



NATIONAL FOODS

HOLDINGS LIMITED

Abridged Audited Group Financial Results of National Foods Holdings Limited

for the year ended 30 June 2023

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 Victoria Falls Stock Exchange (“VFEX”) 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), except for IAS 21 (The Effects of Changes in Foreign Exchange Rates), IAS 16 (Property, Plant and Equipment) and IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) as detailed in notes 2.1, 3.1 and 4.

The principal accounting policies applied in the preparation of the Group’s financial statements are consistent with those applied in the previous year’s financial statements, except for the change in measurement of property, plant and equipment, which was previously measured at historical cost and is now being measured under the revaluation model. There is no impact arising from revised IFRS, which became effective for the reporting period commencing on or after 1 January 2022 on the Group’s financial statements.

Change in Functional Currency

Commencing with the financial year ended 30 June 2020, and in line with both previous guidance issued by the Public Accountants and Auditors Board (“PAAB”) and the provisions of International Accounting Standard (“IAS”) 29 (Financial Reporting in Hyperinflationary Economies), the Directors have been presenting Group consolidated, inflation-adjusted financial statements in Zimbabwe Dollars (“ZWL”). Due to the considerable distortions in the economy, and the material and pervasive effects that these had in the application of IAS 29, the Directors have always advised users to exercise caution in the interpretation and use of those Group consolidated, inflation-adjusted financial statements; in addition the Directors also issued financial statements prepared under the historical cost convention, as supplementary information, in an effort to assist users with their interpretation of the Group’s financial performance.

Following the promulgation of Statutory Instrument (“SI”) 185 of 2020, issued on 24 July 2020, the Group has continued to see a steady increase in the use of foreign currency across the business and, in accordance with the requirements of IAS 21 (The Effects of Changes in Foreign Exchange Rates), has been through a process of assessing its functional currency. Following the completion of this process, the Group has concluded that based on the primary operating environment and the Group’s own operating activities, there has been a change in its functional currency from ZWL to United States Dollars (“US\$”) with effect from the beginning of the current financial year. The change in the Group’s functional currency is further supported by the Listing Requirements of the VFEX, which require issuers to present financial statements in US\$.

IAS 21 directs that entities operating in hyperinflationary economies should translate their last reported inflation-adjusted financial statements using the closing rate of exchange at the reporting date in order to derive and present comparative financial statements under a newly assessed functional currency.

The Directors are of the opinion that using the provisions of IAS 21 to convert the Group’s inflation-adjusted financial statements from previous periods, as a basis for presenting comparative and opening balance sheet information in terms of the new functional currency,

will result in the material misstatement of the Group’s comparative financial statements. As a result, the Directors have not adhered to IAS 21 in accounting for the change in functional currency. This has resulted in the external auditors issuing an adverse audit report on the Group’s consolidated financial statements for the current period under review.

In an endeavour to present a true and fair comparative financial performance and position of the Group, stakeholders will recall that the Group used alternative procedures and techniques in the translation process in the preparation of its Interim Report, where it reported total closing shareholders’ equity of USD 108.076m in its comparative Statement of Financial Position.

In an effort to move towards full compliance with IFRS, and with the objective of ensuring a return to an unqualified audit opinion on the Group’s Financial Statements for the 2024 financial year, the Group further refined its conversion procedures and techniques in translating its previously reported ZWL financial statements to USD; this resulted in closing equity for the comparative Statement of Financial Position reducing from the USD 108.076m reported in the Interim Report, to USD 105.171m.

This reduction was largely due to the re-calculation of deferred tax provisions, taking account of the recently updated legislation in income tax provisions (reduction in equity of USD 6.633m), the effects of the changes in accounting policy on property, plant and equipment, now measured under the revaluation method (increase in equity of USD 6.816m), with other adjustments combining to reduce opening equity by a further USD 3.088m; required to bring the conversion of other assets and liabilities in line with the provisions of IAS 21. Further detail on the Group’s change in functional currency is contained in Note 3 to these audited, abridged Group financial statements.

The Directors have always exercised reasonable due care and applied judgments that they considered to be appropriate in the preparation and presentation of the Group’s financial statements, and whilst they believe that the alternative procedures and techniques used in the translation process, as described above, provide users with the best possible view of the financial performance and position of the Group, attention is drawn to the inherent subjectivities and technicalities involved in the translation of ZWL financial statements to USD financial statements

Change in Accounting Policy on Property, Plant and Equipment

The Group’s property, plant and equipment (“PPE”) has always been measured at historical cost, and as the Group changed its functional currency from ZWL to USD as described in the preceding paragraph, applying the provisions of IAS 21 to convert the Group’s comparative and opening PPE values would have resulted in the material distortion of these values at the date of change in functional currency. Therefore in order to ensure future compliance with IFRS, the Directors chose to revalue the Group’s PPE at 30 June 2022 so as to reflect the correct PPE values at this date.

Effecting the change in accounting policy for PPE from the historical cost model to the revaluation model in the prior year is contrary to the provisions of IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), which does not permit the retrospective application of a change in accounting policy to revalue PPE. The Directors are, however, of the view that effecting the change in the PPE accounting policy from the historical cost model to the revaluation model in the comparative year, will more fairly present PPE values, enhance comparability between the Group’s current and comparative statements

Salient Features

	Year Ended 30 June 2023	
Volume (MT)	553 484	▼ (3%)
	US\$’000	
Revenue	343 578	▲ 22%
Operating profit before depreciation, financial loss, interest, equity accounted earnings and tax	23 353	▼ (16%)
Profit before tax	9 766	▼ (38%)
Basic and diluted earnings per share (cents)	11.01	▼ (39%)
Final dividend per share (cents)	1.15	▼ (81%)
Interim dividend per share (cents)	2.90	▼ (15%)

of financial position, and additionally, will assist users with their interpretation of the Group’s financial position and performance.

External 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 2023. The financial statements have been audited by Deloitte & Touche, who have issued an adverse opinion as a result of their view that the Group has not complied with the requirements of: IAS 21, IAS 8 and IAS 16 as noted above and in notes 2.1 and 3.1.

In addition, the audit report on the Group financial statements includes a key audit matter relating to revaluation of property, plant and equipment.

The Auditor’s Report is appended on these Group’s abridged annual financial statements and is also available for inspection at the Company’s registered office and on the Company and VFEX websites.

Sustainability Reporting

The Group continues to apply the Global Reporting Initiative (“GRI”) standards and, over the years, has 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 in which it operates. The Group continues to strengthen its sustainability practices and values across its operations to ensure that long-term business success is achieved sustainably.

Uncertain Tax Positions

There have been substantial changes in the currency environment in Zimbabwe in recent years, including the reintroduction of the ZWL as the country’s functional currency in February 2019 through SI 33 of 2019, followed by the promulgation of SI 185 of 2020, which reintroduced the use of foreign currency for domestic transactions.

These significant changes have created numerous uncertainties in the treatment of taxes due across the economy and have been compounded by a lack of clear statutory and administrative guidance or practical transitional measures from the tax authorities. The wording of existing tax legislation has given rise to varying interpretations of tax law within the country. Over time, it has become apparent that the Group’s interpretation of the law regarding the currency of settlement for taxes, as well as the methodology for tax computation, has differed from that of the authorities, and this has resulted in a number of uncertainties in the Group’s tax position. The Group continues to seek adjudication by the courts on these matters.

Operating Environment and Overview

The year was characterised by a fluid economic environment, driven largely by ZWL exchange rate volatility. Inflation was relatively moderate at the start of the year, following various difficult but necessary policy interventions, principally a reduction in liquidity and an increase of ZWL interest rates to 200% per annum. Moving into the second half of our financial year, there was rapid devaluation of the ZWL, in line with increased ZWL monetary supply. Finally, as the year drew to an end, exchange rates stabilised as ZWL liquidity reduced, and the auction system was further refined. The volatility meant that our operating plans needed to be regularly and swiftly adjusted and at times this detracted from our core focus. The stability that has prevailed into the new financial year is most welcome, and we hope that this can be maintained as we move forward.

Globally, commodity prices spiked driven by the Russia-Ukrainian war. This fed through to substantial price increases in our key raw materials, most notably wheat. Strategically, we tried wherever possible to moderate our price increases and shield the consumer. Fortunately, in the second half of the year commodity prices have steadily reduced to more typical ranges, a positive development for the Group and indeed the consumer.

Pricing distortions in certain channels, most notably in formal retail, persisted throughout the year. This situation was not beneficial to any of the players in the value chain, as the consumer saw sub-optimal pricing, and retailers and manufacturers faced lower volumes and a loss in value on capital deployed to fund the channel. We sincerely hope that all stakeholders will be able to arrive at a solution to these challenges in the year ahead, so that the channel can better serve the consumer.

As has been widely recognised, the USD became the predominant currency of trade during the year. The consequent monetary stability was welcome, as it meant our raw material imports and growth ambitions could be sustainably funded. We remain encouraged at the major economic developments occurring in our country, and especially the investment which is occurring in the mining sector, as this should greatly assist the maintenance of a more stable exchange rate environment in the coming years.

After successfully concluding the necessary regulatory processes, the Group listed on the VFEX on December 23rd 2022. The Board believes the move is an extremely positive one for National Foods’ shareholders for a number of reasons, as articulated in the detailed circular sent to shareholders prior to the listing.

Financial Performance

Volumes for the year were 553,000 tons, 3% below last year, mainly due to volume losses in the Flour unit, on the back of significantly higher global grain prices which dampened consumption. Apart from some transient challenges in Maize, the volume outcome in all other units was positive. Heading into the new financial year, global grain prices have reduced from the elevated levels seen at the onset of the Russia-Ukraine war, and we see a progressive recovery in volumes in the year ahead.

Revenue increased by 21.7% to US\$ 343 million. Average selling prices increased from \$ 495 per ton to \$ 621 per ton year on year driven by the substantially higher raw material costs. Our strategy was to minimise price increases and maintain demand and hence the full extent of raw material inflation was not passed on to the consumer, resulting in gross margin dollars being flat year on year, in spite of the much higher revenue. Operating costs increased by US\$ 3.8 million compared to last year, driven in the main by salary increases at factory floor level, power costs and IMTT. The reduced power availability forced us to resort to expensive standby generators to maintain product supply, and ZESA costs also increased significantly in real terms. IMTT has become a significant cost to the business, and the recent reduction in the percentages applied to calculate IMTT will bring some welcome relief in terms of this expense line.

Operating profit before interest, equity accounted earnings and tax for the year was US\$ 23.4 million, 16.5% below last year, in summary due to our strategy to moderate price increases and the higher operating costs. As with last year, there were significant losses on the ‘financial loss’ line, largely on account of translating the Group’s various ZWL monetary positions, as once again consistency of product supply was prioritised to certain market channels, even when it resulted in financial losses.

Chairman’s Statement (continued)

Financial Performance (continued)

With the improved economic and exchange rate stability in recent months, our objective will be to moderate and even eliminate these losses in the year ahead. Net interest costs at US\$ 4.7 million were driven by elevated costs on ZWL debt in Q1 as interest rates increased to 200% per annum, with these costs reducing materially for the rest of the year as the Group’s borrowings were converted to USD.

Profit after tax for the year at US\$ 7.53 million was 39% below last year. Whilst this was a disappointing result, our key strategic objectives of moderating the impact of commodity prices on the consumer was achieved and our products continue to hold strong positions in the market.

The Group’s statement of financial position remains in a healthy state. In a financially challenging year there were notable improvements in the management of working capital, and the release of US\$ 13.1 million of working capital was the main contributor to excellent free cash flow generation of US\$ 20.9 million. The free cash was largely used to fund our expansion projects, where US\$ 17.9 million was deployed. The Group’s net debt position closed the year at US\$ 11.0 million, a very moderate level of gearing and particularly so considering the extent of the capital investment deployed during the year.

Operations Review

Flour Milling

Volumes for the Flour unit reduced by 12.3% compared to last year, driven largely by significant increases in the price of wheat. International wheat prices were at their peak in the first half of the year, resulting in higher flour prices and a consequent reduction in volumes by 19.6% for the period. Critically, the price of bread breeched the key US\$ 1 per loaf price point during the first half of the year. During the second half of the year, wheat prices reduced and this allowed a recovery in volumes during the period, which closed 3.7% below last year. Wheat prices are now at more typical historical levels, and we are hopeful of an improved volume trend in the year ahead.

The installation of the new Buhler mill at our Bulawayo site was concluded towards the end of the year. The new mill will increase wheat milling capacity, and although it has only recently been commissioned, is so far delivering the expected operational improvements.

The local winter wheat harvest was most encouraging, and together with the carry-over surplus from last year suggests that the country will generally only need to import higher protein wheat for gristing, a very welcome development.

Stockfeeds

Stockfeed volumes were firm, increasing by 10% when compared to prior year, with the growth coming across all of the major categories, with robust demand in the poultry, beef and dairy sectors.

The robust demand across the protein value chain is very encouraging, and to support the expected increased demand for stockfeed further investment into storage capacity and product handling efficiency is currently under consideration.

Maize Milling

Maize volumes were disappointing, declining by 9.4% versus the prior year. The year was characterised by various procurement related distortions which hampered consistent trade. Initially, various distortions arose in purchasing the local maize crop in quarter 1, before volumes recovered in the middle of the year as the local crop dried up, until finally later in the year volumes were impacted by the re-opening of the borders to finished product.

Downpacked

Volumes in the Downpacked unit, which primarily packs rice and salt saw encouraging growth of 14% versus last year. Rice volume growth continued to be largely driven by the informal sector, and likely benefited from the elevated prices in the wheat to bread value chain.

Planning for the construction of the new rice packing facility is progressing, and we will be looking to construct this facility in 2024.

Cereals

Volumes in the cereals unit grew by 47% year on year. The second phase of our breakfast cereal investment was commissioned towards the end of the first half, resulting in the launch of a new range of breakfast cereals including corn flakes, bran flakes, wholegrain flakes and instant cereals.

Our objective is to deliver a range of cost effective, healthy and nutritious breakfast cereal range for the market, as articulated by the “Breakfast is for Everyone” by line in the various promotional activities. Post year end, a range of cereals under the “Nutri-Pops” brand has been launched, with this product aimed at younger consumers. In addition, we have also entered the Baby Cereal market under the Nutri-B brand.

The response of the market to these new products has been encouraging, both in terms of quality and affordability, and we remain encouraged at the longer term prospects for this unit.

Snacks

Volumes in this Division increased by 25% against the prior year, as capacity enhancements came on stream and the “King” and “Zapnax” brands continued to show volume growth. A great deal of work has been done on the route to market for our Snacks products to ensure they are consistently available at the point of purchase, and with continued capacity coming on stream in the new year we see sustained volume momentum in the period ahead.

Biscuits

Biscuit volumes declined by 1.8% compared to last year. The category was under pressure due to flour price increases and the challenges faced by the modern trade.

As previously advised, the Board has approved the purchase of a new biscuit line, which will allow National Foods to extend its biscuit portfolio beyond the current basic loose biscuit proposition to more specialised biscuits such as creams. Work on the project has commenced and the new line is expected to be commissioned early in 2024.

Pasta

The installation of the new pasta line in Harare is on track and the line is expected to be commissioned late in 2023. The line will be the only large scale pasta line in the country and our objective is to meet the growing local demand for pasta. This represents, in our view, the exciting localisation of a key value chain, from the growing of the wheat locally to the importation of pasta, which until now has mostly been imported.

Contract Farming

National Foods continues to keenly support contract farming of various cereal crops, principally maize, soya beans and wheat. The Group acts as the largest off-taker to the PHI/A Growth contract farming scheme, and during the recently ended summer harvest, around 30,000 tons of maize and 7,000 tons of soya grown under the scheme were purchased. In terms of the current winter wheat crop, the PHI/A Growth contracted farmers have planted 6,500 hectares, with harvesting of this crop expected to commence soon.

Corporate Social Responsibility (CSR)

National Foods believes in contributing to the welfare of the community and continues to support a wide range of causes through its comprehensive CSR program. The company supports 48 registered institutions spread across the country’s 10 provinces with regular food supplies and assists with a number of wildlife conservation initiatives. A wide range of organisations are assisted including orphanages, special needs groups, vulnerable women and children, schools, hospitals and churches as well as animal welfare and conservation programs.

During the past year, as National Foods migrated its listing to the Victoria Falls Stock Exchange it was decided to express our appreciation to the community of Victoria Falls. To this end, National Foods paid the school fees of 20 vulnerable children from the local community, an initiative which will be continued for the duration of their school careers.

The Group participates in and supports a number of other worthy causes in various fields from education to the vulnerable to sport.

Future Prospects

The past year has been a challenging one for the Group, with a complex set of dynamics including the fluid operating environment as well as the inflationary pressures from global commodity prices having to be carefully managed. The Group is encouraged by the recent economic stability and hopes that this can be maintained, as this allows our management team to focus on their core mandate of better serving the consumer.

Whilst the financial results for the year were disappointing from a profitability standpoint, there was significant and exciting progress in terms of our new product portfolio. The year ahead will see the commissioning of the new biscuit and pasta lines, and landing these products in the hearts and minds of the consumer will be a key priority in the year ahead. The second phase of the breakfast cereal facility was commissioned during the year, and so far the new products have been well received by consumers. The core commodity business units are showing signs of steady recovery with the normalisation in commodity prices, and our management teams will continue to focus on operating efficiencies and product quality in these units.

Final Dividend

The Board is pleased to declare a final dividend of US1.15 cents per share (2022: US5.95 cents per share) payable in respect of all ordinary shares of the Company bringing the total dividend to US4.05 cents per share (2022: US5.95 cents per share and ZW\$1 103 cents per share). This dividend is in respect of the financial year ending 30th June 2023 and will be payable to all the shareholders of the Company registered at the close of business on the 13th of October 2023.

The payment of the final dividend will take place on or around the 8th of November 2023. The shares of the Company will be traded cum-dividend on the Victoria Falls Stock Exchange up to the market day of the 10th of October 2023 and ex-dividend from the 11th of October 2023.

Acknowledgement and Appreciation

I would like to express my sincere appreciation to all of our stakeholders for their support over the past year. Thank you sincerely to the management and employees of National Foods for their on-going dedication and commitment. Our Board has continued to provide wise counsel and guidance as we embark on this exciting phase of development. Finally, and perhaps most importantly, I would like to recognise the Zimbabwean consumer and express gratitude for the support of our brands, and to assure them of our wholehearted dedication as we continue to improve our offering of affordable and nutritious food products.



Todd Moyo
Independent, Non-Executive Chairman
26 September 2023

Abridged Group Statement of Profit or Loss and Other Comprehensive Income

	Notes	Year Ended 30 June 2023 US\$’000	Year Ended 30 June 2022 US\$’000
Revenue	6	343 578	282 301
cost of raw materials		(271 506)	(209 589)
Profit before items listed below		72 072	72 712
other trading income		448	615
operating expenses		(49 167)	(45 369)
Operating profit before depreciation, financial loss, interest, equity accounted earnings and tax		23 353	27 958
financial loss		(5 086)	(4 753)
depreciation		(4 122)	(3 336)
Operating profit before interest, equity accounted earnings and tax		14 145	19 869
interest income		477	194
interest expense		(5 184)	(5 456)
equity accounted earnings		328	1 022
Profit before tax		9 766	15 629
tax expense	7	(2 237)	(3 228)
Profit for the year		7 529	12 401
Other comprehensive income			
- not to be reclassified to profit and loss in subsequent periods			
surplus on revaluation of property, plant and equipment		—	9 005
share of other comprehensive income of associates, net of tax		—	18
income tax on revaluation surplus		—	(2 206)
		—	6 817
Total comprehensive income for the year		7 529	19 218
Profit for the year attributable to equity holders of the parent		7 529	12 401
Total comprehensive income for the year attributable to equity holders of the parent		7 529	19 218
Earnings per share (cents)			
-Basic and diluted earnings per share	8	11.01	18.13

Abridged Group Statement of Financial Position

	Notes	As at 30 June 2023 US\$'000	As at 30 June 2022 US\$'000
ASSETS			
Non-current assets			
property, plant and equipment		86 200	71 567
investment property		1 503	—
goodwill		325	379
investment in associates		1 858	1 530
other assets		7 037	4 291
right of use assets		143	273
		97 066	78 040
Current assets			
inventories	9	47 040	46 999
trade and other receivables	10	35 028	33 716
other assets		1 965	9 933
current tax receivable		397	—
cash and cash equivalents		3 810	2 114
		88 240	92 762
		185 306	170 802
TOTAL ASSETS			
EQUITY AND LIABILITIES			
Equity			
share capital		684	684
revaluation reserve		37 138	37 138
distributable reserves		68 826	67 349
Total equity		106 648	105 171
Non-current liabilities			
deferred tax liability		10 408	9 360
non-current portion of lease liability		—	33
		10 408	9 393
Current liabilities			
trade and other payables	11	53 368	38 614
current portion of lease liability		100	257
borrowings	13	14 782	14 735
current tax payable		—	2 299
shareholders for dividends		—	333
		68 250	56 238
Total liabilities		78 658	65 631
		185 306	170 802
TOTAL EQUITY AND LIABILITIES			

Abridged Group Statement of Cash Flows

	Year Ended 30 June 2023 US\$'000	Year Ended 30 June 2022 US\$'000
Operating activities		
cash generated from operations	13 251	24 075
working capital changes	13 105	(8 295)
Operating cash flow	26 356	15 780
interest received	477	194
interest paid	(5 184)	(5 456)
income tax paid	(3 886)	(4 474)
Net cash inflows from operating activities	17 763	6 044
Investing activities		
purchase of property, plant and equipment to maintain operations	(2 217)	(1 381)
purchase of property, plant and equipment to expand operations	(17 910)	(10 916)
proceeds on disposal of property, plant and equipment	—	61
loan from/(to) associate	—	(49)
increase/(decrease) in other assets	10 540	(1 894)
dividends received from associate	—	335
Net cash outflow from investing activities	(9 587)	(13 844)
Financing activities		
proceeds from borrowings	2 692	7 711
repayment of borrowings	(2 645)	(874)
lease liability repayments	(191)	(170)
dividends paid	(6 387)	(5 735)
Net cash (outflow)/inflow from financing activities	(6 531)	932
Increase/(decrease) in cash and cash equivalents	1 645	(6 868)
net foreign exchange difference	51	—
Cash and cash equivalents at the beginning of the year	2 114	8 982
Cash and cash equivalents at the end of the year	3 810	2 114

Abridged Group Statement of Changes In Equity

	Share capital US\$'000	Revaluation reserve US\$'000	Distributable reserves US\$'000	Total US\$'000
Balance at 30 June 2021	684	—	88 706	89 390
profit for the year	—	—	12 401	12 401
other comprehensive income	—	6 817	—	6 817
total comprehensive income	—	6 817	12 401	19 218
reclassification of revaluation reserve*	—	30 321	(30 321)	—
dividend declared	—	—	(3 437)	(3 437)
Balance at 30 June 2022	684	37 138	67 349	105 171
profit for the year	—	—	7 529	7 529
total comprehensive income	—	—	7 529	7 529
dividend declared	—	—	(6 052)	(6 052)
Balance at 30 June 2023	684	37 138	68 826	106 648

* The reclassification was effected to correct the revaluation reserve at 30 June 2022 as disclosed in Note 4.

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 Manufacturers (Proprietary) Limited which are incorporated in Botswana.

The Group's activities comprise of the milling of flour and maize, manufacture of stockfeeds, cereals, 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 abridged annual financial results for the year ended 30 June 2023 have have been prepared in accordance with the requirements of the Victoria Falls 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"). Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Group's annual financial statements have been prepared based on the statutory records that are maintained under the historical cost convention except for property, plant and equipment, investment property and financial instruments which are measured at fair value.

The principal accounting policies applied in the preparation of the Group annual financial statements have been applied consistently in all material respects with those of the previous consolidated financial statements except for the change in measurement of property, plant and equipment, which was previously measured at historical cost and is now being measured under the revaluation model. The consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) except for IAS 21 (The Effects of Changes in Foreign Exchange Rates) and IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) as disclosed in Note 2.1, 3.1 and 4.

2.1 IAS 21 (The Effects of Changes in Foreign Exchange Rates)

Due to the limited amount of currency available to the Foreign Exchange Auction Market, directors do not believe that the official exchange rates prevailing during the year were at all times, reflective of a spot exchange rate, being the exchange rate for immediate delivery as defined in IAS 21. The directors further believe this lack of exchangeability to be long-term in nature and as such have estimated exchange rates with reference to the selling prices of goods in ZW\$ compared to US\$. The independent auditors Deloitte & Touche have issued an adverse opinion for the current period ended 30 June 2023 as they believe that the determination of an estimated spot exchange rate is not compliant with International Financial Reporting Standards ("IFRS").

3 Functional Currency

These abridged consolidated financial statements are presented in United States Dollars ("US\$"), which is the functional and presentation currency of the Group. The Group changed its functional currency from Zimbabwe Dollars (ZW\$) to United States Dollars ("US\$") with effect from 1 July 2022.

The Group assessed its functional currency in accordance with the requirements of International Accounting Standard 21 "The Effects of Changes in Foreign Exchange Rates" (IAS 21). In assessing the change in functional currency, we considered the following primary and secondary factors:

- (a) The currency that mainly influences sales prices for goods and services
- (b) The currency of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.
- (c) The currency that mainly influences labour, material, and other costs of providing goods or services
- (d) The currency in which funds from financing activities are generated.
- (e) The currency in which receipts from operating activities are usually retained.

Based on the above factors, the Group concluded that there was a change in functional currency to United States Dollars (US\$).

3.1 Translation adopted on date of change in functional currency

IAS 21 requires that when translating financial statements prepared under IAS 29 ("Financial Reporting in Hyperinflationary Economies") into a different presentation and functional currency an entity applies a closing rate at the date of the most recent statement of financial position (30 June 2022). The resulting translated amounts are treated as the historical costs for subsequent periods.

Supplementary Information (continued)

3 Functional Currency (continued)

3.1 Translation adopted on date of change in functional currency (continued)

The Directors are of the opinion that using the provisions of IAS 21 to convert the Group's inflation-adjusted financial statements from previous periods, as a basis for presenting comparative and opening balance sheet information in terms of the new functional currency, will result in the material misstatement of the Group's comparative financial statements and in an endeavour to present the best possible view of the comparative financial performance and position of the Group, stakeholders would recall that the Group used alternative procedures and techniques in the translation process and reported total equity of US\$108,076,404 as at 30 June 2022 in reporting half-year results for the period ending 31 December 2022. To comply with IFRS requirements, the Group further refined its conversion procedures and techniques in translating its ZW\$ financial statements to US\$ as follows:

The statement of profit or loss and other comprehensive income

- All ZW\$ transactions concluded during the period were converted to US\$ using the spot rate existing at the date of the transaction.
- US\$ transactions were accounted for at original US\$ value.
- Exchange gains/losses on ZW\$ transactions and balances were established and recorded

Statement of financial position

- The Group changed its accounting policy for property, plant and equipment from cost to revaluation model and engaged an independent professional valuer to perform the revaluation as at 30 June 2022 as disclosed in Note 4.
- Investment in associate was determined by taking the share of net assets post revaluation performed at 30 June 2022.
- Deferred tax was recomputed using the provisions of IAS12 based on the new carrying amounts of assets and liabilities.
- All other assets and liabilities, were converted in line with the provisions of IAS 21.

After applying the above procedures the Group's equity as at 30 June 2022 changed from US\$108,076,404 to US\$105,171,051.

The Directors have always exercised reasonable due care and applied judgments that they considered to be appropriate in the preparation and presentation of the Group's financial statements, and whilst they believe that the alternative procedures and techniques used in the translation process, as described above, provide users with the best possible view of the financial performance and position of the Group, attention is drawn to the inherent subjectivities and technicalities involved in the translation of ZWL financial statements to USD financial statements.

Had Management complied with the translation requirements of IAS 21 at 30 June 2022, the equity balance would have been US\$55,427,757 as shown in the table below. The non compliance was rectified through a revaluation and therefore the equity reflected at 30 June 2023 is compliant with the IFRS requirements.

	IAS 29 Based US\$'000	Reported US\$'000	Impact US\$'000
Total assets	111,267	170,802	59,535
Total liabilities	(55,839)	(65,631)	(9,792)
Equity	55,428	105,171	49,743

4 Change in accounting policy for property, plant and equipment

The Group's property, plant and equipment ("PPE") has always been measured at historical cost, and as the Group changed its functional currency from ZWL to USD as described in the preceding paragraph, applying the provisions of IAS 21 to convert the Group's comparative and opening PPE values would have resulted in the material distortion of these values at the date of change in functional currency. Therefore, in order to ensure future compliance with IFRS, the Directors chose to revalue the Group's PPE at 30 June 2022 so as to reflect the correct PPE values at this date.

Effecting the change in accounting policy for PPE from the historical cost model to the revaluation model in the prior year is contrary to the provisions of IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), which does not permit the retrospective application of a change in accounting policy to revalue PPE. The Directors are, however, of the view that effecting the change in the PPE accounting policy from the historical cost model to the revaluation model in the comparative year, will present more fairly the PPE values, enhance comparability between the Group's current and comparative statements of financial position, and additionally, will assist users with their interpretation of the Group's financial position and performance.

The revalued amounts were based on a valuation exercise performed by Integrated Properties, an independent accredited valuer. Integrated properties has experience in valuing assets of the Group's nature. The valuation was conducted in accordance with international valuation standards.

The revaluation surplus, net of deferred tax, has been presented as other comprehensive income and transferred to the revaluation reserve. In order to comply with IFRS, management calculated what the IFRS compliant revaluation surplus would have been and effected a reclassification from retained earnings to revaluation reserve.

5 Treasury bills

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 ZW\$ currency. The foreign liabilities were registered and approved by the Reserve Bank of Zimbabwe, ("RBZ") and the Group transferred to the RBZ the ZW\$ equivalent of the foreign liabilities based on an exchange rate of US\$/ZW\$, 1:1 in line with Exchange Control Directives RU102/2019 and RU28/2019 and as directed by the RBZ. In September 2022, RBZ issued Treasury Bills (TBs) in respect of the deposit made by the Group. The Treasury Bills were issued at face value, with zero interest and have differing maturity tenures ranging from August 2025 to November 2042. In compliance with IFRS 9, the legacy debt was derecognised and the treasury bills were recognised. Management engaged an external valuer to determine the fair value of the TBs at initial recognition. Treasury Bills are traded on an Over the counter (OTC) market which is a secondary market that is less regulated, less transparent and less liquid. In a secondary market, zero coupon bonds are traded at discount rates agreed by the counter parties. The valuer gathered information on the prevailing discount rates and discounted the treasury bills to determine the fair value.

Supplementary Information (continued)

5 Treasury bills (continued)

Subsequently, the treasury bills were measured at amortised cost with interest recognised at 12% on the instrument using the effective interest rate. The Group is confident that the Government will honour the treasury bills due to the sovereign nature of the instrument and will continue to provide the necessary support.

6 Operating segments

	Milling and Manufacturing US\$'000	Properties US\$'000	Intersegment adjustments US\$'000	Total US\$'000
Revenue				
30 June 2023	343 405	3 431	(3 258)	343 578
30 June 2022	282 175	3 175	(3 049)	282 301
Operating profit				
30 June 2023	11 570	2 575	—	14 145
30 June 2022	17 695	2 174	—	19 869
Depreciation				
30 June 2023	(3 158)	(964)	—	(4 122)
30 June 2022	(2 631)	(705)	—	(3 336)
Net interest expense				
30 June 2023	(4 742)	103	(68)	(4 707)
30 June 2022	(5 271)	12	(3)	(5 262)
Profit before tax				
30 June 2023	7 155	2 679	(68)	9 766
30 June 2022	13 445	2 187	(3)	15 629
Segment assets				
30 June 2023	175 397	9 909	—	185 306
30 June 2022	147 539	23 263	—	170 802
Segment liabilities				
30 June 2023	(74 391)	(4 267)	—	(78 658)
30 June 2022	(65 316)	(315)	—	(65 631)
Capital expenditure				
30 June 2023	19 323	804	—	20 127
30 June 2022	11 548	749	—	12 297

	30 June 2023 US\$'000	30 June 2022 US\$'000
7 Income tax expense		
Current tax	1 189	1 904
- On current profits at normal rates	1 189	1 309
- Capital gains tax	—	595
Deferred tax relating to current temporary differences	1 048	1 324
	2 237	3 228

8 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.

	30 June 2023 US\$'000	30 June 2022 US\$'000
Reconciliation of basic earnings to headline earnings		
Profit for the year attributable to equity holders of the parent	7 529	12 401
Adjustment for capital items		
Profit on disposal of property, plant and equipment	—	(61)
Tax effect of adjustment	—	15
Financial loss arising from other assets write down	(791)	—
Tax effect of adjustment	195	—
Headline earnings attributable to ordinary shareholders	6 933	12 355
Number of shares in issue		
Weighted average number of ordinary shares in issue	68 400 108	68 400 108
Basic and diluted earnings per share (cents)	11.01	18.13
Headline earnings per share (cents)	10.14	18.06

Supplementary Information (continued)

	30 June 2023 US\$'000	30 June 2022 US\$'000
9 Inventories		
Raw and packaging material	28 908	28 536
Finished products	12 030	13 074
Consumable stores	6 150	5 416
Allowance for obsolete stocks	(48)	(27)
	47 040	46 999
10 Trade and other receivables		
Trade receivables	23 122	13 909
Prepayments	8 808	16 763
VAT receivable	1 772	1 854
Other receivables	2 202	1 779
	35 904	34 305
Allowance for credit losses	(876)	(589)
	35 028	33 716
11 Trade and other payables		
Trade payables	50 390	31 351
Other payables	2 978	7 263
	53 368	38 614
12 Commitments for capital expenditure		
Approved and contracted	3 587	7 310
Approved but not yet contracted	7 891	10 320
	11 478	17 630

The capital expenditure is to be financed out of the Group's own resources and borrowing facilities.

Supplementary Information (continued)

- 13 Interest bearing borrowings**

Interest bearing borrowings constitute bank loans from various local financial institutions which accrue interest at an average rate of 11% per annum as at 30 June 2023. The facilities are short-term and mature at different dates during the year and these will be reviewed and renewed when they mature. All facilities are secured by guarantees from National Foods Holdings Limited.
- 14 Uncertain tax positions**

There have been substantial changes in the currency environment in Zimbabwe in recent years, including the reintroduction of the ZW\$ as the country's functional currency in February 2019 through SI 33 of 2019, followed by the promulgation of SI 185 of 2020, which reintroduced the use of foreign currency for domestic transactions.

These significant changes have created numerous uncertainties in the treatment of taxes due across the economy, and have been compounded by a lack of clear statutory and administrative guidance or practical transitional measures from the tax authorities. The wording of existing tax legislation has given rise to varying interpretations of tax law within the country. Over time, it has become apparent that the Group's interpretation of the law regarding the currency of settlement for taxes, as well as the methodology for tax computation, has differed from that of the authorities, and this has resulted in a number of uncertainties in the Group's tax position. The Group continues to seek adjudication by the courts on the uncertain tax positions.
- 15 Events after the reporting date**

Final dividend declaration
The Board is pleased to declare a final dividend of US\$1.15 cents per share (2022:US\$5.95 cents per share) in respect of all ordinary shares of the Company. This dividend is in respect of the financial year ended 30th June 2023 and will be payable to all shareholders of the Company registered at the close of business on the 13th of October 2023.
- 16 Going concern**

The Directors have assessed the ability of the Group to continue as a going concern and believe that the preparation of these financial statements on a going concern basis is appropriate.

