

Hwange Colliery Company Limited

CONDENSED INTERIM FINANCIAL RESULTS

for the six months ended 30 June 2019



Registered Office: Hwange Colliery Company Limited
7th Floor Coal House, 17 Nelson Mandela Avenue
P.O. Box 2870, Harare, Zimbabwe



ADMINISTRATOR'S STATEMENT AND LETTER

On behalf of the administration team, I present the unaudited financial results of Hwange Colliery Company Limited for the half year ended 30 June 2019.

Financial Performance

The Company's financial performance for the period under review improved in comparison to the same period in the 2018 financial year. The Company's revenue increased by 128% from ZWL\$30.5 million for the six months ended 30 June 2018 to ZWL\$69.8 million for the period under review. The company posted a profit of ZWL\$3.5 million against a loss of ZWL\$23 million recorded in 2018.

Operations

The contract miner stopped mining on or about 15 December 2018 and only resumed mining in August 2019. In addition, the company only resumed open cast mining in March 2019. Owing to the above, production declined by 52% from 819,859 to 394,704 for the period under review. It is interesting to note that HCCL production increased marginally from 344,694 tonnes to 394,704 tonnes and it has continued to increase for the first three months of the second half from 158 981 tonnes to 224 191 tonnes .

Total sales tonnage declined by 16% from 682 152 in 2018 to 573 238 during the period under review. The sales mix however improved with HCC/HIC coal sales increasing by 4.2% from 268 570 tonnes to 279 790 tonnes. HPS sales to Hwange Power Station decreased by 38.% from 376,695 tonnes to 232,222 tonnes.

The cost of sales increased by 16% to \$35.7 million from \$30.6 million for the prior year comparative period. As a result, the company posted a gross profit of ZWL\$34 million compared to a gross loss of ZWL\$144,000 in prior year which is pleasing.

Scheme of Arrangement

In May 2017, HCCL entered into a scheme of arrangement with its creditors in terms of Section 191(2) of the Companies Act (Chapter 24:03) ("the Scheme") to restructure short term debt into long term debt.

While the proposed Scheme was sound, and long-term debt is a necessary mechanism to liquidate the Company's debts, the Scheme itself was not successful, as a number of the objectives were not met and ultimately, the Company lacked capacity to fund the Collection Account to settle interest due to creditors. The Scheme was therefore overtaken by the placement of the Company under Administration.

The Administrator recognizes the obligations of the Company under the Scheme, including but not limited to, debentures, and proposed payments to employees and other creditors. These will be incorporated into the Administrator's proposed scheme of reconstruction, as modified where necessary, to comply with the Reconstruction Act.

Outlook

There was very little production in the first three months of the year due to a combination of working capital constraints and antiquated equipment. The last three months have shown some notable improvements as a result of targeted interventions. The second half has started reasonably well and the strategic thrust for the second half of the year (H2 2019) will be the following.

- a) **Increased Production**
The company should be able to comfortably produce 250,000 tonnes per month inclusive of the mining contractors' contribution. Further, the company has deliberately decided to mine the JKL Pit and underground which will result in the production of high value coking coal. Going forward, the plan is to invest in a coke oven battery with beneficiation in mind and this should result in a significant increase in revenues. The company continues to explore pillar mining which if successful, should result in production volumes being north of 300,000 tonnes per month.
- b) **Open Cast Mining**
The Company's open cast operation contributed 195,173 tonnes for the half year which represents 60% of the total half year production. There are still constraints in the internal logistics and processing section of the value chain. Efforts continue to be made to stabilize the operation for it to be able to consistently produce 120 000 tonnes per month in the 2nd half of the year.
- c) **Underground Mine Operations**
The company is working on stabilizing the underground mine operation which averaged 21,000 tonnes per month for the period under review. The target is to bring the operation to 50,000 tonnes per month, which will contribute significantly to the Company's bottom line and enhance exports.
- d) **Processing Plants**
The company made some significant efforts to stabilize the Jig and Floatation plant during the first half of the year. The plan for the 2nd half is to resuscitate the HMS plant so as to increase the washing capacity.
- e) **Coke Production**
The Company's intended takeover project of the Hwange Coal Gasification Company (HCGC) Coke oven battery pursuant to a BOOT Agreement with its Chinese partners in HCGC was delayed. The Company has placed more emphasis and attention on coming up with its own coke oven battery while it continues takeover discussions with HCGC.
- f) **Cost reduction**
The Company adopted a low cost high productivity strategy. This has remained an on-going strategy and shall be monitored through to year end.
- g) **M Block Underground Pillar Mining**
The Company is engaging contractors to do pillar mining on old M block underground mine workings. Coal production is expected in the last quarter of the current financial year.
- h) **Improve efficiencies and competitiveness**
As the Company increases the thrust on the core business of mining, it will also look at ways of weaning non-core activities such as road maintenance, electrical power distribution and sewage treatment. The adoption of enterprise resource planning systems to automate the administration of the business will also improve efficiencies and lower the cost per ton of coal produced.

Dividend

In view of the operating position, the company is not able to pay a dividend.

Appreciation

The economic environment continues to be challenging, however, I am happy with the progress made to date and remain confident that the various interventions made, will result in a positive turnaround of the company's fortunes. We are grateful for the support rendered by all stakeholders as we embark on this tough but achievable turnaround journey.

I would like to express my gratitude to the Administration team, Management and Staff for their collective efforts and dedication to the Company.


B. Moyo
Administrator

30 September 2019

OPERATIONAL REVIEW

I have pleasure in submitting my report on the Company's operations for the half year ended 30 June 2019.

Overview

An operating plan for the half year was adopted from the strategic guidelines and initiations adopted from the engagements that are done with the administration team.

Coal Production and Sales

Mining- Open pit mining averaged 32,073 metric tonnes per month whilst underground mining averaged 21,000 metric per month during the period under review.

Local Sales - Sales for the half year ended 30 June 2019 were 0.57 million metric tonnes which represented a 15.97% decrease compared to the same period last year. Thermal coal contributed 40.5% of sales while industrial coal sales to the industrial customers and the tobacco sector contributed 59.5%. Coking coal sales will be a major area of focus and growth as the production from 3 Main underground and JKL increases. The ultimate strategy will be coke production which is hinged on the Company's establishment of its own coke oven battery.

Export Sales -The Company's largest export market was Zambia. Export of industrial coal to this market contributed to the export revenue. Trial orders of industrial coal to new blue chip customers in Zambia and South Africa were also undertaken. These new customers will be a source of market share growth for the export business. Export sales contributed only 4% compared to the target of 20% contribution.

Estates Division Performance

Revenue grew by 22% to \$6.1 million compared to the previous year. The revenue was generated from the following segments: real estate (54%), retail (34%), hospitality (6%) and education (6%)

Medical Services Division Performance

The Medical Services Division generated revenue of \$1.3 million in the period under review. Service provision has improved significantly due to improved cash flows after the introduction of an externally managed medical aid.

Safety, Health, Environment And Quality

The Company's objective is zero harm to the environment, people and equipment. During the period under review, no fatality was recorded. The company is pursuing recertification on IBMS (ISO 9001:2015, ISO 14001:2015 and ISO 45001:2018) by the end of the year.

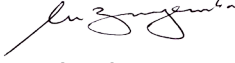
Outlook

The operating plan for the second half of the year (H2, 2019) will continue to focus on increased production and improved efficiencies. However, increased production requires that the Company allocates more funding to its operations which means that it will have to focus on its core business of mining and reduce non-mining costs in line with industry best practices.

Innovative ways to deal with the legacy debt will be explored while production of high margin and value coking coal will be increased.

Appreciation

Management and staff showed resilience and remained focused on its turnaround plan implementation. I would like to thank the Administrator, Mr. B. Moyo and his team, management and staff for their support, dedication and relentless commitment during the period under review and look forward to their support through to year end.


Dr. C. Zinyemba
Managing Director (Acting)

30 September 2019

CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2019

		6 months to 30 June 2019 ZWL	6 months to 30 June 2018 ZWL	Year 31 Dec 2018 ZWL	
	Notes	Reviewed	Reviewed	Audited	
Revenue	6	69 849 448	30 538 196	69 144 019	
Cost of sales		(35 713 948)	(30 682 115)	(72 540 235)	
Gross profit/(loss)		34 135 500	(143 919)	(3 396 216)	
Other income		263 888	558 174	1 312 918	
Marketing costs		(365 214)	(323 038)	(584 759)	
Administrative costs		(23 015 004)	(10 825 269)	(32 261 863)	
Care and maintenance costs		(645 900)	(4 119 607)	(6 314 355)	
Impairment reversal		5 994 520	-	(19 607 454)	
Operating profit/(loss)		16 367 790	(14 853 659)	(60 851 729)	
Finance cost		(12 844 948)	(8 147 736)	(17 614 462)	
Share of loss from equity accounted investments		-	-	23 507	
PROFIT/(LOSS) BEFORE TAX		3 522 842	(23 001 395)	(78 442 684)	
Income tax	7	-	-	-	
PROFIT/(LOSS) FOR THE PERIOD/ YEAR		3 522 842	(23 001 395)	(78 442 684)	
Other comprehensive income:					
Other comprehensive income for the period/year, net of tax		-	-	-	
TOTAL COMPREHENSIVE PROFIT/(LOSS) FOR THE PERIOD/YEAR		3 522 842	(23 001 395)	(78 442 684)	
Attributable loss per share	- basic	7	0.02	(0.13)	(0.49)
	- diluted	7	0.02	(0.13)	(0.49)
Headline loss per share	- basic	7	(0.01)	(0.13)	(0.48)
	- diluted	7	(0.01)	(0.13)	(0.48)

CONDENSED STATEMENT OF FINANCIAL POSITION

as at 30 June 2019

	Notes	30 June 2019 ZWL Reviewed	30 June 2018 ZWL Reviewed	31 Dec 2018 ZWL Audited
ASSETS				
Non- current assets				
Property, plant and equipment	9	82 825 188	104 062 428	80 135 517
Investment property	10	4 490 000	4 490 000	4 490 000
Investments accounted for using the equity method	11	14 776 538	14 753 031	14 776 538
Intangible assets	12	380 017	592 882	486 448
Exploration and devaluation		-	685 813	-
Stripping activity asset	13	1 471 273	-	1 471 273
Inventories non - current portion		6 812 230	8 138 714	6 812 230
		110 755 246	132 722 868	108 172 006
Current assets				
Stripping activity asset	13	-	6 462 360	-
Inventories	14	22 678 630	19 151 915	16 948 244
Trade and other receivables	15	45 197 257	18 339 519	31 914 245
Cash and cash equivalents	16	6 173 030	5 056 509	1 562 699
		74 048 917	49 010 303	50 425 188
Total assets		184 804 163	181 733 171	158 597 194
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	17	45 962 789	45 962 789	45 962 789
Non-distributable reserves		4 358 468	4 358 468	4 358 468
Share premium		577 956	577 956	577 956
Revaluation reserve		39 948 518	39 948 518	39 948 518
Translation reserve		624 151	-	-
Accumulated losses		(377 349 534)	(325 431 087)	(380 872 376)
		(285 877 652)	(234 583 356)	(290 024 645)
Non-current liabilities				
Finance lease liability	18.1	400 000	600 000	500 000
Borrowings	19.1	175 732 386	154 003 630	169 393 312
Long term creditors	20.2	220 514 760	183 702 670	212 511 251
Income tax liability		10 054 850	10 054 850	10 054 850
		406 701 996	348 361 150	392 459 413
Current liabilities				
Finance lease liability	18.2	911 190	390 969	811 190
Borrowings	19.2	-	12 605 825	545 455
Trade and other payables	20.1	46 230 167	39 939 289	38 644 022
Provisions	21	16 838 462	15 019 294	16 161 75
		63 979 819	67 955 377	56 162 426
Total equity and liabilities		184 804 163	181 733 171	158 597 194

CONDENSED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2019

	Share capital ZWL	Non- distributable reserves ZWL	Share premium ZWL	Revaluation reserve ZWL	Translation reserve ZWL	Accumulated losses ZWL	Total ZWL
Balance at 1 January 2019	45 962 789	4 358 468	577 956	39 948 518	-	(380 872 376)	(290 024 645)
Total comprehensive loss for the period (reviewed)	-	-	-	-	624 151	3 522 842	4 146 993
Balance at 30 June 2019 (reviewed)	45 962 789	4 358 468	577 956	39 948 518	624 151	(377 349 534)	(285 877 652)
Balance at 1 January 2018	45 962 789	4 358 468	577 956	39 948 518	-	(302 429 692)	(211 581 962)
Total comprehensive loss for the period (reviewed)	-	-	-	-	-	(23 001 395)	(23 001 395)
Balances at 30 June 2018 (reviewed)	45 962 789	4 358 468	577 956	39 948 518	-	(325 431 087)	(234 583 357)
Balance at 1 January 2018	45 962 789	4 358 468	577 956	39 948 518	-	(302 429 692)	(211 581 961)
Total comprehensive loss for the year (audited)	-	-	-	-	-	(78 442 684)	(78 442 684)
Balances at 31 December 2018 (audited)	45 962 789	4 358 468	577 956	39 948 518	-	(380 872 376)	(290 024 645)

CONDENSED STATEMENT OF CASH FLOWS

for the six months ended 30 June 2019

	Notes	30 June 2019 ZWL Reviewed	30 June 2018 ZWL Reviewed	31 Dec 2018 ZWL Audited
Cash generated from operating activities				
Loss before taxation		3 522 842	(23 001 395)	(78 442 684)
Adjustment for non-cash items		(16 068 340)	14 036 861	51 174 903
Net effect of changes in working capital		10 750 550	22 400 608	21 287 674
Net cash (utilised in)/ generated from operations		(1 794 948)	13 436 074	(5 980 107)
Interest paid		-	-	(1 254 171)
Tax paid		-	-	-
Net cash (utilised in)/generated from operating activities		(1 794 948)	13 436 074	(7 234 278)
Cash flows from investing activities				
Purchase of property, plant and equipment		(1 598 231)	(2 551 902)	(4 167 008)
Exploration and Evaluation		-	(685 813)	-
Net cash utilised in investing activities		(1 598 231)	(3 237 715)	(4 167 008)
Cash flows from financing activities				
Proceeds from borrowings		-	12 518 150	12 789 048
Repayment of borrowings		-	-	(2 792 343)
Long term creditors		8 003 509	(26 524 181)	(5 896 901)
Net cash generated from/(utilised in) financing activities		8 003 509	(14 006 031)	4 099 804
Net (decrease)/increase in cash and cash equivalents		4 610 331	(3 807 672)	(7 301 482)
Cash and cash equivalents at beginning of the period/year		1 562 699	8 864 181	8 864 181
Cash and cash equivalents at end of period/year	16	6 173 030	5 056 509	1 562 699

AUDITORS' STATEMENT

The condensed interim financial results for the six months ended 30 June 2019 have been reviewed by Grant

Thornton Chartered Accountants (Zimbabwe). A report on the review has been issued and has an adverse conclusion with respect to the following:

- Non-compliance with IAS 21, The Effect of Changes in Foreign Exchange Rates;
- Fair value determination of Property, Plant and Equipment in the prevailing economic environment; and
- Going concern.

The Engagement Partner responsible for this review is Farai Chibisa. The review report on these condensed interim financial results is available for inspection at the company's registered office.

