Edgars Stores Limited

ABRIDGED UNAUDITED RESULTS FOR THE 52 WEEKS ENDED 6 JANUARY 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the 52 weeks to 6 January 2019

	2018 $ 52 weeks to 06.01.2019 unaudited	2017 $ 52 weeks to 07.01.2018 audited (restated)
Revenue	78,118,743	64,106,544
Sale of merchandise	75,575,868	62,882,028
Cost of sales	(41,117,022)	(35,952,145)
Gross profit	34,458,846	26,929,883
Income from microfinance institution	1,602,357	91,853
Other gains and losses	23,386	(116,885)
Credit management and debt collection costs	(2,330,018)	(2,513,224)
Store expenses	(12,505,486)	(11,472,573)
Depreciation and amortisation	(1,981,772)	(1,820,029)
Termination benefits	(284,165)	(16,442)
Other operating income and expenses	(13,268,191)	(11,814,206)
Finance income	6,614,469	7,699,950
Finance costs	(816,151)	(1,088,513)
Profit before tax	11,513,275	5,879,814
Income tax expense	(3,016,900)	(1,901,015)
Profit for the period	8,496,375	3,978,799
Other comprehensive income:		
Revaluation of property, plant and equipment	6,543,853	-
Deferred tax liability arising on revaluation	(1,685,059)	-
Other comprehensive income for the year (net of tax)	4,858,794	-
Total comprehensive income for the period	13,355,169	3,978,799
Earnings per share (cents)		
Basic	3.29	1.54
Diluted	3.28	1.54
Headline	3.26	1.53

CONSOLIDATED STATEMENT OF CASH FLOWS
For the 52 weeks to 6 January 2019

	2018 $ 53 weeks to 06.01.2019 unaudited	2017 $ 53 weeks to 07.01.2018 audited
Cash flows from operating activities		
Profit before tax	11,513,275	5,879,814
Finance income	(6,614,469)	(7,699,950)
Finance costs	816,151	1,088,513
Non cash items	2,715,390	3,859,291
Movements in working capital	(7,125,211)	340,077
Cash generated from operations	1,305,136	3,467,745
Finance costs paid	(923,722)	(1,148,353)
Finance income received	6,614,469	7,699,950
Taxation paid	(3,645,785)	(1,703,004)
Cash inflow from operating activities	3,350,098	8,316,338
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,216,051)	(1,245,978)
Proceeds from disposal of property, plant and equipment	168,607	58,537
Net cash used in investing activities	(2,047,444)	(1,187,441)
Cash flows from financing activities		
Proceeds from issue of equity shares	-	14,352
Proceeds from borrowings	6,000,000	4,500,000
Repayment of borrowings	(2,357,802)	(11,090,065)
Payments of dividend	(619,323)	-
Net cash generated/(used) in financing activities	3,022,875	(6,575,713)
Net increase in cash and cash equivalents	4,325,529	553,184
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	6,621,957	2,296,428

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 6 January 2019

	2018 $ as at 06.01.2019 unaudited	2017 $ as at 07.01.2018 audited (restated)*	2017 $ as at 09.01.2017 audited (restated)*
Assets			
Non-current assets			
Property, plant and equipment	14,525,571	7,199,567	7,171,871
Intangible assets	1,326,805	1,959,254	2,581,374
Deferred tax asset	25,465	-	-
Total non-current assets	15,877,841	9,158,821	9,753,245
Current assets			
Inventories	15,985,570	14,144,671	11,517,123
Trade and other receivables	25,518,659	24,335,518	24,808,994
Loans and advances to customers	4,003,121	643,573	-
Income tax receivable	36,304	-	-
Cash and cash equivalents	6,621,957	2,296,428	1,743,245
Total current assets	52,165,611	41,420,190	38,069,362
Total assets	68,043,452	50,579,011	47,822,607
Equity and liabilities			
Equity			
Issued capital	405,690	405,690	391,339
Other reserves	7,222,848	2,623,141	2,631,783
Retained earnings	34,876,854	27,352,425	23,197,599
Total capital and reserves	42,505,392	30,381,256	26,220,721
Non-current liabilities			
Interest bearing loans and borrowings	3,653,570	2,289,011	321,923
Deferred tax liability	4,489,417	3,143,972	2,481,496
Total non-current liabilities	8,142,987	5,432,983	2,803,419
Current liabilities			
Trade and other payables	11,340,567	11,219,360	6,368,758
Contract payables	384,692	278,358	197,448
Dividend payable	352,622	-	-
Current tax payable	663,534	891,034	1,299,090
Interest bearing loans and borrowings	4,653,658	2,376,020	10,933,171
Total current liabilities	17,395,073	14,764,772	18,798,467
Total liabilities	25,538,060	20,197,755	21,601,886
Total equity and liabilities	68,043,452	50,579,011	47,822,607

* Certain amounts have been restated as described in Note 13

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the 52 weeks to 6 January 2019

	Issued capital $	Equity-settled employee benefits reserve $	Revaluation reserve $	Credit reserve $	Retained earnings $	Total $
Balance at 9 January 2017 (as reported)	391,338	1,004,233	1,627,549	-	24,019,948	27,043,068
Prior Period Error*	-	-	-		(822,348)	(822,348)
Balance at 9 January 2017 (restated)*	391,338	1,004,233	1,627,549	-	23,197,600	26,220,720
Total comprehensive income for the period	-	-	-	-	3,978,799	3,978,799
Issue of ordinary shares under employee share option plan	14,352	-	-	-	-	14,352
Share based payment expense	-	4,731	-	-	-	4,731
Change in accounting policy (note 1)	-	-	-	-	162,654	162,654
Transfer to credit reserve	-	-	-	(13,372)	13,372	-
Balance at 8 January 2018	405,690	1,008,964	1,627,549	(13,372)	27,352,425	30,381,256
Dividends declared	-	-	-	-	(971,946)	(971,946)
Total comprehensive income for the period	-	-	4,858,794	-	8,496,375	13,355,169
Profit for the year	-	-	-	-	8,496,375	8,496,375
Other comprehensive income for the period	-	-	4,858,794	-	-	4,858,794
Increase in Club plus allowance for credit losses	-	-	-	(259,087)	-	(259,087)
Balance at 6 January 2019	405,690	1,008,964	6,486,343	(272,459)	34,876,854	42,505,392

EDGARS Jet CAROUSEL
A Division of Edgars Stores Limited

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

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Edgars Stores Limited

ABRIDGED UNAUDITED RESULTS FOR THE 52 WEEKS ENDED 6 JANUARY 2019

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the 52 weeks to 6 January 2019

1 The Group's financial statements, of which these abridged results are an extract, were prepared in accordance with International Financial Reporting Standards, with the exception of IAS 21 The Effects of Changes in Foreign Exchange Rates due to the implications of the Monetary Policy Statement on 20 February 2019 and the accounting guidance issued on 22 March 2019. 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	($176 026)
Deferred tax	($56 409)
Credit reserve	$13 372
Trade receivables	$219,063

The adoption of IFRS 15 has not impacted 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 not significant.

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
The audit of the consolidated financial statements for the 52 weeks ended 6 January 2019, by Ernst & Young Chartered Accountants (Zimbabwe), is in progress and the Zimbabwe Stock Exchange (ZSE) has extended the date by which the Group's audited financial statements should be published to 30 April 2019.

	2018 $	2017 $
4 Headline earnings		
Earnings attributable to shareholders	8,496,375	3,978,799
Adjusted for non-recurring items:		
Profit on disposal of property, plant and equipment	(84,030)	(38,163)
Headline earnings	8,412,345	3,940,636

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.

	2018 $	2017 $
5 Capital expenditure		
Computer equipment	261,853	161,622
Other office equipment, leasehold improvements and vehicles	1,954,198	1,084,356
Acquisition of property, plant and equipment	2,216,051	1,245,978
6 Capital Commitments		
Authorised and contracted for	-	700,000
Authorised but not yet contracted for	6,414,916	3,647,714
	6,414,916	4,347,714

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

	2018 $	2017 $
7 Lease commitments		
Future minimum rentals under non-cancellable operating leases are as follows:		
Within one year	3,098,456	3,242,108
After one year but not more than five years	2,597,715	2,534,269
	5,696,171	5,776,377

8 Interest bearing loans and borrowings
These are secured by a cession of book debts ($11million) and negative pledges over plant and equipment ($5million). The weighted average cost of borrowing is 9.09% (2017: 9.35%).

9 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.
**The manufacturing loss for prior year of $1 is after impairment of inter-company payable of $0.6m. This was a consequence of the divisionalisation of Carousel (Private) Limited.

	2018 $	2017 $
10 Borrowings		
Non current interest bearing loans and borrowings	3,653,570	2,289,011
Current interest bearing loans and borrowings	4,653,658	2,376,020
	8,307,228	4,665,031

Borrowings have increased to $8.3m (December 2017:$4.7m) as a result of store revamps, shorter supplier credit terms for merchandise inputs and microfinance growth

	2018 $	2017 $
11 The amount of write-down of inventories recognised in cost of sales is:	-	-
Amount of reversal of inventory to net realisable value (NRV) is:	(26,392)	(75,305)
Amount of stock losses recognised in cost of sales is:	830,477	984,243

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

13 Prior year error
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 to 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. We applied for amnesty in 2018 and settled the liability in full.
The following is the impact of correcting the error on prior period presented financial statements;

	07.01.2018 **$**	**08.01.2017** **$**
Decrease in retained earnings	946,176	822,348
Increase in tax liability	(946,176)	(822,348)
Increase in tax expense	123,828	-

14 Revaluation
As the Group is on a revaluation model for property, plant and equipment, the fair value was determined by a director's valuation which was carried out by the use of independent valuers.

15 Brand Purchase
At an Extra Ordinary General Meeting on the 16th of January 2019, the Company's shareholders approved the acquisition of the intellectual property rights to trademarks and brands assigned to Edgars Stores Limited by Edcon Limited for the territory of Zimbabwe (constituting a related party transaction in terms of the ZSE listing requirements) for a consideration of RTGS$1 500 000 to be settled through the issue of 15 000 000 Edgars Stores Limited ordinary shares. All the conditions precedent have been met and the shares were issued on the 20th of March 2019.

16 Presentation and functional currency
In 2009, the Government introduced the multi-currency regime under which a number of foreign currencies were allowed as legal tender. Following this multi-currency system, the United States Dollar (US$) became the principal trading currency and was accepted as both functional and presentation currency by most entities, including the Group. Due to subsequent shortages of foreign currency, the Reserve Bank of Zimbabwe introduced significant monetary and exchange control policy changes between 2016 to date which included among others:
• The introduction of bond notes in 2016 at a fixed rate of 1:1 with the USD.
• The use of Real Time Gross Settlement (RTGS) as the bond notes were in limited supply of $2 and $5 notes, and
• Priority listing of foreign payments which brought impact on the timing of settlement of foreign payables.
These were measures to alleviate the challenges of the foreign multi-currencies shortages. These challenges became more pronounced in the current year with increasing delays in foreign payments and multiple forms of pricing in the market depending on the mode of payment (USD, Bond note or RTGS).
The directors have assessed in terms of IAS 21 given the context of the environment that the Group is currently operating in, if there has been a change in the functional currency used by the Group during the year. The assessment included considerations of whether the various modes of settlement may represent different forms of currency. The directors concluded that the RTGS dollar was the functional and presentation currency for the year ended 31 December 2018.
As a result of the above, and subsequent to year end the following events took place:
• In October, RBZ instructed the separation and official opening of the Foreign Currency Accounts (FCA RTGS for local electronic transfers and FCA Nostro for actual foreign currency deposits or export proceeds).
• In the 2019 National Budget presented in November, the Governmnet announced the requirement to pay duty in foreign currency for specified goods and services as well as local taxes for all transactions that would have been concluded in foreign currency.
• The Zimbabwe National Statistics Agency announced the significant increase of the year on year inflation rate to 42,1% in December 2018 from 5,39% in September 2018 (annual inflation rate of the United States Dollar being 1,9% in December 2018).
• The monetary policy announcement on the 20th of February 2019 introduces the RTGS$.
The accounting and auditing profession in the country is considering and evaluating the impact of the relevant developments in 2018 and 2019. This being the subsequent recognition of the RTGS$ as a currency and its devaluation against the USD on 20 February 2019. The profession has issued guidance on the financial reporting for periods ending 31 December 2018 and as a result, the financial statements have been prepared on the basis that the RTGS currency was at par with the US$ as at 31 December 2018, prior to the 20 February 2019 Monetary Policy Statement.

17 Segment reporting

	Retail- Edgars	Retail- Jet	Manufacturing	Microfinance	Corporate	Total Segments	Adjustments and Eliminations	Consolidated
52 weeks to 6 January 2019								
Revenue								
External customers	45,716,550	30,451,263	348,573	1,602,357	-	78,118,743	-	78,118,743
Inter-segments	-	-	3,912,750	-	-	3,912,750	(3,912,750)	-
Total revenue	45,716,550	30,451,263	4,261,323	1,602,357	-	82,031,493	(3,912,750)	78,118,743
Segment profit/(loss)	12,492,650	6,947,086	(228,525)	651,059	(8,353,518)	11,508,752	4,523	11,513,275
Total assets	30,597,952	12,605,577	3,520,942	5,076,784	21,111,697	72,912,952	(4,869,560)	68,043,452
52 weeks to 7 January 2018								
Revenue								
External customers	39,579,066	24,068,687	366,938	91,853	-	64,106,544	-	64,106,544
Inter-segments	-	-	3,197,274	-	-	3,197,274	(3,197,274)	-
Total revenue	39,579,066	24,068,687	3,564,212	91,853	-	67,303,818	(3,197,274)	64,106,544
Segment profit/(loss)	9,626,292	5,028,181	(1) **	(106,485)	(8,482,792)	6,065,195	(185,381)	5,879,814
Total assets stated	30,535,516	10,664,499	3,707,011	917,529	9,447,945	55,272,500	(4,693,489)	50,579,011

CHAIRMAN'S STATEMENT

FINANCIAL OVERVIEW
Foreign currency shortages necessitated an import substitution program which, through the efforts of our sourcing teams, was largely successful. Despite these endeavours, local production was somewhat erratic due to the inability of our suppliers to source inputs. Imported product lines which could not be sourced locally such as cosmetics, shoes and lingerie, were more severely affected.

Despite the difficulties, trading conditions during the first 9 months of the year were good.

Markup action to protect stock-outs was necessitated in October when fears of a return to hyperinflation left customers frantically seeking value. Our prices did not go up by as much as some but still had the effect of dampening demand and reducing volumes. Edgars and Jet chain unit sales for the last quarter declined by 37% and 33%, respectively. Being our strongest quarter, (including the festive season) this had a negative impact on annual volumes.

While we could have achieved a better top line with improved assortments of imported lines, this proved impossible due to the constraints mentioned above, and Group revenue grew by 22% on last year to $78.1m (2017: $64.1m). Group retail unit sales declined by 11,4% for the year.

Profit for the period of $8.5m was 114% higher than the prior year $3.98m, partly due to increased margins in the last quarter. Group margin improved to 46% (2017:43%).

In November our two Kadoma stores, which premises were under lease, were destroyed by fire. Efforts are underway to reinstate both operations.

Retail Operations
Edgars Chain
The chain recorded turnover of $45.7m (2017:$39.6m) out of 25 stores (2017:26) an increase of 16%. Units sold for the year were 1.6m (2017:1.9m), a decrease of 16%. The chain's profit to sales ratio increased to 27% from 24% in 2017.
Jet Chain
Total Sales were $30.5m (2017:$24.1m) out of 24 stores (2017:25) an increase of 27%. Units sold for the year were 2.3m (2017:2.5m), a decrease of 8%. The Chain's profit to sales ratio increased to 23% (2017:21%).

Credit Management
Debtors were very well managed throughout the year and the various debtors books are all "clean". They are also too clean, with too many paid-up accounts. Total active accounts at the end of December numbered 151 552, which was 9.5% down on 2017.
Edgars Chain debtors were $19.0m (2017 $18.1m) after an allowance for credit losses of $0.8m (2017:$0.9m). Net write offs for the period averaged 1.8% (2017: 6.9%) of lagged credit sales, and 0.3 % of lagged debtors (2017: 0.8%). Edgars chain active accounts at December 2018 were 100 159 (2017: 109 749).
Jet Chain debtors were at $5.7m (2017: $4.9m) after an allowance for credit losses of $0.6m (2017: $0.5m). Net write offs for the period equated to 1.4% (2017: 5.5%) of lagged credit sales, and 0.5% of lagged debtors (2017: 0.8%). Jet Chain active accounts at December 2018 were 51 393 (2017: 50 415).

Manufacturing
The factory made a small loss of $0.2m (2017:$0.6m loss - before the impairment of the inter-company payable) after retrenchment costs of $0.2m. Some export orders were successfully completed in the second half of the year and we will continue to focus on exports and in providing timeous, quality product to our retail chains in 2019.

Microfinance
Revenue from the micro-finance business increased from $0.1m (4 months trading) to $1.6m (full year trading). This segment reported a profit of $0.7m (2017: $0.1m loss). Loans to customers were at $4.0m (2017:$0.6m).

Financing and Cashflow
Gearing has remained healthy at 0.20 (2017:0.15). We managed to clear all our foreign liabilities during the second half of the year.

Outlook
In the short term, we look forward to customer incomes being assisted somewhat by salary increases. In the longer term we look forward to the promised fiscal discipline and reforms delivering foreign investment and job creation.
We will intensify our efforts in working with local suppliers to develop and improve the quality, fashionability and, importantly, on-time-delivery of wanted product.
Management will continue to deliver profit growth to all our stakeholders.

Dividend
The Board has declared a final dividend of 0.5 cents per share (RTGS) to shareholders reflected in the company's register on the record date being 3 May 2019.
Shares will trade cum-div until 29 April 2019 and ex-div from 30 April 2019. The payment date is on or about 17 May 2019.
Shareholders will have an option to receive their dividend wholly in cash or take their dividend entitlement in the form of shares. The offer price to the shareholders has been determined by the share price on the date of this announcement.
Details of the maximum number of shares each shareholder is entitled to and the procedure to be used in electing to take up this scrip dividend offer are set out in the form of election which will be published in a separate announcement and posted to shareholders..

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

EDGARS Jet CAROUSEL
A Division of Edgars Stores Limited