



TRADING UPDATE FIRST QUARTER ENDED 31 MARCH 2022

Introduction

The Company hereby issues a trading update for the first quarter ended 31 March 2022 to shareholders.

The Company has almost completed the necessary processes with the Registrar of Companies and Other Business Entities emanating from the EGM held on 15 November 2021. We expect to be able to release an announcement to shareholders in this regard before the end of this month.

Transactions are being pursued to expand the portfolio investments of the Company and shareholders will be advised in due course of further developments in this regard.

Operating environment

The trading, operating and economic environment became more difficult since the last report to shareholders was published with increased unpredictability, inflation and complexity. Key factors from the first quarter include;

- Increasing inflation and the most expensive fuel in the region.
- The Foreign Exchange Auction rate moved from USD1: ZWL 108.66 at the start of the quarter and closed at USD1: ZWL 142.42 at the end of March. Portfolio investment businesses at times succeed in their auction bids but the actual payment of the foreign currency is over three months in arrears at the time of this shareholder update. This results in onerous and unusually high working capital requirements to fund this delay, which requirement is funded through bank debt. The auction is apparently not operating as an auction with non-existent foreign currency being sold/allocated and the exchange rate significantly overvalues the ZWL resulting in excessive demand versus supply.

CLASS A PORTFOLIO – CONSUMER GOODS (MEDTECH BUSINESSES)

This portfolio primarily includes 50.1% of Zvemvura Trading (Private) Limited, trading as MedTech Distribution, and

Chicago Cosmetics (Private) Limited, a 51% subsidiary of MedTech Distribution.

Performance commentary

The first quarter sales volumes increased by 51% (74% for distribution and 5% for manufacturing) whilst the real value of sales increased by approximately 35% compared to the first quarter of 2021 largely as a result of;

- Stock availability being better this year as compared to the comparative prior period,
- Changes in the sales mix and increased participation in retail promotions which has led to increased sales volumes,
- A reduction in the real selling price of our goods to drive demand and compete better against the informal market - thereby reducing the negative impact of smuggling and grey market imports on products we supply,
- Improved working capital management to reduce the impact of any currency depreciation and thereby allow for more aggressive sales, and
- Constant supply of replacement stock and less stockouts have enabled the business to increase both shelf space and market share.

No payments have been made against legacy debts since the beginning of the year and the validated amount remains at ZAR 23.4 million with ZAR 5.9 million of this having been settled leaving a validated balance payable of ZAR 17.5 million. This legacy debt continues to hamper relationships with suppliers and timeous supply of goods.

CLASS B PORTFOLIO

Whilst a transaction is pursued, the Class B portfolio continues to only reflect a receivable of USD100,200 relating to 50.1% of the land owned by MedTech Distribution and based on the USD200,000 valuation of this land.

OUTLOOK

The operating environment has deteriorated since the end of the first quarter with doing business becoming

more difficult. The recent announcement suspending bank lending will result in a reduction in working capital availability and hence a reduction in sales generally and credit sales to retailers in particular.

Should the change in taxation of listed shares be implemented at 40% then the ability of listed entities to raise capital and the Company to conclude on acquisition opportunities may be negatively affected.

The second quarter of 2022 may well see a reduction in sales because of the negative effects of policy changes and escalating inflation eroding disposable incomes further. The policy changes don't really impact on informal businesses and hence market share is likely to be lost to such players. Should the various recommendations by organisations such as the Zimbabwe National Chamber of Commerce be implemented then we anticipate positive developments thereafter.

Vernon Lapham
Chief Executive Officer
13 May 2022