Edgars Stores Limited

ABRIDGED AUDITED 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 audited	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	(3,015,175)	(1,901,015)
Profit for the period	8,498,100	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	13,356,894	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 $ 52 weeks to 06.01.2019 audited	2017 $ 52 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	3,118,193	2,466,608
Movements in working capital	(7,186,148)	1,732,760
Cash generated from operations	1,647,002	3,467,745
Finance costs paid	(923,722)	(1,148,353)
Finance income received	6,272,603	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 audited	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	25,518,658	24,335,518	24,808,994
Loans and advances to customers	4,275,580	656,945	-
Income tax receivable	38,030	-	-
Cash and cash equivalents	6,621,957	2,296,428	1,743,245
Total current assets	52,439,795	41,433,562	38,069,362
Total assets	68,317,636	50,592,383	47,822,607
Equity and liabilities			
Equity			
Issued capital	405,690	405,690	391,339
Reserves	7,767,765	2,649,885	2,631,783
Retained earnings	34,606,121	27,339,053	23,197,599
Total capital and reserves	42,779,576	30,394,628	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	68,317,636	50,592,383	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 09 January 2017 (as reported)	391,339	1,004,233	1,627,549	-	24,019,948	27,043,069
Prior Period Error*	-	-	-		(822,348)	(822,348)
Balance at 09 January 2017 (restated)*	391,339	1,004,233	1,627,549	-	23,197,600	26,220,721
Total comprehensive income for the period	-	-	-	-	3,978,799	3,978,799
Issue of ordinary shares under employee share option plan	14,351	-	-	-	-	14,351
Share based payment expense	-	4,731	-	-	-	4,731
Balance at 08 January 2018 as reported	405,690	1,008,964	1,627,549	-	27,176,399	30,218,602
Change in accounting policy (note 1)	-	-	-	-	176,026	176,026
Transfer to credit reserve	-	-	-	13,372	(13,372)	-
Balance at 08 January 2018 - restated	405,690	1,008,964	1,627,549	13,372	27,339,053	30,394,628
Dividends declared	-	-	-	-	(971,946)	(971,946)
Total comprehensive income for the period	-	-	4,858,794	-	8,498,100	13,356,894
Profit for the year	-	-	-	-	8,498,100	8,498,100
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	34,606,120	42,779,576

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

charisma

Edgars Stores Limited

ABRIDGED AUDITED 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**
These financial results should be read in conjunction with the complete set of financial statements for the 52 weeks ended 6 January 2019, which have been audited by Ernst & Young Chartered Accountants (Zimbabwe) who have issued an adverse opinion thereon due to the non-compliance with IAS 21 'The Effects of Changes in Foreign Exchange Rates'. The auditor's report on the Group and Company financial statements, (from which these results were extracted) is available for inspection at the company's registered office.

	2018	2017
4 Headline earnings	$	$
Earnings attributable to shareholders	8,498,100	3,978,799
Adjusted for non-recurring items:		
Profit on disposal of property, plant and equipment	(84,030)	(38,163)
Headline earnings	8,414,070	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**
The directors have performed their assessment and have concluded that the US$ remains the Group's functional and reporting currency as at 6 January 2019 (including the period transacted between 1 October 2018 and 6 January 2019) and have therefore continued to transact and report at the official exchange rate of US$1: RTGS$1 (as presented in the Reserve Bank of Zimbabwe Monetary Policy Statement and announced by the Minister of Finance and Economic Development in October 2018, and further promulgated in Statutory Instrument 33 (S.I. 33) of February 2019). No adjustments have been made to the consolidated financial statements to translate the RTGS$ transactions to US$ at a rate other than the legal exchange rate of US$1: RTGS$1. The US$ transactions and balances included in the consolidated financial statements for the 12 weeks ended 6 January 2019 are:

Line item affected	**Value in US$**
Statement of profit or loss and other comprehensive income	
Revenue	(317,401)
Revaluation surplus	(227,585)
Statement of financial position	
Non-current assets	
Properties	1,629,500
Current assets	
Trade and other receivables	5,729
Cash and cash equivalents	216,879
Prepayments	319,157
Current liabilities	
Trade and other payables	(41,742)

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	5,349,242	21,113,423	73,187,136	(4,869,500)	68,317,636
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 restated	30,535,516	10,664,499	3,707,011	930,901	9,447,945	55,285,872	(4,693,489)	50,592,383

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 0.19 (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 31 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

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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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF EDGARS STORES LIMITED

REPORT ON THE AUDIT OF THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

Adverse Opinion

We have audited the consolidated and company financial statements of Edgars Stores Limited and its subsidiaries (the Group), which comprise the statements of financial position as at 6 January 2019, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the 52 weeks then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report, the accompanying consolidated and company financial statements do not present fairly the consolidated and company financial position of Edgars Stores Limited as at 6 January 2019, and its consolidated and company financial performance and its consolidated and company cash flows for the 52 weeks then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Adverse Opinion

As explained in note 2.1 to the consolidated and company financial statements, the functional currency applied by management is the United States Dollar (US$) and the consolidated and company financial statements are presented in US$ on the basis that the official exchange rate as at 6 January 2019 between the RTGS Dollar (RTGS$) and the United States Dollar (US$) is 1:1.

Zimbabwe witnessed significant monetary and exchange control policy changes in 2016 and increasingly through to 2019. The Reserve Bank of Zimbabwe, (RBZ) together with the Ministry of Finance and Economic Development promulgated a series of exchange control operational guidelines and compliance frameworks during this period. Specifically, there was a requirement for banks to separate out FCA RTGS Accounts from the FCA Nostro US$ Accounts during October 2018. Although the rate was legally pegged at 1:1, multiple pricing practices and other transactions observed and reported publicly indicated exchange rates other than 1:1 between RTGS and the US$ amounts. Finally, in February 2019 there was a Monetary Policy Statement which introduced the RTGS Dollar (RTGS$) and the interbank foreign exchange market.

These events triggered the need for reporting entities to assess whether there was a change in functional currency (from US$ to RTGS$) and the 1:1 RTGS$:US$ exchange rate as at and prior to the 6 January 2019 period end.

Based on International Financial Reporting Standard IAS 21-*The Effects of Changes in Foreign Exchange Rates* ("IAS 21"), the functional currency of an entity is *the currency of the primary economic environment in which the entity operates* and *reflects the underlying transactions, events and conditions that are relevant to it*. In addition, paragraph 2.12 of the *Conceptual Framework for Financial Reporting* ("the Conceptual Framework") prescribes that for financial information to be useful, it *"must not only represent relevant phenomena, but it must also faithfully represent the substance of the phenomena that it purports to represent. In many circumstances, the substance of an economic phenomenon and its legal form are the same. If they are not the same, providing information only about the legal form would not faithfully represent the economic phenomenon."* In addition, International Financial Reporting Standard IAS 10 - *Events after the Reporting Period* ("IAS 10") also requires an entity to adjust the amounts recognised in its financial statements to reflect events after the reporting period that provide evidence of conditions that existed at the end of the reporting period.

We believe that events in the market and subsequent promulgation of the RTGS$ as a formal currency supports that there was a change in functional currency from US$ to RTGS$ and that transactions in the market indicated a different rate between the two currencies despite the legal 1:1 RTGS$:US$ exchange rate and this occurred prior to the 6 January 2019 period end. This impacts the basis for measuring transactions that occurred between 1 October and 31 December 2018, the valuation of assets and liabilities at period end as well as the accounting for foreign exchange differences. We believe that the consolidated and company financial statements are required to be adjusted for these changes and that it is inappropriate to provide note disclosures as a proxy for adjusting the financial statements as this is not in conformity with IAS 10.

REPORT ON THE AUDIT OF THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (CONTINUED)

The financial statements of the group include balances and transactions denominated in RTGS$ that were not converted to US$ at an RTGS$:US$ exchange rate that reflects the economic substance of its value as required by International Financial Reporting Standards ("IFRS"). This is because management applied the legal rate of 1:1 as pronounced by Statutory Instrument 133 of 2016, Statutory Instrument 33 of 2019 and the Monetary Policy Statements of the 22nd of February 2018, 1st of October 2018 and 20th of February 2019. Management have provided more information on their approach in Note 2.1 to the financial statements.

In terms of IAS 21, foreign currency monetary items shall be translated using the closing rate, non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was measured. Foreign currency transactions shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

Therefore, had RTGS$ been designated as the functional currency and a different RTGS$:USD$ currency rate been determined and applied by management, virtually every account in, and the information provided by way of notes to, the accompanying consolidated and company financial statements, would have been materially different. The effects of the departure from IFRS are pervasive to the financial statements and have not been quantified.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Company Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Zimbabwe, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Key Audit Matters

Except for the matter described in the Basis for Adverse Opinion section, we have determined that there are no other key audit matters to communicate in our report

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Other information

The directors are responsible for the other information. The other information comprises the Business Report, Corporate Board Reports, Group Chairman's Statement and the Corporate Information but does not include the consolidated and company financial statements and our auditor's report thereon.

Our opinion on the consolidated and company financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and company financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and company financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the Basis for Adverse Opinion section above, the Group did not comply with the requirements of IAS 21 - Effects of Changes in Foreign Exchange Rates. We have concluded that the other information is materially misstated for the same reason with respect to the amounts or other items in the Group Chairman's Statement affected by the failure to comply with the referred standard.

REPORT ON THE AUDIT OF THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (CONTINUED)

Responsibilities of the Directors for the Consolidated and Company Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated and company financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act (Chapter 24:03), and for such internal control as the directors determine is necessary to enable the preparation of consolidated and company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and company financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated and Company Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and company financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and company financial statements, including the disclosures, and whether the consolidated and company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated and company financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

REPORT ON THE AUDIT OF THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (CONTINUED)

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report, the accompanying consolidated and company financial statements have not in all material respects, been properly prepared in compliance with the disclosure requirements of and in the manner required by the Companies Act (Chapter 24:03).

The engagement partner on the audit resulting in this independent auditor's report is Monica Chanduru (PAAB Practicing Certificate Number 0567).

ERNST & YOUNG

CHARTERED ACCOUNTANTS (ZIMBABWE)
REGISTERED PUBLIC AUDITORS

BULAWAYO
29 APRIL 2019