LonZim

LonZim Plc
Interim Report

2010

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Chief Executive Officer's Statement

I am pleased to be able to report that the seeds of economic recovery are evident in Zimbabwe. However, the progress remains difficult and the market comparatively small in relation to its previous volume.

Economic recovery from the chaos of hyperinflation will inevitably take time. Confidence needs to be rebuilt, stability in commercial transactions re-established and liquidity needs to be available once again in the banking sector for both commerce and individuals to drive the economy.

Gradually the economy can be seen to be making progress. The business environment has rationalised with US dollarisation and the demise of hyperinflation. Companies are once again able to understand their business models, plan for the future and forecast with some accuracy what their objectives and targets are. The size of the economy remains very depressed. However, it is growing on a month by month basis, encouraged by continuing investment into rebuilding Zimbabwe from the international, public and, increasingly, the private sector.

LonZim's strategy since 2007 is to identify and support key businesses during the tough times so that they retain quality human resources, continue trading, are correctly resourced and capitalised and ready to address the market as it inevitably recovers.

LonZim is beginning to see the results of that strategy. Each of LonZim's seven core businesses is now well placed to grow as the economic recovery continues. The Company has, where necessary, invested in new plant and machinery during 2009 ahead of recovery which means that each division within LonZim is now operating to a highly professional standard and is not only capable of servicing old and existing business but also taking on new business. Where many Zimbabwean businesses are struggling with liquidity and access to capital, LonZim's strategy has always been to pre-fund its portfolio of operations to enable them to be first back to market.

We are confident that Zimbabwe has a future. The people of Zimbabwe remain one of the most industrious, valued and skilled workforces on the Continent, the basic infrastructure across the country is strong and Zimbabwe remains a beautiful destination with significant tourism and agricultural potential. The opportunity for the country to once again become a leading African economy remains tantalisingly available.

Results for the period:

During the period turnover grew to £2,677,000 from £495,000 in the equivalent period in the prior year reflecting the benefits of acquisitions completed last year, the effects of dollarisation and continued economic growth. The loss for the period of £2,380,000 reflects the ongoing development of the Group's investments and is in line with expectations. As at 28 February 2010 the Company had net assets of £32,768,000.

In December 2009 the Company raised £1,170,000 gross by way of a placing with institutions of 4,255,525 new ordinary shares of £0.0001 each. The proceeds are being used to meet the ongoing working capital requirements of the Company's subsidiaries.

From September 2009 to December 2009 the Company sold all of its remaining holding in Lonrho Plc, which it had held as a short term investment, generating a profit on disposal of £361,000 in the period.

Chief Executive Officer's Statement *continued*

Operational Review:

Leopard Rock Hotel Company (Pvt) Limited ("Leopard Rock Hotel") (100% holding)

Acquired in April 2009 the Leopard Rock Hotel is an iconic Zimbabwean property. Following the acquisition, Lonrho Hotels was appointed manager of the hotel allowing it to access the Lonrho central reservations system and attract high calibre management to re-establish the hotel as a premier African property.

The new General Manager, Richard Johnston, has an impressive career of 39 years in the industry, 23 of which as a General Manager, managing some of South Africa's most respected properties including the Cape Grace, The V&A Hotel, The Vineyard Hotel and The Saxon. Whilst he was at The Cape Grace, the hotel was awarded Conde Nast's "Best Hotel in The World " and whilst managing The Saxon, the hotel was awarded "Best Boutique Hotel in The World " (World Travel Awards, London). Richard is setting the standards for the Leopard Rock to re-establish it as one of Africa's leading hotel properties.

The US$1.7m (£1.1m) refurbishment work at the hotel comprises total repainting of the buildings, interior and exterior, entire refurbishment of all hotel rooms, new soft-furnishings throughout, including new carpets and curtains in public areas and accommodations, and a general upgrade of corridors and public areas. New state-of-the-art entertainment, IT and communications systems are being installed throughout the hotel, and the bar, lounges and restaurants are being entirely refurbished and upgraded.

Staff quarters, laundry and kitchen have been re-equipped to the highest standards. A new international standard staff training programme has been implemented to ensure the highest levels of quality service. The landmark Championship golf course at the Leopard Rock continues to be maintained at the best of standards. Complementing the renovations the hotel is planning to develop a world-class Spa.

The Minister of Tourism has identified that the hotel sector is one that can lead the recovery of the economy, and Leopard Rock is being positioned as an asset offering world class services and attractions to both local and international tourists.

Paynet Limited ("Paynet") (100% holding)

Paynet is in a strong position to grow as the Zimbabwe economy recovers. The company offers electronic funds transfer systems to the majority of banks in Zimbabwe. As the banking sector recovers, liquidity builds and confidence in the banks returns, Paynet is seeing its market expand. The human resources, systems and skills necessary for Paynet to operate have been retained and are ready to meet this growth.

Monthly transaction numbers are steadily increasing and confidence can be seen to be returning, albeit slowly, to the formal banking sector.

Paynet also owns and operates an outsourced electronic payroll and salary system utilised by the major corporations across Zimbabwe. This business is recovering as large corporate clients again commence production and benefit from the normalisation of the economy.

The microfinance division, Tradanet, is, as expected, one of the first areas to recover and is seeing real month on month volume growth as consumer markets recover. The division is negotiating to increase its external source of capital to meet the expanding payroll based microfinance being provided to serve this important market.

Chief Executive Officer's Statement *continued*

Paynet owns and operates from a high quality purpose built office building in Harare and, during the half year, took the opportunity to acquire the adjacent plot to its existing offices to be able to meet its plans for expansion.

Celsys Ltd ("Celsys") (60% holding)

Celsys has recorded a significant increase in revenue and is well placed to meet the growing demand for its core products as the Zimbabwean economy rebuilds. The company has continued its strategic review to clearly define its business model on three key divisions being commercial/security printing, information technology and the mobile payphone and airtime distribution markets.

The marketing and web design division, in addition to the Nokia & HTC cell phone sales divisions, have been closed down. The company's printing premises at Southerton are being refurbished and upgraded and the Arundel operation will be relocated to the printing works on completion. This will consolidate all Celsys' operations under one roof.

Security printing

The investment made in upgrading the printing presses has started to deliver results as evidenced by the gains in market share in the commercial printing sector. Further investments in additional finishing equipment are ongoing which will consolidate and increase the gains already achieved. The clear objective is for Celsys to provide the best security and commercial printing services to the market. A new General Manager, Mr Mark van Rooyen, was appointed in July 2009 and following his appointment and with the commissioning of the additional printing presses in December 2009 print revenues have grown in excess of 300%. Celsys Print is undergoing the implementation of the ISO 9001:2008 quality standard and was certified by the Standards Association of Zimbabwe in February 2010.

Telecommunications services

The airtime distribution sector has been slow to recover. As the company ramps up its redeployment of payphones and manages to leverage the payphone channels as a distribution mechanism for airtime, the Comms division is expected to regain critical mass and make meaningful contributions to the bottom line. Celsys was the market leader in mobile payphones pre-hyperinflation and at that time had over 2,000 active lines in service. Celsys has managed to retain the skill set that were responsible for the management of the payphones previously and this team is now responsible for rebuilding this market. Since the half year end they have upgraded Celsys' mobile payphone technologies and placed initial trial phones out in the market as a precursor for Celsys to re-establish itself again fully in this market.

Information technology

The IT Hardware division is seeing the benefit from capital investment to broaden its service offering. The division has acquired Point of Sale devices for which it has already secured a customer on a transaction based lease model similar to the concept used on Automated Teller Machines. The division has also acquired new ATMs with improved functionality in response to the changing needs of its clients. The first 10 new ATMs have been deployed and an additional 10 ATMs have been requested by Kingdom Bank. The division is now poised to start reaping the rewards of this early stage investment in improved revenues.

Chief Executive Officer's Statement *continued*

Aldeamento Turistico de Macuti SARL ("ATdM") (80% holding)

The 300,000m^2 development site in Beira on the coast of Mozambique historically housed the Don Carlos and Estoril hotels. These recorded high occupancy levels when the Zimbabwe economy was strong as Beira is the closest seaport to Zimbabwe and was a centre of trade around the import and export of Zimbabwean goods.

The LonZim site will be developed as a mixed use development, including hotel, retail and office space and is focussed on serving the traditional import/export market from Zimbabwean customers, as well as the growing economic strength of the region in Mozambique.

A site clearance programme is underway, and designs and development schedules being agreed with the Government. The ATdM site remains one of the prime locations in Beira.

Millpal Chemicals ("Millpal") (100% holding)

A wholesale blender and supplier of industrial chemicals, the Millpal business is directly linked to the economic recovery. Volumes have started to increase during the six months and new products introduced. Although slow, the basis of economic change is apparent in the day to day operations. Millpal has a strong and experienced management team and is making the most of the opportunity of having the capacity available to ensure it builds a strong market share in this sector.

Fly540 Zimbabwe (90% holding)

The company is reviewing the market as it develops and will in the meantime launch a 'light' service to provide some domestic lift and service the international market requirements via its neighbouring country operations.

Zimbabwe remains a key target market for Fly540 once international traffic numbers start to build, and the airport at Harare airport is of long term strategic importance as one of the best infrastructure facilities in Southern Africa.

Panafmed (Pty) Limited (51% holding)

The supply of pharmaceuticals into Zimbabwe is proving to be a challenging market. Although distribution had been successfully established and sales have been realised, this market has proven difficult to operate in. The business model is under review as to the best long term plans to address the opportunities in this market sector.

ForgetMeNot Africa Limited ("FMNA") (51% holding)

FMNA's message optimiser application provides a unique two-way SMS-SMS, instant messaging and technology platform whereby emails and interactive messages can be received and sent on a basic mobile phone. During the period a full roll out to Econet Lesotho was completed and negotiations are at an advanced stage for implementation by several other large African carriers. FMNA are also developing further applications of the technology including integration with social networking platforms.

Geoffrey White

Director & Chief Executive Officer
11 May 2010

Condensed consolidated interim income statement

	Unaudited 6 months 28 February 2010 £000	Unaudited 6 months 28 February 2009 £000	Audited Year ended 31 August 2009 £000
Revenue	2,677	495	2,607
Cost of sales	(1,562)	(250)	(1,572)
GROSS PROFIT	1,115	245	1,035
Administrative expenses	(4,189)	(1,667)	(1,959)
OPERATING LOSS BEFORE FINANCING INCOME	(3,074)	(1,422)	(924)
Financial income	694	676	2,011
(LOSS)/PROFIT BEFORE TAX	(2,380)	(746)	1,087
Income tax expense	–	–	(174)
(LOSS)/PROFIT FOR THE PERIOD	(2,380)	(746)	913
ATTRIBUTABLE TO:			
Equity holders of the parent	(2,052)	(680)	1,087
Minority interest	(328)	(66)	(174)
(LOSS)/PROFIT FOR THE PERIOD	(2,380)	(746)	913
Basic (loss)/earnings per share	(5.59)p	(2.0)p	3.03p
Diluted (loss)/earnings per share	(5.59)p	(2.0)p	2.99p

Note: All operations in the six month period are continuing.

Condensed consolidated interim statement of comprehensive income

	Unaudited as at 28 February 2010 £000	Unaudited as at 28 February 2009 £000	Audited Year ended 31 August 2009 £000
(LOSS)/PROFIT FOR THE PERIOD RECOGNISED IN THE INCOME STATEMENT	(2,380)	(746)	913
Foreign exchange translation differences	606	(79)	(625)
Revaluation of property, plant and equipment	–	–	793
OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD	606	(79)	168
TOTAL COMPREHENSIVE (EXPENSE)/INCOME FOR THE PERIOD	(1,774)	(825)	1,081
ATTRIBUTABLE TO:			
Equity holders of the parent	(1,446)	(774)	1,090
Minority interest	(328)	(51)	(9)
TOTAL COMPREHENSIVE (EXPENSE)/INCOME FOR THE PERIOD	(1,774)	(825)	1,081

Condensed consolidated interim statement of financial position

	Unaudited 28 February 2010 £000	Unaudited 28 February 2009 £000	Audited 31 August 2009 £000
ASSETS			
Property, plant and equipment	16,599	7,859	18,884
Goodwill and other intangibles	10,724	11,460	11,588
Other investments	53	–	–
Deferred tax asset	82	–	77
TOTAL NON-CURRENT ASSETS	27,458	19,319	30,549
Assets held for sale	3,656	–	–
Other investments	–	2,999	1,269
Inventories	470	54	194
Trade and other receivables	3,657	1,567	2,941
Cash and cash equivalents	1,833	13,220	2,431
TOTAL CURRENT ASSETS	9,616	17,840	6,835
TOTAL ASSETS	37,074	37,159	37,384
EQUITY			
Called up share capital	4	4	3
Share premium account	33,467	33,619	32,355
Revaluation reserve	734	148	734
Share option reserve	165	165	165
Foreign exchange reserve	(75)	(94)	(681)
Retained earnings	(2,094)	(1,862)	3
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	32,201	31,980	32,579
MINORITY INTEREST	567	853	895
TOTAL EQUITY	32,768	32,833	33,474
LIABILITIES			
Interest-bearing loans and borrowings	–	1,281	–
Deferred tax liabilities	909	107	909
Provisions	485	759	485
TOTAL NON-CURRENT LIABILITIES	1,394	2,147	1,394
Bank overdraft	36	3	–
Trade and other payables	2,842	2,141	2,473
Current tax liabilities	34	35	43
TOTAL CURRENT LIABILITIES	2,912	2,179	2,516
TOTAL LIABILITIES	4,306	4,326	3,910
TOTAL EQUITY AND LIABILITIES	37,074	37,159	37,384

Condensed consolidated interim statement of cash flows

	Unaudited 6 months 28 February 2010 £000	Unaudited 6 months 28 February 2009 £000	Audited year ended 31 August 2009 £000
CASH FLOWS FROM OPERATING ACTIVITIES	(2,056)	(361)	(3,606)
Increase in inventories	(276)	(33)	(173)
Increase in trade and other receivables	(716)	(240)	(1,664)
Increase in trade and other payables	369	163	1,295
NET CASH FROM OPERATING ACTIVITIES	(2,679)	(471)	(4,148)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	9	393	612
Acquisition of subsidiaries, net of cash acquired	–	(2,377)	(8,879)
Acquisition of property, plant and equipment	(707)	(1,531)	(4,103)
Acquisition of other investments	–	(2,999)	(2,950)
Disposal of other investments	1,630	–	2,962
NET CASH FROM INVESTING ACTIVITIES	932	(6,514)	(12,358)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issue of share capital	1,113	–	–
Purchase of own shares	–	–	(1,343)
Payment of transaction costs	–	(78)	–
NET CASH FROM FINANCING ACTIVITIES	1,113	(78)	(1,343)
Net decrease in cash and cash equivalents	(634)	(7,063)	(17,849)
Cash and cash equivalents at beginning of period	2,431	20,280	20,280
CASH AND CASH EQUIVALENTS	1,797	13,217	2,431

Condensed consolidated interim statement of changes in equity

	Share capital £000	Share premium £000	Re-valuation reserve £000	Share based payment reserve £000	Retained earnings £000	Foreign exchange reserve £000	Total £000	Minority interest £000	Total Equity £000
AUDITED									
Balance at 1 September 2008	4	33,697	148	165	(1,182)	–	32,832	904	33,736
Share purchase	(1)	(1,342)	–	–	–	–	(1,343)	–	(1,343)
Revaluation	–	–	586	–	–	–	586	207	793
Profit/(loss) for the period	–	–	–	–	1,087	–	1,087	(174)	913
Exchange difference on translation of overseas operations	–	–	–	–	98	(681)	(583)	(42)	(625)
BALANCE AT 31 AUGUST 2009	3	32,355	734	165	3	(681)	32,579	895	33,474
UNAUDITED									
Balance at 1 September 2009	3	32,355	734	165	3	(681)	32,579	895	33,474
Share purchase	–	–	–	–	–	–	–	–	–
Share issues	1	1,112	–	–	–	–	1,113	–	1,113
Loss for the period	–	–	–	–	(2,052)	–	(2,052)	(328)	(2,380)
Exchange difference on translation of overseas operations	–	–	–	–	(45)	606	561	–	561
BALANCE AT 28 FEBRUARY 2010	4	33,467	734	165	(2,094)	(75)	32,201	567	32,768
UNAUDITED									
Balance at 1 September 2008	4	33,697	148	165	(1,182)	–	32,832	904	33,736
Issue costs	–	(78)	–	–	–	–	(78)	–	(78)
Loss for the period	–	–	–	–	(680)	–	(680)	(66)	(746)
Exchange difference on translation of overseas operations	–	–	–	–	–	(94)	(94)	15	(79)
BALANCE AT 28 FEBRUARY 2009	4	33,619	148	165	(1,862)	(94)	31,980	853	32,833

Note of preparation

1. The annual financial statements of the Group are prepared in accordance with IFRS. The condensed interim financial statements included in this half yearly report are unaudited and have been prepared in accordance with the recognition and measurement requirements of IFRSs.

   These condensed interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the period ended 31 August 2009, which are available upon request from the Company's registered office at Appleby Trust (Isle of Man) Limited, 33-37 Athol Street, Douglas, Isle of Man, IM1 1LB.

2. Basic and diluted earnings per share are arrived at by dividing the profit for the period by the average number of shares in issue during the period.

3. Given the current global financial crisis, the Directors are carefully monitoring cash resources within the Group and have instigated a number of initiatives to ensure funding will be available for planned projects. If such funding cannot be secured, the projects will be delayed or cancelled to ensure that the Group can manage its cash resources for the foreseeable future and hence the financial statements have been prepared on a going concern basis.

4. Except as described below, the accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended 31 August 2009.

   Accounting for business combinations

   The Group has applied the revised versions of IFRS 3 *Business combinations* and IAS 27 *Consolidated and separate financial statements* with effect from 31 August 2009. The standard applies prospectively to all business combinations executed from that date. Business combinations executed prior to that date, and the resolution of related issues, are dealt with under the preceding version of the standard as previously applied by the Group.

   The revised standards introduce changes in a number of areas, including the requirement to recognise changes in contingent consideration in the income statement rather than as an adjustment to goodwill; the requirement to recognise contingent liabilities at fair value; and the requirement to expense acquisition costs as incurred rather than treating them as part of the cost of acquisition.

   The Group did not complete any business combinations in the 6 months ended 28 February 2010, and therefore the application of these revised standards has no material impact on the Group's condensed consolidated interim financial statements.

Note of preparation *continued*

Presentation of financial statements

The Group has applied IAS 1 (Revised) *Presentation of financial statements* which became effective for the Group on 1 September 2009. As a result, all owner changes in equity are presented in the consolidated statement of changes in equity, which becomes a primary statement. Previously, this information was included in a note to the financial statements. All non-owner changes in equity are now presented in the consolidated statement of comprehensive income, which is also a primary statement. This information was previously included in the consolidated statement of recognised income and expense, which was also a primary statement.

Comparative information has been re-presented so that it conforms with the revised standard. Since the change in accounting policy only impacts presentation, there is no impact on reported profit, earnings per share or net assets.

Corporate information

Directors

David Lenigas	*Chairman*
Geoffrey White	*Director & Chief Executive Officer*
David Armstrong	*Finance Director*
Emma Priestley	*Executive Director*
Paul Turner	*Non-Executive Director*
Jean Ellis	*Non-Executive Director*
Paul Heber	*Non-Executive Director*
Colin Orr-Ewing	*Non-Executive Director*

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