starafricacorporation limited

Power of Partnerships

Group Abridged Unaudited Financial Results for the Six Months Ended 30 September 2016

Interim Condensed Consolidated Statement of Profit or Loss
for the six months ended 30 September 2016

	Unaudited Sept 2016 US$	Unaudited Sept 2015 US$
Revenue	**14 254 449**	**6 610 945**
Earnings before Interest , Tax Depreciation & Amortisation (EBITDA)	**(314 397)**	**(1 983 568)**
Impairment loss	-	(87 654)
Restructuring costs	-	(394 464)
Depreciation	(461 724)	(666 464)
Net finance costs	(2 932 267)	(2 556 756)
Share of profit of an associate	458 064	482 734
Loss before taxation	**(3 250 324)**	**(5 206 172)**
Income tax expense	(86 184)	(54 522)
Loss for the period	**(3 336 508)**	**(5 260 694)**
Loss for the period attributable to:		
Non controlling interest	-	-
Equity holders of the parent	(3 336 508)	(5 260 694)
	(3 336 508)	**(5 260 694)**
Loss per share (cents)		
Basic	(0.64)	(1.01)
Diluted	(0.64)	(1.01)
Weighted average number of shares	518 469 120	518 469 120

Interim Condensed Consolidated Statement of Other Comprehensive Income
for the six months ended 30 September 2016

Loss for the period	**(3 336 508)**	**(5 260 694)**
Other comprehensive income (net of tax)	**118 543**	**(155 432)**
Exchange differences on translating foreign operations	118 543	(155 432)
Total comprehensive loss for the period	**(3 217 965)**	**(5 416 126)**
Total comprehensive loss for the period attributable to:		
Non controlling interest	-	-
Equity holders of the parent	(3 217 965)	(5 416 126)
	(3 217 965)	**(5 416 126)**

Abridged Consolidated Statement of Financial Position
As at

	Unaudited Sept 2016 US$	Audited Mar 2016 US$
ASSETS		
Non current assets	**30 606 117**	**30 606 509**
Property, plant and equipment	21 168 798	21 453 985
Investment property	7 295 000	7 295 000
Investment in associate	2 142 319	1 857 524
Current assets	**8 225 058**	**7 483 536**
Total assets	**38 831 175**	**38 090 045**
EQUITY AND LIABILITIES		
Equity	**(43 372 465)**	**(40 154 507)**
Attributable to equity holders of the parent	(44 981 136)	(41 763 178)
Non controlling interest	1 608 671	1 608 671
Non current liabilities	**8 098 003**	**8 086 438**
Loans and borrowings	6 287 715	6 287 715
Deferred tax liability	1 810 288	1 798 723
Current liabilities	**74 105 637**	**70 158 114**
Loans and borowings	40 968 137	39 107 047
Other	33 137 500	31 051 067
Total liabilities	**82 203 640**	**78 244 552**
Total equity and liabilities	**38 831 175**	**38 090 045**

Consolidated Statement of Changes in Equity
for the six months ended 30 September 2016

	Equity holders of the parent US$	Non-controlling interest US$	Total US$
Balance as at 31 March 2014	**(24 787 136)**	**1 608 671**	**(23 178 465)**
Total comprehensive income	(7 443 568)	-	(7 443 568)
Loss for the year	(7 204 660)	-	(7 204 660)
Other comprehensive income	(238 908)	-	(238 908)
Balance as at 31 March 2015	**(32 230 704)**	**1 608 671**	**(30 622 033)**
Total comprehensive income	(9 532 474)	-	(9 532 474)
Loss for the year	(10 233 010)	-	(10 233 010)
Other comprehensive income	700 536	-	700 536
Balance as at 31 March 2016	**(41 763 178)**	**1 608 671**	**(40 154 507)**
Total comprehensive income	(3 217 965)	-	(3 217 965)
Loss for the year	(3 336 508)	-	(3 336 508)
Other comprehensive income	118 543	-	118 543
Balance as at 30 September 2016	**(44 981 143)**	**1 608 671**	**(43 372 472)**

Interim Condensed Consolidated Statement of Cash Flows
for the six months ended 30 September 2016

	Unaudited Sept 2016 US$	Unaudited Sept 2015 US$
Cash flows from / (used) in operations	**649 995**	**(424 405)**
Taxation paid	(70 805)	(13 631)
Net Finance costs paid	(97 430)	-
Net cash flows from / (used) in operating activities	**481 760**	**(438 036)**
Net cash flow (used) in / received from investing activities	**(176 539)**	**252 905**
Net cash flows used in financing activities	(426 000)	-
Net decrease in cash and cash equivalents	**(120 779)**	**(185 131)**
Cash and cash equivalents at 1 April	(241 161)	(315 256)
Cash and cash equivalents at 30 September	**(361 941)**	**(500 387)**

Supplementary Information
for the six months ended 30 September 2016

	30 Sept 2016	30 Sept 2015
Number of shares in issue	518 469 120	518 469 120
Capital expenditure (US$)	176 537	11 326
Total refined sugar sales	17 740	4 873
Logistics (tonnage moved)	-	24 141
Inventory (current assets)	3 154 061	3 441 742
Trade and other receivables (current assets)	5 432 938	1 872 454
Trade and other payables (current liabilities)	41 966 443	27 486 028
Property pledged as security	15 159 800	10 300 000
Plant and equipment pledged as security	9 799 928	11 667 600
Interest bearing borrowings	47 255 852	43 153 643
Short term loans	40 968 137	36 865 928
Long term loans	6 287 715	6 287 715
Average cost of interest bearing borrowings	**11%**	**11%**

Notes To The Abridged Financial Statements

1. Basis of preparation

The consolidated financial statements of starafricacorporation limited have been prepared in accordance with International Financial Reporting Standards (IFRS), the requirements of the Companies Act (Chapter 24.03) and the requirements of the Zimbabwe Stock Exchange. The Group's presentation currency is the United States Dollar, which is the functional currency of the Group's operations in Zimbabwe. Accounting policies applied in all material respects, are consistent with those applied by the Group for the year ended 31 March 2016.

2. Going concern

The company has continued to report significant losses in the last seven years with a net loss for the year ended 31 March 2016 of $10.2 million (2015:$7.2 million). For the six months period ended 30 September 2016, the company reported a loss of $3.3 million against a loss of $5.3 million incurred during the same period last year. As at 30 September 2016, the company's total liabilities exceeded total assets by $43.4 million (2015: $36.5 million) and current liabilities exceed current assets by $65.9 million (2015: $60.4 million). Management continues to implement the turnaround plans aimed at addressing the negative financial position and some of the key deliverables are set in the ensuing paragraphs.

Scheme of arrangement

The company has not been able to meet all the terms of the Scheme of Arrangement entered into with its creditors and lenders in August 2013 due to circumstances that prevented the realisation of key enabling events. The success of the initial scheme rested on three key milestones namely the completion and commissioning of the upgraded portion of the plant at Goldstar Sugars Harare (GSSH), disposal of Bluestar Logistics (BSL) and the Company's 33.3% stake in Tongaat Hullet Botswana (Pty) Ltd (THB). Of these, only BSL was disposed of in February 2016 while the disposal of THB is yet to take place due to shareholders' contractual terms which limit Starafrica's latitude to dispose its shareholding to any interested party of its choice. The refurbishment of the plant at GSSH has reached commissioning stage, which is expected to be finalised by February 2017. These delays constrained the company from settling Scheme debts within the settlement periods stipulated in the Scheme. The Board then deemed it fit for the company to pursue a composite Secondary Scheme of Arrangement (Secondary Scheme) with its creditors.

The Secondary Scheme meetings were held on the 17th of November 2016 and all the seven sub schemes that made up the Secondary Scheme passed. The Secondary Scheme was sanctioned by the High Court of Zimbabwe on the 30th of November 2016 and registration of the same with the Registrar of Companies is expected to take place in the first half of December 2016. The Secondary Scheme provides for a 6 month moratorium on the payment of interest and principal to allow for business stabilisation and accumulation of cash flows to finance the repayments. It also restructures the company's debt, interest rates between 7% and 10% and settlement periods ranging from 16 months to 8 years from the date of sanctioning. The Scheme also provides for raising of new financing amounting to $ 2,5 million for refurbishing the un-upgraded 40%, commissioning of the plant and working capital to enable the plant to produce consistently at between 450 to 600 tonnes per day.

THB will remain on the market but the experiences from the past do not indicate any imminent possibility of a sale going through. The position, if and when sold, will be to apply the proceeds there from to the settling of creditors per the same terms of the Initial Scheme which have been rolled forward into the Secondary Scheme.

GSSH Plant Upgrade

- The process of finalising and commissioning the upgraded part of the plant is at an advanced stage as the integration stage is about to start. Equipment for the integration project has been delivered and the company is working on mobilising the funding to finance the installation of the equipment to pave way for the commissioning which should take place in the first quarter of 2017.
- The consultants from India, Global Canesugar Services have made significant operational improvements which have resulted in the plant achieving the desired product colour specifications including bottler grade sugar. The plant has also started achieving daily capacities of 400 tonnes which is two thirds of the rated capacity of the plant. The improvements have resulted in the process loss levels declining to an average of 9% in the period under review and there are strong signals that the 6% target can be met and exceeded once the plant is fully integrated and refurbished. Coal usage percentages are also declining with the average going towards 28% from an average of over 30% in the prior year. The target coal usage percentage is 25%. Consistency in the production levels has been hampered by serious water availability challenges as well as breakdowns on the older part of the plant.
- The company is already working on alternative sources of water which will include sinking of boreholes and installation of a water treatment plant. The issue of breakdowns is expected to be resolved through refurbishment of the older section of the plant which will take place once funding has been secured.

The installation of the water treatment plant and the refurbishment of the older section of the plant are expected to be funded from the additional funding from the Secondary Scheme.

- Notwithstanding the expected successful commissioning of the plant and commencement of normal trading operations; given the severity of the financial position; if the strategies being explored by management to address the company's indebtedness are not successful, the company will not be able to trade out of its negative equity position or settle its liabilities as they fall due thus placing its going concern status in doubt.
- These conditions give rise to a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and, therefore it may be unable to realise its assets and discharge of its liabilities in the normal course of business.
- The financial statements are prepared on the basis that the group will continue to be a going concern. This basis of preparation presumes that the plant upgrade project will be successfully completed and the company will return to profitability and will therefore realise its assets and discharge its liabilities in the ordinary course of business.

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Chairman's Statement
for the six months ended 30 September 2016

OVERVIEW

The six months under review recorded a significant improvement in production, efficiencies and sales resulting in operating loss decreasing by 84% over the comparative period last year (September 2015). This commendable performance was achieved in a challenging environment where the economy continued to contract, liquidity constraints worsened and the supply of water from the utility supplier was erratic.

Group Results

The Group achieved a turnover of USD14.3 million compared with $6.6 million recorded in the comparative period. This was a 217% increase over the comparative period. Earnings before interest, tax, depreciation and amortisation loss decreased by 84% from $1.98 million incurred in the comparative period to $314 397. The Group incurred a loss of $3.3 million, against a loss of $5.3 million incurred in the comparative period last year. The reduction in losses was due to improved production at Gold Star Sugars Harare (GSSH), improved profits at Country Choice Foods (CCF) and the disposal of Bluestar Logistics which was making losses. Finance costs for the period under review were $2.9 million compared with $2.6 million in the comparative period due to the effect of compound interest on debt which remained unpaid over the period.

Operations

GSSH produced 17 756 tonnes of refined sugar compared with 5 184 tonnes produced in the comparative period. Production improved progressively, from 1 120 tonnes produced in April 2016 to 5 085 tonnes in September 2016. This is a 340% increase over the comparative period. GSSH sold 17 740 tonnes against 4 873 tonnes sold in prior year, a 343% increase over the comparative period. The increase in production and sales was due to improved efficiencies in the plant. The company's thrust is now focused on improving sales volumes of table sugar. This will be achieved through the nationwide distribution of the product and initiatives to make the Goldstar brand more visible to the market.

Country Choice Foods realised an operating profit of $214 910 for the six months under review which is 62% above the $133 005 achieved in the comparative period. This performance was achieved against stiff competition from imported products and local substitutes.

Bluestar Logistics does not form part of the current performance comparatives as it was disposed of in February 2016.

GSSH Plant Upgrade

The new consultants, Global Canesugar Services (Private) Limited (GCS) of India came to site in February 2016 to integrate the upgraded section with the old section of the plant at Goldstar Sugars Harare (GSSH). Equipment to facilitate the integration was manufactured in India and has been delivered to site. Funds for installation of this equipment in the sugar crystallisation section are being sourced. During the period under review GCS made significant improvements to the plant with throughput increasing to 400 tonnes per day and quality of the sugar improving to below 45 ICUMSA on 80% of daily production. The improved throughput of 400 tonnes per day is sufficient to supply all local market segment requirements. The refurbishment of critical items of plant and equipment in the un-upgraded section of the plant so as to stabilise the plant and optimise output from the upgraded plant is on-going.

The Board and management believe that the success of the Secondary Scheme of Arrangement coupled with the refurbishment of the old section of the plant at GSSH and underpinned by working capital raised through the Scheme, will improve plant efficiencies and see the company creating capacity to exceed local requirements and also move towards the export of Goldstar white sugar and its derivatives.

Scheme of Arrangement

Post the reporting period, the company has put in place a Secondary Scheme of Arrangement with its creditors, which was sanctioned by the High Court on 30 November 2016. The Secondary Scheme replaces the initial Scheme of Arrangement and provides a 6 month moratorium on the payment of interest and restructures the settlement of debts for periods of up to 8 years. It also provides for the raising of financing for working capital and the refurbishment of the old section of the plant at GSSH.

Directorate

Mr B.L. Nkomo was appointed a Non Executive Director on 1 October 2016 while Mr K.M. Chipangura was appointed Finance Director on 3 October 2016. I welcome the two gentlemen to the Starafrica Board and wish them a fruitful and mutually beneficial tenure.

Dividend

In light of the overall performance of the company, the Board has not declared a dividend for the half year ended 30 September 2016.

Outlook

The improvement in production and sales is forecast to continue in the second half of the financial year. Demand for our product will firm up in light of the good quality sugar that the plant is producing which meets all market segment requirements, sugar supply contracts that have been concluded with major industrial customers and initiatives to increase volumes of table sugar that have begun to be rolled out. The company will procure a water treatment plant so as to secure water supply to the plant at GSSH. The Secondary Scheme of Arrangement will provide much needed breathing space to the company's cash flows while the refurbishment of the un-upgraded section of the plant at GSSH and its commissioning will set the stage for a profitable performance in the financial year ending March 2018.

Conclusion

I thank my fellow Board members for their oversight of the company's business and also take this opportunity to especially thank our stakeholders for their continued support. The Board is grateful to Management and staff for their commitment and dedication under extremely challenging conditions.

J.S Mutizwa
Chairman
8 December 2016