NATIONAL FOODS
HOLDINGS LIMITED

Reviewed Abridged Financial Results of National Foods Holdings Limited
for the full year ended 30 June 2016

Salient Features

	Year ended 30 June 2016 USD '000		
Volume (MT)	560,000	^	13%
Revenue	330,642	^	5%
Operating profit	21,735	^	8%
Profit before tax	19,041	^	10%
Basic earnings per share (cents)	20.87	^	12%
Headline earnings per share (cents)	20.79	^	17%
Cash generated from operations	20,704	^	32%
Total dividend declared per share (cents)	10.44	^	35%

Chairman's Statement

Directors' Responsibility

The Holding Company's Directors are responsible for the preparation and fair presentation of the Group's interim abridged financial statements, of which this press release represents an extract. The abridged annual group financial results are presented in accordance with the disclosure requirements of the Zimbabwe Stock Exchange (ZSE) Listings Requirements for provisional annual financial statements (preliminary reports). The abridged annual group financial results have been prepared in accordance with the measurement and recognition principles of International Financial Reporting Standards (IFRS). The accounting policies applied in the preparation of these financial results are except where stated, consistent with those applied in the previous annual financial statements.

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 2016. 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 a strong performance for the year under review, posting profit before tax of $19.04 million which was 10% above the prior year. Given the difficult operating environment volume performance was encouraging, with 560,000 tons sold representing an increase of 13% over prior year. The increase was primarily driven by a strong performance from the maize division and to a lesser extent by beef feed. Revenue increased by 5.2% to $330 million, while average selling prices declined by 7.3% due to increased maize sales in the mix, lower flour prices on account of lower wheat pricing and general price discounting to hold share in an increasingly competitive market.

The deflationary trend continued in the economy, with the CPI for the food and non-alcoholic beverage category closing the year at -4.0%. This on-going trend as well as further pressure on consumer disposable income made it essential to correctly price our product basket to achieve volume growth and drive market share.

Overview of Financial Performance

Despite the reduced selling prices, gross margin increased by 6% on the back of increased volumes, effective procurement and improved operating efficiencies in our plants. Total operating costs grew by 4.9%, mainly due to increasing go to market costs in a highly competitive and constrained environment. Cost growth was substantially below volume growth as the initiatives to rationalise the Group cost base took effect. The optimisation of the Group's cost base remains a key focus area in the period ahead.

The Statement of Financial Position remains in a healthy position, with net cash at $1.9 million at year end. Net working capital closed the year at $44.4 million versus $42.4 million prior year, with the Group electing to hold stocks of certain key raw materials. The Group remains well positioned to fund its growth ambitions as well as a continued dividend flow to its shareholders.

Capital expenditure for the year amounted to $7.6 million. The majority of this investment was directed towards the Flour mills as well as a substantial investment into back-up generators for our major manufacturing facilities. Three of our four major manufacturing sites are now able to run on back-up generators.

Flour Milling

The Flour division produced a commendable performance during the period in the face of reduced bread consumption as consumers turned to relatively more affordable starches. Volumes increased by 1% compared to last year, whilst selling prices declined by 6.2% as the benefit of lower international wheat prices was passed onto the consumer. The volume growth was driven by the bakers category while the prepack category volumes were flat on prior year with consumers trading down from Gloria to Red Seal self-raising flour.

The intensive three-year program to refurbish both the Harare and Bulawayo flour mills to international standards will be completed in the coming financial year. The program has resulted in significantly improved operating efficiencies in our flour mills which in turn drove improved profitability from this division, in spite of the moderate volume growth and reduced selling prices.

Maize Milling

The Maize division saw a substantial increase in volumes which increased by 67% compared to last year. The volume growth was driven by an aggressive pricing strategy, the introduction of Better Buy maize meal in the value segment and increased demand following a reduced 2014/15 local harvest.

The on-going maize harvest is expected to be poor following decreased and erratic rainfall and significant volumes of raw maize will need to be imported into the country over the next 12 months. Our management team continues to work closely with the authorities and our major suppliers to ensure adequate raw material supply over this period.

Stockfeeds

The Stockfeeds division produced a solid performance in the face of declining consumption of protein products. Purchases of meat and eggs have declined along with consumer disposable income and this resulted in a reduced demand for feed. Despite this, total volumes only declined by 3.9% as our team rolled out a number of initiatives to improve service delivery to the farmer. Beef volumes grew by 50% on the previous period as farmers increased supplementary feeding following a poor season.

Medium-scale Consumer Goods (MCG)

This division is engaged in the down packing of various FMCG goods (rice, salt, sugar beans and popcorn) as well as the trading of pasta, spreads, oil and sugar. This business had an extremely challenging year, as intense competition impacted margins. Whilst volumes increased 8.7% compared to the prior year, turnover decreased by 5% following price discounting to hold volumes. In response to the difficult environment the category portfolio was rationalised and several smaller categories were discontinued. The rice packing plant was also moved from Mutare to Harare, resulting in reduced distribution costs. By year-end the business had made a solid recovery and we expect a more meaningful contribution from it in the year ahead, driven in the main by pre-packed rice and salt.

Snacks and Biscuits

Following regulatory approval, the acquisition of this operation became effective on April 1st 2016. Whilst the business did not have a meaningful impact on the performance of the Group this year it brings a new dimension to National Foods with entry into the snack and biscuit segments. A number of initiatives have been implemented to improve product quality and volume growth to date has been encouraging. Strategically we will look to broaden our snack and biscuit offering once the current portfolio has been optimised.

Pure Oil

National Foods acquired an effective 40% stake in Pure Oil Industries as from April 1st 2016, for an amount of $2.4 million plus debt guarantees worth $7 million. The business performed well in the final quarter driven by firm demand for cooking oil. Pure Oil will continue to produce the Zim Gold, Red Seal and Better Buy brands of cooking oil, while the protein meals which it produces are key raw materials in Stockfeed production. Pure Oil has established a very solid foot print in a short period of time and our team is looking forward to developing this business further in the year ahead.

Contract Farming

The Group continues to support local farming, with 7,800 hectares of maize, wheat and soya beans having been planted through the National Foods' scheme managed by PHI Commodities.

Corporate Social Responsibility (CSR)

The Group operates a number of CSR programs, which are aimed primarily at assisting vulnerable groups, disadvantaged communities as well as assisting various livestock and wildlife initiatives around the country.

Future Prospects

The trading environment is expected to become increasingly challenging for the foreseeable future. The Group will continue to focus on creating a sustainable and competitive light manufacturing business. Our teams will be a key enabler of this and to this end we will continue to invest heavily in the growth and development of our people. Optimisation of the company's cost base will also remain a key theme.

The Group will provide particular focus to the newly acquired businesses to deliver on the opportunities which exist in these categories. Beyond this, further growth remains a key priority and we continue to explore opportunities for both organic and acquisitive growth.

Dividend

The Board is pleased to declare a final dividend of 5.61 US cents per share payable in respect of all ordinary shares of the Company. This dividend is in respect of the financial year ended 30th June 2016 and will be payable in full to all the shareholders of the Company registered at the close of business on 14th October 2016. The payment of this dividend will take place on or about 28th October 2016. The shares of the Company will be traded cum – dividend on the Zimbabwe Stock Exchange up to the market day of 7th October 2016 and ex – dividend as from the 10th October 2016.This final dividend brings the total dividend for the year to 10.44 US cents per share.

Acknowledgment and Appreciation

I would like to thank management and staff sincerely for producing a solid set of results under extremely difficult circumstances. I wish to thank my fellow board members for their continued support and counsel. Mr Antonio Fourie resigned from the board with effect from 18 August and was replaced by Mr Godfrey Gwainda as one of the Innscor Africa Limited's representatives. I would like to sincerely thank Antonio for the invaluable role he has played during his tenure.

Todd Moyo
Chairman
18 August 2016

Abridged Group Statement of Profit or Loss and Other Comprehensive Income

	Year ended 30 June 2016 Reviewed USD '000	Year ended 30 June 2015 Audited USD '000
Revenue	330,642	314,407
Operating Profit before depreciation and amortisation	21,735	20,164
depreciation and amortization	(2,761)	(2,556)
Profit before interest and tax	18,974	17,608
interest income	655	799
interest paid	(1,042)	(1,153)
equity accounted earnings	454	
Profit before tax	19,041	17,254
tax	(4,768)	(4,517)
Profit for the year	14,273	12,737
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	(3)	(2)
Total comprehensive income for the year	14,270	12,735
Profit for the year attributable to:		
equity holders of the parent	14,273	12,737
Total comprehensive income for the year attributable to:		
equity holders of the parent	14,270	12,735
EARNINGS PER SHARE (CENTS)		
- Basic earnings per share	20.87	18.62
- Headline earnings per share	20.79	17.82

Abridged Group Statement of Financial Position

	At 30 June 2016 Reviewed USD '000	At 30 June 2015 Audited USD '000
ASSETS		
Non-current assets		
property, plant and equipment	45,644	40,266
other non-current financial assets	4,487	120
	50,131	40,386
Current assets		
inventory	49,042	45,077
trade and other receivables	31,496	29,326
assets held for sale	157	157
cash and cash equivalents	9,166	8,746
	89,861	83,306
Total assets	139,992	123,692
EQUITY AND LIABILITIES		
Capital and reserves		
ordinary share capital	684	684
non-distributable reserves	(13)	(10)
distributable reserves	87,686	79,897
Total shareholders' equity	88,357	80,571
Non-current liabilities		
deferred tax liability	8,180	7,448
	8,180	7,448
Current liabilities		
bank overdrafts and acceptances	-	1,482
interest-bearing borrowings	7,245	1,942
trade payables	35,632	26,581
other payables	538	5,461
current tax liability	32	199
liabilities relating to assets held for sale	8	8
	43,455	35,673
Total liabilities	51,635	43,121
Total equity and liabilities	139,992	123,692

Abridged Group Statement of Cash Flows

	Year Ended 30 June 2016 Reviewed USD '000	Year Ended 30 June 2015 Audited USD '000
Cash generated from operating activities	20,704	15,680
net interest paid	(387)	(354)
tax paid	(4,233)	(4,773)
Total cash generated from operations	16,084	10,553
Investing activities		
Purchase of property, plant and equipment to expand operations	(3,220)	(4,574)
Purchase of property, plant and equipment to maintain operations	(4,373)	(1,115)
Other cashflows from investing activities	(4,481)	1,893
Net cash outflow from investing activities	(12,074)	(3,796)
Net cash inflow before financing activities	4,010	6,757
Financing activities	(2,108)	(4,944)
Net increase in cash	1,902	1,813
Cash and cash equivalents at the beginning of the year	7,264	5,451
Cash and cash equivalents at the end of the year	9,166	7,264
Cash and cash equivalents comprise		
cash and short term deposits	9,166	8,746
bank overdrafts and acceptances	-	(1,482)
	9,166	7,264

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 2014	**684**	**(8)**	**72,830**	**73,506**
Profit for the year attributable to equity holders of the parent	-	-	12,737	12,737
Dividends paid	-	-	(5,670)	(5,670)
Other comprehensive income	-	(2)	-	(2)
Balance at 30 June 2015	**684**	**(10)**	**79,897**	**80,571**
Profit for the year attributable to equity holders of the parent	-	-	14,273	14,273
Dividends paid	-	-	(6,484)	(6,484)
transfer to foreign currency reserve	-	(3)	-	(3)
Balance at 30 June 2016	**684**	**(13)**	**87,686**	**88,357**

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 Manufactures (Proprietary) Limited which are incorporated in Botswana.

The Group's activities consist of the milling of Flour and Maize, the manufacture of Stockfeeds, snacks and biscuits 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	Inter segment adjustments USD '000	Total USD '000
Revenue				
30 June 2016	330,429	2,113	(1,900)	330,642
30 June 2015	314,158	2,176	(1,927)	314,407
Operating profit before depreciation and amortization				
30 June 2016	20,375	1,360	-	21,735
30 June 2015	18,443	1,721	-	20,164
Depreciation and amortization				
30 June 2016	(2,236)	(525)	-	(2,761)
30 June 2015	(2,007)	(549)	-	(2,556)
Net Interest Expense				
30 June 2016	(858)	471	-	(387)
30 June 2015	(878)	524		(354)
Profit before tax				
30 June 2016	17,734	1,307		19,041
30 June 2015	15,558	1,696	-	17,254
Segment assets				
30 June 2016	110,800	35,832	(6,639)	139,992
30 June 2015	86,599	41,869	(4,776)	123,692
Segment liabilities				
30 June 2016	(53,265)	(5,009)	6,639	(51,635)
30 June 2015	(42,297)	(5,600)	4,776	(43,121)
Capital expenditure				
30 June 2016	6,062	1,531	-	7,593
30 June 2015	5,138	551	-	5,689

	Year Ended 30 June 2016 Reviewed USD'000	Year Ended 30 June 2015 Audited USD'000
3 Depreciation and amortization	(2,761)	(2,556)
4 Bank overdrafts	-	1,482
5 Capital expenditure for the year	7,593	5,689
6 Future operating lease commitments		
Payable within one year	340	702
Payable two to five years	-	265
Payable after five years	-	-
	340	967
7 Commitments for capital expenditure		
Contracts and orders placed	2,029	2,982
Authorized by Directors but not contracted	9,811	4,429
	11,840	7,411

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

8 Other non-current financial assets		
Intangible asset	1,516	-
Investment in associate	2,854	-
Other financial assets	117	120
	4,487	120

9 Interest bearing borrowings

Interest bearing borrowings constitute bank loans from various local financial institutions which accrue interest at an average rate of 7% per annum. The facilities expire at different dates during the year and will be reviewed and renewed when they mature. Facilities are secured by cession of movable assets, receivables and inventory.

10 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 and share of non controlling interests as applicable.

Reconciliation of basic earnings to headline earnings	Year Ended 30 June 2016 Reviewed USD'000	Year Ended 30 June 2015 Audited USD'000
Profit for the year attributable to equity holders of the parent	14,273	12,735
Adjustment for capital items		
Profit on disposal of property, plant and equipment	(50)	(649)
Tax effect on adjustments	-	99
Headline earnings attributable to ordinary shareholders	14,223	12,185
Number of shares in issue		
Weighted average number of ordinary shares in issue	68,400	68,400
Basic earnings per share (cents)	20.87	18.62
Headline earnings per share (cents)	20.79	17.82

11 Events after the reporting date

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

12 Contingent Liabilities

The Group had no contingent liabilities as at 30 June 2016.