

Proplastics

Pipe Systems That Last

Reviewed Condensed Consolidated Inflation Adjusted Interim Financial Results for the six month period ended 30 June 2021

CHAIRMAN'S STATEMENT

INTRODUCTION

It is my pleasure to present to you the Reviewed Condensed Consolidated Inflation Adjusted Interim financial results, herein referred to as condensed financial results for the business for the period ended 30th of June 2021.

While inflation is slowing down, the economy is still classified as hyperinflationary. As such, the condensed financial results have been prepared in accordance with the provisions of IAS 29, "Financial Reporting in Hyperinflationary Economies".

OPERATING ENVIRONMENT

Despite the worldwide impact of the COVID 19 pandemic, the macroeconomic environment continued to improve, with inflation slowing down and the exchange rates more stable compared to the same period prior year. In the period under reporting, the disbursement of foreign currency on the auction platform continued to lag behind despite the liquidation of the local balances at the time of participation. We urge the authorities to address this matter with urgency as the massive delays are now a huge performance hindrance for industries and the economy at large. Moreso, the gap between the official exchange rate and the alternative market offering continues to widen.

Going into the second quarter, the world experienced crippling raw material shortages accompanied by global price increases of the main ingredients used in the manufacture of our key products. The trend was forecasted in the prior year and adequate mitigatory measures had been put in place to minimize supply gaps despite the price increases. The factory was, therefore, able to run largely uninterrupted during the period under review. The supply of electricity was unstable during the period as consistent and intermittent power cuts were experienced interrupting production.

The demand for the Group's products was, however, strong in the period under review, and as a result, the performance for the period was encouraging despite the disruptions.

FINANCIAL PERFORMANCE

The commentary is based on the inflationary adjusted figures, which form the primary reporting framework.

Turnover grew by 120% to ZWL889 million from ZWL404 million in the prior period on the back of a 71% increase in sales volumes. Notably, exports grew by 240% and contributed 11% of total turnover for the period under review. A significant portion of the Group's revenue was recorded at the interbank rate having been received in United States Dollars.

Cost of sales increased sharply given the global raw material shortages which in turn resulted in sharp upward price adjustments. Consequently, the Group recorded a gross profit of ZWL257 million compared to ZWL209 million in the prior period.

Overheads were contained to minimum levels during the period and as a result the Group posted an EBITDA of ZWL211 million

compared to negative ZWL3 million in the prior period and a profit before tax of ZWL140 million compared to a loss of ZWL104 million in the prior period. Profit for the period was ZWL57 million compared to a loss of ZWL58 million in the prior period.

The statement of financial position remained strong with total assets amounting to ZWL2.1 billion. Borrowings remained minimal with a debt-to-equity ratio of 2%. The current ratio was at 1.9.

The Group closed the period with cash and cash equivalents of ZWL98 million.

OUTLOOK

With the business environment improving, and plans put in place to ensure consistent supply of raw materials, it is expected that the demand for the Group's products will continue to firm, and product supply gaps minimised into the second half of the year.

Despite sound supplier relationships and arrangements, raw material acquisition to meet rising demand will depend on foreign currency availability through the auction system. In addition, further delays in settling allocated amounts will result in the worsening of the Group's foreign currency exposure. The backlog at the end of the period stretched to almost 2 months and arrears to foreign creditors stood at USD1.7 million. The position exposes the Group to huge exchange rate risks as well as negative impact on supplier relations.

The new PVC 500mm extrusion production line is expected at the end of the year, for commissioning in the first quarter of 2022. This new line will help address the demand for large bore PVC diameter pipes, which continues to grow and will increase production capacity.

The Board is pleased to announce that 90% of its staff have received both the first and second inoculations against the COVID 19 virus. As such, the business will continue to observe all COVID 19 protocols as enunciated by the Ministry of Health and Child Welfare as well as the World Health Organisation for the well-being of all our stakeholders.

DIVIDEND

Given the acute global shortage of crude oil byproducts, the need to clear off foreign related obligations and uncertainties posed by the COVID 19 pandemic, the Board proposes that no interim dividend be declared.

ACKNOWLEDGEMENTS

I would like to extend my appreciation to management and staff for their hard work during this period, my fellow Board members for their commitment and guidance as well as all our stakeholders for their continued support.

G. SEBBORN
08 September 2021

Condensed Consolidated Inflation Adjusted Interim Statement of Financial Position as at 30 June 2021

Notes	Inflation adjusted		Historical cost	
	30 June 2021 ZWL Reviewed	31 Dec 2020 ZWL Audited	30 June 2021 ZWL Unreviewed	31 Dec 2020 ZWL Unaudited
Assets				
Non-current assets				
Property, plant & equipment	3 1,427,550,936	1,478,387,341	1,184,006,588	1,220,648,915
Right of use assets	4 17,239,361	16,662,697	5,206,588	4,650,527
Total non-current assets	1,444,790,297	1,495,050,038	1,189,213,176	1,225,299,442
Current assets				
Inventories	5 384,708,794	383,652,108	305,765,818	250,792,776
Trade and other receivables	6 182,687,292	176,123,718	177,765,546	140,757,651
Cash and cash equivalents	98,139,143	34,113,597	98,139,143	28,265,471
Total current assets	665,535,229	593,889,423	581,670,507	419,815,898
Total assets	2,110,325,526	2,088,939,461	1,770,883,683	1,645,115,340
Equity and liabilities				
Equity				
Share capital	1,157,583	1,157,583	25,643	25,643
Reserves	1,046,141,139	1,046,119,299	875,294,140	875,272,300
Retained earnings	347,113,786	336,083,940	264,942,117	194,648,690
Total equity	1,394,412,508	1,383,360,822	1,140,261,900	1,069,946,633
Non-current liabilities				
Long-term borrowings	7 20,640,582	37,808,053	20,640,582	31,326,583
Long-term lease liability	5,657,185	5,247,525	5,657,185	4,347,937
Deferred taxation	334,467,508	298,218,442	251,507,263	239,200,496
Total non-current liabilities	360,765,275	341,274,020	277,805,030	274,875,016
Current liabilities				
Trade and other payables	8 275,810,983	278,646,389	273,479,993	229,319,932
Short-term borrowings	7 8,500,000	12,069,000	8,500,000	10,000,000
Current tax payable	70,192,660	70,209,754	70,192,660	58,173,630
Short-term lease liability	644,100	3,379,476	644,100	2,800,129
Total current liabilities	355,147,743	364,304,619	352,816,753	300,293,691
Total liabilities	715,913,018	705,578,639	630,621,783	575,168,707
Total equity and liabilities	2,110,325,526	2,088,939,461	1,770,883,683	1,645,115,340

Condensed Consolidated Inflation Adjusted Interim Statement of Profit or Loss and other Comprehensive Income for the period 30 June 2021

	Inflation adjusted		Historical cost	
	6 months to 30 June 2021 Reviewed ZWL	6 months to 30 June 2020 *Restated Reviewed ZWL	6 months to 30 June 2021 Unreviewed ZWL	6 months to 30 June 2020 Unreviewed ZWL
Revenue	888,905,402	404,086,570	835,845,508	128,183,801
Cost of sales	(632,242,589)	(195,431,741)	(494,359,260)	(60,588,741)
Gross profit	256,662,813	208,654,829	341,486,248	67,595,060
Net monetary gain/(loss)	63,178,655	(131,612,178)	-	-
Other income	2,528,222	901,448	1,826,936	332,355
Distribution costs	(23,146,464)	(15,002,287)	(21,890,261)	(4,464,797)
Administrative expenses	(144,552,829)	(151,342,175)	(132,429,173)	(40,214,177)
Credit losses	(2,837,931)	(5,799,962)	(2,691,727)	(2,806,781)
Profit/(loss) before interest and tax	151,832,466	(94,200,325)	186,302,023	20,441,660
Finance costs	(11,559,608)	(9,639,517)	(10,876,447)	(3,073,119)
Profit/(loss) before tax	140,272,858	(103,839,842)	175,425,576	17,368,541
Income tax	(83,649,240)	45,734,663	(59,706,943)	(8,248,507)
Profit/(loss) for the period	56,623,618	(58,105,179)	115,718,634	9,120,034
Comprehensive income				
Other comprehensive income	-	-	-	-
Related tax	-	-	-	-
Other comprehensive income net of tax	-	-	-	-
Total comprehensive income/(loss) for the period	56,623,618	(58,105,179)	115,718,634	31,604,820
Basic earnings/(loss) per share (cents)	22.08	(22.93)	45.13	3.60
Diluted earnings/(loss) per share (cents)	21.86	(22.36)	44.67	3.51
Headline earnings/(loss) per share (cents)	21.50	(22.93)	44.57	3.60

* Refer to Note 11

Condensed Consolidated Inflation Adjusted Interim Statement of Changes in Equity for the period ended 30 June 2021

Inflation adjusted reviewed	Share capital	Reserves	Retained earnings	Total equity
	ZWL	ZWL	ZWL	ZWL
Balance as of 01 January 2020	1,157,221	853,874,291	235,209,542	1,090,241,054
Revaluation surplus net of tax	-	193,314,459	-	193,314,459
Share options exercised net of tax	362	82,914	-	83,276
Share based payments	-	(1,152,365)	-	(1,152,365)
Profit for the year	-	-	100,874,398	100,874,398
Balance as of 31 December 2020	1,157,583	1,046,119,299	336,083,940	1,383,360,822
Dividend paid	-	-	(45,593,772)	(45,593,772)
Share based payments	-	21,840	-	21,840
Profit for the period	-	-	56,623,618	56,623,618
Balance as of 30 June 2021	1,157,583	1,046,141,139	347,113,786	1,394,412,508

Condensed Consolidated Inflation Adjusted Interim Statement of Changes in Equity

Historical unaudited	Share capital	Reserves	Retained earnings	Total equity
	ZWL	ZWL	ZWL	ZWL
Balance as of 01 January 2020	25,343	110,703,279	33,262,299	143,990,921
Revaluation surplus net of tax	-	765,455,135	-	765,455,135
Share based payments	-	(954,814)	-	(954,814)
Share options exercised net of tax	300	68,700	-	368,700
Profit for the year	-	-	161,386,391	161,386,391
Balance as of 31 December 2020	25,643	875,272,300	194,648,690	1,069,946,633
Dividend paid	-	-	(45,425,207)	(45,425,207)
Share based payments	-	21,840	-	21,840
Profit for the period	-	-	115,718,634	115,718,634
Balance as of 30 June 2021	25,643	875,294,140	264,942,117	1,140,261,900

Condensed Consolidated Inflation Adjusted Interim Financial Results of Cash Flows for the period ended 30 June 2021

	Inflation adjusted		Historical Cost	
	6 months to 30 June 2021 Reviewed ZWL	6 months to 30 June 2020 *Restated Reviewed ZWL	6 months to 30 June 2021 Unreviewed ZWL	6 months to 30 June 2020 Unreviewed ZWL
Profit for the year before interest and tax	151,832,466	(94,200,325)	186,302,023	20,441,660
Net cash from operations before working capital changes	146,494,828	128,118,062	230,530,731	38,552,606
Cash flow from operating activities	136,193,874	156,151,979	182,709,855	41,169,392
Net interest paid	(11,559,607)	(9,639,517)	(11,313,711)	(3,073,119)
Income tax paid	(37,189,460)	(65,514,906)	(35,381,144)	(12,183,483)
Net cash generated from operating activities	87,444,807	80,997,556	136,015,000	25,912,790
Cash flow from investing activities				
Purchase of property, plant and equipment	(14,505,891)	(34,485,775)	(13,165,067)	(8,453,005)
Proceeds from disposal of property, plant and equipment	9,535,541	260,681	9,153,061	95,813
Net cash utilised in investing activities	(4,970,350)	(34,225,094)	(4,012,006)	(8,357,192)
Cash flow from financing activities				
Repayment of borrowings	(12,186,001)	(40,636,652)	(12,186,001)	(2,890,606)
Dividend paid	(45,593,772)	-	(45,425,208)	-
Repayment of lease liability	(5,786,955)	(1,574,469)	(4,518,112)	(42,273)
Net cash utilised in financing activities	(63,566,728)	(42,211,121)	(62,129,321)	(2,932,879)
Net increase in cash and cash equivalents	18,907,729	4,561,341	69,873,672	14,622,719
Opening cash balance	41,794,731	30,335,266	28,265,471	5,603,045
Effect of inflation on cash and cash equivalent	37,436,683	6,898,124	-	-
Closing Cash and cash equivalents	98,139,143	41,794,731	98,139,143	20,225,764

Notes to the Condensed Consolidated Inflation Adjusted Interim Financial Results for the period ended 30 June 2021

1. Basis of preparation

The Condensed Consolidated Inflation Adjusted Interim Financial Results are prepared in accordance IAS 34 - Interim Financial Reporting, as well as under the current cost basis as per the provision of the IAS 29' Financial Reporting in Hyperinflationary Economies. The Group adopted IAS 29 effective 1 July 2019 as per guidance issued by the local accounting regulatory board, the Public Accountants and Auditors Board "PAAB" which relates to financial reporting period on or after 1 July 2019. These financial statements were approved by the Board of Directors on 08 September 2021.



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Independent Auditor's Report on Review of Condensed Consolidated Inflation Adjusted Interim Financial Results

To the shareholders of Proplastics Limited

Introduction

We have reviewed the accompanying condensed consolidated inflation adjusted interim financial results of Proplastics Limited and its subsidiaries (the "Group"), which comprise the condensed consolidated inflation adjusted interim statement of financial position as at 30 June 2021, the condensed consolidated inflation adjusted interim statement of profit or loss and other comprehensive income, condensed consolidated inflation adjusted interim statement of changes in equity and condensed consolidated inflation adjusted interim statement of cash flows for the six month period then ended, and notes to the condensed consolidated inflation adjusted interim financial results.

The Directors are responsible for the preparation and presentation of these condensed consolidated inflation adjusted interim financial results in accordance with International Accounting Standard (IAS) 34, 'Interim Financial Reporting' and in the manner required by the Securities and Exchange (Zimbabwe Stock Exchange (ZSE) Listings Requirements) Rules, 2019. Our responsibility is to express a conclusion on the condensed consolidated inflation adjusted interim financial results based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements (ISRE) 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 (ISA) 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 Qualified Conclusion

Non-compliance with International Financial Reporting Standards IAS 21 - The Effects of Changes in Foreign Exchange Rates (IAS 21) in the prior financial year and inappropriate application of IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8)

During the period 1 January 2020 to 23 June 2020, the Group translated foreign denominated transactions and balances using the interbank rate. During this period, due to the lack of access to foreign currency for immediate delivery through the interbank foreign currency market, the interbank rate did not satisfy the requirements to be considered an appropriate exchange rate in accordance with IAS 21. The impact of this departure from IAS 21 affected the consolidated inflation adjusted financial statements for the year ended 31 December 2020, and whilst considered to be material it was impractical to quantify the misstatement, due to the lack of an appropriate alternate rate that would satisfy the requirements of IAS 21. This departure from IAS 21 led to an adverse audit opinion being issued on the annual financial statements for the year ended 31 December 2020.

The Group has not restated the condensed consolidated inflation adjusted interim financial results, as required by IAS 8, to resolve the matters which resulted in the adverse opinion in the prior year relating to the non-compliance with IAS 21.

Non-compliance with International Financial Reporting Standards IAS 29 - Financial Reporting in Hyperinflation Economies (IAS 29)

In addition, IAS 29 has been applied to the incorrect balances due to the non-compliance with IAS 21 in the prior year, as commented on above.

Our conclusion on the condensed consolidated inflation adjusted interim financial results is modified because of the possible effects of the matter on the comparability of the current year's condensed consolidated inflation adjusted interim financial results with that of the prior year.

Qualified Conclusion

Based on our review, except for the effects of the matters described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated inflation adjusted interim financial results of Proplastics Limited for the six month period ended 30 June 2021, are not prepared, in all material respects, in accordance with IAS 34, Interim Financial Reporting, and in the manner required by the Securities and Exchange (Zimbabwe Stock Exchange Listings Requirements) Rules, 2019.

Emphasis matter-*Restatement of comparative information presented*

We draw attention to note 11 to the condensed consolidated inflation adjusted interim financial results which indicates that the comparative information presented in respect of the reviewed condensed consolidated inflation adjusted interim statement of profit or loss and other comprehensive income, reviewed condensed consolidated inflation adjusted interim statement of changes in equity and reviewed condensed consolidated inflation adjusted interim statement of cash flows for the six month period ended 30 June 2020 have been restated. Our conclusion is not modified in respect of this matter.

Other information

The Directors are responsible for the other information included in the Reviewed Condensed Consolidated Inflation Adjusted Interim Financial Results for the period ended 30 June 2021. The other information comprises the Chairman's Statement and the financial information in the condensed consolidated inflation adjusted interim financial results titled "Unaudited Historical cost" and "Unreviewed



historical cost" but does not include the condensed consolidated inflation adjusted interim financial results.

Our conclusion on the condensed consolidated inflation adjusted interim financial results does not cover the other information and we do not express a conclusion or any form of assurance conclusion thereon.

In connection with our review of the condensed consolidated inflation adjusted interim financial results, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the condensed consolidated inflation adjusted interim financial results or our knowledge obtained in the review, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information, 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 Qualified Conclusion section above, the Group has not restated the condensed consolidated inflation adjusted interim financial results, as required by IAS 8, to resolve the matters which resulted in the adverse opinion in the prior years relating to the non-compliance with IAS 21. We have, therefore, concluded that the other information is materially misstated for the same reason with respect to the financial information in the Chairman's Statement and the financial information in the condensed consolidated inflation adjusted interim financial results titled "Unaudited Historical cost" and "Unreviewed historical cost", affected by the failure to comply with the requirements of IAS 21.

KPMG

Vinay Ramabhai
Chartered Accountant (Zimbabwe)
Registered Auditor
PAAB Practicing Certificate Number 0569

8 September 2021

For and on behalf of, KPMG Chartered Accountants (Zimbabwe), Reporting Auditors

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