



National Tyre Services

ABRIDGED AUDITED FINANCIAL RESULTS FOR THE YEAR ENDED 31 MARCH 2019

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 MARCH 2019

Economic Overview

The Zimbabwean economy is currently characterised by foreign currency shortages, speculation, short-termism and pricing distortions across all sectors of the economy.

Real growth of the economy is expected to decline in 2019 on account of poor performance across all key sectors namely agriculture, mining and manufacturing. The decline in agriculture and manufacturing output mainly reflects the impact of the drought experienced during the 2018/2019 agricultural season. Mining output will be adversely affected by foreign currency constraints; the acute shortage of power and issues to do with foreign exchange surrender requirements. The economy continues to experience high inflation pressures reflecting the pass through effects of high foreign currency premiums.

Financial Review

The company recorded a modest increase of 12% in revenue to ZWL 15.5 million up from ZWL\$13.8 million recorded in the previous financial year. Gross profit margin improved by 5 percentage points over the previous year due to a sales mix which was skewed in favour of premium brands which have high margins.

Other income is made up largely of rental income from the company's properties. The 41% increase compared to the previous year was due to rental reviews agreed with tenants.

Profit after tax at ZWL\$ 571,000 increased by 384% over the previous year.

Total assets grew by ZWL\$ 2.2 million. This was mainly due to the refurbishment of the Cripps branch, and investment in equipment, tools and machinery for the workshops.

Retail and Services

Cripps Road branch in Graniteside Harare was refurbished into a bigger and modern shop to become the company's flagship branch. Samora Machel Avenue and Kelvin road Graniteside retail branches in Harare were also refurbished and rebranded during the financial year under review.

Retreading

Retreading operations performed well due to the availability of quality imported casings. Our customers prefer retreaded tyres on high quality casings to enhance tyre performance. Availability of rubber and good workmanship improved factory retreading turnaround time in line with the company's customer service excellence.

Directorate

Mr. Kennedy Mandevani, who was the Managing Director, retired from the Board of Directors on 31 May 2019 after having served the Company for 10 years in that capacity. The Board extends its gratitude for his contributions and past achievements. Mr Benson Samudzimu was appointed in an acting capacity as Managing Director from 1 June 2019 pending a substantive appointment to that position. Mr Samudzimu is already a member of the Board of Directors, having been appointed as a non-Executive Director on 4 March 2015.

Outlook

The successful implementation of fiscal consolidation by Government and abolition of multi-currency system, coupled with the recently announced monetary policy supportive measures are expected to impact positively on the economy in the short-term. Pricing and accounting are expected to be easier under a single domestic currency and a unified exchange rate framework. However, the support of all stakeholders is critical to the success of the currency and other economic reforms the country is undertaking. Long-term real growth of the economy will be premised upon increased production and productivity; an improvement in confidence and the resolution of the external debt overhang.

Dividend

In a view of the need to conserve working capital, the Directors did not declare a dividend for the year ended 31 March 2019.

Appreciation

On behalf of the Board I extend my gratitude to employees, shareholders, suppliers and our customers. I am also grateful to the various Government Departments which contributed to ensuring a stable and viable rubber industry in Zimbabwe.

R.J. Moyo

Chairman

14 June 2019

ABRIDGED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

Note	Audited 2019 Mar 31	Audited 2018 Mar 31
	ZWL\$	ZWL\$
Revenue	15,522,543	13,833,695
Operating profit	5,293,061	4,030,923
Other income	344,084	243,510
Profit From Operations	838,060	286,468
Finance charges	(72,827)	(34,780)
Profit Before Tax	765,233	251,688
Income tax expense	(194,385)	(133,837)
Profit For The Year	570,848	117,851
Other comprehensive income	2,865	-
Total Comprehensive Income For The Period	573,713	117,851
Number of shares in issue (thousands)	253,872	253,872
Basic earnings per share (cents)	0.22	0.05
Diluted earnings per share (cents)	0.22	0.05
Headline earnings per share (cents)	0.22	0.05

ABRIDGED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

	Audited 2019 Mar 31	Audited 2018 Mar 31
	ZWL\$	ZWL\$
Assets		
Non-current assets	4,749,556	3,813,320
Property, plant and equipment	3,657,353	2,728,584
Intangible assets	143,772	119,404
Investment property	887,325	897,242
Available for sale investments	71,106	68,090
Current assets	5,355,105	4,074,061
Total Assets	10,104,661	7,887,381
Equity And Liabilities		
Shareholders' equity	5,938,336	5,364,623
Deferred tax	684,711	641,026
Medium term loan	383,336	-
Short term loan	824,997	250,000
Trade and other payables	2,273,281	1,631,732
Total Equity And Liabilities	10,104,661	7,887,381

ABRIDGED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

	Audited 2019 Mar 31	Audited 2018 Mar 31
	ZWL\$	ZWL\$
Cash flows from operating activities before changes in working capital	1,084,304	502,652
Changes in working capital	(730,521)	(326,404)
Income tax paid	(84,887)	(48,827)
Net cash generated from operating activities	268,896	127,421
Net cash flows utilised in investing activities	(1,179,464)	(271,158)
Net cash flows from financing activities	885,506	180,183
Net increase in cash and cash equivalents	(25,062)	36,446
Cash and cash equivalents at beginning of period	500,001	463,555
Cash And Cash Equivalents At The End Of The Period	474,939	500,001

ABRIDGED STATEMENT OF CHANGES IN EQUITY

	Audited 2019 Mar 31	Audited 2018 Mar 31
	ZWL\$	ZWL\$
Opening balance	5,364,623	5,246,772
Profit for the period	573,713	117,851
Closing Balance	5,938,336	5,364,623

NOTES TO THE ABRIDGED FINANCIAL STATEMENTS

1. General Information

National Tyre Services Limited ("the Company") is a Company incorporated in Zimbabwe. Its activities include the reconditioning and retailing of tyres and related services.

2. Basis Of Preparation And Reporting Currency

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the International Financial Reporting Interpretations except for the non-compliance with IAS 21: Effects of changes in Foreign Exchange Rates. They are also prepared in accordance with the Companies Act (Chapter 24:03) and relevant statutory instruments (SI 33/99 and SI 62/96). The financial statements are based on statutory records that are maintained under the historical cost convention except for property, plant and equipment, which are carried at revalued amounts. Historical cost is generally based on the fair value of consideration given in exchange for assets.

The company's presentation currency is the RTGS Dollar which is the functional currency.

In February 2019, the Government of Zimbabwe issued Statutory Instrument 33 of 2019 which directed that all assets and liabilities that were in USD as at 22 February 2019 be assumed to have been in ZWL Dollars as a rate of 1:1. The company has reported the statement of profit or loss and other comprehensive income on the basis of 1:1 between ZWL\$ and USD for periods prior to 22 February 2019. Transactions from 23 February 2019 were translated at the ruling interbank rate. Monetary assets and liabilities were translated at the inaugural interbank rate of 2.5 from the USD to ZWL\$ and the resulting exchange rate differences recognised in the statement of profit or loss.

3. Audit Opinion

These abridged financial statements should be read in conjunction with the full set of financial statements for the year ended 31 March 2019, which have been audited by our auditors, BDO Zimbabwe Chartered Accountants. An adverse opinion was issued thereon in respect of the non-compliance with International Accounting Standards 21 "The Effects of Changes in Foreign Exchange Rates".

The auditors' report is available for inspection at the company's registered office. The auditors' report has key audit matters on valuation of trade receivables and completeness and accuracy of revenue.

4. Accounting Policies

Accounting policies and methods of measurement are consistent in all material respects with those used in prior year and with the requirements of International Financial Reporting Standards applicable for the year ended 31 March 2019 except for the non-compliance with IAS 21 Effects of Changes in Foreign Exchange Rates.

	Audited 2019 Mar 31	Audited 2018 Mar 31
	ZWL\$	ZWL\$
5. Revenue		
Revenue from sale of goods	15,012,162	13,421,385
Revenue from rendering of services	510,381	412,310
	15,522,543	13,833,695
6. Profit Before Tax		
Profit for the period has been arrived at after charging/crediting:		
Transport charges	146,489	140,239
Technical fees	302,937	276,342
Electricity and lighting	43,461	107,571
Rental income from investment property	138,301	109,728
Staff remuneration	2,165,423	1,712,166
Remuneration of Directors		
-fees for services as Directors	138,554	29,250
7. Related Party Transactions And Balances		
Expenses		
Simply Africa (Private) Limited - technical fees	302,937	276,342
Balances		
Payables:		
Simply Africa (Private) Limited - purchase of goods	51,224	-
Simply Africa (Private) Limited - technical fees	892,485	765,386
8. Property, Plant And Equipment		
Carrying amount at beginning of the year	2,728,584	2,738,064
Additions	1,120,714	191,809
Disposals	-	(9,601)
Depreciation	(191,945)	(191,688)
Carrying amount at end of the year	3,657,353	2,728,584
9. Current Assets		
Inventories	3,571,710	3,047,461
Trade and other receivables	1,308,456	526,599
Bank and cash balances	474,939	500,001
	5,355,105	4,074,061
10. Trade And Other Payables		
Trade	562,233	698,671
Other payables	1,711,048	933,061
	2,273,281	1,631,732
11. Borrowings		
Medium-term loan	383,336	-
Short-term loan	834,997	250,000
The short term and medium term loans from a local financial institution have tenures of 12 months and 24 months respectively and both attract interest at 12% per annum.		
12. Capital Expenditure Commitments		
Capital commitments authorized but not contracted for.	2,856,453	1,231,626
13. Events After Reporting Date		
The Government of Zimbabwe issued Statutory Instrument (SI) 42 of 2019 which was effective from 24 June 2019. The SI abolishes the multi-currency system in the country and requires all transactions to be conducted in local currency which comprises bond notes, bond coins, ZWL\$ balances and mobile money.		
14. Going Concern		
The Directors have assessed the Company's ability to continue operating as a going concern for the foreseeable future and believe that the preparation of the financial statements on a going basis is appropriate.		



INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF NATIONAL TYRE SERVICES LIMITED

Report on the audit of the financial statements

Adverse Opinion

We have audited the financial statements of NATIONAL TYRE SERVICES LIMITED set out on pages 8 to 30, which comprise the statement of financial position as at 31 March 2019, statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of our report, the financial statements do not present fairly, in all material respects, the financial position of NATIONAL TYRE SERVICES LIMITED as at 31 March 2019, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for an adverse opinion

Noncompliance with IAS 21-Effects of Changes in Foreign Exchange Rates

During the year the Zimbabwean economy was characterised by a multi-tiered pricing model. Under the model, a single product had different prices depending on the mode of payment, whether United States Dollar Cash, electronic money (RTGS), mobile money or bond notes. This resulted in transactions bearing similarities to what one would expect with transactions that are undertaken in different currencies to which IAS 21, *The Effects of Changes in Foreign Exchange Rates*, would apply. Market wide, entities experienced premiums and discounts on the official foreign exchange rate of 1:1 between the RTGS balances and Bond Notes and the United States Dollar.

As a result of these factors the directors performed an assessment on the functional currency of the Company in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates* (IAS 21) and acknowledge that the functional currency of the Company was no longer the US\$. In February 2019, an electronic currency called the RTGS dollar was introduced through Statutory Instrument 33 of 2019. (S.I 33) with an effective date of 22 February 2019 and the currency commenced trading at a rate of 2.5 to the US\$. In addition, S.I. 33 fixed the exchange rate between the RTGS dollar and the US\$ at a rate of 1:1 for periods before the effective date.

For the period up to 22 February 2019, the Company maintained its functional currency as the USD, with transactions and balances reflected using an exchange rate of 1:1 in compliance with SI 33/19. From 23 February 2019, monetary assets and transactions were converted to RTGS dollars at the legislated inaugural exchange rate of 1:2.5 between the USD and the RTGS\$ and subsequent interbank rates in compliance with the requirements of SI 33/19. Non-monetary assets were not rebased to the new functional currency as required by IAS 21.

Whilst the timing of this conversion is in line with the dictates of SI 33/19, it constitutes a departure from the requirements of IAS 21, and therefore the financial statements have not been prepared in conformity with IFRS. Had the Company applied the requirements of IAS 21, many of the elements of the accompanying financial statements would have been materially impacted and therefore the departure from the requirements of IAS 21 is considered to be pervasive. The financial effects on the financial statements of this departure have not been determined.

We conducted our audit in accordance with International Standards on Auditing (“ISA”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (“IESBA”) Code together with the ethical requirements that are relevant to our audit of financial statements in Zimbabwe. We have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Key audit matters

Key audit matters are those matters that in our professional judgment were of most significance in our audit of financial statements. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters included in the basis for an adverse opinion, the key audit matters below relate to the financial statements: -

Key audit matter	How our audit addressed the key audit matter
<p>(a) Valuation of trade and other receivables As at March 31, 2019, the Company’s gross trade and other receivables were \$ 1,4 million (2018: \$0.9 million), against which an impairment allowance of \$0.4 million (2018: \$0.5 million) was provided for. On 1 April 2018 the Company adopted IFRS 9 which introduced a forward looking, expected credit loss (“ECL”) impairment model. On adoption, the Company has applied the requirement of IFRS 9 prospectively.</p> <p>We considered this as a key audit matter as the determination of ECL involves significant management judgement and this has a material impact on the financial statements of the Company. The key areas of judgement were;</p> <ul style="list-style-type: none"> • Assumptions used in the ECL modelling such as financial condition of counterparty, expected future cash flows and forward-looking macroeconomic factors. • Assumptions on the grouping of debtors into categories and the risk rating allocated to that group of debtors. 	<p>We performed the following audit procedures among others:</p> <ul style="list-style-type: none"> • We obtained an understanding of management’s assessment of impairment of accounts receivables including the IFRS 9 implementation process, Company’s impairment allowance policy and ECL modelling methodology and compared it with the requirements of IFRS 9. • We tested risk rating and grouping of debtors and the expected credit losses determined by management. • We checked the completeness and accuracy of data underlying the ECL calculation as at 31 March 2019. • We assessed the transition adjustments and considered the completeness of data and appropriateness of assumptions used by management at the initial adoption of IFRS 9.
<p>(a) Completeness and accuracy of revenue The Company operates from fourteen branches which are spread throughout the country. The revenue is also characterised by small value, high volume transactions, the completeness and accuracy of which is dependent on automated information systems.</p> <p>Completeness and accuracy of revenues was thus considered a key audit matter.</p>	<p>We performed the following audit procedures among others:</p> <ul style="list-style-type: none"> • Reviewed and tested the Company’s key controls over completeness and accurate recognition of revenue. • Performed analytical procedures on revenue, cost of sales and gross profit realised. • Vouched a sample of invoices and credit notes issued during the year. • Performed duplication and sequence tests on invoices and credit notes issued during the year.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, the Companies Act (Chapter 24:03), the relevant statutory instruments (SI 33/19) and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In our opinion, the financial statements have, in all material respects, been prepared in the manner required by the Companies Act (Chapter 24:03).

The engagement partner on the audit resulting in this independent auditors' report is **Martin Makaya**.


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BDO Zimbabwe Chartered Accountants
3 Baines Avenue,
Harare

Martin Makaya CA (Z)
Partner
Registered Public Auditor

14 June 2019