INNSCOR
Africa Limited

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TRADING UPDATE- FIRST QUARTER (F2014)

BAKERIES & FAST FOODS

The Group's Bakery operations posted a disappointing set of results during the first quarter of F2014. Average loaves per day amounted to 345,000; this was an 8% decline on the comparative prior quarter. The resultant decline in total gross margin, together with overhead increases, resulted in trading profit reducing by 41% over the same period. The operation is currently going through a review of its entire overhead structure based on current trading in order to enhance profitability to more acceptable and expected levels. The operation's new pie plant has recently been commissioned and this should improve operational gearing.

In the Zimbabwean Fast Foods portfolio, overall customer counts recorded in the first quarter increased by 7% against the comparative prior quarter, and whilst this resulted in increased revenues, a large reduction in margins through aggressively low or promotional pricing resulted in trading profit reducing by 36% over the same period. As with the bakery operations, a number of initiatives are underway to right-size the overhead structures within the business, whilst pricing structures are also being revisited. 7 new counters (4 in Harare and 3 in Chegutu) were opened during the quarter and this will be followed in quarter two by a further 5 counters in Harare and 2 in Mvuma.

Regionally, customer counts for the first quarter increased by 5% over the comparative prior period, this translated to a similar increase in trading profit. An additional four counters were opened in Nairobi during the quarter under review, whilst a further 17 outlets were at various stages of construction (5 in Kenya, 4 in Zambia, 4 in Senegal and 4 in the Democratic Republic of Congo) and are expected to be opened during the second quarter of the current financial year. Construction on a further 13 counters is expected to commence shortly and these counters are scheduled for opening in the last quarter of F2014.

DISTRIBUTION GROUP AFRICA (DGA)

In the Zimbabwean DGA operations, case numbers increased by 8% as compared to the comparative prior quarter. A small improvement in margins and good overhead control resulted in enhanced efficiency at the trading profit line.

Regionally, revenues declined by 9% over the same period, with operations in both Zambia and Malawi showing reduced levels of trading. Profits were similarly affected.

SPAR

The Group's SPAR retail operations in Zimbabwe posted a 6% increase in revenue over the comparative prior quarter. The operation however remained in a loss position after taking account of further retrenchment costs and legal costs associated with the ongoing Arundel SPAR case.

The SPAR DC in Harare saw a decline in revenues and margins due to the depressed state of trading amongst many of the independent franchisees who are struggling to finance their operations in the currently very tight and competitive retail sector. This has resulted in the operation making a loss in this first quarter. Given the current environment, a major review of the overhead base of this business is underway.

SPAR Zambia continued to show improved results during the first quarter of F2014, with revenue increasing by 11% over the comparative prior year period. A slight reduction in margin resulted in the growth in trading profit being limited to 4% over the same period.

COLCOM

At Colcom, revenues recorded in the first quarter of F2014 increased by 12% against the comparative prior quarter on the back of a similar increase in total tonnage. This tonnage growth came mainly through the operation's down-packing unit, Associated Meat Packers, whilst pork tonnage levels in the core Colcom Foods operations remained flat. Overheads were controlled to target levels with a reduction in staff overheads more than compensating for an increase in other overheads and trading profit growth mirrored that achieved at the revenue line. A fair value charge of USD 181K was processed below the trading profit line, as the valuation of the pig livestock herd was adjusted to reflect current reduced market pricing levels; this compared to a credit of USD 400k in the comparative prior quarter, and was the main reason for the discrepancy in profitability at the PBT line as measured over the same period.

HOUSEHOLD GOODS

TV Sales & Home recorded strong results during the quarter under review, with revenue growth of 30% achieved against the comparative prior quarter. Overhead costs were in line with budget, resulting in trading profit growth being slightly in excess of the revenue growth. The performance on the instalment debtor's book remained good during the quarter.

Trading at Capri during this first quarter was depressed, with volumes showing a reduction of 22% as compared to the comparative prior period. This was the main reason behind the reduction in trading profit which was 52% below that recorded over the same period. In order to counteract the poor trading environment locally and in anticipation of the new refrigerator line, commissioning of which has now been delayed to the third quarter of F2014, the first exports of product to Zambia will take place towards the end of November 2013.

ASSOCIATE AND OTHER BUSINESSES

National Foods processed approximately 117,000 tonnes of product during the first quarter; this was an increase of 2% over the comparative prior quarter. Gross margins were however compressed as the business competed with large volumes of imported finished product, and resulted in trading profits declining by 29%. Notwithstanding a poor start to the year, the operation has strong and well-priced pipelines of its major raw materials and an improvement in results is expected.

Irvine's recorded revenue growth of 23% compared to the comparative prior quarter, with the main volume drivers being day-old chick sales and frozen poultry. Gross margins also improved as a result of improved yields in the processing plant and this resulted in improved efficiencies at the trading profit line.

GROUP

From an overall perspective, consolidated Group revenues showed growth of 5% against the comparative prior quarter, however the impact of lower margins achieved in many of the businesses, together with an overhead base geared for higher levels of trading, impacted on the trading profit line which was 19% behind that achieved in the same period in F2012. In light of the current trading environment, trading models for each unit have been reviewed to ensure that overhead bases are re-set to levels that are consistent with margins being achieved. Management are confident that these initiatives will result in an improved performance by the Group's operations in the months ahead.