National Foods Holdings Limited

Salient Features - Continuing Operations	30 June 2011 audited	30 June 2010 audited
Volumes (mt)	351 533	300 143
Revenue (US$'000)	201 170	160 818
Operating profit (US$'000)	8 627	2 888
Profit before tax (US$'000)	7 304	869
Basic earnings per share (UScents)	7.37	4.60
Dividends per share - paid and proposed (UScents)	1.55	-

The Directors are pleased to present the **Audited Financial Results of National Foods Holdings Limited** for the year ended 30 June 2011

Chairman's Statement

Introduction
The stable political and economic environment has enabled the Group to continue its strategy of streamlining and right sizing its operations whilst striving to match regional performance benchmarks.

The Group is well positioned to enjoy its share of Zimbabwe's economic growth if it can achieve increased capacity utilisation and access more locally grown raw materials. Government's decision to introduce a nominal duty on imported maize meal in July 2011 should enable the Group to increase maize milling volumes without increasing retail price. Should a similar duty on flour be introduced it will likewise have positive impact. We support Government's strategy to boost throughput of local manufacturers to stem the flow of factory closures and staff retrenchment.

The increase in throughput will in turn encourage local crop production which is critical for national food security in an era of rising commodity prices. Seven of our thirteen manufacturing units are currently mothballed and we remain well positioned to process the anticipated increased volumes of locally grown commodity. The continued economic stability is also encouraging a longer term view towards plant upgrades and capital developments.

Overview of Financial Performance
The Group's results for the full year ending 30 June 2011 reflect the delicate balance of retaining revenue in a fiercely competitive retail arena and protecting a slim operating margin whilst simultaneously retooling, recapitalising, establishing appropriate staffing levels and re-engineering systems and processes. Most year on year performance indicators show positive trends, with the exception of the gross profit percentage which we intentionally sacrificed in order to maintain valuable market share.

Volumes sold at 351,000 tons were 17% above the prior year and this translated to revenue of $201m which was an annual increase of 25%. Gross profit measured in absolute dollar terms increased by 19% versus prior year.

Total costs were reduced by $25 per ton in line with the need for a more competitive value chain. The voluntary retrenchment program is nearing completion and $1m was spent on this during the reporting period. The Group further spent $2.6m on repairs and maintenance.

Other financial highlights for the year were:
- Profit for the year from continuing operations of $5.1m.
- Net debt reduced to $1.1m from $4.3m prior year.
- Weighted average cost of debt of 10% versus 14% prior year.
- Gearing reduced to 2.6% from 11% prior year.
- Net cash flows from operating activities $4.1m.
- Capital expenditure of $2.2m which was funded from internal resources.

The Group has adequate funding facilities to support its short and medium term requirements.

Operations
Manufacturing operations were consolidated into fewer more productive sites in the year under review. This initiative improved efficiencies and our extensive distribution network ensured that service levels to our customers were maintained at even the most remote locations.

The Group spent $2.2m on capital expenditure and this was predominantly directed towards enhancing manufacturing efficiencies, upgrading the IT platform, security and controls at the major manufacturing sites. A new rice packing plant was constructed in Mutare at an existing National Foods facility at a cost of $636,000 and was commissioned in July 2011.

In July 2011 the assets of the Transport division were disposed of and a service level agreement concluded with the new owners to provide transportation for 15,000 tons of product monthly. The disposal is in keeping with our strategic intent to focus on and strengthen our core Milling, Stockfeeds and FMCG businesses supported by a strong distribution platform. Pursuant to this, greater resource has been allocated to our route to market architecture to improve efficiencies and capitalise on our brands and scale which are material competitive advantages.

Flour Milling
Flour volumes for the year were flat on the comparative year however the gross margin fell by 3% in the last quarter as we endeavored to hold volumes at the remaining operating mill. The Group has sufficient stocks of the correct wheats to produce a high quality flour but remains under pressure to compete against cheap Turkish and Mozambican duty free imports. The Gloria brand remains the market leader in the prepacked flour category.

Capital expenditure for this business amounted to $413,000 for the year and largely involved plant improvements. Projects earmarked for the ensuing financial year will further improve manufacturing efficiencies as well as enhance bulk flour distribution capabilities.

Maize Milling
Initiatives to improve quality, packaging and pricing during the year resulted in volume growth of 52% for the maize category. Capacity utilisation of the Harare and Bulawayo mills is 35% of installed capacity and the mills in Gweru, Mutare and Masvingo remain closed under care and maintenance. The Group has ample capacity and sufficient raw materials to contribute significantly to the national maize meal requirements into the foreseeable future. As with Flour the ongoing capital expenditure initiatives are focused on enhancing efficiency and quality.

Red Seal is the entrenched market leader in the roller meal category whilst Pearlenta is now the second choice refined product in its category. Considerable investment will be made to continue to support the Pearlenta brand going forward.

Stockfeeds
The Stockfeeds business continued on a positive trajectory with volume increasing by 31% over prior year, justifying management's strategy to price competitively and distribute widely in order to assist in the rehabilitation of the nation's livestock levels.

The Group's technical relationship with In Vivo of France through Coprex of South Africa continues to provide innovations in formulations and processes which results in a better quality feed. We reached out to farmers through the provision of training programs that aim to improve the production efficiency of our customers.

A new specialist beef and dairy feed plant at Harare will be commissioned in October 2011 and has a production capacity of 6,000 tons per month whilst a third pelleter was installed in June 2011 to support the expected growth in the poultry sector. Our investment into Capital Foods was profitable in the first year of operation and we expect this business to continue its growth pattern.

Management focus going forward will be on further improving production efficiencies and enhancement of bulk distribution capability whilst maintaining a strategy to grow volumes.

FMCG
Sale volumes in this business grew year on year predominantly through the introduction of sugar packaged into the Red Seal Brand. Like for like volumes increased by only 9% mainly due to significant competition in the rice category. In keeping with Group strategy, prices were adjusted and market share regained towards the year end.

Red Seal salt, Fattis and Monis pastas, Perfecto noodles and Koo baked beans further consolidated dominant positions in their respective categories. During the year the Mazappy snack line, kapenta and biscuits were discontinued due to poor performance.

Management has been tasked with re-engineering the FMCG business in the forthcoming year to enhance profitability.

Depot Network
Sales volumes increased by 93% compared with the prior year and contributed 26% of total Group revenue. In line with the growth potential of rural communities we will offer a greater range of products and services to our wholesale depot customers. Further capital expenditure has been earmarked to improve IT connectivity to the depot network. This initiative will enhance both stock and cash management.

Management's efforts to improve controls and service levels have impacted positively on this unit's contribution to Group strategy and cash generation.

Properties
Five properties were disposed of during the year leaving net lettable area of 105,000m of which 57% was let to National Foods, 40% to third parties and 3% remains unoccupied. The Group's balance sheet is bloated with property assets that are not producing sufficient returns, particularly given the substantial increases in property rates. Management will continue to dispose of non-core properties whilst creating a broader long term strategy for the overall portfolio in order to provide a better return on equity.

Future Prospects
The Group has recently implemented an activity based measurement system. An integrated sales and operations planning module driven by market demand principles will be adopted. In addition there will be continued strong emphasis on production efficiencies, savings from procurement, logistics and line-automation whilst growing revenue and volumes. Continued investment will be made behind the Group's brands in an effort to drive consumer preference.

Needless to say the success of our strategy is dependent upon continued political and economic stability and a concerted effort to grow more crops locally.

Dividend
The Board has declared a final dividend of 0.85 US cents per share payable on or about 7 October to shareholders registered in the books of the company by noon 23 September 2011. The transfer books and register of members will be closed from 24 September 2011 to 2 October 2011, both dates inclusive. Together with the interim dividend of 0.7 US cents per share this final dividend brings the total dividend for the year to 1.55 US cents per share.

Acknowledgement and Appreciation
I would like to express thanks to my Board colleagues for their support and commitment. In particular I wish to thank Mike Conway, who resigns with effect from 30 June 2011, for his guidance during much of the transition to a dollarised economy. I welcome Mr Neil Brimacombe of Tiger Brands to the Board from 1 July 2011.

My thanks also go to the management and staff for their efforts and commitment which is evidenced by National Foods being the market brand leader in most of the categories in which we compete. I wish the management well in their strategies which I am confident will steadily improve returns to shareholders and stakeholders alike.

Todd Moyo
Chairman
23rd August 2011

Abridged Group Statement of Comprehensive Income

	Year ended 30 June 2011 audited USD	Year ended 30 June 2010 audited USD
Continuing Operations		
Revenue	201 169 576	160 818 215
Operating profit before depreciation and amortisation	8 627 160	2 888 401
depreciation and amortisation	(1 594 616)	(1 449 116)
Profit before interest and tax	7 032 544	1 439 285
net interest	(551 333)	(1 198 098)
equity accounted earnings	822 845	627 955
Profit before tax from continuing operations	7 304 056	869 142
tax	(2 207 267)	2 278 801
Profit for the year from continuing operations	5 096 789	3 147 943
Discontinuing Operations		
loss after tax for the year from discontinuing operations	(72 911)	(251 085)
Profit for the year from continuing and discontinued operations	5 023 878	2 896 858
Other comprehensive income		
exchange differences arising on the translation of foreign operations	(1 390)	-
Other comprehensive income for the year, net of tax	(1 390)	-
Total comprehensive income for the year	5 022 488	2 896 858
Profit for the year from continuing and discontinuing operations attributable to:		
equity holders of the parent	4 970 886	2 896 858
non-controlling interests	52 992	-
	5 023 878	2 896 858
Total comprehensive income for the year from continuing and discontinuing operations attributable to:		
equity holders of the parent	4 969 496	2 896 858
non-controlling interests	52 992	-
	5 022 488	2 896 858
Earnings per share (cents)		
from continuing and discontinuing operations		
basic earnings per share	7.27	4.24
from continuing operations		
basic earnings per share	7.37	4.60

Abridged Group Statement of Financial Position

	At 30 June 2011 audited USD	At 30 June 2010 audited USD	At 30 June 2009 audited RESTATED USD
ASSETS			
Non-current assets			
property, plant and equipment	33 266 170	34 288 277	34 495 612
other non-current assets	877 212	627 955	-
	34 143 382	34 916 232	34 495 612
Current assets			
cash and cash equivalents	3 887 798	7 084 414	2 283 039
other current assets	41 173 937	36 264 451	27 696 741
	45 061 735	43 348 865	29 979 780
assets classified as held for sale	748 045	-	-
Total assets	79 953 162	78 265 097	64 475 392
Equity and Liabilities			
Capital and reserves			
ordinary share capital	683 988	683 788	-
non-distributable reserves	24 682 418	24 683 808	25 367 596
distributable reserves	18 156 989	13 664 755	10 767 897
	43 523 395	39 032 351	36 135 493
non-controlling interests	77 817	-	-
Total shareholders' equity	43 601 212	39 032 351	36 135 493
Non-current liabilities			
deferred tax liability	8 190 198	7 360 844	9 796 605
	8 190 198	7 360 844	9 796 605
Current liabilities			
interest-bearing borrowings	5 000 000	11 394 844	3 135 425
trade and other payables	23 000 219	20 477 058	15 127 389
current tax liability	161 533	-	280 480
	28 161 752	31 871 902	18 543 294
Total liabilities	36 351 950	39 232 746	28 339 899
Total equity and liabilities	79 953 162	78 265 097	64 475 392

Abridged Group Statement of Cash Flows

	Year Ended 30 June 2011 audited USD	Year Ended 30 June 2010 audited USD
Cash generated from operating activities	5 802 803	(4 127 717)
net interest paid	(650 009)	(1 572 003)
tax	(1 044 255)	(409 899)
Net cash flows from operating activities	4 108 539	(6 109 619)
Investing activities		
purchase of property, plant and equipment	(2 217 181)	(1 959 147)
other investing activities	1 244 597	4 610 723
Net cash flows from investing activities	(972 584)	2 651 576
Net cash outflow before financing activities	3 135 955	(3 458 043)
Financing activities	(6 332 571)	8 259 418
Net increase in cash and cash equivalents	(3 196 616)	4 801 375
Cash and cash equivalents at the beginning of the year	7 084 414	2 283 039
Cash and cash equivalents at the end of the year	3 887 798	7 084 414

Group Statement of Changes in Equity

	Share Capital USD	Non Distributable Reserves USD	Distributable Reserves USD	Total USD	Non controlling Interests USD	Total USD
Balance at 30 June 2009 - Restated	-	25 367 596	10 767 897	36 135 493	-	36 135 493
Profit for the year	-	-	2 896 858	2 896 858	-	2 896 858
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	2 896 858	2 896 858	-	2 896 858
Transfer of redenominated share capital	683 788	(683 788)	-	-	-	-
Balance at 30 June 2010	683 788	24 683 808	13 664 755	39 032 351	-	39 032 351
Profit for the year	-	-	4 970 886	4 970 886	52 992	5 023 878
Other comprehensive income	-	(1 390)		(1 390)	-	(1 390)
Total comprehensive income	-	(1 390)	4 970 886	4 969 496	52 992	5 022 488
Dividends paid	-	-	(478 652)	(478 652)	-	(478 652)
Acquisition of subsidiary	-	-	-	-	24 825	24 825
Share options excercised	200	-	-	200	-	200
Balance at 30 June 2011	683 988	24 682 418	18 156 989	43 523 395	77 817	43 601 212

Supplementary Information

1 Basis of preparation
The basis of preparation of these financial statements is International Financial Reporting Standards (IFRS).

	Year Ended 30 June 2011 audited USD	Year Ended 30 June 2010 audited USD
2 Capital expenditure for the year	2 217 181	1 959 147
3 Commitments for capital expenditure		
Contracts and orders placed	723 217	-
Authorised by directors but not contracted	1 858 416	1 599 469
	2 581 633	1 599 469

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

4 New and amended IFRS and IFRIC interpretations
The Group has decided to adopt IFRS 1, First-Time Adoption of International Financial Reporting Standards ahead of the effective date. This has had the effect in the current year financial reporting of disclosing three statements of financial position together with appropriate notes. The statements of financial position cover the opening position at 30 June 2009 with deemed US Dollar amounts, the closing balances as at 30 June 2010 and the closing balances as at 30 June 2011.

Directors: T. Moyo (Chairman), J.J. Brooke (Managing)*, T.W. Brown, M.J. Conway, L.T. Murimwa (Financial)*, J.P. Schonken, N. Segoale. (*Executive)