electrosales hardware

Your Hardware Home!

Unaudited Abridged Interim Consolidated Financial Statements

for the six months ended 31 March 2019

Powerspeed Electrical Limited

COMMENTARY

INTRODUCTION

Despite the disruptions which occurred in October 2018 and January 2019, the Group had a reasonable half year, benefitting from an increased footprint, increased product range and, therefore, an increased market share in a difficult market. We are relentless in our efforts to continuously improve our customer experience in all of our stores. The steady growth in customer base and throughput, gives us confidence that we are getting things right.

FINANCIAL PERFORMANCE

The confusion that surrounds our various currencies and exchange rates make reliable financial reporting difficult. However, we believe that the information presented gives the best possible indication of our financial performance. All figures are presented in RTGS$.

Turnover, at $60.1m, was 62% up on the previous period. However, our gross margin fell from 28.1% to 24.1%, primarily because of a shift in product mix. This resulted in a 39% increase in GP to $14.5m.

Due to a combination of our branch expansion program as well as inflationary pressures, operating expenses grew by 50%, to $11m. The net result of which was a 14% increase in operating profit, from $3.32m to $3.80m.

Borrowings reduced to $10.2m, despite the significant investment in both property and stock. Attributable profit after tax came in at just over $2.44m, up from the $2.05m reported for the corresponding period last year.

Of significance is the growth in balance sheet value, driven largely by significant investment in property and inventory, while maintaining a very limited foreign creditor exposure. As a result, equity value has risen threefold.

REVIEW OF OPERATIONS

Trading - Electrosales Hardware

Despite the difficulty in sourcing stock, both locally and internationally, we have been able to improve the range of products on offer to our customers both by way of different products, as well as different types of the same product, thereby increasing customer choice. Simultaneously, we have ensured good value for money by charging reasonable prices for good quality products. Hence, we are growing our reputation for being a dependable retailer.

We have made further progress in identifying, and sourcing directly from, the best manufacturers globally, for a good number of products. This has given us excellent prices as well as access to new technologies. In this way, we have been able to reduce our reliance on South Africa, as a source of goods, saving significant value in 'middle man' costs.

During the period under review, we opened a new branch at 85 Cameron Street, in Harare. Interestingly, the premises is the site of the original Electrosales which opened there in 1955. The branch opened at the beginning of March and began making a positive contribution in its first month of operation.

Engineering

Although not the core focus of our activities, we continue to maintain our competence and capacity within the Engineering Division, in the hope for growth in investment in industry and mining at some point in the future. However, during the period under review, throughput dropped as a result of the reducing investment across almost all sectors of the economy but the unit remained profitable.

OUTLOOK

As always, we remain optimistic about the long term prospects of Zimbabwe, and the opportunities that these will bring to our business. However, the current situation, with increasing distortions, endless corruption and waste, accelerating regulation and a growing tax burden on the economy, the short term prospects for the Zimbabwean economy are bleak.

Having said that, we believe that we have identified a formula that works for both our customers and our shareholders. These strategies have enabled us to take market share from our traditional competitors, and grow our income despite a decline in spending power being felt by all of our customers. We are, therefore, confident that we will continue to grow both throughput and profitability.

Of concern is the growing informal sector which does not comply with the mounting bureaucratic and financial burden that the authorities are placing on the formal sector. Every hurdle placed in the way of formal business, is an incentive to the informal sector, so there is no wonder that the latter is thriving.

INTERIM DIVIDEND

Given the uncertainty in the economy and the cost of processing a dividend, the Board has considered it prudent not to declare an interim dividend for the half year ended 31 March 2019. However, barring any dramatic unforeseen circumstances, we are confident that we should be in a position to declare a dividend at the end of this financial year, as we did last year.

Abridged Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended 31 March 2019

	Note(s)	6 Months ended 31 March 2019 Unaudited RTGS$	6 Months ended 31 March 2018 Unaudited RTGS$	12 Months ended 30 September 2018 Audited RTGS$
Revenue		60 130 283	37 171 624	82 496 276
Cost of sales		(45 620 787)	(26 721 034)	(60 407 324)
Gross profit		14 509 496	10 450 590	22 088 952
Investment property income		15 000	15 000	34 800
Fair value adjustment on investment property		-	-	(217 000)
Other income		319 406	243 697	279 408
Operating expenses		(11 047 463)	(7 386 408)	(15 390 404)
Operating profit		3 796 439	3 322 879	6 795 756
Finance costs		(506 359)	(565 869)	(1 119 955)
Profit before taxation		3 290 080	2 757 010	5 675 801
Income tax expense	4	(847 196)	(709 929)	(1 474 107)
Profit for the period/year		2 442 884	2 047 081	4 201 694
Other comprehensive income:				
Gain on property revaluation		-	-	11 401
Deferred taxation on revaluation surplus		-	-	(2 936)
Other comprehensive income for the period net of tax		-	-	8 465
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD/YEAR		2 442 884	2 047 081	4 210 159
Earnings per share				
Basic earnings per share (in cents)		0.65	0.55	1.12
Diluted earnings per share (in cents)		0.64	0.55	1.12

Abridged Consolidated Statement of Financial Position

as at 31 March 2019

	Notes	31 March 2019 Unaudited RTGS$	31 March 2018 Unaudited RTGS$	30 September 2018 Audited RTGS$
Non-current assets				
Property, plant and equipment	5	37 959 639	9 653 515	11 125 525
Investment properties	6	2 475 000	967 000	750 000
		40 434 639	10 620 515	11 875 525
Current assets				
Inventories	7	52 632 260	16 703 438	19 635 247
Trade and other receivables	8	6 690 668	3 218 928	3 646 824
Cash and cash equivalents	9	4 826 184	1 005 415	1 287 571
Tax refund		25 600	-	317 330
		64 174 712	20 927 781	24 886 972
Total assets		104 609 351	31 548 296	36 762 497
EQUITY AND LIABILITIES				
Share capital	10	38 081	37 424	37 424
Non Distributable Reserve		7 883 691	6 951 236	6 959 701
Functional Currency Change Reserve		60 810 210	-	-
Retained earnings		8 442 291	5 341 658	7 496 271
		77 174 274	12 330 318	14 493 396
Non-current liabilities				
Deferred taxation		863 132	748 760	760 537
Long term borrowings	12	3 010 135	2 327 209	2 053 648
		3 873 267	3 075 969	2 814 185
Current liabilities				
Trade and other payables	11	14 905 674	7 325 155	11 324 445
Provisions	11.1	1 339 616	985 964	1 559 427
Borrowings	12	7 316 520	7 632 721	6 571 044
Taxation		-	198 169	-
		23 561 810	16 142 009	19 454 916
Total equity and liabilities		104 609 351	31 548 296	36 762 497

Abridged Consolidated Statement of Changes in Equity

for the six months ended 31 March 2019

	Share capital RTGS$	Non distributable reserve RTGS$	Functional currency change reserve RTGS$	Retained earnings RTGS$	Total RTGS$
Balance at 1 October 2018	37 424	6 959 701	-	7 496 271	14 493 396
Total comprehensive income for the period	-	-	-	2 442 884	2 442 884
Functional currency change reserve	-	-	60 810 210	-	60 810 210
Shares issued	657	-	-	-	657
Dividend declared and paid	-	923 990	-	(1 496 864)	(572 874)
Balance at 31 March 2019	38 081	7 883 691	60 810 210	8 442 291	77 174 274
Balance at 1 October 2017	37 424	6 951 236	-	3 294 577	10 283 237
Total comprehensive income for the period	-	-	-	2 047 081	2 047 081
Balance at 31 March 2018	37 424	6 951 236	-	5 341 658	12 330 318
Balance at 1 October 2017	37 424	6 951 236	-	3 294 577	10 283 237
Total comprehensive income for the year	-	8 465	-	4 201 694	4 210 159
Balance at 30 September 2018	37 424	6 959 701	-	7 496 271	14 493 396

Abridged Consolidated Statement of Cash Flows

for the six months ended 31 March 2019

	Note(s)	6 Months ended 31 March 2019 Unaudited RTGS$	6 Months ended 31 March 2018 Unaudited RTGS$	12 Months ended 30 September 2018 Audited RTGS$
Operating cash flows before working capital changes		38 360 667	3 107 549	7 732 950
Increase in working capital		(32 679 436)	(450 416)	(357 307)
Operating cash flows		5 681 231	2 657 133	7 375 643
Income taxes paid		(452 871)	(390 085)	(1 660 921)
Net cash generated from operations		5 228 360	2 267 048	5 714 722
Net cash utilised in investing activities		(2 819 484)	(3 300 786)	(5 131 054)
Net cash generated from/(utilised in) financing activities		1 129 737	479 324	(855 926)
Net increase/(decrease) in cash and cash equivalents		3 538 613	(554 414)	(272 258)
Net cash and cash equivalents at beginning of period		1 287 571	1 559 829	1 559 829
Cash and cash equivalents at end of period	9	4 826 184	1 005 415	1 287 571

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Unaudited Abridged Interim Consolidated Financial Statements

for the six months ended 31 March 2019

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Powerspeed Electrical Limited

Notes to the abridged interim consolidated financial statements

for the six months ended 31 March 2019

1 GENERAL INFORMATION

Powerspeed Electrical Limited, the Group's parent company, is a limited liability company incorporated and domiciled in Zimbabwe. Its registered office and principal place of business is Stand 17568, Corner Cripps Road/Kelvin Road North, Graniteside, Harare, Zimbabwe. Powerspeed Electrical Limited's shares are listed on the Zimbabwe Stock Exchange.

Presentation currency

These financial statements are presented in Real Time Gross Settlement System (RTGS) Dollars being the functional and reporting currency of the primary economic environment in which the group operates.

2 STATEMENT OF COMPLIANCE

The abridged interim consolidated financial statements are based on statutory records maintained under the historic cost convention. These abridged interim financial statements were approved for issue by the Board on Wednesday 22 May 2019.

3 BASIS OF PREPARATION

The abridged interim consolidated financial statements for the six months ended 31 March 2019 have been prepared in accordance with IAS 34 "Interim financial reporting". They do not include all of the information required for full annual financial statements and should be read in conjunction with the audited financial statements for the year ended 30 September 2018, which have been prepared in accordance with International Financial Reporting Standards.

In preparing the abridged interim consolidated financial statements, the significant judgements made by management in applying the company's accounting policies and the key sources of estimation uncertainty were based on the new fiscal and monetary policy announcement made between October 2018 and February 2019.

	6 Months ended 31 March 2019 Unaudited RTGS$	6 Months ended 31 March 2018 Unaudited RTGS$	12 Months ended 30 September 2018 Audited RTGS$
4 INCOME TAX EXPENSE			
Current tax	744 601	615 058	1 370 395
Deferred tax	102 595	94 871	103 712
	847 196	709 929	1 474 107
5 PROPERTY, PLANT AND EQUIPMENT			
Cost or valuation	48 027 487	9 586 491	9 586 491
Additions	2 820 144	3 300 785	5 135 799
Disposals	(660)	-	(15 400)
Revaluations	-	-	(153 106)
Accumulated depreciation and impairment for the period/year	(12 887 332)	(3 233 761)	(3 428 259)
Carrying amount at end of period	37 959 639	9 653 515	11 125 525
6 INVESTMENT PROPERTY			
Carrying amount at the beginning	750 000	967 000	967 000
Currency change adjustment	1 725 000	-	(217 000)
Carrying amount at the end	2 475 000	967 000	750 000
7 INVENTORIES			
Finished goods	51 524 456	15 482 748	15 405 589
Raw materials	609 904	383 673	429 239
Work in progress	128 786	96 992	77 318
Goods in transit	6 474 520	2 255 697	5 482 706
Allowance for obsolete inventory	(6 105 406)	(1515 672)	(1759 605)
	52 632 260	16 703 438	19 635 247
8 TRADE AND OTHER RECEIVABLES			
Trade	4 178 778	2 215 565	2 174 247
Allowance for credit losses	(362 886)	(432 564)	(328 074)
	3 815 892	1 783 001	1 846 173
Other	3 009 489	1 435 927	1 935 364
Allowance for credit losses	(134 713)	-	(134 713)
	6 690 668	3 218 928	3 646 824
9 CASH AND CASH EQUIVALENTS			
Cash on hand	1 223 607	34 368	254 221
Cash at bank	3 602 577	971 047	1 033 350
Bank and cash balances	4 826 184	1 005 415	1 287 571
10 SHARE CAPITAL			
Authorised share capital			
500 000 000 ordinary shares at RTGS 0.0001 per share	50 000	50 000	50 000
Issued and fully paid			
Ordinary share capital 1 October	37 424	37 424	37 424
Shares Issued in lieu of Dividend	657	-	-
	38 081	37 424	37 424
Number of issued ordinary shares at 1 October	374 240 865	374 240 865	374 240 865
Shares Issued in lieu of Dividend	6 577 636	-	-
Number of issued ordinary shares at end of period	380 818 501	374 240 865	374 240 865

Note 6: At 31 March 2019, investment properties comprised: Land and buildings located on stand number 633 in Ruwa in the district of Goromonzi. The property has been placed as security on a loan obtained from Stanbic bank.

Note 7: The provision for stock obsolescence has been rebased to its true RTGS$ balance following rebasing of inventory at 1:3.3. As at 31 March 2019 the closing balance stood at RTGS$6 105 406 and is considered adequate.

Note 9: For the purposes of statement of cash flows, cash and cash equivalents include cash on hand and in banks.

Note 10: The movement in ordinary share capital is shown below.

Notes to the abridged interim consolidated financial statements

for the six months ended 31 March 2019 (continued)

	6 Months ended 31 March 2019 Unaudited RTGS$	6 Months ended 31 March 2018 Unaudited RTGS$	12 Months ended 30 September 2018 Audited RTGS$
11 TRADE AND OTHER PAYABLES			
Trade	10 770 832	4 976 665	8 279 531
Other	4 134 842	2 348 490	3 044 914
	14 905 674	7 325 155	11 324 445
11.1 Provisions	1 339 616	985 964	1 559 427
12 BORROWINGS			
Long term borrowings	3 010 135	2 327 209	2 053 648
Short term borrowings			
Other short term borrowings	465 548	820 868	2 184 134
Bankers acceptances	3 000 000	3 369 914	2 437 833
Bank overdraft	3 850 977	3 441 939	1 949 077
	7 316 525	7 632 721	6 571 044

13 SENSITIVITY ANALYSIS

Between 1 October 2018 and 22 February 2019, a number of fiscal and monetary policy changes were made. These included the separation of bank accounts into RTGS and United States Dollars, the setting up of an interbank trading rate and the introduction of a local currency. The functional currency was changed from United States Dollars to RTGS dollars. However, on 22 February 2019 it was directed that all assets and liabilities that were valued in USD immediately before 22 February be valued in RTGS dollars at a rate of 1:1. This was not in compliance with IAS21 on foreign currency translations. The impact of which is shown below.

Element	Monetary Assets/ Liabilities Nostro FCA USD	Monetary Assets/ Liabilities RTGS DOLLAR	Non-Monetary Assets/ Liabilities Nostro FCA USD	Total @1:1 Mixed	Total RTGS $ @1:3.3 3.3	Total RTGS $ @1:4.5 4.5	Total RTGS $ @1:7 7
Property and Plant and Equipment			11 502 919	11 502 919	37 959 634	51 763 137	80 520 435
Inventory	15 485 866	1 528 901	-	17 014 767	52 632 260	71 215 299	109 929 965
Investment Property	-	-	750 000	750 000	2 475 000	3 375 000	5 250 000
Trade and Other Receivables	-	6 690 669	-	6 690 669	6 690 669	6 690 669	6 690 669
Bank and Cash	1 148 246	1 036 972	-	2 185 218	4 826 184	6 204 079	9 074 694
Long - Term Borrowings	(369 804)	(1 789 782)	-	(2 159 586)	(3 010 135)	(3 453 900)	(4 378 410)
Short - Term Borrowings	-	(3 465 528)	-	(3 465 528)	(3 465 528)	(3 465 528)	(3 465 528)
Overdraft	-	(3 850 992)	-	(3 850 992)	(3 850 992)	(3 850 992)	(3 850 992)
Accounts Payable - Foreign	(1 809 421)	-	-	(1 809 421)	(5 971 089)	(8 142 395)	(12 665 947)
Trade and Other Payables	-	(7 595 049)	-	(7 595 049)	(7 595 049)	(7 595 049)	(7 595 049)

ASSUMPTIONS

1. The group has reported the Statement of Profit and Loss and other comprehensive income from October 2018 to 22 February 2019 in line with SI33 of 2019 on the basis of 1:1.
2. Between 23 February 2019 and 31 March 2019 the group applied an average rate on all income statement transactions denominated in United States Dollars based on the prescribed interbank rate.
3. The statement of Financial position was translated as follows:
   a. Property plant and equipment translated at the interbank rate applicable on 23 February 2019 of 2.5 to establish realistic opening balances in RTGS$. Subsequent USD denominated transactions were translated at the prescribed interbank rate as at 31 March 2019.
   b. All other monetary assets and liabilities denominated in United States dollars were translated at the interbank rate applicable on 31 March 2019.
4. After translations, the group has recognised an increase in net assets which has been classified as functional currency change reserve amounting to RTGS$60 810 210.

14 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise, loans payable, bank overdrafts and trade payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash and short term deposits, which arise directly from its operations. Exposure to credit, interest rate and currency risk arises in the normal course of Group's business and these are main risks arising from the Group`s financial instruments.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below:

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Group assumes foreign credit risk only on customers approved by the Board and follows credit review procedures for local credit customers.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long and short term debt obligations and bank overdrafts. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts.

Currency risk

The Group is exposed to foreign currency risk on transactions that are denominated in a currency other than the RTGS Dollars.

In respect of all monetary assets and liabilities held in currencies other than the RTGS Dollars, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

The Group's exposure to foreign currency changes is not significant.

By Order of the Board

M.S. Gurira
Group Company Secretary

6 June 2019

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