EDGARS STORES LIMITED

ABRIDGED AUDITED RESULTS FOR THE 52 WEEKS ENDED 5 JANUARY 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the 52 weeks to 5 January 2020

	2019 ZWL$ 52 weeks to 05.01.2020	2018 ZWL$ 52 weeks to 06.01.2019	2019 ZWL$ 52 weeks to 05.01.2020	2018 ZWL$ 52 weeks to 06.01.2019
	Inflation adjusted		* Historical	
	audited	audited	audited	audited
Revenue	595,242,865	629,048,829	267,001,142	78,118,743
Sale of merchandise	580,048,606	608,435,784	261,906,999	75,575,868
Cost of sales	(366,162,282)	(417,287,899)	(114,764,838)	(41,117,022)
Gross profit	213,886,324	191,147,885	147,142,161	34,458,846
Income from microfinance institution	12,436,004	12,808,924	4,250,887	1,602,357
Other income	4,965,246	258,056	37,483	23,386
Credit management and debt collection costs	(16,924,655	(22,257,471)	(10,040,121)	(2,330,018)
Store expenses	(90,836,658)	(101,602,746)	(35,626,636)	(12,505,486)
Depreciation and amortisation	(20,213,824)	(9,201,771)	(10,310,179)	(1,981,772)
Other operating expenses	(94,132,104)	(111,690,575)	(39,710,263)	(13,552,356)
Finance income	45,169,383	54,642,610	21,065,492	6,614,469
Finance costs	(12,853,164)	(6,516,541)	(7,418,730)	(816,151)
Net monetary (loss)/gain	(19,747,387)	140,253,110	-	-
Profit before tax	21,749,165	147,841,481	69,390,094	11,513,275
Income tax expense	(3,859,732)	(55,973,859	(17,788,895)	(3,015,175)
Profit for the period	17,889,433	91,867,622	51,601,199	8,498,100
Other comprehensive income:				
Revaluation of property, plant and equipment	24,395,627	22,991,303	9,148,651	6,543,853
Deferred tax liability arising on revaluation	(4,021,091)	(8,605,041)	(1,861,749)	(1,685,059)
Other comprehensive income for the year (net of tax)	20,374,536	14,386,262	7,286,902	4,858,794
Total comprehensive income for the period	38,263,969	106,253,884	58,888,101	13,356,894
Earnings per share (cents)				
Basic	6.37	35.60	18.37	3.29
Diluted	6.27	35.45	18.09	3.28
Headline	7.22	35.32	18.47	3.26

*Historical amounts are shown as supplementary information. The information does not comply with IAS 29: Financial Reporting for hyperinflationary countries.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the 52 weeks to 5 January 2020

	2019 ZWL$ 52 weeks to 05.01.2020	2018 ZWL$ 52 weeks to 06.01.2019	2019 ZWL$ 52 weeks to 05.01.2020	2018 ZWL$ 52 weeks to 06.01.2019
	Inflation adjusted		* Historical	
	audited	audited	audited	audited
Cash flows from operating activities				
Profit before tax	21,749,165	147,841,481	69,390,094	11,513,275
Finance income	(45,169,383)	(54,642,610)	(21,065,492)	(6,614,469)
Finance costs	12,853,164	6,516,541	7,418,730	816,151
Non cash items	(9,464,798)	(125,385,690)	20,019,190	3,118,193
Movements in working capital	(72,103,283)	8,741,197	(109,285,964)	(7,186,148)
Cash (utilised in) / generated from operations	(92,135,135	(16,929,081)	(33,523,442)	1,647,002
Finance costs paid	(12,366,062)	(6,516,541)	(6,799,927)	(923,722)
Lease interest paid	(2,152,928)	-	(2,152,928)	-
Finance income received	43,421,386	54,642,610	15,794,127	6,272,603
Taxation paid	(24,516,803)	(16,090,390)	(11,282,826)	(3,645,785)
Cash (outflow) / inflow from operating activities	(87,749,542)	15,106,598	(37,964,996)	3,350,098
Cash flows from investing activities				
Purchase of property, plant and equipment	(6,849,599)	(19,500,622)	(4,880,951)	(2,216,051)
Proceeds from disposal of property, plant and equipment	-	1,478,333	-	168,607
Net cash used in investing activities	(6,849,599)	(18,022,289)	(4,880,951)	(2,047,444)
Cash flows from financing activities	1,611,632	-	407,596	-
Proceeds from exercise of share options	122,370,708	48,226,165	52,750,000	6,000,000
Proceeds from borrowings	(64,817,696)	(18,663,660)	(12,894,422)	(2,357,802)
Repayment of borrowings	(1,425,601)	(5,455,832)	(320,333)	(619,323)
Payments of dividend	(6,528,402)	-	(6,528,402)	-
Payments of principal portion of lease liabilities	51,210,641	24,106,673	33,414,439	3,022,875
Net cash generated from financing activities				
	(43,388,500)	21,190,982	(9,431,508)	4,325,529
Net (decrease) / increase in cash and cash equivalents	40,472,705	19,281,723	6,515,713	2,296,428
Cash and cash equivalents at the beginning of the period	-	-	-	(106,244)
Cash balance from Carousel				
	(2,915,795)	40,472,705	(2,915,795)	6,515,713
Cash and cash equivalents at the end of the period				
Being:	8,881,604	41,132,643	8,881,604	6,621,957
Cash and bank balances	(11,797,399)	(659,938)	(11,797,399)	(106,244)
Bank overdrafts	(2,915,795)	40,472,705	(2,915,795)	6,515,713

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 5 January 2020

	2019 ZWL$ as at 05.01.2020	2018 ZWL$ as at 06.01.2019	2019 ZWL$ as at 05.01.2020	2018 ZWL$ as at 06.01.2019
	Inflation adjusted		* Historical	
	audited	audited	audited	audited
Assets				
Non-current assets	110,682,408	95,807,843	25,676,220	14,525,571
Property, plant and equipment	14,409,890	11,705,612	2,234,800	1,326,805
Intangible assets	20,369,062	-	20,369,062	-
Right of use asset	-	158,176	-	25,465
Deferred tax asset				
Total non-current assets	145,461,360	107,671,631	48,280,082	15,877,841
Current assets	300,834,650	122,000,727	146,382,574	15,985,570
Inventories	117,932,121	158,755,227	117,284,451	25,518,658
Trade and other receivables	6,455,962	26,557,994	6,455,962	4,275,580
Loans and advances to customers	186,714	236,223	-	38,030
Income tax receivable	8,881,604	41,132,643	8,881,604	6,621,957
Cash and cash equivalents				
Total current assets	434,291,051	348,682,813	279,004,591	52,439,795
Total assets	579,752,411	456,354,445	327,284,673	68,317,636
Equity and liabilities				
Equity	18,493,185	3,569,958	3,523,164	405,690
Issued capital	45,445,101	24,991,864	15,133,369	7,767,766
Other reserves	231,447,074	220,523,945	84,580,970	34,606,120
Retained earnings				
Total capital and reserves	295,385,360	249,085,767	103,237,503	42,779,576
Non-current liabilities	69,144,305	76,523,882	9,011,138	4,489,417
Deferred tax liability	24,244,255	22,694,348	24,244,255	3,653,570
Interest bearing loans and borrowings	10,020,155	-	10,020,155	-
Lease liabilities				
Total non-current liabilities	103,408,715	99,218,230	43,275,548	8,142,987
Current liabilities				
Trade and other payables	128,350,445	70,442,544	128,350,444	11,340,567
Contract payables	370,057	2,190,339	638,400	384,692
Dividend payable	4,631,621	4,121,579	370,058	352,622
Current tax payable	638,400	2,389,536	4,444,907	663,534
Interest bearing loans and borrowings	35,609,703	28,906,450	35,609,703	4,653,658
Lease liabilities	11,358,110	-	11,358,110	-
Total current liabilities	180,958,336	108,050,448	180,771,622	17,395,073
Total liabilities	284,367,051	207,268,678	224,047,170	25,538,060
Total equity and liabilities	579,752,411	456,354,445	327,284,673	68,317,636

*Historical amounts are shown as supplementary information. The information does not comply with IAS 29: Financial Reporting for hyperinflationary countries.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the 52 weeks to 5 January 2020

Inflation adjusted	Issued capital ZWL$	Equity-settled employee benefits reserve ZWL$	Revaluation reserve ZWL$	Credit reserve ZWL$	Retained earnings ZWL$	Total ZWL$
Balance at 8 January 2018 (as reported)	3,569,958	8,878,599	1,627,549	-	16,142,496	30,218,602
Change in accounting policy - IFRS 9	-	-	-	-	1,548,979	1,548,979
Initial application of IAS 29	-	-	(1,627,549)	-	121,252,265	119,624,716
Transfer to credit reserve	-	-	-	117,670	(117,670)	-
Balance at 8 January 2018 (restated)	3,569,958	8,878,599	-	117,670	138,826,070	151,392,297
Dividends declared	-	-	-	-	(8,560,415)	(8,560,415)
Transfer to credit reserve	-	-	-	1,609,333	(1,609,333)	-
Total comprehensive income for the period	-	-	14,386,262	-	91,867,622	106,253,884
Profit for the year	-	-	-	-	91,867,622	91,867,622
Other comprehensive income for the period	-	-	14,386,262	-	-	14,386,262
Balance at 7 January 2019	3,569,958	8,878,599	14,386,262	1,727,003	220,523,944	249,085,766
Dividends declared	-	-	-	-	(6,887,602)	(6,887,602)
Issue of ordinary shares under employee share option plan	1,611,632	-	-	-	-	1,611,632
Script dividend	5,384,407	-	-	-	-	5,384,407
Issue of shares for brand purchase transaction	7,927,188	-	-	-	-	7,927,188
Total comprehensive income for the period	-	-	20,374,536	-	17,889,433	38,263,969
Profit for the year	-	-	-	-	17,889,433	17,889,433
Other comprehensive income for the period	-	-	20,374,536	-	-	20,374,536
Transfer to credit reserve	-	-	-	78,702	(78,702)	-
Balance at 5 January 2020	18,493,185	8,878,599	34,760,798	1,805,705	231,447,073	295,385,360

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EDGARS STORES LIMITED

ABRIDGED AUDITED RESULTS FOR THE 52 WEEKS ENDED 5 JANUARY 2020

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the 52 weeks to 5 January 2020

Historical*	Issued capital	Equity-settled employee benefits reserve	Revaluation reserve	Credit reserve	Retained earnings	Total
	ZWL$	ZWL$	ZWL$	ZWL$	ZWL$	ZWL$
Balance at 8 January 2018 (as reported)	405,690	1,008,964	1,627,549	-	27,176,399	30,218,602
Change in accounting policy - IFRS 9	-	-	-	-	176,026	176,026
Initial application of IAS 29	-	-	-	-	-	
Transfer to credit reserve	-	-	-	13,372	(13,372)	-
Balance at 8 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)
Transfer to credit reserve	-	-	-	259,087	(259,087)	-
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
Balance at 7 January 2019	405,690	1,008,964	6,486,343	272,459	34,606,120	42,779,576
Dividends declared	-	-	-	-	(1,547,647)	(1,547,647)
Issue of ordinary shares under employee share option plan	407,596	-	-	-	-	407,596
Script dividend	1,209,878	-	-	-	-	1,209,878
Issue of shares for brand purchase transaction	1,500,000	-	-	-	-	1,500,000
Total comprehensive income for the period	-	-	7,286,902	-	51,601,199	58,888,101
Profit for the year	-	-	-	-	51,601,199	51,601,199
Other comprehensive income for the period	-	-	7,286,902	-	-	7,286,902
Transfer to credit reserve	-	-	-	78,702	(78,702)	-
Balance at 5 January 2020	3,523,164	1,008,964	13,773,245	351,161	84,580,970	103,237,504

*Historical amounts are shown as supplementary information. The information does not comply with IAS 29: Financial Reporting for hyperinflationary countries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the 52 weeks to 5 January 2020

1 Application of IAS 29 (Financial Reporting in Hyperinflationary Economies)

During the reporting period, the economy continued to face significant inflationary pressures as evidenced by a rising Consumer Price Index (CPI). The high year-on year inflation amongst other indicators outlined in IAS 29 resulted in a broad market consensus within the accounting and auditing profession that the Zimbabwe economy had met the characteristics of a hyperinflationary economy. The PAAB confirmed this market consensus and issued a pronouncement in October 2019 prescribing application of inflation accounting for reporting periods ended on or after 1 July 2019.

These results have been prepared in accordance with IAS 29 as if the economy had been hyperinflationary from 7 January 2019. IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date.

Comparative information

IAS29 also requires that the corresponding figures for the previous period also be restated in terms of the same measuring unit. The comparative information for the year ended 6 January 2019 was converted to ZWL from USD functional currency at rate of 1:1. The resulting ZWL numbers were then inflation adjusted using the CPI indices as specified in the inflation indices paragraph below.

Inflation indices used

The Group adopted the Zimbabwe consumer price index (CPI) compiled by Zimbabwe National Statistics Agency (ZIMSTAT) as the general price index to restate transactions and balances as appropriate. The indices and conversion factors used to restate these financials are given below.

Date	Indices	Conversion Factor
5 January 2020	551.62	1.00
6 January 2019	98.40	6.21
8 January 2018	62.70	8.80

2 Change in Accounting Policies

The Group applied IFRS 16 for the first time in the current year. The standard requires lessees to recognise right of use assets and lease liabilities for operating lease arrangements. This impacted the group's shops which are leased out from pension funds, property agents and individuals in general. The modified retrospective approach was adopted where the statement of financial position as at 7 January 2019 was restated with the right of use asset and the lease liability at the date of initial recognition. The effect of the initial adoption of IFRS 16 is as shown below on the financial statements:

	Historical and Inflation adjusted
Increase in right of use assets	5,432,135
Increase in lease liabilities	(5,432,135)
Net impact on retained earnings	-

3 Directors responsibility statement

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.

4 Auditor's Statement

These financial results should be read in conjunction with the complete set of financial statements for the 52 weeks ended 5 January 2020, which have been audited by Ernst & Young Chartered Accountants (Zimbabwe) who have issued an adverse opinion thereon because of non-compliance with International Financial Reporting Standards 'IFRS'.

Except for the matters relating to the non-compliance with IAS 21 "The Effects of Changes in Foreign Exchange Rates" and IAS 29 "Financial Reporting in Hyperinflationary Economies" described in the Basis for Adverse Opinion section, there are no other key audit matters communicated in the audit report.

The auditor's report on these consolidated financial statements, signed by Mr. David Gwande (PAAB Practicing Certificate Number 132) is available for inspection at the Group's registered office.

	2019 ZWL$	2018 ZWL$	2019 ZWL$	2018 ZWL$
	Inflation adjusted		Historical	
5 Headline earnings				
Earnings attributable to shareholders	17,889,433	91,867,622	51,601,199	8,498,100
Adjusted for non-recurring items:				
Loss / (profit) on disposal of property, plant and equipment	2,384,897	(734,083)	271,239	(84,030)
Headline earnings	20,274,330	91,133,539	51,872,438	8,414,070

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 activities of the Group, net of their related tax effects.

	2019 ZWL$	2018 ZWL$	2019 ZWL$	2018 ZWL$
6 Capital expenditure				
Computer equipment	949,545	2,304,230	769,457	261,853
Other office equipment, leasehold improvements and vehicles	5,900,054	17,196,392	4,111,494	1,954,198
Acquisition of property, plant and equipment	6,849,599	19,500,622	4,880,951	2,216,051
7 Capital Commitments				
Authorised and contracted for	-	-	-	-
Authorised but not yet contracted for	46,350,361	18,013,506	46,350,361	2,900,000
	46,350,361	18,013,506	46,350,361	2,900,000

All expenditure is to be financed from existing cash resources, rights issue and the utilisation of authorised borrowing facilities

	2019 ZWL$	2018 ZWL$	2019 ZWL$	2018 ZWL$
8 Lease commitments				
Future minimum rentals under non-cancellable operating leases are as follows:				
Within one year	14,879,149	19,246,226	14,879,149	3,098,456
After one year but not more than five years	12,039,634	16,135,847	12,039,634	2,597,715
More than five years	268,860	-	268,860	-
	27,187,643	35,382,073	27,187,643	5,696,171
9 Borrowings				
Non current interest bearing loans and borrowings	24,244,255	22,694,348	24,244,255	3,653,570
Current interest bearing loans and borrowings	35,609,703	28,906,450	35,609,703	4,653,658
	59,853,958	51,600,798	59,853,958	8,307,228

Borrowings have increased as a result of new stores and increased working capital investment.

10 Interest bearing loans and borrowings

(i) Secured with a Notarial General Covering Bond over moveable assets, cession of fire policies, debtors book of $34.25 million (2018:$ 11 million) and a guarantee of US$ 1 million from shareholders.

(ii) The weighted average effective interest rate on all the borrowings is 20.47% (2018: 9.09%) per annum.

Related party transactions

(iii) Tenures range between 90 days and 3 years

	2019 ZWL$	2018 ZWL$	2019 ZWL$	2018 ZWL$
11 Inventory impairment				
The amount of write-down of inventories recognised in cost of sales is:				
Amount of reversal of inventory to net realisable value (NRV) is:	(115,870)	(218,249)	(35,313)	(26,392)
Amount of stock losses recognised in cost of sales is:	6,996,04	6,919,432	1,907,464	830,477

12 Our business operations are cyclical, January-June is winter and July-December is summer. The summer season is our peak period.

13 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. Property, plant and equipment was last revalued in June 2019.

14 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 ZWL$1 500 000 and was settled through the issue of 15 000 000 Edgars Stores Limited ordinary shares. Having met all the conditions precedent, the shares were issued on the 20th of March 2019.

15 Segment reporting

Inflation adjusted

	Edgars Stores Retail	Jet Stores Retail	Carousel Manufacturing	Club Plus Microfinance	Corporate Head Office	Financial Services	Segments Total	Adjustments and Eliminations	Consolidated Total
52 weeks to 5 January 2020									
Revenue									
External customers	390,631,445	218,742,233	2,627,383	12,436,004	-	-	624,437,065	(29,194,200)	595,242,865
Inter-segments	-	-	42,892,526	-	68,667,084	-	111,559,610	(111,559,610)	-
Finance income	-	-	-	-	-	45,169,383	45,169,383	-	45,169,383
Total revenue	390,631,445	218,742,233	45,519,909	12,436,004	68,667,084	45,169,383	781,166,058	(140,753,810)	640,412,248
Segment profit/(loss)	94,178,448	42,920,449	12,616,080	924,355	-	50,311	150,689,643	(128,940,478)	21,749,165
52 weeks to 6 January 2019									
Revenue									
External customers	368,131,143	245,207,880	2,806,875	12,808,924	-	-	628,954,822	94,007	629,048,829
Inter-segments	-	-	31,507,303	-	-	-	31,507,303	(31,507,303)	-
Total revenue	368,131,143	245,207,880	34,314,178	12,808,924	-	-	660,462,125	(31,413,296)	629,048,829
Segment profit/(loss)	100,596,689	55,941,201	(1,840,187)	5,242,631	(67,266,454)	-	92,673,880	55,167,601	147,841,481

In October of the current year the group fully divisionalised its business units up to balance sheet level. This is in line with managements drive to effectively track and manage performance at business unit level. Comparatives have not been restated as some relevant information was not accurately tracked and recorded in prior year

Historical

	Edgars Stores Retail	Jet Stores Retail	Carousel Manufacturing	Club Plus Microfinance	Corporate Head Office	Financial Services	Segments Total	Adjustments and Eliminations	Consolidated Total
52 weeks to 5 January 2020									
Revenue									
External customers	175,220,987	98,118,650	1,178,535	4,250,887	-	-	278,769,059	(11,767,917)	267,001,142
Inter-segments	-	-	19,239,800	-	30,801,192	-	50,040,992	(50,040,992)	-
Finance income	-	-	-	-	-	21,065,492	21,065,492	-	21,065,492
Total revenue	175,220,987	98,118,650	20,418,335	4,250,887	30,801,192	21,065,492	349,875,543	(61,808,909)	288,066,634
Segment profit/(loss)	42,244,527	19,252,325	5,659,048	414,627	-	22,567	67,593,094	1,796,998	69,390,094
Total assets	82,633,077	81,483,797	16,410,750	7,943,938	32,883,603	94,300,669	315,655,834	11,628,838	327,284,673
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	21,111,697	-	73,185,410	(4,867,774)	68,317,636

16 Dividend

The Board declared a final dividend for the 2018 financial year of 0.5 cents per share on 3 May 2019.

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EDGARS STORES LIMITED

ABRIDGED AUDITED RESULTS FOR THE 52 WEEKS ENDED 5 JANUARY 2020

17 Chairman's Statement

INTRODUCTION

I am pleased to present the Edgars Stores Limited Group financial results for the 52 weeks ended 5 January 2020. The commentary on the financials is based on the inflation adjusted numbers. The historical numbers are shown as supplementary information as they have not been prepared in compliance with International Accounting Standard 29 - Financial Reporting in Hyperinflationary Economies. No opinion has been expressed by the auditors on the historical financial information.

FINANCIAL OVERVIEW

The Group's turnover decreased by 5%, from ZWL$ 629m in the previous year to ZWL$ 595m in the current year, despite a 23% decrease in units sold. Revenue performance for the last quarter, usually our peak turnover period, performed below expectation mainly due to subdued consumer spending in general and challenges with mobile payment platforms.
Profit after tax for the period was ZWL$17.9m, an 81% decrease from ZWL$91.8m in the same period last year. The business continues to prioritise cost containment.

The Group closed the year in an overstock position but this was fresh stock and placed the Group at an advantage for first quarter trading.

RETAIL OPERATIONS

Edgars Chain

The chain recorded turnover of ZWL$390m (2018: ZWL$368m) out of 26 stores (2018: 25) an increase of 6%. Units sold for the year were 1.399m (2018: 1.736m), a decrease of 19.4%. The chain's profit to sales ratio declined to 24.1% from 27.3% in 2018. Edgars Kadoma was re-opened at a new site in November 2019, having burnt down last year.

Jet Chain

Total sales were ZWL$218.7m (2018: ZWL$245.2m) out of 27 stores (2018: 25) a decrease of 10.8%. Two new stores were opened in Banket and Chegutu. Units sold for the year were 1.797m (2018: 2.483m), a decrease of 27.6%. The Chain's profit to sales ratio declined to 19.6% from 22.8% in 2018.

Credit Management

The quality of the Group's debtors book is good with 3.0% of the book over 30 days due and 75.5% being current as at end of the year. Total active accounts were 150 817 (2018: 151 522).

Edgars Chain debtors were ZWL$73.7m (2018: ZWL$123m) after an allowance for credit losses of ZWL$0.2m (2018:ZWL$3.1m). Bad debts written off net of recoveries for the period averaged 0.6% (2018: 1.8%) of lagged credit sales, and 0.1 % of lagged debtors (2018: 0.1%). Edgars chain active accounts as at end of December were 98 795 (2018: 102 159).

Jet Chain debtors were at ZWL$20.4m (2018: ZWL$39.1m) after an allowance for credit losses of ZWL$0.1m (2018: ZWL$3.2m). Bad debts written off net of recoveries for the period equated to 0.8% (2018: 1.4%) of lagged credit sales, and 0.2% of lagged debtors (2018: 0.5%). Jet Chain active accounts as at December 2019 were 51 619 (2018: 49 548).

Manufacturing

The factory made an operating profit of ZWL$12.6m (2018: ZWL$1.8m loss). 6% (2018: 8%) of sales were exports while 94% (2018: 92%) were made to the Edgars and Jet chains.

Microfinance

The microfinance business revenue declined marginally to ZWL$12.4m from ZWL$12.8m, making a profit after tax of ZWL$924k (2018: ZWL$5.2m). Loans to customers declined to ZWL$6.5m (2018: ZWL$27.1m) after an allowance for credit losses of ZWL$0.05m (2018:ZWL$0.5m).

The quality of the loan book was good with 3.5% of the book over 30 day due and 83.5% being current as at end of December 2019. Total active loan accounts as at the end of December 2019 were 11 314 (2018: 8 111). Bad debts written off net of recoveries for the period averaged 0.3 % of loan book (2018: 0.3%).

Financing and Cashflow

Gearing was at 0.20 (2018:0.22). The Group had US$ 219,036 in foreign liabilities as at 5 January 2020.

Executive movements

Mrs Buhlebenkosi Mpofu leaves the Group at the end of May 2020 to pursue other opportunities after having served the Group for four years, one of which was as the Chief Finance Officer. We wish her well in her endeavours and thank her for her contribution during her tenure of service to the Group.

OUTLOOK

The tough operating environment continues to impact negatively on the Group's growth strategy. In particular, The Covid 19 pandemic, hyper inflationary environment, liquidity challenges and foreign currency shortages. Management will continue to devise adequate survival strategies to preserve the Group's balance sheet.

Post Covid-19, clothing retail will not be the same and the Group is pursuing various initiatives to future proof the business.

The Board welcomes the new shareholder, SSCG Africa Holdings, who bought Bellfield (Pty) Limited, the Group's major shareholder from Edcon, during the year 2019.

DIVIDEND
Owing to the impact of Covid-19 pandemic, your Company will not declare a dividend this year.

APPRECIATION

The year has seen a very challenging operational environment for the business. I take this opportunity to thank fellow Board colleagues, management and staff for their contributions in the period under review. Similarly I extend my appreciation to our loyal customers as well as our landlords, bankers and suppliers for their continued support.

T N SIBANDA
CHAIRMAN

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF EDGARS STORES LIMITED

Report on the Audit of the Inflation Adjusted Consolidated and Company financial statements

Adverse Opinion

We have audited the inflation adjusted consolidated and company financial statements of Edgars Stores Limited and its subsidiaries (the Group), as set out on pages 21 to 93, which comprise the statements of financial position as at 5 January 2020, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the 52 weeks then ended, and notes to the inflation adjusted consolidated and company financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of our report, the accompanying inflation adjusted consolidated and company financial statements do not present fairly the financial position of the Company and Group as at 5 January 2020, 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

Non-compliance with IFRS: International Accounting Standard (IAS) 21- *The Effects of Changes in Foreign Exchange Rates* in the prior period and inappropriate application of IAS 8- *Accounting Polices, Changes in Accounting Estimates and Errors*

As explained in note 2.1 to the inflation adjusted consolidated and company financial statements, the Company and Group applied the United States Dollar (US$) as its functional currency for the period 1 January 2019 to 22 February 2019 and the Real Time Gross Settlement Dollar (RTGS$)/ Zimbabwe Dollar (ZWL) for the period 23 February 2019 to 5 January 2020. In order to comply with Statutory Instrument 33 of 2019, issued on 22 February 2019, the Group changed its functional currency with effect from this date. We however believe that the change in currency occurred prior to that date. The inflation adjusted consolidated and company financial statements are presented in ZWL.

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 Foreign Currency Accounts (FCAs) in RTGS$ from the Nostro FCAs in US$ 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. In February 2019 there was a Monetary Policy statement which introduced the RTGS$ and the interbank foreign exchange market. Furthermore, Statutory Instrument 142 of 2019 specified that for all domestic transactions, the Zimbabwe Dollar (which comprises RTGS$, Bond Notes and Bond Coins) was the sole legal tender effective 24 June 2019.

These events triggered the need for the Company and Group to assess whether there was a change in functional currency (from US$ to RTGS$/ZWL) and to determine an appropriate spot rate as required by IAS 21.

We believe that events in the market and subsequent promulgation of the RTGS$/ZWL as a formal currency supports that there was a change in functional currency from US$ to RTGS$/ZWL and that transactions in the market indicated a different rate between the two currencies despite the legal 1:1 RTGS$/ZWL: US$ exchange rate and this occurred effective 1 October 2018.

INDEPENDENT AUDITOR'S REPORT (continued)
TO THE MEMBERS OF EDGARS STORES LIMITED

Accordingly, the consolidated and company financial statements included balances and transactions denominated in US$ that were not converted to RTGS$/ZWL at a RTGS$/ZWL: US$ exchange rate that reflects the economic substance of its value as required by IFRS.

In respect of the above matter we issued an adverse opinion in the prior year as the effects of the departure from IFRS were material and pervasive to the financial statements but could not be quantified owing to the nature of the matter.

Management's approach in the current year, was to prospectively apply the change in functional currency from US$ to RTGS$/ZWL from 23 February which is incorrect. The correct approach would have been a retrospective restatement as a prior period error in terms of IFRS: IAS 8 – *Accounting Polices, Changes in Accounting Estimates and Errors.*

Furthermore, notwithstanding that IAS 29 - *Financial Reporting in Hyperinflationary Economies* has been applied from 1 January 2018 to 5 January 2020, it is noted that its application was based on prior and current periods' financial information which are not in compliance with IAS 21 / IAS 8 as described above. Had the correct base numbers and start date been used, all elements of the financial statements would have been materially different.

As a result of these matters:

- All corresponding numbers remain misstated on the statements of financial position; the statements of profit or loss and other comprehensive income; the statements of changes in equity and the statements of cash flows.
- As opening balances enter the determination of cash flows and financial performance, our current year opinion is modified in respect of the impact of this matter on the statements of profit or loss and other comprehensive income; the statements of changes in equity and the statements of cash flows.

Our conclusion on the current period's inflation adjusted consolidated and company financial statements is also modified because of the possible effects of the above matter on the comparability of the current period's figures and the corresponding figures.

In addition to the impact on the corresponding numbers, current year performance and cash-flows, the matter continues to affect the balances on the statements of financial position as some significant accounts still comprise of amounts from opening balances.

<u>Exchange rates used in the current year (Non-compliance with IAS 21)</u>

As outlined in Note 2.1 to the consolidated and company financial statements, for the 52 weeks ended 5 January 2020, the Company and Group translated foreign denominated transactions and balances from 23 February 2019 to 5 January 2020 using applicable interbank rates.

Furthermore, at 5 January 2020 the Group's properties were valued in US$ and converted to ZWL using the conversion factors outlined in Note 3.2.1 and Note 13.1 to the inflation adjusted consolidated and company financial statements.

The exchange rates used for the translation of transactions and balances between the US$ and the RTGS$/ZWL do not meet the definition of a spot exchange rate as per IAS 21. Had the appropriate rates been used, the following significant accounts would have been affected in a material manner; property, plant and equipment, inventories, cash and cash equivalents, deferred tax liabilities, trade and other payables, sales of merchandise, other gains/ losses and other operating income/ expenses.

INDEPENDENT AUDITOR'S REPORT (continued)
TO THE MEMBERS OF EDGARS STORES LIMITED

The effects of the above departures from IFRS are material and pervasive to the inflation adjusted consolidated and company financial statements.

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 Company and 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 ethical responsibilities in accordance with these requirements and 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 matters described in the Basis for Adverse Opinion section, we have determined that there are no other key audit matters to communicate in our report.

Other information

The directors are responsible for the other information. The other information comprises the Business Report, Corporate Board report, Group Chairman's Statement, the Corporate Governance Report, Corporate Information and all the historical cost information, which is disclosed as supplementary information, but does not include the inflation adjusted consolidated and company financial statements and our auditor's report thereon. Our opinion on the inflation adjusted 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 inflation adjusted 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 inflation adjusted 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 Company and Group did not comply with the requirements of IAS 21 and IAS 8. We have concluded that the other information is materially misstated for the same reason with respect to the amounts or other items in the relevant reports affected by the failure to comply with the referred standards.

Responsibilities of the Directors for the Inflation Adjusted Consolidated and Company Financial Statements

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

In preparing the inflation adjusted consolidated and company financial statements, the directors are responsible for assessing the Company and 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.

INDEPENDENT AUDITOR'S REPORT (continued)
TO THE MEMBERS OF EDGARS STORES LIMITED

Auditor's Responsibilities for the Audit of the Inflation Adjusted Consolidated and Company financial statements

Our objectives are to obtain reasonable assurance about whether the inflation adjusted 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 inflation adjusted 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 inflation adjusted 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 controls 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 Company and Group's internal controls.
- 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 Company and 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 inflation adjusted 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 Company or Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the inflation adjusted 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 Company and Group to express an opinion on the inflation adjusted 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.

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 controls 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.

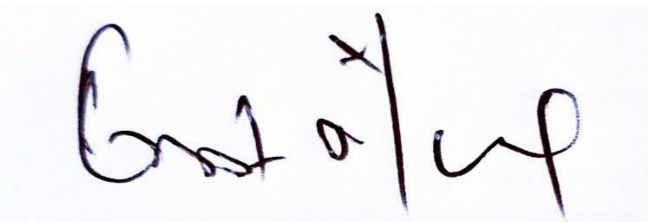
INDEPENDENT AUDITOR'S REPORT (continued)
TO THE MEMBERS OF EDGARS STORES LIMITED

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the inflation adjusted 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 inflation adjusted 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 Mr. David Gwande (PAAB Practicing Certificate Number 132).



ERNST & YOUNG
CHARTERED ACCOUNTANTS (ZIMBABWE)
REGISTERED PUBLIC AUDITORS
HARARE

14 May 2020