



TRADING UPDATE FIRST QUARTER ENDED 31 MARCH 2020

Introduction

The Group hereby issues a trading update for the first quarter ended 31 March 2020.

Operating Environment

The trading, operating and economic environment remained challenging during the period under review. There has been no improvement to the trading environment and factors as previously mentioned in our third quarter trading update of year 2019 still exist and these include liquidity constraints, subdued demand, fuel shortages, constant increases in the cost of electricity, foreign currency shortages and continued devaluation of the Zimbabwe Dollar ("ZWL") leading to increased costs of key imports and a sharp rise in inflation (cost push inflation). These factors continue to hamper productivity and depress economic growth. The hyperinflationary environment has reduced consumers disposable income, and this has resulted in decreased demand and decreased sales volumes.

At the end of the quarter, on 30 March 2020, a lock down was implemented to contain the spread of coronavirus. This lock down will result in decreased volumes in quarter 2 of year 2020.

Group Volume Performance

First quarter sales volumes have decreased by 68% compared to the comparative prior period.

The causes of the volume decrease include;

- A stance by management to restrict sales due to the continual devaluation of the debtors book with aim of preserving shareholder value,
- Decreased consumer spending as income levels have not kept up with rising general price levels and this has caused aggregate demand to remain subdued, and
- Stockouts because of challenges in sourcing replacement stock or raw materials and goods due to stop supply from foreign creditors because of overdue balances and key suppliers demanding prepayment.

Segment Volume Performance

The causes of volume decreases are the same as those elaborated on in the Group Volume Performance section.

FMCG Segment

First quarter FMCG segment sales volumes have decreased by 69% compared to the comparative prior period.

Medical Segment

There has been no activity in this segment and this segment did not trade during year 2019. Factors contributing to no trade in this segment include working capital challenges, inadequate inventory, and no lines of credit.

Manufacturing Segment

First quarter manufacturing segment sales volumes have increased by 1% compared to the comparative prior period. The increased sales volumes are due to reduced real sales prices of key lines to maintain market share against grey market imports.

Associate company – MedTech Food and Beverages (Private) Limited

The associate company has not traded during the first quarter of 2020 and is not expected to trade for the remainder of the year.

Profitability

Using accounting records maintained under the historical cost convention, the Group recorded a net loss before tax of ZWL 1,658,290 for the first quarter of 2020 (First quarter of 2019: profit before tax ZWL 3,324,970).

The Directors remind readers that there are significant challenges in ascertaining the underlying business performance in an environment of hyperinflation, multiple exchange rates and rapid changes in the policies.

The full year financial results for year ended 31 December 2019 are expected to be published by 30 May 2020.

Legacy debt

The Group owes significant amounts to foreign creditors. Some of the debts have been validated while appeals have been put in for others. At this stage, the Group is unsure when payments will be made for the debts validated and when a response will be received for appeals lodged. Delays in the payment of legacy debt has resulted in cuts in supply and stock outs which is one of the contributing factors to the decreased sales volumes.

Impact of COVID 19

COVID 19 has been declared as a pandemic by the World Health Organisation and a national disaster by the Government of Zimbabwe. Zimbabwe implemented a lockdown of the country to mitigate and contain the spread and transmission of the virus. Relevant statutory instruments were put in place to ensure compliance with the lockdown. The initial lockdown was for a period of 21 days, thereafter there was an extension by a further 14 days to end 03 May 2020. Subsequently a further extension of 14 days was declared which we are currently in. The full impact of COVID 19 is yet to be felt but will undoubtedly have a significant adverse impact on the Zimbabwean economy.

During the period of lock down the Group was permitted to operate. The FMCG segment markets and distributes sanitizers and personal care products and the manufacturing segment manufactures sanitizers and personal care products. The Group operated at reduced levels during the lock down period. Sales volumes have been depressed as most chain stores and wholesales were restocking basic commodities and not restocking products supplied by us. However, sales volumes to informal traders increased due to the unavailability of grey market imports.

Overall, the lock down will result in decreased volumes in quarter 2 of year 2020. The Group has implemented various mitigation measures to minimise the effects of COVID 19 in as much as this is possible. In terms of business continuity, the Group measures in place are sufficient to ensure continuity and business risks are being continually monitored. The solvency of the Group remains poor but with the continued support of major suppliers, solvency is not expected to be an issue. There are many uncertainties that make it difficult to fully estimate the full impact of the COVID 19 pandemic on the financial health of the Group.

Outlook

The trading environment and macro-economic conditions remain volatile. The full impact of COVID 19 is yet to be felt but will undoubtedly have a significant adverse impact on the Zimbabwean economy. Uncertainty related to payment of legacy debt affects our foreign credit and with no definitive position this will result in serious challenges and our ability to continue in the future. We will continue to do our best to maintain market share and sales and keep up strict cost control.

BY ORDER OF THE BOARD

M Y Patel
Company Secretary

Stand 619
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13 May 2020

LIMITED