



National Tyre Services Limited

ABRIDGED REVIEWED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 SEPTEMBER 2021

CHAIRMAN'S STATEMENT FOR THE HALF YEAR ENDED 30 SEPTEMBER 2021

ECONOMIC OVERVIEW

The negative impact of Covid-19 pandemic continued during the first six months of our trading year, with your company experiencing reduced operating hours. The introduction of SI 127/2021 on 28 May 2021 to enforce the use of official exchange rate for transactions slowed down trading, industry operations, pricing distortions following the enforcement of the regulations, in addition, excessive power cuts due to faults and maintenance works at power generation stations affected business operations. The increase in agricultural production and road infrastructural development are noticeable developments supporting economic recovery.

OPERATIONS REVIEW

National Tyre Services recorded 68% growth in new tyre sales volumes during the first six months of the year compared to same period last year. This was due to improved stockholding levels. The Company increased distribution footprint through reopening of Hwange and Chegutu branches. However, Covid-19 pandemic continues to impact operations. Trading hours were lost as government intensified measures to control the spread of coronavirus. Pervasive challenges brought about by exchange rate disparities, rising inflation and now power cuts, have negatively impacted the tyre business.

Retrading

Retrading factories struggled to meet standard customer turnaround times due to power outages amongst other things. Rubber importation faced border clearance delays.

FINANCIAL REVIEW

Sales grew by 51% to ZWL 434 million (2020: ZWL 288 million) due to the implementation of the turnaround strategy buoyed by the right product mix. Gross profit improved by 51% to ZWL 208 million (2020: ZWL 139 million).

Total operating expenses increased by 58% to ZWL399million (2020: 252 million) due to increase in administration costs incurred for new branches.

Total assets increased by 209% (Historical cost : 515%) to ZWL 1.6 billion (Historical cost : ZWL 1.1 billion) from ZWL 501 million (Historical cost : ZWL 185 million) due to fair value adjustment on investment property and owner occupied property.

Overall, the financial performance and position of the company remained strong for the six month ended 30 September 2021.

DIVIDEND

The Board deemed it prudent not to declare a dividend due to the need to fund capital expenditure for the retail network expansion and working capital requirements to enhance service delivery.

OUTLOOK

National Tyre Services remains optimistic that the country will find effective measures to stabilise foreign exchange currency, manage inflation and generate enough electricity to power industry. Current road infrastructure development and continued investment in productive sectors will create lucrative opportunities for tyre business. The Company will remain focused on ensuring that there are adequate mitigatory measures in place to control the spread of the Covid-19 pandemic, thus complementing business operations in a sustainable manner.


R.J. Moyo
Chairman
29 December 2021

AUDITORS STATEMENT

The auditors have issued an adverse review conclusion on the abridged inflation adjusted financial statements with respect to non compliance with International Accounting Standard 21 - The Effects of Changes in Foreign Exchange Rates and International Accounting Standard 29 - Financial Reporting in Hyperinflationary Economies. The review conclusion is available for inspection at the Company's registered office.

The Engagement Partner responsible for the review resulting in this review report is Farai Chibisa (PAAB number 0547).

A. ABRIDGED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 30 SEPTEMBER 2021					
Notes	INFLATION ADJUSTED		HISTORICAL COST		
	REVIEWED 30 SEPT 2021 ZWL	REVIEWED 30 SEPT 2021 ZWL	REVIEWED 30 SEPT 2021 ZWL	REVIEWED 30 SEPT 2021 ZWL	
3	434,049,264	287,596,029	397,344,871	154,077,676	
Revenue					
Operating profit	35,307,643	35,896,021	51,794,411	57,055,418	
Exchange (loss) / gain	(32,833,073)	17,862,100	(30,715,400)	7,800,563	
Other income	5,376,097	3,680,367	4,927,900	1,727,593	
Fair value adjustments on investment property	139,266,675		139,266,675		
Profit from operations	147,117,342	67,440,488	165,273,586	66,583,574	
Finance charges	(22,213,390)	(4,875,758)	(20,512,549)	(2,199,178)	
Profit before tax and monetary gain	124,903,952	52,564,732	144,761,044	64,384,396	
Monetary (loss) / gain	(4,856,474)	11,227,032			
Income tax expense	(189,235,644)	(19,339,127)	(170,135,229)	(15,915,777)	
(Loss) / profit for the period	(82,183,056)	53,452,637	(25,374,185)	48,468,619	
Other comprehensive income	966,612,782		798,226,259		
Total comprehensive income for the period	904,424,696	53,452,637	772,852,074	48,468,619	
Number of shares in issue (thousands)	253,872	253,872	253,872	253,872	
Earnings per share (cents)	(24.50)	21.05	(9.99)	19.09	
Diluted earnings per share (cents)	(24.50)	21.05	(9.99)	19.09	
Headline earnings per share (cents)	(24.50)	21.05	(9.99)	19.09	

B. ABRIDGED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2021

Notes	INFLATION ADJUSTED		HISTORICAL COST		
	REVIEWED 30 SEPT 2021 ZWL	AUDITED 31 MARCH 2021 ZWL	REVIEWED 30 SEPT 2021 ZWL	AUDITED 31 MARCH 2020 ZWL	
ASSETS					
Non current assets	1,375,569,379	314,697,291	967,832,181	33,696,037	
Property, plant and equipment	1,160,667,330	197,187,889	821,831,363	23,210,734	
Intangible assets	2,550,920	3,429,622	701,797	501,329	
Investment property	139,266,675	37,507,626	139,266,675	837,491	
Right of use assets	72,819,378	76,251,160	5,767,270	8,881,407	
Fair value through other comprehensive income investments	265,076	320,994	265,076	265,076	
Current assets	175,028,029	186,800,530	172,205,574	151,718,452	
Total assets	1,550,597,408	501,497,821	1,140,037,755	185,414,489	
EQUITY AND LIABILITIES					
Shareholders' equity	1,193,248,238	288,823,541	827,106,029	54,263,955	
Deferred tax	209,705,755	54,420,059	167,932,644	474,619	
Lease liability	6,244,995	17,035,596	13,601,655	14,067,950	
Long term loan	259,117	1,131,170	259,117	934,117	
Short term loan	71,636,652	94,294,345	71,636,652	77,868,019	
Trade and other payables	59,501,654	45,793,110	59,501,654	37,815,829	
Total equity and liabilities	1,550,597,408	501,497,821	1,140,037,755	185,414,489	

C. ABRIDGED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 30 SEPTEMBER 2021					
Notes	INFLATION ADJUSTED		HISTORICAL COST		
	REVIEWED 30 SEPT 2021 ZWL	REVIEWED 30 SEPT 2020 ZWL	REVIEWED 30 SEPT 2021 ZWL	REVIEWED 30 SEPT 2020 ZWL	
Opening balance	288,823,539	286,968,249	54,253,955	14,443,428	
Total comprehensive income for the year	904,424,696	53,452,637	772,852,074	48,468,619	
Closing balance	1,193,248,235	340,420,886	827,106,029	62,912,047	

D. ABRIDGED STATEMENT OF CASH FLOWS FOR THE HALF YEAR ENDED 30 SEPTEMBER 2021

Notes	INFLATION ADJUSTED		HISTORICAL COST		
	REVIEWED 30 SEPT 2021 ZWL	AUDITED 31 MARCH 2021 ZWL	REVIEWED 30 SEPT 2021 ZWL	AUDITED 31 MARCH 2020 ZWL	
Net Cash generated from operating activities before changes in working capital	14,977,406	44,029,038	37,869,404	66,387,728	
Changes in working capital	28,271,036	(34,470,630)	4,303,155	(53,439,155)	
Income tax paid	(2,929,885)	(13,558,453)	(2,777,162)	(7,843,885)	
Net cash utilized / (generated) from operating activities	40,318,557	(3,998,045)	39,395,397	5,104,688	
Net cash flows utilized in investing activities	(9,243,458)	(5,442,815)	(8,948,166)	(3,003,021)	
Net cash flows from financing activities	(29,387,581)	(4,965,957)	(27,418,940)	(2,626,173)	
Net increase / (decrease) in cash and cash equivalents	1,687,518	(14,406,817)	3,058,291	(524,506)	
Cash and cash equivalents at beginning of the year	7,696,632	21,520,431	6,355,859	5,218,446	
Cash and cash equivalents at the end of the year	9,384,150	7,113,614	9,384,150	4,693,940	

E. NOTES TO THE ABRIDGED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 SEPTEMBER 2021

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 disclosure requirements of the Companies and Other Business Entities Act (Chapter 24:31).

2. DIRECTORS' RESPONSIBILITY STATEMENT IN RESPECT OF THE RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2021

The directors confirm that to the best of their knowledge, the abridged interim financial statements have been prepared in accordance with International Accounting Standard 34: Interim Financial Reporting and International Accounting Standard 1: Presentation of Financial Statements as required by the Listing Rules of the Zimbabwe Stock Exchange.

	INFLATION ADJUSTED		HISTORICAL COST	
	REVIEWED 30 SEPT 2021 ZWL	REVIEWED 30 SEPT 2020 ZWL	REVIEWED 31 SEPT 2021 ZWL	REVIEWED 30 SEPT 2020 ZWL
3. REVENUE				
Revenue from sale of goods	409,034,964	279,536,801	374,563,456	148,186,773
Revenue from rendering of services	25,014,300	7,999,228	22,781,413	5,890,903
	434,049,264	287,596,029	397,344,871	154,077,676

4. PROFIT BEFORE TAX AND MONETARY GAIN

Profit for the period has been arrived at after charging/(crediting):				
Transport charges	5,381,481	2,135,771	4,927,797	1,274,033
Technical fees	8,686,765	5,596,934	7,952,564	3,081,138
Electricity and lighting	2,918,258	566,900	2,661,458	264,526
Rental income from investment property	(5,227,450)	(3,621,161)	(4,787,818)	(1,702,341)
Staff remuneration	73,203,283	40,375,692	66,780,400	428,453
Remuneration of directors				
- fees for services as directors	1,827,851	1,502,479	1,687,556	856,512

5. PROPERTY, PLANT AND EQUIPMENT

Carrying amount at beginning of the period	197,187,889	179,669,629	23,210,734	6,602,291
Revaluation	966,612,782		798,226,259	
Additions	8,527,440	25,863,799	8,664,184	18,158,610
Disposals	(82,322)	(30,096)	(751)	(7,297)
Depreciation	(12,578,459)	(8,315,443)	(8,269,063)	(1,542,870)
Carrying amount at beginning of the period	1,160,667,330	197,187,889	821,831,363	23,210,734

6. LEASES

National Tyre Services leases six properties with an average lease period of 3 years. In the six months ending 30 September 2021, National Tyre Services has applied IFRS 16 Leases (as issued by the IASB in January 2019) which is effective on or after 01 January 2019. National Tyre Services has applied IFRS 16 using the modified retrospective approach, with restatement of comparative information.

Assets

Right of use assets	72,819,378	76,251,160	5,767,270	8,881,407
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Equity and liabilities

Lease liability	16,244,995	17,035,596	13,601,659	14,067,950
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7. CURRENT ASSETS

Inventories	159,407,669	143,733,379	157,023,726	116,555,398
Trade and other receivables	6,236,210	35,370,519	5,797,698	28,807,195
Bank and cash balances	9,384,150	7,696,632	9,384,150	6,355,859
	175,028,029	186,800,530	172,205,574	151,718,452

8. BORROWINGS

Long term loan	259,117	1,131,170	259,117	934,117
Short term loan	71,636,652	94,294,345	71,636,652	77,868,019

The loans from local financial institutions outstanding at reporting date attract interest of 45% and 55% per annum.

9. TRADE AND OTHER PAYABLES

Trade	23,374,808	22,523,977	23,374,808	18,600,240
Other payables	36,126,846	23,269,133	36,126,846	19,215,589
	59,501,654	45,793,110	59,501,654	37,815,829

10. RELATED PARTY TRANSACTIONS AND BALANCES

Expenses

Simply Africa (Private) Limited - technical fees	8,686,769	31,549,924	7,952,504	9,000,117
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Balances

Payables:

Simply Africa (Private) Limited - purchase of goods	665,709			-
Simply Africa (Private) Limited - technical fees	18,705,901	7,485,417	18,705,901	6,181,437

11. CAPITAL EXPENDITURE COMMITMENTS

Capital expenditure authorised but not yet contracted.	196,048,590	117,864,716	196,048,590	97,332,370
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12. Hyperinflation

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

Source of Indices

The source of the price indices used is the Reserve Bank of Zimbabwe website. Below are the indices and adjusting factors used up to 30 September 2021.

MONTH	INDICES	ADJUSTING FACTOR
CPI as at 30 September 2020	2,205,24	1.56
CPI as at 31 March 2021	2,269,59	1.6
CPI as at April 2021	2,303,59	1.6
CPI as at May 2021	2,374,59	1.16
CPI as at June 2021	2,408,44	1.16
CPI as at July 2021	3,092,93	1.16
CPI as at August 2021	3,111,19	1.06
CPI as at September 2021	3,424,02	1.06

13. 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. The Coronavirus (COVID-19) pandemic that spread through all countries of the world has materially altered the operating environment and the Company's business prospects. The pandemic will have negative impact on business operations arising from the restrictions in social and economic activities, heightened safety and health requirements and changes in demand patterns of the company's products.

DIRECTORS: R. J. MOYO* (CHAIRMAN), B.P.H. SAMUDZIMU, A. USHE, S.N. MANDIMIKA, B.V. MANCAMA*, M.T. CHINGWENA*, S. SHONHIWA*, D. MASHINGAIDZE, V. MASUNDA*

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the members of National Tyre Services Limited

We have reviewed the accompanying statement of financial position of National Tyre Services Limited as at 30 September 2021 and the related statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes.

Responsibilities of Management and Those Charged with Governance for the interim financial information

Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Accounting Standard (IAS) 34, Interim Financial

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Reporting and the entity's accounting policies. This includes the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of interim financial information that are free of material misstatement whether due to fraud or error.

Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Adverse Conclusion

Non-compliance with International Accounting Standard 21 -The Effects of Changes in Foreign Exchange Rates

Residual effects arising from the requirement to comply with SI 33/2019

During the period, there were residual effects arising from the requirement to comply with SI 33/2019. In order to comply with SI 33/2019, the USD denominated transactions and balances for the period 1 October 2018 to 22 February 2019 were translated into RTGS/ZWL on the basis of a rate of 1:1 between USD and RTGS. This was not consistent with the requirements of IAS 21. The residual effects of this non-compliance have resulted in the misstatement of the retained earnings in the condensed consolidated interim financial statements for the six months ended 30 September 2021. The financial effects of this non-compliance have not been determined.

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Translation of foreign currency denominated transactions and balances

During the prior year, and in the current financial period, the foreign currency denominated transactions and balances of the Company were translated into ZWL using the interbank exchange rates and/or foreign currency auction rates which were not considered appropriate spot rates for translations as required by IAS 21 because foreign currency was not available for immediate delivery at these rates. The opinion on the prior year financial statements for the year ended 31 March 2021 was modified in respect of this matter and the misstatements have not been corrected in the financial statements for the six months ended 30 September 2021.

Non-compliance with International Accounting Standard (IAS) 29 – Financial Reporting in Hyperinflationary Economies

Although IAS 29 has been applied correctly, its application was based on financial information which was not in compliance with IAS 21 as described above. Had the correct base numbers been used, most elements of the condensed interim financial statements would have been materially different. The impact of the departure from the requirements of these standards is considered material and pervasive to the consolidated financial statements for the six months ended 30 September 2021.

Valuation of investment property and owner-occupied property

The determination of fair values for assets presented in the inflation adjusted interim financial statements is affected by the prevailing economic environment. These financial statements include investment property and owner-occupied property that is carried at fair value in accordance with IFRS 13, “Fair value measurement”. The valuation of the investment property, and owner-occupied property was performed by professional valuers. The property valuations were determined in USD and then translated to ZWL using the auction rates on the Foreign Exchange Auction Trading System of the Reserve Bank of Zimbabwe.

Although the determined USD values reflect the fair value of the investment property, and owner-occupied property in USD, the converted ZWL fair values were not in compliance with IFRS 13 as they may not reflect the assumptions that market participants would apply in valuing similar items of property in ZWL.

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Adverse Conclusion

Our review indicates that, because of the significance of the matters described in the *Basis for Adverse Conclusion* section of our report, the accompanying condensed inflation adjusted interim financial statements for the six-month period ended 30 September 2021 are not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim financial reporting".

The engagement partner on the review engagement resulting in this independent review conclusion is Farai Chibisa.



Farai Chibisa

Partner

Registered Public Auditor (PAAB No: **0547**)

Grant Thornton

Chartered Accountants (Zimbabwe)

Registered Public Auditors

29 December 2021

HARARE

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