

Abridged Unaudited Group Financial Results

For The Half Year Ended 31 March 2019



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EVERSHARP



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MUTARE ESTATES

CHAIRMAN'S STATEMENT

INTRODUCTION

On behalf of the Board of Directors, I hereby present the unaudited financial results of ART Holdings Limited for the half year ended 31 March 2019. The operating environment deteriorated significantly during the period due to increased foreign currency allocation challenges and inflationary pressures emanating from the instability of multiple exchange rates in relation to the local currency. The Group maintained a positive performance in spite of the depressed demand which affected volumes across the business units.

FINANCIAL PERFORMANCE

The Government of Zimbabwe introduced the RTGS\$ as the transactional and functional currency on the 22nd of February 2019 and issued Statutory Instrument 33 of 2019 which directed that all assets and liabilities that were in United States Dollars (US\$) immediately before 22 February 2019 be deemed to be RTGS\$ at a rate of 1: 1 to the US\$. The reporting period was characterised by multiple exchange rates and therefore the Board advises users to exercise caution in the interpretation of these financial statements.

Revenue at ZWL\$29,6m was 34% above prior year. Local sales volumes declined as consumer purchasing power was eroded by inflation. Export sales volumes in the region increased by 30% as the focus on foreign currency generation initiatives yielded positive results.

Gross margins increased by two percentage points from prior year to 45%. The rising inflationary pressure on the cost of raw materials and other production costs is expected to exert pressure on margins going forward. Capacity utilisation declined by 7 percentage points to 69% from 76%.

Operating profit increased by 44% to ZWL\$6.2m from ZWL\$4.3m in 2018. An exchange loss of ZWL\$1.2m was booked in March as the RTGS Dollar depreciated by 20% in its first month on the interbank market. Finance charges on foreign currency loans and payables also increased in line with the exchange rate movements.

OPERATIONS

All the Group's business units were profitable in the period. Battery revenues in the local market increased by 37% albeit a 15% decrease in volumes largely attributed to the restrained trading in October 2018 and January 2019. Chloride Zambia volumes increased by 30% on the back of aggressive selling effort. Overall the battery business achieved an operating profit of ZWL\$2.8m.

The Paper divisions, Kadoma Paper Mills and National Waste Collections recorded aggregate revenues of ZWL\$6.7m, a 69% increase from prior year. Volumes at the Mill were 4% lower as a result of reduced plant availability owing to intermittent power supply. Export volumes increased by 15%. Operating profit increased to ZWL\$1.5m from ZWL\$0.3m in 2018 on the back of improved machine efficiencies and improved raw material quality.

Softex Tissue revenues increased by 85% from prior year to ZWL\$8.7m. Volumes were affected by the shortage of foreign currency to import virgin tissue. Hygiene and femcare volumes increased by 17% and 10% respectively due to improved product availability and the introduction of new lines.

Eversharp posted an operating profit of \$0,1m compared to \$0,9m in 2018. The business was adversely affected by the disruption of trading during the back to school period. Volumes reduced by 33% and revenues increased to ZWL\$5,3m from ZWL\$3,5m in 2018. Measures taken in response to the subdued demand included the introduction of smaller pack sizes.

Timber demand was firm during the period and the Estates achieved an operating profit of \$0,4m, an increase of 147% from the prior year.

BALANCE SHEET AND CASH FLOW

The Group's Statement of Financial Position was translated from US Dollars to RTGS Dollars at the end of February 2019 at the opening rate of 2,5 to the US Dollar.

The Group's foreign currency exposure as at period end amounted to US\$4m including US\$2,4m in payables relating to an offshore trading facility. Letter of credit commitments amounting to US\$1m included in the balance were settled after the reporting period. The remaining exposure is of concern to the Board as foreign currency availability remains a challenge.

DIVIDEND

The Company is not in a position to declare a dividend as it is focusing on settling outstanding foreign creditors and funding capital expenditure projects.

DIRECTORATE

There were no changes to the Board during the period.

OUTLOOK

The Group will continue to focus on exports whilst prioritising value preservation as the challenges in the economic environment are expected to persist. The improved efficiencies following the retooling of the business will enable the business to take opportunities in new product lines in order to broaden the customer base.

APPRECIATION

I would like to express my sincere gratitude to our customers, suppliers, bankers and other key stakeholders, my fellow directors, management and the entire team at ART for the continued support and contribution during the period under review.

T U Wushe
CHAIRMAN
18 June 2019

ABRIDGED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED	Unaudited 31 March 2019 ZWL\$ 000	Unaudited 31 March 2018 ZWL\$ 000
Revenue from contracts with customers	29 603	22 095
Cost of sales	(16 372)	(12 608)
Gross profit	13 231	9 487
Other income	577	247
Operating expenses	(7 638)	(5 496)
Operating profit before fair value adjustments and impairments	6 170	4 238
Share of Joint Venture & Associate Profit	287	249
Change in functional currency	5 560	-
Exchange loss	(1 151)	-
Operating Profit before interest and tax	10 866	4 487
Finance costs	(1 355)	(560)
Profit before tax	9 511	3 927
Income tax expense	(830)	(235)
Profit after tax	8 681	3 692
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss:		
Translation of foreign subsidiary	2 601	(46)
Fair value adjustment on available for sale investments	209	-
Revaluation surplus	23 130	-
Other comprehensive income for the year, net of tax	25 940	(46)
Total comprehensive income for the year, net of tax	34 621	3 646
Earnings per share (cents)		
Basic	1.84	0.78
Diluted	1.84	0.78
Shares in issue	472 802 874	472 803 000

ABRIDGED STATEMENT OF FINANCIAL POSITION

AS AT	Unaudited 31 March 2019 ZWL\$ 000	Audited 30 September 2018 ZWL\$ 000
ASSETS		
Non-current assets		
Property, plant and equipment	39 126	15 347
Investment Property	9 520	3 810
Biological assets	11 864	4 561
Investment in joint venture and associate	1 458	1 171
Financial assets at fair value through OCI	280	71
Total non-current assets	62 248	24 960
Current assets		
Inventories	11 141	6 650
Trade and other receivables	10 063	5 474
Cash resources	1 467	1 940
Total Current Assets	22 671	14 064
TOTAL ASSETS	84 919	39 024
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	47	47
Share premium	4 378	4 378
Accumulated profit	14 630	5 949
Non-distributable reserves	35 851	9 921
Shareholders' equity	54 916	20 295
Non-current liabilities		
Deferred tax liabilities	2 652	2 331
Interest bearing loans and borrowings	4 243	3 773
Total non-current liabilities	6 895	6 104
Current liabilities		
Trade and other payables	16 797	8 656
Provisions	268	256
Income tax payable	1 263	957
Interest bearing loans and borrowings	3 290	2 235
Bank overdrafts	1 490	521
Total current liabilities	23 108	12 625
Total liabilities	30 003	18 729
TOTAL EQUITY AND LIABILITIES	84 919	39 024

ABRIDGED STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDED	Unaudited 31 March 2019 ZWL\$ 000	Unaudited 31 March 2018 ZWL\$ 000
Cash flow from operating activities:		
Cash generated from trading	7 777	5 723
Cash utilized in working capital	(9 517)	(3 177)
Cash generated from operations	(1 740)	2 546
Finance costs	(1 354)	(547)
Tax paid	(539)	-
Cash (utilised)/generated from operating activities	(3 633)	1 999
Cash flow from investing activities:		
Purchase of property, plant and equipment	(677)	(773)
Increase/(Decrease) in biological assets	564	(32)
Proceeds from disposal of property, plant and equipment	-	25
Cash utilized in investing activities	(113)	(780)
Cash utilized in financing activities:		
Proceeds from borrowings	3 278	229
Repayment of borrowings	(1 179)	(1 452)
Cash generated/(utilised) from financing activities	2 099	(1 223)
Decrease in cash and cash equivalents	(1 647)	(4)
Net foreign exchange differences	205	12
Cash and cash equivalents at the beginning of the period	1 419	467
Cash and cash equivalents at the end of the period	(23)	475
Comprising:		
Cash and bank balances	1 467	515
Overdrafts	(1490)	(40)
Cash and cash equivalents at the end of the period	(23)	475

ABRIDGED STATEMENT OF CHANGES IN EQUITY

	Share Capital	Share Premium	Available for Sale	Revalua- tion	Share Option	Foreign Currency Translation	Retained Earnings	Total
	ZWL\$000	ZWL\$000	ZWL\$000	ZWL\$000	ZWL\$000	ZWL\$000	ZWL\$000	ZWL\$000
At 30 September 2017	47	4 378	81	8 921	36	623	(577)	13 509
Profit for the year	-	-	-	-	-	-	6 526	6 526
Other comprehensive income/(Loss)	-	-	(10)	372	-	(102)	-	260
At 30 September 2018	47	4 378	71	9 293	36	521	5 949	20 295
Profit for the year	-	-	-	-	-	-	8 681	8 681
Other comprehensive income	-	-	209	23 130	-	2 601	-	25 940
At 31 March 2019	47	4 378	280	32 423	36	3 122	14 630	54 916

Abridged Unaudited Group Financial Results

For The Half Year Ended 31 March 2019



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MUTARE ESTATES

ABRIDGED GROUP SEGMENT RESULTS

FOR THE HALF YEAR ENDED

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	Paper ZWL\$ 000	Batteries ZWL\$ 000	Forests ZWL\$ 000	Eversharp ZWL\$ 000	Central Administration ZWL\$ 000	Group ZWL\$ 000
Revenue						
External customer	6 661	16 258	1 338	5 346	-	29 603
Operating profit	1 535	2 763	338	122	1 414	6 170
Finance cost	(1)	(204)	-	(2)	(1 148)	(1 355)
Net Segment assets	10 121	30 912	18 253	1 694	(6 064)	54 916
Capital expenditure	(93)	(410)	(7)	(36)	(131)	(677)
Depreciation	(88)	(492)	(33)	(146)	(77)	(836)

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	Paper ZWL\$ 000	Batteries ZWL\$ 000	Forests ZWL\$ 000	Eversharp ZWL\$ 000	Central Administration ZWL\$ 000	Group ZWL\$ 000
Revenue						
External customer	3 947	13 762	892	3 494	-	22 095
Operating profit	285	2 877	210	932	(66)	4 238
Finance cost	(16)	(197)	(2)	(7)	(338)	(560)
Net Segment assets	3 935	7 647	6 357	2 310	(3 094)	17 155
Capital expenditure	(58)	(399)	(86)	(169)	(61)	(773)
Depreciation	(94)	(451)	(29)	(87)	(26)	(687)

NOTES TO THE ABRIDGED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation

The abridged consolidated financial results have been prepared on a historic cost basis except for land and buildings, investment property, financial assets and biological assets that are accounted for under fair value. The fair valuation exercise will be conducted at year end. Comparative figures have been translated on the basis of parity between USD and RTGS on 30 September 2018.

The Group translated assets and liabilities as at 23 February 2019 at 1:1 in line with IAS 21 - *Effects of changes in foreign exchange rates* and statutory instrument 33 of 2019. Subsequently, all monetary items, investment property and biological assets were translated at the applicable interbank rates and the resulting gains or losses were recognised in profit or loss. Fair value adjustments on property, plant and equipment were recognised in other comprehensive income. Interbank rates were used to translate USD transactions from 24 February 2019 to 31 March 2019.

2. Currency of reporting

The financial results are prepared in Zimbabwean ZWL\$ which is also the Group's functional currency.

3. Statement of compliance

The Group, in compliance with SI 33 of 2019 maintained the 1:1 fixed exchange rate between its functional currency USD and RTGS\$ for all transactions between 1 October 2018 and 22 February 2019. This was however in conflict with IAS 21 - *Effects of changes in foreign exchange rates* which requires market exchange rates to be used. Therefore full compliance with International Financial Reporting Standards has not been achieved.

The Group adopted IFRS 15 - *Revenue from contracts with customers* and IFRS 9 - *Financial instruments* effective 1 October 2018. The Group is currently in the process of developing the expected credit loss model for the applicable financial instruments. A modified retrospective approach has been adopted for both standards.

4. Statement of accounting policy

The accounting policies in the preparation of the 2019 interim consolidated financial results are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 September 2018 except for the changes that will arise due to the adoption of IFRS 15 - *Revenue from contracts with customers* and IFRS 9 - *Financial instruments*

5. Total borrowings split.

ZWL\$ 000	31 March 2019			30 September 2018		
	Short-term and Overdraft	Long-term	Total	Short-term and Overdraft	Long-term	Total
Group	4 780	4 243	9 023	2 756	3 773	6 529

Average cost of borrowing during the half year ended 31 March 2019 was 12%. Land and buildings worth ZWL\$10m have been pledged as security.

6. Lease commitments

	March 2019		March 2018	
	Minimum payments ZWL\$000	Present value of payments ZWL\$000	Minimum payments ZWL\$000	Present value of payments ZWL\$000
Within one year	411	393	33	27
After one year but not later than five years	287	266	1 500	1 287
Total minimum lease payments	698	659	1 533	1 314
Less amounts representing finance charges	(39)	-	(219)	-
Present value of minimum lease payments	659	659	1 314	1 314

The Group exercised its option to buy back the Dulwich commercial property at the expiry of the sale and leaseback contract on the 30th April 2019. The Group is currently in negotiations with the lessor on the matter and the impact of Statutory Instrument 33 of 2019 on the settlement amount.

7. Sensitivity Analysis

On 1 October 2018, the monetary authorities directed banks to separate bank accounts into RTGS and United States Dollars. And on the 22nd of February 2019, a statutory instrument (S.I) 32 of 2019 was issued as an amendment to the Reserve Bank of Zimbabwe Act and it introduced a new currency called the RTGS Dollar. The Exchange Control Directive RU 28 of 2019 was issued on the same day which introduced an interbank market for foreign currency. In addition, Statutory Instrument 33 of 2019 was issued on 22 February 2019 and it specified, among other things, that for accounting and other purposes, all assets and liabilities that were immediately before the effective date valued in United States Dollars (other than assets and liabilities referred to in section 44C(2) of the Reserve Bank of Zimbabwe Act) shall on and after the effective date be deemed to be values in RTGS dollars at a rate of one-to-one to the United States Dollar. This was not in compliance with IAS 21 on foreign currency translations which requires market exchange rates to be used.

The impact of applying different exchange rates on the statement of financial position as at 31 March 2019 to indicate the probable financial position in the future is shown below:

Element	Monetary Assets/ Liabilities FCA USD	Monetary Assets/ Liabilities RTGS	Non-Mon- etary Assets/ Liabilities FCA USD	Non-Monetary Assets/ Liabilities RTGS	Total USD @ 1:1	Total RtGS@ 1:2.5	Total RtGS@ 1:3	Total RtGS@ 1:6	Total RtGS@ 1:9
Property, plant and equipment	-	-	15 419 664	577 445	15 997 109	39 126 606	47 021 474	93 095 431	139 345 424
Investment property	-	-	3 807 967	-	3 807 967	9 519 919	11 469 598	22 847 805	34 271 707
Biological assets	-	-	4 745 656	-	4 745 656	11 864 141	14 293 917	28 473 938	42 710 908
Equity financial instruments	92 818	-	-	-	92 818	232 045	279 568	556 908	835 362
Inventory	-	-	666 117	9 134 990	9 801 107	10 800 282	11 141 334	13 131 692	15 130 043
Accounts Receivable	1 569 499	5 335 832	-	-	6 905 331	9 259 580	10 063 163	14 752 826	19 461 323
Bank and Cash	232 652	766 136	-	-	998 788	1 347 766	1 466 883	2 162 048	2 860 004
Accounts Payable	3 146 025	7 321 105	-	-	10 467 130	15 186 168	16 796 933	26 197 255	35 635 330
Short term loans	807 869	856 913	-	-	1 664 782	2 876 585	3 290 214	5 704 127	8 127 734
Overdrafts	494 789	-	-	-	494 789	1 236 974	1 490 306	2 968 736	4 453 105
Long term loans	-	4 242 704	-	-	4 242 704	4 242 704	4 242 704	4 242 704	4 242 704

The analysis was limited to the following :

1. Monetary assets and liabilities that have a USD component.
2. Non-monetary assets subject to fair valuation.