

Reviewed Abridged

Group Financial Results

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

Short-Form Financial Announcement

This short-form announcement is the responsibility of the Directors and is only a summary of the information contained in the full announcement and does not contain full or complete details. Any investment decisions by investors and/or shareholders should be based on consideration of the full announcement.

A copy of the full announcement has been shared with Shareholders using the latest email addresses supplied by the Shareholder, and is available upon request and for inspection at the Company's registered office or via email request to **info@fts-net.com**. The full announcement is also available on the Victoria Falls Stock Exchange website: **www.vfex.exchange** and the Company website **www.nationalfoods.co.zw**.

FINANCIAL HIGHLIGHTS

	6 Months Ended 31-Dec-22 reviewed US\$'000	% change
Revenue	166 958	8%
Operating profit	13 958	(16%)
Profit for the period	5 959	(37%)
Total assets	179 443	8%
Total equity	109 965	2%
Total liabilities	69 478	21%
Basic and diluted earnings per share (US\$ cents)	8.71	(39%)
Headline earnings per share (US\$ cents)	8.73	(39%)
Dividend per Share		
Interim dividend (US\$ cents)	2.90	(15%)

Dividend

Ordinary shares

The Board is pleased to declare an interim dividend of 2.90 US cents per share (2021: 3.39 US cents per share) payable in respect of all ordinary shares of the Company. This interim dividend is in respect of the financial year ending 30th of June 2023 and will be payable to all the shareholders of the Company registered at the close of business on the 14th of April 2023. The payment of this interim dividend will take place on or around the 22nd of April 2023. The shares of the Company will be traded cum-dividend on the Victoria Falls Stock Exchange up to the market day of the 11th of April 2023 and ex-dividend from the 12th of April 2023.

External Auditor's Statement

The abridged Group interim financial results for the six months ended 31 December 2022 have been reviewed by the Group's external auditors, Deloitte & Touche, who have issued an adverse review conclusion. The auditor's review conclusion is appended on the Group's abridged interim financial statements which is available for inspection at the Company's registered office and on the Company and VFEX websites. The engagement partner responsible for this review is Lawrence Nyajeka, PAAB practice certificate number 0598.



T. Moyo

Independent, Non-Executive Chairman

Harare

24 March 2023





NATIONAL FOODS

HOLDINGS LIMITED

Abridged Reviewed Group Financial Results of National Foods Holdings Limited

for the six months ended 31 December 2022



Chairman’s Statement

Directors’ Responsibility

The Holding Company’s Directors are responsible for the preparation and fair presentation of the Group’s consolidated interim financial statements, of which this press release represents an extract. These abridged interim financial statements are presented in accordance with the disclosure requirements of the Victoria Falls Stock Exchange (“VFEX”) Listing Requirements for interim financial reporting (Preliminary Reports) and, except where stated, in accordance with the measurement and recognition principles of International Financial Reporting Standards (“IFRS”) and the manner required by the Companies and Other Business Entities Act (Chapter 24:31). The principal accounting policies applied in the preparation of these interim financial statements are consistent with those applied in the previous period’s financial statements. 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 interim financial statements.

Change in Functional Currency and Cautionary Advisory on reliance on Financial Statements

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. This has resulted in the external auditors issuing an adverse review conclusion on the Group’s consolidated interim financial statements for the current period under review.

In an endeavour to present the best possible view of the comparative financial performance and position of the Group in terms of the newly assessed functional currency, alternative procedures and techniques have been utilised in the translation of ZWL financial statements to US\$ financial statements. The alternative procedures and techniques utilised for the translation of ZWL financial statements to US\$ financial statements have been summarised in note 3 of the Supplementary Information section of the accompanying abridged financial statements.

While the Directors have exercised reasonable due care and applied judgments that they considered to be appropriate in the preparation and presentation of these interim financial statements, certain distortions may arise due to various specific economic factors that may affect the relevance and reliability of the information that is presented in economies that are experiencing hyperinflation, and in view of the fact that that there are certain subjectivities and technicalities involved in the translation of ZWL financial statements to US\$ financial statements as highlighted above; accordingly, the Directors would like to advise users to exercise caution in their use of these interim financial statements.

External Auditor’s Review Conclusion

The abridged Group interim financial results for the six months ended 31 December 2022 have been reviewed by the Group’s external auditors, Deloitte & Touche, who have issued an adverse review conclusion. The auditor’s review conclusion is appended on the Group’s abridged interim financial statements which is available for inspection at the Company’s registered office and on the Company and VFEX websites. The engagement partner responsible for this review is Lawrence Nyajeka, PAAB practice certificate number 0598.

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 the Group 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 the uncertain tax positions.

Operating Environment and Overview

The policy interventions which were introduced during May and June 2022 resulted in a reduction in inflation and improved economic stability for the period, especially during the first quarter (July-September), before a moderate increase in inflation took place in the second quarter (October-December). The dampening of inflation was largely brought about by very tight control of the ZW\$ money supply and an increase of interest rates to 200% per annum. Whilst the improved economic stability was welcome, the measures did have an impact on consumer demand, exacerbated by increases in international commodity prices, largely due to the Russia-Ukraine situation. In addition, the Group also incurred significant interest costs as it moved to replace its ZW\$ debt with cheaper US\$ debt following the increase in interest rates.

Volumes were further impacted by the performance of the formal trade, due to a number of pricing related and other distortions. Whilst the Group does serve the informal trade, our hope is that policy changes will be enacted to correct distortions within the formal trade to ensure that all market channels can compete on fair terms.

Salient Features

	6 Months Ended 31-Dec-22 Reviewed	
Volume (MT)	275 507	▼ (9%)
	US\$’000	
Revenue	166 958	▲ 8%
Operating profit	13 958	▼ (16%)
Profit before tax	7 913	▼ (40%)
Basic and diluted earnings per share (cents)	8.71	▼ (39%)
Interim dividend per share (cents)	2.90	▼ (15%)

The proportion of the Group’s transactions conducted in US\$ increased during the period, allowing the Group to sustainably fund both its raw material imports and capital expenditure. The 2022 winter wheat harvest saw exceptional levels of production, a most welcome development which allowed the Group to substantially reduce its import bill.

National Foods successfully listed on the VFEX on December 23rd 2022. The Board believes that the listing on the VFEX is extremely positive for National Foods’ shareholders for a number of reasons, as articulated in the detailed circular sent to shareholders prior to the listing.

Financial Performance

From a trading perspective, the period was a challenging one for the Group, impacted mainly by global wheat price increases which significantly dampened demand in the flour and flour related categories and various market adjustments following the drastic but necessary policy interventions which occurred in May and June 2022.

Volumes saw a disappointing decline of 9% to 275,000 MT, driven largely by the Flour unit. In spite of the lower volumes, revenue increased by 8% to US\$ 167 million, a reflection of higher global commodity prices, which impacted the cost of all of our major raw materials with the exception of rice. Operational expenditure disappointingly increased by 5% compared to last year, as many cost lines increased in real terms with the increased use of US\$ in the economy. EBITDA at US\$ 13.96 million was 16% below last year, with the result at PBT level being heavily impacted by net interest cost of US\$ 3.3 million incurred on ZWL debt in the first quarter. Interest rates were increased to 200% per annum for the quarter, and the high costs were incurred as we took measures to swap our expensive ZWL debt for US\$ debt.

The Group’s statement of financial position remains solid. During the period there was a significant reduction in working capital, from US\$ 45.3 million at the end of June to US\$ 35.5 million at the end of December. This largely contributed to the strong cash generation for the period, which enabled the on-going settlement of our capital expenditure whilst maintaining gearing at very moderate levels. At the end of the period net debt stood at US\$ 0.69 million. The Group will continue to focus closely on the optimisation of working capital, with the objective of funding the on-going aggressive capital expenditure program with relatively moderate levels of debt.

Operations Review

Flour Milling

Volumes for the Flour unit decreased by 20% compared to the same period last year, driven largely by significant increases in the price of wheat on the back of the situation in Ukraine. Imported wheat prices increased to as high as US\$ 600/MT during the period, well above “normal” levels of US\$ 400-450/MT. During the first quarter bread prices breached the key US\$ 1 per loaf price point, before reducing to US\$ 1 per loaf in the second quarter as wheat prices began to decline. This led to reduced bread consumption and bread was substituted by favourably priced alternative starches such as rice.

Heading into the second half, wheat prices have declined somewhat but remain at elevated levels. Accordingly, we see a partial but not full recovery of volumes in the second half.

The installation of the new mill at our Bulawayo site remains on track for commissioning in April 2023. The new mill will increase wheat milling capacity by an additional 2,000 MT per month.

Maize Milling

Maize volumes declined by 6% versus the prior year. The performance was very much a tale of two quarters, with volumes declining by 26% in the first quarter but increasing by 13% in the second quarter when compared to last year. Volumes in the first quarter were impacted by various distortions in procuring local maize, and recovered strongly in the second quarter as the locally available maize supplies dried up and maize supplies were accessed from GMB and imports.

A range of traditional grain products has been launched to support the base maize meal proposition, to serve an increasingly health conscious market. This range uses grains such as sorghum and millet and brings the added benefit of creating a market for producers, who largely farm in more marginal areas which are unsuitable for maize production.

Stockfeeds

Stockfeed volumes decreased by 4% when compared to prior year. As with Maize, volumes recovered in the second quarter, which registered growth of 6% versus a 13% decline in the first quarter. The first quarter volumes were disappointing as market demand remained relatively robust, and were impacted by distortions in the formal distribution channels mentioned above.

The new Programmable Logic Controller (PLC) system, which will enhance and optimise operational controls, was successfully commissioned during the period and it is expected that this will improve quality control and assurance as well plant productivity.

Downpacked

Volumes in the Downpacked unit, which primarily packs rice and salt saw encouraging growth of 12% 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. Red Seal salt continued to be the market leader in its category.

The Board has approved investment to upgrade the Aspidale Harare rice plant, at an expected cost of US\$ 5.3 million. The upgrade will see increases in storage and packing capacity as well as modernisation of the existing plant, in response to the opportunities which exist in the rice category.

Snacks

Volumes in this Division increased by 18% against the prior period, as both the Hard Snack (Zapnax) and Soft Snacks (King and Popticorn ranges) categories saw continued growth. The Board has approved a further investment of US\$ 1.5m to increase capacity in the Hard Snacks category.

Biscuits

Biscuit volumes declined by 15% 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 late in 2023.

Cereals

Volumes in the cereals unit grew by 42% year on year. The second phase of our breakfast cereal investment was commissioned towards the end of the period, resulting in the launch of a new range of breakfast cereals including corn flakes, bran flakes, wholegrain flakes and instant cereals. Although these products were only launched towards period end and hence did not make a meaningful contribution to these results, it is pleasing to note that the feedback from consumers has been exceptionally positive and we are looking forward to seeing their progress in the future. The recently installed plant has the capability to produce a wide range of products and we are looking forward to further expanding the portfolio of products.

Traded Goods

The Traded Goods unit saw volumes decline by 44% versus prior year, largely as a result of the performance of the pasta category. The pasta category performed poorly as a result of product supply challenges following an embargo on exports of pasta from Egypt. It is envisaged that volumes will recover in the period ahead, as demand for pasta in the market remains healthy.

As previously advised, the Board has approved the purchase of a new pasta line in response to the growing demand for pasta in the country.



Chairman’s Statement (continued)

Traded Goods (continued)
This investment will also see the localisation of pasta production, which traditionally has been imported as a finished product. It is expected that this project will commission late in 2023.

Contract Farming
National Foods continues to keenly support contract farming of maize, soya beans, wheat, sugar beans, sorghum and popcorn. The PHI/ Agrowth scheme made a significant contribution to the recent record winter wheat crop, with 78,000MT being produced, making the scheme the largest private contributor to wheat production. During the current summer season 4,300 hectares of maize, 7,500 hectares of soya beans and 750 hectares of sorghum have been grown under the scheme. The investment in this scheme for summer crop production was around US\$ 12 million, with National Foods being the largest off taker from the scheme.

Corporate Social Responsibility (CSR)
National Foods continues to support a wide range of causes through its comprehensive CSR program. The company supports 46 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.

Future Prospects
Management is currently focusing on two major priorities; firstly, the optimisation of trading performance following the upheaval in international wheat markets and a period of adjustment in the last half following various local policy interventions; and secondly, the implementation of a number of projects which will in time see the transition of National Foods from a producer of basic food commodities into a more diversified FMCG player with a larger basket of products. Critically, many of the new projects will see National Foods venturing up the value chain to more value add products, many of which will substitute imports.

In terms of the optimisation of current performance under the prevailing relatively stable environment, our management teams will remain intensely focussed on driving volumes, improving production and procurement efficiencies and lowering operational costs. In addition to this, the prudent management of working capital will be key to ensure the capital development is funded whilst maintaining gearing at moderate levels.

Interim Dividend
The Board is pleased to declare an interim dividend of 2.90 US cents per share payable in respect of all ordinary shares of the Company. This interim 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 14th of April 2023.

The payment of the interim dividend will take place on or around the 22nd of April 2023. The shares of the Company will be traded cum-dividend on the Victoria Falls Stock Exchange up to the market day of the 11th of April 2023 and ex-dividend from the 12th of April 2023.

Acknowledgement and Appreciation
I would like to once again record my sincere thanks to all our valued stakeholders. To the employees and management, my sincere gratitude for your efforts under challenging circumstances. Finally, I would like to thank my fellow Board members for their continued wise counsel and guidance.

Todd Moyo
Independent, Non-Executive Chairman
24 March 2023

Reviewed Abridged Group Statement of Profit or Loss And Other Comprehensive Income

	Notes	6 Months Ended 31-Dec-22 reviewed US\$’000	6 Months Ended 31-Dec-21 reviewed US\$’000
Revenue		166 958	155 273
cost of raw materials		(129 613)	(116 216)
Profit before items listed below		37 345	39 057
other trading income		394	393
operating expenses		(23 781)	(22 740)
Operating profit before depreciation, interest and tax		13 958	16 710
financial (loss)		(1 092)	(17)
depreciation	6	(1 744)	(1 632)
Profit before interest and tax		11 122	15 061
interest income		198	70
interest expense		(3 553)	(2 502)
equity accounted earnings		146	586
Profit before tax		7 913	13 215
Income tax expense		(1 954)	(3 818)
Profit for the period		5 959	9 397
Other comprehensive income			
- not to be recycled to profit and loss at a future point in time			
exchange differences on translation of foreign denominated balances		—	435
Total comprehensive income for the period		5 959	9 832
Profit for the period attributable to:			
equity holders of the parent		5 959	9 397
Total comprehensive income for the period attributable to:		5 959	9 832
EARNINGS PER SHARE (CENTS)			
-Basic and diluted earnings per share (cents)	8	8.71	14.37

Reviewed Abridged Group Statement of Financial Position

	Notes	At 31-Dec-22 reviewed US\$’000	At 30-Jun-22 audited US\$’000
ASSETS			
Non-current assets			
property, plant and equipment		68 738	62 562
intangible assets		379	379
investment in associates		1 658	1 512
other financial assets		430	4 291
right of use assets		190	273
		71 395	69 017
Current assets			
other financial assets		6 929	9 933
inventories	9	49 978	51 813
trade and other receivables	10	39 725	32 732
cash and cash equivalents		11 416	2 114
		108 048	96 592
Total assets		179 443	165 609
EQUITY AND LIABILITIES			
Capital and reserves			
share capital		684	684
distributable reserves		109 281	107 392
Total shareholders’ equity		109 965	108 076
Non-current liabilities			
deferred tax liability		1 285	647
lease liability	11	86	33
		1 371	680
Current liabilities			
trade and other payables	12	53 838	38 783
current portion of lease liability	11	81	257
borrowings	14	12 114	14 736
provisions		406	445
current tax payable		1 668	2 299
shareholders for dividends		—	333
		68 107	56 583
Total liabilities		69 478	57 533
Total equity and liabilities		179 443	165 609

Reviewed Abridged Group Statement of Cash Flows

	6 Months Ended 31-Dec-22 reviewed US\$’000	6 Months Ended 31-Dec-21 reviewed US\$’000
Operating activities		
cash generated from operations	14 306	16 193
working capital changes	8 385	(9 733)
Operating cash flow	22 691	6 460
interest received	198	70
interest paid	(3 553)	(2 501)
income tax paid	(1 947)	(3 458)
Net cash inflows from operating activities	17 389	571
Investing activities		
purchase of property, plant and equipment to maintain operations	(1 506)	(642)
purchase of property, plant and equipment to expand operations	(6 319)	(6 294)
loan from/(to) associate	—	(56)
decrease in financial assets	6 865	—
proceeds on disposal of property, plant and equipment	—	5
Net cash outflow from investing activities	(960)	(6 987)
Financing activities		
proceeds from borrowings	8 022	3 024
repayment of borrowings	(10 644)	(677)
lease liability repayments	(102)	(82)
dividends paid	(4 403)	(721)
Net cash (outflow)/inflow from financing activities	(7 127)	1 545
Increase/(decrease) in cash and cash equivalents	9 302	(4 871)
Cash and cash equivalents at the beginning of the period	2 114	8 982
Cash and cash equivalents at the end of the period	11 416	4 110

Reviewed Abridged Group Statement of Changes In Equity

	Share capital US\$'000	Distributable reserves US\$'000	Total US\$'000
Balance at 30 June 2021	684	90 373	91 057
profit for the period	—	9 397	9 397
other comprehensive income	—	435	435
total comprehensive income	—	9 832	9 832
dividend declared	—	(1 152)	(1 152)
Balance at 31 December 2021	684	99 053	99 737
profit for the period	—	1 259	1 259
other comprehensive income	—	9 366	9 366
total comprehensive income	—	10 625	10 625
dividends declared	—	(2 286)	(2 286)
Balance at 30 June 2022	684	107 392	108 076
profit for the period	—	5 959	5 959
total comprehensive income	—	5 959	5 959
dividend declared	—	(4 070)	(4 070)
Balance at 31 December 2022	684	109 281	109 965

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 Manufactures (Proprietary) Limited which are incorporated in Botswana.

The Group's main activities consist of the milling of flour and maize, manufacture of stockfeeds, cereals, snacks, biscuits, 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 interim financial results for the half year ended 31 December 2022 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 half year financial statements to be prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and as a minimum, contain the information required by International Accounting Standards ("IAS") 34 (Interim Financial Reporting). The Group's interim financial statements have been prepared based on the statutory records that are maintained under the historical cost basis and presented in United States Dollars ("US\$").

The principal accounting policies applied in the preparation of the Group interim consolidated financial statements are in terms of IFRS and have been applied consistently in all material respects with those of the previous consolidated financial statements. 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 for the reasons disclosed in Note 3.

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 half 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 review conclusion for the current period ended 31 December 2022 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 (ZWL) 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\$).

Supplementary Information (continued)

3 Functional Currency (continued)

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 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.

Management applied the provisions of IAS 21 to translate the Group's Statement of Financial Position as at 30 June 2022 and the results reflected a material erosion of property, plant & equipment and inventory when compared to the previously reported 2018 USD financial statements and the purchase cost, respectively. All of the Group's previously reported IAS 29 financial statements have carried a cautionary statement in respect of this mismatch.

The table below shows the impact of these distortions on the opening statement of financial position as at the date of change in functional currency (1 July 2022).

	Reported US\$'000	IAS 29 based US\$'000	Impact US\$'000
Property, plant and equipment	62 562	20 604	(41 959)
Inventories	51 813	42 056	(9 757)

Reported column refers to the balances presented as comparatives in the US\$ statement of financial position for the period ended 31 December 2022. IAS 29 based column refers to the ZW\$ inflation adjusted balance at 30 June 2022, converted to US\$ based on the prevailing rate as required IFRS.

To achieve a fair view and enhance comparability of the financials, the Directors applied the following methodology:

- a) Property, plant and equipment
In determining the property, plant and equipment balance, management used the June 2018 audited balance as a benchmark and adjusted the balance for transactions that occurred from that date to 30 June 2022. These transactions relate to additions and disposals which were predominantly US\$. Assets acquired or disposed off in ZWL were converted to US\$ at spot rate on transaction date and depreciation was calculated based on the accumulated US\$ costs.
- b) Inventory
The Group's key raw materials comprise of maize, wheat, rice, soya and salt whose pricing is determined on the basis of the US\$. These raw materials constitute about 90% of inventory. The inventory costs have been determined on the basis of the initial purchase price or translated to US\$ at spot rate.
- c) Deferred tax
Management recomputed deferred tax based on the non-monetary positions adopted from the methodology above.
- d) Monetary positions were converted to US\$ by applying the provisions of IAS 21.
- e) The corresponding amounts were restated for comparability. The opening, comparative and non monetary balances were translated to US\$ at monthly average rates.

The conversion of items noted above constitutes a departure from the requirements of IAS 21, however the directors are of the view that the translation method applied provides a true and fair view of the Group's financial performance and position. The external auditors have issued an adverse review conclusion due to non-compliance with IAS 21.

The table below shows the impact of the non-compliance with IAS 21 on the 30 June 2022 balances presented in the statement of financial position.

	Reported US\$'000	IAS 29 based US\$'000	Impact US\$'000
Total assets	165 609	111 267	(54 342)
Total liabilities	57 533	(55 839)	1 694
Equity	(108 076)	(55 428)	52 648

4 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. 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. The discounted value of the TBs at 31 December 2022 was \$430,219, indicating an average discount rate of 64% from par value. The Group is confident that the Government will honour the treasury bills due to the sovereign nature of the instrument.

Supplementary Information (continued)

5 Operating Segments

	Milling and Manufacturing US\$'000	Properties US\$'000	Total US\$'000
Revenue			
31 Dec 2022	165 239	1 719	166 958
31 Dec 2021	153 691	1 582	155 273
Operating profit before depreciation, interest and tax			
31 Dec 2022	12 326	1 632	13 958
31 Dec 2021	15 314	1 396	16 710
Depreciation			
31 Dec 2022	(1 361)	(383)	(1 744)
31 Dec 2021	(1 280)	(352)	(1 632)
Net Interest Expense			
31 Dec 2022	(3 412)	57	(3 355)
31 Dec 2021	(2 423)	(70)	(2 432)
Profit before tax			
31 Dec 2022	6 665	1 248	7 913
31 Dec 2021	12 171	1 044	13 215
Segment assets			
31 Dec 2022	155 234	24 209	179 443
30 June 2022	142 346	23 263	165 609
Segment liabilities			
31 Dec 2022	(68 740)	(738)	(69 478)
30 June 2022	(57 218)	(315)	(57 533)
Capital expenditure			
31 Dec 2022	7 510	314	7 824
31 Dec 2021	6 824	111	6 935

	At 31-Dec-22 US\$'000	At 31-Dec-21 US\$'000
6 Depreciation	1 744	1 632
7 Capital expenditure for the period	7 824	6 935

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.

	6 Months Ended 31-Dec-22 US\$'000	6 Months Ended 31-Dec-21 US\$'000
Reconciliation of basic earnings to headline earnings		
Profit for the year attributable to equity holders of the parent	5 959	9 832
Adjustment for capital Items		
Profit on disposal of property, plant and equipment	14	—
Tax effect of adjustment	(3)	—
Headline earnings attributable to ordinary shareholders	5 970	9 832
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)	8.71	14.37
Headline earnings per share (cents)	8.73	14.37

Supplementary Information (continued)

	At 31-Dec-22 US\$'000	At 30-Jun-22 US\$'000
9 Inventories		
Raw materials and packaging	37 516	36 031
Finished products	10 097	13 816
Consumable stores	2 469	1 993
Provision for obsolete stocks	(104)	(27)
	49 978	51 813
10 Trade and other receivables		
Trade receivables	25 077	13 397
Prepayments	9 778	15 779
VAT Receivable	994	1 853
Other receivables	3 931	1 780
	39 780	32 809
Allowance for credit losses	(55)	(77)
	39 725	32 732
11 Lease liability		
At beginning of the year	290	312
Remeasurement	(47)	(42)
Accretion of interest	36	105
Payments	(102)	(82)
Exchange difference	(10)	(3)
At end of the year	167	290
Analysis		
Non-current	86	33
Current	81	257
	167	290
Undiscounted future lease payments		
Payable within one year	204	204
Payable two to five years	697	799
	901	1 003
12 Trade and other payables		
Trade payables	48 532	31 965
Other payables	5 306	6 818
	53 838	38 783
13 Commitments for capital expenditure		
Approved and contracted	9 143	7 310
Approved but not yet contracted	10 112	10 320
	19 255	17 630

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

14 Interest bearing borrowings

Interest bearing borrowings constitute bank loans from various local financial institutions which accrue interest at an average rate of 11.01% per annum as at 31 December 2022. The facilities are short-term and mature at different dates during the year and will be reviewed and renewed when they mature.

15 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 the uncertain tax positions.



INDEPENDENT REVIEWER'S REPORT TO THE MEMBERS OF NATIONAL FOODS HOLDINGS LIMITED

REPORT ON REVIEW OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Introduction

We have reviewed the condensed consolidated interim statement of financial position of National Foods Holdings Limited ("the Group"), as of 31 December 2022 and the condensed consolidated interim statement of profit or loss and other comprehensive income, condensed consolidated interim statement of changes in equity and condensed consolidated interim statement of cash flows for the six-month period then ended.

Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standards on Interim Financial Reporting ("IAS 34") and the Securities and Exchange (Victoria Falls Stock Exchange Listings Requirements) Rules, 2020.

Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements ("ISRE") 2410 'Review of Interim Financial Information Performed by the 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

Non-compliance with International Accounting Standard (IAS) 21 "The effects of changes in foreign exchange rates" with respect to the determination of the appropriate spot rate.

During the period, the Group utilised an internally generated foreign exchange rate, which had been determined through the Group's trading arrangements, to convert foreign currency transactions to a functional currency of United States Dollars (USD). This was not in compliance with the requirements of International Financial Reporting Standards (IFRS) which requires the use of the official spot rate, a rate which should be determined using the Foreign Exchange Auction Trading System exchange rates, as published by the Reserve Bank of Zimbabwe ("Auction Rate", or the "official spot rate").

Because of the number of transactions and line items impacted by the use of different rates (as described above) for the translation of foreign currency transactions, we are unable to quantify the impact of using the official spot rate for these translations on the consolidated financial statements. As a result, the departure from the official spot rate as required under IAS 21 is considered to be material and pervasive to the condensed consolidated interim financial statements of the Group.

Non-compliance with IAS 21 “The effects of changes in foreign exchange rates” with respect to the translation of balances on change in functional currency.

The Group changed functional currency from the Zimbabwe Dollar (ZWL) to United States Dollar (USD) on 1 July 2022. The Group has adopted USD opening balance amounts on 1 July 2022, and corresponding figures shown in the half year financial results, that the Directors have determined by applying the spot rates on dates that transactions initially arose. This is not in compliance with the requirements of IAS 21 which requires determination of the opening USD balances and comparative amounts on 1 July 2022 using the spot rate at that date.

The precise quantification of the effects of the non-compliance with IAS 21 on the Group’s half year results have not been determined. However, we have determined that the errors due to the IFRS non-compliance described above are material. The non-compliance with IFRS impacts the comparative balances presented and has carryover effects on property plant and equipment, investment in associate, inventory, deferred tax, ordinary share capital and distributable reserve balances presented in the statement of financial position on 31 December 2022. In addition, this matter impacts the income statement amounts of depreciation, cost of raw materials consumed, income from associate, income tax and profit for the period.

Because the number of financial statement line items impacted by the incorrect application of the change in functional currency are substantial to the financial statements taken as a whole, we have concluded that the departure from the application of change in functional currency as required under IAS 21 is material and pervasive to the condensed consolidated interim financial statements and the accompanying corresponding figures presented.

Adverse conclusion

Due to the significance of the matters described in the Basis for adverse conclusion paragraph, we conclude that the condensed consolidated interim financial statements do not present fairly, in all material respects, the financial position of the Group as at 31 December 2022, and of its financial performance and its cash flows for the six-month period then ended in accordance with the requirements of IAS 34 and the Securities and Exchange (Victoria Falls Stock Exchange Listings Requirements) Rules, 2020.

Deloitte & Touche

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29 March 2023