

COMMENTARY

INTRODUCTION

Our half year to the end of March 2020, fell just at the beginning of the disruptions arising from the Covid-19 pandemic. Business up to late March 2020 had been pleasingly buoyant, with volumes above those achieved in the same period in the previous year. Efforts to improve service levels and product availability have definitely borne fruit.

FINANCIAL PERFORMANCE

Unfortunately, massive inflation, devaluation, and changes in exchange rate management policies, during the period under review, make the financial information extremely difficult to interpret. Inflation adjusted accounts have been prepared, and are shown here. However, uncertainty surrounding the inflation indices used, do not make these numbers definitive. The comments hereafter will refer to the inflation adjusted accounts, as they do give a somewhat more realistic picture of the financial affairs of the group.

Revenue climbed from \$505m to \$718m, while gross margin rose from \$124m to \$156m. Operating expenses rose 25%, from \$94m to \$117m, giving an operating profit of \$48m; up from \$33m in the same period last year. Monetary gain, combined with a reduction in finance costs, lifted profit before tax from \$29m to \$177m, giving profit after tax of \$167m; up from \$21m and EPS increased from 5.63c to 41.95c.

Simultaneously and intentionally, there was significant growth in the balance sheet value, with shareholder equity rising 14.5%, from \$581m to \$665m.

REVIEW OF OPERATIONS

Trading - Electrosales Hardware

Our program of continuous improvement of the Electrosales Hardware brand and outlets continued in the period under review. As stated previously, one key strategy has been the enhancement of our procurement processes, whereby we are striving to source the best products for our market, from the best manufacturers locally and globally, with preference being given to local manufacturers where possible. This is an extremely difficult task, given the limited size of our market, and the various barriers such as import licenses, high import duties, Bureau Veritas, corruption, et cetera. Despite this, we have continued to make progress, and we have been able to pass the benefit to our customers.

Aside from sourcing, we have been continuing to improve our internal stock management systems, to ensure maximum stock availability in all branches; while striving to use both retail space and working capital optimally. In addition, we have been increasing the floor space, and improving the display of products in our branches. We have also continued to improve the quality of our staff, in order to make the customer experience even better.

Engineering

The Engineering Division continues to deliver pleasing results.

During the period under review, we have been able to increase the range of products manufactured, and subsequently sold through our retail outlets; thereby improving the future prospects of this Division.

OUTLOOK

The shutdown of Zimbabwe from the end of March this year, has thrown the whole economy into turmoil, with some sectors, such as tourism, being more severely hit than others. Our operations were completely closed for a good part of the month of April, and we suffered substantial losses, as a result.

We have subsequently re-opened, and although volumes have not recovered to where they were before the shutdown, they have bounced back surprisingly well. Supply lines have been disrupted, but are steadily re-opening and recovering. In the meantime, our substantial buffer stocks have been able to satisfy the reinstated demand. It is still too early to be definitive, but it does appear that volumes have already recovered sufficiently to return us to profitability.

It is clear that the Zimbabwean economy will shrink again in 2020, and that two significant sources of income for our customers, being diaspora remittances and tourism, will be significantly constrained. Despite this, we believe that we are well placed to continue our march to growing market share, and thereby grow shareholder value.

We have, for some time, been concerned about competition from the informal sector, which has been thriving in Zimbabwe. Enforcement of Covid-19 hygiene regulations has compelled authorities to keep informal markets closed, and demolish structures in some of those markets. We shall be monitoring the impact of these actions, with a view to measuring the scale of competition from the informal sector.

DIVIDEND

Given the immediate uncertainty, both in Zimbabwe and internationally, the Board has considered it prudent not to declare a dividend for the half year ended 31 March 2020. However, we are optimistic that we should be in a position to, once again, declare a dividend at the end of this financial year.

INDEPENDENT REVIEW REPORT

These abridged interim consolidated financial statements for the six months ended 31 March 2020 have been reviewed by Messrs Grant Thornton Chartered Accountants (Zimbabwe) and a modified review conclusion issued thereon. This review conclusion is adverse with respect to non-compliance with International Accounting Standard (IAS) 21, *The Effects of Changes in Foreign Exchange Rates*, International Accounting Standard (IAS) 29 - *Financial Reporting in Hyperinflationary Economies* and the fair value determination of assets, transactions and liabilities. There is an emphasis of matter paragraph regarding the possible impact of the uncertainties relating to COVID-19 pandemic to the Group. The review conclusion has been made available to management and Those Charged with Governance of Powerspeed Electrical Limited. The Independent Review report on the consolidated interim financial statements is available for inspection at the company's registered office.

Abridged Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended 31 March 2020

Notes	INFLATION ADJUSTED		HISTORICAL COST	
	REVIEWED	UNAUDITED	REVIEWED	UNAUDITED
	6 months ended 31 March 2020	6 months ended 31 March 2019	6 months ended 31 March 2020	6 months ended 31 March 2019
	ZWL \$000	ZWL \$000	ZWL \$000	ZWL \$000
	717 667	505 456	517 770	60 130
Revenue	(561 303)	(381 296)	(402 765)	(45 621)
Cost of sales	156 364	124 160	115 005	14 509
Gross profit	104	128	101	15
Investment property income	7 580	-	7 350	-
Fair value adjustment on investment property	748	2 735	725	319
Other income	(117 062)	(93 756)	(87 520)	(11 047)
Operating expenses	47 734	33 267	35 661	3 796
Operating profit	133 101	-	-	-
Monetary gain	(3 920)	(4 372)	(2 676)	(506)
Finance costs	176 915	28 895	32 985	3 290
Profit before taxation	(10 411)	(7 440)	(8 263)	(848)
Income tax expense	166 504	21 455	24 722	2 442
Profit for the period				
Other comprehensive income:				
Gain on property revaluation	-	-	109 215	-
Deferred taxation on revaluation surplus	-	-	(26 998)	-
Other comprehensive income for the period, net of tax	-	-	82 217	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	166 504	21 455	106 939	2 442
Earnings per share				
Basic earnings per share (in cents)	41.95	5.63	6.23	0.65
Diluted earnings per share (in cents)	41.95	5.63	6.23	0.64

Abridged Consolidated Statement of Financial Position

as at 31 March 2020

Notes	INFLATION ADJUSTED		HISTORICAL COST	
	REVIEWED	UNAUDITED	REVIEWED	UNAUDITED
	31 March 2020	31 March 2019	31 March 2020	31 March 2019
	ZWL \$000	ZWL \$000	ZWL \$000	ZWL \$000
ASSETS				
Property, plant and equipment	281 453	282 346	281 453	37 959
Investment property	18 750	18 409	18 750	2 475
	300 203	300 755	300 203	40 434
Current assets				
Inventories	659 389	398 315	472 427	52 633
Trade and other receivables	89 344	49 766	89 344	6 691
Cash and cash equivalents	15 831	35 897	15 831	4 827
Tax refund	-	190	-	26
	764 564	484 168	577 602	64 177
Total assets	1 064 767	784 923	877 805	104 611
EQUITY AND LIABILITIES				
Share capital	285	283	40	38
Share premium	12 094	9 042	4 569	1 099
Revaluation reserve	-	-	176 694	8
Retained earnings	652 373	571 534	296 487	76 035
	664 752	580 859	477 790	77 180
Non current liabilities				
Deferred taxation	60 418	6 420	60 418	863
Long term borrowings	5 082	22 390	5 082	3 010
	65 500	28 810	65 500	3 873
Current liabilities				
Trade and other payables	294 628	110 869	294 628	14 906
Provisions	17 735	9 964	17 735	1 340
Borrowings	18 699	54 421	18 699	7 312
Taxation	3 453	-	3 453	-
	334 515	175 254	334 515	23 558
Total equity and liabilities	1 064 767	784 923	877 805	104 611

Abridged Consolidated Statement of Cash Flows

for the six months ended 31 March 2020

Notes	INFLATION ADJUSTED		HISTORICAL COST	
	REVIEWED	UNAUDITED	REVIEWED	UNAUDITED
	6 months ended 31 March 2020	6 months ended 31 March 2019	6 months ended 31 March 2020	6 months ended 31 March 2019
	ZWL \$000	ZWL \$000	ZWL \$000	ZWL \$000
Operating cashflows before working capital changes	102 931	257 587	39 703	38 360
Increase in working capital	(47 957)	(213 985)	(12 829)	(32 679)
Operating cashflows	54 974	43 602	26 874	5 681
Income taxes paid	(4 185)	(3 356)	(3 276)	(453)
Net cash generated from operations	50 789	40 246	23 598	5 228
Net cash utilised in investing activities	(7 863)	(3 301)	(17 906)	(2 819)
Net cash (utilised in)/generated from financing activities	(62 992)	(16 653)	5 312	1 130
Net (decrease)/increase in cash and cash equivalents	(20 066)	20 292	11 004	3 539
Net cash and cash equivalents at beginning of period	35 897	15 605	4 827	1 288
Cash and cash equivalents at end of period	15 831	35 897	15 831	4 827

Abridged Consolidated Statement of Changes in Equity

for the six months ended 31 March 2020

	INFLATION ADJUSTED				
	Share capital	Share premium	Revaluation reserve	Retained earnings	Total
	ZWL \$000	ZWL \$000	ZWL \$000	ZWL \$000	ZWL \$000
Balance at 1 October 2019	283	7 888	-	490 471	498 642
Total comprehensive income for the period	-	-	-	166 504	166 504
Shares issued	2	4 206	-	-	4 208
Dividend paid	-	-	-	(4 602)	(4 602)
Balance at 31 March 2020	285	12 094	-	652 373	664 752
Balance at 1 October 2018	282	2 166	-	552 140	554 588
Total comprehensive income for the period	-	-	-	21 455	21 455
Shares issued	1	6 876	-	-	6 877
Dividend paid	-	-	-	(2 061)	(2 061)
Balance at 31 March 2019	283	9 042	-	571 534	580 859
	HISTORICAL COST				
	Share capital	Share premium	Revaluation reserve	Retained earnings	Total
	ZWL \$000	ZWL \$000	ZWL \$000	ZWL \$000	ZWL \$000
Balance at 1 October 2019	38	1 099	94 477	275 560	371 174
Total comprehensive income for the period	-	-	82 217	24 722	106 939
Shares issued	2	3 470	-	-	3 472
Dividend paid	-	-	-	(3 795)	(3 795)
Balance at 31 March 2020	40	4 569	176 694	296 487	477 790
Balance at 1 October 2018	37	175	8	14 272	14 492
Total comprehensive income for the period	-	-	-	2 442	2 442
Functional currency change reserve	-	-	-	60 818	60 818
Shares issued	1	924	-	-	925
Dividend paid	-	-	-	(1 497)	(1 497)
Balance at 31 March 2019	38	1 099	8	76 035	77 180

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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To the members of Powerspeed Electrical Limited and its subsidiaries

We have reviewed the accompanying inflation adjusted consolidated statement of financial position of Powerspeed Electrical Limited and its subsidiaries as at 31 March 2020 and the related inflation adjusted consolidated statement of profit or loss and other comprehensive income, inflation adjusted consolidated statement of changes in equity and consolidated statement of cash flows for the six-month period then ended, and a summary of significant group accounting policies and other explanatory notes.

Responsibilities of Management and Those Charged with Governance for the inflation adjusted consolidated interim financial information

Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting* and the Group's accounting policies, this includes the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of inflation adjusted consolidated interim financial information that are free of material misstatement whether due to fraud or error.

Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *“Review of Interim Financial Information Performed by the Independent Auditor of the Entity.”* A review of interim financial information consists of making inquiries,

primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Adverse Conclusion

Non-compliance with International Accounting Standard (IAS) 21 - The Effect of Changes in Foreign Exchange Rates and International Accounting Standard (IAS) 29 - Financial Reporting in Hyperinflationary Economies

On 1 October 2018, the Reserve Bank of Zimbabwe (RBZ) issued a Monetary Policy Statement which directed banks to separate bank accounts into Real Time Gross Settlement Foreign Currency Accounts (RTGS FCAs) and Nostro FCAs. The economic environment during the year ended 30 September 2019 was characterised by 'multi-tiered' pricing, and the Group transacted predominantly in RTGS FCA (electronic payments), including mobile money, bond notes and coins.

On 20 February 2019, a Monetary Policy Statement was issued, denominating the existing RTGS balances, bond notes and coins in circulation as RTGS dollars in order to establish an exchange rate between the existing monetary balances and foreign currency. The RTGS dollars became part of the multi-currency system in Zimbabwe through the issuance of statutory instrument (S.I.) 33/2019, with an effective date of 22 February 2019. The statutory instrument provided that for accounting and other purposes, all assets and liabilities that were immediately before the effective date, valued and expressed in United States dollars shall on and after the effective date be deemed to be values in RTGS dollars at a rate of 1:1 to the United States dollar. This was not consistent with IAS 21 - *The Effects of Changes in Foreign Exchange Rates* which requires that an assessment be made of the change in functional currency and that financial information be presented at a rate that approximates the market rate. The Group had to be guided by S.I. 41/2019 which states that in the case of any inconsistency between a local pronouncement issued by the Board through a notice in the Government Gazette and any international standard, the local pronouncement shall take precedence to the extent of the inconsistency.

In compliance with SI 33/2019, the Group maintained its functional currency as the USD from 1 October 2018 to 22 February 2019 using an exchange rate of 1:1 between the RTGS FCA and Nostro FCA and changed to Zimbabwe Dollar as presented in the financial statements. This constitutes a departure from the requirements of IAS 21 - *The Effects of Changes in Foreign Exchange Rates*. Had the financial information been prepared in accordance with the requirements of IAS 21, many elements would have been materially affected. As a result, the impact of the Group's inability to comply with IAS 21 has been determined as significant. The effects on the financial information of the non-compliance

with IAS 21 are considered material and pervasive to the financial information, taken as a whole.

On 11 October 2019, the Public Accountants and Auditors Board (PAAB) issued a pronouncement relating to the application of IAS 29 - *Financial Reporting in Hyperinflationary Economies*. The PAAB advised that there is broad market consensus within the accounting and auditing professions that the factors and characteristics to apply the Financial Reporting in Hyperinflationary Economies Standard (IAS 29), in Zimbabwe had been met. The Directors have applied the IAS 29 - *Financial Reporting in Hyperinflationary Economies* with effect from 1 October 2019. However, as a result of the need to comply with the requirements of S.I. 33 of 2019, the changes in the general pricing power of the functional currency were applied on amounts that were not restated to resolve the matters which resulted in an adverse report in the prior year. This approach resulted in a consequential departure from the requirements of IAS 29 - *Financial Reporting in Hyperinflationary Economies*.

Had the Group fully applied the requirements of IAS 29 on restated base numbers, many of the elements of the financial information would have been materially impacted and therefore the departure from the requirements of these standards is considered to be pervasive.

Fair value determination of transactions, assets and liabilities

The determination of fair values for transactions, assets and liabilities presented in the financial information is affected by the prevailing economic environment and may therefore be distorted. This may result in significant variations in fair values, depending on factors and assumptions used in the determination of fair values.

Emphasis of matter

We draw attention to note 13.3 to the inflation adjusted consolidated interim financial information, which describes the uncertainties relating to the possible effects of the COVID-19 pandemic on the Group. The Group is unable to presently determine the impact of the Covid-19 pandemic on its operations in the year 2020. Our conclusion is not modified in respect of this matter.

Conclusion

Based on our review, the accompanying inflation adjusted consolidated interim financial information do not present fairly, in all material respects the financial position of Powerspeed Electrical Limited and its subsidiaries as at 31 March 2020, and of its financial performance and its cash flows for the six month period then ended in accordance with International Financial Reporting Standards.

The engagement partner on the review engagement resulting in this independent review conclusion is Edmore Chimhowa.

Grant Thornton

Edmore Chimhowa
Partner

Registered Public Auditor (PAAB No: 0470)

Grant Thornton
Chartered Accountants (Zimbabwe)
Registered Public Auditors

HARARE

29 May..... 2020