE

Ranked 10th in Financial Mail's  
Top 10 JSE listed companies for  
Financial Performance

Increased equity stake to 25% + 1  
share in Saab Grintek Defence and  
acquired interest in Sygnia Ltd

## MATERIAL MATTERS THAT AFFECT OUR PERFORMANCE

### RESPONSIBLE USE OF CAPITAL GENERATED

The AEEI Group incurred R156m (2018: R121m) in capital expenditure, which included R116m for the fishing and brands division and R25m related to assets from the technology division. Since the technology division's listing in December 2017, the technology division acquired 55% in Zaloserve (Pty) Ltd, which holds 100% shareholding in Sizwe Africa IT Group (Pty) Ltd who have contributed R180m net assets to the Group and the other technology assets in SGT Solutions (Pty) Ltd and Global Command and Control Technologies (Pty) Ltd includes R93m in net assets.

As a result of the conclusion of these acquisitions, the Group experienced tremendous growth in revenue, and the acquisition strategy set out in the Vision 2020 Vision continues to return growth and sustainable shareholder value.

### CAPITAL INVESTMENT IN OUR BUSINESSES

Investments of R80.6m were made during the year to construct the infrastructure at the abalone farm and to maintain the hatchery facility built in 2018 to grow additional animals and hold more stock. The stock holding increased by 16 tons from 145 tons to 161 tons, in preparation for the pipeline for the larger farm. The abalone division is on track to complete construction in the 2020 financial year.

espAfrika (Pty) Ltd's management restructured the business to get the maximum returns from its business. espAfrika continues to deliver its renowned Cape Town International Jazz Festival – Africa's Grandest Gathering. Further working capital was invested in Magic 828 (Pty) Ltd and Opispex (Pty) Ltd to increase revenue to obtain tangible returns in the short to medium term.

## 2017

Premier Fishing and Brands Ltd listed on JSE

Revenue growth of 43% to over R1bn

Acquisition of Orleans Cosmetics and Headset Solutions and Puleng Technologies in the technology division

## 2018

AYO Technology Solutions Ltd listed on JSE

Total assets base escalates from R2.8m to R7.3bn

Acquisition of Talhado Fishing Enterprises in the fishing and brands division

Increased production capacity of an additional 40 tons at our abalone farm

## 2019

Group revenue grows to R2.4bn

Regular dividends paid to shareholders and returns exceeding R200m over five years

Acquisition of Sizwe, Mainstreet and GC²T in the technology division

Employee growth increased from 618 in 2015 to 2 201 in 2019

# OUR JOURNEY TO VISION 2020 VISION



## CHIEF FINANCIAL OFFICER'S REPORT – continued

Our biotechnology division believes that the long-term dendritic cell vaccine project will advance the immunotherapy field in cancer treatment and further investment was made in the biotechnology division to own the intellectual property acquired from collaboration with the University of Cape Town and to commence phase 1 human trials next year.

## EXTERNAL FACTORS THAT IMPACT THE GROUP'S PERFORMANCE

Experiences in the external environment such as the decline in the financial market, socio-political uncertainties and greater stakeholder scrutiny, are factors out of our control which continue to have an impact on our ability to increase stakeholder value. The weakening of the rand increased our revenue generation in the fishing and brands division with an exchange gain earned of R4.9m, and the average dollar exchange rate achieved by the fishing and brands division is 14.10 against 13.42 in the prior year.

The weather conditions are continuously monitored to get the maximum number of seaworthy days in order to increase the catch rates for the fishing and brands division. Vessel planning and scheduling is key to ensuring efficient fishing volumes so that between 90% and 100% of the division's lobster quota was caught by year-end. The diversification strategy to increase the squid division performance through acquisition enables the offset against the lower financial performance in the pelagic and abalone division.

The outcome of the fishing rights allocation process for the west coast lobster division was a decline of 44% in the total allowable catch and 4% for the south coast lobster division respectively for the 2018/2019 fishing season. Operational management continues to manage this area within their control and continues to engage with outside quota holders to increase their catch allocation.

## LOOKING AHEAD

As stakeholder scrutiny into our subsidiaries and the AEEI Group continued during the year, we held ourselves accountable to act in a virtuous manner and encourage our employees to keep their heads up high and be proud ambassadors for the Group and to look ahead to return value to stakeholders by growing sustainable businesses.

*"The value of a business is a function of how well the financial capital and the intellectual capital are managed by the human capital. You'd better get the human capital right."*

— Dave Bookbinder

In a volatile, uncertain, complex and ambiguous world, we are required to keep up with the global and local competition and explore available opportunities to grow our investments and meet our strategic objectives. We remain committed to creating superior value for our stakeholders and improving our gross profits by reviewing the cost structures and operating efficiencies, and increasing our social, governance and financial impact on society and the economy.

## APPRECIATION

I would like to congratulate all the financial teams in all the companies, subsidiaries and associates across the AEEI Group for their hard work, dedication and commitment to meet the challenging pressure to deliver quality financial information to our stakeholders. I express my thanks to our Board and executive management team for their ongoing guidance and support during a time of ever-changing events and decisions. We also thank our external auditors, BDO South Africa Inc, for their long-term service and enduring support over a span of more than two decades.

## CONCLUSION

AEEI is well positioned to anticipate and prepare for rapid change as it has built a solid agile foundation to grow further by improving its profitability and delivering greater value to its shareholders. Through our focused and disciplined approach in our investment philosophy, the Group has enabled good returns from our underlying investments.



**Chantelle Ah Sing**

Group chief financial officer