

ABRIDGED AUDITED RESULTS

for the year ended 31 December 2018

CHAIRMAN'S STATEMENT

INTRODUCTION

It is my pleasure to present to you the operational and financial results for the year ended 31 December 2018.

This commentary and the accompanying financial statements were prepared in accordance with the provisions of Statutory Instrument 33 of 2019: (Presidential Powers (Temporary Measures) (Amendment) of Reserve Bank of Zimbabwe Act & Issue of Real Time Gross Settlement Electronic Dollars (RTGS Dollars) Regulations, 2019-Implementing Monetary Policy Statement of 20 February 2019), which states that the RTGS dollar is at par with the US dollar for accounting and other purposes. In February 2019, the Reserve Bank of Zimbabwe, in their monetary policy pronouncement, introduced the RTGS dollar. The effect of the pronouncement is covered in note 8, Events after the reporting period.

OPERATING ENVIRONMENT

Whilst we remain optimistic about the future, the operating environment remained very challenging throughout the year. The single most difficult challenge faced by the Group was securing foreign currency for the importation of raw materials and capital equipment.

We, however, continued to enjoy good support from our foreign suppliers and this allowed operations to run largely uninterrupted.

The economic challenges also negatively impacted on the construction of the new factory. Notwithstanding the challenges, we proceeded with construction and I am pleased to announce that the project will be completed in the first half of 2019. Its completion will improve production efficiencies, thereby positioning the Group well both domestically and in the region.

I would like to extend our appreciation to our bankers who have continued to support us in order to keep this dream alive.

Demand for the Group's products was high for the greater part of the year, but was negatively affected by the economic instability that escalated in the last quarter. Notwithstanding that set back, the Group posted a solid performance overall for the period under review.

FINANCIAL PERFORMANCE

Revenue at \$24,091,989 was 50% up on previous year, with volumes up 5% driven by relatively strong demand during the year, although declining in the last quarter. Cost of sales increase was contained at 34% as efficiencies in the factory improved as a result of the investment in modern equipment over recent years.

paying dividends. Resultantly, the Group posted a Gross Profit of \$8,895,568.

Overheads increased by 45%, mainly driven by the inflationary pressures in the economy and finance costs increased to \$84,077 from \$24,726, driven by costs incurred in establishing new facilities.

EBITDA improved from \$2,912,061 to \$5,713,962. Profit before tax rose from \$1,974,667 to \$4,834,792. Profit after tax was \$3,597,876 up from \$1,358,448 in prior year.

The financial position remains strong with total assets amounting to \$21,163,981. Total borrowings were \$1,271,091 at the end of the period giving a debt equity ratio of 10%.

Cash and cash equivalents closed at \$1,173,304 as we used the available cash resources to secure raw materials and to fund the construction of the new factory. A total of \$4,729,751 was utilized towards the construction of the factory.

OUTLOOK

From the last quarter of 2018, demand has generally remained subdued into the first quarter of 2019. Although we welcome the recent changes contained in the monetary policy statement by the central bank, we are still to see its impact in stimulating business performance and easing foreign currency bottlenecks.

The new factory is now 97% complete and the focus during the first half of 2019 will be on bringing in the required pieces of equipment in order to make it fully operational.

DIVIDEND DECLARATION

In view of the performance of the business, the Board proposes a final dividend of RTGS 0.56 cents per share with a scrip option. This is in addition to an interim dividend of US 0.25 cents paid during the year. The details on the dividend will be published separately.

ACKNOWLEDGEMENTS

I wish to extend my appreciation to my fellow Board members for their efforts during the year as well as thank management and staff for their dedication and hard work throughout the year.

I also wish to extend my appreciation to all stakeholders for their continued support.



G. SEBBORN
10 April 2019

NOTES TO THE ABRIDGED AUDITED RESULTS

1. Basis of preparation

The principal accounting policies of the Group have been applied consistently in all material respects, with the exception of the International Accounting Standard 21 (IAS21): Effects of Changes in Foreign Exchange Rates as highlighted in note 8: Events after the reporting period. These financial statements were approved for issue by the Board of Directors on 10 April 2019.

2. Statement of compliance

The Group's financial results, where practicable, have been prepared in accordance with the accounting policies consistent with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act (Chapter 24:03). Due to the requirements of Statutory Instrument 33 of 2019, it was not practical to comply with requirements of IAS21: Effects of Changes in Foreign Exchange Rates. This had a significant impact on the Group's financial statements (Refer to note 8: Events after the reporting period).

3. Property, plant and equipment

	Freehold Land & Buildings	Capital Work in Progress	Leasehold Improvements	Plant & Equipment	Motor Vehicles	Furniture & Office Equipment	TOTAL
Cost / Valuation	\$	\$	\$	\$	\$	\$	\$
Balance at 31 December 2017	1,405,208	-	98,710	7,290,434	522,860	338,221	9,655,433
Additions	-	4,729,751	-	433,449	264,760	63,251	5,491,211
Revaluation	340,833	-	-	-	-	-	340,833
Disposals	-	-	-	(541,583)	-	(67,158)	(608,741)
Balance at 31 December 2018	1,746,041	4,729,751	98,710	7,182,300	787,620	334,314	14,878,736
Accumulated depreciation							
Balance at 31 December 2017	(67,167)	-	-	(4,773,471)	(260,017)	(189,618)	(5,290,273)
Depreciation for the year	(22,500)	-	(9,085)	(624,265)	(82,493)	(56,750)	(795,093)
Disposals	-	-	-	510,055	-	59,314	569,369
Balance at 31 December 2018	(89,667)	-	(9,085)	(4,887,681)	(342,510)	(187,054)	(5,515,997)
Carrying Amount							
Balance at 31 December 2017	1,338,041	-	98,710	2,516,963	262,843	148,603	4,365,160
Balance at 31 December 2018	1,656,374	4,729,751	89,625	2,294,619	445,110	147,260	9,362,739

3.1 Freehold land and buildings with a carrying amount of \$1.2 million have been pledged to secure borrowings of the Company. This was done by way of a deed of hypothecation over the remaining extent of Lot 5 Block Y Ardbennie Township of Ardbennie.

4. Inventories

	31 Dec 2018 Audited	31 Dec 2017 Audited
	\$	\$
Raw materials	2,809,095	1,137,656
Work in progress	711,316	667,974
Finished goods	2,756,444	1,399,776
Spares and consumables	680,715	667,391
Provision for slow moving inventories	(114,059)	(148,396)
Total inventories at end of the year	6,843,511	3,724,401

5. Trade and other receivables

	31 Dec 2018 Audited	31 Dec 2017 Audited
	\$	\$
Trade receivable	1,171,953	1,305,190
Prepayments	1,162,985	290,177
Deposits and other receivables	1,586,660	368,661
Current tax asset	477	-
	3,922,075	1,964,028
Less: Allowances for doubtful receivables	(137,648)	(188,525)
Total trade and other receivables at end of the year	3,784,427	1,775,503

6. Borrowings

	31 Dec 2018 Audited	31 Dec 2017 Audited
	\$	\$
Long term loan	848,818	-
Short term loan	422,273	374,667
Total borrowings at end of the year	1,271,091	374,667

The loan which is secured by Notarial General Covering Bond (NGCB) over movable assets including cession of book debts and first ranking deed of hypothecation over immovable assets, is payable over 3 years at an effective interest rate of 8.5% per annum.

7. Trade and other payables

	31 Dec 2018 Audited	31 Dec 2017 Audited
	\$	\$
Trade payables	2,970,934	1,124,732
Accruals and other payables	2,710,254	1,639,466
Total trade and other payables at end of the year	5,681,188	2,764,198

8. Events after the reporting period

8.1 On 20 March 2019, the Proplastics Limited Board declared a final dividend of RTGS 0.56 cents per share with a scrip option for the year ended 31 December 2018 payable in respect of all ordinary shares of the Company.

8.2 The key events below took place after the reporting period and has had a significant impact on the financial statements of the Group.

Monetary Policy Statement (MPS) of 20 February 2019;

On 20 February 2019, the RBZ Governor announced the new monetary policy statement whose highlights were:

- Denomination of RTGS balances, bond notes and coins collectively as RTGS dollars.
- RTGS dollars become part of the multi-currency system.
- RTGS dollars to be used by all entities (including government) and individuals in Zimbabwe for purposes of pricing of goods and services, record debts, accounting and settlement of domestic transactions.
- Establishment of inter-bank foreign exchange market where the exchange rate will be determined by market forces.

The inter-bank market opened trading at a rate of US\$1 to RTGS \$2.5. The monetary policy announcement was followed by the publication of Statutory Instrument 33 of 2019 (SI 33) on 22 February 2019. The statutory instrument gave effect to the introduction of the RTGS dollar as legal tender and prescribed that "for accounting and other purposes", certain assets and liabilities on the effective date would be deemed to be RTGS dollars at a rate of 1:1 to the US dollar and would become opening RTGS dollar values from the effective date.

The Directors, based on their interpretation of IFRS, considered the MPS of 20 February 2019 and the subsequent emergence of an inter-bank exchange rate to be an adjusting event in terms of International Accounting Standard 10 (IAS10) "Events after the reporting period" as it was considered to be shaped by underlying conditions as at the reporting date of 31 December 2018, in particular the promulgation of the RTGS dollar.

The Financial Statements have been prepared on the basis that the RTGS dollar was at par with the US dollar as at 31 December 2018 in line with the Statutory Instrument 33 of 2019 but contrary to the requirements of International Financial Reporting Standards (IFRS), which requires consideration of substance over legal form.

The Board has assessed the impact of the Group's inability to comply with the requirements of IAS 21: The Effects of Changes in Foreign Exchange Rates, and concluded that this has had a significant impact on the Group's financial statements.

Below is the sensitivity analysis of the monetary assets, non-monetary assets and liabilities as at 31 December 2018:

Element	Components of reported amounts				Sensitivity analysis			
	Monetary Assets & Liabilities		Non-Monetary Assets & Liabilities		TOTAL US\$	Total RTG\$	Total RTG\$	Total RTG\$
	US\$	RTG\$	US\$	RTG\$	@1:1	@1:2.5	@1:3	@1:4
Property and equipment	-	-	-	9,362,739	9,362,739	9,362,739	9,362,739	9,362,739
Cash and cash equivalents	45,403	1,127,901	-	-	1,173,304	1,241,408	1,264,109	1,309,512
Trade receivables	1,298,001	2,486,426	-	-	3,784,427	5,731,428	6,380,429	7,678,430
Inventory	-	6,843,511	-	-	6,843,511	6,843,511	6,843,511	6,843,511
Total Assets	1,343,404	10,457,838	-	9,362,739	21,163,981	23,179,086	23,850,788	25,194,192
Shareholders' equity	-	4,347,894	-	8,513,921	13,078,844	13,404,387	13,512,901	13,729,930
Deferred tax liabilities	-	-	-	848,818	848,818	848,818	848,818	848,818
Borrowings	-	1,271,091	-	-	1,271,091	1,271,091	1,271,091	1,271,091
Trade and other payables	1,126,375	4,838,853	-	-	5,965,228	7,654,790	8,217,978	9,344,353
Total equity & liabilities	1,126,375	10,457,838	-	9,362,739	21,163,981	23,179,086	23,850,788	25,194,192

The Group remain solvent and sufficiently funded at the various exchange rate sensitivities. The above figures do not necessarily reflect opening balances in RTGS dollars for the 2019 financial statements.

Auditors Statement

These financial results should be read in conjunction with the full set of financial statements for the year ended 31 December 2018, which have been audited by Deloitte & Touche. An adverse opinion was issued thereon, in respect of functional currency, as requirements of IAS 21, The Effects of Changes in Foreign Exchange Rates were not complied with. The Auditors' report includes Key Audit Matters (KAMs) to the extent that they are not impacted by the basis for adverse opinion. The KAMs relate to Revenue Recognition and Valuation of Receivables. The Auditors' report on these financial statements is available for inspection at the Company's registered office.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

Notes	31 Dec 2018 Audited	31 Dec 2017 Audited
	\$	\$
Assets		
Non-Current Assets		
Property, plant & equipment	3 9,362,739	4,365,160
Total Non-Current Assets	9,362,739	4,365,160
Current Assets		
Inventories	4 6,843,511	3,724,401
Trade and other receivables	5 3,784,427	1,775,503
Cash and cash equivalents	1,173,304	4,396,251
Total Current Assets	11,801,242	9,896,155
Total Assets	21,163,981	14,261,315
Equity and Liabilities		
Equity		
Share capital	24,499	24,499
Reserves	8,984,242	8,678,149
Retained earnings	4,103,255	1,737,756
Total Equity	13,112,146	10,440,404
Non-Current liabilities		
Long term borrowings	6 848,818	-
Deferred tax	815,516	576,357
Total Non-Current Liabilities	1,664,334	576,357
Current Liabilities		
Trade and other payables	7 5,681,188	2,764,198
Short-term borrowings	6 422,273	374,667
Current tax payable	284,040	105,889
Total Current Liabilities	6,387,501	3,244,554
Total Liabilities	8,051,835	3,820,911
Total Equity and Liabilities	21,163,981	14,261,315

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	31 Dec 2018 Audited	31 Dec 2017 Audited
	\$	\$
Revenue	24,091,989	16,103,935
Cost of sales	(15,196,421)	(11,302,224)
Gross profit	8,895,568	4,801,711
Other income/(expenses)	12,367	(45,346)
Distribution costs	(591,002)	(477,435)
Administrative expenses	(3,398,064)	(2,279,537)
Finance costs	(84,077)	(24,726)
Profit before tax	4,834,792	1,974,667
Income tax	(1,236,916)	(616,219)
Profit for the year	3,597,876	1,358,448
Comprehensive income		
Other comprehensive income	340,833	-
Tax effect	(87,765)	-
Total Comprehensive income for the year	3,850,944	1,358,448
Basic earnings per share (cents)	1.46	0.55
Diluted earnings per share (cents)	1.41	0.54

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

	31 Dec 2018 Audited	31 Dec 2017 Audited
	\$	\$
Cash flows from operating activities	3,550,680	4,747,795
Interest paid	(84,077)	(24,726)
Income tax paid	(913,575)	(511,562)
Net cash flows from operating activities	2,553,028	4,211,507
Net cash flows utilised in investing activities	(5,457,434)	(348,174)
Net cash flows utilised in financing activities	(318,541)	(908,823)
Net (decrease)/ increase in cash and cash equivalents	(3,222,947)	2,954,510
Opening cash balance	4,396,251	1,441,741
Closing cash and cash equivalents	1,173,304	4,396,251

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Share Capital	Reserves	Retained earnings	Total equity
	\$	\$	\$	\$
Balance at 31 December 2017	24,499	8,678,149	1,737,756	10,440,404
Dividend paid	-	-	(1,249,465)	(1,249,465)
Other comprehensive income	-	253,069	-	253,069
Impact of adopting IFRS 9	-	-	17,088	17,088
Share based payments	-	18,674	-	18,674
Share premium	-	34,350	-	34,350
Share options exercised	150	-	-	150
Profit for the year	-	-	3,597,876	3,597,876
Balance at 31 December 2018	24,649	8,984,242	4,103,255	13,112,146