



# Reviewed Abridged Group Financial Results for the 26 weeks ended 5 July 2020

## Group Chairman's Statement

The statement is prepared on the basis of inflation adjusted numbers.

## Business Overview

Material disruptions stemming from COVID-19 had a significant impact on the group's performance, most significantly in April and May due to enforced lockdowns. Since then sales have been steadily recovering. Units sold to end of June trading declined from 1.6 million to 963K compared to same period last year, a trend reflected in the 48% decline in revenue. Trading in foreign currency since April has allowed retail chains to improve stock assortments, which in turn has improved the number of feet in our stores. The business recorded decent foreign currency sales spurred by increased diaspora remittances.

The factory received foreign currency allocation through the FX auction system for re-tooling. The introduction of the FX auction and the subsequent price correction resulted in increased operating costs.

The credit environment has been tough, saddled by hyperinflation making value preservation very difficult and COVID-19 uncertainties leading to high delinquencies during lockdown as customers could not pay in stores.

Profit after tax for the period was ZW\$36 million increasing from ZW\$17.8million in the same period last year. In historical terms profit after tax increased 268% to ZW\$ 75.4million (2019: ZW\$20.2million). The business continues to track pricing of its products against stable currencies.

## Edgars Chain

The chain recorded turnover of ZW\$194.3m (2019: ZW\$456.5m) out of 26 stores (2019:26). Units sold for the year were 0.4m (2019:0.6m). The chain's profit to sales ratio declined to 16% (2019: 37%).

## Jet Chain

Total sales were ZW\$166.7m (2019: ZW\$279.9m) out of 27 stores (2019:25). Units sold for the half year were 0.5m (2019:0.9m). The chain's profit to sales ratio declined to 22% (2019:30%).

## Credit Management

The retail book declined to ZW\$64m at the end of the period from a peak of ZW\$98m in March 2020 trading period. This was due to deliberate steps to curtail credit and general customer caution to credit during uncertain times. We have since released credit in a measured approach, targeting existing customers with good payment record.

The microfinance loan book, like the retail book, declined due to challenges mentioned above. Revenue decreased to ZW\$8.2m (2019: ZW\$21.5m) making a profit after tax of ZW\$0.8m (2019: ZW\$12.5m). Loans to customers were at ZW\$7.1m (2019: ZW\$16.9m). Both retail debtors and the loan book have since recovered better than expectation.

## Manufacturing

The factory made a profit of ZW\$7.7m (2019: ZW\$23m). The sale of face-masks contributed significantly to this performance.

## Financing and Cashflow

Gearing decreased to 0.16 in the current year (2019:0.20). The Group had US\$168 000 foreign liabilities as at the end of June 2020 which has since been settled.

## Outlook

The Rights Issue has been concluded, raising ZW\$70m for the group. The Edgars Employee Share Trust also managed to follow its rights through the Pension Fund reflecting employees' commitment to the business. The proceeds have been used in retooling the factory, in progress stores revamps and enhancement of digital capabilities including the development of online shopping platforms.

A continued multicurrency environment will be key for the business. Foreign currency sales growth will depend on diaspora remittance growth.

## Dividend

Regrettably, your Group will not declare an interim dividend for the 26 weeks to 5 July 2020.

## Appreciation

I would like to commend fellow board members, shareholders, management and staff for their continued resilience and commitment despite the challenging environment. I look forward to continued effort from all in the last quarter of the year.

T N SIBANDA  
CHAIRMAN

## Inflation adjusted interim consolidated and company statement of profit or loss and other comprehensive income

	Group		Company	
	Notes	26 weeks to	26 weeks to	26 weeks to
		5 July 2020	7 July 2019	5 July 2020
		ZW\$	ZW\$	ZW\$
		(Reviewed)	(Unaudited)	(Reviewed)
Revenue from contracts with customers		390 191 452	763 677 284	382 376 485
Sales of Merchandise		381 558 947	736 082 838	381 558 947
Cost of sales		(222 710 585)	(315 373 877)	(222 609 072)
Gross profit		158 848 362	420 708 961	158 949 875
Income from Micro-finance institution		7 814 967	22 239 040	-
Other gains		33 437 658	21 264 427	33 258 031
Credit management and debt collection costs		(9 841 328)	(19 040 869)	(8 667 875)
Store expenses		(99 678 972)	(103 721 072)	(99 026 310)
Other operating income expenses		(92 495 038)	(142 574 886)	(87 912 571)
Net monetary gain / (loss)		37 287 532	(134 425 366)	40 471 366
Profit before interest and taxation		35 737 181	64 450 235	37 072 516
Finance income		90 795 211	56 278 109	91 027 629
Finance costs		(39 491 722)	(11 165 964)	(38 601 061)
Profit before taxation		86 676 670	109 562 380	89 499 084
Taxation		(50 675 721)	(91 724 998)	(49 252 050)
Profit for the period		36 000 949	17 837 382	40 247 034
Other comprehensive income				
Other comprehensive income not to be reclassified to profit or loss in subsequent periods :				
Revaluation gain on revaluation of land and buildings		-	63 913 977	-
Deferred tax charge		-	(10 534 826)	-
Total other comprehensive income		-	53 379 151	-
Total comprehensive income / (loss)		36 000 950	71 216 533	40 247 035
Earnings per ordinary share (cents)				
Basic	6	12.37	6.34	13.83
Diluted	6	12.16	6.24	13.59
Headline	6	12.38	6.48	13.83

## Inflation adjusted interim consolidated and company statement of financial position

	Group		Company	
	Notes	5 July 2020	5 January 2020	5 July 2020
		ZW\$	ZW\$	ZW\$
		(Reviewed)	(Audited)	(Reviewed)
				(Audited)
ASSETS				
Non-current assets				
Property, plant and equipment	7	277 319 542	289 976 030	272 417 487
Right of use asset		13 909 206	53 364 757	13 909 206
Intangible assets		30 915 581	37 752 366	30 915 581
Investment in a subsidiary		-	-	22 796 367
Current assets				
Inventories	13	704 551 998	788 154 499	704 503 335
Trade and other receivables		107 358 053	308 969 502	107 171 390
Loans and advances to customers		7 195 675	16 913 927	-
Intercompany loan		-	-	4 512 347
Income tax receivable		-	489 170	-
Cash and cash equivalents		129 493 788	23 268 851	126 104 618
Total current assets		948 599 514	1 137 795 949	942 291 690
TOTAL ASSETS		1 270 743 843	1 518 899 102	1 282 330 331
EQUITY AND LIABILITIES				
Share capital and reserves				
Issued share capital	12	48 690 682	48 450 161	48 690 682
Other reserves		119 442 196	119 061 287	116 949 872
Retained earnings		641 746 020	606 366 500	661 011 348
Non-current liabilities				
Deferred tax liabilities		202 847 542	181 150 659	201 694 771
Long term portion of loans and borrowings	8	18 118 628	63 517 347	18 118 628
Lease liabilities	14	10 020 155	26 251 731	10 020 155
Current liabilities				
Trade and other payables		90 917 074	336 264 389	90 387 150
Dividend payable		370 059	969 512	370 059
Current tax liabilities		19 608 419	12 134 349	19 415 063
Contract liabilities		731 300	1 672 538	731 299
Interest bearing loans and borrowings	8	112 783 985	93 293 599	109 473 521
Lease liabilities	14	5 467 783	29 757 030	5 467 783
Total current liabilities		229 878 620	474 091 417	225 844 875
TOTAL EQUITY AND LIABILITIES		1 270 743 843	1 518 899 102	1 282 330 331

EDGARS



CAROUSEL

A Division of Edgars Stores Limited



Directors: T.N. Sibanda (Chairman), C. Dube, L.L. Tsumba, R. Mlotshwa, T.N. Ndlovu (CEO), B. Ndlovu (CFO), V. Mpofu, M. Hosack





Reviewed Abridged Group Financial Results for the 26 weeks ended 5 July 2020 (continued)

Inflation adjusted interim consolidated and company statement of changes in equity

Group						
	Issued capital	Equity-settled employee benefits reserve	Revaluation reserve	Credit reserve	Retained earnings	Total
	ZW\$	ZW\$	ZW\$	ZW\$	ZW\$	ZW\$
Balance as at 7 January 2019	9 352 906	23 260 977	37 690 408	4 524 562	577 749 070	652 577 924
Issue of shares under employee share option plan	3 989 716	-	-	-	-	3 989 716
Issue of shares for brand purchase transaction	20 768 383	-	-	-	-	20 768 383
Scrip dividend	14 106 569	-	-	-	-	14 106 569
Total comprehensive income for the year	-	-	53 379 151	-	17 837 382	71 216 533
Profit for the year	-	-	-	-	17 837 382	17 837 382
Other comprehensive income for the year	-	-	53 379 151	-	-	53 379 151
Dividends declared	-	-	-	-	(18 044 779)	(18 044 779)
Transfer to credit reserve	-	-	-	3 252 100	(3 252 100)	-
Balance at 7 July 2019 (unaudited)	48 217 574	23 260 977	91 069 559	7 776 662	574 289 573	744 614 346
Balance at 5 January 2020	48 450 161	23 260 977	91 069 559	4 730 752	606 366 500	773 877 949
Issue of shares under employee share option plan	240 521	(240 521)	-	-	-	-
Total comprehensive income for the period	-	-	-	-	36 000 949	36 000 949
Profit for the year	-	-	-	-	36 000 949	36 000 949
Other comprehensive income for the period	-	-	-	-	-	--
Transfer to credit reserve	-	-	-	621 429	(621 429)	-
Balance as at 5 July 2020	48 690 682	23 020 456	91 069 559	5 352 181	641 746 020	809 878 898
Company						
Balance as at 7 January 2019	9 352 906	23 260 977	40 550 265		589 815 395	662 979 543
Issue of ordinary shares under employee share option plan	3 989 716	-	-		-	3 989 716
Issue of shares for brand purchase transaction	20 768 383	-	-		-	20 768 383
Script dividend	14 106 569	-	-		-	14 106 569
Total comprehensive income for the period	-	-	53 379 151		36 914 470	90 293 621
Profit for the year	-	-	-		36 914 470	36 914 470
Other comprehensive income for the period	-	-	53 379 151		-	53 379 151
Dividends declared	-	-	-		(18 044 779)	(18 044 779)
Balance at 7 July 2019 (unaudited)	48 217 574	23 260 977	93 929 416		608 685 086	774 093 054
Balance at 5 January 2020	48 450 161	23 260 977	93 929 416		620 764 314	786 404 868
Issue of ordinary shares under employee share option plan	240 521	(240 521)	-		-	-
Total comprehensive income for the period	-	-	-		40 247 034	40 247 034
Profit for the year	-	-	-		40 247 034	40 247 034
Other comprehensive income for the period	-	-	-		-	-
Balance as at 5 July 2020	48 690 682	23 020 456	93 929 416		661 011 348	826 651 902

Inflation adjusted interim consolidated and company statement of cash flows

	Group		Company	
	Notes	26 weeks to 5 July 2020	26 weeks to 5 July 2020	26 weeks to 5 July 2020
		ZW\$	ZW\$	ZW\$
		(Reviewed)	(Unaudited)	(Reviewed)
OPERATING ACTIVITIES				
Profit before tax		86 676 670	109 562 380	89 499 084
Adjusted for:				
Finance income		(90 795 211)	(56 278 109)	(91 027 629)
Finance costs		39 491 722	11 165 964	38 601 061
Non-cash items		(86 954 604)	(24 876 630)	(84 220 615)
Movements in working capital		34 343 586	(169 450 220)	25 174 108
Cash utilised in operations		(17 237 837)	(129 876 615)	(21 973 991)
Finance income received		90 795 211	56 278 109	91 027 629
Finance costs paid		(39 491 722)	(11 165 964)	(38 601 061)
Interest on lease made		(3 750 579)	(2 667 863)	(3 750 578)
Taxation paid		(17 832 192)	(36 650 728)	(18 109 270)
Net cash inflow / (outflow) from operating activities		12 482 881	(124 083 061)	8 592 729
INVESTING ACTIVITIES				
Payments for property, plant and equipment		(8 693 284)	(6 940 014)	(8 693 284)
Loans advanced to subsidiaries		-	-	7 371 780
Loans paid back by subsidiaries		-	-	(5 002 070)
Net cash outflow from investing activities		(8 693 284)	(6 940 014)	(6 323 574)
FINANCING ACTIVITIES				
Proceeds from borrowings		445 260 192	89 803 946	445 260 192
Repayment of borrowings		(289 285 819)	(14 174 922)	(289 285 819)
Payment of principal portion of lease liabilities		(9 773 045)	(12 037 704)	(9 773 045)
Net cash inflow from financing activities		146 201 328	63 591 320	146 201 328
Net increase / (decrease) in cash and cash equivalents		149 990 925	(67 431 755)	148 470 482
Net foreign exchange difference		(35 945 188)	(817 247)	(35 945 186)
Cash and cash equivalents at 5 January		(7 472 858)	97 302 544	(9 260 865)
Cash and cash equivalents at 5 July		106 572 879	29 053 542	103 264 432
Disclosed as follows:				
Cash and cash equivalents		129 493 788	29 053 542	126 104 618
Bank overdrafts		(22 920 909)	-	(22 840 186)
		106 572 879	29 053 542	103 264 432

Notes to the inflation adjusted interim consolidated and company financial statements

1. Corporate information

Edgars Stores Limited (the Group) is a limited Group incorporated and domiciled in Zimbabwe. The Group distributes clothing, footwear and accessories through a network of stores. It also manufactures clothing and has a microfinance loan business.
2. Director's responsibility

As required by the Companies and Other Business Entities Act [Chapter 24:31], the directors of Edgars Stores Limited are responsible for the maintenance of adequate accounting records, the preparation, integrity and fair representation of the Inflation adjusted interim condensed consolidated and company financial statements ("financial statements" hereafter) and related information for each financial year, of which the press release is an extract. The full set of reviewed financial statements is available for download on the company's website (<http://www.edgars.co.zw/investor-relations/annual-reports>).

The Directors have reviewed the performance and financial position of the Group and are satisfied that the Group and Company have adequate financial resources to continue as a going concern.
3. Basis of preparation

The inflation adjusted interim condensed consolidated and company financial statements for the 26 weeks ended 5 July 2020 have been prepared in accordance with IAS 34 Interim Financial Reporting. The Directors are of the view that the requirement to comply with the Statutory Instrument 33 of 2019 has created inconsistencies with International Accounting Standard (IAS) 21: The effect of changes in foreign exchange rates. This resulted in the accounting treatment adopted in the 2019 and 2020 financial statements being different from that which the Directors would have adopted if the Group had been able to fully comply with International Financial Reporting Standards.

Application of IAS 29 (Financial Reporting in Hyperinflationary Economies)

The Group adopted the Consumer Price Index (CPI) compiled by the Zimbabwe National Statistics Agency (ZIMSTAT) for purposes of determining inflation indices. The indices and factors used to restate the financial results are given below:

Date	CPI Index	Conversion factor
5 July 2020	1,445.2	1.00
5 January 2020	551.6	2.62
7 July 2019	172.6	8.37
6 January 2019	88.8	16.27

4. Independent Auditor's Review Conclusion

The Group's inflation adjusted interim financial statements from which these abridged results have been extracted have been reviewed by the Group's external auditors, Ernst & Young Chartered Accountants (Zimbabwe), who have issued an adverse conclusion as a result of non-compliance with International Accounting Standard 21, "The Effects of Changes in Foreign Exchange Rates", International Accounting Standard 8, "Accounting Policies, Changes in Accounting Estimates and Errors" and International Accounting Standard 16 "Property, Plant and Equipment" and the consequential impact on the inflation-adjusted amounts determined in accordance with IAS 29. The auditor's review conclusion on the Group's inflation adjusted interim financial statements is available for inspection at the Group's registered office. The engagement partner for this review is Mr David Gwande (PAAB Practicing Certificate Number 132).





# Reviewed Abridged Group Financial Results for the 26 weeks ended 5 July 2020 (continued)

## 5. Segmental Reporting

The following tables present revenue, profit, assets and liabilities information for the Group's operating segments for the 26 weeks ended 5 July 2020 and 7 July 2019, respectively:

	Retail- Edgars	Retail- Jet	Manufacturing	Financial Services	Micro Finance	Corporate	Total Segments	Adjustments and Eliminations	Consolidated
	ZW\$	ZW\$	ZW\$	ZW\$	ZW\$	ZW\$	ZW\$	ZW\$	ZW\$
26 weeks to 5 July 2020									
Revenue									
External customers	194 270 433	166 673 006	7 105 763	96 492 530	8 176 383	1 007 764	473 725 878	(83 534 426)	390 191 452
Inter-segments	-	-	12 788 454	9 105 110	-	58 197 731	80 091 295	(80 091 295)	-
Total revenue	194 270 433	166 673 006	19 894 217	105 597 640	8 176 383	59 205 495	553 817 173	(163 625 721)	390 191 452
Segment profit	31 483 157	36 534 564	7 662 125	43 071 245	821 642	312 026	119 884 759	(83 883 810)	36 000 949
Total assets	506 079 610	300 416 229	72 789 241	307 965 245	32 336 741	321 240 980	1 540 828 044	(270 084 201)	1 270 743 843
Total liabilities	247 987 796	74 531 589	21 280 369	55 941 068	15 625 449	206 484 092	621 850 363	(160 985 418)	460 864 945
26 weeks to 7 July 2019									
Revenue									
External customers	456 497 844	279 864 783	5 792 467	57 024 397	21 522 188	-	820 701 680	(57 024 396)	763 677 284
Inter-segments	-	-	47 043 793	-	-	-	47 043 793	(47 043 793)	-
Total revenue	456 497 844	279 864 783	52 836 260	57 024 397	21 522 188	-	867 745 473	(104 068 189)	763 677 284
Segment profit/(loss)	168 163 166	84 257 791	23 000 047	-	12 487 180	(66 295 467)	221 612 718	(203 775 335)	17 837 382
Total assets	410 265 927	210 188 190	60 385 841	-	53 458 273	314 288 144	1 048 586 376	(84 604 551)	963 981 825

**Seasonality of operations**

The Edgars and Jet Chain segments supply clothing, footwear, textiles and accessories through a network of stores in Zimbabwe. Due to the seasonal nature of these segments, higher revenues and operating profits are usually expected in the second half of the year rather than in the first six months. Higher sales during the period October to December are mainly attributed to increased demand for clothing during the peak summer season, as well as the December holidays. This information is provided to allow for a better understanding of the results, however, management has concluded that this is not 'highly seasonal' in accordance with IAS 34.

We have not shown comparatives for Financial Services (Retail credit) and liabilities for the half year ended 7 July 2019 due as the Group had not fully divisionalised then.

Eliminations pertain to interdivisional transactions and balances primarily shared services, unrealized profit in inventories sold between divisions and netting discounts against revenue.

## 6. Earnings per share

	000's		000's	
Weighted average number of shares (basic)	290 950	281 293	290 950	281 293
Weighted average number of shares (diluted)	296 157	285 974	296 157	285 974
	Group		Company	
	5 July 2020	5 January 2020	5 July 2020	5 January 2020
	ZW\$	ZW\$	ZW\$	ZW\$
Profit attributable to ordinary shares	36 000 949	17 837 382	40 247 034	36 914 470
Profit adjusted for cost of dilutive instruments	36 000 949	17 837 382	40 247 034	36 914 470
Loss on disposal of property, plant and equipment	4 580	395 342	4 580	395 342
Headline earnings	36 005 530	18 232 725	40 251 615	37 309 813
<b>Earnings per share (cents)</b>				
Basic	12.37	6.34	13.83	13.12
Diluted	12.16	6.24	13.59	12.91
Headline	12.38	6.48	13.83	13.26

## 7. Property, plant and equipment

**Acquisitions and disposals**

During the 26 weeks ended 5 July 2020, the Group acquired information technology assets with a cost of ZW\$8.7million (7 July 2019: ZW\$6.9million). The acquisition did not have qualifying borrowing costs.

**Revaluation of property, plant and equipment**

The Company has not revalued the historical carrying amount of property, plant and equipment as at 5 July 2020. Revaluations were last done at 7 July 2019 for land and buildings and 6 January 2019 for all other property, plant and equipment. The hyperinflation adjusted carrying amount of property, plant and equipment is thus likely understated given that the ZWL\$ to US\$ exchange rate has increased at a faster rate than inflation. A full revaluation of property, plant and equipment will be carried out for the full year ending 11 January 2021.

## 8. Borrowings and security

	Group		Company	
	5 July 2020	5 January 2020	5 July 2020	5 January 2020
	ZW\$	ZW\$	ZW\$	ZW\$
Bank overdrafts	22 920 909	30 907 920	22 840 187	30 873 727
Loans	107 981 704	125 903 026	104 751 962	125 903 026
Total	130 902 613	156 810 946	127 592 149	156 776 753
Less: Non-current portion	(18 118 628)	(63 517 347)	(18 118 628)	(63 517 347)
Current portion	112 783 985	93 293 599	109 473 521	93 259 406

Summary of borrowing arrangements

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

(ii) The weighted average effective interest rate on all the borrowings is 43.0% (2019: 20.47%) per annum.

(iii) Tenures range between 30 days and 3 years.

## 9. Capital Commitments

Commitments for capital expenditure not provided for in the financial statements are as follows:

	Group		Company	
	5 July 2020	5 January 2020	5 July 2020	5 January 2020
	ZW\$	ZW\$	ZW\$	ZW\$
Authorised but not yet contracted for	121 432 972	47 193 453	121 432 972	47 193 453

## 10. Subsequent events

On the Extra-ordinary general meeting held on 16 June 2020 the shareholders approved a rights issue of ZW\$ 70 million or 274 745 630 shares at ZW\$0.2548 per share. The rights issue closed successfully on 21 August 2020 with 274 658 112 shares issued. The shares were listed on the Zimbabwe Stock Exchange on 28 August 2020.

## 11. Impact of Covid-19

The business suffered lost sales and increased Covid-19 costs in the period. Particularly in the months of April and May. Credit was also tightened to limit losses from default. The gradual easing of lockdown restrictions has seen a general improvement in recent volume performance and a relaxation of credit terms. Trading in forex has increased the Group's foreign currency holdings which has been critical in improving stability of operations.

## 12. Share Capital

	Group		Company	
	5 July 2020	5 January 2020	5 July 2020	5 January 2020
	ZW\$	ZW\$	ZW\$	ZW\$
<b>Authorised share capital</b>				
700 000 000 shares of \$0.0001	70 000	40 000	70 000	40 000

In the Annual General Meeting held on 16 June 2020 the company in general meeting approved the redenomination of share capital to ZWL from USD. The authorised share capital was increased from 400 million shares of \$0.0001 each to 700 million shares of \$0.001 each.

All 370 411 831 unissued shares are under the control of the Directors for an unlimited period, subject to the limitations contained in section 183 of the Companies and Other Business Entities Act (Chapter 24:31).

## 13. Inventories

During the 26 weeks ended 5 July 2020, the Group wrote down ZW\$1.9million (7 July 2019: ZW\$0.2million) of inventories that was now priced below net realizable value. Stock losses were ZW\$ 1.3million (2019: ZW\$1.9million) in historical terms after the half year stock count. These expenses are included in other operating expenses in the statement of profit or loss.

## 14. Lease Commitments

	Group and Company	
	ZW\$	ZW\$
Future minimum rentals under non-cancellable operating leases:		
Within one year	6 887 349	33 591 314
After one year but not more than five years	12 039 634	25 748 353
More than five years	268 860	-
	19 195 843	59 339 667





## INDEPENDENT AUDITOR'S REVIEW CONCLUSION TO THE MEMBERS OF EDGARS STORES LIMITED

### Review Report on the Inflation Adjusted Interim Condensed Consolidated and Company Financial Information

We have reviewed the accompanying inflation adjusted interim condensed consolidated and company financial information of Edgars Stores Limited and its subsidiaries ( "the Group"), as set out on pages 10 to 25, which comprise the Inflation Adjusted Interim Condensed statements of Financial Position as at 5 July 2020 and the related Inflation Adjusted Interim Condensed Statements of Profit or Loss and Other Comprehensive Income, the Inflation Adjusted Interim Condensed Statements of Changes in Equity and the Inflation Adjusted Interim Statements of Cash Flows for the 26 weeks ended and explanatory notes.

Management is responsible for the preparation and presentation of the Inflation Adjusted Interim Condensed Consolidated and Company financial information in accordance with the Internal Financial Reporting Standards. Our responsibility is to express a review conclusion on this Interim Condensed Consolidated and Company 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 review conclusion*

Non-compliance with International Financial Reporting Standards- International Accounting Standard (IAS) 21: *The Effects of Changes in Foreign Exchange Rates*

As explained in note 2 to the inflation adjusted interim condensed consolidated and company financial information, the Company and Group changed its functional currency from the United States Dollars (US\$) to Real Time Gross Settlement Dollars (RTGS\$) which subsequently became part of the Zimbabwe Dollar (ZWL) on 22 February 2019 in order to comply with Statutory Instrument 33 of 2019 issued on the same date. We however believe that the change in currency occurred prior to that date. The financial information is 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 local Foreign Currency Accounts (FCAs) (RTGS\$) from the FCA Nostro US\$ Accounts effective 1 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 US\$. In February 2019 there was a Monetary Policy statement which introduced RTGS\$ and the interbank foreign exchange market. Furthermore, Statutory Instrument 142 of 2019 specified that for all domestic transactions, ZWL (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\$ as a formal currency supports that there was a change in functional currency from US\$ to RTGS\$ and that transactions in the market indicated a different rate between the two currencies despite the legal 1:1 RTGS\$: US\$ exchange rate and this occurred effective 1 October 2018. Management however applied the 22<sup>nd</sup> of February 2019 as the date of change in functional currency.

Foreign currency denominated transactions and balances between the 23<sup>rd</sup> of February 2019 and the 5<sup>th</sup> of January 2020 were translated to RTGS\$/ZWL based on Company and Group exchange rates that were not in compliance with IAS 21. As at 5 January 2020, all monetary balances were translated at to ZWL at the official interbank rate. The exchange rates used did not meet the IAS 21 definition of a spot rate.

Furthermore, at 5 January 2020 the Group's properties were valued in US\$ and converted to ZWL using exchange rates that did not meet the IAS 21 definition of a spot rate.

The above matters which gave rise to the adverse opinion in the prior year have not been corrected as required by IAS 8- *Accounting Policies, Changes in Accounting Estimates and Errors*, giving rise to the following consequential effects:

- Many of the corresponding numbers remain misstated on the inflation adjusted consolidated and company statements of financial position, cash flows, profit or loss and other comprehensive income and changes in equity. This also impacts comparability of the current half year's figures.
- As opening balances enter into the determination of cash flows and performance, our current half year review conclusion is modified in respect of the impact of this matter on the inflation adjusted consolidated and company statement of cash flows, the statement of profit or loss and other comprehensive income and the statement of changes in equity.

## INDEPENDENT AUDITOR'S REVIEW CONCLUSION (CONTINUED)

In addition to the impact on the corresponding numbers, current half year's performance and cash-flows, the matter continues to affect the balances on the inflation adjusted consolidated and company statement of financial position as many of these still comprise of amounts from opening balances as follows:

ZWL 87 638 248 included in property, plant and equipment of ZWL 277 319 542 (Company: ZWL 272 417 487);

Intangible assets of ZWL 30 915 581, for Group and Company;

Inventories of ZWL 704 551 998 (Company: ZWL 704 503 335);

ZWL 53 379 097 included in revaluation reserve of ZWL 91 069 559 (Company: ZWL 93 929 416);

Deferred tax liability of ZWL 202 847 542 (Company: ZWL 201 694 771); and

Trade and other payables of ZWL 90 917 074 (Company: ZWL 90 387 150).

Exchange rates used in current half year (Non-compliance with IAS 21: *The Effects of Changes in Foreign Exchange Rates*)

As outlined in Note 2 to the inflation adjusted interim condensed consolidated and company financial information, for the 26 weeks interim period ended 5 July 2020, the Group translated foreign denominated transactions and balances using official interbank exchange rates which were replaced with the exchange rates obtained from the auction market system that commenced on 23 June 2020. The exchange rates used for the translation do not meet the definition of a spot exchange rate as per IAS 21 and as a result all amounts in the inflation adjusted interim condensed consolidated and company statement of profit or loss and other comprehensive income are impacted except for income from microfinance institution, credit management and debt collections costs, store expenses, finance income and finance costs.

In addition, the following accounts on the inflation adjusted interim condensed consolidated and company statement of financial position are misstated:

ZWL 4 174 211 included in inventories of ZWL 704 551 998 (Company: ZWL 704 503 335);

ZWL 67 970 678 and ZWL 67 698 190 for Group and Company respectively included in cash and cash equivalents of ZWL 129 493 788 and ZWL 126 104 618 for Group and Company respectively; and

ZWL 3 093 255 included in trade and other payables of ZWL 90 917 074 and ZWL 90 387 150 for Group and Company respectively.

In addition, retained earnings of ZWL 641 746 020 (Company: ZWL 661 011 348), current tax payable of ZWL 19 608 419 (Company: ZWL 19 415 063) and deferred tax liabilities of ZWL 202 847 542 (Company: ZWL 201 694 771) are consequentially impacted by the impact from profit or loss and some of the balances noted above.

However, owing to the lack of information on the spot rates available to the Company and Group and the other matters discussed above it is not possible to quantify the impacts of this departure from IFRS on the amounts noted above.

Non-compliance with International Accounting Standard (IAS) 16: *Property, Plant & Equipment*

The Group and Company's property, plant and equipment is carried at ZWL 277 319 542 at period end. Due to the significant changes seen in the current economic environment since the last revaluations, another revaluation exercise should have been carried out as at period end as is required by IAS 16. However, as at 5 July 2020, this has not been done by management. We are unable to determine the appropriate fair values and therefore cannot quantify the possible impact.

Application of IAS 29 – *Financial Reporting in Hyperinflationary Economies*

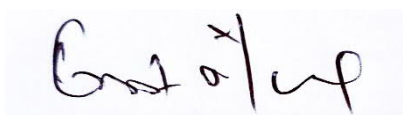
Notwithstanding that IAS 29 has been applied from 1 January 2018 to 5 July 2020, it is noted that its application was based on prior and current half year's financial information which was not in compliance with IAS 21 / IAS 8/ IAS 16 as described above. Had the correct base numbers been used, most elements of the financial statements would have been materially different.

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

### Adverse review conclusion

In view of the matters described in the preceding paragraphs, this interim condensed consolidated and company financial information is not prepared, in all material respects, in accordance with International Financial Reporting Standards.

The engagement partner on the review engagement resulting in this review conclusion report on the interim condensed consolidated and company financial information is Mr David Gwande (PAAB Practicing Certificate Number 132).



ERNST & YOUNG

CHARTERED ACCOUNTANTS (ZIMBABWE)

REGISTERED PUBLIC AUDITORS

HARARE

7 OCTOBER 2020