

Proplastics

Pipe Systems That Last

ABRIDGED REVIEWED RESULTS for the period ended 30 June 2020

CHAIRMAN'S STATEMENT

INTRODUCTION

It is my pleasure to present to you the operational and financial results for the first half of the year ended the 30th of June 2020.

Zimbabwe has been declared a hyperinflationary economy and the financial results, therefore, have been prepared in accordance with the provisions of IAS 29. "Financial Reporting in Hyperinflationary Economies". Historical amounts have been provided as supplementary information.

OPERATING ENVIRONMENT

The operating environment has remained extremely challenging due to inflationary pressures and persistent foreign currency shortages. This, in turn, has eroded the consumers' purchasing power thus affecting demand. In addition, the weakening of the Zimbabwe Dollar and the resultant inflation has put significant pressure on the operational performance of the business. Notwithstanding the difficult operating environment, the Group managed to deploy strategies to mitigate the negative effects and managed to preserve value for the business.

Operationally, the first half of the year started on a slow note as the Group migrated from the old to the new factory in the first two months of the year. This meant a delay in the resumption of production after the normal annual shutdown in December 2019. To that, we are pleased to advise that the migration went smoothly and the new factory is now fully functional from the end of February.

After the successful relocation into the new factory, and production having resumed, in March, the COVID-19 pandemic was declared a National disaster and subsequently, the first lockdown period was announced. The Group did manage to get a special waiver as an essential service provider to operate during the lockdown period, but demand was adversely affected since some sectors of the economy we service were in full lockdown. In addition, consumer spending power was curtailed and as a result, a number of projects were put on hold. This resulted in the performance of the business being severely affected for the greater part of the period under review. Partial recovery was only experienced in the last two months of the first half.

Notwithstanding all the negative factors, it is encouraging to note that the business managed to operate continuously during the period. Further, the Group had no challenge in procuring the requisite raw materials, the bulk of which are imported.

Production is now in full swing in the new six thousand square meter factory. The structural installation of the hardware for the new mixing plant is also complete. Unfortunately, the mixing plant software could not be commissioned during the period under review as the Italian Engineers working on the project were recalled at the onset of the pandemic. It is encouraging to advise that the software programming was done remotely and once the conditions allow, the team will be back in the country for factory acceptance testing (FAT) on site. The new factory efficiencies are premised on the basis of the automated mixing plant and as such, the delay has a negative impact on overall equipment effectiveness (OEE).

FINANCIAL PERFORMANCE

The commentary on financial performance is based on the inflation adjusted figures.

Turnover for the period reduced by 18% to ZWL195,549,999 from ZWL238,455,126 in the prior year. Similarly, volumes retreated by 18% in the period. This was largely as a result of a combination of the relocation process to the new plant and the adverse effects of the COVID-19 induced lockdown.

The last three months of the period under review saw the Group receiving the bulk of its revenue in United States Dollars following

the approval by the authorities for consumers to utilise their free funds in settling local transactions. This allowed the Group to adequately service its foreign-denominated liabilities within a short space of time.

Despite the inflationary environment, the cost of sales was adequately contained. As a result, Gross Profit margins improved to 52% from 39% compared to similar period last year. This was a result of the operational efficiencies realised from the new modern factory. We expect continued improvement as we get back to full production and when the new mixing plant eventually gets commissioned in the second half of the year.

Due to the inflationary pressures, the lockdown effect and relocation related costs, overheads were up by 23% from prior year levels which resulted in profit before tax of ZWL26,566,798.

After the deduction of taxation, both current and deferred, the Group recorded a loss for the period of ZWL107,267,800. The result was primarily a result of a fixed exchange rate applied to foreign currency receipts prior to the introduction of the currency auction system towards the end of June. Whilst a financial loss was recorded for the period, cash flows remained robust.

The statement of financial position remained solid with total assets amounting to ZWL764,352,136. Borrowings remained at minimal levels with a debt to equity ratio of 1%. This is particularly pleasing as the expenditure on the construction of the new factory is up to date and waiting for the final account. With the investment outlay on the new factory now complete, the working capital position has started to improve, moving to 1.6 from 1.3 at the end of 2019. We expect this position to further improve during the remainder of the year.

The Group closed with cash and cash equivalents of ZWL20,225,764.

OUTLOOK

With the business environment gradually improving, we foresee a rise in the demand for the Group's products in the second half of the year. The short to medium term operating environment is expected to remain challenging. Despite the challenges, the business has had a strong third quarter, which is normally a springboard for a robust second half performance.

We expect demand to be underpinned by infrastructural development, mining, agriculture and the borehole drilling segment.

The business continues to observe all the COVID-19 protocols as enunciated by the Ministry of Health and Child Welfare, as well as the World Health Organization. Despite the various necessary restrictions, the business operations are fully back to normal in this "new normal".

DIVIDEND DECLARATION

Given the current operating environment as well as the negative impact of the COVID-19 pandemic, coupled with the need to conserve cash to fund the working capital requirements, the Board resolved not to declare an interim dividend.

ACKNOWLEDGEMENTS

I wish to extend my appreciation to my fellow Board members, Management and Staff and all our stakeholders for their efforts and support.

G. SEBBORN

30 September 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 30 June 2020

Notes	Inflation adjusted		*Historical	
	30 June 2020 Reviewed ZWL	31 Dec 2019 Audited ZWL	30 June 2020 Reviewed ZWL	31 Dec 2019 Unaudited ZWL
Assets				
Non-current assets				
Property, plant & equipment	3	572,991,516	598,923,604	187,717,105
Right of use assets	3	13,634,471	4,553,042	703,577
Total non-current assets		586,625,987	603,476,646	197,881,338
Current assets				
Inventories	4	88,928,720	164,279,399	39,944,726
Trade and other receivables	5	68,571,663	31,949,822	41,823,039
Cash and cash equivalents		20,225,764	14,680,174	5,603,045
Total current assets		177,726,147	210,909,395	42,517,907
Total assets		764,352,134	814,386,041	290,414,211
Equity and liabilities				
Equity				
Share capital		559,998	559,998	25,343
Reserves		121,497,902	116,577,800	110,703,279
Retained earnings		385,950,536	498,138,438	42,382,333
Total equity		508,008,436	615,276,236	153,110,955
Non-current liabilities				
Long term borrowings	6	-	10,235,604	3,906,667
Lease liability		708,075	1,029,285	708,075
Deferred tax		140,815,932	18,944,430	27,670,204
Total non-current liabilities		141,524,007	30,209,319	35,831,404
Current liabilities				
Trade and other payables	7	95,443,579	120,435,745	89,548,865
Short-term borrowings	6	7,463,939	16,893,669	7,463,939
Current tax payable		11,912,173	31,571,072	11,912,173
Total current liabilities		114,819,691	168,900,486	108,924,977
Total liabilities		256,343,698	199,109,805	137,303,256
Total equity and liabilities		764,352,134	814,386,041	290,414,211

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME for the period ended 30 June 2020

	Inflation adjusted		*Historical	
	6 months to 30 June 2020 Reviewed ZWL	6 months to 30 June 2019 Unaudited ZWL	6 months to 30 June 2020 Reviewed ZWL	6 months to 30 June 2019 Unaudited ZWL
Revenue	195,549,999	238,455,126	128,183,801	20,146,162
Cost of sales	(94,575,469)	(146,099,714)	(60,588,741)	(8,558,357)
Gross profit	100,974,530	92,355,412	67,595,060	11,587,805
Net exchange(loss)/ gain	(25,434,808)	1,711,528	(16,919,272)	463,001
Net monetary gain/ (loss)	13,126,905	(73,852,334)	-	-
Other income	436,239	509,655	332,355	40,734
Distribution costs	(7,260,071)	(11,285,196)	(4,464,797)	(1,039,235)
Administrative expenses	(50,611,136)	(38,339,441)	(26,101,686)	(3,286,495)
Finance costs	(4,664,861)	(1,202,985)	(3,073,119)	(95,389)
Profit/(loss) before tax	26,566,798	(30,103,361)	17,368,541	7,670,421
Income tax	(133,834,598)	(105,240,414)	(8,248,507)	(2,308,103)
(Loss)/profit for the period	(107,267,800)	(135,343,775)	9,120,034	5,362,318
Comprehensive income				
Other comprehensive income	-	600,978	-	71,778
Related tax	-	(154,752)	-	(18,483)
Other comprehensive income net of tax		446,226		53,295
Total comprehensive (loss)/ income for the period	(107,267,800)	(134,897,549)	9,120,034	5,415,613
Basic (loss)/ earnings per share (cents)	(42.33)	(55.24)	3.60	1.46
Diluted (loss)/ earnings per share (cents)	(41.28)	(53.92)	3.51	1.41
Headline (loss)/ earnings per share (cents)	(42.33)	(55.24)	3.60	1.46

CONSOLIDATED STATEMENT OF CASH FLOWS for the period ended 30 June 2020

	Inflation adjusted		*Historical	
	6 months to 30 June 2020 Reviewed ZWL	6 months to 30 June 2019 Unaudited ZWL	6 months to 30 June 2020 Reviewed ZWL	6 months to 30 June 2019 Unaudited ZWL
Cash flows from operating activities	78,904,991	161,291,706	41,169,392	5,353,567
Interest paid	(4,664,861)	(1,202,985)	(3,073,119)	(95,389)
Income tax paid	(31,704,691)	(11,576,407)	(12,183,483)	(453,521)
Net cash flows from operating activities	42,535,439	148,512,314	25,912,790	4,804,657
Net cash flows utilised in investing activities	(16,562,581)	(179,486,380)	(8,357,192)	(5,311,708)
Net cash flows (utilised in)/generated from financing activities	(20,427,268)	15,643,466	(2,932,879)	744,494
Net increase/(decrease) in cash and cash equivalents	5,545,590	(15,330,600)	14,622,719	237,443
Opening cash balance	14,680,174	19,094,140	5,603,045	1,173,304
Closing cash and cash equivalents	20,225,764	3,763,540	20,225,764	1,410,747

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the period ended 30 June 2020

	Inflation adjusted		Retained earnings ZWL	Total equity ZWL
	Share capital ZWL	Reserves ZWL		
Balance at 1 January 2019	555,777	200,888,794	82,141,514	283,586,085
Dividend paid	-	-	(12,940,597)	(12,940,597)
Other comprehensive income	-	205,828,745	-	205,828,745
Impact of adopting IFRS 16	-	-	(811,739)	(811,739)
Share capital issued	3,309	-	-	3,309
Share premium	-	561,429	-	561,429
Share options exercised	912	-	-	912
Share premium on scrip dividend	-	2,987,194	(2,987,194)	-
Share based payments	-	2,744,657	-	2,744,657
Elimination of revaluation reserve on IAS 29 adoption	-	(296,433,019)	296,433,019	-
Profit for the year	-	-	136,303,435	136,303,435
Balance at 31 December 2019	559,998	116,577,800	498,138,438	615,276,236
Transfer to reserves	-	4,920,102	(4,920,102)	-
Other comprehensive loss for the period	-	-	(107,267,800)	(107,267,800)
Balance at 30 June 2020	559,998	121,497,902	385,950,536	508,008,436

*Historical

Balance at 1 January 2019	24,649	8,984,242	4,103,255	13,112,146
Dividend paid	-	-	(2,278,344)	(2,278,344)
Other comprehensive income	-	99,496,987	-	99,496,987
Impact of adopting IFRS 16	-	-	(49,880)	(49,880)
Share based payments	-	1,047,565	-	1,047,565
Share capital issued	544	-	-	544
Share premium on scrip dividend	-	1,140,135	(1,140,135)	-
Share premium on share options	-	34,350	-	34,350
Share options exercised	150	-	-	150
Profit for the year	-	-	32,627,403	32,627,403
Balance at 31 December 2019	25,343	110,703,279	33,262,299	143,990,921
Other comprehensive income for the period	-	-	9,120,034	9,120,034
Balance at 30 June 2020	25,343	110,703,279	42,382,333	153,110,955

*The historical amounts are shown as supplementary information. This information does not comply with International Financial Reporting Standards in that it has not taken account of the requirements of International Accounting Standard 29: Financial Reporting in Hyperinflationary Economies. As a result, the auditors have not expressed an opinion on the historical financial information.

NOTES TO THE FINANCIAL RESULTS for the period ended 30 June 2020

1. Basis of preparation

The Group's financial statements for the half year ended 30 June 2020 have been prepared under the current cost basis in line with provisions of IAS 29. Where necessary, prior year figures have been re-classified to improve comparability of the information and to ensure relevance to the understanding of the current period's results. These financial statements were approved by the Board of Directors on 30 September 2020.

2. Statement of compliance

The Group's financial results, where practicable, have been prepared in accordance with the accounting policies consistent with International Financial Reporting Standards (IFRS) except for non-compliance with IAS 21 "Effects of Changes in Foreign Exchange Rates", and in the manner required by the Zimbabwe Companies Act (Chapter 24:03) and the Zimbabwe Stock Exchange Listing Requirements. Due to the requirements of Statutory Instrument 33 of 2019, it was not practical to comply with requirements of IAS 21: Effects of Changes in Foreign Exchange Rates.

Proplastics

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ABRIDGED REVIEWED RESULTS for the period ended 30 June 2020

NOTES TO THE FINANCIAL RESULTS for the period ended 30 June 2020 (continued)

2.1 Hyperinflation

The Group adopted IAS 29 "Financial Reporting in Hyper-Inflationary Economies" with effect from 1 October 2018 as per the guidance issued by the Public Accountants and Auditors Board (PAAB) through pronouncement 1/2019. The restated approach was applied as if the economy had been hyperinflationary from October 2018.

The Group adopted the Zimbabwe Consumer Price Index (CPI) to restate the transactions and balances.

The conversion factors have been computed from the consumer price index (CPI) data prepared by the Zimbabwe Central Statistics Office as reported on the Reserve Bank of Zimbabwe website. The conversion factors used to restate the financial results are as follows:

	Indices	Conversion factor
CPI as at 30 June 2019	172.6	8.3726
CPI as at 31 December 2019	551.60	2.6199
CPI as at 30 June 2020	1,445.20	1.00

2.2 Reporting Currency

The Group's financial statements are presented in Zimbabwe dollars (ZWL), which is the Group's presentation currency as at half year ended 30 June 2020 and as prescribed by statutory instrument 33 of 2019 and statutory instrument 142 of 2019. became the functional currency of the Group from 22 February 2019. All the Group's subsidiaries operate in Zimbabwe and have the Zimbabwe dollar (ZWL) as their functional and presentation currency.

3. Property, plant and equipment

Inflation adjusted	Freehold Land & Buildings ZWL	Capital Work in Progress ZWL	Leasehold Improvements ZWL	Right of Use Assets ZWL	Plant & Equipment ZWL	Motor Vehicles ZWL	Furniture & Office Equipment ZWL	TOTAL ZWL
Balance at 1 January 2019	37,485,676	85,231,177	2,226,993	-	160,768,054	17,291,339	7,734,071	310,737,310
Additions	-	89,765,654	-	5,394,199	80,184,581	2,187,119	1,954,827	179,486,380
Re-valuation	50,605,335	-	-	-	200,300,261	15,247,124	7,138,781	273,291,501
Disposals	-	-	-	-	-	-	(8,950)	(8,950)
Balance at 31 December 2019	88,091,011	174,996,831	2,226,993	5,394,199	441,252,896	34,725,582	16,818,729	763,506,241
Additions	-	11,443,046	-	-	2,229,026	3,016,662	-	16,688,734
Re-measurement	-	-	-	10,477,533	-	-	-	10,477,533
Transfer in/(out)	175,757,595	(175,757,595)	-	-	-	-	-	-
Disposals	-	-	-	-	-	(56,302)	-	(56,302)
Balance at 30 June 2020	263,848,606	10,682,282	2,226,993	15,871,732	443,481,922	37,685,942	16,818,729	790,616,206
Accumulated Depreciation								
Balance at 1 January 2019	(2,250,555)	-	(194,145)	-	(110,822,641)	(7,575,043)	(4,351,876)	(125,194,260)
Depreciation for the year	(763,683)	-	(29,669)	(841,157)	(27,418,343)	(3,485,692)	(2,301,727)	(34,840,271)
Disposals	-	-	-	-	-	4,936	-	4,936
Balance at 31 December 2019	(3,014,238)	-	(223,814)	(841,157)	(138,240,984)	(11,060,735)	(6,648,667)	(160,029,595)
Depreciation for the period	(9,711,529)	-	(102,472)	(1,396,105)	(27,600,578)	(3,715,246)	(1,486,059)	(44,011,989)
Disposals	-	-	-	-	-	51,365	-	51,365
Balance at 30 June 2020	(12,725,767)	-	(326,286)	(2,237,262)	(165,841,562)	(14,724,616)	(8,134,726)	(203,990,219)
Carrying Amount								
Balance at 1 January 2019	35,235,121	85,231,177	2,032,848	-	49,945,413	9,716,296	3,382,195	185,543,050
Balance at 31 December 2019	85,076,773	174,996,831	2,003,179	4,553,042	303,011,912	23,664,847	10,170,062	603,476,646
Balance at 30 June 2020	251,122,839	10,682,282	1,900,707	13,634,470	277,640,360	22,961,326	8,684,003	586,625,987

Freehold land and buildings with a carrying amount of ZWL251.1 million have been pledged to secure borrowings of the Company. This was done by way of a Deed of Hypothecation over The Remaining Extent of Lot 5 Block Y Ardbennie Township of Ardbennie.

*Historical	Freehold Land & Buildings ZWL	Capital Work in Progress ZWL	Leasehold Improvements ZWL	Right of Use Assets ZWL	Plant & Equipment ZWL	Motor Vehicles ZWL	Furniture & Office Equipment ZWL	TOTAL ZWL
Balance at 1 January 2019	1,746,041	4,729,751	98,710	-	7,182,300	787,620	334,314	14,878,736
Additions	-	34,261,240	-	-	22,599,592	573,007	288,682	57,722,521
IFRS 16	-	-	-	794,018	-	-	-	794,018
Revaluation	30,845,262	-	-	-	89,709,957	7,724,850	3,333,917	131,613,986
Disposals	-	-	-	-	-	-	(2,643)	(2,643)
Balance at 31 December 2019	32,591,303	38,990,991	98,710	794,018	119,491,849	9,085,477	3,954,270	205,006,618
Additions	-	4,887,735	-	-	2,229,026	1,336,244	2,481	8,455,486
IFRS 16 Re-measurement	-	-	-	303,164	-	-	-	303,164
Transfer in/(out)	40,431,020	(40,431,020)	-	-	-	-	-	-
Disposals	-	-	-	-	-	(24,939)	-	(24,939)
Balance at 30 June 2020	73,022,323	3,447,706	98,710	1,097,182	121,720,875	10,396,782	3,956,751	213,740,329
Accumulated Depreciation								
Balance at 1 January 2019	(89,667)	-	(9,085)	-	(4,887,681)	(342,510)	(187,054)	(5,515,997)
Depreciation for the year	(30,021)	-	(9,085)	(310,979)	(1,046,008)	(125,747)	(88,836)	(1,610,676)
Disposals	-	-	-	-	-	-	1,393	1,393
Balance at 31 December 2019	(119,688)	-	(18,170)	(310,979)	(5,933,689)	(468,257)	(274,497)	(7,125,280)
Depreciation for the period	(820,271)	-	(4,542)	(82,626)	(14,596,863)	(1,504,046)	(1,200,871)	(18,209,219)
Disposals	-	-	-	-	-	14,852	-	14,852
Balance at 30 June 2020	(939,959)	-	(22,712)	(393,605)	(20,530,552)	(1,957,451)	(1,475,368)	(25,319,647)
Carrying Amount								
Balance at 1 January 2019	1,656,374	4,729,751	89,625	-	2,294,619	445,110	147,260	9,362,739
Balance at 31 December 2019	32,471,615	38,990,991	80,540	483,039	113,558,160	8,617,220	3,679,773	197,881,338
Balance at 30 June 2020	72,082,364	3,447,706	75,998	703,577	101,190,323	8,439,331	2,481,383	188,420,682

Freehold land and buildings with a carrying amount of ZWL72.1 million have been pledged to secure borrowings of the Company. This was done by way of a Deed of Hypothecation over The Remaining Extent of Lot 5 Block Y Ardbennie Township of Ardbennie.

NOTES TO THE FINANCIAL RESULTS for the period ended 30 June 2020 (continued)

4. Inventories

	Inflation adjusted		*Historical	
	30 June 2020	31 Dec 2019	30 June 2020	31 Dec 2019
	Reviewed ZWL	Audited ZWL	Reviewed ZWL	Unaudited ZWL
Raw materials	20,993,588	40,336,414	10,750,118	6,995,551
Work in progress	23,423,772	46,638,654	17,379,884	8,519,576
Finished goods	37,621,652	70,616,343	13,020,893	10,762,308
Spares and consumables	13,386,468	15,936,120	1,760,300	1,523,932
Provision for slow moving inventories	(6,496,760)	(9,248,132)	(2,966,469)	(1,766,469)
Total inventories at end of the period	88,928,720	164,279,399	39,944,726	26,034,898

5. Trade and other receivables

Trade receivables	7,807,257	14,387,178	7,807,257	5,491,215
Prepayments	21,208,879	13,182,433	12,769,259	3,685,365
Deposits and other receivables	44,068,753	8,851,160	25,759,749	3,409,829
	73,084,889	36,420,771	46,336,265	12,586,409
Less: Allowances for credit losses	(4,513,226)	(4,470,949)	(4,513,226)	(1,706,445)
Total trade and other receivables at end of the period	68,571,663	31,949,822	41,823,039	10,879,964

6. Borrowings

Long term loan	-	10,235,604	-	3,906,667
Short term loan	7,463,939	16,893,669	7,463,939	6,447,879
Total borrowings at end of the period	7,463,939	27,129,273	7,463,939	10,354,546

The loan is secured by Notarial General Covering Bond (NGCB) over movable assets including cession of book debts and First Ranking Deed of Hypothecation over immovable assets. It is payable over 3 years at an effective interest rate of 30% per annum.

	Inflation adjusted		*Historical	
	30 June 2020	31 Dec 2019	30 June 2020	31 Dec 2019
	Reviewed ZWL	Audited ZWL	Reviewed ZWL	Unaudited ZWL
7. Trade and other payables				
Trade payables	46,042,336	38,526,276	46,042,336	14,704,488
Accruals and other payables	49,401,243	81,909,469	43,506,529	27,374,687
Total trade and other payables at end of the period	95,443,579	120,435,745	89,548,865	42,079,175

* The historical amounts are shown as supplementary information. This information does not comply with International Financial Reporting Standards in that it has not taken account of the requirements of International Accounting Standard 29: Financial Reporting in Hyperinflationary Economies. As a result, the auditors have not expressed an opinion on the historical financial information.

8. Contingent liabilities

There were no contingent liabilities as at reporting date (2019-ZWL nil).

9. Capital commitments

Capital expenditure for the half year to 30 June 2020 amounted to ZWL 16,688,734. The budgeted capital expenditure for the year to 31 December 2020 is ZWL 326,747,360. The expenditure will be financed from internal resources and existing facilities.

10. Events after the reporting date

10.1 The Zimbabwe stock exchange (ZSE) suspended all trading on 25 June 2020 in compliance with a Government directive. Resultantly, the shares of the company were not being traded during this period until 3 August 2020 when trading resumed. However, this had no significant impact on the company.

10.2 The Government of Zimbabwe also issued statutory instrument 185 of 2020 on 24 July 2020, which requires goods or services providers to quote, display, or offer prices of goods or services in both Zimbabwe dollar and foreign currency at the ruling exchange rate.

11. Going Concern

The Board confirms that the Group has adequate resources to continue in business in the aftermath of COVID-19 and in the foreseeable future. Accordingly, the financial statements have been prepared on the basis that the Group is a going concern.

12. Review Conclusion

These condensed interim financial results for the six months ended 30 June 2020 have been reviewed by Deloitte & Touche and an adverse review conclusion issued thereon. This review conclusion carries an adverse conclusion in respect of the impact of the carry-over effect of the incorrect application of IAS 21 "The Effects of Changes in Foreign Exchange Rates" and the incorrect application of the spot rate for transactions during the period 1 April 2020 to 30 June 2020 and closing rates as at 30 June 2020.

The review conclusion has been made available to management and those charged with the governance of Proplastics Limited.

