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## TRADING UPDATE FOR FIRST QUARTER TO 31 DECEMBER 2022

### TRADING ENVIRONMENT

The first quarter of the year was characterised by Government's efforts to contain inflation and curb further devaluation of the local currency. Foreign currency transactions continued to increase across the economy despite the narrowing of the exchange rates on the official and the alternative market. The resulting liquidity constraints affected demand. The gains from the relative stability of exchange rates and easing of inflation in the last quarter of the 2022 financial year were reversed as electricity supply challenges worsened and seriously affected operations.

Demand in Zambia remained strong despite the slowing economic growth and an upturn in inflation.

### GROUP BUSINESS PERFORMANCE

Volumes for the period declined overall by 3% compared to last year. Profitability was impacted by reduced plant availability resulting in significant under recoveries particularly at the Mill.

Export volumes fell by 17% as orders could not be met in December. Revenue increased by 39% in inflation adjusted terms from prior year driven by the increased local battery and pen sales despite the intermittent supply gaps arising from outages in power and water supplies.

Margins remain strong as costs have generally been recovered from customers. The increasing hard currency sales continue to provide a hedge to limit the impact of the foreign currency movements.

The commercialization of the new Tissue Mill was affected by the unprecedented power challenges during the period with the delay necessitating additional support from lenders to ease the strain on the Group.

### DIVISIONAL PERFORMANCES

#### Batteries

Overall volumes for batteries were 1% lower than prior year whilst export volumes fell by 13% on account of product shortages. The division was cushioned by the greater inventory holding levels which had been put in place in response to the global supply chain disruptions.

#### Paper

Paper volumes decreased by 10% compared to last year as the anticipated efficiency improvements from the recapitalization program were delayed. The Mill continues to rely on imported waste paper as the recovery of local collections remains slow.

The consolidation of the Mill, Waste Collection and Paper converting businesses to reduce operating costs is almost complete and will enable segment to compete on the export market where demand remains firm. Pre-production and engineering cash costs related to the Mill and the Converting equipment will necessitate increased borrowings in the short term.

#### Eversharp

Volumes increased by 5% from last year. Opportunities to meet increased local demand were lost due to delays in receiving imported raw materials in December. Export orders could not be met. The retooling of the division which had been held back was completed in December. The increased pen production capacity will ensure that product supply shortages are averted particularly during the peak back to school periods.

#### Mutare Estates

Timber volumes declined by 29% during the period as focus remained on sustainability. Value addition and seedling projects enabled the division to maintain its revenues and profitability.

### OUTLOOK

We anticipate that the environment will remain complex and challenging as measures to eliminate distortions, stabilize the local currency and tame inflation are maintained. The Group will continue to focus on value preservation, cost containment and operational efficiencies.

We remain wary of the risk posed by short term borrowings and are working to refinance these with suitable facilities. The elimination of local currency borrowings in December has helped to ease pressure on operations.

The improved power supply will enable the optimization of the paper projects. The Group remains resilient and will be better placed to take advantage of emerging opportunities on completion of the on going capital expenditure projects.

A. M. CHINGWECHA  
**GROUP SECRETARY**  
08 FEBRUARY 2023

