

TRADING UPDATE FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2022

Introduction

The Company hereby issues a trading update for the third quarter ended 30 September 2022.

Transactions continue to be pursued to expand the portfolio investments of the Company and shareholders will be advised in due course of further developments in this regard. Whilst a number of transactions have, and continue to be pursued, focus had been placed on two transactions although neither is likely to be concluded in the short term - especially with the depressed prices currently prevailing on the Zimbabwe Stock Exchange. Focus has therefore shifted to other transactions in the pipeline.

Operating environment

An overview of the third quarter operating environment is included below:

- There was a dramatic change in interest rates from 80% to 200% effective 1 July. This saw banks increasing their lending rates to around 200% to 230%. Bank lending rates are typically nominal interest rates, compounded monthly so these rates result in actual compound annual rates of between 536% to 720%. Although these rates are excessive compared to inflation, this development has resulted in businesses settling borrowings and a resultant decrease in money supply.
- In August, Government stopped payments to suppliers to review the pricing of invoices. Whilst payments have resumed, it seems that these are at a slower pace than prior to the stop in payments. If government is able to maintain their spending in line with revenue collection this will halt money supply growth and hence inflation.
- Year on year official inflation stood at 280% in September whilst the third quarter inflation was 46.0% - down from 82.7% for the second quarter. Average monthly inflation for the quarter was 13.8% - down from 22.4% for the second quarter. This

downturn in inflation is a welcome development.

- Official exchange rates moved from 366 at the start of the quarter to 622 at the end of September. This increase in the rate of 70% is largely a correction bringing the exchange rate more in line with market conditions. This has resulted in a decrease in the parallel market premium from around 88% to 21% over the quarter. The impact of more realistic exchange rates, and a reduction in arbitrage opportunities, is a positive development.

The tight fiscal and monetary stance is achieving the desired results and is an encouraging step in the right direction. The impact has however been a significant drop in the real value and volume of sales. Such significant policy changes are inevitably painful although we envisage some recovery in sales as the market recovers from the shock as the year progresses.

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 third quarter sales volumes dropped by over 67% for distribution and 58% for manufacturing compared to the third quarter of 2021, largely as a result of the huge drop in supermarket sales and demand in general. The significant decline was as a result of the policy changes, as highlighted under operating environment above, and was mostly felt from August.

A payment towards the MedTech legacy debts of USD170,000 was received at the end of October after which USD640,000 remains outstanding. This was a pleasant development and a partial relief to suppliers.

CLASS B PORTFOLIO

Whilst a transaction is pursued, the Class B portfolio comprises an effective 50.1% of a stand registered in the name of MedTech Distribution. A disposal or development of this stand is being pursued. This stand, stand 1178 Ventersburg (Sunway City) measuring 8,072 m², was last valued in 2020 for USD200,000 or USD100,200 for the Class B 50.1% interest.

OUTLOOK

The market seems to be recovering somewhat from the policy changes mentioned and we are seeing some increase in liquidity. It is, however, difficult to provide a meaningful outlook as this may be influenced by government policy changes.

In order to mitigate against the drop in local currency demand through the formal retail outlets, the consumer goods business is pursuing sales channels into the informal sector.



Vernon Lapham
Chief Executive Officer
10 November 2022