

UNAUDITED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

The Directors of Dairibord Holdings Limited hereby announce the Group's unaudited financial statements for the six months ended 30 June 2016.



Dairibord Holdings
More Than Just Milk

Nutritious Foods and Beverages for the Sustenance of Good Health

CHAIRMAN'S STATEMENT

INTRODUCTION

The deteriorating fiscal conditions and monetary policy uncertainties had a negative impact on the performance of the Group in the first half of 2016. In fact, the decline in macro-economic fundamentals was worse than what the Group originally anticipated.

OPERATING ENVIRONMENT

Zimbabwe

A significant decrease in consumer spending was recorded during the period under review, due to limited cash availability, a poor agriculture season and depressed economic activity. Consumer spending was subdued due to delays in salary payments across most sectors of the economy. Delays in payments to foreign suppliers also negatively impacted trade terms available to local manufacturers, culminating in stock outs for products which rely on imported materials.

A combination of weak demand and increased competition sustained deflationary pressures. Year on year inflation for June 2016 was -1.4%, with Food and Non Alcoholic beverages inflation falling to -4.04%.

Malawi

The business environment remained difficult and was characterised by high interest rates, high inflation and an unstable and depreciating local currency. The negative impact of the El-Nino induced drought on availability of basic food stuffs, particularly maize, further squeezed consumer disposable incomes. Erratic supply of utilities continued to negatively impact operational efficiencies.

On a positive note, the IMF declared the Malawi program back on track. This development is expected to improve donor support.

GROUP PERFORMANCE

Group raw milk intake grew by 14% in line with the milk supply growth strategy. In Zimbabwe, raw milk intake was 15% up on prior year which was in line with the national growth in raw milk production. In Malawi, raw milk intake improved by 5%, driven by increased sales volumes.

Sales volumes for the period were at the same level as prior year. Volumes of Liquid milks increased by 3% on account of Steri milk, which was out of supply in H1 of 2015 due to plant commissioning. Growth in this category could have been better had it not been for restrictions on imports of carton Chimombe. Foods and Beverages were 7% and 1% down, respectively. Volume performance was constrained by weak disposable incomes and the general liquidity situation.

Revenue for the period declined by 12% to \$42.452 million. The decline was a result of consumer price adjustments made to address affordability and competitiveness against a static volume performance. The average consumer price realised, per litre of product sold, was 11% below prior year.

While revenue decreased by 12% due to pricing pressures, operating costs decreased by only 6%. Savings were achieved on some materials, labour, utilities and maintenance costs, but more still needs to be done to reduce costs of raw milk, distribution and administrative overheads. Impairments of receivables and inventories also increased operating costs. Resultantly, margins were depressed and an operating loss of \$2.067 million was recorded, compared to an operating profit of \$0.848 million achieved in the same period last year.

Net cash out flow from operations was \$0.817 million, compared to \$1.733 million inflows generated in the prior period. Cash generated from operating activities was negative due to the reduced profitability and increased payments to suppliers.

INVESTMENTS

The Group invested \$2.424 million mainly towards peanut butter processing equipment, cartonised UHT processing and filling equipment and Pfuko capacity expansion. The peanut butter processing line was commissioned in May and performance of the product has since improved. The cartonised UHT plant will enable the Group to produce locally, cartonised Chimombe and meet demand. The investment in extra capacity for Pfuko will enable the Group to satisfy demand for the flavoured maheu variants which are commanding a significant market share in the Maheu market. The two plants will be commissioned by the end of September 2016.

These investments were funded from borrowings and own resources.

OUTLOOK

The economic outlook will continue to be a challenge. Focus will, therefore, be on defending and growing volumes, while at the same time reducing costs to sustainable levels.

In order to improve product offerings and to grow market share, the Group launched additional product lines including flavour variants for Pfuko, and Dairibord Ruomba cultured milk. These brands were launched in June and are expected to contribute to the top line, going forward. The commissioning of the new cartonised UHT plant will improve volume performance in the second half of the year. The business will also benefit from the government's efforts to support local industry by limiting unnecessary imports.

Strategies to further reduce key cost drivers will be deployed, and priority will be given to raw milk costs, enhancing distribution efficiencies, materials and overheads. As a result of the initiatives being taken, performance in the second half of the year is projected to be better than the first half, subject, of course, to macroeconomic fundamentals not deteriorating further.

DIVIDEND DECLARATION

In view of the subdued Group performance, the Directors resolved not to declare a dividend for the six months ended 30 June 2016.

APPRECIATION

On behalf of the Board, I take this opportunity, once again, to express my appreciation to our various stakeholders, employees and management for their continued commitment.

DR.L.L. Tumba
Chairman
August 2016

FINANCIAL SUMMARY

	30 June 2016 US\$	30 June 2015 US\$	% Change
Financial			
Revenue	42,451,748	47,973,020	-12%
Earnings before depreciation, amortisation, interest and tax	346,719	3,020,477	-89%
Operating (loss)/profit	(2,066,676)	848,122	-344%
(Loss)/profit for the period attributable to owners of the parent	(1,877,600)	339,753	-653%
Net cashflows from operating activities	(817,036)	1,733,241	-147%
Equity	46,086,511	46,499,394	-1%
Volumes (Litres)			
Raw milk Intake	14,787,020	12,986,905	14%
Sales	37,397,860	37,498,067	0%
Net asset value per share (US cents)	12.81	12.88	-1%

ABRIDGED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The Six Months Ended 30 June 2016

	30 June 2016 US\$ UNAUDITED	30 June 2015 US\$ UNAUDITED
Revenue	42,451,748	47,973,020
Earnings before depreciation, amortisation, interest and tax	346,719	3,020,477
Depreciation and amortisation	(2,413,395)	(2,172,355)
Operating (loss)/profit	(2,066,676)	848,122
Finance income	60,439	82,560
Finance costs	(507,564)	(522,568)
(Loss)/profit before tax	(2,513,801)	408,114
Income tax credit/(expense)	616,301	(90,887)
(Loss)/profit for the period	(1,897,500)	317,227
Other comprehensive income:		
Other comprehensive income for the period, net of tax	(118,101)	97,486
Total comprehensive income for the period	(2,015,601)	414,713
(Loss)/profit attributable to:		
Owners of the parent	(1,877,600)	339,753
Non - controlling interest	(19,900)	(22,526)
	(1,897,500)	317,227
Total comprehensive income/(loss) attributable to:		
Owners of the parent	(1,981,386)	406,433
Non - controlling interests	(34,215)	8,280
	(2,015,601)	414,713
(Loss)/earnings per share (cents)		
Basic	(0.52)	0.09
Diluted	(0.52)	0.09
Shares in issue	358,000,858	358,000,858
Weighted average shares	358,000,858	358,000,858
Weighted average shares adjusted for the effect of dilution	358,000,858	358,000,858

ABRIDGED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As At 30 June 2016

	Note	30 June 2016 US\$ UNAUDITED	31 December 2015 US\$ AUDITED
Assets			
Non-current assets			
Property, plant and equipment		41,712,136	41,705,060
Investment property		1,467,501	1,467,501
Intangible assets		683,647	658,011
Other non-current financial assets		442,927	674,224
		44,306,211	44,504,796
Current assets			
Inventories		15,975,995	18,096,735
Prepayments		832,310	637,349
Trade and other receivables		11,189,570	11,823,454
Cash and cash equivalents		465,181	2,809,915
		28,463,056	33,367,453
Assets classified as held for sale	3	785,940	827,915
		29,248,996	34,195,368
Total assets		73,555,207	78,700,164
Equity and liabilities			
Equity			
Share Capital		35,800	35,800
Share Premium		1,379,664	1,379,664
Non-distributable reserves		23,164,657	23,268,443
Retained earnings		21,286,975	23,164,575
Equity attributable to owners of the parent		45,867,096	47,848,482
Non-controlling interest		219,415	253,630
Total equity		46,086,511	48,102,112
Non-current liabilities			
Interest - bearing borrowings	4	5,165,806	4,561,863
Deferred tax liability		2,728,709	3,394,442
		7,894,515	7,956,305
Current liabilities			
Trade and other payables		14,371,617	17,284,258
Interest - bearing borrowings	4	5,202,564	5,187,620
Income tax payable		-	169,869
		19,574,181	22,641,747
Total liabilities		27,468,696	30,598,052
Total equity and liabilities		73,555,207	78,700,164

ABRIDGED CONSOLIDATED STATEMENT OF CASH FLOWS

For the Six Months Ended 30 June 2016

	30 June 2016 US\$ UNAUDITED	30 June 2015 US\$ UNAUDITED
Operating activities:		
(Loss) /profit before tax	(2,513,801)	408,114
Non-cash items	2,386,610	2,132,050
Working capital adjustments	(347,414)	(696,289)
Finance income	(60,438)	(82,560)
Income tax paid	(281,991)	(28,074)
Net cash (outflow) /inflow from operating activities	(817,034)	1,733,241
Investing activities:		
Additions to property, plant and equipment	(2,423,512)	(2,733,672)
Proceeds from sale of property, plant and equipment	163,442	826,220
Proceeds from sale of assets classified as held for sale	46,000	27,928
Finance income	60,438	82,560
	(2,153,632)	(1,796,964)
Net cash outflow before financing activities	(2,970,666)	(63,723)
Financing activities:		
Proceeds from borrowings	2,800,165	1,939,398
Repayment of borrowings	(2,175,425)	(1,904,048)
Net cashflows from financing activities	624,740	35,350
Decrease in cash and cash equivalents	(2,345,926)	(28,373)
Effects of exchange rate changes	1,192	(48,945)
Cash and cash equivalents at beginning of period	2,809,915	1,414,341
Cash and cash equivalents at the end of period	465,181	1,337,023

ABRIDGED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six Months Ended 30 June 2016

	Attributable to equity holders of the parent				Non - controlling interests US\$	Total equity US\$
	Share Capital US\$	Share Premium US\$	Non-distributable reserves US\$	Retained earnings US\$		
As at 1 January 2016	35,800	1,379,664	23,268,443	23,164,575	47,848,482	253,630
Loss for the period	-	-	-	(1,877,600)	(1,877,600)	(19,900)
Other comprehensive income	-	-	(103,786)	-	(103,786)	(14,315)
Total comprehensive income/(loss)	-	-	(103,786)	(1,877,600)	(1,981,386)	(34,215)
As at 30 June 2016	35,800	1,379,664	23,164,657	21,286,975	45,867,096	219,415
As at 1 January 2015	35,800	1,379,664	23,582,075	20,711,889	45,709,428	375,253
Profit/(loss) for the period	-	-	-	339,753	339,753	(22,526)
Other comprehensive income	-	-	66,680	-	66,680	30,806
Total comprehensive income/(loss)	-	-	66,680	339,753	406,433	8,280
As at 30 June 2015	35,800	1,379,664	23,648,755	21,051,642	46,115,861	383,533

NOTES TO THE FINANCIAL STATEMENTS

- Basis of preparation**
These abridged financial statements were prepared in accordance with the requirements of IAS 34-Interim Financial Reporting and in accordance with the Zimbabwe Stock Exchange listing requirements.

The financial results are presented in United States Dollars (US\$).

The accounting policies adopted are consistent with those of the previous period.
- Significant accounting policies**
The accounting policies adopted are consistent with those of the previous period.
- Assets held for sale**
The assets held for sale consist of residential properties and plant items worth \$668 000 and \$118 000 respectively. During the period one property with a carrying amount of \$42 000 was sold. Subsequent to 30 June, contracts for sale of two properties worth \$145 000 were concluded.
- Interest bearing borrowings**

	30-Jun-16 US\$	31-Dec-15 US\$
Long term loans		
Total loans	7,683,677	8,224,483
less short term portion	(2,517,871)	(3,662,620)
	5,165,806	4,561,863
Short term loans		
Short term portion of long term loans	5,202,564	5,187,620
Other short term loans	2,517,871	3,662,620
	2,684,693	1,525,000
	10,368,370	9,749,483

The long and short term borrowings were used to finance capital expenditure and working capital, respectively. Borrowings of \$8.9 m are secured over land and buildings. The weighted average all in cost of the borrowings is 9.7%.

	30-Jun-16 US\$	31-Dec-15 US\$
5. Commitments		
Capital commitments	8,695,754	11,119,166
- Authorised and contracted for	3,339,316	5,762,728
- Authorised but not contracted for	5,356,438	5,356,438
- Events after the reporting date**
There have been no significant events from period end to the date of the issue of this publication.