NATIONAL FOODS
HOLDINGS LIMITED

Unaudited Financial Results of National Foods Holdings Limited

for the half year ended 31 December 2012

Salient Features

	6 months ended 31 Dec 2012 unaudited		
Volumes (mt)	240 628	↑	24%
	USD '000		
Revenue	143 815	↑	24%
Operating profit	11 529	↑	99%
Profit for the period	7 643	↑	112%
Basic earnings per share (cents)	11.17	↑	113%
Interim dividend per share (cents)	3.00	↑	150%

Chairman's Statement

Introduction

Zimbabwe continued to enjoy political, economic and legislative stability during the first half of our financial year which enabled National Foods to pursue its growth objectives freely. Some macro-economic indicators are a cause for concern, particularly the continued growth in the current account deficit and the potential implication thereof on market liquidity. Nevertheless, positive changes in general economic activity continue as evidenced by greater levels of household disposable income which has benefitted our business.

The milling industry is now protected from possible subsidised imports through the introduction of correctly balanced tariffs which enable local manufacturers to more confidently reinvest in their plant and equipment.

The local production levels for maize, wheat and soya beans have not grown as expected and we continue to import the bulk of these commodities, exacerbating the current account deficit. In view of the firm prices obtaining for cereal commodities it is imperative that we produce a greater portion of our requirement locally which will benefit both our agricultural sector and the economy as a whole.

Average capacity utilisation across our factories improved to 48% for the period under review. The consequent efficiency gains were invested into more competitive pricing as well as capital expenditure.

National Foods recommenced stockfeed exports to Botswana in October 2012, underlining the improved competitiveness of our product offering.

Overview of financial performance

During the period under review, the Group delivered revenue growth of 23.8% on the back of overall volume growth of 23.9% as measured against the prior period. This growth in revenue together with improved margins arising from holding strategic positions of raw materials, and limited growth in fixed costs, were the main reasons for the operating margin rising to 8% of revenue. Additionally, profits of approximately $0,74m realised through the disposal of excess property, plant and equipment contributed to the significant growth in profit before tax of 109% over the comparative period, whilst headline earnings per share increased by 99%.

Consistent with the significant increase in raw materials requirements, the Group secured increased borrowings to fund stock. Consequently, working capital increased by $33m with this amount being applied almost exclusively to maize purchases. Borrowings accordingly increased to $21,5m, resulting in a gearing ratio of 30%.

The principal accounting policies of the Group are consistent with those applied in the previous year and conform to International Financial Reporting Standards.

Operations review

We operated eight factories which provided us sufficient capacity to fulfil actual demand. The Gweru, Masvingo and Mutare maize mills remain under care and maintenance with no immediate plans for re-opening.

Capital investment initiatives to improve the efficiency of our operating platform continue. During the period we upgraded the security infrastructure at Aspindale and also commissioned new packing machines at the Bulawayo flour and maize plants. A generator was installed to provide back-up power to the Bulawayo flour mill and a similar project should be completed by year-end for the Harare flour mill.

Two new depots were opened at Ruwa and Aspindale, bringing the total number of distribution and wholesale depots to twenty nine at December 2012.

Our brands continue to perform strongly, with National Foods being awarded first prize (Red Seal), second prize (Gloria) and third prize (Mahatma) in the basic foods category at the annual Zimbabwean Superbrands awards giving credence to our consumer propositions.

Milling, Manufacturing and Distribution

Flour Milling

Growth in volumes, enabled by a newly instituted tariff, facilitated a much improved contribution from the flour division. This was achieved whilst managing to cushion consumers from the full extent of raw material price increases. The demand for greater volumes necessitated further capital investment into both maintenance and expansion of the manufacturing platform.

Management continues to evaluate in detail the viability of investing in a new mill to embrace the most modern operational practices and provide product innovations for our customers.

Maize Milling

A new automated packing line was installed at the Harare mill with pleasing results. During the review period, the Grain Marketing Board (GMB) emerged as a material competitor to the private sector in the lower end of the maize meal category. For the six months under review, we purchased 60,000mt of local crop and 24,000mt from GMB which fell short of our requirements compelling us to import grain from the region where Zambia is the primary exporter.

Volumes sold for the six months were 0.7% higher than the corresponding period while revenue grew 9.6% due to an increase in average realization per ton to $447. Profitability was subdued due to lower than expected volumes and increased competition.

The business is well positioned for an improved performance in the second half of the financial year on the back of a competitive raw material stock position and a deepening distribution footprint.

Stockfeeds

Volumes sold increased by 47.7% over the corresponding prior period driven mainly by improved sales in poultry and beef feeds.

Although considerable investment and system rationalisation is required to correctly equip the plants to higher production levels, the feed quality produced achieved regional benchmarks. This is evidenced by trial results which scored well against target feed conversion ratios. Considerable investment into our laboratories has enabled us to quality test every load that is dispatched.

Rising raw material costs again pushed producer prices higher placing added pressure onto protein producers as they struggle to compete with cheap imported protein. Government's introduction of tariffs on imported chicken provides sufficient short term protection to the poultry industry. Further work is required for a long-term sustainable solution and it is critical that local grain production is increased in order to sustain both the stockfeed and protein industries.

Whilst all-in costs per ton were 4% down on the corresponding period, there remains considerable opportunity to re-engineer our processes and systems to achieve greater efficiency and extract further cost saving which can assist in our stated intention of achieving the lowest regional feed cost possible to our customers.

The staffing structure has been increased to tackle the tasks required for this business to achieve its potential going forward.

FMCG

Volumes sold of rice, salt, small grains, pastas, spreads and baked beans were 4.7% up on the corresponding period albeit at lower gross margins. This fiercely competitive arena requires us to produce at the most efficient cost possible and sell at reduced margins in order to compete. The market remains largely price driven with only very small brand premiums available in a few categories. Nevertheless the business contributed positively to group profitability and contributed significantly to the group fixed overhead recovery.

At December 2012 we exited the imported baked bean and peanut butter categories in favour of local production under our Red Seal brand. Pasta, salt and small grain volumes performed well.

A new long-term strategy was adopted for the rice category underpinned by our new downpacking plant in Mutare and product offerings across the category including a value brand par-boiled rice. We are confident that we will regain lost market share.

Properties

During the six months under review four properties were sold. At December 2012 the net lettable area of properties we own had reduced by 5% to 160,000m^2, of which 53% was occupied by National Foods, whilst 13% was leased to third parties and 34% was vacant. In line with our strategy to re-engineer the balance sheet, a further 41,000m^2 of property remains on the market for sale.

Information Technology (IT)

In pursuance of a more modernised information system, a Group IT Executive was recruited at period-end with a mandate to increase information accessibility. Initially IT focus will be on implementing a business intelligence solution to support improved operational efficiencies, ensuring the core business systems provide the business with appropriate controls, and leveraging the economies of cloud computing to deliver commoditised IT services. We estimate an immediate investment of $0.42m into these initiatives. The Group remains committed to a cost effective practical IT solution that can provide tangible cost savings and quantifiable improvements in efficiency.

Corporate Social Investment

For our employees, we continue to provide in-house medical services including discreet HIV testing and free ARV's. The Group embarked on no less than 120 interventions to provide charitable assistance to 24 needy organisations, primarily through the provision of food.

Future Prospects

The Group posted excellent results for the six months, albeit partly assisted by some non-recurring items. Key market shares have been retained which have had a positive effect on volumes and efficiencies associated with increased capacity utilisation.

The Group's capability and capacity has had to increase commensurate with greater volume demand. This in turn requires ongoing upgrades into plant and equipment and investment into our people.

We expect to spend $8.5m in capital expenditure during the financial year. We are confident these investments will fulfil shareholders' expectations on return, whilst importantly strengthening the Group's manufacturing, distributing and selling capability for the future.

Concurrent to the investment we make is an unabated enterprise-wide push to reduce costs and improve productivity in anticipation of increased competition. Investment into our people through comprehensive training and exchange programs will continue until such time as we match regional performance benchmarks.

We expect trading in the second half of financial year 2013 to be less robust because the market is less able to absorb the rising raw material prices. Liquidity constraints may restrict growth.

Growth opportunities exist in both new and existing categories and are currently being evaluated.

Overall, the Group will focus on defending what we have, improving what we do and growing our business.

Dividend

The Board has declared an interim dividend of 3,0c per share payable on or about 5 April 2013 to shareholders registered in the books of the company by noon on 22 March 2013. The level of this dividend does not imply ongoing changes to the Company's trading pattern. The transfer books and register of members will be closed from 23 March to 27 March 2013, both days inclusive.

Acknowledgements and Appreciation

I wish to thank my Board colleagues for the roles they have played in the various sub-committees and on the Board itself. I am pleased to note the enhanced stability and improved profitability achieved by the Company.

Mr T W Brown resigned from the Board with effect from 31 December 2012 and was replaced by Mr J Koumides, as a representative of Innscor Africa Limited, who will also chair the Remuneration and Audit Committees. I wish to thank Mr Brown sincerely for his invaluable contribution to National Foods over the last four and a half years.

Finally I wish to thank my fellow Board members, management and staff for their individual contributions to this pleasing set of results. There is still much to be done to realise our objectives for our customers, consumers and shareholders which I am confident can, and will be achieved.

Todd Moyo
Chairman
19 February 2013

Abridged Group Statement of Comprehensive Income

	6 months ended 31 Dec 2012 unaudited USD'000	6 months ended 31 Dec 2011 unaudited USD'000
Revenue	143 815	116 144
Operating profit before depreciation and amortisation	11 529	5 793
depreciation and amortisation	(910)	(840)
Profit before interest and tax	10 619	4 953
net interest	(562)	(131)
Profit before tax	10 057	4 822
tax	(2 414)	(1 218)
Profit for the period	7 643	3 604
Other comprehensive income - to be recycled to profit or loss at a future point in time		
exchange differences arising on translating foreign operations	(1)	(3)
Total comprehensive income for the period	7 642	3 601
Profit for the period attributable to:		
equity holders of the parent	7 643	3 587
non-controlling interests	-	17
	7 643	3 604
Total comprehensive income for the period attributable to:		
equity holders of the parent	7 642	3 584
non-controlling interests	-	17
	7 642	3 601
EARNINGS PER SHARE (CENTS)		
- Basic earnings per share	11.17	5.24
- Diluted earnings per share	11.17	5.24
- Headline earnings per share	10.17	5.10
- Diluted headline earnings per share	10.17	5.10

Abridged Group Statement of Financial Position

	At 31 Dec 2012 unaudited USD'000	At 30 June 2012 audited USD'000
ASSETS		
Non-current assets		
property, plant and equipment	35 660	35 851
other non-current financial assets	200	277
	35 860	36 128
Current assets		
cash and short-term deposits	4 554	10 619
other current assets	77 116	41 770
	81 670	52 389
Total assets	117 530	88 517
EQUITY AND LIABILITIES		
Capital and reserves		
ordinary share capital	684	684
non-distributable reserves	24 678	24 679
distributable reserves	31 231	24 648
Total shareholders' equity	56 593	50 011
Non-current liabilities		
deferred tax liability	8 299	8 074
	8 299	8 074
Current liabilities		
bank overdrafts and acceptances	-	2 265
interest bearing borrowings	21 485	75
trade and other payables	29 688	27 121
current tax liability	1 465	971
	52 638	30 432
Total liabilities	60 937	38 506
Total equity and liabilities	117 530	88 517

Abridged Group Statement of Cash Flows

	6 months ended 31 Dec 2012 unaudited USD'000	6 months ended 31 Dec 2011 unaudited USD'000
Cash (utilised in)/generated from operating activities	(22 230)	254
net interest paid	(562)	(131)
tax	(1 694)	(629)
Total cash utilised in operations	(24 486)	(506)
Investing activities		
Purchase of property, plant and equipment to expand operations	(1 843)	(1 569)
Purchase of property, plant and equipment to maintain operations	(885)	(365)
Other cashflows from investing activities	3 064	1 212
Net cash flows from investing activities	336	(722)
Net cash outflow before financing activities	(24 150)	(1 228)
Financing activities	20 350	(3 483)
Net decrease in cash	(3 800)	(4 711)
Cash and cash equivalents at the beginning of the period	8 354	3 888
Cash and cash equivalents at the end of the period	4 554	(823)
Cash and cash equivalents comprise		
cash and short-term deposits	4 554	8 860
bank overdrafts and acceptances	-	(9 683)
	4 554	(823)

Abridged Group Statement of Changes in Equity

	6 months ended 31 Dec 2012 unaudited USD'000
Changes in non-distributable reserves	(1)
arising on the translation of foreign operations	(1)
Changes in distributable reserves	6 583
profit for the period attributable to equity holders of the parent	7 643
dividends paid	(1 060)
Total current year movements	6 582
Shareholders' equity at 30 June 2012	50 011
Shareholders' equity at 31 December 2012	56 593

Supplementary Information

1 Company information

The company and its subsidiaries are incorporated in Zimbabwe except for Botswana Milling and Produce Company (Proprietary) Limited and Red Seal Manufactures (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.

	6 months ended 31 Dec 2012 unaudited USD'000	6 months ended 31 Dec 2011 unaudited USD'000
2 Depreciation	910	840
3 Capital expenditure for the period	2 728	1 934
4 Commitments for capital expenditure		
Contracts and orders placed	4 332	1 081
Authorised by directors but not contracted	1 057	1 526
	5 389	2 607

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 the number of shares in issue for the period.

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 for the conversion of share options not yet exercised and convertible instruments. There were no instruments with a dilutive effect at the end of the financial period.

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.

	6 months ended 31 Dec 2012 Unaudited USD'000	6 months ended 31 Dec 2011 Unaudited USD'000
Profit for the period attributable to equity holders of the parent	7 643	3 587
Adjustment for capital items		
Profit on disposal of property, plant and equipment	(742)	(125)
Tax effect of adjustments	56	11
Headline earnings attributable to ordinary shareholders	6 957	3 473
Number of shares		
Weighted number of ordinary shares ('000s)	68 400	68 399

6 Operating Segments

6 months ended 31 December 2012	Milling, Manufacturing and Distribution USD'000	Properties USD'000	Intersegment adjustments USD'000	Group USD'000
Segment revenue	143 500	1 203	(888)	143 815
Profit/(loss) before interest and tax	10 850	(231)	-	10 619
Net interest expense	(605)	43	-	(562)
Profit/(loss) before tax	10 245	(188)	-	10 057
Depreciation charge for the period	659	251	-	910
Capital expenditure	1 814	914	-	2 728
As at 31 December 2012				
Segment assets	79 569	38 164	(203)	117 530
Segment liabilities	(54 854)	(6 286)	203	(60 937)
Net segment assets	24 715	31 878	-	56 593

6 months ended 31 December 2011	Milling, Manufacturing and Distribution USD'000	Properties USD'000	Intersegment adjustments USD'000	Group USD'000
Segment revenue	115 738	1 031	(625)	116 144
Profit before interest and tax	4 796	157	-	4 953
Net interest expense	(232)	101	-	(131)
Profit before tax	4 564	258	-	4 822
Depreciation charge for the period	622	218	-	840
Capital expenditure	1 628	306	-	1 934
As at 31 June 2012				
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

7 Events after the reporting date

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

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