# Edgars Stores Limited

## UNAUDITED INTERIM RESULTS FOR THE 26 WEEKS ENDED 09 JULY 2016

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the 26 weeks to 09 July 2016

| | 2016<br>26 weeks to<br>09.07.2016<br>$<br>unaudited | 2015<br>26 weeks to<br>11.07.2015<br>$<br>unaudited |
|---|---|---|
| Revenue | 23,103,202 | 30,019,876 |
| Sale of merchandise | 22,395,826 | 29,268,372 |
| Cost of sales | (12,682,507) | (15,515,698) |
| Gross profit | 9,713,319 | 13,752,674 |
| Other losses | (26,018) | (68,788) |
| Credit Management and debt collection costs | (2,707,246) | (3,108,681) |
| Store expenses | (5,707,570) | (6,335,769) |
| Depreciation and amortisation | (789,427) | (556,857) |
| Termination benefits | (646,134) | - |
| Other operating expenses | (4,623,857) | (5,464,418) |
| Finance income | 5,371,184 | 4,991,461 |
| Finance costs | (905,539) | (1,300,824) |
| (Loss)/Profit before tax | (321,288) | 1,908,798 |
| Taxation | 430,407 | (727,487) |
| Profit for the period | 109,119 | 1,181,311 |
| Other comprehensive income for the period, net of tax | - | - |
| Total comprehensive income for the period | 109,119 | 1,181,311 |
| **Earnings per share (cents)** | | |
| Basic | | |
| Diluted | 0.04 | 0.46 |
| Headline | 0.04 | 0.45 |
| | 0.04 | 0.45 |

### CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the 26 weeks to 09 July 2016

| | 2016<br>26 weeks to<br>09.07.2016<br>$<br>unaudited | 2015<br>26 weeks to<br>11.07.2015<br>$<br>unaudited |
|---|---|---|
| Cash flows from operating activities | | |
| (Loss)/Profit before tax | (321,288) | 1,908,798 |
| Finance income | (5,371,184) | (4,991,461) |
| Finance costs | 905,539 | 1,300,824 |
| Non cash items | 2,151,751 | 2,346,426 |
| Movements in working capital | 3,548,115 | (4,942,933) |
| Cash generated/(used) in operations | 912,933 | (4,378,346) |
| Finance costs paid | (925,491) | (1,355,281) |
| Finance income received | 5,371,184 | 4,991,461 |
| Taxation paid | (1,247,539) | (855,196) |
| Cash inflow/ (outflow) from operating activities | 4,111,087 | (1,597,362) |
| Cash flows from investing activities | | |
| Payments for property, plant and equipment | (1,272,730) | (1,441,994) |
| Proceeds from disposal of plant and equipment | - | 279 |
| Net cash used in investing activities | (1,272,730) | (1,441,715) |
| Cash flows from financing activities | | |
| Proceeds from issue of equity shares | - | 21,217 |
| Proceeds from borrowings | 1,000,000 | 10,868,111 |
| Repayment of borrowings | (3,643,684) | (8,037,699) |
| Net cash (used in)/ generated from financing activities | (2,643,684) | 2,851,629 |
| Net increase/(decrease) in cash and cash equivalents | 194,673 | (187,448) |
| Cash and cash equivalents at the beginning of the half year | 534,045 | 848,731 |
| Cash and cash equivalents at the end of the half year | 728,718 | 661,283 |

### CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 09 July 2016

| | 2016<br>as at<br>09.07.2016<br>$<br>unaudited | 2015<br>as at<br>09.01.2016<br>$<br>audited |
|---|---|---|
| **Assets** | | |
| **Non-current assets** | | |
| Property, plant and equipment | 10,006,675 | 9,519,088 |
| Intangible assets | 6,667 | 26,667 |
| Total non-current assets | 10,013,342 | 9,545,755 |
| **Current assets** | | |
| Inventories | 13,023,982 | 12,802,185 |
| Trade and other receivables | 26,299,100 | 32,344,417 |
| Current tax receivable | 203,434 | - |
| Cash and cash equivalents | 728,718 | 534,045 |
| Total current assets | 40,255,234 | 45,680,647 |
| Total assets | 50,268,576 | 55,226,402 |
| **Equity and liabilities** | | |
| **Equity** | | |
| Issued capital | 378,089 | 378,089 |
| Other reserves | 2,622,623 | 2,603,903 |
| Retained earnings | 23,745,061 | 23,635,942 |
| Total capital and reserves | 26,745,773 | 26,617,934 |
| **Non-current liabilities** | | |
| Deferred tax liability | 3,229,382 | 3,845,923 |
| Interest bearing loans and borrowings | 3,598,068 | 6,859,007 |
| Total non-current liabilities | 6,827,450 | 10,704,930 |
| **Current liabilities** | | |
| Trade and other payables | 4,913,119 | 5,879,632 |
| Current tax liabilities | - | 857,972 |
| Interest bearing loans and borrowings | 11,782,234 | 11,165,934 |
| Total current liabilities | 16,695,353 | 17,903,538 |
| Total liabilities | 23,522,803 | 28,608,468 |
| Total equity and liabilities | 50,268,576 | 55,226,402 |
| Net equity per share (cents) | 10.40 | 9.07 |
| Current ratio | 2.41 | 2.55 |
| Quick ratio | 1.63 | 1.84 |
| Gearing (gross) | 0.58 | 0.66 |

### CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the 26 weeks to 09 July 2016

| | Issued capital | Equity-settled employee benefits reserve | Revaluation reserve | Change in functional currency reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **Balance at 10 January 2015** | 352,472 | 873,125 | 1,022,569 | 750,663 | 18,921,248 | 21,920,077 |
| Comprehensive income for the period | - | - | - | - | 1,181,311 | 1,181,311 |
| Exercise of share options | 21,217 | - | - | - | - | 21,217 |
| Share based payment expense | - | 120,000 | - | - | - | 120,000 |
| **Balance at 11 July 2015** | 373,689 | 993,125 | 1,022,569 | 750,663 | 20,102,559 | 23,242,605 |
| **Balance at 09 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 09 July 2016** | 378,089 | 995,073 | 1,627,550 | - | 23,745,061 | 26,745,773 |

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the 26 weeks to 09 July 2016

1 The same accounting policies and methods of computation per the most recent annual financial statements were used.

2 The unaudited interim results were prepared in compliance with IAS34: Interim Financial Reporting and in accordance with the Zimbabwe Stock Exchange listing requirements.

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

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| **4 Headline earnings** | | |
| Earnings attributable to shareholders | 109,119 | 1,181,311 |
| Adjusted for non-recurring items: | | |
| Loss on disposal of property, plant and equipment | - | 54,329 |
| Headline earnings | 109,119 | 1,235,640 |
| **5 Capital expenditure** | | - |
| Acquisition of property, plant and equipment | 1,272,730 | 1,441,994 |
| **6 Capital commitments** | | |
| Authorised and contracted for | 569,840 | 633,874 |
| Authorised but not yet contracted for | 438,151 | 924,132 |
| | 1,007,991 | 1,558,006 |

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

**7 Lease commitments**

There are no finance lease commitments

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

| | | |
|---|---|---|
| Within one year | 1,867,292 | 1,709,836 |
| After one year but not more than five years | 7,354,987 | 4,520,745 |
| | 9,222,279 | 6,230,581 |

**8 Interest bearing loans and borrowings**

These are secured by a guarantee from the holding company ($7.2m), cession of book debts ($6m) and negative pledges over plant and equipment $2.4m.
The weighted average cost of borrowings is 11% (2015: 12%).

**9 Related party transactions and balances**

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.

**10 Restatement of segment results**

Segment profit/(loss) has been restated to reflect reclassification of finance income previously reported as part of Corporate segment for the period ended 11 July 2015 and now shown in the respective segment or chain. This enhances comparability of results for both chains since the recent introduction of credit in Jet.

**11 Segment reporting**

| | Retail- Edgars | Retail- Jet | Manufacturing | Corporate | Total Segments | Adjustments and Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| **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 | 14,460,877 | 7,715,970 | 1,471,442 | - | 23,648,289 | (1,252,463) | 22,395,826 |
| Results | | | | | | | |
| Segment profit/(loss) | 3,097,916 | 1,214,693 | (331,588) | (4,318,575) | (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 |
| **2015** | | | | | | | |
| Sale of merchandise | | | | | | | |
| External customers | 21,096,458 | 7,943,229 | 228,685 | - | 29,268,372 | - | 29,268,372 |
| Inter-segments | - | - | 2,574,367 | - | 2,574,367 | (2,574,367) | - |
| Total | 21,096,458 | 7,943,229 | 2,803,052 | - | 31,842,738 | (2,574,367) | 29,268,372 |
| Results | | | | | | | |
| Segment profit/(loss)-restated | 6,153,659 | 1,077,142 | 61,470 | (5,418,830) | 1,873,441 | 35,357 | 1,908,798 |
| Total assets | 39,486,347 | 7,830,817 | 5,382,013 | 8,852,755 | 61,551,931 | (5,486,212) | 56,065,720 |

**12 Events after the reporting period**

On the 27th of June 2016, management announced the group's intention to undergo a compulsory retrenchment exercise. The affected roles were finalised subsequent to the 9th of July 2016 .

### CHAIRMAN'S STATEMENT

Consumer demand continued to weaken throughout the period due to the combined effects of drought, liquidity constraints, business failures and delayed or non-payment of salaries. Revenue declined 23% on last year to US$23.1 million.

In the period under review management's focus has been on the following key strategic initiatives aimed at future profitability:
• Staff rationalisation.
• Restructuring and remodeling the business to improve accountability, productivity and differentiation between the chains.
• Preparation towards implementation of the new I.T solution.
• Cost cutting measures.
These initiatives have resulted in extra once-off costs amounting to US$0.9 million being incurred. This included retrenchment costs of US$0.65 million, $0.2 million of which relates to Manufacturing. This, together with the decline in sales has resulted in a loss before tax of US$0.3 million for the period (2015: profit US$1.9 million). Further retrenchment costs have been incurred in the second half of the year during which period the exercise was completed at a total cost of $1.4 million.

**Retail Operations**
**Edgars Chain:** Sales for the half year were US$14.5 million (2015: US$21.5 million) a 31% drop. Cost containment efforts to counteract the impact of these low sales are being made and the full benefit will only show in the second half of the year and in 2017 and beyond.
**Jet Chain:** Sales of US$7.7 million were 2.8% below last year (US$7.9 million). The more moderate decline is attributable to the fact that the anniversary of the introduction of credit was mid- April. Credit sales now account for 46.7% of chain sales.
Management is confident that the restructuring and cost cutting initiatives taken to date will bear fruit going forward.

**Credit management**
Edgars' debtors are at US$20.4 million (2015: US$28.9 million) after a doubtful debt provision of US$2 million (2015: US$1.7 million). Write-offs for the period averaged 6.3% of lagged credit sales and 0.7% of lagged debtors (2015: 0.5%).

Jet debtors are at US4.4 million (2015: US$2.9 million) after a doubtful debt provision of US$0.3 million. Write offs for the period equated to 3.9% of lagged credit sales and 0.8% of lagged debtors.
We will continue to invest in technology and processes to bring credit management costs and arrears levels down.

**Capital Expenditure**
Spend to date was in respect of:

Information technology: US$1 043 355
Plant, Vehicles and Machinery: US$ 229 375

The go-live date for the new Enterprise Resource Planning (ERP) Solution is set for October 2016. Tremendous effort and significant investment has gone into the transformation of our IT systems to an integrated ERP solution. The new system will enhance our ability to deliver our promise of customer service excellence, improving product assortments as well as business process efficiencies.

**Manufacturing**
The factory made a loss of US$0.3 million for the period (2015: profit US$0.06 million). This is a consequence of the reduced demand from retail operations and retrenchment costs of US$ 0.2 million. There are ongoing negotiations to secure export orders and the factory is a focal point for the group given the current foreign currency shortages. The introduction of Statutory Instrument 64 of 2016, restricting the importation of fabric is a setback for the factory and for import substitution.
**Financing & Cash Flow**
Gearing reduced from 66% to 58%. Borrowings at US$15.4 (2015 at US$23.2 million) are US$7.8 million less than last year. Operating cash flows of US$4.1 million (2015 US$1.6 million outflow) are healthy and forecast to remain so.
**Outlook**
We will continue to focus on providing excellent service and desirable products to our customers at very good value. We expect a more profitable second half and the leaner business model currently in place will help us meet the less than favourable economic conditions.
**Dividend**
Given our level of borrowings and the adverse environmental conditions your company will not declare a dividend.
**Appreciation**
I am grateful to board colleagues, management and staff for their dedication, our customers for their loyalty and our landlords, bankers and suppliers for their continued support.

**T.N. Sibanda**
**Chairman**



Edgars Jet Carousel (PVT) LTD

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