NATIONAL FOODS HOLDINGS LIMITED

Audited Abridged Financial Results of National Foods Holdings Limited

for the Year Ended 30 June 2020

Salient Features

	INFLATION ADJUSTED		
	Year Ended 30 June 2020		
Volume (MT)	456 394	▼	25%
	ZWL'000		
Revenue	12 790 813	▲	52%
Operating profit	2 035 096	▲	62%
Profit before tax	1 996 700	▲	55%
Basic and diluted earnings per share (cents)	2 320.63	▲	75%
Headline earnings per share (cents)	2 319.89	▲	75%
Total dividend declared per share (cents)	576.78	▲	146%

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 financial statements are presented in accordance with the disclosure requirements of the Zimbabwe Stock Exchange (ZSE) Listing Requirements for provisional annual 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 financial statements are consistent with those applied in the previous annual financial statements. The effect of adopting the requirements of IFRS 16 (Leases) increased the Group's assets and liabilities with minimal net impact on the Group's Statement of Profit and Loss and other Comprehensive income.

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 provisional annual 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 effect 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 provisional annual financial statements, certain distortions may arise due to various specific economic factors that may affect the relevance and reliability of the information that is presented in economies that are experiencing hyperinflation, as well as technicalities regarding the change in functional and reporting currency.

As noted in the Group's 2019 annual report, the Directors have always ensured compliance with IFRS, but remain unable to do so due to the conflict between these Standards and local statutory requirements that occurred as a result of the change in functional and reporting currency in the prior year.

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), advised that the conditions for adopting IAS 29, were 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 financial commentary is therefore based on these inflation - adjusted financial statements. Financial statements prepared under the historical cost convention, have also been presented as supplementary information.

Auditor's Statement

These abridged Group annual financial statements should be read in conjunction with the complete set of the Group annual financial statements for the year ended 30 June 2020. The Group's annual financial statements have been audited by Ernst & Young Chartered Accountants (Zimbabwe). Ernst & Young have issued an adverse opinion as a result of non-compliance with IAS 21 (The Effects of Changes in Foreign Exchange Rates) and IAS 8 (Accounting policies, changes in accounting estimates and errors). The auditor's report on the Group's annual financial statements, from which these abridged Group annual financial statements are extracted, is available for inspection at the Company's registered office.

Sustainability Reporting

As part of our commitment to ensuring the sustainability of our business and stakeholders, the Group continues to apply the Global Reporting Initiatives (GRI) standards. Over the years, the Group aligned its sustainability reporting using GRI standards with corresponding Sustainable Development Goals (SDGs) demonstrating the Group's commitment and contribution to sustainable development within the environments that the Group operates. The Group continues to strengthen sustainability practices and values across its operations to ensure that long-term business success is achieved sustainably.

Business Environment

The business environment for the period was characterised by a number of operational and economic challenges; including continued inflation, reduced local agricultural production and later in the year the COVID-19 pandemic.

The recently concluded local harvest of maize and soya was negatively impacted by reduced plantings and poor weather, and significant imports of these commodities will be required up to at least June 2021. Government has launched a number of initiatives to stimulate local production of key grains, which the Group fully supports and endorses. Increased grain productivity will boost the competitiveness of local manufacturers, which remains under intense pressure, exacerbated by the on-going liberalisation of imports of basic food products.

The Group played a significant role in supplying maize meal to the Government subsidy program, with over 61,000 tons having been milled for the programme since it was launched in December 2019. Volumes supplied on this programme were steadily reduced towards the end of the period as the local maize harvest became available.

The COVID-19 pandemic has regrettably had an increasing effect on the Country in recent months, and the resulting economic impact has further eroded consumer spending. The Group has made the safety of its products, employees and consumers paramount in the face of the pandemic.

Financial Performance

As noted earlier in this report, the Group's annual financial results have been prepared in accordance with the requirements of IAS 29 (Reporting in Hyperinflationary Economies). Historical cost financial statements have been provided as supplementary information.

Volumes for the period declined by 25.3% to 456,000 tons compared to the same period last year. Whilst there were year-on-year volume declines across all categories, the quarterly volume trend during the year was largely stable, with the exception of seasonal variations in the Maize division.

Revenue however increased by 52% to ZWL 12.79 billion, reflective of higher selling prices following the progressive removal of most grain subsidies. Gross margin dollars increased by 48%, below the increase in revenue as the Group focused on competitively pricing its products. Operational expenditure increased by 45% compared to last year, with the optimisation of the Group's cost structures remaining a key priority. As a result of the above, Profit after Tax increased by 45% to ZWL 1.38 billion.

The Group continued to focus on protection of its balance sheet in view of the prevailing inflationary environment. The management and funding of raw material pipelines remained a key priority, both in view of the constrained local liquidity as well as the extended lead times brought about by the COVID pandemic. As a result of these efforts, the Group currently has adequate pipelines of all key raw materials to trade sustainably in the year ahead.

Operations Review

Flour Milling

Volumes for the Flour unit reduced by 35% compared to the prior period, as the significant subsidies which existed last year were removed. These subsidies were removed mid-way through last year and since that point flour volumes have largely stabilised.

Performance of the prepack flour segment was firm, with volumes increasing 9% over last year due to increased home baking during the COVID lock-down.

Maize Milling

Maize meal volumes remained firm, declining by 5% on last year's high base. There was a loss in volume momentum in the last quarter as the subsidy program was progressively reduced and maize from the local harvest became available.

Stockfeeds

Stockfeed volumes declined by 25% versus last year, a decline that was in line with the overall market performance. Feed prices increased in line with the removal of subsidies on maize and this, together, with constrained demand for protein products led to the reduction in demand.

Groceries

Volumes in this Division declined 22% compared to the prior period. This was largely driven by a reduced demand in the rice category on the back of affordability. Focus has been placed on recovering volumes in this unit and there was a pleasing volume improvement during the final quarter.

Snacks and Treats

Volumes in this Division reduced by 30% versus the comparative period, as consumers tended to focus on procuring the essential basics. In addition, the removal of grain subsidies impacted the relative affordability of both snacks and biscuits. The COVID lock-down also had a negative impact on demand for both snacks and biscuits as these products tend to be consumed "on the go".

Cereals

The Group launched a maize based instant breakfast porridge under the "Pearlenta Nutri-Active" brand during the year, as well as "Better Buy Soya Delights", a soya based meat substitute. These products add an exciting new dimension to National Foods' product repertoire, and the Group continues to actively explore further opportunities in this segment.

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 18% compared to last year. Cooking oil volumes declined by 24%, a similar trend to other basic food categories. "ZIMBRITE" laundry soap and "ZIMGOLD" margarine are both relatively new categories for Pure Oil and continue to gain traction in the market.

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 2,500 hectares of local wheat which produced 10,400 tons. Plantings for the 2019-2020 summer season consisted of 3,750 hectares of maize and soya beans, producing 13,750 tons of product. 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 has participated in various community based development initiatives and continues to support a wide range of causes across the country. In addition, monthly support is being given towards 45 registered institutions across Zimbabwe's 10 provinces. Beneficiary institutions are for vulnerable women, children, the elderly and communities affected by HIV.

In addition, support has been provided for Covid-19 initiatives by donating food hampers for front line health services staff and also partnering with Angel of Hope Foundation to support different charities across the country.

The Group continues to fulfil its promise by giving monthly hampers to the Zimbabwe Senior Netball Team (The Gems) and has featured the team members on outdoor media in celebration of their extraordinary achievements.

Finally, in recognition of its Centenary, the Group will be making a contribution to 100 worthy charitable organisations across the Country.

Future Prospects

In view of the challenging times the Group continues to place intense focus on further improving its repertoire of affordable, quality products. In this regard, it is essential our teams continue to work innovatively to meet the ever evolving needs of consumers. As outlined above, the management of raw material pipelines will remain an on-going priority, given the current liquidity situation. Investments into the Company's manufacturing facilities continue on an on-going basis in an effort to further improve efficiencies and lower costs.

Dividend

The Board is pleased to declare a final dividend of 445.71 ZWL cents per share payable in respect of all ordinary shares in the Company. This final dividend is in respect of the financial year ending June 30th 2020, and will be payable in full to all Shareholders of the Company registered at the close of business on or around October 16th 2020. The payment of the dividend will take place on or around the 30th of October 2020. The shares of the Company will be traded cum-dividend on the Zimbabwe Stock Exchange up to the market day of October 13th 2020 and ex-dividend as from October 14th 2020. This final dividend brings the total dividend for the year to 532.18 ZWL cents per share.

Acknowledgement and Appreciation

The Group has delivered a commendable performance for the period and continues to play a central role in providing basic food products to the nation. The Company celebrates 100 years of trading this year and this is testimony to the enduring support our brands have received from the people of Zimbabwe. On behalf of the entire National Foods team I would like to thank you for your continued loyalty to our products.

Finally, it remains for me to thank the employees for their efforts in the challenging circumstances that have prevailed over the last year and my fellow Board members for their contributions and guidance.

Todd Moyo
Independent, Non-Executive Chairman
25 September 2020

Abridged Group Statement of Profit or Loss And Other Comprehensive Income

	INFLATION ADJUSTED		HISTORICAL	
	Full Year Ended 30-Jun-20 ZWL'000	Full Year Ended 30-Jun-19 ZWL'000	Full Year Ended 30-Jun-20 ZWL'000	Full Year Ended 30-Jun-19 ZWL'000
Revenue	**12 790 813**	**8 387 616**	**6 340 085**	**566 173**
Operating Profit before depreciation and amortisation	**2 035 096**	**1 254 037**	**1 721 413**	**81 974**
financial income	51	25 307	184 627	2 515
depreciation and amortisation	(87 420)	(69 169)	(16 209)	(5 890)
Profit before interest and tax	**1 947 727**	**1 210 175**	**1 889 831**	**78 599**
interest income	—	3 338	—	230
interest paid	(137 633)	(94 711)	(58 563)	(6 310)
equity accounted earnings	171 439	78 978	45 617	3 509
monetary gain	15 167	88 645	—	—
Profit before tax	**1 996 700**	**1 286 425**	**1 876 885**	**76 028**
tax	(409 386)	(380 381)	(432 029)	(19 408)
Profit for the year	**1 587 314**	**906 044**	**1 444 856**	**56 620**
Total comprehensive income for the period	**1 587 314**	**906 044**	**1 444 856**	**56 620**
Profit for the period attributable to:				
equity holders of the parent	**1 587 314**	**906 044**	**1 444 856**	**56 620**
Total comprehensive income for the period attributable to:				
equity holders of the parent	**1 587 314**	**906 044**	**1 444 856**	**56 620**
EARNINGS PER SHARE (CENTS)				
- Basic and diluted earnings per share	**2 320.63**	**1 324.62**	**2 112.36**	**82.78**
- Headline earnings per share	**2 319.89**	**1 324.46**	**1 937.56**	**82.62**

Abridged Group Statement of Financial Position

	INFLATION ADJUSTED		HISTORICAL	
	At 30-Jun-20 ZWL'000	At 30-Jun-19 ZWL'000	At 30-Jun-20 ZWL'000	At 30-Jun-19 ZWL'000
ASSETS				
Non-current assets				
property, plant and equipment	1 293 089	1 222 253	226 177	174 349
right of use assets	11 142	—	11 142	—
other non-current assets	916 719	1 000 578	150 755	31 488
	2 220 950	**2 222 831**	**388 074**	**205 837**
Current assets				
inventory	2 663 857	834 334	1 835 784	96 370
trade and other receivables	1 470 858	1 212 463	1 304 602	133 637
cash and cash equivalents	369 742	289 026	369 742	34 518
	4 504 457	**2 335 823**	**3 510 128**	**264 525**
assets held for sale	22 716	—	7 648	—
Total assets	**6 748 123**	**4 558 654**	**3 905 850**	**470 362**
EQUITY AND LIABILITIES				
Capital and reserves				
ordinary share capital	15 791	15 791	684	684
distributable reserves	4 214 932	2 769 106	1 775 072	258 097
Total shareholders' equity	**4 230 723**	**2 784 897**	**1 775 756**	**258 781**
Non-current liabilities				
lease liability	5 815	—	5 815	—
deferred tax liability	310 920	310 310	60 033	36 802
	316 735	**310 310**	**65 848**	**36 802**
Current liabilities				
interest-bearing borrowings	311 230	716 179	311 230	85 532
current portion of lease liability	5 102	—	5 102	—
trade payables	1 179 855	27 059	1 043 436	27 059
other payables	375 591	514 720	375 591	37 646
current tax payable	304 128	125 434	304 128	14 981
shareholders for dividends	24 759	80 055	24 759	9 561
	2 200 665	**1 463 447**	**2 064 246**	**174 779**
Total liabilities	**2 517 400**	**1 773 757**	**2 130 094**	**211 581**
Total equity and liabilities	**6 748 123**	**4 558 654**	**3 905 850**	**470 362**

Abridged Group Statement of Cash Flows

	INFLATION ADJUSTED		HISTORICAL	
	Full Year Ended 30-Jun-20 ZWL'000	Full Year Ended 30-Jun-19 ZWL'000	Full Year Ended 30-Jun-20 ZWL'000	Full Year Ended 30-Jun-19 ZWL'000
Cash generated / (utilised) from operating activities	**1 113 715**	**(884 850)**	**402 372**	**(25 962)**
net interest paid	(137 633)	(92 073)	(58 563)	(6 080)
tax paid	(155 238)	(68 782)	(119 650)	(4 542)
Total cash generated / (utilised) from operations	**820 844**	**(1 045 705)**	**224 159**	**(36 584)**
Investing activities				
purchase of property, plant and equipment to expand operations	(58 573)	(31 635)	(41 507)	(11 262)
purchase of property, plant and equipment to maintain operations	(98 035)	(170 547)	(24 799)	(2 089)
other cashflows from investing activities	19 521	54 850	9 200	3 621
Net cash outflow from investing activities	**(137 087)**	**(147 332)**	**(57 106)**	**(9 730)**
Net cash inflow / (outflow) before financing activities	**683 757**	**(1 193 037)**	**167 053**	**(46 314)**
Financing activities	**(603 041)**	**718 233**	**168 171**	**47 429**
(decrease) / increase in borrowings	(399 846)	834 520	225 696	55 111
lease liability repayments	(6 298)	—	(3 139)	—
dividend paid	(196 897)	(116 287)	(54 386)	(7 682)
Net increase / (decrease) in cash	**80 716**	**(474 804)**	**335 224**	**1 115**
Cash and cash equivalents at the beginning of the year	**289 026**	**763 829**	**34 518**	**33 403**
Cash and cash equivalents at the end of the year	**369 742**	**289 025**	**369 742**	**34 518**

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	**15 791**	**2 036 690**	**2 052 481**
profit for year	—	906 044	906 044
Total comprehensive income	**—**	**906 044**	**906 044**
dividends declared	—	(173 628)	(173 628)
Balance at 30 June 2019	**15 791**	**2 769 106**	**2 784 897**
profit for the year	—	1 587 314	1 587 314
Total comprehensive income	**—**	**1 587 314**	**1 587 314**
IFRS 16 adjustment to retained earnings	—	112	112
dividends declared	—	(141 600)	(141 600)
Balance at 30 June 2020	**15 791**	**4 214 932**	**4 230 723**

Abridged Group Statement of Changes In Equity (continued)

	HISTORICAL		
	Share Capital ZWL'000	Distributable reserves ZWL'000	Total ZWL'000
Balance at 30 June 2018	**684**	**103 152**	**103 836**
profit for year	—	56 620	56 620
change in functional currency reserve	—	110 251	110 251
Total comprehensive income	**—**	**166 871**	**166 871**
dividends declared	—	(11 926)	(11 926)
Balance at 30 June 2019	**684**	**258 097**	**258 781**
profit for the year	—	1 444 856	1 444 856
change in functional currency reserve	—	141 590	141 590
Total comprehensive income	**—**	**1 586 446**	**1 586 446**
IFRS 16 adjustment to retained earnings	—	112	112
dividends declared	—	(69 583)	(69 583)
Balance at 30 June 2020	**684**	**1 775 072**	**1 775 756**

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 year ended 30 June 2020 have been prepared in accordance with the requirements of the Zimbabwe Stock Exchange Listing and in the manner required by the Zimbabwe Companies and Other Business Entities Act (Chapter 24:31) (COBE). The Listing Requirements require annual financial statements to be prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Group's consolidated annual 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 annual 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 throughout the period, 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 full year ended 30 June 2020 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:

	Index	Conversion Factor
June 2020	1 445.20	1.0000
June 2019	172.60	8.3731
June 2018	62.60	23.0863

5 New and amended IFRS: Adoption of IFRS 16 (Leases)

The Group adopted IFRS 16 (Leases) on 1 July 2019 as a replacement of IAS 17 (Leases). IFRS 16 introduces a single on balance sheet accounting model for leases by lessees and eliminates the distinction between operating and finance leases, requiring the recognition of a right-of-use asset and a lease liability at the commencement for all leases except short-term leases and low value assets when such recognition exemptions are adopted. The Group, in compliance with IFRS 16, elected not to restate its comparative financial statements and the impact of adopting IFRS 16 have been applied prospectively, therefore the comparative information continues to be reported under IAS 17 and IFRIC 4 (Determining Whether an Arrangement Contains a Lease).

In accordance with IFRS 16 where the Group is a lessee, it is the Group's policy to recognise 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 as 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. Where the Group is a Lessor, lessor accounting remains similar to previous accounting policies.

The Group leases office buildings and vehicles. The leases typically run for a period of between 1 to 3 years with an option to renew the lease after that date. Lease payments are negotiated in both the Zimbabwean Dollar, ("ZWL") and the United States Dollars, ("USD"), however the lease payments are payable in ZWL at the exchange rate ruling on the date of payment. Lease fees in USD are renegotiated annually and/or when there is a change in market forces. For certain leases, the Group is restricted from entering into any sub-leasing arrangements. Most of the Group's leases for properties were entered into some years back as combined leases for land and buildings. Previously these leases were classified as operating leases under IAS 17.

National Foods Holdings Limited

Supplementary Information (continued)

5 New and amended IFRS: Adoption of IFRS 16 (Leases) (continued)

The following amounts have been recorded as a result of the adoption of this new standard in the Group Financial Statements for the year:

	INFLATION ADJUSTED		HISTORICAL	
	30-Jun-20 ZWL'000	30-Jun-19 ZWL'000	30-Jun-20 ZWL'000	30-Jun-19 ZWL'000
Depreciation	1 816	—	1 816	—
Finance costs	1 211	—	1 211	—
Right of use assets	11 142	—	11 142	—
Lease liability	10 918	—	10 918	—

The prior year charge under IAS 17 recorded in the Group Statement of Profit or Loss was ZWL7 161 703.

6 Legacy Debts

The Group has foreign legacy liabilities amounting to US$1 199 236, being foreign liabilities that were due and payable on 22 February 2019 when the authorities promulgated SI33/2019 which introduced the ZWL currency. The foreign liabilities were registered and approved by the Reserve Bank of Zimbabwe, ("RBZ") and the Group transferred to the RBZ the ZWL equivalent of the foreign liabilities based on an exchange rate of USD/ZWL, 1:1 in line with Exchange Control Directives RU102/2019 and RU28/2019 and as directed by the RBZ. The foreign debts have been accounted for at the closing exchange rate as at 30 June 2020 in line with IAS 21 and the deposits with the RBZ have also been accounted for as financial assets at the same closing exchange rate. In compliance with IFRS, the deposit at the RBZ represents a commitment to pay equivalent value in USD and has therefore been treated as a financial derivative in accordance with IFRS 9.

The Board is confident that the RBZ will settle the legacy debts as per the Exchange Control Directives and although risk remains that policies regarding the foreign liabilities may be changed, the introduction of the foreign exchange auction trading system on 23 June 2020 has subsequently reduced the divergence of market exchange rates and the official exchange rate at which the RBZ is expected to settle the blocked funds, thereby reducing significantly any potential impact on both the statement of financial position and the statement of comprehensive income.

7 COVID-19

In response to the novel Coronavirus (COVID-19), which has caused global economic disruption, National Foods has implemented active prevention programs at its sites and contingent plans to minimize the risk related to COVID-19 and continue its operations. Management has considered the potential impact of the COVID-19 pandemic in the Company's significant accounting judgements and estimates and there are no changes to the significant judgements and estimates disclosed in the consolidated financial statements, other than for those disclosed in this abridged consolidated financial report.

Impact of COVID-19

Looking ahead, following the outbreak of the COVID-19 pandemic, the Group sees increased uncertainties and further market volatility. In the event of a prolonged pandemic there may be an effect on the financial performance of the company. The Group has taken measures to ensure that its employees and partners continue to be safe while conducting business. Measures have been taken to minimise the impact of the pandemic and to continue operations in the Group's businesses. Business continues to function well and largely uninterrupted.

Given the evolving nature of COVID-19, uncertainties will remain. The Group is unable to reasonably estimate the future impact of COVID-19. However, the financial situation of the Group is currently healthy and it does not believe that the impact of the COVID-19 pandemic will have a material adverse effect on the Group's financial condition or liquidity. Therefore, based on the Group's current cash balance and expected yearly cash outflow, the Group expects that it will be able to meet its financial obligations and therefore continues to adopt a going concern assumption as the basis for preparing its annual financial statements.

8 Operating Segments

INFLATION ADJUSTED

	Milling Manufacturing and Distribution ZWL'000	Properties ZWL'000	Intersegment Adjustments ZWL'000	Total ZWL'000
Revenue				
30 June 2020	12 709 863	80 950	—	12 790 813
30 June 2019	8 361 231	26 385	—	8 387 616
Operating profit before depreciation and amortisation				
30 June 2020	2 009 148	25 948	—	2 035 096
30 June 2019	1 280 197	(26 160)	—	1 254 037
Depreciation and amortisation				
30 June 2020	(68 036)	(19 384)	—	(87 420)
30 June 2019	(48 784)	(20 385)	—	(69 169)
Net Interest Expense				
30 June 2020	(137 697)	64	—	(137 633)
30 June 2019	(97 337)	5 964	—	(91 373)
Profit before tax				
30 June 2020	1 976 542	20 158	—	1 996 700
30 June 2019	1 301 263	(14 838)	—	1 286 425
Segment assets				
30 June 2020	6 461 665	286 458	—	6 748 123
30 June 2019	3 159 578	1 399 076	—	4 558 654
Segment liabilities				
30 June 2020	2 446 009	71 391	—	2 517 400
30 June 2019	1 538 934	234 823	—	1 773 757
Capital expenditure				
30 June 2020	(127 615)	(28 993)	—	(156 608)
30 June 2019	(187 866)	(14 316)	—	(202 182)

HISTORICAL

	Milling Manufacturing and Distribution ZWL'000	Properties ZWL'000	Intersegment Adjustments ZWL'000	Total ZWL'000
Revenue				
30 June 2020	6 300 212	39 873	—	6 340 085
30 June 2019	564 397	1 776	—	566 173
Operating profit before depreciation and amortisation				
30 June 2020	1 699 741	21 672	—	1 721 413
30 June 2019	83 721	(1 747)	—	81 974
Depreciation and amortisation				
30 June 2020	(13 267)	(2 942)	—	(16 209)
30 June 2019	(4 549)	(1 341)	—	(5 890)
Net Interest Expense				
30 June 2020	(58 590)	27	—	(58 563)
30 June 2019	(6 505)	425	—	(6 080)
Profit before tax				
30 June 2020	1 858 127	18 758	—	1 876 885
30 June 2019	76 916	(888)	—	76 028

Supplementary Information (continued)

8 Operating Segments (continued)

HISTORICAL

	Milling Manufacturing and Distribution ZWL'000	Properties ZWL'000	Intersegment Adjustments ZWL'000	Total ZWL'000
Segment assets				
30 June 2020	3 746 798	159 052	—	3 905 850
30 June 2019	359 905	110 457	—	470 362
Segment liabilities				
30 June 2020	(2 071 352)	(58 742)	—	(2 130 094)
30 June 2019	(186 845)	(24 736)	—	(211 581)
Capital expenditure				
30 June 2020	55 948	10 358	—	66 306
30 June 2019	12 469	882	—	13 351

9 Assets held for sale

The Group continues to dispose of non-core or aging assets in order to apply the value of the statement of financial position more appropriately. Following the disposal of the depot network operations in October 2016, the Board has identified properties from which some of these depots operate to be non-core. As such the properties have been categorised as assets held for sale, which are to be disposed subsequent to year end.

	INFLATION ADJUSTED		HISTORICAL	
	30-Jun-20 ZWL'000	30-Jun-19 ZWL'000	30-Jun-20 ZWL'000	30-Jun-19 ZWL'000
10 Depreciation and amortisation	87 420	69 169	16 209	5 890
11 Capital expenditure for the year	156 608	202 182	66 306	13 351
12 Commitments for capital expenditure				
Contracts and orders placed	551 250	15 985	551 250	47 600
Authorised by Directors but not contracted	179 910	128 645	179 910	26 200
	731 160	**144 630**	**731 160**	**73 800**
The capital expenditure is to be financed out of the Group's own resources and borrowing facilities.				
13 Other non-current assets				
Intangible assets	35 008	35 008	1 516	1 516
Investment in associates	881 711	965 570	149 239	29 972
	916 719	**1 000 578**	**150 755**	**31 488**

14 Shareholders for Dividends

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

15 Interest bearing borrowings

Interest bearing borrowings constitute bank loans from various local financial institutions which accrue interest at an average rate of 34.5% per annum as at 30 June 2020. The facilities expire at different dates during the year and will be reviewed and renewed when they mature.

16 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		HISTORICAL	
	Full Year Ended 30-Jun-20 ZWL'000	Full Year Ended 30-Jun-19 ZWL'000	Full Year Ended 30-Jun-20 ZWL'000	Full Year Ended 30-Jun-19 ZWL'000
Reconciliation of basic earnings to headline earnings				
Profit for the year attributable to equity holders of the parent	1 587 314	906 044	1 444 856	56 620
Adjustment for capital Items				
Profit on disposal of property, plant and equipment	(673)	(152)	(158 828)	(58)
Tax effect on adjustments	166	38	39 262	11
Headline earnings attributable to ordinary shareholders	**1 586 807**	**905 930**	**1 325 290**	**56 573**
Number of shares in issue				
Weighted average number of ordinary shares in issue	68 400 108	68 400 108	68 400 108	68 400 108
Basic and diluted earnings per share (cents)	2 320.63	1 324.62	2 112.36	82.78
Headline earnings per share (cents)	2 319.89	1 324.46	1 937.56	82.62

17 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$1.75m
3. Guarantee issued by National Foods Holdings Limited in favour of Banc ABC subject to a maximum limit of ZWL$ 10 million
4. Guarantee issued by National Foods Holdings Limited in favour of FBC Bank subject to a maximum limit of ZWL$ 25 million

Building a better working world

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF NATIONAL FOODS HOLDINGS LIMITED

Report on the Audit of the Consolidated Inflation Adjusted Financial Statements

Adverse Opinion

We have audited the consolidated inflation adjusted financial statements of National Foods Holdings Limited and its subsidiaries (the Group), as set out on pages 7 to 32 , which comprise the consolidated inflation adjusted statement of financial position as at 30 June 2020, and the consolidated inflation adjusted statement of profit or loss and other comprehensive income, the consolidated inflation adjusted statement of changes in equity and the consolidated inflation adjusted statement of cash flows for the year then ended, and notes to the consolidated inflation adjusted financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of our report, the accompanying consolidated inflation adjusted financial statements do not present fairly the consolidated financial position of the Group as at 30 June 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Adverse Opinion

Non-compliance with IFRS: International Accounting Standard (IAS) 21- The Effects of Changes in Foreign Exchange Rates in the prior period and inappropriate application of IAS 8- Accounting Policies, Changes in Accounting Estimates and Errors (Applicable to local ZWL functional currency subsidiaries)

As explained in note 1.3 on the consolidated inflation adjusted financial statements, the Group applied the United States Dollar (US$) as its functional and reporting currency for the period 1 July 2018 to 22 February 2019 and the Real Time Gross Settlement Dollar (RTGS$) or Zimbabwe Dollar (ZWL) for the period 23 February to 30 June 2019, in order to comply with Statutory Instrument 33 (SI33) of 2019, issued on 22 February 2019. In addition, to comply with SI33, the Group changed its functional and reporting currency with effect from 23 February 2019. We, however, believe that the change in currency occurred from 1 October 2018.

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. Although the exchange rate between US$ and RTGS$ was legally pegged at 1:1, multiple pricing practices and other transactions observed and reported publicly indicated exchange rates other than 1:1 between the two currencies.

In February 2019, a Monetary Policy Statement was issued introducing the RTGS$ and the interbank foreign exchange market. This Monetary Policy statement was followed by, Statutory Instrument 142 of 2019 which specified that for all domestic transactions, ZWL (which comprises RTGS$, Bond Notes and Bond Coins) was the sole legal tender effective 24 June 2019.

The events in the preceding paragraphs, triggered a requirement for the Group to assess whether there was a change in functional and reporting currency from US$ to RTGS$. We believe that events in the market and subsequent promulgation of the RTGS$ as a formal currency supported a change in functional currency from US$ to RTGS$ prior to 22 February 2019 and that transactions in the market indicated different exchange rates between the two currencies despite the legal 1:1 RTGS$: US$ exchange rate and this applied from 1 October 2018. The Group chose to comply with the requirements of the law by adopting the date of change in functional and reporting currency as of 22 February 2019. This therefore impacted the basis for measuring transactions that occurred between 1 October 2018 and 22 February 2019. Consequently, our audit report for the year ended 30 June 2019 was modified as the effects were considered material and pervasive.

There has been no restatement of the opening balances to resolve this matter which resulted in the adverse audit report in the prior period in accordance with IAS 8 – Accounting Polices, Changes in Accounting Estimates and Errors as the issues to do with IFRS compliance and consistent market exchange rates have persisted in the current period. Consequently:

- All corresponding numbers remain misstated on the consolidated inflation adjusted Statement of Profit or Loss and other Comprehensive Income, consolidated inflation adjusted Statement of Financial Position, the consolidated inflation adjusted Statement of Changes in Equity, and the consolidated inflation adjusted Statement of Cash Flows; this also impacts comparability of the current year's figures.
- As opening balances enter into the determination of cash flows and performance, our current year opinion is modified in respect of the impact of this matter on the consolidated inflation adjusted Statement of Cash Flows, the Statement of Profit or Loss and Other Comprehensive Income and the Statement of Changes in Equity.

Furthermore, notwithstanding that IAS 29 - Financial Reporting in Hyperinflationary Economies has been applied from 1 July 2018 to 30 June 2020 it is noted that its application was based on inappropriate numbers as a result of the non-compliance with IAS 21 / IAS 8 as described above.

In addition to the impact on the corresponding numbers, current year performance and cash flows the matter continues to impact the balances on the Statement of Financial Position as some 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 here. This is due to the further matters requiring modification (which have been discussed below) and which result in virtually all amounts being incorrectly stated.

Exchange rates used (Non-compliance with IAS 21) (Applicable to local ZWL functional currency subsidiaries)

As outlined in Note 1.3 to the Group consolidated inflation adjusted financial statements, for the year ended 30 June 2020, the Group translated foreign denominated transactions and balances using exchange rates determined from the interbank market and trading arrangements. In view of the continued distortions in the foreign exchange market during the year, the Group indicated that it could not establish observable and consistent market wide spot exchange rates that meet the requirements of IAS 21, the same pattern contributed to the adverse opinion in prior year on this matter.

Had exchange rates contemplated by IAS 21 been available on the market, virtually all balances and amounts on all financial statements would have been affected in a material manner except for Intangible Assets, Right of Use Assets , Assets of a disposal group Held for Sale ,Share Capital, Share Premium, Lease Liabilities and Provisions and other Liabilities. However, owing to the lack of market wide information on observable spot rates available to the Group and the other matters discussed above it is not possible to quantify the impact of this on the Group's inflation adjusted financials for the year under consideration.

Accounting for blocked funds

Included in financial assets of ZWL852 714 105 on Note 14 to the consolidated inflation adjusted financial statements for the year ended 30 June 2020, are local deposits amounting to ZWL 1 199 236 placed by the subsidiary, National Foods Limited, with RBZ (through authorised dealers) in pursuance of registration of foreign currency denominated liabilities at date of functional currency change in February 2019 as required by policy pronouncements and undertakings by RBZ. The equivalent liabilities were translated at the Group's closing exchange rate. The deposits in local currency held with RBZ have, in our view been inappropriately treated as foreign denominated derivative financial assets and translated at the Group's closing exchange rate in contravention of IAS 21 which defines 'foreign currency' as a currency other than the functional currency of the Group. Furthermore, we could not establish the specific contractual arrangements that supports the recognition of derivative financial assets in US$.

Consolidating Associates with underlying matters

The Investment in Associates amount disclosed under Note 11.3 on the consolidated inflation adjusted Statement of Financial Position of ZWL801 610 502 (2019: ZWL 944 603 192) relates to local associates. They contribute ZWL171 438 712 on the consolidated inflation adjusted Statement of Comprehensive Income. These amounts arose from equity accounting as required by IFRS. The underlying accounting records used to equity account the amounts contain disagreements with management as follows in all the associates:

- Incorrect date of change in functional currency and non-compliance with IAS 8 in not correcting such incorrect date of change in functional currency with a pervasive impact to the results of the associates.
- Disagreement on exchange rates used which are not IAS 21 compliant as they do not meet the definition of a spot rate with a further pervasive impact to the result of the associate.

The above matters arose in the prior year and contributed to our adverse opinion in the prior period. The above matters continue to impact the amounts recognised in the financial statements (as noted above) in the current period in respect of these associates and the impact cannot be determined. Our opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures.

Consolidating Foreign Subsidiary with incorrect exchange rates.

Further to the issue noted above in respect of inappropriate spot rates, management have also used the same rates as outlined on Note 1.3 to translate the foreign subsidiaries to group reporting currency on consolidation. The impact is misstatement of the following amounts on the inflation adjusted Statement of Financial Position of the Group: ZWL156 261 303 included in Cash and cash equivalents of ZWL369 742 059 and Foreign currency translation reserve of ZWL141 590 954. This matter arose in the prior year and contributed to our adverse opinion in the prior period. Our opinion on the current period's financial statements is therefore also modified because of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures.

Consequential impact of the above matters on IAS 29 accounting

Furthermore, notwithstanding that IAS 29 - Financial Reporting in Hyperinflationary Economies has been applied from 1 July 2018 to 30 June 2020, it is noted that its application was based on prior and current periods' financial information which has been misstated as a result of matters described above. Had the correct base numbers and start date been used, virtually all elements of the financial statements would have been materially different.

The effects of the above departures from IFRS are material and pervasive to the consolidated inflation adjusted financial statements.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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 (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Zimbabwe, and we have fulfilled our other 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

Except for the matters described in the Basis for Adverse Opinion section, we have determined that there are no other key audit matters to communicate in our report.

Other information

The directors are responsible for the other information. The other information comprises the Chairman's Statement and the Directors Responsibility Statement and the Historical Cost Financial Information, which we obtained prior to the date of this report. The other information does not include the consolidated inflation adjusted financial statements and our auditor's report thereon.

Our opinion on the consolidated inflation adjusted financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon. The Sustainability Report is expected to be made available to us after the date of this auditor's report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the Basis for Adverse Opinion section above, the Group did not comply with the requirements of IAS 21 – Effects of Changes in Foreign Exchange Rates.

We have concluded that the other information is materially misstated for the same reason with respect to the amounts or other items included therein and affected by the failure to comply with the referred standard.

Responsibilities of the Directors for the Consolidated Inflation adjusted Financial Statements
The directors are responsible for the preparation and fair presentation of the consolidated inflation adjusted financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies and Other Business Entities Act (Chapter 24:31) , and for such internal controls as the directors determine is necessary to enable the preparation of consolidated inflation adjusted financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated inflation adjusted financial statements, the directors are responsible for assessing the group'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 group or to cease operations, or have no realistic alternative but to do so.
Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- 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 group'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 consolidated 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 auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion. 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 to 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 consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of our report, the accompanying consolidated inflation adjusted financial statements have not in all material respects, been properly prepared in compliance with the disclosure requirements of and in the manner required by the Companies and Other Business Entities Act (Chapter 24:31) with regards to the requirement to comply with the International Financial Reporting Standards.

The engagement partner on the audit resulting in this independent auditor's report is Mr Walter Mupanguri (PAAB Practicing Certificate Number 367).

Ernst & Young.

ERNST & YOUNG
CHARTERED ACCOUNTANTS (ZIMBABWE)
REGISTERED PUBLIC AUDITORS

Harare
25 September 2020