

**Chairman's Statement**
**Introduction**

The period under review witnessed a marked slow-down in the economy as the country's burgeoning current account deficit and balance of payments situation exacerbated the already tight liquidity conditions. The reality of a dollar economy has set in with declining formal employment opportunities further reducing disposable income for the indebted consumer. Government revised downward its 2014 economic growth forecasts in the latter part of 2013, mirroring the continued downturn in economic activity.

The shortage of locally produced raw materials remains an area of concern, however, good rains to date augur well for an improved summer grain harvest.

National Foods, like all other businesses, is compelled to review short-term strategies regularly in an effort to remain competitive in the market place, and simultaneously to drive strategies for long-term operational sustainability. Our average factory capacity utilisation improved over the same period in the prior year to 47% due to increased sales of maize meal and stockfeeds, albeit at reduced margins to counteract the flood of imports from South Africa. The dramatic weakening of the Rand against the US Dollar has enabled South African millers to marginally cost product for sale into the Zimbabwe market. Government's efforts to support local industry by restricting imports is encouraging, as the measures taken will ensure a level playing field for all. The Group continues to invest in its core manufacturing units and has started a major reinvestment into upgrading the flour milling platform.

In the market place the consumer looks more for value than to trusted brands which has compelled us to develop offerings to suit this change in buying behaviour. Our Better Buy brand has been well received for the combination of value and quality that it offers. A significant development in the period was the activation of both backward, and forward integration within industries, with protein producers investing in feed plants and wholesalers starting to down-pack basic commodities into their own brands signalling a move toward greater control of the value chains.

**Overview of Financial Performance**

The Group sold 257,000 tons in the period, an increase of 4.4% on prior year. These marginally increased volumes together with raw material price inflation drove an increase in turnover of 10% to \$165.8m. Gross margins declined by 1.1% as we priced to hold volume in a fiercely competitive market place. Profit before tax for the 6 months amounted to \$9.2m against same period in prior year of \$10.1m, however, the prior year period included \$0.7m of profit realised from non-recurring items.

Net working capital of \$51.4m was utilised to achieve these results and is at appropriate levels to fund our business objectives. Net borrowings at the period end were \$15.5m which implies a gearing ratio of 23.6% - an improvement of 3.4% over the preceding 6 months.

Pursuant to our strategy of optimising our operating base, the Group utilised \$1.8m on capital projects as part of a long term asset upgrade and modernisation programme.

**Operations Review**

We operated at eight of our eleven factories for the period, however, in December 2013, we commenced preparations to open the Mutare Maize Mill in response to improved demand and location of grain stocks. Further state of the art weighbridge software systems are being installed at all sites which will significantly improve our internal controls.

A new distribution depot was opened at Gutu bringing our total network to 36 depots. These depots continue to serve as convenient distribution centres for our wholesale and farming customers as well as grain purchase points for local grain producers. All our full service depots are now connected to the central IT function and enjoy real time access to the system.

The Group invested in various corporate farming ventures that collectively planted 3,250ha of maize and soya beans in a welcome development that can only serve to enhance operations into the future. We are committed to further investment into local agriculture going forwards.

Our main brands continued to compete successfully on the shelf, with increased marketing investment planned to consolidate the leading positions of Red Seal, Gloria, Mahatma and National Foods Stockfeeds. Our Better Buy brand gained significant market share at the bottom end of the rice category and will be extended to other categories.

**MILLING, MANUFACTURING AND DISTRIBUTION**
**Flour Milling**

Flour volumes sold reduced by 4% compared to the same period last year, translating to a 5% drop in turnover due to bakers unloading stocks of imported flour. Government further regulated the importation of flour confirming on-going support of the milling industry which is a significant employer in Zimbabwe. We expect the flour business to stabilise at current levels of production which compels the Group to commit substantial resource into the refurbishment of our mills over the next 3 years.

This business' profitability was markedly reduced in the period under review as we unwound a long and expensive pipeline of imported raw materials in a declining world wheat market. Our current pipeline of 5 months of wheat stocks is on par with world wheat prices which will enhance profitability in the second half of the financial year.

The flour mills have sufficient capacity and capability to fulfil expected demand for flour at the correct quality and appropriate price into the foreseeable future. Two mills are currently attending one of the world's premier milling schools in Switzerland on a 6 month training course as part of our skills upliftment programme.

**Maize Milling**

The Grain Marketing Board (GMB) continued to develop their commercial aspirations during the period.

Demand for Red Seal Roller meal and Pearlenta increased towards the interim period end resulting in overall sales growth of 9% above the corresponding prior year period. Net revenue generated grew 30% driven by significant increases in maize prices both locally and in the region. An improved sales mix translated to improved profitability for this business.

Zimbabwe and the milling industry as a whole, remain dangerously over-reliant on importing maize from regional producers and it remains paramount that more maize is grown locally, and hence our decision to actively invest in local maize production.

**Stockfeeds**

Our stockfeeds business posted slightly improved sales volumes resulting in revenue growth of 13% over the same period in the prior financial year, despite significant raw material price increases of soya and maize. We successfully tendered for a substantial beef feed contract which arrested a downward trend in sales volumes.

It is pertinent to report that the major poultry producers have commenced construction of in-house feed mills to backward integrate their processes. In response National Foods will re-engineer its route to market strategy to focus more on servicing the emerging small scale poultry producers nationwide.

In support of this strategy we commenced sales of day old chicks in November with encouraging results. 3 of a planned 24 sales outlets designed to serve the needs of the small scale poultry producer were opened in January 2014.

This business remains susceptible to reduction in volumes as it is only using 46% of available plant capacity. Management will continue to explore strategies and arrangements that can boost production throughput thereby reducing the unit production cost which in turn can reduce the price of feed to the protein growers. Growth in volumes of maize and wheat milled resulted in improved availability of milling offals which we expect can be converted into an attractive offering for our Stockfeed customers in the second half of the year.

Management is investigating appropriate asset reinvestment options for the Bulawayo mill which is in need of an upgrade. Overall this business contributed as expected to Group profitability.

**FMCG**  
Consistent with market demand, we re-engineered our brand and stock keeping unit (SKU) strategy to meet requisite price points in all FMCG categories. As a result, volumes sold increased by 16% with revenue growing 7% versus the corresponding period in the prior year. Profitability was slightly lower than anticipated. The momentum created by our pricing and pack size approach is perhaps of more importance than short term gain going forward.

Rice volumes continued to grow through the introduction of top-end specialty Basmati, Jasmine and Brown rices under the Mahatma brand and the introduction of excellent quality low end par-boiled rice in the Better Buy brand. The salt packaging was successfully refreshed however supply side constraints hampered growth in this category.

The range of products we have in this portfolio has become more relevant to market demand which positions us well to benefit from any upturn given that the operating costs are largely fixed.

**Properties**  
The property market was not spared from the economic downturn in the period under review. We did not sell any properties however we are confident that at least one large surplus property will be disposed of imminently. At 31 December 2013, the net lettable area of properties was 120,400m<sup>2</sup> of which 10% was leased to third parties and 19% was vacant. 35,400m<sup>2</sup> remains on the market for sale. \$0.5m was spent on maintaining our properties.

**Support Services**  
The Group is focusing intensely on balancing costs and capability in respect of above site services and consequently work to right size and re-skill these functions continues.

The IT department continues to successfully convert manual processes to IT driven with tangible cost savings, improved reliability and improved internal control systems. A voice over internet initiative and an automated interface with our largest supermarket customers are two such examples of the value to be realised from the IT strategy. Quantifiable cost savings and improved effectiveness were delivered by our Legal department and the outsourced service providers of both Distribution and Procurement services. The various committees that serve to de-risk the business such as Internal Audit, Credit Control, Insurance and Risk Assessment all fulfilled their mandates as required. The Group sees significant value in an effective and appropriate set of support services that facilitate rapid and seamless growth into new categories.

**Corporate Social Responsibility**  
National Foods continues to respond to the food needs of its nominated 25 vulnerable charities and institutions across the country. In addition we supported a further 19 ad hoc requests for support during the period. Given the nature of our economy and its impact on the less fortunate, we are increasing the scope of our involvement to provide assistance to more of the disadvantaged community. To this end, we were able to assist the Tokwe Mukosi Dam victims with food aid.

**Future Prospects**  
The Group delivered satisfactory financial results for the half year to 31 December 2013. There are far reaching initiatives across the Group to improve processes; plant and equipment; route to market efficiencies; product engineering; automation and mechanisation. The combined success of these interventions should contribute to greater sustainability and improved ability to compete in the market.

Nonetheless, the economic indicators are a cause for concern and suggest a downturn in overall economic activity which will affect National Foods, a Group which relies on volumes to be successful. Management is therefore implementing short-term strategies that respond to the downturn whilst remaining committed to the long-term strategies that permanently strengthen capability. Specifically, management will evaluate and action appropriate route to market options, pricing mechanisms and address the level of exposure to debtors.

Over the next 6 month period the Group has committed to capital expenditure projects to the value of \$5.3m in accordance with long-term improvement plans.

National Foods continuously monitors and scrutinises consumer needs as they evolve with changing economic circumstances, such that we can provide a compelling offering at all times. These insights will help drive communications and brand initiatives to ensure we remain at the forefront of the consumer's mind.

A number of relevant staff training and support programmes are being implemented in response to the findings of an enterprise wide job grading and skills assessment exercise that was completed in December 2013.

If current levels of profitability are to be maintained, the Group must carefully balance responses to short-term changes in the environment with the simultaneous pursuit of long term sustainable strategies.

**Dividend**  
The Board has declared an interim dividend of 3.0c per share payable on or about 1st April 2014, to shareholders registered in the books of the company by noon on 21st March 2014. The transfer books and register of members will be closed from the 22nd March to 23rd March 2014, both days inclusive.

**Acknowledgement and Appreciation**  
I have enjoyed unwavering support from my fellow board members during the period under review, for which I am grateful. The results posted are commendable given the market uncertainty and the liquidity constraints.

I thank the management and staff for their efforts and loyalty that contribute in so many different ways to the overall performance of the Company.

**Stockfeeds**  
Our stockfeeds business posted slightly improved sales volumes resulting in revenue growth of 13% over the same period in the prior financial year, despite significant raw material price increases of soya and maize. We successfully tendered for a substantial beef feed contract which arrested a downward trend in sales volumes.

It is pertinent to report that the major poultry producers have commenced construction of in-house feed mills to backward integrate their processes. In response National Foods will re-engineer its route to market strategy to focus more on servicing the emerging small scale poultry producers nationwide.

**Todd Moyo**  
Chairman  
18 February 2014

# Unaudited Financial Results of National Foods Holdings Limited for the six months ended 31 December 2013

	Salient Features	6 months ended 31 Dec 2013	Growth
Revenue	165 773	▲ 10%	
Operating profit	10 972	▼ -5%	
Profit before tax	9 211	▼ -8%	
Cash generated from operations	9 076	▲ 141%	
Basic earnings per share (cents)	10.04	▼ -10%	
Headline earnings per share (cents)	10.01	▼ -2%	
Interim dividend declared per share (cents)	3.00	-	

## Abridged Group Statement of Profit or Loss and Other Comprehensive Income

	6 Months Ended 31 Dec 2013 unaudited USD'000	6 Months Ended 31 Dec 2012 unaudited USD'000	Restated
<b>Revenue</b>	165 773	150 929	
<b>Operating profit before depreciation and amortisation</b> depreciation and amortisation	10 972 (1 078)	11 529 (910)	
<b>Profit before interest and tax</b> net interest	9 894 (683)	10 619 (562)	
<b>Profit before tax</b> tax	9 211 (2 341)	10 057 (2 414)	
<b>Profit for the period</b>	6 870	7 643	
<b>Other comprehensive income - to be recycled to profit or loss at a future point in time</b> exchange differences arising on translating foreign operations	-	(1)	
<b>Total comprehensive income for the period</b>	6 870	7 642	
<b>Profit for the period attributable to:</b> equity holders of the parent	6 870	7 643	
<b>Total comprehensive income for the period attributable to:</b> equity holders of the parent	6 870	7 642	
<b>EARNINGS PER SHARE (CENTS)</b>			
- Basic earnings per share	10.04	11.17	
- Diluted earnings per share	10.04	11.17	
- Headline earnings per share	10.01	10.17	
- Diluted headline earnings per share	10.01	10.17	

## Abridged Group Statement of Financial Position

	At 31 Dec 2013 unaudited USD'000	At 30 June 2013 audited USD'000	
<b>ASSETS</b>			
<b>Non-current assets</b>			
property, plant and equipment	38 596	37 925	
other non-current financial assets	120	120	
	38 716	38 045	
<b>Current assets</b>			
cash and cash equivalents	1 744	4 106	
other current assets	89 411	71 993	
	91 155	76 099	
	129 871	114 144	
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
ordinary share capital	684	684	
non-distributable reserves	24 676	24 676	
distributable reserves	40 286	35 468	
	65 646	60 828	
<b>Non-current liabilities</b>			
deferred tax liability	8 502	7 450	
	8 502	7 450	
<b>Current liabilities</b>			
interest-bearing borrowings	17 263	20 566	
trade and other payables	38 036	24 682	
current tax liability	424	618	
	55 723	45 866	
	64 225	53 316	
<b>Total equity and liabilities</b>	129 871	114 144	

## Abridged Group Statement of Cash Flows

	6 months ended 31 Dec 2013 unaudited USD'000
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