NATIONAL FOODS HOLDINGS LIMITED

Reviewed Financial Results of National Foods Holdings Limited
For the year ended 30 June 2014

SALIENT FEATURES	Year Ended 30 June 2014 reviewed USD'000		
Revenue	343,518	↑	11%
Operating profit	24,872	↑	22%
Profit before tax	21,745	↑	26%
Basic earnings per share (cents)	24.54	↑	20%
Headline earnings per share (cents)	22.54	↑	17%
Cash generated from operations	31,319	↑	342%
Total dividend declared per share (cents)	8.18	↑	36%

CHAIRMAN'S STATEMENT

FULL YEAR TO 30 JUNE 2014

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
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 2014. 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 Group recorded both volume and revenue growth in the year under review which translated to improved profitability.

The operating environment was stable from a legislative and socio-political perspective, but trended negatively from an economic point of view. Zimbabwe's growth forecasts have been revised downwards again from original double digit forecasts at dollarisation, to the current World Bank estimate of 2% for 2014. Reducing prices of goods and services due to sluggish domestic demand and a weak Rand confirms the IMF view that inflation will be flat or even negative into 2015. Although money supply (as measured by total cash in the banks) actually increased year on year, the country's balance of payments situation remains precarious with a year to date trade deficit of $1,7bn at June 2014, and no obvious end in sight, whilst foreign direct investors continue to choose countries other than Zimbabwe to place their capital.

Liquidity remained tight during the year and lending rates stable, albeit high. Wage increases slowed down to more appropriately mirror regional minimum wages and local industry performance.

Small scale miners and farmers appear to be the most likely growth drivers into the future. Consequently more money will reside in the rural areas and largely outside of the formal banking sector. An excellent tobacco crop generated $671m for the country confirming the resurgence of the small scale sector.

In response to slow demand across most sectors of the economy, businesses endeavoured to change their operating models to improve viability. Of particular note are the numerous instances of both backward and forward integration whereby wholesalers introduce retail offerings; retailers now offer wholesale services; and numerous sellers of basic commodities are investing in manufacturing assets in an effort to take a greater share of the value chain.

In the categories in which we compete, our consumers generally traded down the brand triangles to maximize their spending power. National Foods continued to modify its product offering and pack sizes, using a variety of brands, to meet its shopper and consumer needs.

Government announced a welcome review of certain policies which could potentially attract investors to the country. In contrast, however, Government stipulated price controls on maize through a statutory instrument.

Overview of financial performance
The Group delivered revenue growth of 11% on an increase of volumes sold of 8% compared to the previous financial year. Total volumes sold of 538,000mt represented 48% capacity utilisation.

Despite continually reviewing pricing in order to remain competitive, the Group's margin grew fractionally to 23%. Whilst the deficit in locally grown maize, wheat and soya bean remains, we are compelled to maintain long future priced pipelines of imported raw materials which can affect our margins in periods of commodity pricing volatility. In this financial year, our maize pipeline was well priced thereby supporting our margin.

A non-recurring profit of $1,5m was realised on the disposal of some property assets. Overall profit before tax achieved of $21,7m was therefore 26% higher than the previous year. Profit after tax increased by 20% to $16,8m. Headline earnings of $15,4m achieved was 17% higher than the prior year.

We utilised $38,5m of net working capital to achieve this performance – a decrease of $7,9m when compared to the previous year. As a result of successfully securing an appropriate mix of trade and bank funding, we ended the year with a cash surplus of $4,2m. We are therefore not geared and have sufficient resources to fund our growth plans.

As alluded to in previous publications, we expect to continue investing to modernise our core operating platform. During the year we invested $3,6m on completed capital projects with a further $3,2m of approved capital expenditure projects that will roll over into the next financial year.

The Directors have elected to transfer to distributable reserves, that portion of non-distributable reserves relating to the remaining foreign currency conversion reserve amounting to $24,7m. This foreign currency conversion reserve arose as a result of the change in functional currency from the Zimbabwe dollar to the United States dollar and has been in existence since the change-over period. This transfer has taken place through the Statement of Changes in Equity and has no effect on profitability.

Operations Review
We operated eight of eleven factories for all of the year, and opened the Mutare maize milling plant for five months. We met market demand and were able to achieve logistical efficiencies through our ability to manufacture product at different geographic locations in response to localised market demand.

At Stockfeeds, we completed the commissioning of a new pelleting machine and an extruder with the desired improvements in quality. We also installed moisture addition equipment to reduce moisture loss and homogenise product quality. The dog food lines were also renovated. Following extensive research it has been decided to renovate the existing flour milling sites in Harare and Bulawayo in preference to establishing Greenfield sites. Further upgrades to downpacking machines for the FMCG business were made and this has elevated manufacturing efficiency to regional benchmarks. Integrated software weighbridge management systems were installed at all sites to enhance controls of both in and outbound product.

Eight new depots were opened during the year. Twenty depots are connected on a "real-time" basis to the central processing system.

Our support services of Information Technology (IT), Human Resources, Legal, Credit Control, Risk, Treasury and Procurement are all capacitated to desired levels and all delivered tangible improvements to the Company.

In order to retain our brand leadership in the categories we operate in, we invested substantially into the Red Seal, Mahatma, Gloria and National Foods Stockfeeds brands. The Better Buy value brand was extended in response to constrained consumer spend and new offerings of cooking oil, rice and sugar beans were well received by the market.

Valuable insights gained into shopper and consumer needs enabled us to produce a more relevant offering for an increasingly discerning market, with substantial geographical consumer changes. Essentially the rural market grew and the urban market stagnated.

Our strategy to focus our capabilities on light manufacturing and distribution requires us to outsource certain functions to specialist service providers. The Group has satisfactory arrangements in place for the provision of procurement, logistical, security and transport services. In addition, technical agreements across almost all business functions have yielded continuing improvement in business processes and overall sustainability.

Flour Milling
This division experienced relatively subdued trading patterns as evidenced by its results. Volumes sold increased by 2% on prior year whilst revenue decreased by 1% due to a lower realisation per ton of wheat sold. Year on year profitability dropped by 13% as we continued to sacrifice margin in order to hold volumes against flour imports.

Bakers are still permitted to import duty free flour of any quality and origin. Spot traders of flour have the ability to import cheap product into Zimbabwe during periods of international price volatility whereas National Foods is committed to a five month pipeline of pre-priced wheat and hence must compromise margin in order to respond to short-term price movements.

The scope of work required to upgrade our mills to the desired standard has been completed and the rectification process commenced. We expect to realise considerable efficiencies in the next three years as a result of these investments. In terms of capacity and capability; we have fulfilled market demand at the required quality levels, largely assisted by on-site laboratories that enable us to quality test throughout the milling process.

We have procured sufficient wheat of the correct quality and at satisfactory prices for our choice of grist. The flour business will focus on achieving operational efficiencies in order to sustainably compete with regional competitors into the future.

Maize Milling
This business posted exceptional results on the back of significant improvements in volumes sold. Volumes increased by 19% this year compared to the previous year which, when combined with a 4% increase in average realisation per ton, resulted in revenue growth of 33%.

Our demand planning tools enabled us to activate sufficient procurement plans and enough logistical support to timeously import our maize requirements. We were therefore able to effectively supply a market that was short of product. Furthermore, we initiated a "one price nationwide" policy that was very well received. The execution of strategies in demand planning, procurement, logistics, quality control and nationwide distribution combined to produce a strong performance by this division and a substantial contribution to Group profits.

Stockfeeds
The year under review saw increasing competition in the stockfeed business with at least three new plants being constructed. The small-scale poultry sector continued to grow quickly and we lost market share in this key market segment as we failed to adapt our offering to the rapidly evolving requirements of the market. Nevertheless we sold 6% more product when compared to the prior year's sales. This translated into revenue growth of 3% but with no improvement in profitability.

Efficiencies realised through interventions in moisture management, dust extraction, silo management and a computerised weighbridge system enabled our margins to remain on plan. All-in manufacturing cost was down 3% on the previous year and this was all passed on to our customers in order to improve their ability to compete against imported proteins. The downward trend in maize and soya prices toward the end of the reporting period allowed further price reductions.

The Group was awarded a tender to supply 14,200mt to the FAO for their beef support programme which was fulfilled on time. We successfully commenced exporting product to the beef feed-lots in Botswana. During the second half of the financial year we secured a supply of day old chicks from a local supplier which is distributed throughout our depot network to service the small scale producers. Considerable resource will be allocated to servicing this channel in the near future. The Stockfeeds business will need to collaborate with more parts of the protein value chain to mitigate the pending impact of the primary commercial producers investing in their own feed manufacturing facilities.

FMCG
Volumes sold of rice, salt, small grains, pasta and spreads were collectively 22% higher than previous year whilst baked beans' volumes were down 31%. Like for like margins achieved, excluding edible oil sales, were 24% compared to 21% in the prior period. This business unit houses the small selection of 3rd party products, such as sugar, that we carry in the depots to service the smaller retailers. Margins generated from these goods grew by 68%

The business contributed marginally to overall Group profits, but plays a crucial role in contributing to the Group's fixed costs, in particular the distribution footprint.

In March we resumed sales of Red Seal and Better Buy cooking oil which is produced for us under license by a local manufacturer. The brands and product have been well received and our market share was at 18% by June.

We extended our range of products and brands in the rice category with the introduction of Mahatma par-boiled and Better Buy par-boiled rices. Rice volumes grew 36% whilst margins grew to 22% driven by improved procurement and some distribution efficiencies. Our share of the salt market held steady at 45%.

This business has received considerable management input and is well poised as the vehicle for growth in both existing, and new categories. The Demand Planning System that forecasts where we need to position product geographically is likely to significantly improve distribution efficiencies going forward.

Properties
During the year under review one property was sold as we continue to dispose of non-core or ageing assets in order to apply the balance sheet value more appropriately. At 30 June 2014 the net lettable area of properties we own had reduced from June 2013 by 30% to 105,000m², of which 77% was occupied by National Foods, whilst 12% was leased to third parties and 11% was vacant. $1,4m of property is categorised as held for resale and will be disposed of.

Support Services
The Group is appropriately capacitated in all of the support functions to de-risk the current businesses and to enable growth into new categories.

The Committees that manage Credit Control, Pensions, Risk, Procurement and Insurance all have full time Executive representation to execute these essential functions correctly. Our in-house Legal function successfully defended a number of mostly petty legal cases and did much to prevent future litigation. The IT department concluded the architecture of a centralised single IT strategy and commenced implementation thereof.

An enterprise-wide job evaluation and grading exercise along with reward and benefit realignment was completed.

Corporate Social Responsibilities
National Foods supports twenty-five nominated charities and vulnerable institutions across the country, to which we provide regular and on-going support, primarily through the provision of food. In addition we supported a further twenty-seven ad-hoc requests for assistance during the year.

We maintain and fund four permanent clinics at our factories that provide free medical services to both our full time and part time employees, as well as discreet HIV testing and free ARV treatments.

Future Prospects
The Group posted another good financial performance for the year under review, even when viewed without the non-recurring items. Compounded average growth rate at profit before tax level since dollarisation is 29%, largely driven by an increase in volumes sold which in turn improves capacity utilisation and reduces the unit cost of production. Our brands commanded a significant share of shelf in all categories.

Management will focus on opportunities to automate and mechanise processes for improved efficiency and to reduce costs across the business units. In the forthcoming year the Group has committed to capital expenditure projects to the value of $7,2m in accordance with long term improvement plans.

The Group has investigated potential investments into a number of new categories with the objective of generating increased contribution off the existing services platform. The activation of these opportunities will be a key priority in the coming year.

The Group will continue to apply intense focus to precisely identifying consumer needs, with particular focus on the needs of the small scale sector and the rural population.

The Group will continue to invest in its people through appropriate training and exchange programmes. In addition we will recruit graduate trainees as the future backbone of our management team.

The current macro-economic indicators suggest that we will achieve little growth from our existing businesses hence our desire to invest into new and adjacent categories. We will continue to support the resuscitation of agriculture at every level.

Dividend
The Board has declared a final dividend of 5,18c per share (bringing the total dividend for the year to 8,18c per share) payable on or about 10th October 2014 to shareholders registered in the books of the Company by noon on 26th September 2014. The transfer books and register of members will be closed on 27th and 28th September 2014.

Acknowledgement and Appreciation
I wish to thank my fellow Board members for the roles they played in the sub-committees and on the Board itself. With effect from 14th April 2014, Mr Antonio Fourie replaced Mr Julian Schonken (who will remain as an alternate Board member) as one of Innscor Africa Limited's representatives on the Board. I thank Julian sincerely for the invaluable role he played in the resuscitation of National Foods since dollarisation and simultaneously welcome Antonio to the Board.

The results posted are excellent given the current trading environment and confirm the success of the strategies adopted to build a robust and sustainable organisation.

I thank the management and staff for their contribution to this good performance.

The Group has moved through various strategic phases namely "From Survival to Revival" and then "From Revival to Profitability" and will now move to focus on "Growth and Sustainability". National Foods has sufficient resources to fulfil its ambitions which I am confident will be to the satisfaction of its stakeholders.

Todd Moyo

Chairman

19 August 2014

ABRIDGED GROUP STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year Ended 30 June 2014 Reviewed USD'000	Year Ended 30 June 2013 Audited USD'000
Revenue	343,518	309,320
Operating profit before depreciation and amortisation	24,872	20,368
depreciation and amortisation	(2,251)	(1,929)
Profit before interest and tax	22,621	18,439
interest income	629	289
interest paid	(1,505)	(1,479)
Profit before tax	21,745	17,249
tax	(4,962)	(3,310)
Profit for the year	16,783	13,939
Other comprehensive income – to be recycled to profit or loss at a future point in time		
exchange differences arising on the translation of foreign operations	–	(2)
Total comprehensive income for the period	16,783	13,937
Profit for the year attributable to:		
equity holders of the parent	16,783	13,939
Total comprehensive income for the period attributable to:		
equity holders of the parent	16,783	13,937
EARNINGS PER SHARE (CENTS)		
– Basic earnings per share	24.54	20.38
– Headline earnings per share	22.54	19.27

ABRIDGED GROUP STATEMENT OF FINANCIAL POSITION

	At 30 June 2014 Reviewed USD'000	At 30 June 2013 Audited USD'000
ASSETS		
Non–current assets		
property, plant and equipment	37,186	37,925
other non–current financial assets	122	120
	37,308	38,045
Current assets		
cash and cash equivalents	12,672	4,106
other current assets	68,758	71,993
assets held for sale	1,351	–
	82,781	76,099
Total assets	120,089	114,144
EQUITY AND LIABILITIES		
Capital and reserves		
ordinary share capital	684	684
non–distributable reserves	(8)	24,676
distributable reserves	72,831	35,468
total shareholders' equity	73,507	60,828
Non–current liabilities		
deferred tax liability	7,606	7,450
	7,606	7,450
Current liabilities		
bank overdrafts and acceptances	7,221	–
interest–bearing borrowings	1,216	20,566
trade payables	23,284	17,608
other payables	6,950	7,074
current tax liability	237	618
liabilities relating to assets held for sale	68	–
	38,976	45,866
Total liabilities	46,582	53,316
Total equity and liabilities	120,089	114,144

ABRIDGED GROUP STATEMENT OF CASH FLOWS

	Year Ended 30 June 2014 Reviewed USD'000	Year Ended 30 June 2013 Audited USD'000
Cash generated from / (utilised in) operating activities	31,319	(12,932)
net interest paid	(876)	(1,190)
tax paid	(5,119)	(4,286)
Total cash generated from / (utilised in) operations	25,324	(18,408)
Investing activities		
Purchase of property, plant and equipment to expand operations	(1,799)	(3,779)
Purchase of property, plant and equipment to maintain operations	(1,841)	(2,307)
Other cashflows from investing activities	3,115	2,875
Net cash outflow from investing activities	(525)	(3,211)
Net cash inflow/(outflow) before financing activities	24,799	(21,619)
Financing activities	(23,454)	17,371
Net increase/(decrease) in cash	1,345	(4,248)
Cash & cash equivalents at the beginning of the year	4,106	8,354
Cash & cash equivalents at the end of the year	5,451	4,106
Cash and cash equivalents comprise		
cash and short term deposits	12,672	4,106
bank overdrafts and acceptances	(7,221)	–
	5,451	4,106

ABRIDGED GROUP STATEMENT OF CHANGES IN EQUITY

	Share capital USD'000	Non–Distributable Reserves USD'000	Distributable Reserves USD'000	Total USD'000
Balance at 30 June 2013	684	24,676	35,468	60,828
profit for the period attributable to equity holders of the parent	–	–	16,783	16,783
dividends paid	–	–	(4,104)	(4,104)
transfer of foreign currency reserve	–	(24,684)	24,684	–
Balance at 30 June 2014	684	(8)	72,831	73,507

SUPPLEMENTARY INFORMATION

1 Corporate Information
The company and its subsidiaries are incorporated in Zimbabwe except for Botswana Milling and Produce Company (Proprietary) Limited and Red Seal Manufacturers (Proprietary) Limited which are incorporated in Botswana.

The Group's activities consist of the milling of Flour and Maize, the manufacture of Stockfeeds and the packaging and sale of other general household goods. The Group also owns a portfolio of properties that are leased out to the main business units and to third parties.

2 Operating Segments

	Milling, Manufacturing & Distribution USD'000	Properties USD'000	Intersegment Adjustments USD'000	Total USD'000
Revenue				
30 June 2014	343,118	2,330	(1,930)	343,518
30 June 2013	308,836	2,255	(1,771)	309,320
Operating profit before depreciation and amortisation				
30 June 2014	22,793	2,079	–	24,872
30 June 2013	20,204	164	–	20,368
Depreciation and amortisation				
30 June 2014	(1,693)	(558)	–	(2,251)
30 June 2013	(1,427)	(502)	–	(1,929)
Net Interest Expense				
30 June 2014	(876)	131	(131)	(876)
30 June 2013	(1,277)	87	–	(1,190)
Profit before tax				
30 June 2014	20,091	1,654	–	21,745
30 June 2013	17,499	(250)	–	17,249
Segment assets				
30 June 2014	82,345	40,552	(2,808)	120,089
30 June 2013	76,908	38,631	(1,395)	114,144
Segment liabilities				
30 June 2014	(43,727)	(5,663)	2,808	(46,582)
30 June 2013	(48,879)	(5,832)	1,395	(53,316)
Capital expenditure				
30 June 2014	3,190	450	–	3,640
30 June 2013	4,808	1,278	–	6,086

	Year Ended 30 June 2014 Reviewed USD'000	Year Ended 30 June 2013 Audited USD'000
3 Depreciation	(2,251)	(1,929)
4 Bank overdrafts and acceptances at 8.15% p.a	7,221	–
Secured facilities are secured by a cession of movable assets, receivables and inventory worth $10,5m		
5 Capital expenditure for the year	3,640	6,086
6 Future lease commitments		
Payable within one year	880	880
Payable two to five years	967	1,847
Payable after five years	–	–
	1,847	2,727
7 Commitments for capital expenditure		
Contracts and orders placed	3,197	1,101
Authorised by Directors but not contracted	7,174	6,582
	10,371	7,683

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

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.

	Year Ended 30 June 2014 Reviewed USD'000	Year Ended 30 June 2013 Audited USD'000
Reconciliation of basic earnings to headline earnings		
Profit for the year attributable to equity holders of the parent	16,783	13,939
Adjustment for capital Items		
Profit on disposal of property, plant and equipment	(1,481)	(813)
Tax effect on adjustments	116	56
Headline earnings attributable to ordinary shareholders	15,418	13,182
Number of shares in issue		
Weighted average number of ordinary shares in issue ($'000)	68,400	68,400
Basic earnings per share (cents)	24.54	20.38
Headline earnings per share (cents)	22.54	19.27

9 Reclassification of Commissions
In the current year, the Group changed the disclosure of income earned from third party products. Previously the income was disclosed as other income on a net basis but is now being disclosed gross, with proceeds from sale recognised as revenue and purchase costs as cost of sales. The Group now considers the purchase and sale of third party products as part of the ordinary activities of the Group unlike prior years when this was only considered complementary to its main activities.

	Year Ended 30 June 2014 Reviewed USD'000	Year Ended 30 June 2013 Audited USD'000
Revenue excluding third party sales	321,322	295,926
Revenue earned on third party products	22,196	13,394
Revenue post third party sales	343,518	309,320
Operating profit pre reclassification	24,872	20,368
Impact of reclassification	–	–
Operating profit post reclassification	24,872	20,368

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

11 Contingent Liabilities
The Group had no contingent liabilities as at 30 June 2014.

Directors: T. Moyo (Chairman), *J.J. Brooke (Managing), N.G. Brimacombe, N.P. Doyle, A. Fourie, J. Koumides, *L.T. Murimwa (Finance) (*Executive)