



Dairibord Holdings
More Than Just Milk

REVIEWED FINANCIAL RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021



Nutritious Foods and Beverages for the Sustenance of Good Health

FINANCIAL HIGHLIGHTS

	INFLATION ADJUSTED		HISTORICAL	
	30 June 2021 ZWS'000	% Change	30 June 2021 ZWS'000	% Change
Financial				
Revenue	4,203,227	65% ↑	3,942,555	425% ↑
Earnings before interest, tax, depreciation and amortisation	250,519	44% ↑	314,582	367% ↑
Operating profit	165,531	21% ↑	291,569	369% ↑
Equity	1,814,830	-13% ↓	1,247,425	1% ↑
Volume (Litres'000)				
Raw milk	13,186	1% ↑	13,186	1% ↑
Sales	42,171	55% ↑	42,171	55% ↑

REVIEW CONCLUSION

The abridged inflation adjusted financial results for the six months ended 30 June 2021 have been reviewed by the Group's external auditors, Deloitte & Touche, who have issued an adverse review conclusion in respect of the following matters:

- Impact of adverse opinion by another auditor, on prior year audited financial statements, as well as the carry over effects in the current six month period, in respect of the following:
 - Non-compliance with International Accounting Standard (IAS) 21 "The Effects of Changes in Foreign Exchange Rates" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" and the resultant effect on IAS 29, "Financial Reporting in Hyperinflationary Economies"; and
 - Valuation of investment property and freehold land and buildings (included in property, plant, and equipment).
- The impact of the incorrect date of application of IAS 29 "Financial Reporting in Hyperinflationary Economies".

The review report is available for inspection at the Dairibord Zimbabwe Limited's registered offices. The engagement partner responsible for the review was Charity Mtswazi.

ABRIDGED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2021

Notes	REVIEWED INFLATION ADJUSTED		UNAUDITED HISTORICAL COST	
	30 June 2021 ZWS'000	30 June 2020 ZWS'000 Restated*	30 June 2021 ZWS'000	30 June 2020 ZWS'000 Restated*
Revenue from contracts with customers	4,199,990	2,542,201	3,939,528	750,320
Rental income	3,237	1,775	3,027	517
Revenue	4,203,227	2,543,976	3,942,555	750,837
Cost of sales	(3,251,109)	(1,892,896)	(2,962,590)	(535,787)
Gross profit	952,118	651,080	979,965	215,050
Operating profit	165,531	137,061	291,569	62,222
Fair value adjustments	-	106,653	-	82,783
Exchange losses	(516)	(21,161)	(547)	(8,146)
Net monetary loss	(188,549)	(279,316)	-	-
Finance costs	(147,193)	(32,510)	(138,445)	(9,745)
Finance revenue	806	633	665	187
(Loss)/ profit before tax	(169,921)	(88,640)	153,242	127,301
Income tax (expense)/ credit	(10,273)	87,651	(63,780)	(30,411)
(Loss)/ profit for the period attributable to equity holders of the parent	(180,194)	(989)	89,462	96,890
Other comprehensive income:				
Other comprehensive income to be reclassified to profit or loss in subsequent periods				
Revaluation surplus	-	355,791	-	407,567
Total comprehensive (loss) /income for the period attributable to equity holders of the parent	(180,194)	354,802	89,462	504,457
(Loss)/ earnings per share (cents)				
Basic (loss)/ earnings for the period attributable to ordinary equity holders of the parent	7	(50.33)	(0.28)	24.99
Diluted (loss)/ earnings for the period attributable to ordinary equity holders of the parent	7	(50.33)	(0.28)	24.99
Headline (loss)/ earnings for the period attributable to ordinary equity holders of the parent	7	(50.03)	(33.80)	24.98
				3.60

*The operating profit for the six months ended 30 June 2020 has been restated due to a reclassification of fair value adjustments and exchange differences which are now presented as separate line items.

ABRIDGED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS AT 30 JUNE 2021

Notes	INFLATION ADJUSTED		HISTORICAL COST	
	30 June 2021 ZWS'000 REVIEWED	31 Dec 2020 ZWS'000 AUDITED	30 June 21 ZWS'000 UNAUDITED	31 Dec 2020 ZWS'000 UNAUDITED
Assets				
Non-current assets				
Property, plant and equipment	9	1,814,203	1,845,196	1,166,409
Investment property	10	93,292	102,669	77,300
Right of use asset	11	35,308	-	32,231
Intangible assets		4,404	6,073	167
Deferred tax asset		758	-	758
		1,947,965	1,953,938	1,276,865
Current assets				
Inventories		830,394	722,613	769,719
Prepayments		209,810	339,677	193,058
Trade and other receivables		468,120	351,487	468,120
Cash and cash equivalents		190,455	248,227	190,455
		1,698,779	1,662,004	1,621,352
Total assets		3,646,744	3,615,942	2,898,217
Equity and liabilities				
Equity				
Share capital		1,069	1,069	36
Share premium		41,203	41,203	1,380
Non-distributable reserves		650,334	650,334	876,641
Retained earnings		1,122,224	1,387,954	369,368
Total equity		1,814,830	2,080,560	1,247,425
Non-current liabilities				
Interest-bearing borrowings	12	272,324	92,095	272,324
Share incentive liability		44,066	33,847	44,066
Financial guarantee liability		7,675	8,446	7,675
Lease liability		18,825	-	18,825
Deferred tax liability		395,260	450,615	214,138
		738,150	585,003	557,028
Current liabilities				
Trade and other payables		680,108	439,707	680,108
Contract liabilities		32,204	19,022	32,204
Interest-bearing borrowings	12	370,427	438,469	370,427
Lease liability		6,567	-	6,567
Dividend payable		3,451	478	3,451
Income tax payable		1,007	52,703	1,007
		1,093,764	950,379	1,093,764
Total liabilities		1,831,914	1,535,382	1,650,792
Total equity and liabilities		3,646,744	3,615,942	2,898,217

CHAIRMAN'S STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021

OVERVIEW

The environment was more stable than in the prior year with inflation receding in response to the foreign exchange auction system, domestic foreign currency earnings and conservative monetary and fiscal policies. Nonetheless, there were significant challenges still faced in navigating COVID-19 related disruptions to business (such as reduced trading hours), cost push on imported inputs, delays in the disbursement of allocated foreign currency on the auction trading system as well as low market liquidity and high interest rates. However, the business was better prepared than in prior year to mitigate the disruptions to operations.

OPERATING ENVIRONMENT

The period opened with a level 4 COVID-19 induced lockdown on the 4th of January that lasted up to 28 February. Dairibord's operations are designated as essential services and continued operating throughout the lockdown period. However, supply chains, market access and demand were negatively impacted.

The all items year-on-year inflation rate as at 30 June 2021 closed at 106.6%, with foods and non-alcoholic beverages inflation rate at 108.8%, a significant drop from the 737.3% and 835.6% respectively in 2020. Foreign currency availability improved as a result of the foreign currency auction (though disbursements were delayed) and the dual currency regime. Availability of electricity and fuel was stable, albeit at a higher cost in both United States Dollar (US\$) and Zimbabwe Dollar (ZWS) prices.

The above average rains resulted in a good 2020/2021 agricultural season which improved national food security. Business confidence has also improved in anticipation of the benefits that should flow into the economy. Evidence of Gross Domestic Product (GDP) growth is seen in the firming of aggregate customer demand.

PERFORMANCE

The inflation adjusted financial statements are the primary financial statements and the historical financial statements are provided as supplementary information.

Raw Milk

Raw milk utilised during the period was 1% above prior year, while national milk production was 2% down. Despite the good rains, stock feed prices continued to rise. This again negatively impacted milk supply growth. The Group remains committed to supporting local farmers to grow milk supply through actively promoting lower cost operating models in a bid to bring prices back to regional parity in the medium term. The long term benefits of increased raw milk production will reduce the dependence on imported milk powders and the associated foreign currency requirement.

Sales Volume and Revenue

Demand was firm across all product categories. Sales volumes for the period were 54.5% above prior year, the highest H1 volume performance in the last 5 years. Q1 volumes were up 18% compared to Q1 prior year, while Q2 volumes increased by 112% compared to Q2 2020. The quarterly trend was due to the impact of the level 4 lockdown instituted in Q1, after which market access opened up significantly. The inverse trend was experienced in the previous year where the lockdown was in Q2. Liquid Milks, Foods and Beverages volumes increased by 22%, 52% and 87% respectively compared to same period last year. Despite the growth, demand still exceeds supply across the product portfolio, particularly in the Liquid Milks category which is constrained by raw milk supply challenges.

Revenue for the period at ZWS\$4.2 billion [historical: ZWS\$3.9 billion], was 65% above 2020 [historical: 425%]. The solid revenue performance was a result of the 54.5% increase in sales volumes and moderate price adjustments to minimise margin compression. The focus on generation of foreign currency revenues continued, resulting in a 141% increase over the same period in prior year. Foreign currency revenues accounted for 15% of total revenue up from 9% in the prior year and contributed significantly towards meeting the import bill.

Profitability

Cost of sales grew by 72% [historical: 453%], against a revenue growth of 65% [historical: 425%], on account of increases in costs of materials and utilities driven by exchange rate movements and commodity price increases. As a result, the gross profit margin shed off three percentage points from 26% to 23% [historical: 29% to 24%].

Production efficiencies and cost containment resulted in overheads growing by a lower rate of 53% [historical: 350%] as compared to revenue growth. The business achieved an operating profit of ZWS\$166 million [historical: ZWS\$ 291m] compared to ZWS\$137 million [historical: ZWS\$ 62m] for the same period in 2020.

Net finance charges were high at ZWS\$147 million [historical: ZWS\$138 million], representing a 353% [historical: 1342%] growth over prior period on account of increased borrowings and costs. The borrowings were invested in supporting sales volume growth through purchase of raw and packaging materials and funding long working capital cycles, resulting from protracted global supply lead times and delays in disbursements from the foreign currency auction market.

Cash Generation

Net cash generated from operations increased to ZWS\$313 million [historical: ZWS\$28 million], from ZWS\$191 million generated [historical: net cash utilised of ZWS\$62 million] in the prior period, benefiting from the improved operating performance and delays in settlement of foreign suppliers. The cash was partly utilised to finance capital expenditure of ZWS\$60 million and to pay a dividend of ZWS\$82m.

Foreign currency liabilities at the end of the period were adequately covered by foreign currency denominated assets (debtors and cash) and expected disbursements from the foreign currency auction market.

OUTLOOK

H2 opened with a COVID-19 3rd wave that necessitated a level 4 lockdown, which commenced on the 29th of June. The continued roll out of the COVID-19 national vaccination program by Government, and quick response to spikes in COVID infection rates with localised lockdowns is expected to avert severe effects of the pandemic throughout the remainder of the year.

H2 is expected to sustain the growth trajectory experienced in H1 by taking advantage of the following factors:

- expected relaxation of COVID-19 induced lockdown and reduced restrictions on trading hours;
- projected GDP growth between 3.9% (World Bank), 6% (International Monetary Fund) and (7.8%) (Government of Zimbabwe), which will spur aggregate demand;
- a relatively stable exchange rate and improved availability of foreign currency through the auction system, domestic US\$ sales and the receipt of Special Drawing Rights (SDRs) by the Government of Zimbabwe. The expected cumulative impact is a slowdown in inflation and a sustained improvement in availability of critical raw and packaging materials;
- stable electricity and water supply;
- improved availability of agro based raw materials on the back of a good agricultural season;
- weather induced demand uplift;
- continuous development of strategic milk supply collaborations such as the Tavistock Estates and Palmline/Zimplats dairy projects to ramp up raw milk intake; and
- implementation of in-progress capital expenditure investments and line extensions that will come online in H2 and boost product availability.

The Company will continue placing the safety and health of its workers first, abiding by best practice and protocols as dictated by COVID-19 guidelines. To mitigate the risk of COVID-19 infections to its staff and stakeholders, Dairibord has embarked on a vaccination campaign aimed at achieving 100% vaccination of its staff. As at 27 August, 96.5% of Dairibord staff had received at least their first vaccination dose.

DIVIDEND DECLARATION

In view of the increased working capital requirements and disruptions caused by COVID-19, the Board has resolved to pass the dividend for the six months ended 30 June 2021.

APPRECIATION

On behalf of the Board, I would like to extend my appreciation to our customers, suppliers, employees and other stakeholders for their continued support to the business under the prevailing difficult circumstances.

J Sachikonye
Chairman
27 August 2021



Nutritious Foods and Beverages for the Sustainance of Good Health

ABRIDGED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	REVIEWED INFLATION ADJUSTED		UNAUDITED HISTORICAL COST	
	GROUP 30 June 2021 ZWS'000	GROUP 30 June 2020 ZWS'000	GROUP 30 June 2021 ZWS'000	GROUP 30 June 2020 ZWS'000
Operating activities				
(Loss)/profit before tax	(169,921)	(88,640)	153,242	127,301
Depreciation, amortisation and impairment	87,309	36,811	23,013	5,107
Fair value gain on investment property	-	(106,653)	-	(82,783)
Loss/ (profit) on disposal of property, plant and equipment	1,263	(22,334)	(236)	(7,098)
Net monetary loss	188,549	279,316	-	-
Finance income	(806)	(633)	(665)	(187)
Finance costs	147,193	32,510	138,445	9,745
Other non-cash items	1,800	(363)	1,800	(176)
Working capital movements	169,256	115,089	(178,851)	(103,593)
Cash generated from/ (used in) operations	424,643	245,103	136,748	(51,684)
Income tax paid	(112,010)	(54,251)	(108,648)	(10,652)
Net cashflows generated from/ (used in) operating activities	312,633	190,852	28,100	(62,336)
Investing activities				
Purchase of plant and equipment	(60,392)	(4,366)	(41,020)	(1,758)
Proceeds from sale of property, plant and equipment	16,301	35,233	14,842	10,011
Finance income	806	633	665	187
Net cashflows (used in)/ generated from investing activities	(43,285)	31,500	(25,513)	8,440
Financing activities				
Proceeds from borrowings	356,098	188,046	343,116	91,000
Repayment of borrowings	(145,860)	(67,696)	(139,980)	(32,760)
Repayments of lease liabilities	(14,506)	-	(13,411)	-
Finance costs	(135,003)	(32,510)	(127,488)	(9,745)
Dividends paid	(82,564)	(78)	(79,285)	(15)
Net cashflows (used in)/ generated from financing activities	(21,835)	87,762	(17,048)	48,480
Net increase in cash and cash equivalents	247,513	310,114	(14,461)	(5,416)
*Net foreign exchange difference and inflation impact	(305,285)	(329,260)	(761)	19,416
Cash and cash equivalents at beginning of the period	248,227	77,754	205,677	14,362
Cash and cash equivalents at the end of the period	190,455	58,608	190,455	28,362
Cash and cash equivalents per accounts	190,455	58,608	190,455	28,362

*The impact of inflation relating to the period ended 30 June 2020, has been reclassified from operating activities to the cash and cash equivalents section.

ABRIDGED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	REVIEWED INFLATION ADJUSTED Attributable to equity holders of the parent				
	Share Capital ZWS'000	Share Premium ZWS'000	Non-distributable reserves ZWS'000	Retained earnings ZWS'000	Total equity ZWS'000
Six months ended 30 June 2021					
As at 31 December 2020	1,069	41,203	650,334	1,387,954	2,080,560
Loss for the period	-	-	-	(180,194)	(180,194)
Other comprehensive income	-	-	-	-	-
Total comprehensive income				(180,194)	(180,194)
Dividend	-	-	-	(85,536)	(85,536)
As at 30 June 2021	1,069	41,203	650,334	1,122,224	1,814,830
Six months ended 30 June 2020					
As at 31 December 2019	1,069	41,203	429,261	1,489,456	1,960,989
Loss for the period	-	-	-	(989)	(989)
Other comprehensive income	-	-	355,791	-	355,791
Total comprehensive income			355,791	(989)	354,802
As at 30 June 2020	1,069	41,203	785,052	1,488,467	2,315,791
	UNAUDITED HISTORICAL COST Attributable to equity holders of the parent				
	Share Capital ZWS'000	Share Premium ZWS'000	Non-distributable reserves ZWS'000	Retained earnings ZWS'000	Total equity ZWS'000
Six months ended 30 June 2021					
As at 31 December 2020	36	1,380	876,641	362,246	1,240,303
Profit for the period	-	-	-	89,462	89,462
Other comprehensive income	-	-	-	-	-
Total comprehensive income				89,462	89,462
Dividend	-	-	-	(82,340)	(82,340)
As at 30 June 2021	36	1,380	876,641	369,368	1,247,425
Six months ended 30 June 2020					
As at 31 December 2019	36	1,380	199,488	64,282	265,186
Profit for the period	-	-	-	96,890	96,890
Other comprehensive income	-	-	407,567	-	407,567
Total comprehensive income			407,567	96,890	504,457
As at 30 June 2020	36	1,380	607,055	161,172	769,643

NOTES TO THE ABRIDGED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

1 CORPORATE INFORMATION

Dairibord Holdings Limited is a company incorporated and domiciled in Zimbabwe. The registered office is located at 1225 Rekeyi Tangwena Avenue, in Harare. These abridged consolidated interim financial statements ('interim financial statements') as at and for the six months ended 30 June 2021 comprise the Company and its subsidiaries (together referred to as 'the Group'). The Group's principal activities are the manufacturing, processing, marketing and distribution of milk products, foods and beverages.

2 BASIS OF PREPARATION

These consolidated interim financial statements for the six months ended 30 June 2021 have been prepared in accordance with IAS 34 Interim Financial Reporting, IAS 29 Financial Reporting in Hyperinflationary Economies (IAS 29) and Statutory Instrument 134 of 2019 Securities and Exchange (Zimbabwe Stock Exchange) Rules 2019, and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 December 2020 ('last annual financial statements'). They do not include all of the information required for a complete set of financial statements prepared in accordance with IFRS Standards. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

The consolidated interim financial statements are presented in Zimbabwe Dollars (ZWS), which is the Group's functional and presentation currency. The Group changed its functional currency from USD to ZWS on 23 February 2019, in compliance with statutory instrument 33 (S.I. 33).

These consolidated interim financial statements were authorised for issue by the Company's board of directors on 27 August 2021.

The historical financial information has been presented as supplementary information which is unreviewed and unaudited and does not comply with the requirements of IAS29.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in these consolidated interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2020. A number of new standards are effective from 1 January 2021 but they do not have a material effect on the Group's financial statements.

4 HYPERINFLATION

On 11 October 2019, the Public Accountants and Auditors Board (PAAB) issued a pronouncement on the application of IAS 29. This followed runaway inflation experienced in Zimbabwe. The pronouncement required that entities operating in Zimbabwe with financial periods ending on or after 1 July 2019 prepare and present financial statements in line with the requirements of IAS 29. The Directors have made appropriate adjustments to reflect the changes in the general purchasing power on the Zimbabwe Dollar and for purposes of fair presentation in accordance with IAS29, these changes have been made on the historical cost financial information. Various assumptions have been made, with significant assumption being the use of consumer price indices (CPI) for the period. The source of the price indices used was the Reserve Bank of Zimbabwe website. Below are the indices and adjustment factors used up to 30 June 2021:

	Index	Conversion factor
CPI as at 28 February 2019	100.00	29.86
CPI as at 31 December 2019	551.63	5.41
CPI as at 30 June 2020	1,445.21	2.07
CPI as at 31 December 2020	2,474.51	1.21
CPI as at 30 June 2021	2,986.44	1.00

5 SEGMENT INFORMATION

5.1 The Group has three operating segments which are listed below. The segments are identified based on how performance is measured and monitored for each business unit.
Manufacturing and distribution (Zimbabwe)- manufacture and marketing of milks, foods and beverages
Properties - leasing of properties
Corporate - management and corporate services

The manufacturing segment is the main operating segment of the Group, generating most of the Group's revenue and cash flows.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.
The following tables present revenue and profit information for the Group's operating segments for the six months ended 30 June 2021 and 2020, respectively:

	REVIEWED INFLATION ADJUSTED				
	Manufacturing and distribution ZWS'000	Properties ZWS'000	Corporate ZWS'000	Adjustments and eliminations ZWS'000	Group ZWS'000
Six months ended 30 June 2021					
Revenue					
Revenue from contracts with external customers	4,199,990	3,237	-	-	4,203,227
Revenue from contracts with internal customers	90	42,078	-	(42,168)	-
Revenue from management services	-	-	43,680	(43,680)	-
Total revenue	4,200,080	45,315	43,680	(85,848)	4,203,227
Results					
Depreciation, amortisation and impairment	65,010	18,051	4,248	-	87,309
Operating profit	114,266	27,245	24,020	-	165,531
Finance income	3,544	-	77,130	(79,868)	806
Finance costs	147,569	38	79,454	(79,868)	147,193
Segment(loss)/ profit before tax	(235,765)	37,284	28,560	-	(169,921)
Six months ended 30 June 2020					
Revenue from contracts with external customers	2,542,201	1,775	-	-	2,543,976
Revenue from contracts with internal customers	2,700	1,835	-	(4,535)	-
Revenue from management services	-	-	49,265	(49,265)	-
Total revenue	2,544,901	3,610	49,265	(53,800)	2,543,976
Results					
Depreciation, amortisation and impairment	20,809	11,253	4,749	-	36,811
Operating profit	99,461	(5,679)	43,279	-	137,061
Finance income	530	-	16,332	(16,229)	633
Finance costs	33,688	-	15,051	(16,229)	32,510
Segment (loss)/profit before tax	(114,731)	16,599	9,492	-	(88,640)

The following table presents assets and liabilities information for the Group's operating segments as at 30 June 2021 and 31 December 2020, respectively:

	REVIEWED				
	Manufacturing and distribution ZWS'000	Properties ZWS'000	Corporate ZWS'000	Adjustments and eliminations ZWS'000	Group ZWS'000
As at 30 June 2021					
Segment assets	2,214,356	1,469,261	1,905,320	(1,942,193)	3,646,744
Segment liabilities	1,512,638	60,383	565,375	(299,482)	1,831,914
Capital expenditure	60,120	214	58	-	60,392
AUDITED	ZWS'000	ZWS'000	ZWS'000	ZWS'000	ZWS'000
As at 31 December 2020					
Segment assets	2,161,708	1,432,154	1,820,778	(1,798,698)	3,615,942
Segment liabilities	1,256,765	53,478	417,439	(192,300)	1,535,382
Capital expenditure	66,674	-	2,746	-	69,420

The transactions between operating segments are at arm's length. The adjustments and eliminations columns relate to inter-segments transactions and balances which are eliminated on consolidation.

Independent Auditors Report on Review of Interim Financial Information To the Shareholders of Dairibord Holdings Limited

Introduction

We have reviewed the accompanying inflation adjusted consolidated statement of financial position of Dairibord Holdings Limited as at 30 June 2021, and the inflation adjusted consolidated statement of comprehensive income, inflation adjusted consolidated statement of changes in equity and inflation adjusted consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes.

Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards and the Zimbabwe Stock Exchange Listings Requirements. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

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

Basis for Adverse Conclusion

1. Impact of adverse opinion on prior year audited financial statements and the carry over effects in the current six-month period

The inflation adjusted consolidated financial statements of the Group for the year ended 31 December 2020 were audited by another auditor who expressed an adverse opinion. The basis for adverse opinion as presented in the prior year inflation adjusted consolidated financial statements is as follows:

1.1 Impact of non-compliance with International Financial Reporting Standards: International Accounting Standard (IAS) 21 "The Effects of Changes in Foreign Exchange Rates" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" on comparative information.

The Group did not comply with IAS 21 in the financial year ended 31 December 2019, as they elected to comply with Statutory Instrument 33 of 2019 ("SI 33/19") from 22 February 2019. SI 33/19 fixed the exchange rate between the RTGS Dollar (now subsequently called the Zimbabwe Dollar) and the United States Dollar (USD) at a rate of 1:1 for the period up to its effective date. However, based on the requirements of IAS 21, there were events that had been identified that were indicative of economic fundamentals that would have required a change in functional currency as at 1 October 2018, which was a date prior to 22 February 2019.



**Independent Auditors Report on Review of Interim Financial Information
To the Shareholders of Dairibord Holdings Limited**

Basis for Adverse Conclusion (continued)

1. Impact of adverse opinion on prior year audited financial statements and the carry over effects in the current six-month period (continued)

1.1 Impact of non-compliance with International Financial Reporting Standards: International Accounting Standard (IAS) 21 “The Effects of Changes in Foreign Exchange Rates” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” on comparative information.(continued)

The application of IAS 29 was based on prior periods’ financial information which was not in compliance with IAS 21/ IAS 8 as described above. Had the correct base numbers been used, the following elements of the prior year financial statements, which are presented as comparative information, would have been materially impacted.

- Plant and equipment, non-distributable reserves, retained earnings, deferred tax liability in the Group inflation adjusted consolidated financial statements.

Accordingly, our conclusion on the six-month period’s financial information is also modified because of the above carry over effects in the current six-month period which are material to the financial information.

1.2. Exchange rates used in prior year

In prior year, the Group translated foreign denominated transactions and balances to ZWL using the interbank exchange rates for the period 1 January 2020 to 22 June 2020, prior to introduction of the Foreign Exchange Auction Trading System. This includes the period between March and June 2020 when the exchange rate was fixed at US\$1: ZWL25. The conclusion made by the predecessor auditor was that the interbank exchange rates did not meet the definition of spot exchange rates as per IAS 21, as they were not available for immediate delivery. The impact could not be quantified on all accounts due to the lack of records on appropriate rates and impracticability given the volume of transactions

Therefore, our opinion on the current six-month period financial information is modified because of the possible effects of the matter on the comparability of the current six-month period financial information with those of the prior period.

1.3 Valuation of Investment property and freehold land and buildings (included in property, plant, and equipment)

The Group’s Freehold land and buildings (included in property, plant, and equipment) were revalued as at 31 December 2020. These assets were valued as guided by independent professional valuers, using historical United States Dollar (USD) denominated inputs and converted into ZWL at the applicable closing exchange rates as at 31 December 2020. For properties, there was a unique disconnect between the currency in which the rentals were being paid (ZWL) and the currency in which the properties are being valued (USD). The implicit investment method was applied for industrial and commercial properties and key inputs into the calculations include rentals per square metre and capitalisation rates. Residential properties were valued in terms of the market comparable approach.

Furthermore, the valuation of Investment property and freehold land and buildings as at 30 June 2021 was determined by applying the inflation index to the ZWL values determined as at 31 December 2020.

Whereas the determined USD values are reflective of the fair value in that currency, the conversion to ZWL, being the Group’s functional currency, is not in compliance with International Financial Reporting Standard 13 - Fair Value Measurement (IFRS 13), for the below stated reasons.

IFRS 13 defines fair value as the price that would be received to sell an asset in an orderly transaction between market participants at a measurement date. While we found the assumptions and methods used by the independent professional valuers and the directors to determine the USD valuations reasonable and appropriate in determining fair value in USD, however, we were unable to obtain sufficient appropriate evidence to support the appropriateness of the application of the ZWL/USD auction exchange rate in the determination of the final ZWL fair valuations presented.

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Basis for Adverse Conclusion (continued)

1. Impact of adverse opinion on prior year audited financial statements and the carry over effects in the current six-month period (continued)

1.3 Valuation of Investment property and freehold land and buildings (included in property, plant, and equipment) in the (continued)

IFRS 13 requires:

- a fair value to be determined using the assumptions that market participants would use when pricing the asset, assuming market participants act in their economic best interests; and
- fair value to reflect the price that would be received to sell the asset in an orderly transaction in the principal market at the measurement date under current market conditions, regardless of whether that price is directly observable or estimated using another valuation technique.

We were therefore unable to obtain sufficient evidence to support the appropriateness of simply applying the closing ZWL/USD auction exchange rate in determining the ZWL fair value of investment properties and land and buildings, without any further adjustments to reflect how the economic conditions within the country as at that measurement date would impact the assumptions that market participants would use in pricing the items of investment properties and land and buildings in ZWL. Such matters include, but are not limited to:

- the correlation of the responsiveness of ZWL valuations of investment properties and land and buildings to the auction exchange rate and related underlying USD values; and
- the extent to which supply and demand for the items of investment properties and land and buildings reflects the implications on market dynamics of the auction exchange rate.

Consequently, we were unable to obtain sufficient evidence to support the appropriateness of the valuation in ZWL of the investment properties and land and buildings and therefore our conclusion on the current six-month period financial information is modified because we are unable to determine whether any adjustments to the current period depreciation expense, deferred taxation, and revaluation adjustments in the statement of profit or loss and other comprehensive income would be necessary to correctly account for these amounts owing to lack of information on relevant inputs in ZWL.

2. Impact of incorrect date of application of International Accounting Standard 29 “Financial Reporting in Hyperinflationary Economies” (“IAS 29”)

As a result of the pronouncement by the Public Accountants and Auditors Board (PAAB), entities reporting in Zimbabwe were required to apply the requirements of IAS 29 for financial periods ending on or after 1 July 2019. The Directors applied the requirements of IAS 29 from the date of change in functional currency adopted of 22 February 2019. However, in accordance with International Accounting Standard 21 - The Effects of Changes in Foreign Exchange Rates (IAS 21) the date of change in functional currency was determined to be 1 October 2018.

Consequently, the changes in the general pricing power of the functional currency should have been applied from 1 October 2018. The Group did not comply with IAS 21 as mentioned in 1.1 above, as the Directors elected to comply with Statutory Instrument 33 of 2019 (“SI 33/19”). IAS 29 was only applied from 22 February 2019, and not 1 October 2018, as required by IAS 21.

Had the Group applied the requirements of IAS 29, the following elements of the financial information in the prior years and current year would have been materially impacted:

- Plant and equipment, share capital, share premium, retained earnings, non-distributable reserve and deferred taxation in the inflation adjusted consolidated statement of financial position as at 30 June 2021; and
- Deferred tax movement, cost of sales and net monetary adjustment in the inflation adjusted consolidated statement of profit or loss and other comprehensive income for the current six-month period.

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Adverse Conclusion

Due to the significance of the matters described in the Basis for Adverse Conclusion paragraph, we conclude that the accompanying interim financial information does not present fairly, in all material respects, the consolidated inflation adjusted financial position of the Group as at 30 June 2021, and its inflation adjusted consolidated financial performance and its inflation adjusted consolidated cash flows for the six-month period then ended in accordance with International Financial Reporting Standards, the requirements of the Zimbabwe Stock Exchange.

Deloitte & Touche

**Deloitte & Touche
Registered Auditor**

**Per: Charity Mtwazi
Partner
PAAB Number 0585**

3 September 2021