Proplastics

Pipe Systems That Last

ABRIDGED UNAUDITED RESULTS for the period ended 30 June 2019

CHAIRMAN'S STATEMENT

INTRODUCTION

It is my pleasure to present to you the operational and financial results of the Group for the period ended 30 June 2019.

The commentary and accompanying financial statements were prepared in Zimbabwe dollars, following the introduction of the RTGS dollar by the Reserve Bank of Zimbabwe in February 2019, and then the reintroduction of the Zimbabwe dollar by the Minister of Finance and Economic Development in June 2019 through Statutory Instrument 142 of 2019.

The prior year figures were prepared in accordance with the provisions of Statutory Instrument 33 of 2019, which stated that the RTGS dollar was at par with the US dollar for accounting and other purposes.

OPERATING ENVIRONMENT

The operating environment remained extremely challenging during the period under review. The fundamental changes in the economy due to recent changes in fiscal and monetary policies had a huge negative impact on the business. However, we welcome the intent of what the re-introduction of the Zimbabwe dollar and the liberalization of the foreign exchange market could achieve, including making the Group's export products more competitive. This remains a key objective of the Group and will complement the investment made in the new factory.

As we continue to adjust to the ever-changing economic environment, we remain hopeful that the current efforts to revitalize the economy will improve economic activity in our sector in the short to medium term.

Demand for the Group's products has generally been subdued from the beginning of the year. This is a carryover from the last quarter of last year. Inflation has continued to rise and the exchange rate has continued to deteriorate. However, after the Introduction of SI 142 of 2019, the sourcing of foreign currency has become more manageable. Of late, the non-availability of utilities, in particular electricity, has severely hampered operations, as the Group has had to rely on the standby generator for extended periods to keep operations running. This has added considerably to production costs.

Notwithstanding the tough operating environment, the Group posted a reasonable performance for the period under review.

The new factory construction work is largely complete except for a few remaining electrical works. Focus has now shifted to making the plant operational by end of the third quarter. As envisaged when the Group embarked on this project, we expect operational efficiencies to improve with the migration to the new factory, thus driving down unit costs. In this regard, a more stable supply of electricity is vital in order to ensure export competitiveness and we will engage relevant authorities in order to seek a solution to this critical issue.

FINANCIAL PERFORMANCE

The Group posted a solid financial performance for the period under review.

Turnover at ZW$20,146,162 was 87% up on the previous year same period. However, such comparison must be viewed in light of the significant devaluation in the local currency, and in this regard, a more accurate measure of performance is in the decline in production volumes of 28% when compared to the previous year.

Despite lower volumes, cost of sales was contained to a 16% increase despite the huge inflationary pressures in acquiring raw materials. Resultantly, the Group posted a fairly healthy Gross profit of $11,587,805.

Overheads increased by 156% due to the inflationary environment and financing costs went up by 144% driven by costs incurred in establishing new facilities with the banks and interest on lease liability arising on initial application of International Financial Reporting Standards 16 (IFRS 16).

EBITDA improved to $8,416,129 and profit before tax was at $7,723,386. Profit after tax was $5,415,283.

The financial position remained fairly strong with total assets growing to $31,643,641. Total borrowings at the end of the period were $1,495,152 and the debt equity ratio reduced to 8% from 10% by end of 2018, which is a notable achievement given that the Group has self-financed the new factory complex.

Cash and cash equivalents closed at $1,410,747 as we used the available cash resources to beef up raw material stocks and finance the construction of the new factory. Much of the remaining equipment for the new factory has been prepaid and, therefore, there is no significant impact on foreign currency cash flow for the finalization of this project.

OUTLOOK

We expect short term demand to remain subdued given the current economic environment. Moreover, current electricity challenges will continue to weigh down business operations. We have, however, managed to keep our customers supplied through carefully planned production.

The business has been able to access foreign currency through the financial institutions following introduction of SI 142 of 2019. We hope the interbank market will continue to grow to be able to supply all our foreign currency requirements.

DIVIDEND DECLARATION

In view of the performance for the period, the board proposes an interim dividend of ZW0.80 cents per share.

ACKNOWLEDGEMENTS

I wish to extend my appreciation to my fellow Board members, Management and Staff for their hard work during the challenging period under review.

I also wish to extend my appreciation to all stakeholders for your continued support.

G. SEBBORN
05 September 2019

DIVIDEND DECLARATION NOTICE

Notice is hereby given that the Proplastics Limited Board declared an interim dividend of ZW0.80 cents per share for the half year ended 30 June 2019 payable in respect of all the ordinary shares of the Company. This dividend will be payable in full to all Shareholders of the Company registered at the close of business on 20 September 2019.

The payment of the dividend will take place on or around 27 September 2019. The applicable shareholders' tax will be deducted from the Gross Dividends.

The shares of the Company will be traded cum-dividend up to 17 September and ex-dividend as from 18 September 2019.

P. CHANGUNDA
COMPANY SECRETARY
05 September 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	Notes	30 June 2019 Unaudited $	30 June 2018 Unaudited $	31 Dec 2018 Audited $
Assets				
Non-Current Assets				
Property, plant & equipment	3.	13,391,820	4,480,268	9,362,739
Right of use assets		674,022	-	-
Total Non- Current Assets		**14,065,842**	**4,480,268**	**9,362,739**
Current Assets				
Inventories	4.	7,975,730	5,747,367	6,843,511
Trade and other receivables	5.	8,191,322	3,564,455	3,784,427
Cash and cash equivalents		1,410,747	1,601,579	1,173,304
Total Current Assets		**17,577,799**	**10,913,401**	**11,801,242**
Total Assets		**31,643,641**	**15,393,669**	**21,163,981**
Equity and Liabilities				
Equity				
Share capital		25,193	24,499	24,649
Reserves		10,177,672	8,678,149	8,984,242
Retained earnings		8,138,178	2,314,303	4,103,255
Total Equity		**18,341,043**	**11,016,951**	**13,112,146**
Non-Current Liabilities				
Long term borrowings	6.	1,008,182	469,333	848,818
Lease liability		688,337	-	-
Deferred tax		1,302,386	737,073	815,516
Total Non-Current Liabilities		**2,998,905**	**1,206,406**	**1,664,334**
Current Liabilities				
Trade and other payables	7.	8,146,965	2,731,733	5,681,188
Short-term borrowings	6.	486,970	234,667	422,273
Current tax payable		1,669,758	203,912	284,040
Total Current Liabilities		**10,303,693**	**3,170,312**	**6,387,501**
Total Liabilities		**13,302,598**	**4,376,718**	**8,051,835**
Total Equity and Liabilities		**31,643,641**	**15,393,669**	**21,163,981**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 JUNE 2019

	6 months to 30 June 2019 Unaudited $	6 months to 30 June 2018 Unaudited $
Revenue	**20,146,162**	**10,762,251**
Cost of sales	(8,558,357)	(7,356,330)
Gross profit	**11,587,805**	**3,405,921**
Other income	503,735	45,047
Distribution costs	(1,039,235)	(397,279)
Administrative expenses	(3,233,530)	(1,272,693)
Finance costs	(95,389)	(39,026)
Profit before tax	**7,723,386**	**1,741,970**
Income tax	(2,308,103)	(528,441)
Profit for the period	**5,415,283**	**1,213,529**
Comprehensive income		
Other comprehensive income	71,778	-
Related Tax	(18,483)	-
Net comprehensive income	**53,295**	**-**
Total Comprehensive income for the period	**5,468,578**	**1,213,529**
Headline earnings per share (cents)	**2.15**	**0.48**
Basic earnings per share (cents)	**2.15**	**0.50**
Diluted Earnings per share (cents)	**2.08**	**0.48**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 JUNE 2019

	6 months to 30 June 2019 Unaudited $	6 months to 30 June 2018 Unaudited $
Cash flows from operating activities	**5,353,567**	**(1,652,085)**
Interest paid	(95,389)	(39,026)
Income tax paid	(453,521)	(269,503)
Net cash flows from operating activities	**4,804,657**	**(1,960,614)**
Net cash flows utilised in investing activities	(5,311,708)	(526,409)
Net cash flows from (utilised in) financing activities	744,494	(307,649)
Net increase/(decrease) in cash and cash equivalents	**237,443**	**(2,794,672)**
Opening cash balance	1,173,304	4,396,251
Closing cash and cash equivalents	**1,410,747**	**1,601,579**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2019

	Share Capital $	Reserves $	Retained earnings $	Total equity $
Balance at 30 June 2018	**24,499**	**8,678,149**	**2,314,303**	**11,016,951**
Dividend paid	-	-	(1,249,465)	(1,249,465)
Other comprehensive income	-	253,069	-	253,069
Expected credit gain on adoption of IFRS9	-	-	17,088	17,088
Share based payments	-	18,674	-	18,674
Share premium	-	34,350	-	34,350
Profit for the period	-	-	3,021,329	3,021,329
Share options exercised	150	-	-	150
Balance at 31 December 2018	**24,649**	**8,984,242**	**4,103,255**	**13,112,146**
Dividend paid	-	-	(1,380,360)	(1,380,360)
Share capital issued	544	-	-	544
Share premium	-	1,140,135	-	1,140,135
Other comprehensive income	-	53,295	-	53,295
Profit for the period	-	-	5,415,283	5,415,283
Balance at 30 June 2019	**25,193**	**10,177,672**	**8,138,178**	**18,341,043**

NOTES TO THE FINANCIAL RESULTS

1. Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values. Where necessary, prior year figures have been reclassified to improve comparability of the information and to ensure relevance to the understanding of the current year's results. These financial statements were approved by the Board of Directors on 05 September 2019.

2. Statement of compliance

The Group's financial results , where practicable, have been prepared in accordance with the accounting policies consistent with International Financial Reporting Standards (IFRS) and in the manner required by the Zimbabwe Companies Act (Chapter 24:03). Due to the requirements of Statutory Instrument 33 of 2019, it was not practical to comply with requirements of IAS21: The Effects of Changes in Foreign Exchange Rates. This has had a significant impact on the Group's financial statements.

2.1. Accounting policies

The accounting policies applied in the preparation of the unaudited financial results are consistent with the most recent financial statements for the year ended 31 December 2018 except for the adoption of the International Financial Reporting Standard 16 (IFRS 16) Leases detailed below:

Leases

The Group has applied IFRS 16 using the cumulative effect approach also known as the modified retrospective approach with effect from 1 January 2019 and, therefore, the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. IFRS 16 requires the recognition of right –of-use asset and future lease liability payments where the Group is a lessee and the lease term is twelve months or more.

Impact on financial results

On transition to IFRS 16, the Group recognised $ 674,022 of right-of use assets, $ 688,337 of lease liabilities and the difference of $14,315 as an adjustment to retained earnings.

When measuring lease liabilities, the Group discounted lease payments using its property yield rate of 11% at 1 January 2019.

3. Property, plant and equipment

	Freehold Land & Buildings $	Capital Work in Progress $	Leasehold Improvements $	Plant & Equipment $	Motor Vehicles $	Furniture & Office Equipment $	TOTAL $
Cost /Valuation							
Balance at 30 June 2018	**1,405,208**	**-**	**98,710**	**7,491,088**	**651,556**	**352,052**	**9,998,614**
Additions	-	4,729,751	-	32,299	136,064	39,217	4,937,331
Revaluation	340,833	-	-	-	-	-	340,833
Disposals	-	-	-	(341,087)	-	(56,955)	(398,042)
Balance at 31 December 2018	**1,746,041**	**4,729,751**	**98,710**	**7,182,300**	**787,620**	**334,314**	**14,878,736**
Additions	-	2,766,299	-	1,593,948	111,617	95,667	4,567,531
Balance at 30 June 2019	**1,746,041**	**7,496,050**	**98,710**	**8,776,248**	**899,237**	**429,981**	**19,446,267**
Accumulated Depreciation							
Balance at 30 June 2018	**(80,167)**	**-**	**(4,542)**	**(4,928,752)**	**(292,880)**	**(212,005)**	**(5,518,346)**
Depreciation for the year	(9,500)	-	(4,543)	(290,982)	(49,630)	(28,700)	(383,355)
Disposals	-	-	-	332,053	-	53,651	385,704
Balance at 31 December 2018	**(89,667)**	**-**	**(9,085)**	**(4,887,681)**	**(342,510)**	**(187,054)**	**(5,515,997)**
Depreciation for the year	(11,250)	-	(4,542)	(435,500)	(56,685)	(30,473)	(538,450)
Balance at 30 June 2019	**(100,917)**	**-**	**(13,627)**	**(5,323,181)**	**(399,195)**	**(217,527)**	**(6,054,447)**
Carrying Amount							
Balance at 31 December 2018	**1,656,374**	**4,729,751**	**89,625**	**2,294,619**	**445,110**	**147,260**	**9,362,739**
Balance at 30 June 2019	**1,645,124**	**7,496,050**	**85,083**	**3,453,067**	**500,042**	**212,454**	**13,391,820**

3.1 Freehold land and buildings with a carrying amount of $1.2 million have been pledged to secure borrowings of the Company. This was done by way of a Deed of Hypothecation over The remaining Extent of Lot 5 Block Y Ardbennie Township of Ardbennie.

4. Inventories

	30 June 2019 Unaudited $	30 June 2018 Unaudited $	31 December 2018 Audited $
Raw materials	2,438,091	2,228,171	2,809,095
Work in progress	1,801,066	851,936	711,316
Finished goods	3,329,757	2,156,631	2,756,444
Spares and consumables	822,594	705,387	680,715
Provision for slow moving inventories	(415,778)	(194,758)	(114,059)
Total inventories at the end of the period	**7,975,730**	**5,747,367**	**6,843,511**

5. Trade and other receivables

	30 June 2019 Unaudited $	30 June 2018 Unaudited $	31 December 2018 Audited $
Trade receivables	3,628,981	2,099,745	1,171,953
Prepayments	3,248,587	864,701	1,162,985
Deposits and other receivables	1,758,756	788,534	1,586,660
Tax asset	-	-	477
	8,636,324	**3,752,980**	**3,922,075**
Less: Allowances for doubtful receivables	(445,002)	(188,525)	(137,648)
Total trade and other receivables at the end of the period	**8,191,322**	**3,564,455**	**3,784,427**

6. Borrowings

	30 June 2019 Unaudited $	30 June 2018 Unaudited $	31 December 2018 Audited $
Long term loan	1,008,182	469,333	848,818
Short term loan	486,970	234,667	422,273
Total borrowings at the end of the period	**1,495,152**	**704,000**	**1,271,091**

The loan is secured by Notarial General Covering Bond (NGCB) over movable assets including cession of book debts and First Ranking Deed of Hypothecation over immovable assets. It is payable over 3 years at an effective interest rate of 28% per annum.

7. Trade and other payables

	30 June 2019 Unaudited $	30 June 2018 Unaudited $	31 December 2018 Audited $
Trade payables	1,772,028	1,295,454	2,970,934
Accruals and other payables	6,374,937	1,436,279	2,710,254
Total trade and other payables at the end of the period	**8,146,965**	**2,731,733**	**5,681,188**

Directors: G Sebborn (Chairman), K Chigiya (CEO)*, P Changunda*, H S Mashanyare, M McCulloch (Alt.M Di Nicola), S Roberts, P T Zhanda (Jnr.)   (*Executive)