

Inqo Investments Limited

Press release at 31 August 2020



Unaudited Group Results for the period ended 31 August 2020

Company Registration Number 1998/024741/06	Share Code INQO	ISIN Number ZAU 000014391
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CHAIRMAN AND CHIEF EXECUTIVE STATEMENT

Inqo Investments Limited ("Inqo" or "the Group") is a South African based social impact company that acquires and invests in businesses that tackle poverty and the social needs of low-income earners in Sub-Saharan Africa.

COMMENTARY

The Group remains in a strong financial position with minimal debt. Cash reserves for investment stood at R7 072 767 with total assets of R169 973 016 on the balance sheet.

The results for the six months under review showed revenue of R1 746 170 (August 2019: R8 738 816) but a loss after tax of R4 760 046 (August 2019 a loss of R5 147 304). The loss for the period is reported after accounting for the following operating costs:

	<u>August 2020</u>	<u>August 2019</u>
Depreciation	1 743 117	1 531 521
Listing expenses	528 106	421 117
Directors fees and salaries	300 540	388 563
Professional fees	259 942	248 887

Like businesses around the world, the Group has been heavily impacted by the Covid-19 pandemic. The result of this pandemic has been that all the businesses in the Group have reported reduced earnings and are taking extensive steps to reduce operating costs to the absolute minimum while the businesses operate in a holding mode as the world waits to see how the Covid-19 pandemic plays out.

The directors of the holding company review the valuation placed on all income carrying assets to ensure that they reflect their fair value. This review was done at 31 August 2020 and having conducted the review, the directors are of the view that the Group's assets are reflected at fair value.

INVESTEE COMPANIES

Kuzuko Lodge (South Africa)

Kuzuko Lodge ("KUZUKO") closed down in early April 2020 due to the lockdown restrictions in South Africa. Prior to the Covid-19 pandemic, Kuzuko was performing well with strong bookings in place for 2020. The Covid-19 pandemic has had a severe effect on the tourism industry globally and at this stage it is unclear what the full impact will be. Inqo anticipates that disruption due to reduced travel and the depression on sales due to the Covid-19 related economic downturn will last for a minimum of two years. Restrictions on local inter-provincial leisure travel was lifted on 12 August 2020, giving Kuzuko the opportunity to open to the rest of the country for bookings. On 11 November 2020 South Africa relaxed restrictions on international travel, allowing international bookings. In an effort to protect the going concern of the business many fixed costs have been renegotiated to new lower cost structures and unfortunately 24% of the workforce has had to be retrenched. A foodbank has been established for those retrenched. Inqo directors and the management company, Legacy Hotels and Resorts, are working closely with the Kuzuko management team to control costs efficiently to protect the viability of the business.

Spekboom Trading (South Africa)

The company has to date replanted some 500 acres of degraded land with spekboom, an indigenous shrub that naturally sequesters exceptionally high levels carbon, creating 100 job opportunities in the process.

The spekboom thicket restoration at Kuzuko is planned to restart once the Covid-19 pandemic crisis has passed and restoration work can commence. A memorandum of understanding is being negotiated with a leading carbon fund to restore 12,500 acres of spekboom on the Kuzuko property in order to generate carbon credits.

There has recently been a renewed interest in the carbon markets in response to the growing global awareness of the impact of climate change with nature-based solutions, such as spekboom, being a high priority. Inqo anticipates scaling up spekboom restoration activities once the Covid-19 pandemic situation has resolved providing valuable employment opportunities as well as a positive environmental benefit.

A small-scale trial plot has just been planted to test the best method for growing spekboom based on the latest scientific research. The next step is to undertake large-scale trials over 40 hectares to refine the cost model of the investment. This will take place as soon as it is feasible (in the context of Covid-19 lockdowns) to run the trials.

Bee Sweet Honey (Zambia)

Inqo made an initial investment into Bee Sweet Honey's commercial honey production operation in 2016 with further investments in 2018 and 2019. Bee Sweet Honey contracts with rural farmers to manage hives placed on the farmer's land in return for a share of the harvest.

The Bee Sweet operation currently has 85,512 bee hives in the field with 10,000 farmers in its programme. Inqo has invested in the income that will accrue from 14 150 hives and receives a return on investment as a profit share on the yield produced by these hives.

The hives are harvested twice a year, generally in May and November.

Inqo earned R42 102 as its share of revenue in the period ended 31 August 2020 from the May 2020 harvest (2019: R136 821).

Four-One Financial Services Limited (Uganda)

Inqo made an initial investment in 2017 and a further investment in 2018 in Four-One Financial Services Limited, a Ugandan based company that provides micro-pension, savings and short-term loan products to the informal sector.

Prior to the Covid-19 pandemic Four-One was performing well having endured challenging operating conditions for the previous 18 months. The impact of the lockdown and subsequent economic downturn is likely to be severe in Uganda and so for Four-One. The senior management team have a strong track record in navigating a difficult business environment through lean operations and have developed an agile response to market demands.

Inqo earned interest on its investment in the Four-One Financial Services operation of R149 634 in the period ended 31 August 2020 (2019: R116 578).

South Lake Medical Centre – SLMC (Kenya)

SLMC is a private healthcare provider in the Naivasha region of Kenya serving predominantly low-income flower farm workers. SLMC operate a 'hub and spoke' model around a 27-bed private referral-level hospital with smaller satellite clinics based on surrounding flower farms and in nearby population centres. Inqo invested in SLMC in the current 2019/20 year.

This hospital receives around 64,000 patient visits per annum with the capacity to treat three times this number. Currently, SLMC offers a range of in and outpatient services including consultations, laboratory testing, radiology and pharmacy services. Following this investment, SLMC will be expanded to include a surgical unit

making it the most advanced hospital at the southern end of Lake Naivasha. The Naivasha region in Kenya is predominantly populated by low income workers working in the horticultural, agricultural and tourism industries.

The impact of Covid-19 will be economically challenging for SLMC. The major industry in the area is cut flowers for the European market – a sector that has dropped off in the current climate but with the resumption of international flights sales levels are returning. In addition, there is a strong vegetable growing industry in Naivasha that continues to trade and provide medical appointments for SLMC.

Inqo earned interest of R48 424 on its investment in SLMC in the period ended 31 August 2020 (2019: R8 295).

Kentegra Biotechnology Limited (Kenya)

Kentegra is a Kenyan based biotechnology firm owned by the US holding company, Kentegra Biotechnology Holdings LLC. Kentegra produces pyrethrum, a natural active ingredient from the chrysanthemum flower, for the use in biocide, agricultural and pharmaceutical pesticide markets. The chrysanthemum flowers must be grown in specific conditions in order to produce pyrethrum – these conditions are found only in a few places around the world, predominantly East Africa (Tanzania, Uganda, Rwanda and Kenya) and Australia. With ideal growing conditions, Kenya was once the largest producer of pyrethrum in the world until management issues and synthetic alternatives led to a major decline in the nationalised industry in the early 2000s. In 2013 the Kenyan government liberalised the pyrethrum sector in a concerted effort to revive the industry and support the growing worldwide “organic” movement. Kentegra is one of the six companies in Kenya with a licence to produce pyrethrum.

Kentegra continues to operate in a scaled down manner but has reported demand during the Covid-19 pandemic. They have recently installed a new factory that is in the process of being commissioned and ready for production. The senior management team have responded quickly and professionally drawing up well considered contingency plans for all eventualities and are re-evaluating the situation on a continual basis. Kentegra has shown a strong commitment to both their smallholder farmer partners and their employees during this time, going above and beyond to minimise the economic impact while ensuring safety for the organisation.

STOCK EXCHANGE LISTING

Aquis Exchange PLC (AIM:AQX) acquired the NEX Exchange in March 2020, which has now been renamed The Aquis Stock Exchange (AQSE). Shares on AQSE will remain exempt from Capital Gains Tax and Inheritance Tax as they were on the NEX Exchange.

OUTLOOK

Kuzuko Private Game Reserve – The Lodge saw high occupancy rates before the Covid-19 pandemic. Once international tourism re-commences, we are confident that Kuzuko will make a good recovery although it will take time for confidence to return to the tourism industry in South Africa. The directors do not expect this recovery to start before the latter part of 2021.

Bee Sweet Honey – The market in which Bee Sweet is currently operating is very challenging but management is making headway on both the production and sales fronts. Currently the company is negotiating with international third parties to buy the stock on hand of some 400 tons. The company's production facilities have been upgraded through the internal promotion of a senior employee to General Manager. The General Manager will be responsible for the management of both production and field work. The crop of honey harvested in May this year was smaller than in 2019 but the business is very happy with the quality of the stock.

Spekboom Trading – The Covid-19 pandemic has meant that re-planting activity had to cease. However, discussions have been on-going with a number of environment focussed investment funds to start re-planting of spekboom when lockdown is relaxed

Four-One Financial Services – This business has been especially hard hit because it serves the informal sector in Uganda with savings and short-term loans products. The Covid-19 pandemic has brought the informal

sector to a complete standstill with many traders going out of business. We are pessimistic about the outlook given the overall economic impact of the pandemic in Uganda.

South Lake Medical Centre – As an essential service, SLMC has been able to continue trading though footfall to the hospital declined with patients hesitant about attending the hospital for treatment due to fear of being infected with COVID. International flower sales have resumed and this has had a positive impact on the operation of SLMC.

Kentegra Biotechnology – As an Agri business, Kentegra was deemed an essential service by the Kenyan government and has been able to continue operations during the lockdown. During this period, the company has on-boarded a significant number of new out-grower farmers as well as installed and commissioned their new factory and made their first export sale.

SUMMARY OF SOCIAL & ENVIRONMENTAL METRICS SINCE PROJECT COMMENCEMENT

- 39,000 acres of former farmland restored as a game reserve in a region of endemic poverty in the poorest province in South Africa
- Increased VAT and income tax paid by Kuzuko year on year, currently 46 fulltime staff employed.
- All staff living at Kuzuko in standard housing with flush toilets, power, water and solar panels.
- Conservation of 3 endangered species.
- Re-wild, bred and released 6 cheetahs with new genetics into the metapopulation in South Africa
- Reforestation of 500 acres of degraded land with spekboom providing work for 100 part time staff and sequestering carbon
- 85,512 beehives in the field with positive impact on bee populations and retention of forests
- 2,100+ voluntary low-income savers in micro-pension and loan schemes
- 74,582 patient visits between January and December 2019 including 110 safe deliveries, 299 HIV patients receiving care and counselling, 658 infants immunised, 658 mothers receiving nutrition advice and 1,277 people receiving health education including, COVID education, through community outreach in Kenya
- Increased the economic livelihoods of over 17,000 farmers and their families in Zambia and Kenya

STAFF

The directors would like to take this opportunity to thank all the operating staff in the Group for their contribution and commitment to the Group's objectives during this challenging time.

FINANCIAL INFORMATION

The financial information set out in this announcement does not constitute statutory financial statements. This financial information has been extracted from Inqo's unaudited group financial statements for the period ended 31 August 2020.

DIVIDEND

The company has not declared a dividend the period ended 31 August 2020.

K.S Tan
Chairman

C.J Bertie
Chief Financial Officer

Condensed consolidated statement of profit or loss and other comprehensive income

for the six months ended 31 August 2020

	Six Months ended 31 August 2020 R	Six Months ended 31 August 2019 R
Revenue	1 746 170	8 738 816
Cost of Sales	(240 331)	(1 198 952)
Gross profit	1 505 839	7 539 864
Other income	1 252 416	136 821
Personnel expenses	(2 400 248)	(4 048 171)
Depreciation	(1 743 117)	(1 531 521)
Listing expenses	(528 106)	(421 117)
Professional fees	(259 942)	(248 887)
Directors emoluments	(300 540)	(388 563)
Selling and administrative expenses	(2 921 969)	(6 883 256)
Operating loss	(5 395 667)	(5 844 830)
Net financing income	355 206	247 879
Finance income	424 966	340 465
Finance costs	(69 760)	(92 586)
Loss before taxation	(5 040 461)	(5 596 951)
Taxation credit	280 415	449 647
Loss for the period	(4 760 046)	(5 147 304)
Loss attributable to:		
Equity holders	(3 587 714)	(4 236 248)
Non-controlling interest	(1 172 332)	(911 056)
	(4 760 046)	(5 147 304)
Other comprehensive income:		
Other comprehensive income	-	-
Total comprehensive income for the period	(4 760 046)	(5 147 304)
Total comprehensive income attributable to:		
Equity holders	(3 587 714)	(4 236 248)
Non-controlling interest	(1 172 332)	(911 056)
	(4 760 046)	(5 147 304)

Condensed consolidated statement of financial position

as at 31 August 2020

	Reviewed 31 August 2020 R	Audited 28 February 2020 R
Assets		
Non-current assets	145 802 368	146 063 205
Property, plant and equipment	133 575 459	134 430 943
Intangible assets	6 847	9 062
Right of use asset	790 490	893 597
Other investments	11 429 572	10 729 603
Current assets	18 475 303	27 644 153
Biological assets	3 058 866	3 058 866
Inventories	4 863 586	4 763 430
Trade and other receivables	3 480 084	4 150 071
Cash and cash equivalents	7 072 767	15 671 786
Assets held for sale	5 695 345	5 695 345
Land held for sale	5 695 345	5 695 345
Total assets	169 973 016	179 402 703
Equity and liabilities		
Capital and reserves		
Ordinary share capital	71 809 195	71 809 195
Share premium	86 294 138	86 294 138
Revaluation reserve	73 152 702	73 152 702
Accumulated loss	(73 899 572)	(70 311 858)
Equity attributable to equity holders of: Inqo Investments Limited	157 356 463	160 944 177
Non-controlling interest	(398 697)	773 635
Total equity	156 957 766	161 717 812
Non-current liabilities	6 971 713	7 328 094
Loans from related parties	167 846	167 845
Other long term loans	687 580	668 210
Deferred taxation	5 268 973	5 549 379
Debentures	193 457	193 457
Lease liability	653 857	749 203
Current liabilities	6 043 537	10 356 797
Trade and other payables	5 114 032	9 494 844
Provision	744 006	686 559
Lease liability	185 499	175 394
Total liabilities	13 015 250	17 684 891
Total equity and liabilities	169 973 016	179 402 703

Condensed consolidated statement of cash flows

for the six months ended 31 August 2020

	Six months ended 31 August 2020 R	Six months ended 31 August 2019 R
Cash flows from operating activities		
Net loss before tax	(5 040 461)	(5 596 951)
Amortisation	2 215	3 457
Depreciation	1 637 795	1 493 705
Depreciation of right of use asset	103 107	34 370
Finance cost on lease liability	50 055	19 218
Loss on disposal of motor vehicle	22 385	-
Net working capital changes		
Inventory	(100 156)	44 802
Trade payables	(4 323 365)	(1 629 147)
Trade receivables	669 987	(299 633)
Net cash outflow from operating activities	(6 978 438)	(5 930 179)
Cash flows from investing activities		
Acquisition of investments	(699 969)	(1 727 606)
Acquisition of biological assets	-	(229 459)
Acquisition of property, plant and equipment and intangible assets	(990 368)	(3 772 495)
Proceeds from disposal of property, plant and equipment and intangible assets	185 682	-
Finance lease payments	(135 296)	(45 099)
Loans advanced to Associates	-	(980 735)
Net cash outflow from investing activities	(1 639 951)	(6 755 394)
Cash flows from financing activities		
Proceeds of shares issued	-	4 115 250
Proceeds of shares issued during the prior period	-	18 210 000
Loans and borrowings raised	19 370	21 428
Net cash inflow from financing activities	19 370	22 346 678
Net movement in cash and cash equivalents	(8 599 019)	9 661 105
Cash and cash equivalents at beginning of period	15 671 786	11 557 690
Cash and cash equivalents at end of period	7 072 767	21 218 795