National Tyre Services Limited

AUDITED ABRIDGED FINANCIAL RESULTS FOR THE YEAR ENDED 31 MARCH 2020

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 MARCH 2020

ECONOMIC OVERVIEW

The economy experienced a slow down during the year, some of the major highlights being the depreciation of the local currency against major currencies, reduced disposable incomes, foreign currency and fuel shortages. Inflation surged to 676% (2019:67%) in March 2020. Drought also had a knock-on effect on an already strained economy. The re-introduction of the multi-currency system in March 2020 was welcome as a measure to stabilize the ecocomy.

The impact of the Coronavirus (COVID-19) pandemic started filtering in the country towards the end of the financial year. In mitigation, the Board and management prioritized health and safety for our employees, customers and other stakeholders whilst procedures adopted ensured minimum disruption to the value chain.

OPERATIONS REVIEW

Retail operations faced a myriad of challenges during the year including power cuts, depreciation of local currency, foreign currency shortages to restock and Covid-19 pandemic. Interventions to stop the spread of Covid-19 delayed importation of stocks as source countries were the hardest hit by the pandemic from the onset. Safety of staff and customers was a priority in operations. The re-introduction of foreign currency trading for local transactions imporved stock replenishment.

The Company managed to retain retreading business from fleet customers through provision of valuable fleet management support services and availablity of rubber. In line with that, retreading volumes showed a slight decrease of 16% from last year. It remained the cheaper option for transporters.

FINANCIAL REVIEW

Sales at ZWL 150 million were 2% below the previous year due to a decrease in business volumes.

Total operating expenses increased by 20% compared to the previous year to ZWL 57 million.

Total comprehensive income for the year at ZWL 8.5 million was 201% ahead of the previous year.

Total assets increased by 7% compared to the previous year. The main areas of growth were capital expenditure, improvement in bank balances and the increase in the right of use asset.

DIRECTORATE

Mr. Benson Samudzimu was confirmed as Managing Director with effect from 1 January 2020 following the retirement of Mr. Kennedy Mandevani last year. During the course of the year, Mr. Shepherd Shonhiwa and Ms. Dumisani Mashingaidze joined the Board as independent non-executive Directors with effect from 25 September 2019 and 27 November 2019 respectively. The Board congratulates the new members and wishes them well in their new roles.

DIVIDENDS

In view of the need to conserve working capital, the Directors did not delare a dividend for the year ended 31 March 2020

OUTLOOK

The year 2020 is unlikely to be a good year for many entities, given how it has started, therefore, cost containment, staff welfare, safety and health will remain our priorities to preserve value and life. The stability ushered in by the currency auction system, if sustained, wil help companies to survive the rest of the year ahead. Staying alive is the most profitable achievement for 2020.

APPRECIATION

On behalf of the Board, I extend my gratitude to employees, shareholders, supplies and our customers for their support while adjusting to a changed environment impacted by the Covid-19 pandemic. I am grateful to the various Government Departments which contributed to ensuring the survival of the rubber industry in Zimbabwe. My appreciation also goes to the Directors for their wise counsel to navigate the difficult business evironment

R.J. Moyo
Chairman
28July 2020

ABRIDGED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2020

	NOTE	INFLATION ADJUSTED		HISTORICAL COST	
		AUDITED 31.03.2020 ZWL	AUDITED 31.03.2019 ZWL	AUDITED 31.03.2020 ZWL	AUDITED 31.03.2019 ZWL
Revenue	4	**150,324,595**	**153,547,766**	**64,114,164**	**15,522,543**
Gross profit		37,839,142	42,917,868	33,655,609	5,293,061
Exchange gain		321,255	509,269	1,066,258	46,894
Other income		2,093,148	3,227,483	1,129,165	297,190
Profit from operations		**(14,068,819)**	**(657,080)**	**12,678,128**	**893,168**
Finance charges		(2,730,174)	(400,056)	(1,719,583)	(157,483)
Profit / (loss) before tax		**(16,798,993)**	**(1,057,136)**	**10,958,545**	**735,685**
Monetary gain		**34,208,264**	**6,550,461**	-	-
Income tax expense		(8,449,151)	(2,484,971)	(2,464,428)	(194,385)
Profit for the year		**8,960,120**	**3,008,354**	**8,494,117**	**541,300**
Other comprehensive income		(438,157)	(187,723)	**42,694**	3,016
Tax credit/ (expense) on other comprehensive (loss)/ income		21,908	16,476	(2,135)	**(151)**
Total comprehensive income for the year		**8,543,871**	**2,837,107**	**8,534,676**	**544,165**
Number of shares in issue (thousands)		253,872	253,872	253,872	253,872
Earnings per share (cents)		3.53	1.18	3.35	0.21
Diluted earnings per share (cents)		3.53	1.18	3.35	0.21
Headline earnings per share (cents)		3.53	1.18	3.35	0.21

ABRIDGED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2020

		AUDITED 31.03.2020 ZWL	AUDITED 31.03.2019 ZWL	AUDITED 31.03.2020 ZWL	AUDITED 31.03.2019 ZWL
ASSETS					
Non current assets		**73,074,044**	**52,350,977**	**10,351,635**	**5,012,420**
Property, plant and equipment	7	43,567,724	38,705,262	6,602,291	3,657,353
Intangable assets		1,257,692	1,526,186	182,362	143,772
Investment property		9,311,448	9,527,748	857,408	877,325
Right of use assets	8	18,823,380	2,039,824	2,595,774	262,864
Fair Value through other comprehensive income investment		113,800	551,957	113,800	71,106
Current assets	9	31,718,979	45,409,365	26,600,359	5,355,105
Total assets		**104,793,023**	**97,760,342**	**36,951,994**	**10,367,525**
EQUITY AND LIABILITIES					
Shareholders' equity		69,658,329	61,114,458	14,443,464	5,908,788
Deferred taxation		12,803,382	7,350,191	177,221	684,711
Lease liability	8	4,556,776	2,269,830	4,556,776	292,412
Medium term loan	10	2,773,100	2,975,627	2,773,100	383,336
Short term loan	10	5,333,333	6,404,000	5,333,333	824,997
Trade and other payables	11	9,668,103	17,646,236	9,668,100	2,273,281
Total equity and liabilities		**104,793,023**	**97,760,342**	**36,951,994**	**10,367,525**

ABRIDGED STATEMENT OF CHANGES IN EQUITY

	AUDITED 31.03.2020 ZWL	AUDITED 31.03.2019 ZWL	AUDITED 31.03.2020 ZWL	AUDITED 31.03.2019 ZWL
Opening balance	61,114,458	58,277,351	5,908,788	5,364,623
Profit for the period	8,543,871	2,837,107	8,534,676	544,165
Closing balance	**69,658,329**	**61,114,458**	**14,443,464**	**5,908,788**

ABRIDGED STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020

	AUDITED 31.03.2020 ZWL	AUDITED 31.03.2019 ZWL	AUDITED 31.03.2020 ZWL	AUDITED 31.03.2019 ZWL
Cash flows from operating activities before changes in working capital	1,602,130	9,558,959	15,157,550	1,084,304
Changes in working capital	5,770,903	(6,381,877)	(10,638,748)	(730,521)
Income tax paid	(1,736,860)	(723,842)	(1,442,234)	(84,887)
Net cash generated from/utilized in operating activities	5,636,173	2,453,240	3,076,568	268,896
Net cash flows utilized in investing activities	(8,679,352)	(11,343,893)	(3,511,578)	(1,179,464)
Net cash flows from financing activities	4,574,931	7,145,701	5,178,517	885,506
Net increase/(decrease) in cash and cash equivalents	**1,531,752**	**(1,744,952)**	**4,743,507**	**(25,062)**
Cash and cash equivalents at beginning of year	3,686,694	5,431,646	474,939	500,001
Cash and cash equivalents at the end of the year	**5,218,446**	**3,686,694**	**5,218,446**	**474,939**

NOTES TO THE ABRIDGED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

1. BASIS OF PREPARATION & PRESENTATION

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the International Financial Reporting Interpretations. They are also prepared in accordance with the Companies & Other Business Entities Act (Chapter 24.31) 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.

2. AUDIT OPINION

These abridged financial statements should be read in conjunction with the full set of financial statements for the year ended 31 March 2020, which have been audited by BDO Zimbabwe Chartered Accountants. An adverse opinion was issues thereon in respect of the non-compliance with IAS 21: "The Effects of Changes in Foreign Exchange Rates". An adverse opinion was issued thereon.
The key audit matters addressed were as follows:

a) Completeness and accuracy of revenue;
b) Valuation of trade receivables; and
c) Right of use asset and lease liability.

The Audit Partner is Mr Martin Makaya, CA (Z) - Registered Public Auditor.

3. ACCOUNTING POLICIES

Accounting policies and methods are consistent in all material respects with those used in the prior year and wih the requirements of International Financial Reporting Standards applicable for the year ended 31March 2020.

	INFLATION ADJUSTED		HISTORICAL COST	
	AUDITED 31.03.2020 ZWL	AUDITED 31.03.2019 ZWL	AUDITED 31.03.2020 ZWL	AUDITED 31.03.2019 ZWL
4. REVENUE				
Revenue from sale of goods	147,930,949	150,868,746	61,560,887	15,012,162
Revenue from rendering of services	2,393,646	2,679,020	2,553,277	510,381
	150,324,595	**153,547,766**	**64,114,164**	**15,522,543**
5. PROFIT BEFORE TAX				
Profit for the period has been arrived at after charging/(crediting):				
Transport charges	1,182,695	1,466,059	559,743	146,489
Technical fees	2,999,898	2,846,064	1,282,283	302,937
Electricity and lighting	490,007	434,131	262,174	43,461
Rental income from investment property	(1,919,667)	(2,957,012)	(1,088,667)	(272,285)
Staff remuneration	14,224,413	21,060,628	6,432,580	2,165,423
Remuneration of directors				
- Fees for services as Directors	1,264,698	1,131,934	431,405	138,554
6. RELATED PARTY EXPENSES AND BALANCES				
Expenses				
Simply Africa (Private) Limited - technical fees	2,999,898	2,846,064	1,282,283	302,937
Balances				
Payables:				
Simply Africa (Private) Limited - purchase of goods	-	397,498	-	51,224
Simply Africa (Private) Limited - technical fees	1,748,838	6,925,684	1,748,838	892,485
7. PROPERTY, PLANT AND EQUIPMENT				
Carrying amount at beginning of year	38,705,262	30,295,942	3,657,353	2,728,584
Additions	8,423,767	10,722,256	3,408,462	1,120,714
Disposals	(59,809)	-	(5,352)	-
Depreciation	(3,501,496)	(2,312,936)	(458,172)	(191,945)
Carrying amount at end of year	**43,567,724**	**38,705,262**	**6,602,291**	**3,657,353**

8. LEASES

National Tyre Services leases six properties with an average lease period of 3 years. In the current year, National Tyre Services, for the first time has applied IFRS 16 Leases which is effective on or after 1 January 2019. National Tyre Services has applied IFRS 16 using the modified retrospective approach, with restatement of comparative information.

Right of use assets				
Opening balance	2,039,824	2,627,707	262,864	338,622
Additions	22,077,636	-	2,999,679	-
Amortisation	(5,294,080)	(587,883)	(666,769)	(75,758)
Closing balance	**18,823,380**	**2,039,824**	**2,595,774**	**262,864**
Leases liability				
Opening Balance	2,269,830	338,622	292,411	338,622
Monetary (loss) / gain on lease liability	(1,977,419)	1,977,418	-	-
Additions	2,999,679	-	2,999,679	-
Finance Cost	1,264,686	(46,210)	1,264,686	(46,210)
Closing Balance	**4,556,776**	**2,269,830**	**4,556,776**	**292,412**
Finance cost / (income)	762,799	-	320,815	-
9. CURRENT ASSETS				
Inventories	21,186,473	31,565,836	16,067,854	3,571,709
Trade and other receivables	5,314,060	10,156,835	5,314,060	1,308,457
Bank and cash balances	5,218,446	3,686,694	5,218,446	474,939
	31,718,979	**45,409,365**	**26,600,360**	**5,355,105**
10. BORROWINGS				
Long term loan	2,773,100	2,975,627	2,773,100	383,336
Short term loan	5,333,333	6,404,000	5,333,333	824,997

The short and medium term loans from a local financial institution have tenures of 12 and 24 months respectively and both attract interest at 34% per annum.

11. TRADE AND OTHER PAYABLES				
Trade	8,127,600	4,364,307	8,127,597	562,233
Other payables	1,540,503	13,281,929	1,540,503	1,711,048
	9,668,103	**17,646,236**	**9,668,100**	**2,273,281**
12. CAPITAL EXPENDITURE COMMITMENTS				
Capital expenditure authorised but not yet contracted for	24,627,300	22,166,075	24,627,300	2,856,453

13. EVENTS AFTER REPORTING DATE

On 11 March 2020 the World Health Organization declared the novel coronavirus (COVID-19) a Global Pandemic and recommended containement and mitigation measures worldwide. Due to the unpredictable nature and effects of the pandemic, and until a vaccine to the disease is found, National Tyre Services cannot reasonably estimate the length and severity of this pandemic, or the extent to which the disruptions may materially impact the operations of the company in the 2020 financial . National Tyre Services Limited is a key player in the tyre industry and plans to continue operations after the reporting period.

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 concern basis is appropriate.

15. HYPERINFLATION

The Public Accountants and Auditors Board through its pronouncement provided guidance to all entities that report based on the International Financial Reporting Standards (IFRS) on the application of Financial Reporting in Hyperinflationary Economies Standard (IAS 29) in Zimbabwe. The pronouncement requires that entities that prepare and present financial statements for financial periods ended on or after 1 July 2019 apply the requirement of IAS 29 "Financial Reporting in Hyperinflationary Economies."

Source of indices

The source of the price indices used was the Reserve Bank of Zimbabwe website.
Below are the indices and adjusting factors used up to 31 March 2020.

	Indices	Adjusting factor
CPI as at 31 October 2018	74.6	10.86
CPI as at 31 March 2019	104.4	7.76
CPI as at March 2020	810.4	1.00

DIRECTORS: R. J. MOYO* (CHAIRMAN), B.P.H. SAMUDZIMU , A. USHE, T. BERE, S.N. MANDIMIKA, B.V. MANCAMA* , M.T. CHINGWENA* , S. SHONHIWA*, D. MASHINGAIDZE* , T.A. CHIMANYIWA* (ALTERNATE TO R.J. MOYO)*NON-EXECUTIVE

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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 2020, 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 and other explanatory notes.

In our opinion, because of the significance of the matter discussed in the basis for Adverse Opinion section of our report, the accompanying financial statements do not present fairly, in all material respects, the financial position of **NATIONAL TYRE SERVICES LIMITED** as at 31 March 2020, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Adverse Opinion

Non-compliance with International Accounting Standard 21 (IAS 21), The Effects of Changes in Foreign Exchange Rates
In 2018 and 2019, the company operated in an environment where a combination of United States Dollars (USD) and the local currency were in use. Local currency constituted of bond notes and Real Time Gross Settlement (RTGS) amounts. Up to 22 February 2019, as legislated in Statutory Instrument 33 (SI 33) of 2019 (Presidential Powers Temporary Measures) Amendment of Reserve Bank of Zimbabwe Act and Issue of Real Time Gross Settlement Electronic Dollars (RTGS Dollars) Regulations of 2019, the legislated exchange rate between the USD and the local currency was 1:1, instead of using the market wide exchange rate determined in accordance with IAS 21:The Effects of Changes in Foreign Exchange Rates. Market wide, the rate of exchange between the USD and the local currency was not the legislated 1:1. SI 33 also prescribed the manner in which USD balances as at 22 February 2019 were to be converted to Zimbabwean Dollars (ZWL$) which was again contrary to the requirements of IAS 21.The SI prescribed that all USD denominated balances with the exception of foreign loans and nostro bank balances were to be converted to ZWL$ at a rate of 1:1. The effect of the non-compliance with IAS 21 is material to these financial statements.

In the accompanying financial statements, comparatives were presented in USD again as required in SI 33. The comparative USD amounts presented in these financial statements derived by using an exchange of 1:1 to the Zimbabwe dollar are materially misstated and the level of misstatement could not be quantified.

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
Completeness and accuracy of revenue The Company operates from thirteen branches which are spread throughout the country. The revenue is also characterised by small value and high-volume transactions, the completeness and accuracy of which is dependent on automated information systems. Completeness and accuracy of revenue was thus considered a key audit matter.	We performed the following audit procedures among others: • 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 realized. • Vouched a sample of invoices and credit notes issued during the year. • Performed sequence tests on invoices and credit notes issued during the year. We performed gap detection and duplication test.
Valuation of trade receivables The trade receivables balance is material to the financial statements of the company. Due to the general decline in business levels in the economy, most of the company's debtors are struggling to pay their debts. The determination of recoverability of the receivables and the allowance for credit losses involves significant judgment by management on the credit risk of various customers. The valuation of trade receivables was therefore considered a key audit matter.	We performed the following audit procedures among others: • Assessed reasonableness of management's allowance for credit losses rates. • Obtained confirmations from selected debtors to establish if there are any balances which are in dispute. • Reviewed the accuracy of the age analysis of debtors. • Recomputed the allowance for credit losses using management's allowance for credit losses rates.

Key audit matter	How our audit addressed the key audit matter
Right of use asset and lease liability The completeness and valuation of the right of use asset and lease liability is considered to be a key audit matter because of the significance of judgements applied in the determination of the valuation of the right of use asset and the lease liability.	We performed the following audit procedures among others: • Obtained an understanding of management's approach and assumptions of contracts containing leases. • Reviewed appropriateness of management's determination of lease term. • Evaluated the reliability of key data sources and assumptions used in determining the present value of future cash outflows. Reviewed financial statement's disclosures to ensure compliance with the standard.

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 and Other Business Entities Act (Chapter 24:31), 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.

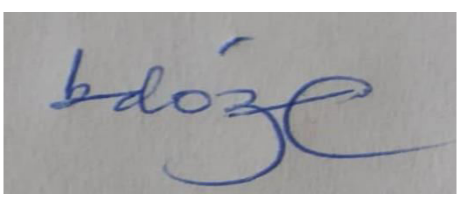
We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 and Other Business Entities Act (Chapter 24:31).

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
28 July 2020