

## 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.

**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)**

**1.3 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.

**Independent Auditors Report on Review of Interim Financial Information  
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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*

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**Deloitte & Touche  
Registered Auditor**

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

**3 September 2021**