National Foods Holdings Limited

The directors of National Foods Holdings Limited announce the Company's unaudited consolidated results for the six month period ended 31 December 2006.

CONSOLIDATED INCOME STATEMENT – for the six months ended 31 December 2006

	Inflation Adjusted			Historical Cost		
	Unaudited 6 months to 31 December 2006 $'000	Audited 6 months to 30 June 2006 $'000	Audited 12 months to 31 December 2005 $'000	Unaudited 6 months to 31 December 2006 $'000	Audited 6 months to 30 June 2006 $'000	Audited 12 months to 31 December 2005 $'000
Revenue	70 225 685	49 585 523	88 797 456	39 853 050	6 738 306	2 685 193
Cost of sales	(39 666 832)	(29 428 495)	(58 889 857)	(18 846 192)	(3 314 127)	(1 204 522)
Gross profit	30 558 853	20 157 028	29 907 599	21 006 858	3 424 179	1 480 671
Other income	124 353	165 230	167 416	67 515	23 261	7 941
Selling costs	(4 068 695)	(2 451 767)	(4 686 697)	(2 376 766)	(335 119)	(143 844)
Distribution and transport costs	(1 774 411)	(1 605 706)	(2 834 413)	(930 838)	(228 702)	(83 400)
Administration costs	(4 840 879)	(4 856 668)	(9 551 500)	(2 814 070)	(718 132)	(303 100)
Depreciation	(724 985)	(625 140)	(495 695)	(2 665)	(1 568)	(627)
Profit from operating activities	19 274 236	10 782 977	12 506 710	14 950 034	2 163 919	957 641
Net financing (cost) / income	(35 193)	1 023 650	1 965 603	(35 199)	126 492	54 048
Monetary loss	(10 392 916)	(10 849 218)	(10 931 669)	–	–	–
Profit before taxes	8 846 127	957 410	3 540 644	14 914 835	2 290 411	1 011 689
Taxation	(5 994 802)	(3 322 230)	(4 071 555)	(4 648 284)	(702 948)	(309 971)
Profit / (loss) for the period	2 851 325	(2 364 820)	(530 911)	10 266 551	1 587 463	701 718
No. of shares in issue (000's)	67 425	67 350	66 719	67 425	67 350	66 719
Weighted ave shares in issue (000's)	67 388	66 967	66 552	67 388	66 967	66 552
Earnings per share ($)	42,31	(35,31)	(7,98)	152,35	23,71	10,52
Dividend per share ($)	–	6,21	14,68	–	1,48	0,85
Inflation indices (period end)	665 774.1	158 708.8	48 205.6			
Inflation indices (average)	412 241.5	102 868.8	20 172.4			

CONSOLIDATED BALANCE SHEETS – At 31 December 2006

	Inflation Adjusted			Historical Cost		
	Unaudited 31 December 2006 $'000	Audited 30 June 2006 $'000	Audited 31 December 2005 $'000	Unaudited 31 December 2006 $'000	Audited 30 June 2006 $'000	Audited 31 December 2005 $'000
ASSETS						
Non-current assets						
Property, plant and equipment	35 098 447	34 601 058	35 077 550	849 457	64 520	52 440
Deferred tax asset	–	–	–	–	–	7 082
	35 098 447	34 601 058	35 077 550	849 457	64 520	59 522
Current assets						
Inventories	16 556 959	9 666 315	9 791 110	13 330 388	1 889 194	580 186
Accounts receivable	7 607 081	6 870 047	7 672 384	7 607 081	1 635 920	507 452
Cash	354 796	2 694 037	2 235 274	354 796	642 211	161 846
	24 518 836	19 230 399	19 698 768	21 292 265	4 167 325	1 249 484
Total assets	59 617 283	53 831 457	54 776 318	22 141 722	4 231 845	1 309 006
EQUITY AND LIABILITIES						
Capital and reserves						
Share capital	60	54	53	60	54	53
Adjustment to share capital	30 092 180	30 092 180	30 092 172	–	–	–
Non-distributable reserves	15	15	12	15	15	12
Foreign currency translation reserve	537 578	537 578	522 392	41 444	41 444	37 824
Distributable reserves	8 086 576	5 235 251	8 019 129	12 549 035	2 282 484	794 840
Proposed dividend	–	418 143	552 872	–	99 678	40 031
	38 716 409	36 283 221	39 186 630	12 590 554	2 423 675	872 760
Non-current liabilities						
Deferred taxation	11 362 257	10 015 745	9 564 428	12 557	12 557	–
Current liabilities						
Accounts payable	4 690 771	5 299 490	2 527 879	4 690 765	1 263 305	183 017
Bank overdrafts and acceptances	–	–	97 838	–	–	7 084
Provision for taxation	4 847 846	2 233 001	3 399 543	4 847 846	532 308	246 145
	9 538 617	7 532 491	6 025 051	9 538 611	1 795 613	436 246
Total equity and liabilities	59 617 283	53 831 457	54 776 318	22 141 722	4 231 845	1 309 006

CONSOLIDATED CASH FLOW STATEMENT – for the six months ended 31 December 2006

	Inflation Adjusted			Historical Cost		
	Unaudited 6 months to 31 December 2006 $'000	Audited 6 months to 30 June 2006 $'000	Audited 12 months to 31 December 2005 $'000	Unaudited 6 months to 31 December 2006 $'000	Audited 6 months to 30 June 2006 $'000	Audited 12 months to 31 December 2005 $'000
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash generated from operations	9 606 305	538 354	2 240 359	14 952 699	2 161 800	957 148
Working capital changes	(8 236 404)	3 698 952	4 407 947	(13 984 895)	(1 357 188)	(720 421)
Operating cash flow	1 369 901	4 237 306	6 648 306	967 804	804 612	236 727
Net interest (paid)/received	(35 193)	1 023 650	1 965 603	(35 199)	126 492	54 048
Taxation paid	(2 033 438)	(4 032 987)	(5 977 338)	(332 746)	(397 146)	(121 546)
Dividends paid	(418 143)	(553 787)	(1 299 173)	(99 678)	(40 172)	(25 924)
Net cash flows from operating activities	(1 116 873)	674 182	1 337 398	500 181	493 786	143 305
CASH FLOWS FROM INVESTING ACTIVITIES						
Capital expenditure	(1 222 374)	(153 183)	(1 899 767)	(787 602)	(13 422)	(49 649)
Proceeds on disposal of fixed assets	–	20 392	78 504	–	3 687	1 122
Net cash flows used in investing activities	(1 222 374)	(132 791)	(1 821 263)	(787 602)	(9 735)	(48 527)
CASH FLOWS FROM FINANCING ACTIVITIES						
Increase in investments	–	–	–	–	–	–
Net proceeds from issue of share capital	6	25	289	6	4	4
Net cash flows from financing activities	6	25	289	6	4	4
(Decrease)/increase in cash and cash equivalents	(2 339 241)	541 416	(483 576)	(287 415)	484 055	94 782
Effects of exchange rate changes on cash and cash equivalents	–	15 185	522 342	–	3 394	37 824
Cash and cash equivalents at beginning of period	2 694 037	2 137 436	2 098 670	642 211	154 762	22 156
Cash and cash equivalents at end of period	354 796	2 694 037	2 137 436	354 796	642 211	154 762

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – for the six months ended 31 December 2006

Inflation Adjusted	Share capital $'000	Adjustment to share capital $'000	Share premium $'000	FCTR $'000	Distributable reserves $'000	Proposed dividend $'000	Total $'000
Balance 31 December 2005	53	30 092 172	12	522 392	8 019 129	552 872	39 186 630
Loss for the period	–	–	–	–	(2 364 820)	–	(2 364 820)
Translation gain	–	–	–	15 186	–	–	15 186
Dividends	–	–	–	–	(419 058)	(134 729)	(553 787)
Issue of share capital	1	8	3	–	–	–	12
Balance 30 June 2006	54	30 092 180	15	537 578	5 235 251	418 143	36 283 221
Profit for the period	–	–	–	–	2 851 325	–	2 851 325
Translation gain	–	–	–	–	–	–	–
Dividends	–	–	–	–	–	(418 143)	(418 143)
Issue of share capital	6	–	–	–	–	–	6
Balance 31 December 2006	60	30 092 180	15	537 578	8 086 576	–	38 716 409
Historical Cost							
Balance 31 December 2005	53	–	12	37 824	794 840	40 031	872 760
Translation gain	–	–	–	3 620	–	–	3 620
Profit for the period	–	–	–	–	1 587 463	–	1 587 463
Dividends paid	–	–	–	–	(99 819)	59 647	(40 172)
Issue of share capital	1	–	3	–	–	–	4
Balance 30 June 2006	54	–	15	41 444	2 282 484	99 678	2 423 675
Translation gain	–	–	–	–	–	–	–
Profit for the period	–	–	–	–	10 266 551	–	10 266 551
Dividends paid	–	–	–	–	–	(99 678)	(99 678)
Issue of share capital	6	–	–	–	–	–	6
Balance 31 December 2006	60	–	15	41 444	12 549 035	–	12 590 554

CHAIRMAN'S REVIEW

OUTLOOK

While the challenges over the past six months have been many, and while volumes in aggregate have again fallen by 9,7% compared to the same period in 2005, the National Foods group has been able to contain costs and optimise efficiencies in all units and tried to sustain realistic margins where possible. As a result we have recorded the first inflation adjusted profit after tax since December 2004. With the work that has been done, we are confident that we have the capacity and flexibility to meet the challenges that lie ahead and that we will produce favourable results for the year end June 2007.

The economic decline reported in the first half of 2006 continued into the second half of the year despite the best efforts of the authorities. The operating environment was the most hostile we have seen with inflation rising to over 1200%, the availability of goods, services and forex for essential imports being very difficult and with corporates and executive directors in their personal capacities being prosecuted on price control matters.

Our Aspindale facilities have been particularly badly affected by power cuts and this has adversely impacted on the planned production of malt, stockfeeds, cooking oil and roller meal, all of which are in short supply.

Price controls implemented by the authorities have absorbed a lot of our time and energy, and with input prices rising on a daily basis we have been submitting regular price increase applications to the Ministry of Industry and International Trade for approval. Unfortunately, the systems and procedures employed by the authorities are not able to cope timeously with these price reviews causing serious delays in their implementation. In turn, companies are exposed to operating losses, negative cash flow and an erosion of operating capacity. The group has been badly affected over the past six months, firstly in the month of August when a moratorium on price increases was imposed, and secondly in October when the group and its executives were prosecuted for price control violations for which they were ultimately found not guilty and were acquitted.

Shareholders attention is drawn to the cash flow statement where our business is again cash negative on the trading for the six months to 31 December, and our monetary loss amounts to $10,392 billion.

With inflation accelerating it has become critical for us to change our business model for the company to survive and prosper. Suppliers of our principal raw materials demand cash in advance or against delivery while our principal customers, being the wholesale and retail industry, demand credit. In an environment where the value of money falls rapidly over the period of a month, our margins cannot sustain the losses incurred from the time goods are delivered to the time payment is received. In order to mitigate these losses, the group is moving towards a cash or cash equivalent sales policy. The necessary software has been purchased to facilitate the implementation of the new system, which has gone live from 29 January 2007.

In addition, all aspects of the group's business are being re-evaluated and assessed for profitability. A moratorium on employment has been imposed and no new staff will be employed unless absolutely essential to the operations of the group. Our distribution network has been reassessed and will be streamlined in the third quarter. Production facilities are to be rationalized to improve the efficiency of raw material flows and minimize production costs. This will entail some investment in new plant, but the benefits that will be derived will be significant both in terms of quality and volume.

DIVIDEND

The Board has resolved that no interim dividend will be paid as the group needs to conserve resources, in view of the difficult economic environment.

ACKNOWLEDGEMENT AND DIRECTORATE

May I take this opportunity on behalf of the shareholders and the Board of Directors to thank all management and staff for their hard work and commitment to the company over the past six months.

Todd Moyo
CHAIRMAN **27 February 2007**

Directors: T Moyo (Chairman), E Beneke, M H Franklin, I H Harris, I F Kind, J Koumides, J Pilgrim, K S Musanhi, J D Vezey, T W Brown (Alternate), A B Wishart.

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