# TRADING UPDATE FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2020

## Introduction

The Group hereby issues a trading update for the third quarter ended 30 September 2020.

## Operating Environment

The trading, operating and economic environment remained challenging during the period under review. There has been little improvement to the trading environment although exchange rate movements were limited. Factors as previously mentioned in our half year press publication still largely existed. These factors included liquidity constraints, subdued demand, increases in the cost of electricity, time lags in payment of foreign suppliers after having bid allocations on the foreign exchange auction system.

The Reserve Bank of Zimbabwe introduced the Foreign Exchange Auction System to promote both financial and price stability through an efficient and transparent process. As anticipated, the price discovery process resulted in the local currency depreciating from a fixed rate of USD1: ZWL25 to USD1: ZWL81.44 as of 30 September 2020. This caused significant duty increases resulting in subdued demand. Year on year inflation for the month of September closed at 659.40%. During that third quarter, the exchange rate had somewhat stabilised although the market remains distorted and operating expenses continued to reflect a premium to this rate.

The hyperinflationary environment has reduced consumers disposable income, and this resulted in decreased demand, decreased real sales values, and decreased sales volumes for the year.

The impact of COVID-19 pandemic is being felt. Governments within the region implemented lock downs to contain the spread of corona virus. This disrupted business and led to time lags in restocking of raw materials and finished goods. Orders were unable to be fulfilled in time and this led to a reduction in sales. The Covid-19 pandemic is likely to have a significant adverse financial impact on businesses and the economy in general for the year 2020.

## Group Volume Performance

Third quarter sales volumes have increased by 5% compared to the comparative prior period.
Third quarter increased sales volume is attributable to the FMCG segment. This segment managed to increase market share, by constantly supplying products at competitive prices resulting in increased shelf space in retail chain stores.

The year to date sales volumes have decreased by 18% as a result of;

- A stance by management to restrict sales in the FMCG segment due to the continual devaluation of the debtors book with the aim of preserving shareholder value through hedging,
- Decreased consumer spending as income levels have not kept up with rising general price levels and this has caused aggregate demand to remain subdued,
- Stockouts because of challenges in sourcing replacement stock of raw materials and goods in the manufacturing segment due to stop supply from foreign creditors because of overdue balances and key local suppliers demanding prepayment, and
- Delays in restocking directly resulting from Covid-19 lock downs.

## Segment Volume Performance

The causes of changes in sales volume performance is the same as those elaborated on in the Group Volume Performance section.

### FMCG Segment

Third quarter FMCG segment sales volumes have increased by 27% compared to the comparative prior period whilst the year to date sales volumes are down by 38%.

### Manufacturing Segment

Third quarter manufacturing segment sales volumes have decreased by 29% compared to the comparative prior period whilst the year to date sales volumes are down by 8%.

### Medical Segment

There has been no activity in this segment and this segment did not trade during year 2019. Factors contributing to no trade in this segment include working capital challenges, inadequate inventory, and no lines of credit.

### Associate company – MedTech Food and Beverages (Private) Limited

The associate company has not traded during the year and is not expected to trade for the remainder of the year.

## Legacy debt

The Group owes legacy debts amounting to ZAR27,9 million to foreign creditors. Of the debts, ZAR25,8 million had been validated while appeals have been lodged for ZAR2,1-million. At this stage, the Group is unsure when payments will be made for the debts validated and when a response will be received for appeals lodged. Delays in the payment of legacy debts has resulted in cuts in supply and stock outs which is one of the contributing factors to the decreased sales volumes.

## Reminder on cautionary statement

Shareholders are reminded of the cautionary statements published in the press. The latest published cautionary statement being 2 November 2020. Shareholders are advised to exercise caution when dealing in the Company's securities until a full announcement is made.

## Outlook

The trading environment and macro-economic conditions remain volatile. The full impact of Covid-19 is yet to be felt but will undoubtedly have a significant adverse impact on the Zimbabwean economy. Uncertainty related to the payment of legacy debts affects our foreign credit and with no definitive position this will result in serious challenges. The Group is hopeful that the stabilization of the exchange rate will culminate in price stability and should improve the economic environment going forward.

The Group will continue to do its best to maintain market share and sales volumes and keep up strict cost control measures.

BY ORDER OF THE BOARD

M Y Patel
Company Secretary

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12 November 2020