NATIONAL FOODS
HOLDINGS LIMITED

# Reviewed Financial Results of National Foods Holdings Limited

*for the year ended 30 June 2012*

## Salient Features

| (continuing operations) | Year Ended 30 June 2012 Reviewed | | % |
|---|---|---|---|
| Volumes (mt) | 403 863 | ^ | 15% |
| | USD'000 | | |
| Revenue | 233 998 | ^ | 16% |
| Operating profit | 12 940 | ^ | 50% |
| Profit before tax | 10 708 | ^ | 47% |
| Basic earnings per share (cents) | 11.55 | ^ | 57% |
| Headline earnings per share | 11.32 | ^ | 67% |

## 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 financial statements have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Companies' Act (Chapter 24:03). The principal accounting policies of the Group are consistent with those applied in the previous year.

**Audit Statement**
In line with Public Notice 2/2012 issued jointly on 7 August 2012 by the Public Accountants and Auditors Board, the Zimbabwe Accounting Practices Board, the Securities Exchange Commission of Zimbabwe and the Zimbabwe Stock Exchange; the Group's external auditors, Ernst & Young, have issued an unmodified review conclusion on the financial statements of the Group for the year ended 30 June 2012. The audit of the Group financial statements is complete pending the finalisation of the annual report; no changes are expected on the reviewed numbers. The unmodified review report is available for inspection at the Company's registered office.

**Introduction**
The Economy remained stable throughout the year although the second half of the financial year showed signs of slowing down due to liquidity constraints. Towards the end of the financial year, world cereal prices continued to rise and we are likely to see a period of grain shortages in the region which will negatively impact on the consumer. Maize, wheat and soya bean prices are at record highs. The possible grain shortages reinforces the need for our local agriculture to be more productive so that we are not dependent on other countries for agricultural raw materials and related finished goods. The introduction of duty on imported flour soon after year end should see an increase in milling volumes in the plant which should reduce overall conversion costs. Grain millers continue to work with all stakeholders to maintain the delicate balance between the viability of the milling sector and impact on the consumer.

At a microeconomic level the Group has generated improved cash flows from trading, good working capital management and disposal of non-core assets. Most of these funds have been invested in capital expenditure ($4.8m) and on repairs and maintenance ($3m) into the core activities of milling, stock feed production and packaging of Fast Moving Consumer Goods (FMCG) products.

**Overview of Group Financial Performance**
The Group posted pleasing results for the year ending 30 June 2012 with profit before tax from continuing operations at $10.7m showing a growth of 47% driven by a volume growth of 15%, better operational efficiencies and focus on the core areas of the business. The Group benefited hugely from the turnaround in the Maize division. Flour and Stockfeeds showed a pleasing recovery in the last quarter and this recovery is expected to continue into the following year. Turnaround strategies are in place to revamp and improve performance in the FMCG Division and these include streamlining distribution costs, reducing the interest burden and developing category plans which should hopefully spur volumes in the coming financial year.

The focus from 2009 to 2012 was to establish a competent manufacturing base and to compete for market share with nationwide distribution capability and keenly priced products. We believe that the Group has achieved this as evidenced by an improved set of financial results and most importantly overall growth in volumes sold. The strategic initiatives set in place in the early stages of dollarisation are beginning to have a positive effect on the Group. There is still however significant work to be done to right size and re-equip the business to match regional efficiency benchmarks. To this end numerous interventions are ongoing to upgrade our operating platform and up-skill our workforce wherever possible.

Although most of our initial strategic objectives have been achieved, we still need to focus on the Information Technology (IT) platform to enhance operational efficiencies, tighten internal controls and above all ensure an efficient service to our customers.

Nevertheless the Group showed advances in most key areas of measurement over the previous year and sold 404,000mt (2011 - 352,000mt) generating a turnover of $234m (2011 - $201m). Gross profit at 23.6% and average selling price at $579 per ton remained relatively stable reflecting the increased volumes of maize meal sold and the Group's commitment to restrain price increases by channelling efficiency generated savings partially toward price reductions.

Material improvements in working capital management were achieved as a result of CMA funded raw material arrangements, an acceptable debtor day cycle and a good contribution of cash sales by the depot network. The Group generated $15m of cash from operating activities during the financial year which was principally applied to fund capital expenditure, reduce debt, pay tax and dividends.

Headline earning per share amounted to US11.3 cents for the year; an increase of 67% over the prior year.

The compounded average growth rate at earnings level since dollarisation is 19% which should be maintained through the next three year strategic horizon assuming market place stability.

**Operations Review**
The flour and stock feeds plants in Bulawayo were re-opened to satisfy local demand and potential exports for stock feeds. Consequently we now have seven out of eleven factories operational.

Capital expenditure initiatives have been targeted at improving the core manufacturing processes, automation of packing sections in both flour and maize and on improving the physical security infrastructure of the major manufacturing sites.

A number of non-core or non performing assets and properties were disposed during the year and more should be disposed of in FY2013. The revenues will be channelled to capital expenditure for both maintenance and expansion purposes.

At year end 28 depots were operational with new depots opening during the year at Beitbridge, Binga, Chivhu and Shamva as part of our endeavor to establish a competitive distribution footprint to ensure our products are available throughout the country. The majority of our depots are now linked to the central IT system with dual connectivity to ensure reliability and improved service to customers.

**Milling, Manufacturing and Distribution**
***Flour Milling***
Both Bulawayo and Harare flour mills are consistently producing good quality flour in the Bakers' and pre-pack ranges where we are market leaders. Volumes and revenues grew 31% over the prior year and gross profit remained stable. Despite this growth the profitability of the flour business is still below expectations. The import duty on a portion of flour imports should stimulate increased flour volumes and therefore improved profitability.

The Group has sufficient stocks of the correct wheats to produce the desired grist and meet demand. We have committed to purchase local crop at import parity which should hopefully encourage farmers to plant more wheat next season.

Management has been tasked by the Board to produce a feasibility study on a new flour mill to replace the existing mills and provide both capacity and competitive edge into the future. In order to remain competitive and achieve regional benchmarks, we need to continue to invest in the latest plant and technology and improve our offerings to the market.

***Maize Milling***
The maize milling business contributed significantly to overall Group profitability and served the stockfeeds unit well through the supply of milling offals. We managed to hold the maize meal price post the December 2011 duty announcement as part of our commitment to all stakeholders.

Initiatives to improve quality, consistency, packaging, distribution and procurement all contributed to substantial performance improvement in this business. Annual volumes grew by 50% underpinned by a good raw material procurement strategy and increased demand for refined maize meal under the Pearlenta brand.

***Stockfeeds***
Whilst volumes produced in financial year 2012 were 6% lower than the prior year, revenue showed marginal growth due to a slightly different mix. Considerable improvements in formulation and processes resulted in National Foods being an entrenched market leader in the poultry feed category. Despite the growth in revenue overall profitability declined by 58% over the prior year as we moderated price increases in the face of inflationary pressure on raw material prices.

Although the new roughage plant and a reverse osmosis water treatment plant were both successfully commissioned during the year, plant downtime was still at unacceptable levels. Considerable focus and investment is earmarked to achieve efficiency benchmarks throughout the production process during the forthcoming financial year.

Notwithstanding the challenges at hand, the quality and consistency of the product we manufacture is now at the desired levels and the market has responded positively to this.

During the year we disinvested from Capital Foods but retained the Safco brand to be used for an enhanced range of specialized products.

There were comprehensive managerial changes during the year with new management mandated to give focus to the plant efficiency and growth in volumes.

***FMCG***
Volumes decreased 21% on the previous year, and whilst the business contribution to Group costs is valuable, the FMCG unit did not contribute to overall Group profit.

Categories in this business experienced fierce competition from efficient, low cost wholesalers and a surge of imported low cost product of variable quality. Although the premium brands such as Mahatma and Red Seal rices, Fattis and Monis pasta and Koo baked beans performed to expectation, a number of smaller brands did not hold market share or gross margin.

Consequently further evaluation and re-engineering of the category plans, the route to market and the procurement systems is taking place such that we can compete successfully.

We continue to seek growth opportunities in adjacent consumer packed goods categories in which we can achieve number 1 or 2 market share position. The Group is well positioned to do this through a loyal customer base, a far reaching field merchandising service and a large established depot network. Considerable work on distribution and procurement improvement is needed to ensure we compete in this space into the future.

***Depot Network***
The product range and service offering along with reliability of stock availability helped this unit to grow revenues over the prior year by 26% to $71m. This structure remains central to the Group's strategy to sell wider and deeper and to deliver improved service levels to both the retail and wholesale trade.

Improved connectivity to the central IT system will materially enhance the service offering and internal control environment which will allow the Group to offer warehousing and distribution services to third party brand leaders in an effort to reduce the overall costs per unit.

The Group will actively originate grain, seed and beans through the depot network into the future.

Management are commended for improvements made to internal controls in this unit.

**Properties**
During the year four properties were sold as the Group continues to dispose of non-core properties. At June 2012 the net lettable area was 169,000m² of which 47% was let to National Foods, 19% to third parties and 34% remains unoccupied. A further 31,000m² is currently on the market of which 26,000m² was under offer at year end.

The strategy of disposing non-core properties remains in place with the intention of directing proceeds from sales to strengthening core business capabilities, funding strategic raw material positions and growth opportunities.

**Future Prospects**
The Group has made good progress in achieving its central strategic intents of gaining market share, stabilising the operating platform and improving capacity utilisation. Strategies are in place to address sustainability, capability and efficiency into the future. We are satisfied with the improvement in return on shareholders equity that the Group delivered during the financial year to June 2012 and are encouraged that financiers are inclined to provide working capital funding arrangements that serve to extend our raw material pipeline at reasonable rates.

Numerous challenges face the Group from availability of electricity to skills deficiencies; from liquidity constraints to IT connectivity, and from raw material shortages to staff cost increases. Management will therefore focus on becoming the lowest cost, most efficient producer with a competitive distribution network in every category in which we compete. Opportunities have been identified across the value chain to realize savings along with growth opportunities in existing and new categories.

Financial discipline, volume growth and an unabated thrust to right size the cost base are central to maintaining the Group's growth in earnings.

**Dividend**
The Board has declared a final dividend of 1.55c per share payable on or about 5 October 2012 to shareholders registered in the books of the Company by noon on 21st September 2012. The transfer books and register of members will be closed from 22nd September 2012 to 30th September 2012, both days inclusive.

**Acknowledgement and Appreciation**
I wish to thank my Board colleagues for the roles they have played in completing our three year strategy from "Survival to Revival", which has delivered the expected performance. Mr Segoale resigned from our Board on 8 June 2012 as he has taken up a new role representing the Tiger Brands' interests in Nigeria. I therefore wish to thank Mr Segoale for his enthusiasm and commitment to National Foods as a Board member and as head of the Tiger Brands Technical Team. Mr Noel Doyle from Tiger Brands joins the Board effective 22nd August 2012 and we welcome him to National Foods.

Finally I wish to express my sincere gratitude to fellow Board members, management and staff for their efforts in delivering a pleasing performance for the period under review.

We look forward to embracing the new three year strategy that maintains growth, achieves operational excellence, delights our customers and provides the desired returns to our shareholders.

**Todd Moyo**
**Chairman**
**22 August 2012**

## Abridged Group Statement of Comprehensive Income

| | Year Ended 30 June 2012 reviewed USD'000 | Year Ended 30 June 2011 audited USD'000 |
|---|---|---|
| **Continuing Operations** | | |
| **Revenue** | 233 998 | 201 170 |
| **Operating profit before depreciation and amortisation** | 12 940 | 8 627 |
| depreciation and amortisation | (1 887) | (1 595) |
| **Profit before interest and tax** | 11 053 | 7 032 |
| net interest | (345) | (551) |
| equity accounted earnings | - | 823 |
| **Profit before tax from continuing operations** | 10 708 | 7 304 |
| tax | (2 804) | (2 207) |
| **Profit for the year from continuing operations** | 7 904 | 5 097 |
| **Discontinued Operations** | | |
| loss after tax for the year from discontinued operations | - | (73) |
| **Profit for the year from continuing and discontinued operations** | 7 904 | 5 024 |
| **Other comprehensive income** | | |
| exchange differences arising on the translation of foreign operations | (4) | (1) |
| **Other comprehensive income for the year, net of tax** | (4) | (1) |
| **Total comprehensive income for the year** | 7 900 | 5 023 |
| **Profit for the year from continuing and discontinued operations attributable to:** | | |
| equity holders of the parent | 7 899 | 4 971 |
| non-controlling interests | 5 | 53 |
| | 7 904 | 5 024 |
| **Total comprehensive income for the year from continuing and discontinued operations attributable to:** | | |
| equity holders of the parent | 7 895 | 4 970 |
| non-controlling interests | 5 | 53 |
| | 7 900 | 5 023 |
| **Basic earnings per share (cents)** | | |
| - from continuing and discontinued operations | 11.55 | 7.27 |
| - from continuing operations | 11.55 | 7.37 |
| **Diluted earnings per share (cents)** | | |
| - from continuing and discontinued operations | 11.55 | 7.27 |
| - from continuing operations | 11.55 | 7.37 |
| **Headline earnings per share (cents)** | 11.32 | 6.78 |
| **Diluted headline earnings per share (cents)** | 11.32 | 6.78 |

## Abridged Group Statement of Financial Position

| | At 30 June 2012 reviewed USD'000 | At 30 June 2011 audited USD'000 |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| property, plant and equipment | 35 851 | 33 266 |
| other non-current assets | 277 | 877 |
| | 36 128 | 34 143 |
| **Current assets** | | |
| cash and short term deposits | 10 619 | 5 921 |
| other current assets | 41 770 | 41 174 |
| | 52 389 | 47 095 |
| assets classified as held for sale | - | 748 |
| **Total assets** | 88 517 | 81 986 |
| **EQUITY AND LIABILITIES** | | |
| **Capital and reserves** | | |
| ordinary share capital | 684 | 684 |
| non-distributable reserves | 24 678 | 24 682 |
| distributable reserves | 24 649 | 18 157 |
| | 50 011 | 43 523 |
| non-controlling interests | - | 78 |
| **Total shareholders' equity** | 50 011 | 43 601 |
| **Non-current liabilities** | | |
| deferred tax liability | 8 074 | 8 190 |
| | 8 074 | 8 190 |
| **Current liabilities** | | |
| bank overdrafts and acceptances | 2 265 | 2 033 |
| interest-bearing borrowings | 75 | 5 000 |
| trade and other payables | 27 121 | 23 000 |
| current tax liability | 971 | 162 |
| | 30 432 | 30 195 |
| **Total liabilities** | 38 506 | 38 385 |
| **Total equity and liabilities** | 88 517 | 81 986 |

## Abridged Group Statement of Cash Flows

| | Year Ended 30 June 2012 reviewed USD'000 | Year Ended 30 June 2011 audited USD'000 |
|---|---|---|
| **Cash generated from operating activities** | 15 341 | 5 803 |
| net interest paid | (345) | (650) |
| tax | (2 085) | (1 044) |
| **Net cash flows from operating activities** | 12 911 | 4 109 |
| **Investing activities** | | |
| purchase of property plant and equipment to expand operations | (2 796) | (321) |
| purchase of property plant and equipment to maintain operations | (1 968) | (1 896) |
| other investing activities | 2 011 | 1 245 |
| **Net cash flows from investing activities** | (2 753) | (972) |
| **Net cash inflow before financing activities** | 10 158 | 3 137 |
| **Financing activities** | (5 692) | (6 333) |
| **Net increase/(decrease) in cash and cash equivalents** | 4 466 | (3 196) |
| **Cash and cash equivalents at the beginning of the year** | 3 888 | 7 084 |
| **Cash and cash equivalents at the end of the year** | 8 354 | 3 888 |
| **Cash and cash equivalents comprise** | | |
| cash and short term deposits | 10 619 | 5 921 |
| bank overdrafts and acceptances | (2 265) | (2 033) |
| | 8 354 | 3 888 |

## Group Statement of Changes in Equity

| | Share Capital USD'000 | Non-distributable Reserves USD'000 | Distributable Reserves USD'000 | Total USD'000 | Non-controlling Interests USD'000 | Total USD'000 |
|---|---|---|---|---|---|---|
| **Balance at 30 June 2010** | 684 | 24 683 | 13 665 | 39 032 | - | 39 032 |
| Profit for the year | - | - | 4 971 | 4 971 | 53 | 5 024 |
| Other comprehensive income | - | (1) | - | (1) | - | (1) |
| **Total comprehensive income** | - | (1) | 4 971 | 4 970 | 53 | 5 023 |
| Dividends paid | - | - | (479) | (479) | - | (479) |
| Acquisition of subsidiary | - | - | - | - | 25 | 25 |
| **Balance at 30 June 2011** | 684 | 24 682 | 18 157 | 43 523 | 78 | 43 601 |
| Profit for the year | - | - | 7 899 | 7 899 | 5 | 7 904 |
| Other comprehensive income | - | (4) | - | (4) | - | (4) |
| **Total comprehensive income** | - | (4) | 7 899 | 7 895 | 5 | 7 900 |
| Dividends paid | - | - | (1 407) | (1 407) | - | (1 407) |
| Disposal of subsidiary | - | - | - | - | (83) | (83) |
| **Balance at 30 June 2012** | 684 | 24 678 | 24 649 | 50 011 | - | 50 011 |

## Supplementary Information

**1 Corporate Information**
The Company and its subsidiaries are incorporated in Zimbabwe.

The Group's main activities comprise of the milling of flour and maize, manufacture of stock feeds, edible oils and the packaging and sale of other general household goods. The Group also owns a portfolio of industrial and commercial properties that are leased out to the main business units and to third parties.

| | Year Ended 30 June 2012 reviewed USD'000 | Year Ended 30 June 2011 audited USD'000 |
|---|---|---|
| **2 Depreciation** | 1 887 | 1 595 |
| **3 Capital expenditure for the year** | 4 764 | 2 217 |
| **4 Commitments for capital expenditure** | | |
| Contracts and orders placed | 275 | 723 |
| Authorised by directors but not contracted | 8 673 | 1 858 |
| | 8 948 | 2 581 |

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

**5 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.

**Fully diluted earnings basis**
The calculation is based on the profit attributable to equity holders of the parent and the number of shares in issue after adjusting to assume conversion of share options not yet exercised and convertible instruments. There were no instruments with a dilutive effect at the end of the financial 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.

| | Year Ended 30 June 2012 reviewed USD'000 | Year Ended 30 June 2011 audited USD'000 |
|---|---|---|
| **Reconcilliation of basic earnings to headline earnings** | | |
| Profit for the year attributable to equity holders of the parent | 7 899 | 4 971 |
| Adjustment for capital items (gross of tax) | | |
| Profits on disposal of property, plant and equipment | (168) | (358) |
| Tax effect on adjustments | 11 | 22 |
| Headline earnings attributable to ordinary shareholders | 7 742 | 4 635 |
| **Number of shares in Issue** | | |
| Number of ordinary shares in issue | 68 400 108 | 68 398 808 |
| Weighted average number of ordinary shares in issue | 68 398 808 | 68 398 808 |

**6 Operating Segments**

| Year ended 30 June 2012 | Milling, Manufacturing and Distribution USD'000 | Properties USD'000 | Intersegment adjustments USD'000 | Group USD'000 |
|---|---|---|---|---|
| Segment revenue | 233 268 | 2 173 | (1 443) | 233 998 |
| Profit before interest and tax | 10 757 | 296 | - | 11 053 |
| Net interest expense | (531) | 186 | - | (345) |
| Profit before tax from continuing operations | 10 226 | 482 | - | 10 708 |
| Segment assets | 50 533 | 39 021 | (1 037) | 88 517 |
| Segment liabilities | (33 342) | (6 201) | 1 037 | (38 506) |
| Net segment assets | 17 191 | 32 820 | - | 50 011 |
| Depreciation charge for the year | 1 405 | 482 | - | 1 887 |
| Capital expenditure | 3 226 | 1 538 | - | 4 764 |

| Year ended 30 June 2011 | Milling, Manufacturing and Distribution USD'000 | Properties USD'000 | Intersegment adjustments USD'000 | Group USD'000 |
|---|---|---|---|---|
| Segment revenue | 200 608 | 1 594 | (1 032) | 201 170 |
| Profit before interest and tax | 6 750 | 282 | - | 7 032 |
| Share of profits of associates | 823 | - | - | 823 |
| Net interest expense | (714) | 163 | - | (551) |
| Profit before tax from continuing operations | 6 859 | 445 | - | 7 304 |
| Segment assets | 44 926 | 37 060 | - | 81 986 |
| Segment liabilities | (32 101) | (6 284) | - | (38 385) |
| Net segment assets | 12 825 | 30 776 | - | 43 601 |
| Depreciation charge for the year | 1 116 | 479 | - | 1 595 |
| Capital expenditure | 1 708 | 509 | - | 2 217 |

**7 Events after the reporting date**
There have been no significant events after reporting date at the time of issuing this press release.

**8 Going concern**
Having reviewed the Group's forecasts, projections and other relevant evidence, the directors have a reasonable expectation that the Group will continue in operational existence for the foreseeable future. Accordingly, the results for the year ended 30 June 2012 have been prepared on a going concern basis.

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