Edgars Stores Limited

CONDENSED INTERIM REVIEWED RESULTS FOR THE 26 WEEKS ENDED 8 JULY 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the 26 weeks to 8 July 2018

	2018 $ 26 weeks to 08.07.2018 reviewed	2017 $ 26 weeks to 09.07.2017 unaudited
Revenue	32,140,422	24,675,945
Sale of merchandise	31,179,217	24,078,656
Cost of sales	(18,257,121)	(14,014,398)
Gross profit	12,922,096	10,064,258
Revenue from microfinance institution	473,487	-
Other gains and losses	(5,343)	(181,983)
Credit management and debt collection costs	(1,029,436)	(750,163)
Store expenses	(5,872,100)	(5,253,467)
Depreciation and amortisation	(927,147)	(899,211)
Termination benefits	(282,990)	-
Other operating income and expenses	(5,708,862)	(5,723,801)
Finance income	3,353,246	4,236,557
Finance costs	(297,277)	(618,027)
Profit before tax	2,625,674	874,163
Income tax expense	(724,619)	(306,664)
Profit for the period	1,901,055	567,499
Other comprehensive income	-	-
Total comprehensive income for the period	1,901,055	567,499
Earnings per share (cents)		
Basic	0.74	0.22
Diluted	0.73	0.22
Headline	0.74	0.22

CONSOLIDATED STATEMENT OF CASH FLOWS
For the 26 weeks to 8 July 2018

	2018 $ 26 weeks to 08.07.2018 reviewed	2017 $ 26 weeks to 09.07.2017 unaudited
Cash flows from operating activities		
Profit before tax	2,625,674	874,163
Finance income	(3,353,246)	(4,236,557)
Finance costs	297,277	618,027
Non cash items	1,607,969	(18,063)
Movements in working capital	(4,901,065)	2,027,851
Cash utilised in operations	(3,723,391)	(734,579)
Finance costs paid	(241,873)	(705,263)
Finance income received	3,308,010	4,236,557
Taxation paid	(1,749,664)	(1,038,192)
Cash (outflow)/ inflow from operating activities	(2,406,918)	1,758,523
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,151,091)	(215,369)
Proceeds from disposal of property, plant and equipment	13,696	-
Net cash used in investing activities	(1,137,395)	(215,369)
Cash flows from financing activities		
Proceeds from borrowings	3,986,365	1,500,000
Repayment of borrowings	(1,088,423)	(3,318,937)
Payments of dividend	(613,358)	-
Net cash generated/ (used) in financing activities	2,284,584	(1,818,937)
Net decrease in cash and cash equivalents	(1,259,729)	(275,783)
Cash and cash equivalents at the beginning of the period	2,296,428	1,743,244
Cash and cash equivalents at the end of the period	1,036,699	1,467,461

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 8 July 2018

	2018 $ as at 08.07.2018 reviewed	2017 $ as at 07.01.2018 audited	2017 $ as at 09.01.2017 audited
		(restated)*	(restated)*
Assets			
Non-current assets			
Property, plant and equipment	7,720,520	7,199,567	7,171,869
Intangible assets	1,644,872	1,959,254	2,581,375
Total non-current assets	9,365,392	9,158,821	9,753,244
Current assets			
Inventories	14,756,674	14,144,671	11,517,123
Trade and other receivables	22,266,367	24,335,519	24,808,996
Loans and advances to customers	2,636,211	643,573	-
Cash and cash equivalents	1,036,699	2,296,428	1,743,244
Total current assets	40,695,951	41,420,191	38,069,363
Total assets	50,061,343	50,579,012	47,822,607
Equity and liabilities			
Equity			
Issued Capital	405,690	405,690	391,338
Other reserves	2,636,513	2,636,513	2,631,783
Retained earnings	28,268,163	27,339,054	23,197,600
Total capital and reserves	31,310,366	30,381,257	26,220,721
Non-current liabilities			
Interest bearing loans and borrowings	1,537,379	2,289,011	321,923
Deferred tax liability	2,893,700	3,143,972	2,481,496
Total non-current liabilities	4,431,079	5,432,983	2,803,419
Current liabilities			
Trade and other payables	7 ,817,728	11,497,718	6,566,206
Dividend Payable	358,588	-	-
Current tax payable	117,987	891,034	1,299,090
Interest bearing loans and borrowings	6,025,595	2,376,020	10,933,171
Total current liabilities	14,319,898	14,764,772	18,798,467
Total liabilities	18,750,977	20,197,755	21,601,886
Total equity and liabilities	50,061,343	50,579,012	47,822,607

* Certain amounts have been restated as described in Note 12

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the 26 weeks to 8 July 2018

	Issued capital $	Equity-settled employee benefits reserve $	Revaluation reserve $	Retained earnings $	Total $
Balance at 09 January 2017 (as reported)	391,338	1 ,004,234	1,627,549	24,019,948	27,043,069
Prior Period Error*	-	-	-	(822,348)	(822,348)
Balance at 09 January 2017 (restated)	391,338	1 ,004,234	1,627,549	23,197,600	26,220,721
Comprehensive Income for the period	-	-	-	567,499	567,499
Balance at 9 July 2017	391,338	1,004,235	1,627,549	23,765,099	26,788,220
Balance at 08 January 2018 (as reported)	405,690	1 ,008,964	1,627,549	28,122,575	31,164,778
Prior Period Error*	-	-	-	(946,175)	(946,175)
Change in accounting policy				162,654	162,654
Balance at 08 January 2018 (restated)*	405,690	1 ,008,964	1,627,549	27,339,054	30,381,257
Dividends declared	-	-	-	(971,946)	(971,946)
Total comprehensive income for the period	-	-	-	1,901,055	1,901,055
Balance at 8 July 2018	405,690	1 ,008,964	1,627,549	28,268,163	31,310,366

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the 26 weeks to 8 July 2018

1 The interim results were prepared in compliance with IAS 34: Interim Financial Reporting and in accordance with the Zimbabwe Stock Exchange listing requirements. The Group has applied both IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' using the modified retrospective approach. The key impact of IFRS 9 is the measurement of the impairment provision relating to trade receivables. Under IFRS 9 the provision has been calculated using the expected credit loss model compared to the incurred loss model under IAS 39. This change has resulted in a decrease in the provision as follows:

Retained earnings	($162,654)
Deferred tax	($56,409)
Trade receivables	$219,063

The adoption of IFRS 15 has not impacted on the timing or amount of revenue recognised from the sale of merchandise. The key area of impact relates to the Group's customer loyalty programme. Revenue in respect of this programme is now subject to the variable consideration guidance in IFRS 15. However due to the fact that this programme is still in its infancy, the financial impact of this change is immaterial.

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

3 **Auditor's Statement**
A review of these results has been performed by Ernst & Young Chartered Accountants (Zimbabwe) in accordance with the International Standard on Review Engagements 2410. The auditor's review conclusion was not modified and is available for inspection at the company's registered office.

4 **Headline earnings**

	2018 $	**2017 $**
Earnings attributable to shareholders	1,901,055	567,499
Adjusted for non-recurring items:		
Loss on disposal of property, plant and equipment	3,635	468
Headline earnings	1,904,690	567,967

Headline earnings comprise of basic earnings attributable to shareholders of the Company adjusted for profits, losses, and items of a capital nature that do not form part of the ordinary activites of the Group, net of their related tax effects.

5 **Capital expenditure**

	2018	2017
Computer equipment	14,027	68,109
Other office equipment, leasehold improvements and vehicles	1,137,064	147,260
Acquisition of property, plant and equipment	1,151,091	215,369

6 **Capital commitments**

	2018	2017
Authorised and contracted for	533,893	1,368,651
Authorised but not yet contracted for	2,679,392	1,616,859
	3,213,285	2,985,510

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

7 **Lease commitments**
The Group anticipates a material impact as a result of the adoption of IFRS 16 'Leases' using the modified retrospective approach. The material impact relates to the capitalising of the leased stores onto the statement of financial position with the corresponding lease liability.

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

	2018	2017
Within one year	3,356,713	3,535,215
After one year but not more than five years	3,144,983	4,663,642
	6,501,696	8,198,857

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 **Interest bearing loans and borrowings**

	2018	2017
Non current interest bearing loans and borrowings	1,537,379	2,289,011
Current interest bearing loans and borrowings	6,025,595	2,376,020
	7,562,974	4,665,031

Borrowings have increased to $7.6m (December 2017:$4.6m) as a result of store revamps, shorter supplier credit terms for merchandise inputs and microfinance growth
These are secured by a cession of book debts ($9million) and negative pledges over plant and equipment ($2million). The weighted average cost of borrowing is 9.96% (2017: 9.35%).

10 The amount of write-down of inventories recognised in cost of sales is: 571,044 -

11 Our business operations are cyclical, January-June is winter and July-December is summer. The summer season is our peak period.

12 Prior year errors
The prior year errors relate to the impact of incorrect application of tax legislation in the determination of the income tax expense for the financial periods ending 31 December 2011-2017. The incorrect application mainly relates to the treatment of leave pay accrual, staff meal allowances and withholding tax on franchise fees and was identified during a ZIMRA investigation for the financial periods ending 31 December 2011 to 2016.

The following is the impact of correcting the error on prior period presented financial statements;
There is no impact on the Statement of Profit or Loss and Other Comprehensive Income for the 26 weeks ended 9 July 2017

	07.01.2018 $	**08.01.2017 $**
Decrease in retained earnings	946,176	822,348
Increase in tax liability	(946,176)	(822,348)

13 **Segment reporting**

	Retail- Edgars	Retail- Jet	Manufacturing	Micro Finance	Corporate	Total Segments	Adjustments and Eliminations	Consolidated
26 weeks to 8 July 2018								
Revenue								
External customers	19,460,508	12,033,080	173,347	473,487	-	32,140,422	-	32,140,422
Inter-segments	-	-	1 ,573,447	-	-	1,573,447	(1,573,447)	-
Total revenue	19,460,508	12,033,080	1,746,794	473,487	-	33,713,869	(1,573,447)	32,140,422
Segment profit/(loss)	4,406,295	2,012,981	(338,592)	60,199	(3,538,703)	2,602,180	23,494	2 ,625,674
Total assets	28,662,989	13,336,303	3,740,115	2,916,169	8,619,264	57,274,840	(7,213,497)	50,061,343
26 weeks to 9 July 2017								
Revenue								
External customers	15,831,399	8,662,922	181,624	-	-	24,675,945	-	24,675,945
Inter-segments	-	-	1,387,374	-	-	1,387,374	(1,387,374)	-
Total revenue from retail sales	15,831,399	8,662,922	1,568,998	-	-	26,063,319	(1,387,374)	24,675,945
Segment profit/(loss)	4,115,934	1,400,534	(324,490)	-	(4,143,388)	1,048,590	(174,427)	874,163
Total assets-restated as at 07.01.2018	30,535,516	10,664,499	3,707,011	917,529	9,447,945	55,272,500	(4,693,488)	50,579,012

CHAIRMAN'S STATEMENT

Despite the challenging environment of foreign currency shortages and the threat this has on margins and merchandise assortments, the Group's sales of merchandise has grown from $24.1m in the half year to June 2017 to $31.1m in the same period in 2018, an increase of 29%. Group margins were at 43% (2017:42%).
The Group's profit before tax increased by 200% from $0.9m in 2017 to $2.6m in 2018 driven predominantly by the growth in sales.

Retail Operations

Edgars Chain: Total sales were $19.5m (2017: $15.8m) and sales per square metre were $1 958 (2017: $1 502) out of 26 stores (2017:26).The Jason Moyo branch (Bulawayo) is currently being revamped and the Masvingo branch is planned for a revamp in the second half of the year. Units sold for the six months were 0.8m (2017: 0.77m), an increase of 4%. Chain profitability decreased to 23% from 26% in 2017.

Jet Chain: Total sales were $12m (2017: $8.7m) and sales per square metre were $2 966 (2017: $2 103) out of 25 stores (2017: 25).The Marondera branch was revamped during the period under review and the Masvingo branch is planned for a revamp in the second half of the year. Units sold for the year were 1.05m (2017: 0.94m), an increase of 12%, and the chain's profitability increased to 17% (2017:16%).

Credit Management

Edgars Chain debtors were $16.8m (2017: $16.3m), after an allowance for credit losses of $0.83m (2017: $0,9m). Net write-offs for the period averaged 2.1% (2017: 8.7%) of lagged credit sales, and 0.4% of lagged debtors (2017: 1%). Edgars Chain active accounts at June 2018 were 102 874 (2017:110 325)

Jet Chain debtors were at $4.9m (2017: $4.5m), after an allowance for credit losses of $0.48m (2017: $0.5m). Net write-offs for the period equated to 1.6% (2017: 6.6%) of lagged credit sales, and 0.7% of lagged debtors (2017: 1.1%). Jet Chain active accounts at June 2018 were 49 548 (2017:45 584)

The reduction in finance income is due to the fact that the arrears amounts of our customers are down on the prior year.

Manufacturing
The factory made a loss of $0.3m after once off terminal benefits of $0.2m (2017: $0,3m). We believe the reduced cost structure will align with the export initiatives being pursued.

Microfinance
This new division grew from a loan book of $0.6m at December 2017 to $2.6m at June 2018. Total revenue of $0.5m has been earned for the six months. The division made a profit before tax of $62k after $88k allowance for credit losses.

Financing and cash flow
Borrowings have increased to $7.6m (December 2017:$4.6m) as a result of revamps, shorter supplier credit terms for merchandise inputs and microfinance growth. Consequently, gearing has increased to 0.24 (December 2017 (restated):0.15). We expect our borrowings to increase further in the second half in order to finance microfinance business growth.
Trade payables include foreign liabilities. We continue to engage our bankers in sourcing foreign currency to clear these from our balance sheet.

Outlook
We are well poised to take advantage of any upswing in economic activity and should achieve original forecasts by year end.

Dividend
The Board has decided not to declare a dividend this half year end.

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***, **T.N. Ndlovu*** , **G. Pattison** *Executive