NATIONAL FOODS
HOLDINGS LIMITED

Reviewed Abridged Financial Results of National Foods Holdings Limited

for the 6 Months Ended 31 December 2019

Salient Features

	INFLATION ADJUSTED		
	6 months ended 31 Dec 2019		
Volume (MT)	211 381	▼	-32%
	ZWL'000		
Revenue	2 058 153	▲	30%
Operating profit	341 617	▲	93%
Profit before tax	329 255	▲	99%
Basic earnings per share (cents)	334.44	▲	76%
Headline earnings per share (cents)	334.34	▲	76%
Interim dividend declared per share (cents)	86.47	▲	4%

Chairman's Statement

Directors' Responsibility

The Holding Company's Directors are responsible for the preparation and fair presentation of the Group's consolidated financial statements, of which this press release represents an extract. These Abridged Group interim financial statements are presented in accordance with the disclosure requirements of the Zimbabwe Stock Exchange (ZSE) Listing Requirements for provisional interim financial statements (Preliminary Reports), and in accordance with the measurement and recognition principles of International Financial Reporting Standards (IFRS) and in the manner required by the Companies and Other Business Entities Act (Chapter 24:31). The principal accounting policies applied in the preparation of these interim financial statements are consistent with those applied in the previous annual financial statements. There is no significant impact arising from new and revised IFRS which became effective for reporting periods commencing on or after 1 January 2019.

Cautionary Statement- Reliance on all Financial Statements prepared in Zimbabwe for 2019/2020

The Directors would like to advise users to exercise caution in their use of these interim financial statements due to the material and pervasive impact of the technicalities brought about by the change in functional currency in February 2019, its consequent impact on the usefulness of the financial statements for 2019/2020 financial periods and the adoption of International Accounting Standard (IAS) 29 (Financial Reporting in Hyperinflationary Economies), effective 1 July 2019.

Whilst the Directors have exercised reasonable due care, and applied judgements that they felt were appropriate in the preparation and presentation of these interim financial statements, certain distortions may arise due to various specific economic factors that may affect the relevance and reliability of information that is presented in economies that are experiencing hyperinflation, as well as technicalities regarding the change in functional and reporting currency.

The review conclusion on these interim financial statements has been modified by the independent auditors, Ernst & Young Chartered Accountants (Zimbabwe) as indicated in the review conclusion statement below.

Adoption of IAS 29 (Financial Reporting in hyperinflationary economies)

Having assessed the impact of hyperinflation in the economy, the Public Accountants and Auditors Board (PAAB) have advised that the conditions for adopting IAS 29, have been satisfied with effect from 1 July 2019. IAS 29 requires that inflation-adjusted financial statements become the entity's primary financial statements. The Group has complied with this requirement, and this Interim Report is therefore based on inflation-adjusted financial statements.

External Auditor's Review Conclusion

These Abridged Group interim financial statements have been reviewed by the Group's external auditors, Ernst & Young Chartered Accountants (Zimbabwe), who have issued an adverse opinion. The auditor's review report on the Group's interim financial statements, is available for inspection at the Company's registered office. The engagement partner on the review is Mr Walter Mupanguri (PAAB Practising Certificate Number 367).

Economic Environment

The period under review was marked by numerous operational and economic challenges. The continued devaluation of the Zimbabwe dollar gave rise to a highly inflationary environment for most of the period, albeit at a reduced rate towards the end of the half year.

From an operational perspective, there was extensive nationwide power load shedding from which our plants were not spared, necessitating the use of back-up generators. Towards the end of the period, Government lifted restrictions and import duties on basic food commodities. This will place intense pressure on local manufacturers who are already dealing with an extremely difficult environment. Subsidies were progressively reduced during the period, with maize meal being the only subsidised product from our basket by the end of the period. Whilst the need to cushion the vulnerable is acknowledged, the policy migration to reduced and more targeted subsidies will reduce the burden on the fiscus and is welcomed.

The Group has played a significant role in supplying maize meal on the Government subsidy program, with over 45,000 tons having been milled for the programme since it was launched in December 2019.

National Foods will continue to play a key role in complimenting Government's efforts in respect of food security in the period ahead.

The outlook for the coming agricultural season is not encouraging, with plantings having significantly reduced and yields likely to be impacted by poor weather. Consequently, it is anticipated that the Group will be forced to continue to import significant quantities of raw materials up to at least June 2021.

Financial Performance

As noted earlier in this report, the Group's interim financial results have been prepared on an inflation-adjusted basis as required by IAS 29. Historical cost financial statements have not been presented due to the significant distortions arising from the hyperinflationary environment.

Volumes for the period declined by 32% to 211,381 tons compared to the same period last year. There were declines across all categories with the exception of maize meal, largely driven by reduced consumer spending power and the progressive removal of subsidies, notably in the Flour category.

Revenue however increased by 30% to ZWL 2.06 billion, reflective of higher selling prices following the reduction in subsidies. Gross margin dollars increased by 65%, driven by various strategic raw material positions the Group took. Operational expenditure increased by 48% compared to last year. The lag between increases in the Group's cost base and inflation is progressively becoming shorter, driving the increase in operational cost over last year. Management continues to apply intense focus to managing the Group's cost base. As a result of the above, profit before tax increased 99% compared to last year.

Under the prevailing inflationary environment, the company was focused on balance sheet protection. In this regard the constrained local currency liquidity prompted several operational changes including the reduction of credit terms and the immediate conversion of available cash to stock. As a result, the Group closed the period with healthy stock pipelines and we believe should be able to trade sustainably in the coming months which are expected to be marked by strong demand in the maize category. In line with this strategy the Group closed the period with prepayments of ZWL 366m, mainly consisting of prepayments for key raw materials.

We continue to work with the authorities in respect of the historical debt owed by the Reserve Bank of Zimbabwe (RBZ) to the Group's wheat supplier. This debt amounted to USD42.65m at the end of the period under review.

Operations Review

Flour Milling

Volumes for the flour division reduced markedly for the period, decreasing by 49% versus the prior year, as the significant subsidies which existed last year were progressively removed. In spite of the reduced volumes, this is a positive move which has led to the consistent availability of bread and a generally more sustainable trading model for the wheat to bread value chain in the longer term.

Maize Milling

Maize meal volumes were good, closing flat on last year's high base, as demand remained strong following a relatively poor harvest. The Group expects very high demand in the coming period and has embarked on a significant maize importation program. The Mutare and Masvingo maize mills have both been reopened, with the resuscitation of the Masvingo mill being especially noteworthy as it was last run in 1998. The Group continues to engage actively with the authorities on the maize meal subsidy program.

Stockfeeds

Stockfeed volumes declined by 21% versus last year, a decline that was in line with the overall market performance. The effective removal of subsidies on the maize component of feed rations caused a substantial increase in the price of stockfeed relative to inflation. Together with the declining consumer disposable income this saw reduced demand for protein products, in turn impacting the stockfeed market.

Groceries

Volumes in this division were severely impacted by the relative affordability of rice compared to other starches, declining by 39% compared to the prior period. These declines were largely in line with the market as a whole. The recovery of volume momentum in this division will be a key priority in the coming period.

Snacks and Treats

Volumes in this division reduced 42% versus the prior period, as consumers tended to focus on procuring the essential basics. In addition, the removal of subsidies impacted the relative affordability of both snacks and biscuits. In the snacks category, the Group's new innovation "Allegros Popticorn" has been very well received by the market.

Cereals

The Group launched a maize based instant breakfast porridge under the "Pearlenta Nutri-Active" brand during the period. A state-of-the-art plant has been successfully commissioned. Although the product has only recently been released the initial market feedback has been extremely positive. The Group is exploring further opportunities in the breakfast cereal category.

Pure Oil

National Foods holds an effective 40% stake in Pure Oil Industries and its results are equity accounted. Volumes at Pure Oil declined by 13% compared to last year. Cooking oil volumes declined by 25%, a similar trend to other basic food categories. There were steady volume improvements in the laundry soap, baker's fat and margarine categories.

Contract Farming

The Group continues to support local farming, although the schemes were heavily curtailed compared to last year due to the shortage of bank funding on the back of constrained market liquidity. During the 2019 winter wheat season the Group supported 2,495 hectares of local wheat which produced 10,374 tons. Plantings for the 2019-2020 summer season consisted of 2,200 hectares of maize and 1,250 hectares of soya beans. The Group has the capability to significantly increase the size of these programs with improved access to financing facilities.

Corporate Social Responsibility (CSR)

The Group continues to support a wide range of causes across the country, providing support to 42 institutions across the 10 provinces. These institutions include vulnerable women, children, the elderly as well as communities affected by HIV.

In addition, the Group has participated in various community development based initiatives. During the period these included the reconstruction of 8 ECD Blocks in Mashonaland West and Central in partnership with the Kapnek Trust, as well as sponsorship of the Gems (the Zimbabwe Women's Netball Team) on their highly successful World Cup campaign.

In a similar vein, support has been provided to the Healing with Horses Therapeutic Centre in Bulawayo and the Epileptic Foundation of Zimbabwe.

Future Prospects

Given the difficult environment for consumers our expectation is that volumes in general will remain subdued, with the exception of the maize category. The Group will continue to place intense focus on its operational expenditure as well as carefully managing its balance sheet in the inflationary environment, ensuring that stock pipelines are maintained.

The Group will also continue with its growth agenda in the snacks, biscuits and cereals categories which are logical forward integration opportunities from the basic milling portfolio. Whilst demand in these categories is currently muted, the work on broadening the offering in these categories will continue, developing the company's repertoire for improved economic circumstances.

Dividend

In view of the prevailing environment and in particular the liquidity constraints, the Board has adopted a prudent approach in setting the interim dividend. The Board is pleased to declare an interim dividend of 86.47 ZWL cents per share payable in respect of all ordinary shares in the Company. This interim dividend is in respect of the financial year ending 30th June 2020 and will be payable in full to all the shareholders of the Company registered at the close of business on the 3rd of April 2020. The payment of this dividend will take place on or about the 17th of April 2020. The shares of the Company will be traded cum–dividend on the Zimbabwe Stock Exchange up to the market day of the 31st of March 2020 and ex-dividend as from the 1st of April 2020.

Acknowledgement and Appreciation

In spite of the challenging circumstances, the past 6 months has been a period of continued progress for the Group, driven by the dedicated team at National Foods. I would like to extend my gratitude to our employees for their on-going commitment to the company. Lastly, I would also like to record my thanks to my fellow Board members for their wise counsel and stewardship.

Todd Moyo
Chairman
12 February 2020

Abridged Group Statement of Profit or Loss and Other Comprehensive Income

	INFLATION ADJUSTED	
	6 Months Ended 31 Dec 2019 ZWL'000	**6 Months Ended 31 Dec 2018 ZWL'000**
Revenue	**2 058 153**	**1 578 042**
Operating Profit before depreciation and amortisation	**341 617**	**176 931**
financial (loss) / income	(71)	3 270
depreciation and amortisation	(15 522)	(12 212)
Profit before interest and tax	**326 024**	**167 989**
interest income	—	647
interest paid	(25 315)	(18 125)
equity accounted earnings	10 099	11 859
gain on net monetary position	18 447	2 794
Profit before tax	**329 255**	**165 164**
tax	(100 499)	(35 218)
Profit for the year	**228 756**	**129 946**
Total comprehensive income for the period	**228 756**	**129 946**
Profit for the period attributable to:		
equity holders of the parent	**228 756**	**129 946**
Total comprehensive income for the period attributable to:		
equity holders of the parent	**228 756**	**129 946**
EARNINGS PER SHARE (CENTS)		
- Basic earnings per share	**334.44**	**189.98**
- Headline earnings per share	**334.34**	**189.45**
- Diluted earnings per share	**334.34**	**189.98**

Abridged Group Statement of Financial Position

	INFLATION ADJUSTED	
	At 31 Dec 2019 ZWL'000	At 30 Jun 2019 ZWL'000
ASSETS		
Non-current assets		
property, plant and equipment	473 509	450 644
other non-current assets	99 908	94 046
	573 417	**544 690**
Current assets		
inventory	415 337	318 446
trade and other receivables	580 002	462 769
current portion of other financial assets	8 007	5 532
cash and cash equivalents	119 757	110 315
	1 123 103	**897 062**
Total assets	**1 696 520**	**1 441 752**
EQUITY AND LIABILITIES		
Capital and reserves		
ordinary share capital	6 027	6 027
distributable reserves	969 995	761 065
Total shareholders' equity	**976 022**	**767 092**
Non-current liabilities		
deferred tax liability	122 904	116 096
	122 904	**116 096**
Current liabilities		
interest-bearing borrowings	202 357	273 349
trade payables	249 365	205 332
other payables	2 118	1 453
current tax payable	130 518	47 875
shareholders for dividends	13 236	30 555
	597 594	**558 564**
Total liabilities	**720 498**	**674 660**
Total equity and liabilities	**1 696 520**	**1 441 752**

Abridged Group Statement of Cash Flows

	INFLATION ADJUSTED	
	6 Months Ended 31 Dec 2019 ZWL'000	6 Months Ended 31 Dec 2018 ZWL'000
Cash generated / (utilised) from operating activities	167 352	(352 665)
net interest paid	(25 315)	(17 478)
tax paid	(11 048)	(494)
Total cash generated / (utilised) from operations	**130 989**	**(370 637)**
Investing activities		
purchase of property, plant and equipment to expand operations	(28 582)	(67 050)
purchase of property, plant and equipment to maintain operations	(9 890)	(7 087)
other cashflows (utilised)/generated from investing activities	(4 201)	20 836
Net cash outflow from investing activities	**(42 673)**	**(53 301)**
Net cash inflow / (outflow)before financing activities	**88 316**	**(423 938)**
Financing activities	**(78 874)**	**246 052**
(decrease) / increase in borrowings	(70 991)	264 381
dividend paid	(7 883)	(18 329)
Net increase / (decrease) in cash	**9 442**	**(177 886)**
Cash and cash equivalents at the beginning of the year	**110 315**	**298 023**
Cash and cash equivalents at the end of the year	**119 757**	**120 137**
Cash and cash equivalents comprise		
cash and short term deposits with related parties	119 757	120 137
	119 757	**120 137**

Abridged Group Statement of Changes in Equity

	INFLATION ADJUSTED		
	Share capital ZWL'000	Distributable reserves ZWL'000	Total ZWL'000
Balance at 30 June 2018	**6 027**	**792 596**	**798 623**
profit for year	—	18 654	18 654
transfer of CFCR relating to current year movements	—	(2 348)	(2 348)
total comprehensive income	—	**16 306**	**16 306**
dividends declared	—	(47 837)	(47 837)
Balance at 30 June 2019	**6 027**	**761 065**	**767 092**
profit for the year	—	228 756	228 756
transfer of CFCR relating to current year movements	—	—	—
total comprehensive income	—	**228 756**	**228 756**
dividends declared	—	(19 826)	(19 826)
Balance at 31 December 2019	**6 027**	**969 995**	**976 022**

Supplementary Information

1 Corporate Information

The company and its subsidiaries are incorporated in Zimbabwe except for Botswana Milling and Produce Company (Proprietary) Limited and Red Seal Manufactures (Proprietary) Limited which are incorporated in Botswana.

The Group's activities consist of the milling of flour and maize, the manufacture of stockfeeds, snacks and biscuits and the packaging and sale of other general household goods. The Group also owns a portfolio of properties that are leased out to the main business units.

2 Basis of Preparation

The Group's consolidated financial statements for the six months ended 31 December 2019 have been prepared in accordance with the requirements of the Zimbabwe Stock Exchange Listing Requirements and in the manner required by the Zimbabwe Companies and Other Business Entities Act (Chapter 24:31) (COBE). The Listing Requirements require interim financial statements to be prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accouting Standards

Supplementary Information (continued)

2 Basis of Preparation (continued)

Board ("IASB") and as a minimum, contain the information required by International Accounting Standards ("IAS") 34 (Interim Financial Reporting). The Group's consolidated inflation adjusted interim financial statements have been prepared based on the statutory records that are maintained under the historical cost basis and are presented in Zimbabwean Dollars (ZWL).

The principal accounting policies applied in the preparation of the Group consolidated interim financial statements are in terms of IFRS except for the non-compliance with IAS 21 (The Effects of Change in Foreign Exchange Rates), and its consequential impact on the inflation adjusted amounts determined in terms of IAS 29 (Financial Reporting in Hyperinflationary Economies) and have been applied consistently in all material respects with those of the previous consolidated annual financial statements. In the current year, the Group has adopted the requirements of IAS 29, and IFRS 16 (Leases).

3 IAS 21 (The Effects of Changes in Foreign Exchange Rates)

As noted in the Group's 2019 financial statements, Government promulgated Statutory Instrument ("SI") 33 on 22 February 2019, giving legal effect to the reintroduction of the Zimbabwe Dollar (ZWL) as legal tender and prescribed that for accounting and other purposes, certain assets and liabilities on the effective date would be deemed to be Zimbabwe Dollars at the rate which was at par with the United States Dollar (USD). Guidance issued by the Public Accountants and Auditors Board (PAAB) noted that the requirements of SI 33 were contrary to the provisions of IAS 21.The Directors have always ensured compliance with IFRS but were unable to do so in respect of the comparative financial information due to the conflict between IAS 21 and local statutory requirements. In respect of the current financial year financial information, and as a result of the absence of an observable foreign exchange market, the Group continues to be unable to meet the full requirements of IAS 21. Due to the material and pervasive impact of these technicalities, the Directors would like to advise users to exercise caution in their use of these inflation adjusted financial statements.

4 Adoption of IAS 29 (Financial Reporting in Hyperinflationary Economies)

In October 2019, the PAAB issued a pronouncement prescribing that the application of financial reporting in hyperinflationary economies had become effective in Zimbabwe, for reporting periods on or after 1 July 2019. These financial statements have been prepared in accordance with IAS 29 together with International Financial Reporting Interpretations Committee (IFRIC) 7 (Applying the Restatement Approach under IAS 29), as if the economy had been hyperinflationary from 1 July 2018. The Group adopted the Zimbabwe Consumer Price Index ("CPI") as the general price index to restate transactions and balances. Monetary assets and liabilities and non-monetary assets and liabilities carried at fair value have not been restated as they are presented at the measuring unit current at the end of the reporting period. Items recognised in the income statement have been restated by applying the change in the general price index from dates when the transactions were initially recorded in the Group's financial records (transaction date). A net monetary adjustment was recognised in the statement of profit or loss for the half year ended 31 December 2019 and the comparative period. Comparative amounts in the Group financial results have been restated to reflect the change in the general price index from 1 July 2018 to the end of the reporting period. All items in the statement of cash flows are expressed based on the restated financial information for the period.

As noted above, the Group adopted the Zimbabwe Consumer Price Index ("CPI") as the general price index and used the monthly indices to inflation adjust the historical figures. The factors used in the periods under review are as follows:

Month	CPI	Factor
Jun-18	62.60	8.8120
Dec-18	88.80	6.2120
Feb-19	100.00	5.5163
Jun-19	172.60	3.1960
Dec-19	551.63	1.0000

5 New and amended IFRS

Adoption of IFRS 16 (Leases)

The Group is currently in the process of adopting IFRS 16 (Leases) as a replacement of IAS 17 (Leases) as well as its interpretation. IFRS 16 introduces a single on balance sheet accounting model for leases by lessees and eliminates the distinction between operating and finance leases. The Group, in compliance with IFRS 16, elected not to restate its comparative financial statements and the impact of adopting IFRS 16 will be applied prospectively with an adjustment to the Group's opening reserves at 1 July 2019.

Where the Group is a lessee, it is the Group's policy is to recognise the the right-of-use asset, representing its rights to use the underlying assets and lease liabilities, representing its obligation to make lease payments. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the Group's weighted average incremental borrowing rate. Right-of-use assets are measured at the amount equal to the lease liability, adjusted by prepaid or accrued lease payments and initial direct costs, if any, relating to the specific lease recognised on the balance sheet . Where the Group is a Lessor, lessor accounting remains similar to previous accounting policies.

	INFLATION ADJUSTED			
6 Operating Segments	Milling, Manufacturing and Distribution ZWL'000	Properties ZWL'000	Intersegment adjustments ZWL'000	Total ZWL'000
Revenue				
31 December 2019	2 146 774	9 599	(98 220)	2 058 153
31 December 2018	1 612 285	7 654	(41 897)	1 578 042
Operating profit before depreciation and amortisation				
31 December 2019	339 728	1 889	—	341 617
31 December 2018	175 605	1 326	—	176 931
Depreciation and amortization				
31 December 2019	(11 719)	(3 803)	—	(15 522)
31 December 2018	(9 499)	(2 713)	—	(12 212)
Net Interest Expense				
31 December 2019	(27 724)	2 409	—	(25 315)
31 December 2018	(17 542)	64	—	(17 478)
Profit before tax				
31 December 2019	320 943	8 312	—	329 255
31 December 2018	164 741	423	—	165 164
Segment assets				
31 December 2019	1 386 945	309 575	—	1 696 520
31 December 2018	1 313 778	127 974	—	1 441 752
Segment liabilities				
31 December 2019	(689 686)	(26 629)	—	(716 315)
31 December 2018	(658 449)	(16 211)	—	(674 660)
Capital expenditure				
31 December 2019	37 380	1 092	—	38 472
31 December 2018	6 553	534	—	7 087

	INFLATION ADJUSTED	
	31 Dec 2019 ZWL'000	31 Dec 2018 ZWL'000
7 Depreciation and amortisation	15 522	12 212
8 Capital expenditure for the year	38 472	7 087
9 Future lease commitments		
Payable within one year	556	—
Payable two to five years	—	—
	556	**—**

	INFLATION ADJUSTED	
	31 Dec 2019 ZWL'000	**31 Dec 2018 ZWL'000**
10 Commitments for capital expenditure		
Contracts and orders placed	15 985	31 636
Authorized by Directors but not contracted	55 000	36 798
	70 985	**68 434**
The capital expenditure is to be financed out of the Group's own resources and borrowing facilities.		
11 Other non-current assets		
Intangible assets	13 362	13 362
Investment in associates	86 546	80 684
	99 908	**94 046**

12 Shareholders for Dividends

The Shareholders for dividends balance relates to foreign dividends payable, outstanding as at reporting date.

13 Interest bearing borrowings

Interest bearing borrowings constitute bank loans from various local financial institutions which accrue interest at an average rate of 27.7% per annum. The facilities expire at different dates during the year and will be reviewed and renewed when they mature.

14 Earnings per share

Basic earnings basis

The calculation is based on the profit attributable to equity holders of the parent and number of shares in issue for the year.

Headline earnings basis

Headline earnings comprise of basic earnings attributable to equity holders of the parent adjusted for profits, losses and items of a capital nature that do not form part of the ordinary activities of the Group, net of their related tax effects and share of non-controlling interests as applicable.

	INFLATION ADJUSTED	
	6 months ended 31 Dec 2019 ZWL'000	**6 months ended 31 Dec 2018 ZWL'000**
14 Earnings per share		
Reconciliation of basic earnings to headline earnings		
Profit for the year attributable to equity holders of the parent	228 756	129 946
Adjustment for capital Items		
Profit on disposal of property, plant and equipment	(90)	(485)
Tax effect on adjustments	23	125
Headline earnings attributable to ordinary shareholders	**228 689**	**129 586**
Number of shares in issue		
Weighted average number of ordinary shares in issue	68 400 108	68 400 108
Basic and diluted earnings per share (cents)	334.44	189.45
Headline earnings per share (cents)	334.34	189.98

15 Guarantees

The company acted as a guarantor to Pure Oil. The guarantees are in respect of any and all financial obligations and the indebtedness of Pure Oil Industries (Private) Limited.

1. Guarantee issued by National Foods Holdings Limited in favour of Stanbic Bank Zimbabwe Limited subject to a maximum limit of ZWL$ 30 million
2. Guarantee issued by National Foods Limited (a wholly owned subsidiary) in favour of ETC Group subject to a maximum limit of US$750,000
3. Guarantee issued by National Foods Holdings Limited in favour of BancABC subject to a maximum limit of ZWL$ 10 million.

16 Events after reporting date

There have been no significant events after the reporting date.

NATIONAL FOODS HOLDINGS LIMITED

SOCIALLY RESPONSIBLE

Responsible corporate citizenry has always been a measure of a thriving business and a well-run entity. In this regard, National Foods is no exception.

Organisations that equally care about the communities they operate in are increasingly realising greater business success and this has given rise to the buzzword, Sustainability.

National Foods has demonstrated that it is at the cutting edge of global corporate citizenry and has committed to satisfying it's sustainability requirements, which are; **people, planet and profit**. The company is passionate about being a good corporate citizen by giving back to the communities in which it operates while also ensuring that it's staff are not left behind.

To date, the Group supports a total of 43 organisations including children's homes, orphanages, schools, hospitals, churches, old people's homes, special needs groups, vulnerable women and wildlife.

The company took full responsibility of two charities in each of the ten provinces of Zimbabwe – where packages of foodstuffs are sent out monthly each year.

Recently, the company worked with **Kutenda Children's Home**, located in Bindura. This is a home that was established after its founders Mr and Mrs Maponga answered the call to serve their community by taking care of orphaned and vulnerable children and currently look after 24 children of all ages from 4 to 18.

The Founders, who are of a Christian background –believe in the philosophy of teaching a man to fish. To this end, they kickstarted a couple of projects namely – poultry, goat rearing and gardening amongst other programs. The experience the children are deriving from these projects is of life-time value and some can actually see themselves making a living of their own iterations of these projects.

National Foods managed to extend its support to the home by making monthly donations of mealie meal together with other necessary essentials.

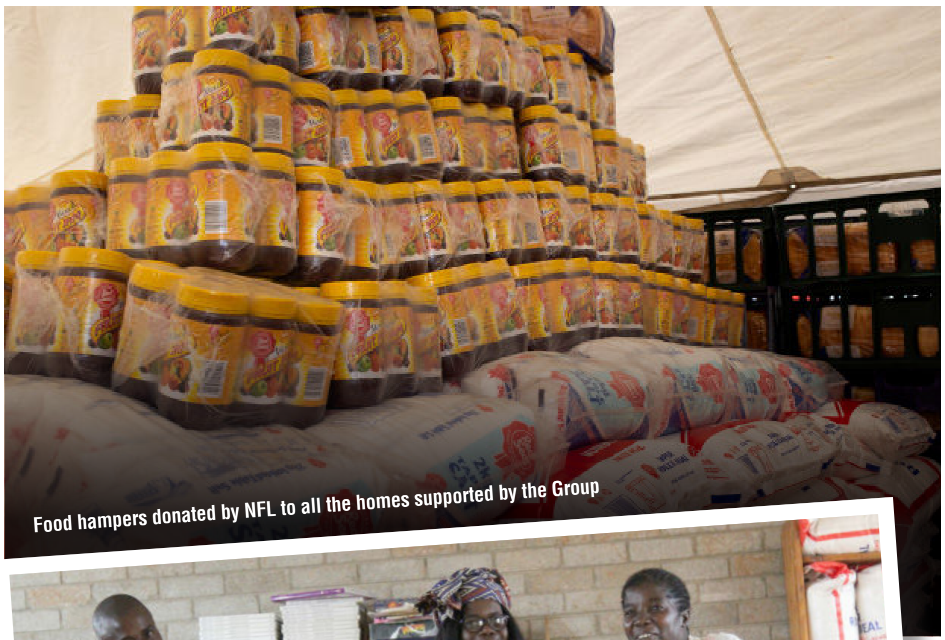
National Foods is also involved with **Kukura Neshungu School**, a school that mainly caters for children with mental challenges. Unfortunately, society still tends to see these children as a burden. Kukura Neshungu School embraces them with both hands and a genuine heart. National Foods has been a sponsor of this worthy cause since 2014 by donating food stuffs for the children and supporting the school with some of its administrative needs to ensure that it runs smoothly.

In addition to teaching the children, the school also teaches practical skills through projects including gardening, detergents making, freezit and popcorn making. All this, is to ensure they produce well-rounded personalities.

Ponesai Vanhu Children's Home, is another touching story. Run by Mrs Abigail Marira, who is popular for her hospitality and making everyone feel at home. It is home to a total of 39 children, 20 girls and 19 boys. National Foods supports the good work at Ponesai Vanhu Children's home through several monthly donations to the home.

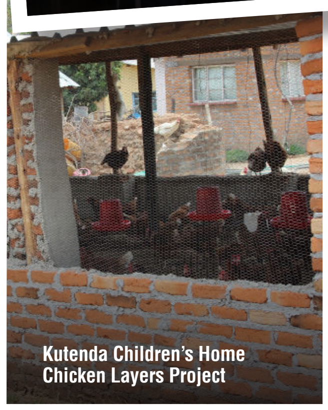
National Foods continues to uphold the responsibility of caring for communities, knowing that there is equity in supporting the vulnerable, as Richard Branson once said, "Doing good is good business". We have over time established a great relationships with the homes we support, and we intend to continue working with them to support their programs," said Michael Lashbrook, Chief Executive of National Foods Limited.

"We believe in empowering the communities we support and ensuring a spirit of entrepreneurship amongst these communities even though their current circumstances are of vulnerability, we believe they too can thrive and attain self-sustenance in the long run".



Food hampers donated by NFL to all the homes supported by the Group

Mrs Abigail Marira (right) and part of her team receiving the NFL monthly donation



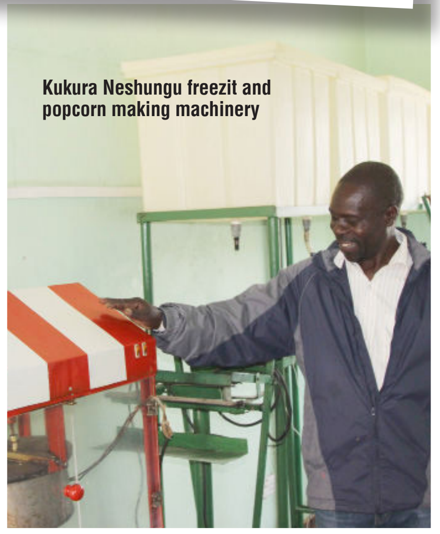
Kutenda Children's Home Chicken Layers Project

Food hampers donated by NFL to Cyclone Idai victims

Kutenda Children's Home Poultry Project

Ponesai Childrens Home Piggery Project

National Foods clean up campaign at Machipisa Shops, Highfields



Kukura Neshungu freezit and popcorn making machinery

EY
Building a better working world

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INDEPENDENT AUDITOR'S REVIEW CONCLUSION

TO THE MEMBERS OF NATIONAL FOODS HOLDINGS LIMITED

Introduction

We have reviewed the accompanying inflation adjusted interim condensed consolidated financial statements of National Foods Limited and its subsidiaries ("the Group") , as set out on pages 8 to 57, which comprise the interim condensed consolidated statement of financial position as at 31 December 2019 and the related interim condensed consolidated statement of profit or loss and other comprehensive income, the interim condensed statement of changes in equity and the interim condensed statement of cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with the International Financial Reporting Standards (IFRS). Our responsibility is to express a review conclusion on this interim condensed consolidated 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 review conclusion

1. Non-compliance with International Financial Reporting Standards- International Accounting Standard (IAS) 21: *The Effects of Changes in Foreign Exchange Rates.*

As explained in the independent auditor's report on the audit of the consolidated financial statements for the year ended 30 June 2019, the Group applied the United States Dollar (US$) as its functional currency for the period 1 July 2018 to 22 February 2019 and the Real Time Gross Settlement Dollar (RTGS$) and Zimbabwe Dollars (ZWL) for the period 23 February to 30 June 2019. In order to comply with Statutory Instrument 33 of 2019, issued on 22 February 2019, the Group changed its functional currency with effect from this date. We however believe that the change in currency occurred prior to that date.

Zimbabwe witnessed significant monetary and exchange control policy changes in 2016 and increasingly through to 2019. The Reserve Bank of Zimbabwe (RBZ) together with the Ministry of Finance and Economic Development promulgated a series of exchange control operational guidelines and compliance frameworks during this period. Specifically, there was a requirement for banks to separate out local Foreign Currency Accounts (FCAs) (RTGS$) from the FCA Nostro US$ Accounts effective 1 October 2018.

Basis for adverse review conclusion (continued)

Although the rate was legally pegged at 1:1, multiple pricing practices and other transactions observed and reported publicly indicated exchange rates other than 1:1 between RTGS$ and US$. In February 2019 there was a Monetary Policy statement which introduced RTGS$ and the interbank foreign exchange market. Furthermore, Statutory Instrument 142 of 2019 specified that for all domestic transactions, ZWL (which comprises RTGS$, Bond Notes and Bond Coins) was the sole legal tender effective 24 June 2019.

These events triggered the need for the Group to assess whether there was a change in functional currency (from US$ to ZWL) and whether the 1:1 ZWL: US$ exchange rate was appropriate.

Based on IFRS, International Accounting Standard 21 (IAS 21)-*The Effects of Changes in Foreign Exchange Rates*- the functional currency of an entity is *the currency of the primary economic environment in which the entity operates* and *reflects the underlying transactions, events and conditions that are relevant to it*. In addition, paragraph 2.12 of the *Conceptual Framework for Financial Reporting* ("the Conceptual Framework") prescribes that for financial information to be useful, it *"must not only represent relevant phenomena, but it must also faithfully represent the substance of the phenomena that it purports to represent. In many circumstances, the substance of an economic phenomenon and its legal form are the same. If they are not the same, providing information only about the legal form would not faithfully represent the economic phenomenon."*

We believe that events in the market and subsequent promulgation of the ZWL as a formal currency supported a change in functional currency from US$ to ZWL prior to 22 February 2019 and that transactions in the market indicated a different rate between the two currencies despite the legal 1:1 ZWL: US$ exchange rate and this occurred effective 1 October 2018. The Group chose to comply with the law by adopting the date of change in functional currency of 22 February 2019. This therefore impacted the basis for measuring transactions that occurred between 1 October 2018 and 22 February 2019.

Accordingly, the consolidated financial statements of the Group included balances and transactions denominated in US$ that were not converted to ZWL at a ZWL: US$ exchange rate that reflected the economic substance of its value as required by IFRS. The Directors applied the legal rate of 1:1 as pronounced by Statutory Instrument 133 of 2016, Statutory Instrument 33 of 2019 and the Monetary Policy Statements of the 22nd of February 2018, 1st of October 2018 and of the 20th of February 2019 for transactions from 1 October 2018 to 22 February 2019. On the 22nd of February 2019, the Group translated most of the applicable foreign denominated non-monetary balances at that date to ZWL at an exchange rate of 1:4 between US$ and ZWL. Foreign currency denominated transactions between the 23rd of February 2019 and the 30th of June 2019 were translated to ZWL based on Group exchange rates that were not in compliance with IAS 21. As at 30 June 2019, all monetary balances were translated at a closing rate of US$1: ZWL 6,75, which was based on the official interbank rate. The exchange rates used did not meet the criteria for appropriate exchange rates in terms of IFRS as defined below;

According to IAS 21, *at the end of each reporting period; (a) foreign currency monetary items shall be translated using the closing rate; (b) non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and (c) non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was measured. Foreign currency transactions shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.*

Basis for adverse review conclusion (continued)

According to paragraph 8 of IAS 21, the closing rate is defined as a) spot exchange rate at the end of the reporting period, and b) Spot exchange rate is the exchange rate for immediate delivery. In light of the definitions above, the IFRS Interpretations Committee concluded in their September 2018 paper that the closing rate is the rate to which an entity would have access at the end of the reporting period through a legal exchange mechanism.

We therefore concluded that the exchange rates for transactions and balances between the US$ and the RTGS$/ZWL used by the Group (1:1 for the period 1 October 2018 to 22 February 2019, 1:4 for the translation to functional currency on 22 February 2019 except for goodwill where the exchange rate applied was 1:1, Group rates obtained or implied for transactions between 23 February 2019 and 30 June 2019 and 1:6.75 closing rate based on the official interbank rates at 30 June 2019) did not meet the criteria for appropriate exchange rates in terms of IFRS as defined above.

IFRS requires that all line items at the date of change in functional currency should be translated at the same rate to the new currency and therefore there would be no translation adjustments. However, the Group recognised a net translation gain on conversion of non-monetary and monetary assets and liabilities to the ZWL on change in functional currency from the US$ directly in equity as a non-distributable reserve which represents a departure from the requirements of IFRS.

The above matters which gave rise to the adverse opinion in the prior year have not been corrected as required by IAS 8- *Accounting Policies, Changes In Accounting Estimates and Errors*, giving rise to the following consequential effects:

- All corresponding numbers remain misstated on the statements of financial position, cash flows profit or loss and changes in equity. This also impacts comparability of the current period's figures.

- As opening balances enter into the determination of cash flows and performance, our current period review conclusion is modified in respect of the impact of this matter on the statement of cash flows, the statement of profit or loss and the statement of changes in equity.

- In addition to the impacts on the corresponding numbers, current year performance and cash-flows the matter continues to affect the balances on the Statement of Financial Position as many of these still comprise of amounts from opening balances. Whilst this matter might not affect all accounts in the statement of financial position the specific accounts and the portions affected by this matter have not been identified / quantified. This is due to the further matters requiring modification (which have been discussed below) and which result in virtually all amounts being incorrectly stated.

- Furthermore, notwithstanding that IAS 29 - *Financial Reporting in Hyperinflationary Economies* has been applied from 1 July 2018 to 31 December 2019, it is noted that its application was based on prior and current periods' financial information which was not in compliance with IAS 21 / IAS 8 as described above. Had the correct base numbers been used, most elements of the financial statements would have been materially different.

- IFRS requires retrospective application of IAS 29, as if the economy had always been hyperinflationary. We believe that this means either the date when all assets and liabilities where fair valued on the resumption of IFRS, or the date of change in functional currency per IFRS. Had the correct date been used, most elements of the financial statements would have been materially different.

Basis for adverse review conclusion (continued)

2. <u>Exchange rates used in current period (Non-compliance with IAS 21: The *Effects of Changes in Foreign Exchange Rates*)</u>

As outlined in Note 3 to the interim condensed consolidated financial information, for the six-month interim period ended 31 December 2019, the Group translated foreign denominated transactions and balances using weighted average exchange rates that were not in compliance with IAS 21. The exchange rates used for the translation do not meet the definition of a spot exchange rate as per IAS 21. We therefore believe that the exchange rates for transactions and balances between the US$ and the ZWL used by the Group did not meet the criteria for appropriate exchange rates in terms of IFRS as defined above. Had the correct rates been used a number of significant accounts would have been affected in a material manner.

The effects of the above departures from IFRS are material and pervasive to the interim condensed consolidated financial information.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further descried in the *Auditor's Responsibilities for the Audit of the Interim Condensed Consolidated Financial Statements* section of our report. We are independent of the Group 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 the financial statements in Zimbabwe, and we have fulfilled our ethical responsibilities in accordance with these requirements and IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse review conclusion.

Adverse review conclusion

In view of the matters described in the preceding paragraph, the inflation-adjusted interim condensed consolidated financial information is not prepared, in all material respects, in accordance with International Financial Reporting Standards.

The engagement partner on the review audit resulting in this interim review conclusion report on the interim condensed consolidated financial information is Mr Walter Mupanguri (PAAB Practising Certificate Number 367).

Ernst & Young.

ERNST & YOUNG

CHARTERED ACCOUNTANTS (ZIMBABWE)

REGISTERED PUBLIC AUDITORS

Harare

20 March 2020