Edgars Stores Limited

ABRIDGED AUDITED RESULTS FOR THE 52 WEEKS TO 8 JANUARY 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the 52 weeks to 8 January 2017

	2016 $ 52 weeks to 08.01.2017 audited	2015 $ 52 weeks to 09.01.2016 audited
Revenue	52,123,970	63,902,246
Sale of merchandise	50,329,626	62,272,354
Cost of sales	(28,767,402)	(33,603,198)
Gross profit	21,562,224	28,669,156
Net exchange gains and other losses	(137,292)	(69,314)
Credit management and debt collection costs	(5,530,155)	(6,104,432)
Store expenses	(11,913,954)	(12,620,890)
Depreciation and amortisation	(1,658,898)	(1,213,094)
Termination benefits	(1,216,960)	-
Other operating expenses	(9,335,843)	(10,364,816)
Finance income	10,264,287	10,511,127
Finance costs	(1,682,346)	(2,735,219)
Profit before tax	351,063	6,072,518
Income tax credit/(expense)	197,100	(2,108,486)
Profit for the period	548,163	3,964,032
Other comprehensive income for the period net of tax	-	604,980
Total comprehensive income for the period	548,163	4,569,012
Earnings per share (cents)		
Basic	0.21	1.54
Diluted	0.21	1.53
Headline	0.22	1.58

CONSOLIDATED STATEMENT OF CASH FLOWS
For the 52 weeks to 8 January 2017

	2016 $ 52 weeks to 08.01.2017 audited	2015 $ 52 weeks to 09.01.2016 audited (restated)*
Cash flows from operating activities		
Profit before tax	351,063	6,072,518
Finance income	(10,264,287)	(10,511,127)
Finance costs	1,682,346	2,735,219
Non cash items	3,627,075	3,851,718
Movements in working capital	7,596,912	(3,998,318)
Cash generated/ (used) in operations	2,993,109	(1,849,990)
Finance costs paid	(1,540,214)	(2,764,977)
Finance income received	10,264,287	10,511,127
Taxation paid	(1,491,627)	(1,793,382)
Cash inflow from operating activities	10,225,555	4,102,778
Cash flows from investing activities		
Purchase of property, plant and equipment	(749,096)	(628,199)
Purchase of intangible asset	(1,384,417)	(1,523,820)
Proceeds from disposal of property, plant and equipment	15,884	26,031
Net cash used in investing activities	(2,117,629)	(2,125,988)
Cash flows from financing activities		
Proceeds from issue of equity shares	13,250	25,617
Proceeds from borrowings	1,500,000	13,629,661
Repayment of borrowings	(8,411,977)	(15,946,754)
Net cash used in financing activities	(6,898,727)	(2,291,476)
Net increase/(decrease) in cash and cash equivalents	1,209,199	(314,686)
Cash and cash equivalents at the beginning of the period	534,045	848,731
Cash and cash equivalents at the end of the period	1,743,244	534,045

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 8 January 2017

	2016 $ 52 weeks to 08.01.2017 audited	2015 $ 52 weeks to 09.01.2016 audited (restated)*
Assets		
Non-current assets		
Property, plant and equipment	7,171,869	7,848,795
Intangible assets	2,581,375	1,475,872
Total non-current assets	9,753,244	9,324,667
Current assets		
Inventories	11,517,123	12,802,184
Trade and other receivables	24,808,996	32,344,417
Cash and cash equivalents	1,743,244	534,045
Total current assets	38,069,363	45,680,646
Total assets	47,822,607	55,005,313
Equity and liabilities		
Equity		
Issued capital	391,338	378,088
Reserves	26,651,731	26,075,687
Total capital and reserves	27,043,069	26,453,775
Non-current liabilities		
Interest bearing loans and borrowings	321,923	6,859,007
Deferred tax liability	2,481,496	3,845,922
Total non-current liabilities	2,803,419	10,704,929
Current liabilities		
Trade and other payables	6,566,206	5,879,633
Current tax liabilities	476,742	801,042
Interest bearing loans and borrowings	10,933,171	11,165,934
Total current liabilities	17,976,119	17,846,609
Total liabilities	20,779,538	28,551,538
Total equity and liabilities	47,822,607	55,005,313

* Certain amounts shown here do not correspond to the 9 January 2016 Financial Statements and reflect adjustments made. Refer to note 11.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the 52 weeks to 8 January 2017

	Issued capital	Equity-settled employee benefits reserve	Revaluation reserve	Change in functional currency reserve	Retained earnings	Total
	$	$	$	$	$	$
Balance at 10 January 2015 (restated)*	352,472	873,124	1,022,569	750,663	18,757,090	21,755,918
Comprehensive Income for the period			604,980		3,964,032	4,569,012
Exercise of share options	25,616	-	-	-	-	25,616
Share based payment expense	-	103,229	-	-	-	103,229
Transfer to distributable reserve				(750,663)	750,663	-
Balance at 9 January 2016 (restated)*	378,088	976,353	1,627,549	-	23,471,785	26,453,775
Comprehensive income for the period	-	-	-	-	548,163	548,163
Exercise of share options	13,250	-	-	-	-	13,250
Share based payment expense		27,881	-	-	-	27,881
Balance at 8 January 2017	391,338	1,004,234	1,627,549	-	24,019,948	27,043,069

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the 52 weeks to 8 January 2017

1 The Group's financial statements , of which these abridged results are an extract, were prepared in accordance with International Financial Reporting Standards.

2 The Directors are ultimately responsible for the preparation of the final results and related financial information that fairly present the state of affairs and the results of the Group.

3 **Auditor's statement**
These financial results should be read in conjuction with the complete set of financial statements for the 52 weeks ended 8 January 2017, which have been audited by Ernst & Young Chartered Accountants (Zimbabwe) who have issued an unmodified opinion theron and have included a section of the key audit matters in their report. The key audit matters were on recoverability of accounts receivable, inventory existence and IT system development and deployment. The auditor's report on the Group and Company financial statements, (from which these results were extracted) is available for inspection at the company's registered office.

	2016 $	2015 $ (restated)*
4 Headline earnings		
Earnings attributable to shareholders	548,163	3,964,033
Adjusted for non-recurring items:		
Loss on disposal of property, plant and equipment	30,153	58,464
Impairment of goodwill	-	45,000
Headline earnings	578,316	4,067,497
5 Other comprehensive income		
Revaluation of property, plant and equipment	-	792,371
Deferred tax on revaluation	-	(187,391)
	-	604,980
6 Capital expenditure		
Computer equipment and software	1,921,337	1,623,624
Other equipment and vehicles	212,176	528,395
Acquisition of property, plant and equipment and intangible asset	2,133,513	2,152,019
7 Capital commitments		
Authorised and contracted for	-	743,097
Authorised but not yet contracted for	2,985,510	1,891,472
	2,985,510	2,634,569

All expenditure is to be financed from existing cash resources and the utilisation of authorised borrowing facilities.

8 **Lease commitments**
There are no finance lease commitments

Future minimum rentals under non-cancellable operating leases are as follows:

	2016	2015
Within one year	3,061,183	3,549,201
After one year but not more than five years	4,722,082	6,005,860
	7,783,265	9,555,061

9 **Interest bearing loans and borrowings**
These are secured by a guarantee from the holding company ($3.6m), cession of book debts ($6m) and negative pledges over plant and equipment ($2m). The weighted average cost of borrowing is 10% (2015: 11%).

10 **Related party transactions**
Related party relationships exist between the group, fellow subsidiaries and the holding company. All purchasing and selling transactions are concluded at arm's length. All intra-group balances, income and expenses, unrealised gains and losses resulting from intra-group transactions are eliminated in full.

11 **Enterprise Resource Planning (ERP) Project costs**
Enterprise Resource Planning project costs were incorrectly capitalised during the 53 weeks ended 10 January 2015 and incorrectly classified as property, plant and equipment for the 52 weeks ended 9 January 2016. This resulted in opening retained earnings for the year ended 9 January 2016 being overstated by $164,158, tax payable being overstated by $56,930, intangible assets at cost being understated by $1,523,819, intangible assets amortisation being understated by $ 74,614, property, plant and equipment at cost being overstated by $1,744,907 and property, plant and equipment accumulated depreciation being overstated by $74,614. The comparatives have been restated accordingly.

12 **Restatement of segment results**
Segment profit/(loss) has been restated to reflect the correct treatment of finance income previously reported as part of Corporate costs for the period ended 9 January 2016.
**The manufacturing profit for the year of $0.6m is after an impairment of an inter-company receivable of $1m. This is a consequence of the proposed divisionalisation of Carousel (Private) Limited.

	Retail- Edgars	Retail- Jet	Manufacturing	Corporate	Total Segments	Adjustments and Eliminations	Consolidated
52 weeks to 8 January 2017							
Sale of merchandise							
External customers	32,173,408	17,719,171	437,047	-	50,329,626	-	50,329,626
Inter-segments	-	-	3,358,353	-	3,358,353	(3,358,353)	-
Total revenue from retail sales	32,173,408	17,719,171	3,795,400	-	53,687,979	(3,358,353)	50,329,626
Segment profit/(loss)	6,210,725	2,390,927	596,241**	(8,866,794)	331,098	19,965	351,063
Total assets	28,904,782	8,203,469	5,715,597	11,764,353	54,588,201	(6,765,594)	47,822,607
52 weeks to 9 January 2016							
Sale of merchandise							
External customers	42,681,641	19,134,735	455,978	-	62,272,354	-	62,272,354
Inter-segments	-	-	4,978,731	-	4,978,731	(4,978,731)	-
Total revenue from retail sales	42,681,641	19,134,735	5,434,709	-	67,251,085	(4,978,731)	62,272,354
Segment profit/(loss) (restated)	11,774,362	2,814,479	103,402	(8,764,803)	5,927,440	145,078	6,072,518
Total assets	36,715,533	9,033,470	4,887,284	9,956,972	60,593,259	(5,366,857)	55,226,402

CHAIRMAN'S STATEMENT

Depressed consumer demand for clothing together with stock movement challenges we faced in the transition period from the old system to the new Enterprise Resource Planning (ERP) solution impacted on our performance in 2016. Sales of merchandise for the year at $50.3m are 19% below last year ($62.3m) although collections continued to show strength. Group margins came down by 3% from prior year due to aggressive mark downs in 2016, the impact of product mix and deliberate "right pricing". Cash inflow from operating activities of $10.2m is pleasing.
As reported at half year, once off costs approximating $2.5m mainly emanating from retrenchment and ERP implementation were incurred. This, and the fall in sales, impacted negatively on total comprehensive income which fell to $0.5m from $4.6m in 2015.

During 2015 and 2016 we embarked on a highly focused cost cutting exercise. Our achievement of this is illustrated by the fact that 2016 costs (excluding once off costs) are lower than 2015 expenses by $4 million, thus achieving our commitment to go into 2017 with a lean business model.

The new Enterprise Resource Planning (ERP) solution was successfully launched in October 2016. Business units are putting much effort into maximising the use of all functions available in the solution to ensure potential benefits are realised.

Retail Operations
Edgars Chain: Total sales were $32.2m (2015: $42.7m). Sales per square meter were $1 467 (2015: $1 921), a drop of 24%. Edgars traded from 27 stores (2015:28). Stock cover at year end was 16.7 weeks (2015:20.2 weeks).
Jet Chain: Total sales were $17.7m (2015: $19.1m). Sales per square meter were $1 990 (2015: $2 094). Jet traded from 24 stores (2015: 25). Stock cover at the end of the year was 8.7weeks (2015:15.3 weeks).

Credit Management
Edgars Chain debtors were $18.7m (2015: $28m), after an allowance for credit losses of $1.8m (2015: $1.7m). Net write-offs for the period averaged 7.9% (2015: 3.1%) of lagged credit sales, and 0.8% of lagged debtors (2015: 0.45%).
Jet Chain debtors were at $4.4m (2015: $4.9m), after an allowance for credit losses of $0.4m (2015: $0.1m). Net write-offs for the period equated to 6.1% (2015: 3.1%) of lagged credit sales, and 1% of lagged debtors (2015: 0.7%).

Manufacturing
The factory made a trading loss for the year of $0.4m. The loss was a result of reduced demand from group retail operations. Production is being affected by the limited allocation of foreign currency to the productive sector. Efforts to secure export orders are continuing.

Financing and cash flow
Loan repayments of $6.8m were made during the year thus reducing borrowings to $11.2m from $18m in 2015. Consequently, gearing reduced to 0.35 from 0.66 in 2015.

Outlook
The key strategic initiatives aimed at laying a solid foundation for the business to achieve profitable growth in future are largely complete. Focus in 2017 will be on growing sales through numerous activities including store improvements, marketing campaigns, staff training, improved supply chain management and merchandise assortments.

Dividend
Given the level of borrowings your company is again not able to declare a dividend this year.

Appreciation
I am grateful to board colleagues, management and staff for their dedication. I am also grateful to our customers for their loyalty and our landlords, bankers and suppliers for their continued support.

TN Sibanda
Chairman

Directorate: Non Executive Chairman: **T.N Sibanda**, Group Managing Director: **L. Masterson*, C. F Dube, R. Mlotshwa, L.L Tsumba, V. Mpofu*, J. B Galloway*, Z. Vella* , U Ferndale** *Executive