Edgars Stores Limited

UNAUDITED ABRIDGED RESULTS FOR THE 26 WEEKS ENDED 9 JULY 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the 26 weeks to 9 July 2017

	2017 $ 26 weeks to 09.07.2017 unaudited	2016 $ 26 weeks to 09.07.2016 unaudited
Revenue	24,675,945	23,103,202
Sale of merchandise	24,078,656	22,395,826
Cost of sales	(14,014,398)	(12,682,507)
Gross profit	10,064,258	9,713,319
Net exchange gains and other losses	(181,983)	(26,018)
Credit management and debt collection costs	(750,163)	(2,707,246)
Store expenses	(5,253,467)	(5,707,570)
Depreciation and amortisation	(899,211)	(789,427)
Termination benefits	-	(646,134)
Other operating expenses	(5,723,801)	(4,623,857)
Finance income	4,236,557	5,371,184
Finance costs	(618,027)	(905,539)
Profit/(loss) before tax	874,163	(321,288)
Income tax (expense)/credit	(306,664)	430,407
Profit for the period	567,499	109,119
Other comprehensive income	-	-
Total comprehensive income for the period	567,499	109,119
Earnings per share (cents)		
Basic	0.22	0.04
Diluted	0.22	0.04
Headline	0.22	0.31

CONSOLIDATED STATEMENT OF CASH FLOWS
For the 26 weeks to 9 July 2017

	2017 $ 26 weeks to 09.07.2017 unaudited	2016 $ 26 weeks to 09.07.2016 unaudited
Cash flows from operating activities		
Profit/(loss) before tax	874,163	(321,288)
Finance income	(4,236,557)	(5,371,184)
Finance costs	618,027	905,539
Non cash items	(18,063)	2,151,751
Movements in working capital	2,027,851	3,548,115
Cash (used) / generated in operations	(734,579)	912,933
Finance costs paid	(705,263)	(925,491)
Finance income received	4,236,557	5,371,184
Taxation paid	(1,038,192)	(1,247,539)
Cash inflow from operating activities	1,758,523	4,111,087
Cash flows from investing activities		
Purchase of property, plant and equipment	(215,369)	(1,272,730)
Net cash used in investing activities	(215,369)	(1,272,730)
Cash flows from financing activities		
Proceeds from borrowings	1,500,000	1,000,000
Repayment of borrowings	(3,318,937)	(3,643,684)
Net cash used in financing activities	(1,818,937)	(2,643,684)
Net (decrease)/increase in cash and cash equivalents	(275,783)	194,673
Cash and cash equivalents at the beginning of the period	1,743,244	534,045
Cash and cash equivalents at the end of the period	1,467,461	728,718

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 9 July 2017

	2017 $ as at 09.07.2017 unaudited	2016 $ as at 08.01.2017 audited
Assets		
Non-current assets		
Property, plant and equipment	6,765,936	7,171,869
Intangible assets	2,274,758	2,581,375
Total non-current assets	9,040,694	9,753,244
Current assets		
Inventories	14,399,205	11,517,123
Trade and other receivables	21,542,829	24,808,996
Current tax receivable	439,652	-
Cash and cash equivalents	1,467,461	1,743,244
Total current assets	37,849,147	36,069,363
Total assets	46,889,841	47,822,607
Equity and liabilities		
Equity		
Issued capital	391,338	391,338
Other reserves	2,631,783	2,631,783
Retained earnings	24,587,447	24,019,948
Total capital and reserves	27,610,568	27,043,069
Non-current liabilities		
Interest bearing loans and borrowings	684,352	321,923
Deferred tax liability	2,666,363	2,481,496
Total non-current liabilities	3,350,715	2,803,419
Current liabilities		
Trade and other payables	7,176,755	6,566,206
Current tax payable	-	476,742
Interest bearing loans and borrowings	8,751,803	10,933,171
Total current liabilities	15,928,558	17,976,119
Total liabilities	19,279,273	20,779,538
Total equity and liabilities	46,889,841	47,822,607

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the 26 weeks to 9 July 2017

	Issued capital $	Equity-settled employee benefits reserve $	Revaluation reserve $	Retained earnings $	Total $
Balance at 9 January 2016	378,089	976,353	1,627,550	23,635,942	26,617,934
Comprehensive Income for the period			-	109,119	109,119
Share based payment expense	-	18,720	-	-	18,720
Balance at 9 July 2016	378,089	995,073	1,627,550	23,745,061	26,745,773
Balance at 8 January 2017	391,338	1,004,234	1,627,549	24,019,948	27,043,069
Comprehensive income for the period	-	-	-	567,499	567,499
Balance at 9 July 2017	391,338	1,004,234	1,627,549	24,587,447	27,610,568

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the 26 weeks to 9 July 2017

1 The unaudited interim results were prepared in compliance with IAS 34: Interim Financial Reporting and in accordance with the Zimbabwe Stock Exchange listing requirements.

2 The Directors are responsible for the preparation of the Interim Financial Report and related financial information which has not been audited.

		2017 $	2016 $
3	**Headline earnings**		
	Earnings attributable to shareholders	567,499	109,119
	Adjusted for non-recurring items:		
	Loss on disposal of property, plant and equipment	468	-
	Headline earnings	567,967	109,119
4	**Capital expenditure**		
	Computer equipment and software	68,109	1,272,730
	Other equipment and vehicles	147,260	-
	Acquisition of property, plant and equipment and intangible asset	215,369	1,272,730
5	**Capital commitments**		
	Authorised and contracted for	1,368,651	569,840
	Authorised but not yet contracted for	1,616,859	438,151
		2,985,510	1,007,991
	All expenditure is to be financed from existing cash resources and the utilisation of authorised borrowing facilities.		
6	**Lease commitments**		
	There are no finance lease commitments		
	Future minimum rentals under non-cancellable operating leases are as follows:		
	Within one year	3,535,215	1,867,292
	After one year but not more than five years	4,663,642	7,354,987
		8,198,857	9,222,279

7 **Interest bearing loans and borrowings**
These are secured by a guarantee from the holding company ($3.6million), cession of book debts ($6million) and negative pledges over plant and equipment ($2million). The weighted average cost of borrowing is 10% (2016: 11%).

8 **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 on consolidation.

9 **Segment reporting**

	Retail- Edgars	Retail- Jet	Manufacturing	- Corporate	Total Segments	Adjustments and Eliminations	Consolidated
26 weeks to 9 July 2017							
Sale of merchandise							
External customers	15,234,110	8,662,922	181,624	-	24,078,656	-	24,078,656
Inter-segments	-	-	1,387,374	-	1,387,374	(1,387,374)	-
Total revenue from retail sales	15,234,110	8,662,922	1,568,998	-	25,466,030	(1,387,374)	24,078,656
Segment profit/(loss)	4,115,934	1,400,534	(324,490)	(4,143,388)	1,048,590	(174,427)	874,163
Total assets	27,188,127	9,425,641	4,396,041	10,854,779	51,864,588	(4,974,747)	46,889,841
26 weeks to 9 July 2016							
Sale of merchandise							
External customers	14,460,877	7,715,970	218,979	-	22,395,826	-	22,395,826
Inter-segments	-	-	1,252,463	-	1,252,463	(1,252,463)	-
Total revenue from retail sales	14,460,877	7,715,970	1,471,442	-	23,648,289	(1,252,463)	22,395,826
Segment profit/(loss)	3,097,916	1,214,693	(331,588)	(4,318,574)	(337,553)	16,265	(321,288)
Total assets	33,099,978	8,839,983	4,785,238	9,084,438	55,809,637	(5,541,061)	50,268,576

CHAIRMAN'S STATEMENT

Good merchandise assortments and a resurgent consumer spend assisted the Group to end the first half on a positive note. Revenue of $24.7 million (2016: $23.1 million) increased by 7% from the same period last year. Group gross profit margin of 43% reduced by 1% from the same period last year.

The Group's profit before tax for the six months was $ 0.9 million (2016: loss $0.3million). The Enterprise Resource Planning (ERP) solution has enhanced controls over credit policies. This, together with improved debt collection and policy changes in credit management has resulted in savings of $1.5million on last year. We anticipate savings of at least half this amount in the second half of the year. Other operating expenditure increased due to post go-live ERP continuing support. Other significant cost increases include factory costs and electronic payment commissions.

Retail Operations

Edgars chain: Total sales for the half year were $15.2million (2016: $14.5million). Comparable half year sales per square metre were $685 (2016: $648), an increase of 5.7%. The chain's profitability increased by 6% from 21% for the period to June 2016 to 27% for the period to June 2017. Edgars traded from 27 stores (2016: 28). Stock cover was 19 weeks (Dec 2016: 16.7 weeks).

Jet chain: Total sales for the half year were $8.7million (2016: $7.7million). Comparable half year sales per square metre were $913 (2016: $806), an increase of 13.3%. The chain's profitability remained at 16%. Jet traded from 24 stores (2016: 25). Stock cover was 14 weeks (Dec 2016: 8.7 weeks).

Credit Management

Edgars chain debtors were $16.3million (2016: $22.3million), after an allowance for credit losses of $1million (2016: $2million). Net write-offs for the period averaged 8.7% (2016: 10%) of lagged credit sales, and 1% of lagged debtors (2016: 1%). Edgars chain active accounts at June 2017 were 110 325 (June 2016: 124 324).

Jet chain debtors were at $4.5million (2016: $4.2million), after an allowance for credit losses of $0.2million (2016: $0.3million). Net write-offs for the period equated to 6.6% (2016: 6.2%) of lagged credit sales, and 1.1% of lagged debtors (2016: 1.2%). Jet chain active accounts at June 2017 were 45 584 (June 2016: 45 960).

Manufacturing

The factory made a loss for the half year of $0.3million (2016: $0.3million). The loss was a result of fabric outages caused by the shortage of foreign currency. The division is actively seeking to secure export orders.

Financing and cash flow

Net borrowings reduced by $1.8million from December 2016, closing the six months at $9.4million (December 2016: $11.2million). Of this, $8.7million were current and $0.7million were long term. We expect this level of borrowings to be maintained to year end. Gearing at 0.29, has reduced from 0.35 in December 2016.

Outlook

We will continue to improve store environments. We have recently completed the refurbishment of Edgars Stanley House in the Harare CBD and the conversion of Edgars Rusape to a Jet store is in progress.

Our microfinance business, Club Plus (Private) Limited has commenced trading albeit with caution. The business will focus on short term consumer loans.

Whilst 50% of our product is sourced locally, the prevailing foreign currency shortages will impact our product ranges, particularly for the fourth quarter. We will pursue all options to obtain key imported products for our customers and inputs for the factory while actively implementing import substitution where feasible. Cost containment and preservation of profitability continues to be foremost in our minds.

The biggest obstacle to import substitution is limited allocation of foreign currency to local suppliers for fabric and trim imports. This should be of national concern. Given the gravity and intensity of the unfolding cash shortages and foreign currency scarcity, management is working tirelessly to avoid an inadequately stocked fourth quarter. Provided we succeed, management is confident that the business will meet the 2017 profit forecast.

Dividend

The Board has decided not to declare a dividend this half 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