31 March, 2014

("Zambeef" or the "Group")

Interim Trading Update

Zambeef, the fully integrated agribusiness with operations in Zambia, Nigeria and Ghana, provides an update on its performance for the half-year ended 31 March 2014. Interim results will be announced during the week commencing 16 June 2014.

Overview

The Group expects revenue for the six months to 31 March 2014 to be in line with market forecasts, and overheads, depreciation and financing costs also to be in line with management expectations. This reflects progress in Zambeef's ambition to become one of the leading food producers in the region, with Dairy and West Africa performing well, together with the early benefits of the joint venture with Rainbow Chickens starting to come through.

However, a combination of extreme exchange rate volatility, increasingly competitive markets coupled with aggressive competitor pricing strategies and the effects of animal disease will mean the Group will announce a loss before tax for the first half of the year. This is despite tight controls on costs and an ongoing focus on developing the Group's offering to achieve higher margins and underpin competitive leadership.

Exchange Rate Volatility

The Zambian kwacha has depreciated significantly during the period, falling to a low of ZMW 6.46: USD 1 on 21 March, a depreciation of over 21 per cent. from the year-end exchange rate of ZMW 5.32: USD 1 on 30 September 2013. This has resulted in an escalation in Zambeef's dollar-denominated operating costs, particularly in the edible oils, stockfeed and cropping divisions.

Remedial action by the Government appears to have stemmed further losses but the kwacha remains relatively weak. On 21 March 2014, the Finance Minister revoked, with immediate effect, two Statutory Instruments impacting on foreign currency: SI 33, implemented in 2012, which enforced the use of local currency in all local transactions, and SI 55, introduced last year, which allowed the central bank to monitor foreign currency flows.

The implications of the increase in foreign exchange volatility have only become apparent in recent months, and it is disappointing to have to announce that the financial impact on the Group is substantial.

Increased Competition

Increased competition and a highly price-sensitive market, particularly in the retail sector, have put further pressure on margins, meaning additional costs, particularly feed and imported raw materials such as chemicals and fertilisers cannot readily be passed on to consumers. This has been a particular issue in the edible oils division, where competition has become very intense.

African Swine Fever

Whilst the Group's animals have not been affected by the outbreak of African Swine Fever in Zambia, the government-imposed restrictions on the movement of pigs and the sale of pork products, which lasted for approximately three months until mid-February 2014, have significantly impacted performance at Master Pork. The Group anticipates a return to normal trading and profitability in the second half of the year for the Pork Products division, although these factors have resulted in the business being well behind management expectations in the first half of the year.

Retail Sales

Whilst activity has increased following last year's well publicised issues surrounding imported beef products, it has been stimulated by competitive pricing which has had a significant impact on gross margins.

<u>Divisional Review</u>

Cropping Division

The cropping division has seen a reduction in profits despite good yields. This has resulted from a reduction in soya bean prices from USD600/ton to USD500/ton over the last year whilst input costs, a number of which are dollar denominated, have increased.

Edible Oils

Competition from unregulated imported edible oils has impacted the market, putting further pressure on margins that have also been depressed by exchange rate movements and increased competition with two new edible oil crushing plants being commissioned in 2013. This has resulted in a significant reduction in edible oil margins and this division will report lower profits than for the first half of last year. Despite the decline in margins and profitability, the division has made real progress in driving export sales as it aims to become a regional rather than just a domestic distributor and is now exporting into Zimbabwe, South Africa, Botswana and Namibia. In addition, the high cost soya beans stockpiled last year have largely now been processed which will help margins slightly in the second half. Despite this, margins are expected to remain tight for the remainder of the year and profitability for the full year will be lower than the previous year.

Stock Feed Division

A combination of dollar-denominated inputs and kwacha-based sales, along with increased competition in the Zambian market, has damaged performance in the Novatek stock feed division. This is being mitigated as the benefits of Zambeef's shift in emphasis towards a more regional market approach begin to be reflected in performance. Zimbabwe, Namibia and Botswana are already proving attractive markets for the Company's products. As a result the period has seen an increase in revenue but at reduced margins resulting in a decline in profits. There have been a number of new entrants to the stock feed market during the first half of the year which is expected to continue to hold back margins in the second half.

The Board remains confident that Novatek's products are market-leading in terms of quality and that this will underpin its long term success.

Beef Products

This division has seen an increase in business during the first six months of the year and the Group has been encouraged by some of its best sales weeks ever. However in order to regain its market share following the imported beef product issue this division has operated, in this period, at reduced margins resulting in profits being behind management expectations and the previous year's results.

Chicken

Zam Chick continues to be at the forefront of a sharp rise in demand for chicken from Zambia's growing population but the highly price-sensitive and competitive nature of the chicken market is making it hard for higher input price rises to be passed on to consumers. The division is starting to see the benefits from its joint venture agreement with Rainbow Chickens and has started to expand its value added range. The benefit of this is expected to become visible in the second half of the financial year. Egg sales have been strong throughout the first half.

West Africa

Zambeef's West Africa operations continue to grow in line with Shoprite's increasing footprint in the region. Africa's largest supermarket chain expects to roll out five new stores in Nigeria during 2014, the first of which opened last week.

Dairy

In November Zambeef trebled its milk processing capacity with the opening of a new plant. This division is performing very well and ahead of management expectations. This is expected to continue over the next six months.

Overheads

During this period of reduced operating margins management has focused closely on controlling administration expenditure and is pleased that administration costs such as repair and maintenance, fuel, water and electricity, and bank charges have remained within budget and in some cases are significantly lower than last year.

Francis Grogan, Chief Executive of Zambeef, commented,

"Our business performance has been negatively impacted by a number of factors, many of which are outside of our control. The sudden and unexpected volatility in the Zambian kwacha, together with an outbreak of disease, has had a considerable short-term impact on Zambeef's business. However, we believe this is a temporary exogenous shock and we remain confident that the Group is sufficiently robust and diversified to weather this period of turbulence.

We are also encouraged by the swift and decisive manner in which the Zambian Government acted to stabilise the currency and we are optimistic that the kwacha will now remain relatively stable.

Whilst competitive pressures remain for a number of our divisions, we believe that our focus on developing our offering, and value-added products in particular, will help to underpin our long-term performance. We look forward to making continued progress towards our aim of becoming a major African food producer."

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