



(Incorporated in Malawi on 31 May 1965 under registration number 839)

FOR THE SIX MONTHS ENDED 29 FEBRUARY 2020 (COMPARATIVES ARE FOR THE SIX MONTHS ENDED 28 FEBRUARY 2019)

FINANCIAL PERFORMANCE	GROUP			COMPANY		
	Unaudited 6 months ended 29-Feb-2020	Unaudited 6 months ended 28-Feb-2019	Audited 12 months ended 31-Aug-2019	Unaudited 6 months ended 29-Feb-2020	Unaudited 6 months ended 28-Feb-2019	Audited 12 months ended 31-Aug-2019
Condensed consolidated and separate statements of comprehensive income	K'm	K'm	K'm	K'm	K'm	K'm
Revenue	73,521	62,403	129,676	40,729	34,490	69,532
Operating profit/(loss)	4,988	14,326	20,047	(5,173)	6,446	6,701
Dividend income	-	-	2	-	-	-
Net finance cost	(2,061)	(2,702)	(5,367)	(1,134)	(2,686)	(3,732)
Profit/(loss) before taxation	2,927	11,624	14,682	(6,307)	3,760	2,969
Taxation	(878)	(3,501)	(4,599)	1,892	(1,133)	(1,130)
Net profit/(loss) for the period	2,049	8,123	10,083	(4,415)	2,627	1,839
Other comprehensive income/(charges)	74	(13)	(80)	74	(13)	(48)
Total comprehensive income	2,123	8,110	10,003	(4,341)	2,614	1,791
Adjusted for:						
Other comprehensive (income)/losses	(74)	13	80	(74)	13	48
Headline earnings	2,049	8,123	10,083	(4,415)	2,627	1,839
Number of shares in issue ('000)	713,444	713,444	713,444			
Weighted average number of shares on which net profit per share is based ('000)	713,444	713,444	713,444			
Net profit per share (tambala)	287	1,139	1,413			
Headline earnings per share (tambala)	287	1,139	1,413			
Quality of earnings statement	-	-	-			
Operating profit	4,988	14,326	20,047			
Adjust for:						
Change in fair value of growing cane	(4,852)	(12,574)	(1,557)			
Operating profit less fair value changes	136	1,752	18,490			
Business segmental analysis						
Revenue						
Sugar production	58,971	33,874	66,434			
Cane growing	14,550	28,529	63,242			
	73,521	62,403	129,676			
Operating profit						
Sugar production	10,119	9,166	18,596			
Cane growing	(5,131)	5,160	1,451			
	4,988	14,326	20,047			
Condensed consolidated and separate statements of financial position						
ASSETS						
Property, plant and equipment	58,124	51,730	56,144	41,312	36,770	39,492
Investment	463	-	463	324	324	324
Non-current assets	58,587	51,730	56,607	41,636	37,094	39,816
Current assets	92,900	99,450	104,065	62,577	61,296	72,355
Total Assets	151,487	151,180	160,672	104,213	98,390	112,171
SHAREHOLDERS' EQUITY AND LIABILITIES						
Shareholders' equity	71,703	69,049	71,298	16,946	22,753	21,930
Taxation	21,453	19,389	21,420	19,246	9,679	14,485
Non-current liabilities	216	3,913	220	184	3,879	188
Current liabilities	58,115	58,829	67,734	67,837	62,079	75,568
Total shareholders' Equity and Liabilities	151,487	151,180	160,672	104,213	98,390	112,171
Depreciation	4,012	1,008	5,292			
Capital expenditure	2,384	1,596	10,989			

Condensed consolidated and separate statements of cash flows	GROUP			COMPANY		
	Unaudited 6 months ended 29-Feb-2020	Unaudited 6 months ended 28-Feb-2019	Audited 12 months ended 31-Aug-2019	Unaudited 6 months ended 29-Feb-2020	Unaudited 6 months ended 28-Feb-2019	Audited 12 months ended 31-Aug-2019
Cash generated from operations before working capital changes	9,009	16,675	23,809			
Working capital requirements	14,912	(16,329)	(11,375)	8,125	8,125	8,386
Finance costs and taxation	(4,174)	(5,873)	(9,093)	(10,408)	(10,408)	(1,129)
Net cash inflow/(outflow) from operating activities	19,747	(5,527)	3,341	(8,139)	(8,139)	(74)
Cash flow used in investing activities	(2,384)	(3,597)	(10,928)	(2,550)	(2,550)	(7,513)
Net cash inflow/(outflow) before financing activities	17,363	(9,124)	(7,587)	(10,689)	(10,689)	(7,587)
Cash flow used in financing activities	(15,159)	-	1,218	-	-	1,218
Increase/(decrease) in cash and cash equivalents	2,204	(9,124)	(6,369)	(10,689)	(10,689)	(6,369)
Condensed consolidated and separate statements of changes in equity						
Share capital and premium						
Balance at beginning and end of the period	782	782	782	782	782	782
Retained earnings						
Balance at beginning of the period as previously stated	70,131	60,048	60,048	21,087	19,248	19,248
Effect of adoption of IFRS 16: (Leases)	(1,718)	-	-	(643)	-	-
Balance at the beginning of the period - (restated)	68,413	60,048	60,048	20,444	19,248	19,248
Net profit for the period	2,049	8,123	10,083	(4,415)	2,627	1,839
Balance at end of the period	70,462	68,171	70,131	16,029	21,875	21,087
Non-distributable reserve						
Balance at beginning of the period	385	109	465	61	109	109
Cash flow hedges	74	(13)	(48)	74	(13)	-
Fair value loss on revaluation of investment	-	-	(32)	-	-	(48)
Balance at end of period	459	96	385	135	96	61
Shareholders' equity	71,703	69,049	71,298	16,946	22,753	21,930

OVERVIEW

During the six month period from 1 September 2019 to 29 February 2020, agricultural and factory operations progressed satisfactorily at both estates although towards the end of the crushing season Nchalo experienced some plant mechanical problems. Generally more favourable weather conditions together with an improved power supply from the Electricity Generation Company (EGENCO) supported our agricultural focused efforts to deliver an improved cane harvest. Pleasing cane yields were realised from the drip irrigation conversions at Nchalo. However, yellow aphid, mealy bug and leaf roller infestations were cause for concern and again resulted in costly pest control measures. Grower cane yields at both estates also exceeded expectations for the last half of the season despite the on-going financial difficulties that are being faced. The business continued to deploy strategic recovery plans to assist the grower community restore operational and financial stability. Lost Opportunity Project (LOP) initiatives at both mills continued to deliver continuous improvement across the operations.

Nchalo finished the crushing season on 24 November 2019 and Dwangwa on 14 December 2019 and immediately following the closure of the crushing

season, both Dwangwa and Nchalo commenced their respective offcrop maintenance programs in order to address plant operational shortcomings which arose during the previous season and also to prepare the plant for the new season. Capital projects progressed according to plan. Domestic sugar sales have been on a downward trend against a background of the ongoing influx of both formal and informal sugar imports from neighbouring countries, notably Mozambique and Zambia. This was driven by the impact of currency devaluation in the bordering countries. Management continues to work closely with officials in both Government and the Malawi Revenue Authority to address these matters which are having a severe impact on the ongoing profitability of the company as well as the revenue generated by growers. The company launched a promotion in mid-December 2019 which resulted in a reduction of its domestic sugar pricing in order to spur domestic demand and help stem the influx of illegal imports from Zambia and Mozambique.

This initiative was further supported by the recently launched Route to Consumer (RTC) strategic initiative. Export sugar revenues are also below

expectation mainly as a result of logistical challenges arising from rehabilitation works currently taking place at the port of Nacala. In terms of the quality of product and the approach to service, the focus on the production, packing and storage of sugar proved to be positive, building on previous gains and initiatives which continue to be developed and implemented.

With regard to the financial performance for the first six months of the financial year, covering the reporting period, September 2019 to February 2020, headline earnings totaled K 2.0 billion, compared to the preceding six month period, September 2018 to February 2019, of K 8.1 billion and the previous full year results, September 2018 to August 2019, of K 10.1 billion. With the prioritization of the settlement of some of the longer term loans and a reduction in domestic interest rates, pleasingly, net finance costs over the two six month comparable periods reduced by 24%. Management continued to explore all opportunities to sustainably reset the overall cost base of the business along the entire value chain to improve overall profitability.

PROSPECTS

It is expected that normal weather patterns in the next six month period and the continuing positive effects of the Nchalo agricultural recovery plans and the ongoing structural changes within the agronomy sections should impact positively on overall agricultural operations and performance. In terms of milling operations, both Dwangwa and Nchalo factories should return to more sustainable operational levels of efficiency and performance following their planned respective offcrop maintenance programmes coupled with ongoing projects in factory recovery, energy efficiency, plant reliability and packing capability.

With regards to the commercial environment, and against the headwinds currently being faced by our business and the country, the business will endeavor to retain and build direct local consumption market subject to the impact of COVID-19 on domestic sales. Sugar exports, into regional and deep water markets, remain very challenging and have been compounded by the logistical problems brought about by the same COVID-19 pandemic. However, export sales will continue to be an area of focus for the commercial teams who will strive to optimise value in every ton of sugar sold and will explore every opportunity to develop markets to fully exploit all revenue growth opportunities.

Importantly, exchange rates, inflation and interest rate, effects of COVID-19 pandemic and the debt levels of the company are challenging and will continue to have a marked effect on overall business profitability. However, the on-going performance, efficiency and cost control strategies that have been implemented apart from efforts to protect the health and safety of personnel, will be focused on building real business sustainability, driving down the overall cost of production and improving operating margins and generating positive free cash flows into the future.

DIVIDENDS

No interim dividend has been declared on the ordinary shares of the company in respect of the half year ended 29 February 2020.

Gavin Dalgleish
Chairman

Lekani Katandula
Managing Director

13 May 2020

